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**SERCO GROUP PLC**  
**Preliminary results for the year ended 31 December 2002**

|                                   | <b>2002</b>      | Restated<br>2001* |          |
|-----------------------------------|------------------|-------------------|----------|
| Turnover                          | <b>£1,325.9m</b> | £1,141.2m         | up 16.2% |
| Profit before tax – pre goodwill  | <b>£57.0m</b>    | £45.2m            | up 26.3% |
| Earnings per share – pre goodwill | <b>9.58p</b>     | 8.25p             | up 16.1% |
| Dividend per share                | <b>2.08p</b>     | 1.86p             | up 11.8% |

\* The 2001 accounts have been restated after the adoption of UITF34 "Pre-contract costs" in 2002.

**HIGHLIGHTS**

- **Serco delivers 15<sup>th</sup> successive year of double-digit growth**
- **Excellent organic growth**
  - 64% of turnover growth from existing contract base
- **Robust cash performance**
  - 75% of EBITDA converted to cash
- **Continued success in winning contracts**
  - Contract wins totalling £1.2bn
  - 122 new contracts awarded
  - A further 180 contracts successfully rebid or extended, maintaining our 90% success rate
  - In January 2003 we won our largest-ever contract award: a 15-year extension to the Atomic Weapons Establishment contract, adding over £1bn to our forward order book
- **Substantial range of future opportunities**
  - Currently addressing a further £12bn of opportunities
- **Continuing high visibility of revenues**
  - 91% of 2003 turnover already secured
  - Current order book stands at £7.1bn

**Kevin Beeston, Executive Chairman, said:**

"Serco has delivered another impressive performance – our 15<sup>th</sup> successive year of strong and profitable growth. In addition we have already secured 91% of our planned revenue for 2003 and 80% of our planned revenue for 2004.

Our markets remain buoyant. Our forward order book continues to grow, and at £7.1bn, is roughly 5.5 times last year's turnover. We are currently addressing a further £12bn of opportunities across a range and scale of activities that ensures we can continue to bid selectively.

Our portfolio approach to a wide range of public sector markets has provided a strong platform during this period of difficult global economic conditions. We remain confident of achieving double-digit growth both this year and over the longer term."

**– Ends –**

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**WEBCAST**

A webcast of the results presentation will be available on [www.serco.com](http://www.serco.com) from 17.00 hrs (GMT) on 19 February.

**CONFERENCE CALL**

There will be a teleconference today for investors and analysts. It will begin promptly at 16.30 hrs (GMT) and lines are open from 16.00 hrs. Early dial-in is recommended.

**Dial-in telephone numbers**

|               |                     |
|---------------|---------------------|
| UK only       | 020 7162 0125       |
| International | +44 (0)20 7162 0125 |
| US only       | +1 334 323 6203     |

**Password** Serco Group plc

A recording of the teleconference will be accessible immediately after the conference ends, and will remain available up until 5 March 2003.

The European replay number is: +44 (0) 20 8288 4459 – PIN number 390852

The US replay number is: +1 334 323 6222 – PIN number 390852

**BUSINESS REVIEW**

A full review of operations in 2002 is available on [www.serco.com](http://www.serco.com)

**For further information please contact Serco Group plc: T: +44 (0)1932 755900**

|               |                                     |
|---------------|-------------------------------------|
| Kevin Beeston | – Executive Chairman                |
| Andrew Jenner | – Finance Director                  |
| Ben Woodford  | – Corporate Communications Director |



## Chairman's Statement

I am delighted to report another excellent performance – our 15<sup>th</sup> successive year of strong and profitable growth. Sales were up 16.2% and pre-tax profits rose 26.3% before goodwill, maintaining our record of consistently high growth. In delivering this growth we have continued to convert a high proportion of profits into cash while funding the working capital required to bid successfully and implement new business activities and contracts. This is a very satisfying result for a year that proved unsettling for the support services sector in the UK.

Our vigorous organic growth reflects Serco's key strengths: our long-term contract base, ability to enhance customers' operations continuously, and long experience of delivering outsourced public services across a wide range of markets. We have a well-diversified portfolio, rigorous risk management processes integrated with the way we do business, and a selective approach to bidding.

Contract wins during the year totalled £1.2bn. We won 122 new contracts, achieving our target of winning over half of new bids. In addition, we were awarded 180 rebids or extensions to existing contracts, maintaining our success rate of over 90% in this area.

### Financial performance

Turnover grew 16.2% to £1.3bn. Pre-tax profits were up 26.3% to £57m before goodwill amortisation and by 22.2% to £48.9m after goodwill amortisation. There were no exceptional items in 2002.

Earnings per share rose 16.1% to 9.58p before goodwill and 10.4% to 7.66p after goodwill.

Cash generation remains robust with 75.1% of group EBITDA converted into cash.

We raised £117.4m through an international placing of new shares in March. This was partly to refinance the September 2001 acquisition of AEA Technology's nuclear consulting business – now successfully integrated into Serco Assurance – and partly to strengthen the Balance Sheet to facilitate future growth. Since flotation in 1988 Serco has raised new equity totalling £161m, less than our acquisition costs of £180m over the same period. Apart from this, we have funded our growth from under £50m to over £1.3bn annual sales entirely from internally-generated cash flow.

More sophisticated forms of contract inevitably mean more complex financial statements. In response, we have introduced Financial Review sections to our annual and interim results announcements and continue to extend our commentary on relevant aspects of accounting and corporate governance. To help investors understand better our Private Finance Initiative (PFI) projects we have also published *Our approach to PFIs*. The latest edition, updated in September 2002, is available on our website at [www.serco.com](http://www.serco.com) or on request.

### Dividend

The recommended final dividend of 1.44p per share gives a cumulative dividend for the year of 2.08p – an increase of 11.8% over 2001. It is proposed that the dividend will be paid on 13 May 2003 to shareholders on the register on 28 February 2003 (record date).

### Pensions

The recent poor performance of the equity markets has impacted the group's defined benefit pension schemes. A valuation at 31 December 2002 has identified a net deficit of £73.6m in accordance with FRS 17 on our defined benefit schemes. This will result in additional funding and an additional profit and loss charge of £9m per annum. Notwithstanding this increase in contributions we remain on course to achieve good growth going forward.



## Chairman's Statement

### Operational performance

Our business is made up of five distinct areas: defence (which accounted for 27% of 2002 sales), transport (27%), civil government (27%), science (9%) and private sector clients (10%). Within these sectors, revenues from PFI contracts accounted for 12% of total sales.

The year was characterised by strong organic growth built on solid foundations: a track record of effectiveness that attracts and convinces new customers, strategic alliances with partners who enhance our capability and credibility, and an approach to working with customers that encourages partnerships, extensions and broadening of relationships. As in the past, a significant part of our turnover growth has come from add-ons and extensions to existing contracts.

Major contract awards in 2002 included an innovative partnership with the UK's Ministry of Defence (MOD) Warship Support Agency to manage the Devonport, Portsmouth and Clyde marine services contract. This three-year partnership, worth up to £110m, builds on an earlier contract we have had since 1996. We also won a partnership contract to provide communications and information technology services to the Defence Scientific and Technical Laboratory, worth some £10m annually for up to eight years.

As a member of the Paradigm Secure Communications team, which was selected in February 2002 as preferred bidder to provide and operate Skynet 5 global military satellite communications services, Serco will be providing network and facilities management. This is the largest UK MOD PFI to date, potentially worth some £220m to Serco over 15 years, and good progress continues to be made towards contract signature.

As in any year there were a few disappointments – principally our unsuccessful bid to manage the Army Training Estate and Essex County Council's decision not to pursue the outsourcing of educational services. But disappointment over the Essex decision was tempered by continuing growth for our education business in Walsall: the local council transferred a further 300 staff to us, tripling the value of our contract to £100m over the remaining 5½ years. This followed a very favourable review of our performance by Ofsted, the education regulator, which led to a decision to transfer the majority of Walsall's Local Education Authority's activities to Serco.

This was one of many cases where strong performance was rewarded with substantial contract extensions. Others included the National Crime Squad, which more than doubled the size of our partnership contract to support its IT operations and to design and develop its Intelligence Management System. In the US, the Federal Aviation Administration significantly broadened our role: we are already one of its largest private providers of air traffic control services, and it has now awarded us a contract to provide weather observation services.

The largest addition of all – indeed, the largest contract ever awarded to the group – was announced in January this year, a 15-year extension to the contract under which we manage the UK's Atomic Weapons Establishment (AWE) in partnership with Lockheed Martin and British Nuclear Fuels (BNFL). The contract will now run until 2025, adding over £1bn to our forward order book.

Our stature as a light rail operator continues to grow. For an unprecedented second year running we won the UK Rail Operator of the Year award, recognising our operational excellence and innovative customer service on London's Docklands Light Railway (DLR). We intend to build on our achievements with the DLR, Manchester Metrolink and Copenhagen Metro by selectively addressing additional rail operating opportunities. We have formed a joint venture with NedRailways, the international arm of Dutch national rail operator Nederlandse Spoorwegen, to pursue some of these.

In the UK our strategy is to build on our contract base and to expand into new areas. While continuing to grow in our traditional markets, we seek out contracts that require greater managerial or technological sophistication, with structures that focus on outputs rather than specified inputs. We continue to bid for selected PFIs and expect our PFI projects to deliver sustained long-term benefits both to the public and to our investors. They and their associated service contracts will provide an income stream to supplement our revenues from traditional contracts. Under the auspices of the Confederation of British Industry (CBI) public services strategy board, we have joined other public service providers in a programme to promote better understanding of the benefits of public private partnerships. This aims to stress their importance and effectiveness in obtaining value for money and diversity in public service delivery.



## Chairman's Statement

Our commitment to international diversification – with 30% of our current business turnover overseas – is one of the factors that differentiates us in our sector. But the sheer scale of opportunities open to us in the UK means that we have to be selective. In Europe we see particular opportunities in Italy and Germany, and are making encouraging progress in both. In the Middle East our activities and profile continue to develop well. In Asia Pacific we are focusing principally on Australia and New Zealand, where state governments continue to develop policies on public private partnerships. In North America we see public private partnerships emerging in both the US and Canada: these countries potentially represent a major long-term market for our skills and experience.

To concentrate management and financial resources on the most promising opportunities and markets at home and abroad, we continue to review our business portfolio. This enables us to sharpen our focus on contracts offering superior growth, margins and cash generation, and may lead to minor divestments of certain activities.

### **Risk management**

One of the keys to Serco's consistently robust performance is its management system and control framework. Our operations are diversified across some 600 contracts and a range of business sectors. Few contracts represent more than 2% of our turnover and the largest represents only 7%.

The high degree of autonomy that we give to our contract managers is balanced by rigorous monitoring and unobtrusive but effective controls. In 2001 we set up our Corporate Assurance Group (CAG) to integrate our approach to assessing business risks and improving controls, and to ensure that we safeguard the interests of shareholders, customers, staff and the wider community. Reporting directly to the Board, CAG is proving a valuable asset in risk management.

### **Corporate social responsibility**

Although Serco is a private sector business, we earn our living predominantly by delivering public services. We need to demonstrate a public service ethos, as a prerequisite of our partnership with public sector customers.

We take our corporate social responsibility (CSR) seriously. Under our corporate governance framework every contract manager is directly accountable for CSR performance. We have established a global network of CSR champions to raise general awareness and support initiatives that range from developing an alternative water supply for Goose Bay residents in Canada to collecting tonnes of stationery for schools and orphanages in Kabul. We continue to refine our approach and are currently developing a new structure for charitable giving. This is designed to support initiatives by our contracts and individual employees, direct resources towards the communities where we work and recognise the personal commitment of Serco people.

### **People**

Serco's continuing success comes from the outstanding dedication of our people and their personal identification with what they do. In a MORI survey of a cross section of staff, 95% regarded their work as 'more than just a job'. Other positive indications – given our drive for continuous improvement and evolution to meet customer needs – were that around three quarters said they understood workplace objectives and the need for change, and two thirds actively supported the change process. We are grateful for all our people's energy, enthusiasm and imagination – which add value both to our business and to our customers' operations.

We continue to build constructive relationships with trade unions. In the UK we support the Partnership Institute launched by the Trades Union Congress (TUC) to foster co-operative relationships between employers and unions. We have formed a number of 'working partnerships' with unions at contract level and are investigating further opportunities.

To support and sustain our growth, we attach great importance to training and developing our managers. During the year the Serco Best Practice Centre provided courses and workshops in the UK, Europe, North America and the Middle East, and our global intranet played an important role by giving people access to training and development online. In a ground-breaking partnership with the UK's Institute of Directors (IoD) we have developed a joint IoD/Serco Certificate in Company Direction assessed and recognised by the IoD. The first 19 Serco managers were awarded the qualification during the year.



## Chairman's Statement

### **Outlook**

The committed future income streams from our contracts give us the assurance of highly visible revenues and profits. At the time of writing we have already secured 91% of our planned revenue for 2003 and 80% of our planned revenue for 2004.

Our forward order book continues to grow. On 31 December it stood at £6.1bn, and it now stands at £7.1bn – roughly 5.5 times last year's turnover. We are currently addressing over £12bn of opportunities and our markets are buoyant. Both at home and abroad, opportunities are emerging at a rate which continues to allow us to bid selectively.

Our portfolio approach to a wide range of public sector markets has provided a strong growth platform during this period of difficult global economic conditions. We remain confident of achieving double-digit growth both this year and over the longer term.



# Financial Review

For the year ended 31 December 2002

## 1 PROFIT AND LOSS ACCOUNT

2002 was another year of strong performance and is further analysed below:

|                                    | 2002           | Restated*  | Change |
|------------------------------------|----------------|------------|--------|
|                                    | £m             | 2001<br>£m | %      |
| Total turnover                     | <b>1,325.9</b> | 1,141.2    | 16.2%  |
| Group turnover                     | <b>1,097.3</b> | 913.7      |        |
| Joint venture turnover             | <b>228.6</b>   | 227.5      |        |
| Gross profit                       | <b>150.0</b>   | 124.0      | 20.9%  |
| Other administrative expenses      | <b>(112.8)</b> | (97.6)     |        |
| Exceptional items                  | <b>-</b>       | 5.2        |        |
| Joint venture profit               | <b>23.9</b>    | 18.7       |        |
| Group interest                     | <b>(4.1)</b>   | (5.1)      |        |
| Profit before goodwill and tax     | <b>57.0</b>    | 45.2       | 26.3%  |
| Goodwill                           | <b>(8.1)</b>   | (5.1)      |        |
| Profit before tax                  | <b>48.9</b>    | 40.1       |        |
| Tax                                | <b>(16.6)</b>  | (13.0)     |        |
| Profit after tax                   | <b>32.3</b>    | 27.1       |        |
| Effective tax rate                 | <b>34%</b>     | 32.5%      |        |
| Average number of shares           | <b>421.8m</b>  | 389.6m     |        |
| Earnings per share before goodwill | <b>9.58p</b>   | 8.25p      | 16.1%  |
| Earnings per share after goodwill  | <b>7.66p</b>   | 6.94p      |        |

\* The 2001 accounts have been restated after the adoption of UITF Abstract 34 "Pre-contract costs" in 2002 (see 'Bid costs' below for more information).

### 1.1 Turnover

Total turnover increased by 16.2% to £1,325.9m. This includes a contribution of £43.3m (2001: £12.1m) from Serco Assurance (formerly the nuclear consulting division of AEA Technology), which was acquired in September 2001.

### 1.2 Gross profit

Gross profit of £150.0m increased by 20.9% and represents a return on group turnover of 13.7% (2001: 13.6%).

### 1.3 Pre tax profit

Pre tax profit before goodwill amortisation increased 26.3% to £57m.



