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## Serco Group plc Preliminary results for the year ended 31 December 2001

	2001	2000	
Turnover – including joint ventures	<b>£1,141.2m</b>	£957.9m	Up 19.1%
Profit before tax – pre goodwill amortisation	<b>£46.4m</b>	£37.7m	Up 22.9%
Earnings per share – pre goodwill amortisation	<b>8.46p</b>	6.78p	Up 24.8%
Dividend per share	<b>1.86p</b>	1.63p	Up 14.1%

- 120 new contracts awarded
- 140 contracts successfully rebid or extended
- New business won totalling £1.4 billion
- Order book up from £5.8 billion to £6.2 billion
- New bid win rate over 70%; rebid retention rate over 90%
- Strong growth in continental Europe with new awards in Italy, Germany, Belgium and Sweden
- £69.4 million acquisition of AEA Technology's consulting business strengthens position in science
- New education business established with £35 million first-year turnover including contracts in Bradford and Walsall
- Started a 10-year, £160 million PFI contract to design, build and operate England's national Traffic Control Centre
- Preferred bidder status for two 12-year leisure contracts with Manchester City Council
- Major contracts renewed include the National Physical Laboratory, Docklands Light Railway and three European Space Agency contracts
- February 2002 – As part of Paradigm, selected as preferred bidder for Skynet 5 – Serco contract worth £220 million.

### Richard White, Executive Chairman, said:

“This represents a very strong performance. We maintained excellent growth in sales and profits, exceeding the results targeted at the start of the year.

Our forward earnings are highly visible and our margins have continued to grow. We remain a highly predictable business. We have already secured 82% of our forecast turnover for 2002 and a significant amount beyond and continue to anticipate strong growth. And there is no let-up in new prospects: we are currently evaluating contract opportunities worth a total of some £15 billion.”

- Ends -

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The Serco Group plc Annual Review and Accounts 2001 is available from today on our website at [www.serco.com](http://www.serco.com).

**Notes to editors**

Serco is an international provider of management services to government and industry. The company covers a wide range of activities, from controlling satellites and operating computer networks for the European Space Agency, to managing and operating the Docklands Light Railway where Serco was recently voted National Rail Operator of the year. The company employs some 34,000 staff in 36 countries.

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Kevin Beeston	- Chief Executive
Ben Woodford	- Corporate Communications Director



## A message from the Board

### A robust business

Once again Serco maintained excellent growth in sales and profits, exceeding the results targeted at the start of the year. This performance was no mean achievement in a year clouded by uncertain economic conditions and the aftermath of 11 September. It emphasises the robustness of our business model and our broad spread of long-term contracts with high-quality customers across many sectors and countries.

### A successful year

Turnover rose 19.1% to £1,141.2 million. Pre-tax profits were up 22.9% to £46.4 million before goodwill amortisation and 21.2% to £41.2 million after goodwill amortisation. Earnings per share rose 24.8% to 8.46p before goodwill and 22.1% to 7.14p after goodwill. Underlying pre-tax profits grew 21.1% to £45.6 million before goodwill and exceptional items.

The recommended final dividend of 1.29p per share makes a total for the year of 1.86p – an increase of 14.1% over 2000.

Strong organic growth resulted in 260 new business wins, rebids and contract extensions – a record number. Together, these increased our order book from £5.8 billion to £6.2 billion at the year-end. While our high-profile bids for new contracts attract most attention, one of the company's underlying strengths is the level of additional business that we win routinely each year through broadening the scope of rebids and extensions to contracts. Together, these committed future income streams give us the assurance of highly visible revenues and profits: over 82% of our planned revenue for the year ahead was already contracted at the beginning of 2002.

While maintaining strong sales growth, we continue to see increasing margins as returns begin to flow from our investment in private finance initiatives (PFIs). These will provide an increasing income stream to supplement our revenues from traditional contracts.

We continue to broaden our business into new areas – notably, in 2001, the education sector. We established a brand-new £35 million-a-year education business in the UK, winning major long-term contracts to partner with local education authorities in Bradford and Walsall. Local authorities are increasingly willing to develop more sophisticated structures in which we work with them as partners. For example, we have won a series of leisure management contracts where the length of the term recognises our commitment to invest in improved facilities. The largest was in Manchester, where we have been selected as preferred bidder to improve and operate 10 existing leisure centres as well as managing the new English Institute of Sport facilities after the 2002 Commonwealth Games.

New contracts started during the year included support services at two new PFI hospitals: Wishaw General, and Norfolk and Norwich University, where we took part in the UK's largest-ever transfer of hospital staff and patients. These two contracts, with terms of seven and 30 years respectively, have a combined annual turnover of £17 million.

We also began a new UK-wide partnership with the National Crime Squad. Justice has been a major growth sector for us and we now provide services to 66 UK law enforcement agencies, positioning us well for future growth.

Traffic management systems installed and operated by Serco cover over 18,300km of roads worldwide. We will be extending that figure with our 10-year, £160 million contract – started this year – to design, build and operate England's new national Traffic Control Centre.

We have maintained our strategy of developing and differentiating the business through international growth. During the year we made particular progress in continental Europe, where continuing investment brought us new opportunities and contract awards – notably in Belgium, Germany, Italy and Sweden.



In Italy, for example, following the previous year's contract with the national commission that oversees the Italian Stock Exchange and public companies, the regional government of Lombardy awarded us a six-year contract worth €22 million to manage its IT infrastructure. We now provide desktop PC management in seven countries – Belgium, France, Germany, Italy, the Netherlands, Spain and the UK.

In Sweden we won our largest contract to date, worth SEK650 million, with the country's leading supermarket chain, ICA, providing facilities management for some 20 logistics centres nationwide.

Our German business won its first contract under the ministry of defence's outsourcing 'pilot project', worth €12.5 million, to provide IT training. We are currently bidding for further contracts under this initiative. We also won a three-year contract, worth €6.8 million a year, to provide facilities management to Asta Medica, a research division of the Degussa Huls chemical company.

Our businesses in North America and Asia Pacific continue to deliver strong operational performance, and have identified opportunities in more sophisticated forms of contracts including PFIs. Notable new business during the year included a 20-year aviation weather and ground electronics support contract for the NATO Flying Training in Canada programme, and another contract from BHP Billiton in Australia, to provide security, medical, fire and emergency responseservices to its principal steelworks.

