

Since flotation in 1988 Serco has delivered **uninterrupted growth** in sales and profits. This

1999

Serco Group plc annual review and accounts 1999



serco

review marks over a decade of **outstanding performance**. It also offers an insight into the firm foundations that underpin the figures: our

Our 27,500 staff have made us one of the world's largest outsourcing businesses, operating in 35 countries. Our customers are mainly national and local governments, and over 40% of our profits come from outside the UK. Since Serco was floated on the London Stock Exchange in 1988, we have achieved average annual growth of over 20% in sales and profit – largely organically rather than by acquisition.

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strategies and management processes – and the dedicated people whose efforts enable us to **exceed the expectations** of customers

A message from the Board



For the eleventh successive year since Serco's flotation, our sales, profit and cash flow performance has fully met expectations.

In 1999, sales grew by 17.4% to £807.5 million. Pre-tax profits rose 18.8% to £31.4 million pre FRS 10 (Goodwill and Intangible Assets) and by 14.5% to £29.3 million after FRS 10. Earnings per share before and after FRS 10 rose 17.8% and 11.7% respectively. The recommended final dividend of 5.9p per share makes a total of 8.55p for the year – an increase of 15.5%.

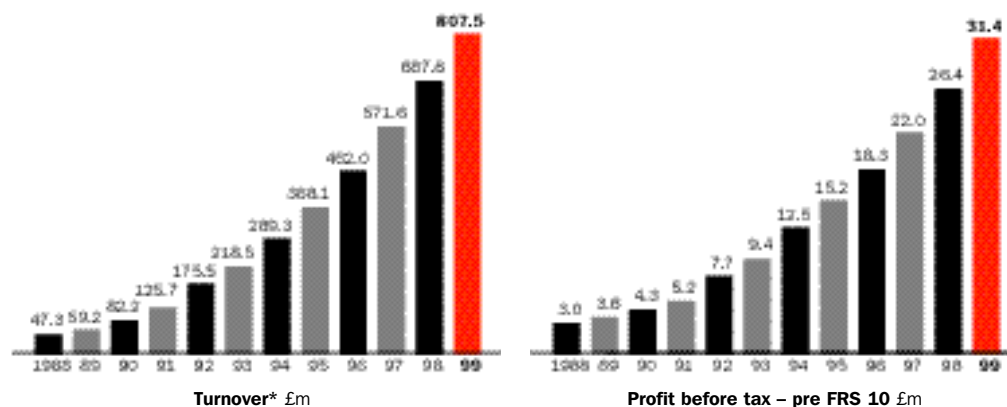
The Group can look forward to continued strong growth this year. We have been winning new business at an increasing rate, retaining over 90% of our contracts as they come up for renewal and growing successfully across all our markets. We were particularly pleased to be part of the consortium that won the contract, worth at least £2.2 billion, to manage the UK's Atomic Weapons Establishment. This is a milestone for us, not just in its size and complexity but because of the confidence it displays in Serco's capability and responsibility. It gives us a platform for pursuing the larger opportunities that are emerging worldwide – while continuing to grow in our traditional markets, which still have immense potential.

Serco is in many ways a 21st century business. Our devolved structure and minimal hierarchy owe little to 20th century models and our function is to help customers modernise their own activities. We use advanced technology to share ideas and information freely worldwide – we are making further substantial investments in new information technology systems this year – but we never forget that the technology exists purely to support our people.

This annual review is, as always, a record of their achievements. As the following pages make plain, Serco is very much a people business: our success comes from enabling individuals to deliver the high-quality service our customers expect. Our thanks to them all.