## Financial Review

For the year ended 31 December 2002

### 1.4 Underlying pre tax profit

There were no exceptional items in 2002. In order to allow comparison of the year on year results the growth in underlying pre tax profit is shown below:

|  | 2002<br>£m | Restated<br>2001<br>£m | Change<br>% |
|--|------------|------------------------|-------------|
| Reported pre tax profit before goodwill amortisation   | 57.0       | 45.2                   | 26.3%       |
| 2001 Acquisition: Serco Assurance                      | (2.1)      | (0.5)                  |             |
| Prior year adjustment: UITF Abstract 34                | -          | 1.2                    |             |
| Net one-off items                                      | -          | (0.2)                  |             |
| Underlying pre tax profit before goodwill amortisation | 54.9       | 45.7                   | 20.1%       |

Underlying pre tax profit grew 20.1% to £54.9m. Underlying profits are stated after:

- a £2.1m (2001: £0.5m) contribution from Serco Assurance,
- a prior year adjustment of £1.2m in 2001 made on the adoption of UITF Abstract 34 in 2002; this is explained in greater detail in 'Bid costs', and
- a net contribution in 2001 of £0.2m from three one-off items.

### 1.5 Tax

The tax charge for 2002 was £16.6m (2001: £13.0m), representing an effective tax rate of 34.0% (2001: 32.5%). The increase in the effective rate is largely as a result of an increased year-on-year level of goodwill amortisation.

### 1.6 Earnings per share

Taking into account the above and the increased capital base resulting from the equity placing in March, earnings per share before goodwill amortisation grew by 16.1% to 9.58p.

## 2 DIVIDENDS

The proposed final dividend of 1.44p per share gives a cumulative dividend for 2002 of 2.08p, an 11.8% increase on 2001.

## 3 SHARE PLACEMENT

In March £117.4m (net of fees) was successfully raised through an international bookbuilt placing of 39.5m new shares representing 9.9% of Serco's issued share capital. This enabled the Serco Assurance acquisition finance to be repaid and the Balance Sheet to be strengthened to facilitate future growth.

Since flotation in 1988 Serco has raised new equity totalling £161m, roughly equivalent to our acquisition costs of £180m over the same period. Apart from this, we have funded our growth from under £50m to over £1.3bn of annual sales entirely from internally generated resources.



## Financial Review

For the year ended 31 December 2002

### 4 CASH FLOW

During the year there was a net cash inflow of £105.2m. This inflow was after a one-off payment of £15.5m into the Serco Pension & Life Assurance Scheme in February and includes £117.4m from a share placing in March. This cash inflow contributed to the reduction in Group net debt/funds, excluding non-recourse PFI debt, from £(93.5)m to £6.3m respectively, as detailed below:

|  | 2002<br>£m | 2001<br>£m |
|--|------------|------------|
| Operating profit before one-off items      | 29.1       | 21.3       |
| Non cash items – Depreciation and goodwill | 23.6       | 18.3       |
| Group EBITDA                               | 52.7       | 39.6       |
| Working capital movement                   | (13.1)     | (13.9)     |
| Operating cash flows before one-off items  | 39.6       | 25.7       |
| Pension payment                            | (15.5)     | –          |
| Exceptional items                          | –          | 6.1        |
| Dividends from joint ventures              | 11.1       | 9.6        |
| Interest and taxation                      | (11.9)     | (12.0)     |
| Capital expenditure                        | (23.6)     | (17.6)     |
| Disposals of tangible assets               | 8.1        | 4.6        |
| Other items                                | 1.9        | (7.5)      |
| Free cash flow                             | 9.7        | 8.9        |
| Acquisitions/disposals                     | (10.3)     | (73.6)     |
| Share issues                               | 117.9      | 2.0        |
| Other financing                            | (3.8)      | (11.9)     |
| Dividends paid                             | (8.3)      | (6.7)      |
| Net cash flow                              | 105.2      | (81.3)     |
| Closing cash/(overdraft)                   | 69.4       | (35.8)     |
| Long term loans                            | (47.4)     | (45.6)     |
| Other loans and finance leases             | (15.7)     | (12.1)     |
| Recourse net cash/(debt)                   | 6.3        | (93.5)     |

#### 4.1 Operating cash flow before one-off items

Operating cash flow, before one-off items, was up 54% to £39.6m (2001: £25.7m), which converts 136% (2001: 121%) of our operating profit into cash.

We believe that, as operating profit is calculated after deducting goodwill and depreciation, the appropriate measure for operating cash flow performance is the conversion of Group EBITDA (Earnings Before Interest, Tax, Depreciation and Goodwill Amortisation) before one-off items into operating cash flows. For 2002 this was 75.1% (2001: 64.9%).

The working capital movement reflects the strong level of organic growth shown by the Group in 2002 and equates to approximately one months incremental turnover, reflecting the typical invoicing cycle of our contracts.

#### 4.2 Joint ventures

Serco has two types of joint ventures: those which represent traditional operating contracts, such as the Atomic Weapons Establishment (AWE) and Premier Custodial Group (PCG); and those reflecting Serco's equity stakes of up to 50% in PFI Special Purpose Companies (SPCs).

Dividends received from joint ventures during 2002 of £11.1m (2001: £9.6m) represents a 67% (2001: 76%) conversion of profit of joint ventures, after tax, into cash.



## Financial Review

For the year ended 31 December 2002

### **4.3 Capital expenditure**

Capital expenditure, excluding investment in PFI SPCs, for the year was £23.6m (2001: £17.6m). As a proportion of Group turnover this expenditure represents 2% and has remained at a similar level to previous years.

### **4.4 Net debt**

In addition to the recourse debt shown in the table above, the Group has a non-recourse loan to fund the construction of the Traffic Control Centre (see PFIs below). At the end of 2002 this loan was £29.7m (2001 £14.1m). Non-recourse debt is excluded from the Group's banking facility covenants but is presented as a liability in the Group's Balance Sheet.

## **5 PENSIONS**

In 2002, two of Serco's pension schemes were accounted for as defined benefit schemes.

The total 2002 pension charge for Serco was £29.1m (2001: £19.5m), with the two UK defined benefit schemes having a cost of £12.5m (2001: £9.3m).

FRS 17 "Retirement Benefits" was issued in November 2000 to replace SSAP 24 for accounting periods ending on or after 22 June 2003. In July 2002 the Accounting Standards Board delayed the introduction of FRS 17 until 2005, following an announcement by the International Accounting Standards Board that it would also issue a new standard.

For 2002 we have continued to apply the transitional rules and disclosures. FRS 17 requires the market value of assets and liabilities for defined benefit schemes to be calculated and included in the Balance Sheet. At 31 December 2002 we estimate there was a net deficit of £73.6m in relation to the defined benefit schemes and an asset base of approximately £294.4m, whilst the Minimum Funding Rate (MFR) funding level was 100%. Long term company contribution rates will increase by approximately £9m per annum from 2003.

In February 2003 we merged Serco's two defined benefit pension schemes to achieve cost and investment efficiencies. To assist this process £15.5m was injected into the Serco Pension and Life Assurance Scheme in February 2002 to achieve a similar funding level for both schemes. The investment profile of the merged scheme will be kept under continuous review to match the asset and liability profiles.

## **6 PRIVATE FINANCE INITIATIVES (PFIs)**

### **6.1 Disclosure**

The document 'Our Approach to PFIs', which was originally issued in 2001, was updated in September 2002 and provides a summary of our accounting for PFIs. It is available on our website [www.serco.com](http://www.serco.com) or in printed form on request.

### **6.2 PFI Profile**

For 2002 PFIs contributed £154.0m to turnover and £17.7m to profit before tax for the year, of which £110.4m of the turnover and £6.4m of the profit related to the operating contracts, and £43.6m of the turnover and £11.3m of the profit to Serco's share of the SPCs.



## Financial Review

For the year ended 31 December 2002

### 6.3 SPC funding

SPC funding is via long term loans which are non-recourse to Serco.

- Our share of non-recourse debt of joint venture SPCs at the end of 2002 is £206.7m. This is included as a liability within investments in joint ventures on our Balance Sheet.
- Traffic Information Services (TIS) Limited is the first SPC where Serco has chosen to own 100% of the equity. This SPC has the contract to deliver the Traffic Control Centre (TCC) contract. A non-recourse loan of £29.7m to fund the asset, currently in the course of construction, is included in long term creditors in the Balance Sheet. Construction completion is anticipated in early 2004 when the non-recourse loan will equate to approximately £60m.
- In June 2002 the lenders to the Joint Services Command and Staff College (JSCSC) PFI agreed to change the terms of the senior debt. This transaction had no effect on profit but allowed £6.7m of cash to be paid from the SPC to Serco by way of dividend and loan.

## 7 REVIEW OF JOINT VENTURE ACCOUNTING AND CONTROLS

In March 2002, in recognition of the perceived uncertainties arising from certain joint venture accounting practices in the US, the Board undertook a specific review, including asking Deloitte & Touche to undertake an independent review of our accounting procedures and internal controls over our joint ventures. This review confirms the Board's view that all our joint ventures exist for genuine commercial reasons, are correctly accounted for and that our controls and disclosures are appropriate.

## 8 BID COSTS

Urgent Issues Task Force (UITF) Abstract 34 "Pre-contract costs" was issued in May 2002 for accounting periods ending on or after 22 June 2002. UITF Abstract 34 requires all bid costs to be expensed up to the point where award of a contract is 'virtually certain'. Bid costs incurred after this point may be capitalised. At 31 December 2001 we had £1.2m of bid costs capitalised in relation to contracts for which we had not reached preferred bidder status. Applying the Abstract has resulted in a small prior year adjustment to treat these capitalised costs as expensed in 2001. Having made this adjustment our accounting policies now fully comply with UITF Abstract 34.

## 9 DEFERRED TAXATION

Financial Reporting Standard (FRS) 19 'Deferred Taxation' was issued in December 2000 for accounting periods ended on or after 23 January 2002. FRS 19 requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

The tax charge for the year has been calculated in accordance with FRS 19. The adoption of FRS 19 has not had a material effect on the tax charge, as the Group did not have a material level of unprovided deferred tax liabilities or unrecognised deferred tax assets.

## 10 TREASURY POLICIES

### 10.1 Treasury management

The Group's tax and treasury function is responsible for managing the Group's exposure to financial risk. It operates within policies approved and reviewed by the Board, which include controls on the use of financial instruments. The Group reviews the credit quality of counterparties and limits individual aggregate credit exposures accordingly.



## Financial Review

For the year ended 31 December 2002

### **10.2 Liquidity management**

The Group funds its operations through bilateral bank credit facilities and a long term US Private Placement of loan notes ('the US Notes'). Borrowings under the bank facilities are floating rate, unsecured, obligations with covenants and obligations typical of these type of arrangements.

At the end of 2002 bank facilities totalled £161m, of which £50m was committed funding and of which £151m was undrawn. The committed bank facilities mature in November 2005. The US Notes mature in December 2007.

### **10.3 Foreign exchange risk**

Due to the nature of the Group's business, which in general does not involve a significant amount of cross-border trade, the Group is not exposed to material foreign currency transaction risk, as sales and costs are approximately matched within overseas operations.

The Group does not hedge the sterling equivalent of the net assets of its overseas operations on the grounds that the market value of these businesses does not represent a significant proportion of the market value of the Group and because foreign exchange differences are unlikely to have a material effect on the consolidated net asset value of the Group.

The US Notes were issued in US Dollars but the principal obligation has been swapped into sterling consistent with the risk profile set out above.

### **10.4 Interest rate risk**

The Group's exposure to interest rate fluctuations on its borrowings and deposits is selectively managed, using interest rate swaps. The element of the US Notes that has not been swapped into floating rates is considered to offer adequate protection from interest rate fluctuations in the current market and given the Group's current low level of net debt. All shorter term debt is maintained at floating rates of interest.



## Consolidated Profit and Loss Account

For the year ended 31 December 2002

|  | Note | 2002<br>Group<br>£'000 | 2002<br>Joint<br>Ventures<br>£'000 | 2002<br>Total<br>£'000 | Restated<br>2001<br>Group<br>£'000 | Restated<br>2001<br>Joint<br>Ventures<br>£'000 | Restated<br>2001<br>Total<br>£'000 |
|--|------|------------------------|------------------------------------|------------------------|------------------------------------|--|------------------------------------|
| <b>Turnover: Group and share of joint ventures-continuing operations</b> | 2    | <b>1,097,278</b>       | <b>228,670</b>                     | <b>1,325,948</b>       | 913,693                            | 227,510  | 1,141,203                          |
| Less: Share of joint ventures  | 2    | -                      | (228,670)                          | (228,670)              | -                                  | (227,510)                                      | (227,510)                          |
| Group turnover   | 2    | 1,097,278              | -                                  | 1,097,278              | 913,693                            | -  | 913,693                            |
| Cost of sales  |      | (947,313)              | -                                  | (947,313)              | (789,686)                          | -  | (789,686)                          |
| <b>Gross profit</b>  |      | <b>149,965</b>         | <b>-</b>                           | <b>149,965</b>         | 124,007                            | -  | 124,007                            |
| Administrative expenses  |      | (120,862)              | -                                  | (120,862)              | (102,753)                          | -  | (102,753)                          |
| Amortisation of intangible assets  |      | (8,098)                | -                                  | (8,098)                | (5,123)                            | -  | (5,123)                            |
| Other administrative expenses  |      | (112,764)              | -                                  | (112,764)              | (97,630)                           | -  | (97,630)                           |
| Exceptional item: Unsuccessful NATS acquisition                          |      | -                      | -                                  | -                      | (10,187)                           | -  | (10,187)                           |
| Operating profit-continuing operations                                   |      | 29,103                 | -                                  | 29,103                 | 11,067                             | -  | 11,067                             |
| Exceptional Item: GSR refinancing  |      | -                      | -                                  | -                      | 15,356                             | -  | 15,356                             |
| Share of operating profit in joint ventures                              |      | -                      | 21,883                             | 21,883                 | -                                  | 17,374   | 17,374                             |
| Interest receivable  | 4    | 1,422                  | 16,894                             | 18,316                 | 2,207                              | 17,102   | 19,309                             |
| Group  |      | 1,422                  | -                                  | 1,422                  | 2,207                              | -  | 2,207                              |
| Share of joint ventures  |      | -                      | 16,894                             | 16,894                 | -                                  | 17,102   | 17,102                             |
| Interest payable and similar charges                                     | 5    | (5,486)                | (14,875)                           | (20,361)               | (7,299)                            | (15,768)                                       | (23,067)                           |
| Group  |      | (5,486)                | -                                  | (5,486)                | (7,299)                            | -  | (7,299)                            |
| Share of joint ventures  |      | -                      | (14,875)                           | (14,875)               | -                                  | (15,768)                                       | (15,768)                           |
| <b>Profit on ordinary activities before taxation</b>                     | 6    | <b>25,039</b>          | <b>23,902</b>                      | <b>48,941</b>          | 21,331                             | 18,708   | 40,039                             |
| Taxation on profit on ordinary activities                                | 7    |                        |                                    | (16,639)               |                                    |  | (13,012)                           |
| <b>Profit on ordinary activities after taxation</b>                      |      |                        |                                    | <b>32,302</b>          |                                    |  | 27,027                             |
| Dividends  | 8    |                        |                                    | (9,441)                |                                    |  | (7,265)                            |
| <b>Retained profit for the financial year</b>                            | 23   |                        |                                    | <b>22,861</b>          |                                    |  | 19,762                             |
| <b>Earnings per Share ("EPS") per Ordinary Share of 2p each</b>          | 9    |                        |                                    |                        |                                    |  |                                    |
| Basic EPS, after amortisation of goodwill                                |      |                        |                                    | 7.66p                  |                                    |  | 6.94p                              |
| Basic EPS, before amortisation of goodwill                               |      |                        |                                    | 9.58p                  |                                    |  | 8.25p                              |
| Diluted EPS, after amortisation of goodwill                              |      |                        |                                    | 7.63p                  |                                    |  | 6.91p                              |
| Diluted EPS, before amortisation of goodwill                             |      |                        |                                    | 9.54p                  |                                    |  | 8.22p                              |

The basis of preparation of this preliminary announcement and the effect of the prior year restatement is set out in Note 1.

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 31 December 2002 or 2001, but is derived from those accounts. Statutory accounts for 2001 have been delivered to the Registrar of Companies and those for 2002 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts, their reports were unqualified and did not contain statements under s237 (2) or (3) Companies Act 1985.