Our expanding contract base represents an increasingly valuable source of organic growth—providing opportunities to rebid contracts, extend them and broaden their scope. In the UK, for example, we won important extensions to our contracts at the National Physical Laboratory (NPL), worth some £100 million including DTI and commercial income, and Docklands Light Railway, worth £72 million. We are also engaged in discussions with the Ministry of Defence Warship Support Agency to develop an interim partnering agreement and for the extension of the Marine Services ports contract by around two years until 2005 in return for a commitment to rationalise elements of Marine Service activities and reduce net costs of the outputs.

Internationally, we extended our manpower and support services contract for the Royal Australian Air Force, and won three significant rebids with the European Space Agency in Italy.

In 1997 we acquired the passenger rail assets of the Great Southern Railway (GSR) from the Australian government. Having managed GSR into profitability, we were able to make a one-off profit of £15.4 million by refinancing its rolling stock. This transaction has more than recouped our cash investment to date, while retaining a profitable and growing long-term future income stream. As stated in our interim report, this exceptional profit from the refinancing offset the cost of our unsuccessful bid to acquire National Air Traffic Services in the UK and the completion of our People and Technology investment programme.

We expect further gains to arise in future from refinancing PFI projects when the construction phase is complete and assets go into service. Our intention is to identify these to investors ahead of time. Our policy is also to share such gains with our customers, a principle that is reflected in recent UK government guidance on this issue.

### **Acquisitions**

Acquisitions enable us to bring our proven management processes quickly to new sectors or customer groups. Our £2.6 million acquisition of Quality Assurance Associates in December 2000, for example, helped us to win our Bradford and Walsall education contracts in 2001.



In August 2001, for a consideration of £69.4 million, we acquired AEA Technology's consulting business, which provides science and safety based services to customers such as the UK Ministry of Defence, BNFL, British Energy and the UK Atomic Energy Authority. It substantially strengthens our position in science and enlarges our customer base in a field where both corporate and government clients are increasingly aware of the benefits of outsourcing. We now employ over 4,800 people in science activities.

The AEA Technology consulting business, renamed Serco Assurance, is performing well and delivering the expected benefits to our existing customer base and science activities. For example, the combination of a Serco Assurance software product with materials science expertise from NPL now enables us to provide a more complete technical service to gas turbine operators.

We made two smaller acquisitions during the year. In January we acquired The Hiser Group in Australia for A\$6 million and in June we bought Total IT Ltd in the UK for £1.175 million.

We will continue to make selective acquisitions where they enhance the Group's capability to address new markets.

### **People and Technology programme**

During the year we completed our three-year People and Technology programme, involving total expenditure of some £15 million.

Through investment in people, primarily in training, we are strongly placed to seize the new kinds of opportunities that are emerging, as well as those we see today. During the year almost 1,800 people received management training through the Serco Best Practice Centre. We are proud to be the first UK-listed employer to receive recognition from the Institute of Directors, which means that some courses may lead to recognised external qualifications, upon successful completion of an examination.

Through investment in technology we can now work in a more integrated way than ever before, so that every part of the organisation shares the strengths, knowledge and experience of the whole group.

As part of the programme we have created Serco Capital, a group that works to structure the financing and project management we need to bid for larger and more complex public private partnership (PPP) projects. The team brings together expertise in financial modelling and structuring, project finance, investment management and tax in the UK, Australia and the US.

### **Social and environmental responsibility**

As a company that earns most of its living by delivering public services, we have always taken corporate social responsibility (CSR) very seriously. During the year we formalised our approach to CSR and piloted it with a number of contract teams. Now being implemented across the organisation, this will give direct accountability for CSR to every contract manager and enable us to prove that we put our values into action. Each contract manager will be encouraged to nominate a CSR representative and develop a CSR programme. This will involve applying Serco values and guidelines to compile a comprehensive CSR plan embracing contract staff, local communities and the environment – supported by an action plan setting clear and realisable commitments.

This will allow us to report more consistently on CSR, while empowering our contract teams to set specific targets, engage their own particular stakeholders and celebrate their achievements.

The Corporate Assurance Group established in 2001 enables us to view CSR in its broader context. The group advises us on risk management, health, safety, environmental, quality and CSR throughout the business.



## People

We recognise that Serco's success comes from the exceptional dedication of our people. Their energy, enthusiasm and imagination are the foundation of our business, adding value to our customers' operations and to the good causes we support. In our sixth year as a corporate member of Save the Children, we exceeded our fundraising target of £600,000 by some £20,000.

The aftermath of 11 September made exceptional demands on many of our people – particularly in our defence and air traffic control operations. We applaud their commitment.

## Board changes

In October Betsy Bernard resigned as a non-executive director to reduce her external commitments on becoming President and CEO of AT&T's consumer division: we thank her for her contribution. In her place we welcomed Dr DeAnne Julius CBE, whose experience spans both public and private sectors. She was a founder member of the Bank of England's Monetary Policy Committee and is also a non-executive director of the Bank of England, Lloyds TSB and BP.

As we continue to take on more complex projects and broaden operations into new business areas around the world, it is our intention to consider a further non-executive appointment in due course to complement the existing skills and experience of the current Board team.

Further planned Board changes will take place in 2002. In May, Richard White will retire after 31 years with the company, most recently as Executive Chairman and previously as Chief Executive. Richard has been instrumental in defining Serco's business model and operating philosophy and in positioning the business for continued growth. The whole Serco family wish him a long and happy retirement. As in the past the company has planned a succession. Kevin Beeston will succeed Richard as Executive Chairman, having been Chief Executive for the past three years and previously Finance Director. Kevin has been with Serco for 17 years and is well known to many of Serco's shareholders.

Christopher Hyman, currently Finance Director, will replace Kevin as Chief Executive. He has been with Serco for six years, for the past three as Finance Director, and is also well known to shareholders. Chris will be succeeded as Finance Director by Andrew Jenner, currently Corporate Finance Director, who has been with Serco for over five years, having previously worked for Unilever and Deloitte & Touche.

## Competitive strength

We maintained our new bid win rate of over 70%. The key to this success is our ability to pursue opportunities selectively and apply our distinctive approach to outsourcing. Rather than simply delivering specified services we seek out opportunities where we can manage activities to deliver better results. We aim to identify opportunities at an early stage and to allocate significant resource to analyse commercial and financial structures and potential operational improvements. Our focus on what customers would like to get out of a contract – rather than what they want us to put in – gives us a powerful competitive edge.

We are effective managers of change. We can give our customers not only improved service but continuing improvement over time. That is how we were able to maintain our 2001 success rate of over 90% in contract rebids and renewals.

As part of our competitive stance, we encourage customers to work with us in seeking continuous improvement. To deliver these improvements, we continue to invest in refining our bidding, phase-in and management processes, aided by the Serco Institute and Serco Best Practice Centre.