Financial highlights

	1999	1998	%
Turnover*	£807.5m	£687.8m	up 17.4
Profit before tax – pre FRS 10	£31.4m	£26.4m	up 18.8
Earnings per share – pre FRS 10	33.8p	28.7p	up 17.8
Dividend per share	8.55p	7.4p	up 15.5
Dividend cover – pre FRS 10	3.9	3.7	
Employees at 31 December*	27,500	25,000	up 10.0



Serco Group plc 1999

* Including joint ventures

and investors. Serco's **rapid growth and excellent prospects** come from a simple proposition: our ability to manage an extraordinary



We help customers add value to their existing assets. Under our custodianship since 1995, the UK's National Physical Laboratory (NPL) has continued to advance its stature, influence and revenues. Under a new Private Finance Initiative (PFI) contract, we are part of a consortium with John Laing plc, which is building a state-of-the art 36,000m² new complex of laboratories, engineering workshops, offices and meeting rooms. This will increase NPL's efficiency and allow it to maintain its position as one of the world's great national standards laboratories. The project involves relocating people and science facilities from some 2,800 individual rooms.

clear and

A CLEAR AND COHERENT BUSINESS At first sight, Serco looks bewilderingly diverse – over 450 contract managers run individual operations ranging from bus services to research establishments.

In fact, it could hardly be more coherent. To every project we bring the same things: our expertise in managing change, and our other proven management processes.

These processes are our product. With the help of the Serco Institute we research and update them, document them and train our staff to use them. They are designed to change mindsets; to instil customer focus; and to provide unobtrusive but effective controls that leave contract managers free to run their businesses entrepreneurially.


Initially, they enable us to increase value for money while maintaining quality and continuity of service: significantly, no Serco phase-in has ever provoked a strike. Longer-term, they enable us to help customers add value to existing assets: for example, at the UK's NPL we have recruited an additional 100 scientists to government and commercial programmes since 1995.

The great strength of our management processes is that we can apply them to almost any activity. Our strategy is to keep moving them into more complex areas where our skills can be best used. We are now also applying them in Public Private Partnerships.

variety of activities in a way that delivers customer focus, efficiency, value and quality. We have developed **systematic processes** for

coherent

implementing new management and achieving sustained improvement. We have a **long-term outlook**, which is evident both in the way we



delivering

win and manage contracts and in the way we plan our own growth. Market **demand is buoyant**, there is still immense untapped potential,



In practice, a five-year contract can last 10, 20, 30 years – or even longer. Serco has worked at the RAF Fylingdales early warning station since 1959. We provided most of the workforce during construction; and since 1964 we've been the facilities management contractor, with over 150 staff operating and maintaining the site 24 hours a day. The site is technologically complex and strategically sensitive. Its primary role is detecting and tracking ballistic missiles, and it also has an accurate satellite tracking capability. Despite repeated competitive tenders, which have seen contractors come and go at the other sites in the early warning chain, Serco remains the only contractor to have operated and maintained the Fylingdales facility.

certainty

DELIVERING CERTAINTY Serco benefits from a rare business advantage: our future earnings and cash flows are highly visible.

We are able to plan a long-term growth strategy because we can forecast with relative certainty. Our contracts are typically for three to five years initially, and the trend is towards longer periods. By building long-term collaborative relationships with clients we have earned a renewal rate of over 90%. So in practice, contracts can last 10, 20, 30 years – or even longer. Our income and cash flows are dependable: 80% of our customers are governments and international agencies, and the rest are major corporations.

Our growth prospects are excellent. Our markets are expanding faster than we can – we have been careful to grow at a measured pace, to avoid overstretching management or growing too fast to maintain our unique culture. And each new contract brings further opportunities: a significant proportion of our new business comes from broadening the scope of existing contracts.

Nothing in life is guaranteed. But Serco is ideally placed to deliver an unusual degree of certainty to customers, staff and shareholders. And we intend to do everything we can to keep it that way.

and we continue to take our management skills into new fields. By its nature, our business brings a flow of **new management talent**



We are well placed to identify and make the most of people's talents.