# Consolidated Balance Sheet

At 31 December 2002

|   |      |                | Restated        |
|---|------|----------------|-----------------|
|   | Note | 2002<br>£'000  | 2001<br>£'000   |
| <b>Fixed Assets</b>                                     |      |                |                 |
| Intangible assets                                       | 10   | 147,473        | 141,170         |
| Tangible assets   | 11   | 62,479         | 48,724          |
| Investments in joint ventures                           | 12   | 35,883         | 30,510          |
| Share of gross assets                                   |      | 317,831        | 322,338         |
| Share of gross liabilities                              |      | (281,948)      | (291,828)       |
| Investment in own shares                                | 12   | 18,207         | 18,983          |
|   |      | <b>264,042</b> | <b>239,387</b>  |
| <b>Current assets</b>                                   |      |                |                 |
| Stocks  | 13   | 38,744         | 35,838          |
| Debtors: Amounts due within one year                    | 14   | 220,042        | 199,705         |
| Debtors: Amounts due after more than one year           | 14   | 108,932        | 76,105          |
| Cash at bank and in hand                                | 17   | 71,774         | 34,812          |
|   |      | <b>439,492</b> | <b>346,460</b>  |
| <b>Creditors: Amounts falling due within one year</b>   |      |                |                 |
| Bank loans and overdrafts                               | 16   | 2,386          | 70,647          |
| Trade creditors   |      | 74,377         | 58,034          |
| Other creditors including taxation and social security  | 15   | 93,843         | 100,621         |
| Accruals and deferred income                            |      | 136,766        | 128,629         |
| Proposed dividend                                       | 8    | 6,184          | 5,026           |
|   |      | <b>313,556</b> | <b>362,957</b>  |
| <b>Net current assets/(liabilities)</b>                 |      | <b>125,936</b> | <b>(16,497)</b> |
| <b>Total assets less current liabilities</b>            |      | <b>389,978</b> | <b>222,890</b>  |
| Creditors: Amounts falling due after more than one year | 16   | 87,588         | 68,570          |
| Provisions for liabilities and charges                  | 18   | 34,533         | 25,249          |
| <b>Net assets</b>                                       |      | <b>267,857</b> | <b>129,071</b>  |
| <b>Capital and reserves</b>                             |      |                |                 |
| Called up share capital                                 | 21   | 8,697          | 7,903           |
| Share premium account                                   | 22   | 190,791        | 73,656          |
| Capital redemption reserve                              |      | 143            | 143             |
| Profit and loss account                                 | 23   | 68,226         | 47,369          |
| <b>Equity shareholders' funds</b>                       | 20   | <b>267,857</b> | <b>129,071</b>  |

This preliminary announcement was approved by the Board of Directors on 19 February 2003 and signed on behalf of the board:

**Kevin Beeston** Executive Chairman

**Andrew Jenner** Finance Director



# Company Balance Sheet

At 31 December 2002

|   | Note | 2002<br>£'000  | 2001<br>£'000 |
|---|------|----------------|---------------|
| <b>Fixed Assets</b>   |      |                |               |
| Tangible assets   | 11   | 2,309          | 1,682         |
| Investments in subsidiaries                                       | 12   | 141,418        | 35,598        |
|   |      | <b>143,727</b> | 37,280        |
| <b>Current Assets</b>   |      |                |               |
| Amounts owed by subsidiary companies due after more than one year |      | 111,426        | 148,183       |
| Debtors: Amounts due within one year                              | 14   | 21,669         | 14,820        |
| Debtors: Amounts due after more than one year                     | 14   | 1,297          | -             |
| Cash at bank and in hand  |      | 17,753         | -             |
|   |      | <b>152,145</b> | 163,003       |
| <b>Creditors: Amounts falling due within one year</b>             |      |                |               |
| Bank loans and overdrafts   | 16   | -              | 30,245        |
| Trade creditors   |      | 1,066          | 757           |
| Other creditors including taxation and social security            | 15   | 688            | 1,077         |
| Accruals and deferred income                                      |      | 6,395          | 5,098         |
| Proposed dividend   | 8    | 6,184          | 5,026         |
|   |      | <b>14,333</b>  | 42,203        |
| <b>Net current assets</b>   |      | <b>137,812</b> | 120,800       |
| <b>Total assets less current liabilities</b>                      |      | <b>281,539</b> | 158,080       |
| Creditors: Amounts falling due after more than one year           | 16   | 43,784         | 41,420        |
| Provisions for liabilities and charges                            | 18   | 335            | -             |
| <b>Net Assets</b>   |      | <b>237,420</b> | 116,660       |
| <b>Capital and reserves</b>                                       |      |                |               |
| Called up share capital   | 21   | 8,697          | 7,903         |
| Share premium account   | 22   | 190,791        | 73,656        |
| Capital redemption reserve  |      | 143            | 143           |
| Profit and loss account   | 23   | 37,789         | 34,958        |
| <b>Equity shareholders' funds</b>                                 |      | <b>237,420</b> | 116,660       |

This preliminary announcement was approved by the Board of Directors on 19 February 2003 and signed on behalf of the Board:

**Kevin Beeston** Executive Chairman

**Andrew Jenner** Finance Director



# Consolidated Cash Flow Statement

For the year ended 31 December 2002

|   | Note | 2002<br>£'000 | Restated<br>2001<br>£'000 |
|---|------|---------------|---------------------------|
| Operating profit before cost of unsuccessful NATS acquisition                 |      | 29,103        | 21,254                    |
| Exceptional item: Cost of unsuccessful NATS acquisition                       |      | –             | (10,187)                  |
| Operating profit  |      | 29,103        | 11,067                    |
| Depreciation and amortisation of goodwill                                     |      | 23,632        | 18,283                    |
| Net increase in working capital   |      | (13,124)      | (13,866)                  |
| One-off pension fund contribution   |      | (15,500)      | –                         |
| <b>Net cash inflow from operating activities before PFI asset expenditure</b> |      | <b>24,111</b> | <b>15,484</b>             |
| Expenditure on PFI asset under construction *                                 |      | (14,950)      | (13,733)                  |
| Net cash inflow from operating activities after PFI asset expenditure         | 24   | 9,161         | 1,751                     |
| Dividends received from joint ventures  |      | 11,095        | 9,645                     |
| <b>Returns on investment and servicing of finance</b>                         |      |               |                           |
| Interest received   |      | 1,223         | 578                       |
| Interest paid   |      | (7,362)       | (6,182)                   |
| Net cash outflow from returns on investments and servicing of finance         |      | (6,139)       | (5,604)                   |
| <b>Taxation</b>   |      |               |                           |
| Tax paid  |      | (5,738)       | (6,417)                   |
| <b>Capital expenditure and financial investment</b>                           |      |               |                           |
| Purchase of tangible and intangible fixed assets                              |      | (23,596)      | (17,626)                  |
| Sale of tangible fixed assets   |      | 8,125         | 4,569                     |
| Exceptional item: GSR refinancing   |      | –             | 16,343                    |
| Security deposit on PFI asset under construction                              |      | –             | (6,000)                   |
| Net cashflows with joint ventures   |      | 1,235         | (1,945)                   |
| Purchase of own shares  |      | –             | (9,964)                   |
| Net cash outflow from capital expenditure and financial investment            |      | (14,236)      | (14,623)                  |
| <b>Acquisitions and disposals</b>   |      |               |                           |
| Acquisitions  | 12   | (11,353)      | (77,106)                  |
| Net cash acquired with acquisitions   |      | 397           | 3,558                     |
| Subscription for shares in joint ventures                                     | 12   | (370)         | (38)                      |
| Proceeds on disposal of joint ventures  |      | 1,030         | –                         |
| Net cash outflow from acquisitions and disposals                              |      | (10,296)      | (73,586)                  |
| <b>Equity dividends paid</b>  |      |               |                           |
| Dividends paid  |      | (8,283)       | (6,664)                   |
| Net cash outflow from equity dividends paid                                   |      | (8,283)       | (6,664)                   |
| Net cash outflow before financing   |      | (24,436)      | (95,498)                  |
| <b>Financing</b>  |      |               |                           |
| Issue of Ordinary Share Capital   |      | 117,929       | 2,001                     |
| Debt due within one year: (Decrease)/increase in other loans                  |      | (300)         | 100                       |
| Debt due beyond one year: Increase in:  |      | 15,624        | 14,850                    |
| Other loans   |      | 24            | 750                       |
| Non-recourse debt financing PFI asset *                                       |      | 15,600        | 14,100                    |
| Capital element of finance lease repayments                                   |      | (3,594)       | (2,785)                   |
| Net cash inflow from financing  |      | 129,659       | 14,166                    |
| Increase/(decrease) in cash   |      | 105,223       | (81,332)                  |
| Balance at 1 January  |      | (35,835)      | 45,497                    |
| Balance at 31 December  |      | 69,388        | (35,835)                  |

\*PFI asset under construction financed by non-recourse loan



## Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2002

|   | 2002<br>£'000  | Restated<br>2001<br>£'000 |
|---|----------------|---------------------------|
| Profit on ordinary activities after taxation  | <b>32,302</b>  | 27,027                    |
| Currency translation differences on foreign currency net investments                | <b>(1,911)</b> | (1,917)                   |
| Total recognised gains and losses for the year                                      | <b>30,391</b>  | 25,110                    |
| Prior year adjustment (see Note 1)  | <b>(806)</b>   |                           |
| Total gains and losses recognised since last annual report and financial statements | <b>29,585</b>  |                           |



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 1 Accounting policies

This preliminary announcement has been prepared in accordance with applicable UK accounting standards, and the particular accounting policies adopted are detailed below. These have all been applied consistently with the exception of bid costs which is explained in the restatement below.

### Accounting convention

This preliminary announcement has been prepared under the historical cost convention.

### Basis of consolidation

The preliminary announcement consolidates the financial information of the Company and its subsidiaries, and equity accounts for its share of joint ventures made up to 31 December of each year, for the periods they are owned by Serco Group plc.

### Restatement

The 2001 financial information has been restated to reflect the impact of the Urgent Issues Task Force Abstract 34 ("UITF34") - Pre-Contract Costs; eliminating £1,193,000 of bid costs, previously disclosed within debtors, and the associated tax effect of £387,000. The impact of this adjustment in the 2002 financial information is a reduction in amortisation of bid costs of £400,000.

The Profit and Loss Account has been restated to reclassify 'Other operating costs relating to joint ventures' within 'Other administrative expenses'.

### Accounting for PFI Contracts

Within Public Private Partnership (PPP) projects (including Private Finance Initiative (PFI) projects), where the concession agreement transfers limited risks and rewards associated with ownership to the contractor, the costs incurred during the period of initial asset construction, as a direct consequence of financing, designing and constructing the asset, are shown as "assets in the course of construction" within current assets. On completion of the asset construction phase the asset is transferred to debtors as "amounts receivable under PPP contracts".

Revenues received from the customer are apportioned between capital repayments and operating revenue. The 'finance income' element of the capital repayment is shown within interest receivable.

Serco has one Special Purpose Company – TCC (Traffic Control Centre), where the results are fully consolidated. All other SPCs are classified as joint ventures and accounted for using the gross equity method.

### Pension costs: Defined benefit schemes

Retirement benefits to employees of Group companies, except in Germany, are funded by contributions from Group companies and employees. Payments are made to trust funds which are financially separate from the Group in accordance with periodic calculations by consulting actuaries. The expected cost to the Group of providing defined benefit pensions is charged to the Profit and Loss Account so as to spread the cost of pensions over the average 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.

In Germany retirement benefits to employees are accrued for by Serco GmbH & Co. KG. The expected cost to the Company for providing defined benefit pensions is calculated in accordance with periodic valuations by consulting actuaries.

### Pension costs: Defined contribution schemes

Contributions for the year in respect of defined contribution schemes are charged to the Profit and Loss Account. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the Balance Sheet.

The Group has adopted the transitional disclosure requirements of Financial Reporting Standard 17 ("FRS17") – Retirement Benefits. For further information see Note 31.

### Turnover

Turnover represents net sales of goods and services to third parties together with investment related income.

### Goodwill

Goodwill arising on acquisitions is capitalised in the Consolidated Balance Sheet in accordance with Financial Reporting Standard 10 ("FRS 10") – Goodwill and Intangible Assets. Amortisation of goodwill 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.



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 1 Accounting policies (continued)

### Current Tax

Current tax, including UK Corporation Tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the Balance Sheet date.

### 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 preliminary announcement, 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 Group 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 Group's share of the net assets of its joint ventures, which includes several PFIs, is included under the heading "investments in joint ventures". The share of net assets is split between gross assets and gross liabilities.

### Fixed asset investment: Own shares

Investment in own shares represents shares in Serco Group plc held by the Serco Group plc 1998 Employee Share Ownership Trust ("the Trust"). The dividends on these shares have been waived. Investment in own shares is stated at cost less provision for impairment.

The Trust is a discretionary trust for the benefit of the employees and shares are held to satisfy the Group's liabilities to employees for share options and long term incentive plans. The net cost to the Group of these schemes is charged to the Profit and Loss Account over the performance period during which the benefits are earned by employees.

### 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.

### Depreciation

Depreciation is provided on a straight line basis at rates which, in the opinion of the Directors, 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 equipment                      | 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.

### Pre-contract costs

All bid costs are expensed through the Profit and Loss Account up to the point where contract award is virtually certain in accordance with UITF 34. Bid costs incurred after this point are then capitalised within debtors. On contract award these bid costs are amortised through the Profit and Loss Account on a straight line basis over the contract period.



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 1 Accounting policies (continued)

### Deferred taxation

The charge for taxation takes account of taxation deferred because of differences between the timing of recognition of certain items for taxation purposes and for accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where the transactions or events that give rise to an obligation to pay more or less tax in the future have occurred by the Balance Sheet date. A deferred tax asset is recognised only when it is considered more likely than not that it will be recovered.

Deferred tax is recognised on a non-discounted basis using tax rates in force at the Balance Sheet date. Financial Reporting Standard 19 ("FRS 19") - Deferred Tax has been adopted for the first time in this preliminary announcement and there is no material effect on the comparative figures.