**Outlook**

We have laid the foundations for continued future growth. Our forward earnings are highly visible and our margins have continued to grow. We remain a highly predictable business. Because we have already secured 82% of our forecast turnover for 2002 and a significant amount beyond, we continue to anticipate strong growth. And there is no let-up in new prospects: we are currently evaluating contract opportunities worth a total of some £15 billion.

In a world where the only certainty is change– driven by the rising expectations of consumers and governments, and by public demand for continuous improvement in the delivery of public services – Serco is an established leader in change management. Demand for our management and technical skills continues to grow as more sophisticated procurement strategies and commitment to PPPs evolve worldwide.

Over the past three years we have stepped-up our investment in technology and our management and financial capabilities. Now we plan further enhancement of our project management and systems integration capability as we build our global strength in the design and management of service solutions.

Our breadth of customer base and depth of capability are presenting us with ever increasing opportunities in the UK. Meanwhile, our successes in securing new contracts in continental Europe, together with encouraging evidence of PPP and PFI developments in the US and Australia, lead us to maintain our confidence in Serco's ability to deliver superior levels of growth into the future.



## **Business review**

**In 2001 we achieved record levels of organic growth across a range of sectors, winning significant new business worldwide. Common themes across the business included growing diversity, increasing applications of technology and larger, more complex management contracts.**

## **Civil government**

### **Justice**

The phase-in of our groundbreaking strategic partnership with the National Crime Squad (NCS) for England and Wales, which began in September 2000, is progressing to plan. We have recruited almost 100 staff at six sites for this 10-year contract worth over £65 million. As well as introducing core services on schedule we have installed a new helpdesk and training facility, and provided critical support to form the new National High-Tech Crime Unit, a partnership between the NCS, the National Criminal Intelligence Service and HM Customs and Excise.

To help the NCS fight online child pornography we worked with partner Imagis Technologies to develop a facial recognition system using Imagis' ID-2000 software. This was used in the 'Landmark' operation in November 2001, which led to arrests and the seizure of computers in 19 countries.

In January 2001 we were asked to intervene at short notice to support a critical national intelligence system serving 66 police forces and other law enforcement agencies throughout the UK. After providing necessary remedial work we have now successfully secured a five-year contract from January 2002.

Since September we have been providing development, maintenance and support services to the command and control system in a new £7.5 million facility for the Hampshire Constabulary. The system is capable of handling over 3,000 incidents an hour and supports 63 workstations in the main control room, plus eight training seats and a further five workstations for strategic command. Since the system was delivered we have been appointed preferred bidder for a similar contract to deliver a command and control system for Merseyside Police.

We have maintained and updated radio communications systems for North Yorkshire Police since 1991 and Thames Valley Police since 1992. During the year we successfully rebid both contracts, which require 24-hour support.

We work with the majority of UK police forces providing managed services for the supply, installation and maintenance of Gatsometer enforcement cameras. The government has announced its intention to allow the police to reinvest speeding fine revenues into the development and acquisition of new camera technology and resources. We are well placed to benefit from the expansion of this market and Lancashire County Council has already appointed us to install up to 250 more fixed speed enforcement sites over two and a half years. Our continuing development of the technology, including colour digital and automatic numberplate recognition systems, will stimulate further growth.

Our technology development unit completed and delivered an upgrade to the secure telephone system used by government agencies. To meet demand in the justice, defence and civil communications sectors we also launched a digital telephone voice encryption system and a computer disk encryption package.

Premier Custodial Group (PCG) is our UK joint venture with Wackenhut Corrections Corporation. In July it opened HMP Dovegate, a new 800-bed prison and therapeutic community facility in Staffordshire, under a 25-year private finance initiative (PFI) contract. Dovegate's 200-bed high-security therapeutic treatment facility is the first in the UK for 30 years and the only one to be privately developed and managed.



In September, PCG opened a new immigration centre in Dungavel, Scotland. This houses up to 150 detainees seeking permission to stay in the UK. It was completed to a challenging schedule. The centre has a 90-bed adult facility and a 60-bed family unit. PCG is contracted to manage the centre for five years.

PCG broke more new ground by winning a contract from Staffordshire Police to provide detention custody assistants. This staff support contract for a police authority opens up a new market which is expected to increase substantially as police forces seek to return police officers to operational duties.

The Northern Ireland Court Service awarded us a new three-year contract for technical facilities management of 25 properties throughout Northern Ireland. This was the first time these activities have been outsourced to the private sector.

In Western Australia we extended our Offender Management Facilities contract for the Department of Justice, which includes maintenance services to prisons and detention centres in Perth and maintenance of electronic security systems in regional prisons.

Doncaster prison became the first correctional facility to gain ISO 14001 certification for environmental management systems. It also received the British Safety Council's Five Star Health & Safety Award and Sword of Honour, both for the second time. In the US, our fleet maintenance operation for Washington DC's Metropolitan Police Department won the Blue Seal Award from the National Institute for Automotive Service Excellence.

### **Education**

In December 2000 we acquired Quality Assurance Associates, a major UK provider of school inspection and leadership development services, for £2.6 million. By combining its expertise with our own change management skills we have won two major new contracts, making us one of the leading operators in a fast-emerging market: support for UK local education authorities (LEAs). We are strongly committed to this socially important work, and have already built an education business with a turnover of £35 million in its first full year.

In Bradford we are providing education services to the local council and schools under a 10-year contract involving almost 1,200 staff. It is the largest private sector contract of its kind yet awarded in the UK. We are supporting all state-maintained schools across the Bradford district and providing additional help where needed to raise pupils' levels of attainment.

In Walsall we are working in partnership with the LEA to deliver strategic management and school improvement services; the five-year contract involves around 100 staff.

We are also exploring new kinds of partnerships with LEAs that engage our skills and share responsibility for delivering performance improvements. The Department for Education and Skills (DfES) is encouraging new ways of working between public and private sectors, and the Serco Institute has been collaborating with the London Borough of Tower Hamlets in a DfES-funded project to see how the LEA and schools in the borough might benefit from our management processes.

As well as working with LEAs we also provide training, consultancy and inspection services to schools. We are a significant supplier of inspection services for the Office for Standards in Education (Ofsted) and provide leadership and management training and consultancy services directly to schools. We are the provider, in conjunction with the Welsh Assembly Government, of the Leadership Programme for Service Headteachers in Wales.

### **Health**

We are involved with two PFI-built UK hospitals which opened during the year.

The £148 million Wishaw General Hospital in Lanarkshire, which opened on time in May, has over 600 beds. We are providing support services there for the first seven years, employing around 350 staff.