### Basis of translation of foreign currencies

Transactions of UK companies denominated in foreign currencies are translated into Sterling at the rate ruling at the date of the transaction. 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 financial information of overseas subsidiary companies and associated undertakings is translated into Sterling at the closing rates of exchange at the Balance Sheet date and any 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.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 2 Segmental Report

| Classes of Business                                  | Group            | Joint          | Total            |
|--|------------------|----------------|------------------|
|  | £'000            | Ventures       | £'000            |
|  |                  | £'000          | £'000            |
| <b>2002</b>  |                  |                |                  |
| <b>Turnover</b>                                      |                  |                |                  |
| Civil Government                                     | 267,127          | 89,220         | 356,347          |
| Defence  | 228,579          | 134,654        | 363,233          |
| Transport  | 347,815          | 4,796          | 352,611          |
| Science  | 115,603          | –              | 115,603          |
| Private sector                                       | 138,154          | –              | 138,154          |
| <b>Total</b>   | <b>1,097,278</b> | <b>228,670</b> | <b>1,325,948</b> |
| <b>Profit before taxation and other costs</b>        |                  |                |                  |
| Civil Government                                     | 17,796           | 5,287          | 23,083           |
| Defence  | 13,259           | 15,956         | 29,215           |
| Transport  | 15,126           | 640            | 15,766           |
| Science  | 9,845            | –              | 9,845            |
| Private sector                                       | 6,909            | –              | 6,909            |
| <b>Total</b>   | <b>62,935</b>    | <b>21,883</b>  | <b>84,818</b>    |
| <b>Other costs</b>                                   |                  |                |                  |
| Common costs   |                  |                | (25,734)         |
| Amortisation of intangible assets                    |                  |                | (8,098)          |
| Net interest – Group                                 |                  |                | (4,064)          |
| Net interest – Joint ventures                        |                  |                | 2,019            |
| <b>Profit on ordinary activities before taxation</b> |                  |                | <b>48,941</b>    |
| <b>Net assets</b>                                    |                  |                |                  |
| Civil Government                                     |                  |                | 43,269           |
| Defence  |                  |                | 53,400           |
| Transport  |                  |                | 45,716           |
| Science  |                  |                | 69,771           |
| Private sector                                       |                  |                | 31,679           |
| <b>Total</b>   |                  |                | <b>243,835</b>   |
| Unallocated assets                                   |                  |                | 24,022           |
| <b>Total</b>   |                  |                | <b>267,857</b>   |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 2 Segmental Report (continued)

| Classes of Business                                     | Group          | Joint          | Restated         |
|---|----------------|----------------|------------------|
|   | £'000          | Ventures       | Total            |
|   |                | £'000          | £'000            |
| <b>2001</b>   |                |                |                  |
| <b>Turnover</b>   |                |                |                  |
| Civil Government  | 202,605        | 107,917        | 310,522          |
| Defence   | 218,001        | 115,349        | 333,350          |
| Transport   | 275,888        | 4,244          | 280,132          |
| Science   | 87,404         | –              | 87,404           |
| Private sector  | 129,795        | –              | 129,795          |
| <b>Total</b>  | <b>913,693</b> | <b>227,510</b> | <b>1,141,203</b> |
| <b>Profit before taxation and other costs</b>           |                |                |                  |
| Civil Government  | 13,271         | 5,169          | 18,440           |
| Defence   | 11,312         | 11,996         | 23,308           |
| Transport   | 14,179         | 209            | 14,388           |
| Science   | 4,907          | –              | 4,907            |
| Private sector  | 6,778          | –              | 6,778            |
| <b>Total</b>  | <b>50,447</b>  | <b>17,374</b>  | <b>67,821</b>    |
| <b>Other costs</b>                                      |                |                |                  |
| Common costs  |                |                | (24,070)         |
| Exceptional item: Cost of unsuccessful NATS acquisition |                |                | (10,187)         |
| Exceptional item: GSR refinancing                       |                |                | 15,356           |
| Amortisation of intangible assets                       |                |                | (5,123)          |
| Net interest – Group                                    |                |                | (5,092)          |
| Net interest – Joint ventures                           |                |                | 1,334            |
| <b>Profit on ordinary activities before taxation</b>    |                |                | <b>40,039</b>    |
| <b>Net assets</b>                                       |                |                |                  |
| Civil Government  |                |                | 33,517           |
| Defence   |                |                | 36,282           |
| Transport   |                |                | 27,044           |
| Science   |                |                | 903              |
| Private sector  |                |                | 14,246           |
| <b>Total</b>  |                |                | <b>111,992</b>   |
| Unallocated assets                                      |                |                | 17,079           |
| <b>Total</b>  |                |                | <b>129,071</b>   |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 2 Segmental Report (continued)

| Geographical segments                                | Group<br>£'000   | Joint<br>Ventures<br>£'000 | Total<br>£'000   |
|--|------------------|----------------------------|------------------|
| <b>2002</b>  |                  |                            |                  |
| <b>Turnover</b>                                      |                  |                            |                  |
| United Kingdom                                       | 752,247          | 178,207                    | 930,454          |
| Rest of Europe and Middle East                       | 163,218          | 7,341                      | 170,559          |
| Asia Pacific   | 116,671          | 38,406                     | 155,077          |
| North America  | 65,142           | 4,716                      | 69,858           |
| <b>Total</b>   | <b>1,097,278</b> | <b>228,670</b>             | <b>1,325,948</b> |
| <b>Profit before taxation and other costs</b>        |                  |                            |                  |
| United Kingdom                                       | 35,065           | 19,029                     | 54,094           |
| Rest of Europe and Middle East                       | 12,895           | 625                        | 13,520           |
| Asia Pacific   | 9,503            | 1,750                      | 11,253           |
| North America  | 5,472            | 479                        | 5,951            |
| <b>Total</b>   | <b>62,935</b>    | <b>21,883</b>              | <b>84,818</b>    |
| <b>Other costs</b>                                   |                  |                            |                  |
| Common costs   |                  |                            | (25,734)         |
| Amortisation of intangible assets                    |                  |                            | (8,098)          |
| Net interest – Group                                 |                  |                            | (4,064)          |
| Net interest – Joint ventures                        |                  |                            | 2,019            |
| <b>Profit on ordinary activities before taxation</b> |                  |                            | <b>48,941</b>    |
| <b>Net assets</b>                                    |                  |                            |                  |
| United Kingdom                                       |                  |                            | 142,821          |
| Rest of Europe and Middle East                       |                  |                            | 43,951           |
| Asia Pacific   |                  |                            | 40,057           |
| North America  |                  |                            | 17,006           |
| <b>Total</b>   |                  |                            | <b>243,835</b>   |
| Unallocated assets                                   |                  |                            | 24,022           |
| <b>Total</b>   |                  |                            | <b>267,857</b>   |

Note: Turnover is shown by geographical origin. Turnover analysed by geographical destination is not materially different.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 2 Segmental Report (continued)

| Geographical segments                                   | Group<br>£'000 | Joint<br>Ventures<br>£'000 | Restated<br>Total<br>£'000 |
|---|----------------|----------------------------|----------------------------|
| <b>2001</b>   |                |                            |                            |
| <b>Turnover</b>   |                |                            |                            |
| United Kingdom  | 618,559        | 175,641                    | 794,200                    |
| Rest of Europe and Middle East                          | 130,608        | 8,876                      | 139,484                    |
| Asia Pacific  | 103,414        | 38,588                     | 142,002                    |
| North America   | 61,112         | 4,405                      | 65,517                     |
| <b>Total</b>  | <b>913,693</b> | <b>227,510</b>             | <b>1,141,203</b>           |
| <b>Profit before taxation and other costs</b>           |                |                            |                            |
| United Kingdom  | 26,988         | 14,068                     | 41,056                     |
| Rest of Europe and Middle East                          | 10,041         | 720                        | 10,761                     |
| Asia Pacific  | 8,597          | 1,871                      | 10,468                     |
| North America   | 4,821          | 715                        | 5,536                      |
| <b>Total</b>  | <b>50,447</b>  | <b>17,374</b>              | <b>67,821</b>              |
| <b>Other costs</b>                                      |                |                            |                            |
| Common costs  |                |                            | (24,070)                   |
| Exceptional item: Cost of unsuccessful NATS acquisition |                |                            | (10,187)                   |
| Exceptional item: GSR refinancing                       |                |                            | 15,356                     |
| Amortisation of intangible assets                       |                |                            | (5,123)                    |
| Net interest – Group                                    |                |                            | (5,092)                    |
| Net interest – Joint ventures                           |                |                            | 1,334                      |
| <b>Profit on ordinary activities before taxation</b>    |                |                            | <b>40,039</b>              |
| <b>Net assets</b>                                       |                |                            |                            |
| United Kingdom  |                |                            | 64,563                     |
| Rest of Europe and Middle East                          |                |                            | 9,278                      |
| Asia Pacific  |                |                            | 30,919                     |
| North America   |                |                            | 7,232                      |
| <b>Total</b>  |                |                            | <b>111,992</b>             |
| Unallocated assets                                      |                |                            | 17,079                     |
| <b>Total</b>  |                |                            | <b>129,071</b>             |

Note: Turnover is shown by geographical origin. Turnover analysed by geographical destination is not materially different.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 3 Information regarding Directors and employees

|                                       | 2002  | 2001  |
|---------------------------------------|-------|-------|
|                                       | £'000 | £'000 |
| a) Directors' remuneration:           |       |       |
| Fees as Directors                     | 97    | 83    |
| Other emoluments                      | 1,730 | 1,319 |
| Total remuneration excluding pensions | 1,827 | 1,402 |

The prior year comparative includes Directors who did not serve in 2002.

|  | 2002    | 2001    |
|--|---------|---------|
|  | £'000   | £'000   |
| b) Employee costs including Directors: |         |         |
| Wages and salaries                     | 444,693 | 399,447 |
| Social security costs                  | 36,713  | 36,376  |
| Other pension costs (Note 31)          | 29,096  | 19,544  |
| Long Term Incentive Scheme costs       | 776     | 661     |
|  | 511,278 | 456,028 |

|   | 2002   | 2001   |
|---|--------|--------|
| c) Number of persons employed by Serco Group plc and its subsidiaries |        |        |
| Average number of persons employed in the provision of services:      |        |        |
| Civil Government  | 7,138  | 6,738  |
| Defence   | 6,251  | 6,491  |
| Transport   | 4,442  | 4,653  |
| Science   | 1,665  | 1,460  |
| Private sector  | 2,999  | 2,445  |
| Non-specific  | 202    | 116    |
|   | 22,697 | 21,903 |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 4 Interest receivable

|                                 | 2002          | 2001          |
|---------------------------------|---------------|---------------|
|                                 | £'000         | £'000         |
| Short term deposits             | 818           | 1,484         |
| Loans to joint ventures         | 604           | 723           |
| Total Group                     | 1,422         | 2,207         |
| Share of joint venture interest | 16,894        | 17,102        |
|                                 | <b>18,316</b> | <b>19,309</b> |

### 5 Interest payable and similar charges

|                                 | 2002          | 2001          |
|---------------------------------|---------------|---------------|
|                                 | £'000         | £'000         |
| Bank loans and overdrafts       | 5,486         | 7,299         |
| Share of joint venture interest | 14,875        | 15,768        |
|                                 | <b>20,361</b> | <b>23,067</b> |

### 6 Profit on ordinary activities before taxation

|  | 2002   | 2001   |
|--|--------|--------|
|  | £'000  | £'000  |
| Profit on ordinary activities before taxation is after charging: |        |        |
| Rentals under operating leases:                                  |        |        |
| Land and buildings   | 12,599 | 11,790 |
| Plant and machinery  | 20,686 | 17,586 |
| Depreciation on tangible assets:                                 |        |        |
| Owned  | 12,307 | 10,861 |
| Held under finance leases  | 3,227  | 2,299  |
| Finance lease interest on operational assets                     | 721    | 454    |
| Amortisation of goodwill and intangible assets                   | 8,098  | 5,123  |
| Auditors' remuneration:  |        |        |
| Deloitte & Touche  | 514    | 444    |
| Other auditors   | 175    | 125    |
| Other fees paid to Deloitte & Touche:                            |        |        |
| Bid support  | 1,170  | 659    |
| Tax  | 490    | 544    |
| Other  | 595    | 432    |
| Other fees paid to other accountancy firms:                      |        |        |
| Internal audit   | 152    | 183    |
| Other  | 555    | 391    |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 7 Taxation on profit on ordinary activities

|   | 2002          | Restated      |
|---|---------------|---------------|
|   | £'000         | 2001<br>£'000 |
| The taxation charge on the profit for the year is made up as follows: |               |               |
| United Kingdom corporation tax  | 1,654         | 3,010         |
| Double tax relief   | –             | (349)         |
| Overseas taxation:  |               |               |
| Operating income  | 1,950         | 2,777         |
| Exceptional item: GSR refinancing                                     | –             | 1,219         |
| Deferred taxation   | 4,120         | (504)         |
| Adjustment in respect of prior years:                                 |               |               |
| United Kingdom corporation tax  | (750)         | 292           |
| Overseas taxation   | (37)          | –             |
| Deferred taxation   | 2,375         | 501           |
| Share of joint ventures' taxation charge                              | 7,327         | 6,066         |
|   | <b>16,639</b> | <b>13,012</b> |

The current tax recognised for the year is higher than the United Kingdom corporation tax rate of 30%. The main reasons for this are set out below:

|  | 2002          | Restated      |
|--|---------------|---------------|
|  | £'000         | 2001<br>£'000 |
| Profit on ordinary activities before taxation multiplied by the UK Corporation Tax rate of 30% | 14,682        | 12,012        |
| Effect on the reported tax charge of:  |               |               |
| Expenses not deductible for tax purposes (primarily goodwill amortisation)                     | 3,463         | 4,450         |
| Tax allowances in excess of depreciation   | (1,828)       | (2,610)       |
| Other short term timing differences  | (1,953)       | (2,109)       |
| Unrelieved tax losses and higher tax rates on overseas earnings                                | 255           | 2,458         |
| Tax exempt income and the effect of the use of unrecognised tax losses                         | (634)         | (519)         |
| Tax incentives including Tonnage Tax and Research & Development Tax Credits                    | (3,054)       | (959)         |
| Current tax charge for the year  | 10,931        | 12,723        |
| Deferred tax   | 6,495         | (3)           |
| Adjustment in respect of prior years   | (787)         | 292           |
| Taxation on profit on ordinary activities  | <b>16,639</b> | <b>13,012</b> |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 8 Dividends

|   | 2002<br>£'000 | 2001<br>£'000 |
|---|---------------|---------------|
| Interim dividend of 0.64p per share on 429,260,960 Ordinary Shares<br>(2001 – 0.57p on 392,551,903 Ordinary Shares) of 2p each fully paid<br>– paid 11 October 2002                   | <b>2,747</b>  | 2,238         |
| Proposed final dividend of 1.44p per share on 429,448,207 Ordinary Shares<br>(2001 – 1.29p on 389,613,782 Ordinary Shares) of 2p each fully paid<br>– proposed payment on 13 May 2003 | <b>6,184</b>  | 5,026         |
| 2001 final dividend of 1.29p on 39,547,465 shares issued between<br>31 December 2001 and 13 March 2002 (record date)  | <b>510</b>    | –             |
| 2000 final dividend of 1.13p on 50,212 shares relating to shares issued between<br>31 December 2000 and 6 April 2001 (record date)  | –             | 1             |
|   | <b>9,441</b>  | 7,265         |

A dividend waiver is effective for those shares held on behalf of the Company by its Employee Share Ownership Trust.

### 9 Earnings per Ordinary Share

Basic and diluted earnings per Ordinary Share after goodwill have been calculated in accordance with Financial Reporting Standard 14 – Earnings Per Share. Earnings per share is shown both before and after goodwill to assist in the understanding of the impact of FRS 10 on the preliminary announcement.

The calculation of basic earnings per Ordinary Share after goodwill is based on profits of £32,302,000 for the year ended 31 December 2002 (2001 restated – £27,027,000) and the weighted average number of 421,813,107 (2001 – 389,552,980) Ordinary Shares of 2p each in issue during the year.

The calculation of basic earnings per Ordinary Share before goodwill is based on profits of £40,400,000 (adjusted for the effect of goodwill amortisation of £8,098,000) for the year ended 31 December 2002 (2001 restated – £32,150,000 adjusted for the effect of goodwill amortisation of £5,123,000) and the weighted average number of 421,813,107 (2001 – 389,552,980) Ordinary Shares of 2p each in issue during the year.

The calculation of diluted earnings per Ordinary Share after goodwill is based on profits of £32,302,000 for the year ended 31 December 2002 (2001 restated – £27,027,000) and the weighted average number of 423,288,423 (2001 – 391,115,673) Ordinary Shares of 2p each assuming that the options are all exercised.

The calculation of diluted earnings per Ordinary Share before goodwill is based on profits of £40,400,000 (adjusted for the effect of goodwill amortisation of £8,098,000) for the year ended 31 December 2002 (2001 restated – £32,150,000 adjusted for the effect of goodwill amortisation of £5,123,000) and the weighted average number of 423,288,423 (2001 – 391,115,673) Ordinary Shares of 2p each assuming that the options are all exercised.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 10 Intangible assets

|   | Goodwill<br>£'000 | Other<br>£'000 | Group<br>Total<br>£'000 |
|---|-------------------|----------------|-------------------------|
| Cost:   |                   |                |                         |
| At 1 January 2002   | 152,889           | –              | 152,889                 |
| Additions during the year   | 13,029            | 1,775          | 14,804                  |
| Adjustments to goodwill capitalised on acquisitions prior to 1 January 2002 | (403)             | –              | (403)                   |
| <b>At 31 December 2002</b>  | <b>165,515</b>    | <b>1,775</b>   | <b>167,290</b>          |
| Accumulated amortisation:   |                   |                |                         |
| At 1 January 2002   | 11,719            | –              | 11,719                  |
| Charge for the year   | 7,777             | 321            | 8,098                   |
| <b>At 31 December 2002</b>  | <b>19,496</b>     | <b>321</b>     | <b>19,817</b>           |
| Net book value:   |                   |                |                         |
| <b>At 31 December 2002</b>  | <b>146,019</b>    | <b>1,454</b>   | <b>147,473</b>          |
| At 31 December 2001   | 141,170           | –              | 141,170                 |

Other intangible assets comprise a £1,775,000 premium for the acquisition of two, five-year, licences and are amortised over the licence life.

### 11 Tangible assets

| Group                               | Freehold<br>land and<br>buildings<br>£'000 | Short<br>leasehold<br>building<br>improvements<br>£'000 | Machinery,<br>motor<br>vehicles,<br>furniture and<br>equipment<br>£'000 | Total<br>£'000 |
|-------------------------------------|--|---|---|----------------|
| Cost:                               |  |   |   |                |
| At 1 January 2002                   | 7,567                                      | 10,128  | 97,846  | 115,541        |
| Subsidiaries acquired               | –  | –   | 838   | 838            |
| Transfer from asset held for resale | 5,532                                      | –   | –   | 5,532          |
| Capital expenditure                 | 63   | 3,749   | 25,619  | 29,431         |
| Disposals                           | (5,535)                                    | (214)   | (5,799)   | (11,548)       |
| Foreign exchange differences        | 405  | 73  | 1,916   | 2,394          |
| <b>At 31 December 2002</b>          | <b>8,032</b>                               | <b>13,736</b>   | <b>120,420</b>  | <b>142,188</b> |
| Accumulated depreciation:           |  |   |   |                |
| At 1 January 2002                   | 2,234                                      | 4,074   | 60,509  | 66,817         |
| Subsidiaries acquired               | –  | –   | 483   | 483            |
| Provided during the year            | 181  | 1,153   | 14,200  | 15,534         |
| Disposals                           | –  | (175)   | (4,458)   | (4,633)        |
| Foreign exchange differences        | 143  | 17  | 1,348   | 1,508          |
| <b>At 31 December 2002</b>          | <b>2,558</b>                               | <b>5,069</b>  | <b>72,082</b>   | <b>79,709</b>  |
| Net book value:                     |  |   |   |                |
| <b>At 31 December 2002</b>          | <b>5,474</b>                               | <b>8,667</b>  | <b>48,338</b>   | <b>62,479</b>  |
| At 31 December 2001                 | 5,333                                      | 6,054   | 37,337  | 48,724         |

The cost of assets held by the Group under finance leases at 31 December 2002 was £24,977,000 (2001 – £18,905,000). The accumulated depreciation provided for those assets at 31 December 2002 was £9,168,000 (2001 – £6,903,000).



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 11 Tangible assets (continued)

| Company                                | Short<br>leasehold<br>building<br>improvements<br>£'000 | Machinery,<br>motor<br>vehicles,<br>furniture and<br>equipment<br>£'000 | Total<br>£'000 |
|--|---|---|----------------|
| Cost:                                  |   |   |                |
| At 1 January 2002                      | 1,117   | 2,624   | 3,741          |
| Transfers from subsidiary undertakings | 1,161   | 2,329   | 3,490          |
| Transfers to subsidiary undertakings   | (1,049)   | (1,897)   | (2,946)        |
| Capital expenditure                    | 36  | 1,054   | 1,090          |
| Disposals                              | –   | (27)  | (27)           |
| <b>At 31 December 2002</b>             | <b>1,265</b>  | <b>4,083</b>  | <b>5,348</b>   |
| Accumulated depreciation:              |   |   |                |
| At 1 January 2002                      | 355   | 1,704   | 2,059          |
| Transfers from subsidiary undertakings | 365   | 1,398   | 1,763          |
| Transfers to subsidiary undertakings   | (323)   | (1,160)   | (1,483)        |
| Provided during the year               | 151   | 566   | 717            |
| Disposals                              | –   | (17)  | (17)           |
| <b>At 31 December 2002</b>             | <b>548</b>  | <b>2,491</b>  | <b>3,039</b>   |
| Net book value:                        |   |   |                |
| <b>At 31 December 2002</b>             | <b>717</b>  | <b>1,592</b>  | <b>2,309</b>   |
| At 31 December 2001                    | 762   | 920   | 1,682          |

The cost of assets held by the Company under finance leases at 31 December 2002 was £872,000 (2001 – £Nil).

The accumulated depreciation provided for those assets at 31 December 2002 was £71,307 (2001 – £Nil).



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 12 Investments held as fixed assets

|   | Company<br>£'000 |
|---|------------------|
| a) Shares in subsidiary companies at cost:              |                  |
| At 1 January 2002                                       | 35,598           |
| Transfer of investments from Group companies            | 115,890          |
| Transfer of investments to Group companies              | (29,437)         |
| Equity subscriptions for shares in Group companies      | 22,908           |
| Redemption of Serco Australia Pty Ltd preference shares | (3,541)          |
| <b>At 31 December 2002</b>                              | <b>141,418</b>   |

|   | Group<br>£'000 |
|---|----------------|
| b) Group investments in joint ventures: |                |
| At 1 January 2002                       | 30,510         |
| Dividends receivable                    | (11,095)       |
| Acquisitions                            | 370            |
| Disposals                               | (139)          |
| Foreign exchange translation difference | (338)          |
| Share of profits after tax              | 16,575         |
| <b>At 31 December 2002</b>              | <b>35,883</b>  |

|                              | Group<br>£'000 |
|------------------------------|----------------|
| c) Investment in own shares: |                |
| At 1 January 2002            | 18,983         |
| Amortisation                 | (776)          |
| <b>At 31 December 2002</b>   | <b>18,207</b>  |

Investment in own shares represents 5,414,630 (2001 – 5,557,033) shares in Serco Group plc held by the Employee Share Ownership Trust ("the Trust") equal to 1.25% of current allotted share capital (2001 – 1.4%). The market value of shares held by the Trust at 31 December 2002 was £8,284,384 (2001 – £20,283,170). 142,403 shares were allotted during the year, all of which were at nil value (2001 – 52,308, of which 9,864 were allotted at £4.26 and 42,444 at nil value).

#### d) Joint ventures:

The Group's share of its joint ventures is summarised as follows:

|  | AWE*         | PCG**         | Other         | 2002<br>Total  | 2001<br>Total |
|--|--------------|---------------|---------------|----------------|---------------|
|  | £'000        | £'000         | £'000         | £'000          | £'000         |
| Turnover                                 | 91,386       | 52,504        | 84,780        | <b>228,670</b> | 227,510       |
| Profit before Tax                        | 7,801        | 4,993         | 11,108        | <b>23,902</b>  | 18,708        |
| Tax                                      | (1,832)      | (2,070)       | (3,425)       | <b>(7,327)</b> | (6,066)       |
| Fixed assets                             | –            | 2,288         | 31,278        | <b>33,566</b>  | 54,147        |
| Current assets                           | 21,861       | 124,266       | 138,138       | <b>284,265</b> | 268,191       |
|  | 21,861       | 126,554       | 169,416       | <b>317,831</b> | 322,338       |
| Liabilities due within one year          | 17,660       | 17,518        | 27,313        | <b>62,491</b>  | 62,817        |
| Liabilities due after more than one year | 1,066        | 94,446        | 123,945       | <b>219,457</b> | 229,011       |
|  | 18,726       | 111,964       | 151,258       | <b>281,948</b> | 291,828       |
| <b>Net assets</b>                        | <b>3,135</b> | <b>14,590</b> | <b>18,158</b> | <b>35,883</b>  | <b>30,510</b> |

\* Atomic Weapons Establishment Management Ltd

\*\* Premier Custodial Group Ltd

Adjustments have been made to joint venture results to ensure they are consistent with Group accounting policies.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 12 Investments held as fixed assets (continued)

- e) A list of the principal undertakings of Serco Group plc is shown in Note 32. All the subsidiaries of the Group have been consolidated.
- f) At 31 December 2002, Group companies had branches in Abu Dhabi, Bahrain, Chile, Dubai, Korea, Ras Al Khaimah, Saudi Arabia, Sharjah and Switzerland.
- g) The subsidiaries of Serco Group plc and its joint venture undertakings are primarily engaged in the provision of services with the exception of Serco Investments Limited and certain other holding companies, which manage equity investments.
- h) Acquisitions:

All acquisitions made during the year have been accounted for using the acquisition method of accounting. The goodwill arising on all acquisitions made in the year is being amortised over a period of 20 years.

i) CCM Software Services Limited

All the issued share capital of CCM Software Services Limited was acquired by Serco International Limited on 3 December 2002 for cash consideration of £8,647,000 and deferred cash consideration, contingent on achievement of certain financial targets post acquisition, valued at £2,068,000. Acquisition costs of £515,000 were incurred.

The fair value of net assets acquired was £631,000 after taking account of adjustments of £448,000 required to recognise obligations for which no liability had been booked at the date of acquisition.

The goodwill arising on consolidation is £10,599,000.

ii) Other acquisitions

The issued share capital of Euromedic Ltd and the assets and liabilities of SDC, a partnership, were acquired by Serco Holdings Ltd on 13 March 2002 and 31 May 2002 respectively for a total cash consideration of £2,088,000 and deferred cash consideration, contingent of achievement of certain financial targets post acquisition, valued at £223,000. Acquisition costs of £103,000 were incurred.

The fair values of assets and liabilities acquired are considered to be the same as their book values. The total goodwill arising on consolidation is £2,430,000.

### 13 Stocks

|                             | <b>Group<br/>2002<br/>£'000</b> | Group<br>2001<br>£'000 |
|-----------------------------|---------------------------------|------------------------|
| Service spares              | <b>10,065</b>                   | 10,093                 |
| Long term contract balances | <b>28,679</b>                   | 25,745                 |
|                             | <b>38,744</b>                   | 35,838                 |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 14 Debtors

|                                  | Group<br>2002<br>£'000 | Restated<br>Group<br>2001<br>£'000 | Company<br>2002<br>£'000 | Company<br>2001<br>£'000 |
|----------------------------------|------------------------|------------------------------------|--------------------------|--------------------------|
| a) Amounts due within one year:  |                        |                                    |                          |                          |
| Amounts recoverable on contracts | 168,820                | 150,342                            | –                        | –                        |
| Other debtors                    | 18,425                 | 21,224                             | 21,089                   | 14,747                   |
| Prepayments and accrued income   | 30,131                 | 19,148                             | 580                      | 73                       |
| Amounts owed by joint ventures   | 2,666                  | 4,257                              | –                        | –                        |
| Building held for re-sale        | –                      | 4,734                              | –                        | –                        |
|                                  | <b>220,042</b>         | 199,705                            | <b>21,669</b>            | 14,820                   |

|  | Group<br>2002<br>£'000 | Restated<br>Group<br>2001<br>£'000 | Company<br>2002<br>£'000 | Company<br>2001<br>£'000 |
|--|------------------------|------------------------------------|--------------------------|--------------------------|
| b) Amounts due after more than one year: |                        |                                    |                          |                          |
| Amounts recoverable on contracts         | 18,412                 | 11,847                             | –                        | –                        |
| Other debtors                            | 16,297                 | 14,131                             | 1,297                    | –                        |
| Pensions prepayment (Note 31)            | 28,350                 | 26,460                             | –                        | –                        |
| Amounts owed by joint ventures           | 12,033                 | 9,567                              | –                        | –                        |
| PFI asset in the course of construction* | 33,840                 | 14,100                             | –                        | –                        |
|  | <b>108,932</b>         | 76,105                             | <b>1,297</b>             | –                        |
| <b>Total debtors</b>                     | <b>328,974</b>         | 275,810                            | <b>22,966</b>            | 14,820                   |

Included in amounts recoverable on contracts is £7,978,000 (2001 – £14,710,000) in respect of items procured on behalf of customers. This is offset by an amount of £8,792,000 (2001 – £12,038,000) in trade creditors and an amount of £945,000 (2001 – £1,611,000) in accruals.

#### \*PFI asset in the course of construction

The impact on the preliminary announcement of the PFI asset in the course of construction in relation to the Traffic Control Centre contract is summarised as follows:

|  | Balance at<br>1 January<br>2002<br>£'000 | Movement<br>during the year<br>£'000 | Balance at<br>31 December<br>2002<br>£'000 |
|--|--|--------------------------------------|--|
| Balances in relation to asset in course of construction:               |  |                                      |  |
| PFI asset in the course of construction excluding capitalised interest | 13,733                                   | 18,355                               | 32,088                                     |
| Interest included in PFI asset in the course of construction           | 367                                      | 1,385                                | 1,752                                      |
| Total PFI in asset in the course of construction                       | 14,100                                   | 19,740                               | 33,840                                     |
| Cash   | –  | 270                                  | 270  |
| Other debtors  | –  | 1,447                                | 1,447                                      |
| Accruals and deferred income   | –  | (4,852)                              | (4,852)                                    |
|  | 14,100                                   | 16,605                               | 30,705                                     |
| Funded by:   |  |                                      |  |
| Non-recourse loan  | (14,100)                                 | (15,600)                             | (29,700)                                   |
| Profits retained within Special Purpose Company                        | –  | (1,005)                              | (1,005)                                    |
|  | (14,100)                                 | (16,605)                             | (30,705)                                   |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 15 Other creditors including taxation and social security

|                                       | Group<br>2002<br>£'000 | Group<br>2001<br>£'000 | Company<br>2002<br>£'000 | Company<br>2001<br>£'000 |
|---------------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Obligations under finance leases      | 4,836                  | 2,557                  | 267                      | –                        |
| Corporation tax                       | 2,195                  | 4,418                  | –                        | –                        |
| Other taxes and social security costs | 31,432                 | 30,464                 | 304                      | 631                      |
| Other creditors                       | 38,034                 | 47,689                 | 117                      | 446                      |
| Amounts owed to joint ventures        | 16,974                 | 14,864                 | –                        | –                        |
| Other loans                           | 372                    | 629                    | –                        | –                        |
|                                       | <b>93,843</b>          | <b>100,621</b>         | <b>688</b>               | <b>1,077</b>             |

### 16 Creditors: Amounts falling due after more than one year

|   | Group<br>2002<br>£'000 | Group<br>2001<br>£'000 | Company<br>2002<br>£'000 | Company<br>2001<br>£'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| a) Bank loans and overdrafts                                    | 2,386                  | 70,647                 | –                        | 30,245                   |
| Obligations under finance leases                                | 15,291                 | 11,385                 | 792                      | –                        |
| Other loans   | 77,505                 | 60,371                 | 43,259                   | 41,420                   |
| Total loans   | 95,182                 | 142,403                | 44,051                   | 71,665                   |
| Less: amounts included in creditors falling due within one year | 7,594                  | 73,833                 | 267                      | 30,245                   |
| Amounts falling due after more than one year                    | <b>87,588</b>          | <b>68,570</b>          | <b>43,784</b>            | <b>41,420</b>            |

|                                     | Group<br>2002<br>£'000 | Group<br>2001<br>£'000 | Company<br>2002<br>£'000 | Company<br>2001<br>£'000 |
|-------------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| b) Analysis of loan repayments due: |                        |                        |                          |                          |
| Bank loans and overdrafts:          |                        |                        |                          |                          |
| Within one year or on demand        | 2,386                  | 70,647                 | –                        | 30,245                   |
| Obligations under finance leases:   |                        |                        |                          |                          |
| Within one year or on demand        | 4,836                  | 2,557                  | 267                      | –                        |
| Between one and two years           | 4,667                  | 2,543                  | 525                      | –                        |
| Between two and five years          | 4,291                  | 3,826                  | –                        | –                        |
| After five years                    | 1,497                  | 2,459                  | –                        | –                        |
| Other loans:                        |                        |                        |                          |                          |
| Within one year or on demand        | 372                    | 629                    | –                        | –                        |
| Between one and two years           | 1,687                  | 1,618                  | –                        | –                        |
| Between two and five years          | 70,735                 | 14,681                 | 43,259                   | –                        |
| Non-recourse debt to fund PFI asset | 25,200                 | 14,100                 | –                        | –                        |
| Other                               | 45,535                 | 581                    | 43,259                   | –                        |
| After five years                    | 4,711                  | 43,443                 | –                        | 41,420                   |
| Non-recourse debt to fund PFI asset | 4,500                  | –                      | –                        | –                        |
| Other                               | 211                    | 43,443                 | –                        | 41,420                   |
|                                     | <b>95,182</b>          | <b>142,403</b>         | <b>44,051</b>            | <b>71,665</b>            |

c) Finance lease obligations are secured by retention of title to the relevant assets.