Health Service (NHS) in September, and the transfer of staff and patients was completed on time in December. It was the largest transfer of staff and patients to a new NHS facility ever undertaken. As partners in the PFI to build and operate the 953-bed acute hospital, we are providing facilities management services for 30 years. This will include procuring support services through market testing every five years.

An unusual cross-sector initiative helped us win rebids on our wheelchair repair and maintenance contracts with the NHS in South West London and North West Surrey. Under the Premier Custodial Group initiative to provide meaningful work opportunities, inmates at Lowdham Grange prison are refurbishing wheelchairs. This has enabled us to work with our NHS customers to enhance volume, reliability and cost control.

### **Leisure**

We are building an increasingly strong position in leisure centre management, mainly in the UK and Sweden. Serco-run leisure facilities now welcome almost 7.5 million visitors a year.

In Sweden we successfully rebid our Linköping leisure centre contract and won a third at Växjö, making us the country's largest private sector provider in the public leisure centre market.

Our strength in the UK was confirmed by the award of preferred bidder status for two 12-year contracts with Manchester City Council. It is anticipated that these contracts will commence on 1 April 2002 and involve over 200 people. We will improve and operate 10 existing leisure centres as well as operating the new English Institute of Sport facilities after the 2002 Commonwealth Games, which are being held in Manchester in July. Together with our established contract at the Manchester Aquatics Centre, this makes us responsible for almost all the council's indoor leisure centres. It is planned that we will operate the sites for 10 years, after enhancing them during an interim period of about two years.

We also won a new contract to run the prestigious Basingstoke Aquadrome, a state-of-the-art leisure complex opening in Spring 2002.

In the autumn we opened a £500,000 extension to the Grand Central Pools complex that we have run for Stockport Metropolitan Borough Council since 1993. The extension includes Isospa, Serco's first own-branded health and fitness centre. In recognition of this investment, the council has extended our contract until 2011.

We gained a similar 10-year extension to our Tenterden leisure centre contract in return for a planned £500,000 investment programme, and a three-year contract for a second site. South Northamptonshire District Council awarded us a 15-year rebid at three sites, where we will invest some £1 million. Aylesbury Vale District Council extended our contract at the Swan Pool and Leisure Centre for 10 years.

We also negotiated a 20-year management contract from early 2003 for an exciting new aquatics centre in St Helier, Jersey – part of a comprehensive development of the island's waterfront.

Our Hopewell Rocks eco-tourism site in New Brunswick, Canada, won the Society of American Travel Writers Phoenix Award for outstanding conservation and restoration.

### **Other public services**

In Australia we extended two major contracts with state governments: a warehousing and distribution contract for the New South Wales Government's Q Stores and a facilities management contract with the Western Australia Department of Housing and Works. Together these contracts are worth over A\$34 million a year and employ 130 staff.



We maintained our presence in the Australasian water utilities sector with a series of contract extensions. These included our contract to operate and maintain the water and wastewater system in the Coliban area of Victoria: over the initial contract period we successfully consolidated water operations serving 55 cities, towns and villages. The proven success of this innovative project has made it an attractive model for other areas. We also extended our contract with City West Water to operate and maintain water and wastewater facilities in Melbourne's city centre, inner and western suburbs.

In New Zealand we won a second extension of our contract with Stratford District Council, covering facilities management of council properties, parks and water, wastewater and sewage operations. We also extended our contract for cleaning and maintenance of North Shore City's wastewater treatment plant. Franklin District Council reappointed us to maintain its stormwater system and 700km of roads. Our performance for Wellington City Council won us an additional contract to provide building maintenance services for the city. New Zealand's fire service called us in to refurbish fire appliances throughout the country. And, after adding a second contract, we now maintain over 500 parks and open spaces in Manukau City.

In the UK we began a new seven-year professional property and construction services contract with the London Borough of Richmond. This brought us an additional 25 specialist staff and complements our existing work for the nearby boroughs of Merton and Kingston upon Thames.

Drawing on our marine services experience in the defence sector, we won a 10-year contract from the Natural Environment Research Council to operate and maintain three marine research vessels based in Plymouth.

At the Driver and Vehicle Licensing Agency (DVLA) we won a rebid to run the Select Marks business, selling personalised vehicle registrations.

The Oil and Pipelines Agency extended our contract to operate and maintain its 2,000km national oil pipeline ring-main system. This feeds aviation fuel to the UK's major civilian and military airports, including Heathrow, Gatwick and Stansted. We have held the contract since 1994 in partnership with Gulf Interstate Engineering of Houston, Texas.

Hertfordshire County Council intends to extend our contract to maintain its fleet of 650 vehicles and plant until 2004; we also won our three-year rebid with a possible two-year extension to maintain Watford Borough Council's vehicle fleet.

We won a new five-year contract with the Scottish Executive to provide cleaning and associated services at various locations across Scotland, including the islands of Benbecula and Skye. We also tendered successfully to renew our contract with the Scottish Executive to provide similar services in Edinburgh. These bids were awarded as a combined single contract.

Our IT support activities continue to expand: we now provide desktop PC management to users in Belgium, France, Germany, Italy, the Netherlands and Spain. In Italy, the regional government of Lombardy awarded us a six-year contract to outsource its IT infrastructure, including helpdesk, server administration, technical support to end-users, and the supply and upgrading of hardware. We are supporting over 3,000 workstations and there is scope to increase both user numbers and the range of services. Phone and electronics manufacturer Ericsson extended our contracts to provide all IT support for its Italian R&D organisation, employing about 1,000 people. And as an approved Lotus Business Partner we carried out software projects for clients such as CNEL (the National Committee for Labour Economy), the Italian Ministers Council and ATAC (the Rome bus company).



In the US, Louisville Gas and Electricity appointed us for five years to manage its 1,300 vehicle fleet, with a contractual challenge to develop further outsourcing opportunities within the company. This is our ninth fleet maintenance contract in the US, where we now maintain over 6,000 vehicles. Among them are the buses serving over 30 schools in Portsmouth, Virginia: the quality of our service delivery there has just won us reappointment for a further 10 years.

In Los Angeles we won a rebid to collect revenues from some 41,000 parking meters. We also won a similar, smaller rebid in Montgomery County. And in San Francisco we will soon be pioneering the next generation of street parking technology: we recently signed a contract to install and run a parking management system with 23,000 smartcard-based 'e-meters'.

We continue to find novel ways of applying Serco technology. In EUR, an area in Rome where we manage parks and gardens, we used remote sensing to make an inventory of all the trees and shrubs, and carried out phytopathological analysis to prepare maintenance plans for future years.