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 17 Treasury policies and risk management

The principal risks arising from the Group's financing activities are interest rate risk and foreign currency risk. Treasury operations are conducted within a framework of policies set and reviewed by the Board. There has been no material change during the year or since the year end to the major financial risks faced by the Group or the Group's approach to the management of these risks.

As permitted by Financial Reporting Standard 13 – "Derivatives and other Financial Instruments: Disclosures" short term debtors and non interest bearing short term creditors and loans from joint ventures have been excluded from the following disclosures other than the disclosure of the currency profile of financial assets and liabilities.

The fundamental purpose of interest rate and foreign currency financial instruments entered into is to hedge monetary assets and liabilities, the details of which are set out below.

### Interest rate risk

The Group borrows at both fixed and floating rates of interest. The Group's exposure to interest rate fluctuations on its long term borrowings is managed by using interest rate swaps and forward rate agreements. At 31 December 2002, after taking account of interest rate swaps, the proportion of the Group's fixed rate borrowings was 66.6% (2001 – 33.3%).

### Foreign currency risk

The Group's policy is not to hedge the net assets of overseas subsidiaries as they represent a small proportion of the market value of the Group and because exchange rate fluctuations thereon are unlikely to have a material effect on the consolidated net asset value of the Group.

Business units are required to hedge their material trading transactions (sales and purchases in currencies other than their functional currency) by using forward contracts. There were no material debtors or creditors as at 31 December 2002 with unhedged transactional exposure.

### Financial assets and liabilities

#### i) Assets

|  | Sterling<br>£'000 | Euro<br>£'000 | Australian<br>Dollar<br>£'000 | US<br>Dollar<br>£'000 | Other<br>currencies<br>£'000 | Total<br>£'000 |
|--|-------------------|---------------|-------------------------------|-----------------------|------------------------------|----------------|
| <b>31 December 2002</b>                            |                   |               |                               |                       |                              |                |
| Cash and short term deposits                       | 43,024            | 13,468        | 2,009                         | 2,868                 | 10,405                       | <b>71,774</b>  |
| Long term interest-bearing loans to joint ventures | 8,009             | –             | 4,024                         | –                     | –                            | <b>12,033</b>  |
| Other long term debtors                            | 87,918            | 7,285         | 1,696                         | –                     | –                            | <b>96,899</b>  |
| <b>Total long term assets</b>                      | <b>95,927</b>     | <b>7,285</b>  | <b>5,720</b>                  | <b>–</b>              | <b>–</b>                     | <b>108,932</b> |

|  | Sterling<br>£'000 | Euro<br>£'000 | Australian<br>Dollar<br>£'000 | US<br>Dollar<br>£'000 | Other<br>currencies<br>£'000 | Total<br>£'000 |
|--|-------------------|---------------|-------------------------------|-----------------------|------------------------------|----------------|
| <b>31 December 2001</b>                            |                   |               |                               |                       |                              |                |
| Cash and short term deposits                       | 12,782            | 11,282        | 2,450                         | 5,670                 | 2,628                        | 34,812         |
| Long term interest-bearing loans to joint ventures | 8,817             | –             | 750                           | –                     | –                            | 9,567          |
| Other long term debtors                            | 64,564            | –             | 1,363                         | 611                   | –                            | 66,538         |
| <b>Total long term assets</b>                      | <b>73,381</b>     | <b>–</b>      | <b>2,113</b>                  | <b>611</b>            | <b>–</b>                     | <b>76,105</b>  |

Included in the above is £4,095,000 (2001 – £4,117,000) of loans to joint ventures which carry a fixed interest rate of 13.0% for a weighted average period of 13 years (2001 – 14 years). All other interest bearing assets are held at floating rates of interest. Of total short term debtors 79% (2001 – 93%) is denominated in Sterling.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 17 Treasury policies and risk management (continued)

#### ii) Liabilities

|                         | Total liabilities<br>£'000 | Floating rate liabilities<br>£'000 | Fixed rate liabilities<br>£'000 | Fixed Rate Liabilities              |  |
|-------------------------|----------------------------|------------------------------------|---------------------------------|-------------------------------------|--|
|                         |                            |                                    |                                 | Weighted average interest rate<br>% | Weighted average time for which rate is fixed<br>Years |
| <b>31 December 2002</b> |                            |                                    |                                 |                                     |  |
| Sterling                | 44,586                     | 14,886                             | 29,700                          | 5.46                                | 3  |
| Australian Dollar       | 3,075                      | 3,075                              | -                               | -                                   | -  |
| US Dollar               | 46,885                     | 13,182                             | 33,703                          | 7.33                                | 5  |
| Euro                    | 636                        | 636                                | -                               | -                                   | -  |
| <b>Total</b>            | <b>95,182</b>              | <b>31,779</b>                      | <b>63,403</b>                   | <b>-</b>                            | <b>-</b>   |

|                   | Total liabilities<br>£'000 | Floating rate liabilities<br>£'000 | Fixed rate liabilities<br>£'000 | Fixed Rate Liabilities              |  |
|-------------------|----------------------------|------------------------------------|---------------------------------|-------------------------------------|--|
|                   |                            |                                    |                                 | Weighted average interest rate<br>% | Weighted average time for which rate is fixed<br>Years |
| 31 December 2001  |                            |                                    |                                 |                                     |  |
| Sterling          | 98,077                     | 83,977                             | 14,100                          | 5.46                                | 3  |
| Australian Dollar | 2,451                      | 2,451                              | -                               | -                                   | -  |
| US Dollar         | 41,420                     | 8,038                              | 33,382                          | 7.34                                | 6  |
| Euro              | 455                        | 455                                | -                               | -                                   | -  |
| <b>Total</b>      | <b>142,403</b>             | <b>94,921</b>                      | <b>47,482</b>                   | <b>-</b>                            | <b>-</b>   |

Of total short term creditors 80% (2001 – 81%) is denominated in sterling.

The maturity of the Group's financial liabilities at 31 December 2002 and 31 December 2001:

|                         | Maturing within one year | Maturing between one and two years | Maturing between two and five years | Maturing after more than five years | Total<br>£'000 |
|-------------------------|--------------------------|------------------------------------|-------------------------------------|-------------------------------------|----------------|
|                         | £'000                    | £'000                              | £'000                               | £'000                               |                |
| <b>31 December 2002</b> |                          |                                    |                                     |                                     |                |
| Sterling                | 4,105                    | 3,884                              | 30,677                              | 5,920                               | <b>44,586</b>  |
| Australian Dollar       | 768                      | 1,255                              | 829                                 | 223                                 | <b>3,075</b>   |
| US Dollar               | 2,085                    | 1,215                              | 43,520                              | 65                                  | <b>46,885</b>  |
| Euro                    | 636                      | -                                  | -                                   | -                                   | <b>636</b>     |
| <b>Total</b>            | <b>7,594</b>             | <b>6,354</b>                       | <b>75,026</b>                       | <b>6,208</b>                        | <b>95,182</b>  |

|                   | Maturing within one year | Maturing between one and two years | Maturing between two and five years | Maturing after more than five years | Total<br>£'000 |
|-------------------|--------------------------|------------------------------------|-------------------------------------|-------------------------------------|----------------|
|                   | £'000                    | £'000                              | £'000                               | £'000                               |                |
| 31 December 2001  |                          |                                    |                                     |                                     |                |
| Sterling          | 72,677                   | 3,216                              | 17,777                              | 4,407                               | 98,077         |
| Australian Dollar | 701                      | 945                                | 730                                 | 75                                  | 2,451          |
| US Dollar         | -                        | -                                  | -                                   | 41,420                              | 41,420         |
| Euro              | 455                      | -                                  | -                                   | -                                   | 455            |
| <b>Total</b>      | <b>73,833</b>            | <b>4,161</b>                       | <b>18,507</b>                       | <b>45,902</b>                       | <b>142,403</b> |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 17 Treasury policies and risk management (continued)

#### iii) Fair Values

The book value and fair value of the Group's financial assets and liabilities at 31 December 2002 and 31 December 2001 were:

|  | 2002                |                     | 2001                |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Book value<br>£'000 | Fair value<br>£'000 | Book value<br>£'000 | Fair value<br>£'000 |
| <b>Assets</b>  |                     |                     |                     |                     |
| Cash and short term deposits                               | 71,774              | 71,774              | 34,812              | 34,812              |
| Long term loans to joint ventures                          | 12,033              | 12,033              | 9,567               | 9,567               |
| Other long term debtors                                    | 96,899              | 96,899              | 66,538              | 66,538              |
| Derivatives held to manage currency and interest rate risk | –                   | 1,716               | –                   | 4,492               |
| <b>Total</b>   | <b>108,932</b>      | <b>110,648</b>      | <b>76,105</b>       | <b>80,597</b>       |
| <b>Liabilities</b>   |                     |                     |                     |                     |
| Long term borrowing:                                       |                     |                     |                     |                     |
| Sterling   | 40,481              | 40,481              | 25,400              | 25,400              |
| Australian Dollar  | 2,307               | 2,307               | 1,750               | 1,750               |
| US Dollar  | 44,800              | 49,091              | 41,420              | 48,991              |
| <b>Total</b>   | <b>87,588</b>       | <b>91,879</b>       | <b>68,570</b>       | <b>76,141</b>       |
| Short term borrowing:                                      |                     |                     |                     |                     |
| Sterling   | 4,105               | 4,105               | 72,677              | 72,677              |
| Australian Dollar  | 768                 | 768                 | 701                 | 701                 |
| US Dollar  | 2,085               | 2,085               | –                   | –                   |
| Euro   | 636                 | 636                 | 455                 | 455                 |
| <b>Total</b>   | <b>7,594</b>        | <b>7,594</b>        | <b>73,833</b>       | <b>73,833</b>       |

Foreign currency assets which are hedged using forward foreign exchange contracts are translated at the contracted rates. The fair value of other foreign currency contracts, interest rate swaps, and the US\$70,000,000 loan notes, have been determined by reference to prices available from the markets on which the instruments involved are traded.

#### Gains and losses on hedges

Changes in the fair value of financial instruments used as hedges are not recognised until the hedged position matures. There was an unrecognised gain of £1,716,000 (2001 – gain of £4,492,000) on hedges as at 31 December 2002. The unrecognised gain is not expected to be recognised in the Profit and Loss account in the next period.

#### Borrowing facilities

The Group had committed bank credit facilities of £50,000,000 at 31 December 2002. The Group also had annually renewable uncommitted bank facilities totalling £111,000,000, all of which were undrawn at 31 December 2002.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 18 Provisions for liabilities and charges

|                    | Restated<br>Balance<br>1 January<br>2002<br>£'000 | Utilised<br>£'000 | Charged to<br>the profit and<br>loss account<br>£'000 | Foreign<br>exchange<br>differences<br>£'000 | Balance<br>31 December<br>2002<br>£'000 |
|--------------------|---|-------------------|---|---|---|
| Group              |   |                   |   |   |   |
| Pensions provision | 23,003  | (463)             | 1,663   | 1,605                                       | 25,808                                  |
| Deferred taxation  | 2,246   | –                 | 6,495   | (16)  | 8,725                                   |
|                    | 25,249  | (463)             | 8,158   | 1,589                                       | 34,533                                  |

|              | Balance<br>1 January<br>2002<br>£'000 | Utilised<br>£'000 | Charged to<br>the profit and<br>loss account<br>£'000 | Foreign<br>exchange<br>differences<br>£'000 | Balance<br>31 December<br>2002<br>£'000 |
|--------------|---------------------------------------|-------------------|---|---|---|
| Company      |                                       |                   |   |   |   |
| Deferred tax | –                                     | –                 | 335   | –   | 335                                     |

### 19 Deferred taxation

|  | Group<br>2002<br>£'000 | Restated<br>Group<br>2001<br>£'000 | Company<br>2002<br>£'000 | Company<br>2001<br>£'000 |
|--|------------------------|------------------------------------|--------------------------|--------------------------|
| The amounts of deferred taxation provided in the accounts are:             |                        |                                    |                          |                          |
| Tax allowances in excess of depreciation                                   | 2,650                  | 332                                | (77)                     | –                        |
| Overseas timing differences  | 1,967                  | 692                                | –                        | –                        |
| Other timing differences   | 4,108                  | 1,222                              | 412                      | –                        |
|  | 8,725                  | 2,246                              | 335                      | –                        |
| Potential amounts of deferred taxation for which no credit has been taken: |                        |                                    |                          |                          |
| Overseas timing differences  | (2,767)                | (3,224)                            | –                        | –                        |
|  | (2,767)                | (3,224)                            | –                        | –                        |

### 20 Reconciliation of movements in shareholders' funds

|  | 2002<br>£'000 | Restated<br>2001<br>£'000 |
|--|---------------|---------------------------|
| Profit on ordinary activities after taxation                         | 32,302        | 27,027                    |
| Dividends  | (9,441)       | (7,265)                   |
|  | 22,861        | 19,762                    |
| Currency translation differences on foreign currency net investments | (1,911)       | (1,917)                   |
| New capital subscribed   | 117,929       | 3,561                     |
| Exercise of share scheme options                                     | (93)          | (1,260)                   |
| Net increase in shareholders' funds                                  | 138,786       | 20,146                    |
| Opening shareholders' funds as previously stated                     | 129,877       | 108,925                   |
| Prior year adjustment  | (806)         | –                         |
| Opening shareholders' funds as restated                              | 129,071       | 108,925                   |
| Closing shareholders' funds as restated                              | 267,857       | 129,071                   |



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 21 Called up share capital

|   | 2002          | 2001   |
|---|---------------|--------|
|   | £'000         | £'000  |
| a) Authorised 550,000,000 (2001 – 550,000,000) Ordinary Shares of 2p each | <b>11,000</b> | 11,000 |
| b) Called up, allotted and fully paid:                                    | <b>2002</b>   | 2001   |
| 434,862,837 (2001 – 395,170,815) Ordinary Shares of 2p each               | <b>£'000</b>  | £'000  |
|   | <b>8,697</b>  | 7,903  |

### c) Ordinary Shares of 2p each allotted in the year:

During the year 289,581 Ordinary Shares of 2p each were allotted to the holders of options or their personal representatives.

Of these, 147,178 were allotted using newly issued shares, 2,628 were allotted at £2.0208\*, 104,796 at £2.175, 38,706 at £2.45\*, and 1,048 at £3.81.

The remaining 142,403 were allotted at nil value using shares purchased in the market and held in trust.

In addition to the above, 39,500,000 Ordinary Shares of 2p each were allotted under a share placement on 12 March 2002 at £3.05. 44,844 Ordinary Shares of 2p each were also allotted on 19 December 2002 as deferred consideration relating to the acquisition of Serco QAA (formerly Quality Assurance Associates Limited) made in December 2000.

\*Restated to reflect the capitalisation issue on 5 April 2000.

### d) Options in respect of Ordinary Shares of 2p each:

- i. In January 1996, 1,210,392 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1996 Long Term Incentive Scheme'. At 31 December 2002 no options remain.
- ii. In January 1997, 1,439,622 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1996 Long Term Incentive Scheme'. At 31 December 2002 there remained 54,000 options which are exercisable at nil value in accordance with the rules of the Scheme.
- iii. 3,341,346 options in respect of Ordinary Shares of 2p each were granted in May and September 1998 in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. At 31 December 2002 there remained 1,606,259 options which are exercisable at a price of £2.175 each and 10,830 at £2.0208\* each in accordance with the rules of the Scheme.
- iv. On 1 April 1999, 3,461,664 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. At 31 December 2002 there remained 2,385,474 options which are exercisable at a price of £2.45 each in accordance with the rules of the Scheme.
- v. On 31 March 2000, 4,511,988 options in respect of Ordinary Shares of 2p each were granted as part of the 1996 Sharesave Scheme. 2,577,092 options were held by employees on 31 December 2002. The options are exercisable at any time between 1 May 2003 and 31 October 2003 at a price of £3.81 each in accordance with the rules of the Scheme.
- vi. On 5 April 2000, 2,524,836 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. At 31 December 2002 there remained 2,368,224 options which are exercisable at a price of £4.2542\* each in accordance with the rules of the Scheme.
- vii. On 5 April 2000, 219,900 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the '1996 Serco Group plc Long Term Incentive Scheme as amended by the Company on 5 April 2000'. At 31 December 2002 there remained 148,236 options which are exercisable at a nil value in accordance with the rules of the Scheme.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 21 Called up share capital (continued)

- viii. 37,677 options in respect of Ordinary Shares of 2p each were granted in August and November 2000, in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. As at 31 December 2002 there remained 26,268 options which are exercisable at a price of £5.825 and 8,878 options which are exercisable at a price of £4.90 each in accordance with the rules of the scheme.
  - ix. On 24 November 2000, 259,351 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the '1996 Serco Group plc Long Term Incentive Scheme as amended by the Company on 5 April 2000'. At 31 December 2002 there remained 188,169 options which are exercisable at nil value in accordance with the rules of the Scheme.
  - x. On 20 March 2001, 2,851,962 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. As at 31 December 2002 there remained 2,700,200 options which are exercisable at a price of £4.07 each in accordance with the rules of the Scheme.
  - xi. On 27 March 2001, 603,144 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. As at 31 December 2002 there remained 600,838 options which are exercisable at a price of £4.35 each in accordance with the rules of the Scheme.
  - xii. On 16 November 2001, 248,374 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the '1996 Serco Group plc Long Term Incentive Scheme as amended by the Company on 5 April 2000'. At 31 December 2002 there remained 200,202 options which are exercisable at nil value in accordance with the rules of the Scheme.
  - xiii. On 3 May 2002, 5,986,743 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. As at 31 December 2002 there remained 5,914,886 options which are exercisable at a price of £2.64 each in accordance with the rules of the Scheme.
  - xiv. On 3 May 2002, 55,600 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the '1996 Serco Group plc Long Term Incentive Scheme as amended by the Company on 5 April 2000'. At 31 December 2002 no options had been exercised or lapsed. These options have been granted in respect of a three-year performance period starting 1 January 2002 and are exercisable at a nil value in accordance with the rules of the Scheme.
  - xv. On 6 September 2002, 5,428,691 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. As at 31 December 2002 there remained 5,327,309 options which are exercisable at a price of £1.645 each in accordance with the rules of the Scheme.
- \*Restated to reflect the capitalisation issue on 5 April 2000.
- e) The market price of Serco Group plc Ordinary Shares of 2p each as at 31 December 2002 was £1.53. The market price of these shares ranged from £4.00 to £1.325 during the year.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 22 Share premium account

| Group and Company   | £'000          |
|---|----------------|
| Balance at 1 January 2002   | 73,656         |
| Deferred consideration relating to the acquisition of Serco QAA Limited | 69             |
| Share premium on issue of shares upon exercise of options               | 422            |
| Share placement (Net of £3,041,000 expenses)                            | 116,644        |
| <b>Balance at 31 December 2002</b>                                      | <b>190,791</b> |

### 23 Profit and loss account

|  | £'000         |
|--|---------------|
| <b>Group</b>   |               |
| At 31 December as previously stated                                  | 48,175        |
| Prior year adjustment  | (806)         |
| Balance at 1 January 2002 as restated                                | 47,369        |
| Retained profit transferred to reserves                              | 22,861        |
| Currency translation differences on foreign currency net investments | (1,911)       |
| Exercise of share option schemes                                     | (93)          |
| <b>Balance at 31 December 2002</b>                                   | <b>68,226</b> |

The Profit and Loss Account includes a goodwill charge of £41,578,000 under the accounting policy applicable prior to the implementation of FRS 10.

#### Company

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 this preliminary announcement. The consolidated profit for the financial year includes the Parent Company profit of £14,219,000, which includes dividends of £24,874,000 received from subsidiary companies.

A final ordinary dividend of £6,184,000 is proposed, which together with the interim dividend of £2,747,000 and the payment in relation to the 2001 final dividend caused by the movement in the number of shares in issue of £510,000, leaves a profit of £4,778,000 which has been added to reserves brought forward of £34,958,000. This, along with a foreign exchange charge of £1,947,000, results in reserves carried forward of £37,789,000.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 24 Reconciliation of operating profit to net cash inflow from operating activities

|   | 2002<br>£'000 | Restated<br>2001<br>£'000 |
|---|---------------|---------------------------|
| Operating profit before cost of unsuccessful NATS acquisition                 | 29,103        | 21,254                    |
| Exceptional item: Cost of unsuccessful NATS acquisition                       | –             | (10,187)                  |
| Operating profit  | 29,103        | 11,067                    |
| Depreciation  | 15,534        | 13,160                    |
| Amortisation of goodwill and intangible fixed assets                          | 8,098         | 5,123                     |
| Profit on sale of tangible fixed assets                                       | (1,948)       | (1,236)                   |
| Increase in stocks  | (2,906)       | (8,932)                   |
| Increase in debtors   | (41,870)      | (56,223)                  |
| Increase in creditors   | 30,795        | 53,578                    |
| Increase/(decrease) in provisions   | 2,805         | (1,053)                   |
| One off pension fund contribution   | (15,500)      | –                         |
| <b>Net cash inflow from operating activities before PFI asset expenditure</b> | <b>24,111</b> | <b>15,484</b>             |
| Expenditure on PFI asset in the course of construction                        | (14,950)      | (13,733)                  |
| <b>Net cash inflow from operating activities after PFI asset expenditure</b>  | <b>9,161</b>  | <b>1,751</b>              |

### 25 Analysis of net debt

|  | Balance<br>1 January<br>2002<br>£'000 | Cash<br>flow<br>£'000 | Other<br>non-cash<br>changes<br>£'000 | Balance 31<br>December<br>2002<br>£'000 |
|--|---------------------------------------|-----------------------|---------------------------------------|---|
| Cash at bank and in hand                 | 34,812                                | 36,962                | –                                     | 71,774                                  |
| Overdrafts                               | (70,647)                              | 68,261                | –                                     | (2,386)                                 |
| Cash net of overdrafts                   | (35,835)                              | 105,223               | –                                     | 69,388                                  |
| Non-recourse debt to fund PFI asset      | (14,100)                              | (15,600)              | –                                     | (29,700)                                |
| Other loans due after more than one year | (45,642)                              | (24)                  | (1,767)                               | (47,433)                                |
| Other loans due within one year          | (629)                                 | 300                   | (43)                                  | (372)                                   |
| Finance leases                           | (11,385)                              | 3,594                 | (7,500)                               | (15,291)                                |
| <b>Net debt</b>                          | <b>(107,591)</b>                      | <b>93,493</b>         | <b>(9,310)</b>                        | <b>(23,408)</b>                         |

### 26 Reconciliation of increase/(decrease) in cash to movement in net debt

|  | 2002<br>£'000   | 2001<br>£'000    |
|--|-----------------|------------------|
| Increase/(decrease) in cash                            | 105,223         | (81,332)         |
| Cash inflow from non-recourse debt financing PFI asset | (15,600)        | (14,100)         |
| Cash outflow from debt and lease financing             | 3,870           | 1,935            |
| Change in net debt resulting from cash flows           | 93,493          | (93,497)         |
| Non cash changes from other debt and lease financing   | (9,310)         | (10,089)         |
| Movement in net debt in the year                       | 84,183          | (103,586)        |
| Net debt at 1 January                                  | (107,591)       | (4,005)          |
| <b>Net debt at 31 December</b>                         | <b>(23,408)</b> | <b>(107,591)</b> |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 27 Major non cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £7,610,000 (2001 – £10,089,000).

During the year £93,000 (2001 – £1,260,000) has been charged to the profit and loss reserve in respect of shares issued under employee share incentive schemes.

Other non-cash movements with respect to other loans relate to foreign exchange.

### 28 Contingent liabilities

The Group has given indemnities in respect of overseas credit facilities and lease payments amounting to £7,426,000 (2001 – £7,590,000).

In addition to this, the Group has given indemnities in respect of performance guarantees, letters of credit and import duty guarantees issued on its behalf in the ordinary course of business, which are not expected to result in any material financial loss.

### 29 Capital and other commitments

|   | <b>Group<br/>2002<br/>£'000</b> | Group<br>2001<br>£'000 | <b>Company<br/>2002<br/>£'000</b> | Company<br>2001<br>£'000 |
|---|---------------------------------|------------------------|-----------------------------------|--------------------------|
| Capital expenditure contracted but not provided | <b>8,595</b>                    | 1,244                  | –                                 | –                        |

There is a commitment of £30 million in relation to the Traffic Control Centre PFI asset under construction, which will be funded by non-recourse bank debt.

During the year ending 31 December 2003 the Group is to make the following payments in respect of operating leases:

|                            | Land and buildings<br>£'000 | Other<br>£'000 |
|----------------------------|-----------------------------|----------------|
| Leases which expire:       |                             |                |
| Within one year            | 1,965                       | 4,199          |
| Between one and five years | 7,015                       | 16,690         |
| After five years           | 4,464                       | 4,264          |
|                            | <b>13,444</b>               | <b>25,153</b>  |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 30 Related parties

#### Directors

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts and Directors' liability insurance.

#### Joint ventures

The following material transactions took place between the Group and its joint ventures during 2002:

|  | <b>2002</b>   | 2001   |
|--|---------------|--------|
|  | <b>£'000</b>  | £'000  |
| Net loans during the year                | <b>1,797</b>  | 2,131  |
| Net trading                              | <b>1,800</b>  | 2,671  |
| Royalties and management fees receivable | <b>2,302</b>  | 2,448  |
| Dividends receivable                     | <b>11,095</b> | 9,645  |
|  | <b>16,994</b> | 16,895 |

The following receivable balances relating to joint ventures were included in the Group Balance Sheet:

|                                       | <b>2002</b>   | 2001  |
|---------------------------------------|---------------|-------|
|                                       | <b>£'000</b>  | £'000 |
| Amounts due within one year:          |               |       |
| Loans                                 | <b>2,140</b>  | –     |
| Trading balance                       | <b>287</b>    | 342   |
| Royalties and management fees         | <b>239</b>    | 3,915 |
|                                       | <b>2,666</b>  | 4,257 |
| Amounts due after more than one year: |               |       |
| Loans                                 | <b>12,033</b> | 9,567 |
|                                       | <b>12,033</b> | 9,567 |

The following payable balances relating to joint ventures were included in the Group Balance Sheet:

|                                  | <b>2002</b>   | 2001   |
|----------------------------------|---------------|--------|
|                                  | <b>£'000</b>  | £'000  |
| Amounts payable within one year: |               |        |
| Loans                            | <b>16,974</b> | 14,165 |
| Trading balance                  | <b>–</b>      | 699    |
|                                  | <b>16,974</b> | 14,864 |

Details of Group investments in joint ventures and other principal undertakings are given in Note 32.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 31 Pension schemes

The Group has continued to account for pensions in accordance with SSAP 24. Full adoption of the requirements of FRS 17 'Retirement Benefits' will not be mandatory for the Group until the year ended 31 December 2005. The transitional disclosures required by FRS 17 are set out in Part (B) of this note which shows the Group's pension deficit in accordance with FRS 17 at 31 December 2002 was £73.6 million (2001 – £3.6 million) on an asset base of £294.4 million (2001 – £298.4 million).

#### (A) SSAP 24 Disclosure

The net pension charge in accordance with SSAP 24 for the year ended 31 December 2002 was £29,096,000 (2001 – £19,544,000). The Group operates or is a member of a number of pension schemes 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.

The latest formal valuation of the scheme was carried out as at 6 April 1999. The figures included in the accounts are based on a formal valuation, which is currently being carried out as at 6 April 2002. During 2002 there has been a fall in general stock market values and a bulk transfer was received from the AEA Technology Pension Scheme. The figures in the Profit and Loss Account and the Balance Sheet prepayment have been determined in accordance with the requirements of SSAP 24. 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 to value liabilities are:

|                   |                                  |
|-------------------|----------------------------------|
| Investment yield  | 7.0% p.a. (5.5% post retirement) |
| Salary growth     | 3.75% p.a.                       |
| Price inflation   | 2.5% p.a.                        |
| Pension increases | 2.5% p.a.                        |

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 costs 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 £12,300,000 (2001 – £9,760,000), of which £500,000 related to special contributions in respect of a discretionary increase to pensions in payment awarded during the year (2001 – £652,000) and £600,000 of contributions in respect of augmentations (2001 – £810,000). A £15,000,000 contribution which was included in accruals and prepayments at 31 December 2001 was paid in February 2002.

At 31 December 2002 a prepayment of £17,450,000 (2001 – £17,360,000) in respect of the Scheme was included in the Balance Sheet. £12,210,000 was charged to the Profit and Loss Account in respect of the Scheme (2001 – £8,950,000).

##### b) The 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.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 31 Pension schemes (continued)

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                      | 6.0% p.a. |
| Salary growth (excluding salary scale) | 4.5% p.a. |
| Pension increases                      | 2.5% 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 at a constant monetary amount.

Employer pension contributions paid into the Scheme during the year were £2,125,000 (2001 – £1,738,000).

An amount of £325,000 (2001 – £300,000) has been charged to the 2002 Profit and Loss Account in respect of the Scheme and a prepayment of £10,900,000 (2001 – £9,100,000) has been included in the Balance Sheet as at 31 December 2002.

#### c) Serco GmbH & Co.KG Pension arrangement

The German pension arrangement comprises two elements; an unfunded defined benefit arrangement and an unfunded hybrid scheme.

Actuarial assessments covering liabilities 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 2002 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 accounting purposes were:

|                 |           |
|-----------------|-----------|
| Discount rate   | 6.0% p.a. |
| Salary growth   | 3.0% p.a. |
| Price inflation | 1.0% p.a. |

The Profit and Loss charge for the year was £1,663,000 (2001 – £130,000) and a provision of £25,808,000 (2001 – £23,003,000) has been included in the Balance Sheet as at 31 December 2002 of which £20,271,000 (2001 – £17,466,000) relates to the hybrid element of the Scheme and £5,537,000 to the defined benefit element of the Scheme.

#### d) Serco Superannuation Fund

The defined benefit element of the Scheme was established in Australia on 1 April 1993 to provide equivalent benefits for members transferring from the AWA Defence Industries Superannuation Fund, a defined benefit scheme.



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 31 Pension schemes (continued)

Actuarial assessments covering expenses and contributions relating to the defined benefit element of the Scheme are carried out by independent qualified actuaries, with the last such valuation being carried out as at 31 December 2000. The attained age method was used for the actuarial valuation of the Scheme as at 31 December 2000. This method was chosen to produce a level employer contribution rate as a proportion of members' salaries over the expected future working lives of the existing members, as the defined benefit element of the Scheme was closed to new members with effect from 1 April 1993.

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

|   |           |
|---|-----------|
| Average long-term interest rate (net of investments and administration expenses and investment tax) | 8.0% p.a. |
| Average long term allowance for salaries increases  | 5.5% p.a. |

The defined benefit element of the Scheme was assessed to be fully funded on a current funding level based on a market value of assets of £1,385,000 (A\$3,938,000) at 31 December 2000 with a ratio of market value of assets to current funding level liabilities of 107%.

The actuarial value of assets of the defined benefit element of the Scheme represented 115% of its ongoing liabilities at 31 December 2000. The pension cost calculated under the attained age method will amortise the above surplus over the expected future working lives of the existing members which have an average value of 11 years.

Employer pension contributions paid into the Scheme and charged to the 2002 Profit and Loss Account relating to the defined benefit element of the scheme were £257,000 (2001 – £104,000).

#### e) The NPL Management Limited Pension Scheme

This is a pre-funded defined benefit scheme. The Company accounts for this 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, with the last such review being carried out as at 5 April 2001. The funding policy is to contribute such variable amounts as will achieve 100% funding on a projected unit basis.

The average contribution rate is currently 20.8% for the scheme.