### **Defence**

We are the largest provider of defence outsourcing in the UK and the market leader in Australian defence support.

After a series of short-term extensions, we gained a three-year extension to our land ranges test and evaluation support contract with QinetiQ, which operates the ranges for the UK's Ministry of Defence. The contract – employing 250 staff at Shoeburyness, Essex and Eskmeals, Cumbria – complements our work at four of QinetiQ's air and sea ranges.

We successfully rebid our contract with RAF Strike Command to provide multi-activity support services on Ascension Island for a further five years, and broadened the scope of the contract. RAF Strike Command also awarded us a three-year support services contract at its Spadeadam range, which trains aircrew in electronic warfare countermeasures.

We won a rebid for our support services multi-activity contract at RAF Halton, known as the 'Gateway to the RAF' for its role in training new recruits. The new contract is for four years with options to extend for up to three more.

In the past couple of years we have substantially expanded our engineering support role at Wattisham Station, where we had 13 staff in 1999. During 2001 we took on responsibility for 7 Air Assault Battalion REME's quality assurance, aircraft fleet control and vibration analysis cell, also adding another two depth servicing lines for Lynx aircraft – virtually doubling our staff from 32 to 60.

We are engaged in discussions with the Ministry of Defence Warship Support Agency to develop an interim partnering agreement and for the extension of the Marine Services ports contract, by around two years until 2005, in return for a commitment to rationalise elements of Marine Services activities and reduce net costs of the outputs. If successful, this would represent an innovative partnering opportunity. A further opportunity to bid for a longer term partnering arrangement incorporating the eventual replacement of the bulk of the Marine Services vessels through a PPP should follow.

At the UK's Atomic Weapons Establishment (AWE), where we and our partners have a 10-year management contract, we are continuing discussions on a 15-year extension and PPP that will enable us to invest in new facilities. Meanwhile, investment in a new supercomputer will make AWE one of the world's 10 most powerful computing sites. Since we began our contract, AWE has received commendations from the Nuclear Installations Inspectorate, the Environment Agency and RoSPA – which gave it one of only 16 sector awards, rating it the country's best company for health and safety in both the public service and defence sectors.



Our test systems business broadened and extended its contract to develop and provide systems for testing the avionics on the Royal Navy's new Merlin helicopter. It also won new contracts to provide computerised verification of aircraft weapons systems, and to develop a system that automatically monitors use of communications equipment across Britain for the Radiocommunications Agency.

In June we bought Total IT Ltd in the UK for £1.175 million. This IT consultancy and project management company has further expanded the base from which we are growing our own IT consultancy business.

The German ministry of defence awarded us a new three-year contract to operate two IT training centres, where our 25 staff will develop and run the courses and issue qualifications. We also won a contract worth almost €1.1 million to build and deliver 29 satellite receiver containers for the German forces. These installations, in standard-sized shipping containers, will feed TV and radio programmes into military accommodation and recreation areas. The ever-increasing mobility of European forces is expected to lead to further orders, and we have also attracted enquiries from the commercial sector.

In Australia we extended the manpower and personnel services contract under which we provide some 250 skilled technicians and managers to support the Royal Australian Air Force at bases across the country.

In New Zealand we have built on our army logistics support contract at Waiouru by using staff from our team there to carry out building and grounds maintenance contracts at Waiouru Museum and the Irirangi naval base. The air force extended our contract for technical services at Ohakea Base and hospitality services at Woodbourne Base.

We signed a 20-year contract to provide aviation technical services for the NATO Flying Training in Canada programme. This followed an interim contract we had held since 1999.

Our environmental services business successfully rebid its contract with the Department of National Defence for remediation projects in Goose Bay, Labrador. In 2001 we received an award from the Association of Professional Engineers and Geoscientists of Newfoundland for this work.

We also received RoSPA Occupational Safety Gold Awards at two of our UK Defence operations and ISO 9001:2000 accreditation at sites in Australia, Canada, New Zealand and the UK. In Australia we were only the second company to meet this new standard.

## **Transport**

### **Rail transport**

As operator of London's Docklands Light Railway (DLR) we were named National Rail Operator of the Year in 2001, after winning the Best Light Rail/Metro Operator award in 2000. Managing Director Jim Gates was named Docklands Business Person of the Year.

Since becoming operator of the DLR in 1997 we have consistently invested in improving train services and passenger information. Today, both reliability and customer satisfaction are at record levels. In August we gained a two-year extension from 2004 until 2006, enabling us to help our client, Docklands Light Railway Ltd (part of Transport for London) integrate an extension to London City Airport. Annual passenger numbers have more than doubled to 40 million since 1997 and are expected to reach 60 million by 2006. We now share revenue growth with the client and will operate without subsidy from April 2004. We are currently investing £1.6 million in an improved asset management system, depot capacity for additional rolling stock, and enhanced telecommunications.



After four successful rebids we retained our leadership in property maintenance for Railtrack. Our contracts for five of Railtrack's seven geographic zones, plus its Spacia North commercial letting business, represent a combined turnover of some £38 million, with 340 staff maintaining over 1,850 stations, signal boxes and other buildings. For this work we have won comprehensive Award of Assurance certification covering quality, environmental and safety management to ISO 9000, ISO 14000 and ISO 18001. Manchester Metrolink, which we operate, opened its first 'secure by design' park and ride facility in June. The 450-space car park not only offers customers easy access from car to tram, but also provides 24-hour security, full CCTV coverage, bright lighting levels and disabled car spaces with direct access to the platforms.

In Australia, our wholly-owned Great Southern Railway (GSR) business increased sales by 21%. Construction began on the new 1,410km Alice Springs to Darwin Rail Link. When this is complete in 2004, GSR will extend its tourist train service, The Ghan, all the way to Darwin.

The new Copenhagen Metro opens in October 2002. As operator under a contract worth DKK541 million a year, we are already testing IT systems, control rooms and trains. The 11-station, 13.9km Metro will be a fully automatic, driverless light rail system linking Ørestad and Copenhagen Airport to the City of Copenhagen. It will start with some 160 staff, rising eventually to 300 as extensions to the system open.

Since winning our contract for the UK's National Rail Enquiry Scheme in 1997, we have introduced new technology to improve responsiveness and added new services. In 2001 we extended the original London, East Anglia and South East region contract and added another, covering the Southern region. This has increased our call volume by 20% to some 21 million calls a year. Our Cardiff call centre, which handles these contracts and others for ScotRail and the Association of Train Operating Companies, achieved ISO 9001 accreditation in 2001.