The main actuarial assumptions proposed in the valuation were:

|                   |  |
|-------------------|--|
| Investment return | 6.50% p.a. (5.0% for current pensioners) |
| Salary growth     | 4.25% p.a. (plus promotional scale)      |
| Price inflation   | 2.25% p.a.                               |
| Pension increases | 2.25% p.a.                               |

The market value of assets represented 93% of the ongoing liabilities of the Scheme.

Employer pension contributions charged to the 2002 Profit and Loss Account were £1,903,000 (2001 – £1,634,000).



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 31 Pension schemes (continued)

f) The Serco Shared Cost Section of the Railways Pension Scheme

This is a pre-funded defined benefit scheme. The Company accounts for this 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 last such review being carried out as at 31 December 2001. The funding policy is to contribute such variable amounts as will achieve 100% funding on a projected unit basis.

The main actuarial assumptions used in the valuation were:

|                   |                                    |
|-------------------|------------------------------------|
| Investment return | 6.3% p.a.                          |
| Salary growth     | 4.0% p.a. (plus promotional scale) |
| Price Inflation   | 2.5% p.a.                          |
| Pension increases | 2.5% p.a.                          |

The actuarial value of assets represented 117% of the ongoing liabilities of the Scheme. The current contribution rate is 7.5% of Section Pay.

Employer pension contributions charged to the 2002 Profit and Loss Account during the year were £715,000 (2001 – £634,000).

g) Serco Metrolink Pension Scheme

This is a pre-funded defined benefit scheme. The Company accounts for this scheme as a defined contribution scheme as 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 last such review being carried out as at 31 August 2001. The funding policy is to contribute such variable amounts as will achieve 100% funding on a projected unit basis.

The main actuarial assumptions used in the valuation were:

|                   |           |
|-------------------|-----------|
| Investment return | 6.5% p.a. |
| Salary growth     | 4.4% p.a. |
| Price Inflation   | 2.4% p.a. |
| Pension increases | 2.4% p.a. |

The actuarial value of assets represented 82% of the ongoing liabilities of the scheme. The current contribution rate is 8.2%.

Employer pension contributions charged to the 2002 Profit and Loss Account were £244,000 (2001 – £225,000).

h) Docklands Light Railway Pension Scheme

This is a pre-funded defined benefit scheme with Docklands Light Railway Limited being the principal employer. Serco accounts for this 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.



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 31 Pension schemes (continued)

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out at 1 April 2001. The funding policy is to contribute such variable amounts as will achieve 100% funding on a projected unit basis. The main actuarial assumptions used in the valuation this year were:

|                   |   |
|-------------------|---|
| Investment return | 7.0% p.a.                               |
| Salary growth     | 5.0% p.a. (including promotional scale) |
| Pension increases | 3.0% p.a.                               |
| Dividend yield    | 2.75% p.a.                              |

The actuarial value of assets represented 96% of the ongoing liabilities of the Scheme. The current contribution rate is 15.2%.

Employer pension contributions charged to the 2002 Profit and Loss Account were £1,378,000 (2001 – £1,181,000).

### i) Other defined contribution schemes

The Group paid employer contributions of £10,401,000 (2001 – £6,386,000) into UK and Australian defined contribution schemes and foreign state pension schemes.

## (B) FRS 17 Disclosure

The disclosures required under the transitional arrangements within FRS 17 have been based on the most recent full actuarial valuations of the Serco Pension and Life Assurance Scheme as at 6 April 1999 and the Serco-IAL Scheme as at 31 March 2001, updated to 31 December 2002 by independent qualified actuaries.

If the amounts had been recognised in the preliminary announcement the net assets and the Profit and Loss Account would be as follows:

|   | 2002<br>£'000 | Restated<br>2001<br>£'000 |
|---|---------------|---------------------------|
| Net assets excluding net, SSAP 24, pension assets     | 248,012       | 110,549                   |
| Net pension liability under FRS 17                    | (73,602)      | (3,614)                   |
| Net assets including pension liabilities under FRS 17 | 174,410       | 106,935                   |

|   | 2002<br>£'000 | Restated<br>2001<br>£'000 |
|---|---------------|---------------------------|
| Profit and loss reserve   | 68,226        | 47,369                    |
| Reversal of SSAP24 prepayments, net of deferred taxation                      | (19,845)      | (18,522)                  |
|   | 48,381        | 28,847                    |
| (Deficit) in relation to SPLAS scheme, net of deferred taxation               | (62,427)      | (5,740)                   |
| (Deficit) / surplus in relation to Serco-IAL scheme, net of deferred taxation | (11,174)      | 2,126                     |
| Total pension deficit   | (73,601)      | (3,614)                   |
| Profit and loss reserve adjusted  | (25,220)      | 25,233                    |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 31 Pension schemes (continued)

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

The financial assumptions used were:

|   | 2002<br>% p.a. | 2001<br>% p.a. |
|---|----------------|----------------|
| Rate of increase in salaries            | 3.85           | 4.00           |
| Rate of increase in deferred pensions   | 2.25           | 2.25           |
| Rate of increase in pensions in payment | 2.25           | 2.25           |
| Discount rate                           | 5.47           | 5.83           |
| Inflation assumption                    | 2.35           | 2.50           |

The Scheme's assets and the expected rates of return as at 31 December 2002 were:

|                                     | 2002<br>% p.a. | 2002<br>£'000 | 2001<br>% p.a. | 2001<br>£'000 |
|-------------------------------------|----------------|---------------|----------------|---------------|
| Equities                            | 7.00           | 134,319       | 7.25           | 119,600       |
| AA corporate bonds                  | 5.47           | 17,252        | 5.83           | 15,500        |
| Gilts                               | 4.50           | 28,264        | 5.00           | 21,000        |
| Cash and other                      | 4.00           | –             | 4.00           | 15,800        |
| Total market value of assets        |                | 179,835       |                | 171,900       |
| Present value of scheme liabilities |                | (269,017)     |                | (180,100)     |
| Deficit in the Scheme               |                | (89,182)      |                | (8,200)       |
| Related deferred tax asset          |                | 26,755        |                | 2,460         |
| Net pension liability               |                | (62,427)      |                | (5,740)       |

The amount chargeable under FRS17 to operating profit for the year ended 31 December 2002 would have been:

|                        | £'000  |
|------------------------|--------|
| Service cost           | 11,391 |
| Past service cost      | 1,100  |
| Total operating charge | 12,491 |

Analysis of the net return on the pension scheme for the year ended 31 December 2002:

|  | £'000    |
|--|----------|
| Expected return on pension scheme assets | 12,872   |
| Interest on pension liabilities          | (12,664) |
| Net return                               | 208      |

Analysis of amount recognisable in Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 December 2002:

|  | £'000    |
|--|----------|
| Actual return less expected return on assets | (56,996) |
| Experience gains and losses on liabilities   | (20,013) |
| Changes in assumptions                       | (3,990)  |
| Actuarial loss recognised in STRGL           | (80,999) |



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 31 Pension schemes (continued)

Movement in deficit during the year:

|                                       | £'000    |
|---------------------------------------|----------|
| Deficit in scheme at 31 December 2001 | (8,200)  |
| Movement in year:                     |          |
| Current service cost                  | (11,391) |
| Contributions                         | 12,300   |
| Past service costs                    | (1,100)  |
| Net return on assets                  | 208      |
| Actuarial loss                        | (80,999) |
| Deficit in scheme at 31 December 2002 | (89,182) |

History of experience gains and losses:

|  | 2002<br>£'000 |
|--|---------------|
| Difference between expected and actual return on scheme assets | (56,996)      |
| Percentage of scheme assets                                    | 31.7%         |
| Experience gains and losses on scheme liabilities              | (20,013)      |
| Percentage of scheme liabilities                               | 7.4%          |
| Total amount recognised in STRGL                               | (80,999)      |
| Percentage of scheme liabilities                               | 30.1%         |

### b) The Serco-IAL Pension Scheme

The financial assumptions used were:

|                              | 2002<br>% p.a. | 2001<br>% p.a. |
|------------------------------|----------------|----------------|
| Rate of increase in salaries | 3.85           | 4.00           |
| Rate of increase in pensions |                |                |
| – RPI                        | 2.35           | 2.50           |
| – LPI                        | 2.25           | 2.25           |
| – discretionary              | 2.25           | 2.25           |
| Discount rate                | 5.47           | 5.83           |
| Inflation assumption         | 2.35           | 2.50           |

The Scheme's assets and the expected rates of return as at 31 December 2002 were:

|  | 2002<br>% p.a. | 2002<br>£'000 | 2001<br>% p.a. | 2001<br>£'000 |
|--|----------------|---------------|----------------|---------------|
| Equities                                 | 7.00           | 49,483        | 7.25           | 59,694        |
| UK bonds                                 | 4.82           | 28,758        | 5.18           | 31,336        |
| Property                                 | 6.24           | 7,690         | 6.54           | 7,329         |
| Cash and other assets                    | 4.50           | 908           | 4.00           | 78            |
| Annuity policies                         | 5.47           | 27,798        | 5.83           | 28,100        |
| Total market value of assets             |                | 114,637       |                | 126,537       |
| Present value of scheme liabilities      |                | (130,600)     |                | (123,500)     |
| (Deficit) / surplus in the Scheme        |                | (15,963)      |                | 3,037         |
| Related deferred tax asset / (liability) |                | 4,789         |                | (911)         |
| Net pension (liability) / asset          |                | (11,174)      |                | 2,126         |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 31 Pension schemes (continued)

The amount chargeable under FRS17 to operating profit for the year ended 31 December 2002 would have been:

|                               |              |
|-------------------------------|--------------|
|                               | £'000        |
| Service cost                  | 2,300        |
| Past service cost             | –            |
| <b>Total operating charge</b> | <b>2,300</b> |

Analysis of the net return on the pension scheme for the year ended 31 December 2002:

|  |            |
|--|------------|
|  | £'000      |
| Expected return on pension scheme assets | 7,900      |
| Interest on pension liabilities          | (7,000)    |
| <b>Net return</b>                        | <b>900</b> |

Analysis of amount recognisable in Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 December 2002:

|  |                 |
|--|-----------------|
|  | £'000           |
| Actual return less expected return on assets | (16,100)        |
| Experience gains and losses on liabilities   | 700             |
| Changes in assumptions                       | (4,300)         |
| <b>Actuarial loss recognised in STRGL</b>    | <b>(19,700)</b> |

Movement in surplus during the year:

|  |                 |
|--|-----------------|
|  | £'000           |
| Surplus in scheme at 31 December 2001        | 3,037           |
| Movement in year:                            |                 |
| Current service cost                         | (2,300)         |
| Contributions                                | 2,100           |
| Past service costs                           | –               |
| Net return on assets                         | 900             |
| Actuarial loss                               | (19,700)        |
| <b>Deficit in scheme at 31 December 2002</b> | <b>(15,963)</b> |

History of experience gains and losses:

|  |          |
|--|----------|
|  | 2002     |
|  | £'000    |
| Difference between expected and actual return on scheme assets | (16,100) |
| Percentage of scheme assets                                    | 14.0%    |
| Experience gains and losses on scheme liabilities              | 700      |
| Percentage of scheme liabilities                               | 0.5%     |
| Total amount recognised in STRGL                               | (19,700) |
| Percentage of scheme liabilities                               | 15.1%    |

- c) The Balance Sheet position for all of the other Group Pension Schemes is materially the same in accordance with FRS17 as for SSAP 24.



# Notes to the Preliminary Announcement

For the year ended 31 December 2002

## 32 List of principal undertakings

The companies listed below are, in the opinion of the Directors, the principal undertakings of Serco Group plc. The percentage of equity capital directly or indirectly held by Serco Group plc is shown. The voting rights are the same as the percentage holding. The companies are incorporated and principally operate in the countries stated below.

### Principal subsidiaries

|                       |   |      |
|-----------------------|---|------|
| <b>United Kingdom</b> | Serco Limited                               | 100% |
|                       | Serco-Denholm Limited                       | 90%  |
|                       | Serco Europe Limited                        | 100% |
|                       | Serco-IAL Limited                           | 100% |
|                       | Serco Railtest Limited                      | 100% |
|                       | Serco Systems Limited                       | 100% |
|                       | NPL Management Limited                      | 100% |
|                       | Serco Docklands Limited                     | 100% |
|                       | Rakmulti Technology Limited                 | 100% |
|                       | Serco QAA Limited                           | 100% |
|                       | Traffic Information Services (TIS) Limited  | 100% |
| <b>Rest of Europe</b> |   |      |
| Belgium               | Serco Belgium S.A.                          | 100% |
| Denmark               | Metro Service A/S                           | 67%  |
| France                | Serco France Sarl                           | 100% |
| Germany               | Serco International GmbH                    | 100% |
|                       | Serco Services GmbH                         | 100% |
| Ireland               | Serco Services Ireland Limited              | 100% |
|                       | CCM Software Services Ltd                   | 100% |
| Italy                 | Serco s.r.l                                 | 100% |
| Guernsey              | Serco Insurance Company Limited             | 100% |
| Luxembourg            | Serco Facilities Management S.A.            | 100% |
| The Netherlands       | Serco Facilities Management BV              | 100% |
| Spain                 | Serco Gestion de Negocias SL                | 100% |
| Sweden                | Serco Sverige AB                            | 100% |
| Switzerland           | Serco Facilities Management S.A.            | 100% |
| <b>Asia Pacific</b>   |   |      |
| Australia             | Serco Group Pty Limited                     | 100% |
|                       | Serco Australia Pty Limited                 | 100% |
|                       | Great Southern Railway Limited              | 100% |
| New Zealand           | Serco Group NZ Limited                      | 100% |
| Hong Kong             | Serco Group (Hong Kong) Limited             | 100% |
| <b>Other</b>          |   |      |
| Canada                | Serco Facilities Management, Inc.           | 100% |
| USA                   | Serco Group, Inc.                           | 100% |
|                       | Serco, Inc.                                 | 100% |
|                       | Serco Management Services, Inc. (Delaware)  | 100% |
|                       | Barton ATC, Inc.                            | 100% |
|                       | Serco Management Services, Inc. (Tennessee) | 100% |
|                       | JL Associates, Inc.                         | 100% |



## Notes to the Preliminary Announcement

For the year ended 31 December 2002

### 32 List of principal undertakings

#### Joint venture undertakings

| <b>United Kingdom</b> |  |     |
|-----------------------|--|-----|
|                       | Premier Custodial Group Limited                  | 50% |
|                       | Kilmarnock Prison Services Limited               | 50% |
|                       | Lowdham Grange Prison Services Limited           | 50% |
|                       | Medomsley Holdings Limited                       | 50% |
|                       | Pucklechurch Custodial Services Limited          | 50% |
|                       | Moreton Prison Services Limited                  | 50% |
|                       | Serco Gulf Engineering Limited                   | 50% |
|                       | Defence Management Watchfield Limited            | 50% |
|                       | Laser (Teddington) II Limited                    | 50% |
|                       | Altram (Manchester) Limited                      | 26% |
|                       | Serco-Denholm Shipping Company Limited           | 50% |
|                       | AWE Management Limited                           | 33% |
| <b>Asia Pacific</b>   |  |     |
| <b>Australia</b>      | Defence Maritime Services Pty Limited            | 50% |
|                       | Serco Sodexho Defence Services Pty Limited       | 50% |
| <b>New Zealand</b>    | Serco Sodexho Defence Services Limited           | 50% |
| <b>Other</b>          |  |     |
| <b>USA</b>            | Serco – SKE                                      | 50% |
| <b>Bahrain</b>        | Aeradio Technical Services WLL                   | 49% |
| <b>Bermuda</b>        | BAS-Serco Limited                                | 40% |
| <b>Cyprus</b>         | Serco Kalisperas                                 | 50% |
| <b>Dubai</b>          | International Aeradio (Emirates) LLC             | 49% |
| <b>Saudi Arabia</b>   | Key Communications Development Co Limited        | 49% |
| <b>Singapore</b>      | Serco Guthrie Pte Ltd                            | 50% |
| <b>Turkey</b>         | Elektronik Sistemier Destek Sanavi ve Ticaret AS | 51% |

Full details of related undertakings will be attached to the Company's Annual Return to be filed with the Registrar of Companies.