Respecting and empowering people is fundamental to the way we do business. We were pleased to see this recognised in a recent article in TSSA Journal, the magazine for members of the Transport Salaried Staffs' Association. This commended our Cardiff call centre for its personnel policies – citing staff involvement in decisions and the centre's family-friendly and flexible working arrangements. It also praised our balanced recruitment strategy, which embraces socially excluded groups among the region's ethnic minorities. The article concurs 'orking to a strong values base can lead to both business success and a good working environment'.

Our expanding rail testing business increased its support for Railtrack – doubling its rail grinding capacity, increasing track quality monitoring from 44,000 miles a year to more than 90,000 miles, and working on an important pilot project to measure track geometry from service trains. We were named preferred bidder to supply and operate a new high-speed track monitoring service for Railtrack and won a number of other important contracts, including the testing of Virgin's new tilting trains and Plasser & Theurer maintenance vehicles.

### **Road transport**

Traffic management systems installed and operated by Serco now cover over 18,300km of roads worldwide.

We have begun a 10-year, £160 million PFI contract with the UK Highways Agency to design, build and operate its national Traffic Control Centre (TCC). The contract builds on our existing relationship with the Agency and draws on our proven international expertise in supplying and operating intelligent road systems. The TCC will make it possible to view and manage England's strategic motorways and trunk roads as an integrated network, directing traffic flows to reduce congestion. As operator, we will distribute traffic and travel information through existing and new media channels.





Telecommunications is one of the many sectors in which NPL's work has a major impact. This year we received a contract to lead a national photonics programme, which will sustain the UK's leading position in measurement for the fast-developing optical communications industry. We also undertook important work to underpin studies of mobile phone safety.

NPL has become a trusted R&D partner for a number of industrial companies such as Anritsu, the Japanese instrumentation company, with whom we have developed new standards in fibre optic measurement.

Serco Assurance, the business we acquired from AEA Technology, won over £8 million of new contracts and extensions in its first four months with us. These included technical and consultancy work on nuclear submarines for the Ministry of Defence, safety and technical support at nuclear sites and power stations, and creation of the National Drugs Treatment Monitoring System for the Department of Health.

We are long-established providers of IT and scientific services to the European space industry. New contracts won during the year included our first science study for EUMETSAT, to provide a detailed analysis of performance and product accuracy of the Gome-2 instrument to be flown on its Metop polar orbiting weather satellites.

The European Space Agency (ESA) awarded us a contract for atmospheric science studies. We also won a large number of other contracts for spacecraft engineering, scientific, IT, project management and support services at ESA sites in Germany, Holland, Italy and Spain. Projects we are supporting include Europe's first moon mission, SMART-1, first satellite navigation programme, Galileosat, and largest satellite, ENVISAT.

Our German business became one of the first companies in Germany to win accreditation to the new ISO 9001:2000 quality standard.

#### **Private sector**

Our work for the private sector consists mainly of facilities management in the UK, Ireland, mainland Europe and Australasia.

In the UK, GlaxoSmithKline awarded us a two-year extension to our facilities management contract at its Ware manufacturing site.

Our facilities management business in Ireland continued to grow well. The Boots Company showed its satisfaction with our performance over the previous four years by awarding us a three-year rolling contract covering 74 stores throughout the country. We won a new one-year contract from retailer Champion Sports Group for 33 retail outlets, and successfully renegotiated our contract with IBM for the facilities management of its Dublin Technology Campus, involving almost 140 staff.

Sweden's leading supermarket chain, ICA, awarded us a five-year contract involving over 80 staff to provide facilities management for some 20 logistics centres throughout Sweden. Worth a total of SEK650 million, this is our largest contract in Sweden.

In France, we successfully rebid our second-oldest French contract, worth € 1.6 million a year, to provide a further five years' facilities management for Andra, the national agency for monitoring nuclear waste.

In Belgium, Coca-Cola awarded us a new three-year facilities management contract for its 28,000m<sup>2</sup> office building in Brussels and has already asked us to provide additional services.

In Germany we won a new three-year facilities management support contract with Asta Medica, a research division of the Degussa Huls chemical company. Worth € 6.8 million a year, this involved transferring some 40 staff from the company.



We also won a series of contracts to install fibre optic cable: a 40km telecommunications network in Düsseldorf and Neuss for Metromedia, multimedia links at the Nürburgring racetrack for WIGE-MIC Media Service, and a 50km installation for mobile phone companies along part of the new Frankfurt-Cologne high-speed rail link.

Our growing relationship with BHP Billiton, Australia's largest resource company, has won us another contract with the company. Based at its main steelworks site in Port Kembla, this five-year contract to provide security, medical, fire and emergency response services involves 50 staff. It is an alliance agreement, requiring technology investment in new access control and monitoring systems and a substantial culture change programme, in which we share the benefits of improved service and efficiency.

BHP New Zealand Steel, which extended our building maintenance contract, also awarded us a certificate of excellence for outstanding safety performance.

We extended two substantial facilities management contracts in New Zealand. One covers all 4,000 sites owned and leased by Telecom New Zealand. The other covers seven of the country's premier office sites owned by AMP NZ Office Trust.

In January we acquired The Hiser Group in Australia to strengthen our technology usability business. The A\$6 million deal brought us one of the world's most respected consultancies in user interface design and usability.

In the past our presence in Bermuda has been confined to air operations and maintenance services. Our initiative to build commercial business there was rewarded with a five-year facilities management contract from Bank of Butterfield, which includes managing all the bank's properties across the island.



## Financial review

### Financial performance

2001 was another year of strong performance. We maintained our record of consistent growth in sales and profit.

Total sales increased 19.1% to £1,141.2 million. This includes a contribution of £12.1 million from Serco Assurance (formerly AEA Technology Nuclear Consulting Division) which was acquired in September 2001. Turnover excluding Serco Assurance increased by 17.9%.

Gross margin of £124 million represents a return on sales of 13.6%, up from 13.3% in 2000.

Pre tax profit increased 22.9% to £46.4 million before goodwill amortisation. Underlying pre tax profit before goodwill amortisation grew 21.1% to £45.6 million.

Underlying profit is stated after adjusting for a contribution of £0.5 million from Serco Assurance and for the following non-recurring items:

- £10.2 million cost of the unsuccessful NATS acquisition.
- £5 million investment to complete our People and Technology programme.
- £15.4 million profit from refinancing the rolling stock of Great Southern Railway.

The tax charge for the year was £13.4 million (2000 £11.1 million) representing an effective tax rate of 32.5% (2000 – 32.5%).

The above resulted in a growth in earnings per share before goodwill amortisation of 24.8% to 8.46p, and by 22.1% to 7.14p after goodwill amortisation.

### Acquisitions

The acquisition of Serco Assurance was completed on 10 September 2001 for £69.4 million. Since acquisition it has performed in line with our expectations and has been successfully integrated into our science business. Serco Assurance's pre tax and goodwill profit contribution for 2001 of £0.5 million, is after financing and phase-in costs.

Goodwill additions during 2001 amounted to £77.6 million of which £72.8 million related to the acquisition of Serco Assurance. Total goodwill amortised in 2001 was £5.1 million (2000 £3.7 million). The Group amortises goodwill over 20 years.

### Dividends

The proposed final dividend of 1.29p per share gives a cumulative dividend for 2001 of 1.86p, a 14.1% increase on 2000.

### Cash


During 2001 there was a net cash outflow of £81.3 million after paying £77.1 million in respect of acquisitions and £10 million on purchasing shares for the staff share option scheme.

Operating cash flow remained strong in 2001 at £15.5 million which compares to an operating profit of £12.3 million. Dividends of £9.6 million from joint ventures have been received during 2001, up from £7.5 million in 2000. Retained profit from joint ventures for the year ended 31  
ion.

### Private finance initiatives (PFIs)

The document 'Our Approach to PFIs' which we issued with our Interim Results and is available on our website [www.serco.com](http://www.serco.com) provides a summary of the accounting for PFIs.

Special Purpose Companies (SPCs) funding is provided by long term loans which are non-recourse to Serco.

- 
- Our share of non-recourse debt of joint venture SPCs at the end of 2001 is £220.6 million. This is included within our share of joint venture liabilities shown on the balance sheet.
  - Traffic Information Services (TIS) Limited is the only SPC where Serco owns 100% of the equity. This SPC has the contract to deliver the Traffic Control Centre contract. A non-recourse loan of £14.1 million to fund the asset, currently in the course of construction, is included in long term creditors in the balance sheet.

For 2001 our PFIs, including the associated operating contracts, contributed 11% of the Group's turnover and 24% of pre tax profit.

### **Pensions**

Financial Reporting Standard (FRS) 17 "Retirement Benefits" was issued in November 2000 and will replace SSAP24 for accounting periods ending on or after 22 June 2003. For the year ended 2001 we are applying the transitional rules and disclosures. FRS 17 requires the market value of assets and liabilities to be calculated for defined benefit schemes and to be included on the balance sheet. As at 31 December 2001 there is a small net deficit of £3.6 million in relation to the defined benefit schemes. As the asset base of the schemes is £298 million, this deficit is not regarded as being material to the Group. The pension charge under FRS 17 for 2001 would not have been materially different to the SSAP24 pension charge that is included in our 2001 profit and loss account.

### **Presentation of results**

As in the past we have included a pro forma profit and loss account to assist in analysing the Group's results.

Results for 2000 have been restated to allow effective comparison with the results for 2001 in two areas. Neither has any impact on the Group's profit or cash:

- In accordance with industry practice £9.1 million of joint venture turnover shown in the 2000 Accounts, representing the finance income element of the capital repayment from PFIs, has been restated and shown as joint venture interest receivable.
- A new segmental analysis has been provided which provides a more detailed representation of the results of the Group by market sector.

**Proforma summary consolidated profit and loss account**

For the year ended 31 December 2001

	<b>2001</b> <b>£'000</b>	Restated 2000 £'000
<b>Turnover: Group and share of joint ventures</b>	<b>1,141,203</b>	957,917
Less: share of joint ventures	<b>(227,510)</b>	(185,874)
Group turnover – continuing operations	<b>913,693</b>	772,043
Cost of sales	<b>(789,686)</b>	(669,361)
<b>Gross profit</b>	<b>124,007</b>	102,682
Administrative expenses	<b>(87,549)</b>	(74,601)
Exceptional item: Cost of unsuccessful NATS acquisition	<b>(10,187)</b>	—
Exceptional item: GSR refinancing	<b>15,356</b>	—
Share of operating profit in joint ventures- including group joint venture costs and joint venture interest	<b>9,820</b>	13,172
<b>Profit before group interest and goodwill</b>	<b>51,447</b>	41,253
Net group interest	<b>(5,092)</b>	(3,543)
<b>Profit on ordinary activities before taxation - pre amortisation of goodwill</b>	<b>46,355</b>	37,710
Amortisation of goodwill	<b>(5,123)</b>	(3,681)
<b>Profit on ordinary activities before taxation</b>	<b>41,232</b>	34,029
Taxation on profit on ordinary activities	<b>(13,399)</b>	(11,059)
<b>Profit on ordinary activities after taxation</b>	<b>27,833</b>	22,970
Dividends	<b>(7,265)</b>	(6,387)
<b>Retained profit for the financial year</b>	<b>20,568</b>	16,583

The financial information set out on pages 20 to 23 does not constitute the Company's statutory accounts for the years ended 31 December 2001 or 2000, but is derived from those accounts. Statutory accounts for 2000 have been delivered to the Register of Companies and those for 2001 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) of the Companies Act 1985.

To aid in the understanding of the results of the Group and its joint ventures a proforma summary profit and loss account has been included as an alternative presentation.

## Statutory consolidated profit and loss account

For the year ended 31 December 2001

	2001 Group £'000	2001 Joint Ventures £'000	2001 Total £'000	2000 Group £'000	Restated 2000 Joint Ventures £'000	Restated 2000 Total £'000
<b>Turnover: Group and share of joint ventures – continuing operations</b>	<b>913,693</b>	<b>227,510</b>	<b>1,141,203</b>	772,043	185,874	957,917
Less: share of joint ventures	–	(227,510)	(227,510)	–	(185,874)	(185,874)
<b>Group turnover</b>	<b>913,693</b>	–	<b>913,693</b>	772,043	–	772,043
<b>Cost of sales</b>	<b>(789,686)</b>	–	<b>(789,686)</b>	(669,361)	–	(669,361)
<b>Gross profit</b>	<b>124,007</b>	–	<b>124,007</b>	102,682	–	102,682
Administrative expenses	(92,672)	–	(92,672)	(78,282)	–	(78,282)
Amortisation of goodwill	(5,123)	–	(5,123)	(3,681)	–	(3,681)
Other administrative expenses	(87,549)	–	(87,549)	(74,601)	–	(74,601)
Exceptional item: Cost of unsuccessful NATS acquisition	(10,187)	–	(10,187)	–	–	–
Other operating costs relating to joint ventures	–	(8,888)	(8,888)	–	(7,654)	(7,654)
<b>Operating profit – continuing operations</b>	<b>21,148</b>	<b>(8,888)</b>	<b>12,260</b>	24,400	(7,654)	16,746
Exceptional item: GSR refinancing	15,356	–	15,356	–	–	–
Share of operating profit in joint ventures	–	17,374	17,374	–	19,802	19,802
<b>Interest receivable</b>	<b>2,207</b>	<b>17,102</b>	<b>19,309</b>	1,212	9,213	10,425
Group	2,207	–	2,207	1,212	–	1,212
Share of joint ventures	–	17,102	17,102	–	9,213	9,213
<b>Interest payable and similar charges</b>	<b>(7,299)</b>	<b>(15,768)</b>	<b>(23,067)</b>	(4,755)	(8,189)	(12,944)
Group	(7,299)	–	(7,299)	(4,755)	–	(4,755)
Share of joint ventures	–	(15,768)	(15,768)	–	(8,189)	(8,189)
<b>Profit on ordinary activities before taxation</b>	<b>31,412</b>	<b>9,820</b>	<b>41,232</b>	20,857	13,172	34,029
Taxation on profit on ordinary activities			(13,399)			(11,059)
<b>Profit on ordinary activities after taxation</b>			<b>27,833</b>			22,970
Dividends			(7,265)			(6,387)
<b>Retained profit for the financial year</b>			<b>20,568</b>			16,583

Earnings per Share ("EPS") of 2p each:

Basic EPS, after amortisation of goodwill	7.14p	5.85p
Basic EPS, before amortisation of goodwill	8.46p	6.78p
Diluted EPS, after amortisation of goodwill	7.12p	5.79p
Diluted EPS, before amortisation of goodwill	8.43p	6.72p

**Consolidated balance sheet**

At 31 December 2001

	2001 £'000	2000 £'000
<b>Fixed assets</b>		
Intangible asset	141,170	68,662
Tangible assets	48,724	40,269
Investments in joint ventures	30,510	27,688
Share of gross assets	322,338	305,588
Share of gross liabilities	(291,828)	(277,900)
Investment in own shares	18,983	9,680
	<b>239,387</b>	146,299
<b>Current assets</b>		
Stocks	35,838	25,942
Debtors: Amounts due within one year	200,898	158,532
Debtors: Amounts due after more than one year	76,105	32,197
Cash at bank and in hand	34,812	80,098
	<b>347,653</b>	296,769
<b>Creditors: Amounts falling due within one year</b>		
Bank loans and overdrafts	70,647	34,601
Trade creditors	58,034	56,902
Other creditors including taxation and social security	100,621	76,630
Accruals and deferred income	128,629	88,386
Proposed dividend	5,026	4,425
	<b>362,957</b>	260,944
<b>Net current (liabilities)/assets</b>	<b>(15,304)</b>	35,825
<b>Total assets less current liabilities</b>	<b>224,083</b>	182,124
Creditors: Amounts falling due after more than one year	68,570	47,121
Provisions for liabilities and charges	25,636	26,078
<b>Net assets</b>	<b>129,877</b>	108,925
<b>Capital and reserves</b>		
Called up share capital	7,903	7,877
Share premium account	73,656	70,121
Capital redemption reserve	143	143
Profit and loss account	48,175	30,784
<b>Equity shareholders' funds</b>	<b>129,877</b>	108,925

This Summary Financial Statement was approved by the Board of Directors on 4 March 2002 and signed on behalf of the Board:

**Richard White** Executive Chairman      **Christopher Hyman** Finance Director

## Consolidated cash flow statement

For the year ended 31 December 2001

	2001 £'000	2000 £'000
Operating profit pre NATS costs	22,447	16,746
Exceptional item: Cost of unsuccessful NATS acquisition	(10,187)	–
Operating profit	12,260	16,746
Depreciation and goodwill amortisation	18,283	15,419
(Increase)/decrease in working capital	(15,059)	13,369
<b>Net cash inflow from operating activities before PFI asset expenditure</b>	<b>15,484</b>	<b>45,534</b>
Expenditure on PFI asset under construction*	(13,733)	–
Net cash inflow from operating activities after PFI asset expenditure	1,751	45,534
Dividends received from joint ventures	9,645	7,477
<b>Returns on investment and servicing of finance</b>		
Interest received	578	950
Interest paid	(6,182)	(4,755)
Net cash outflow from returns on investments and servicing of finance	(5,604)	(3,805)
<b>Taxation</b>		
UK corporation tax paid	(3,196)	(2,856)
Overseas tax paid	(3,221)	(2,797)
Tax paid	(6,417)	(5,653)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(17,626)	(15,332)
Sale of tangible fixed assets	4,569	862
Exceptional item: GSR refinancing	16,343	–
Security deposit on PFI asset under construction	(6,000)	–
Net cashflows with joint ventures	(1,945)	6,505
Purchase of own shares	(9,964)	(10,000)
Net cash outflow from capital expenditure and financial investment	(14,623)	(17,965)
<b>Acquisitions and disposals</b>		
Acquisitions	(77,106)	(4,409)
Net cash/(overdraft) acquired with acquisitions	3,558	(73)
Subscription for shares in joint ventures	(38)	(4,963)
Proceeds from disposal of shares in joint ventures	–	1,271
Net cash outflow from acquisitions and disposals	(73,586)	(8,174)
<b>Equity dividends paid</b>		
Dividends paid	(6,664)	(5,816)
Net cash outflow from equity dividends paid	(6,664)	(5,816)
Net cash (outflow)/inflow before financing	(95,498)	11,598
<b>Financing</b>		
Issue of Ordinary Share Capital	2,001	818
Debt due within one year: Increase/(decrease) in other loans	100	(28)
Debt due beyond one year: Increase in:	14,850	186
Other loans	750	186
Non recourse debt financing PFI asset*	14,100	–
Capital element of finance lease repayments	(2,785)	(2,264)
Net cash inflow/(outflow) from financing	14,166	(1,288)
(Decrease)/increase in cash	(81,332)	10,310
Balance at 1 January	45,497	35,187
Balance at 31 December	(35,835)	45,497

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



The Director's recommend a final dividend of 1.29p (2000 – 1.13p) per Ordinary Share which, if approved at the Annual General Meeting, will be paid on 10 May 2002, to those shareholders on the register on 15 March 2002.

**Distribution of Annual Review and Accounts**

Copies of the Annual Review and Accounts, or where appropriate, Annual Review and Summary Financial Statements are being sent to all shareholders of Serco Group plc. Copies are available on 4 March 2002 from either our website at [www.serco.com](http://www.serco.com) or on request from the Registered Office:

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