John Rusling (right) began his career in the British Army, transferring to us as a satellite communications engineer in 1970 after we won a contract at the Royal Signals Research Establishment. Quickly recognising his talents, we've kept him on the move – to the US... Hong Kong... Australia, where he was our Far East Group Manager and helped lay the foundations of Serco Australia... the European Space Agency... back to the UK... and now Germany. He is currently responsible for operational matters relating to the government services division of our recent acquisition in Germany.

strong man

STRONG MANAGEMENT SUCCESSION It isn't easy to grow fast without overstretching your management team. To avoid this pitfall we've carefully managed the pace of our growth. But at the same time we've been able to grow our own managers in abundance – successfully extending and replenishing the team with little recourse to external recruitment. How come?

The answer lies in our devolved structure. As we take on new contracts, we constantly acquire new talent. We provide a framework of highly developed processes and controls, train people to use them – and then, in effect, liberate them to run their own businesses better.

So now we have over 450 people who are effectively managing directors, running their own contracts with their own management teams. Our style of operation is based on giving managers the tools to do the job – and then the freedom to manage. Short decision chains keep us agile as a business and make us attractive to entrepreneurial managers: when we take over a contract, the most dynamic people tend to stick around. And our emphasis on small working units and close relationships means we are usually well placed to identify and make the most of people's talents.

In short, continued steady growth is an opportunity rather than a threat to Serco's management capability. The bigger we get, the stronger we grow.

into the business. We take pains to nurture this, so that we can **go on expanding** without outgrowing our management strength. Concern



to make the most of people's talents is at the heart of Serco's **distinctive culture**. A recent review by Arthur Andersen confirmed a



genuine **commitment to customers and staff** across the Group, and a notable determination that Serco should be straightforward and



Our people's confidence, enthusiasm and commitment tell customers precisely what we stand for. 'We're uncompromising,' says Los Angeles air traffic control (ATC) manager Don Bohr, pictured centre foreground with colleagues Keith Kildow, David Vance and Roy Sedlaczek. 'We want to provide the very best for our customers because we feel part of a family and those are the family values. ATC requires an enormous amount of co-ordination and communication – we're successful because we work as a team: we enjoy the people and the working environment.' And their customer, the Federal Aviation Administration, liked the results so much that it added 13 more ATC towers to our contract in 1999.

deliver

THE WAY WE DELIVER Our values are not handed down from on high. They are deeply ingrained in our culture.

All Serco's management processes are underpinned by our shared beliefs about how to treat staff and customers. We like to feel we do not employ people for their labour alone. We value their knowledge, ideas and potential to contribute. We give them support and ready access to anyone who can help with a problem or use an idea. We want them to speak their minds freely, take responsibility for solving problems, and enjoy their work. We encourage them to deliver the spirit of our contracts, not just the letter.

We are not embarrassed to talk about the Serco 'family'. From the beginning, we have deliberately fostered a family feel – by minimising hierarchy and bureaucracy, and dividing the organisation into highly autonomous units that are small enough for their leaders to know everyone personally. We encourage people at all levels to travel around the company to share ideas and experience. All our contract managers receive share options and at the time of the management buyout in 1987 we gave equity to all staff. Since then we have developed sharesave schemes which give staff the opportunity to build a personal stake in the business.

So we don't need to burden customers with statements about our values. The confidence, enthusiasm and commitment of our people tell them precisely what Serco stands for.

easy to deal with. We are determined to retain this culture as we grow, and to **share ideas and experience** worldwide. In 1999 we won



We are developing techniques to help people share knowledge more readily. The Serco Institute has been addressing this challenge for several years. It has developed systems for sharing information across the company, explored ways of motivating people to share their ideas and know-how, and fostered the creation of communities within Serco that exchange knowledge and ideas across contracts, companies and countries. The Institute's wider role is to research trends in the outsourcing marketplace, develop management processes and techniques, and promote best practice. Its brief is to keep us on the cutting edge of outsourcing and service delivery. With facilities in the UK and Australia, the Institute team works with Serco businesses and their staff in 35 countries, as well as with customers, partners, policy units and academic bodies worldwide.

sharing the

SHARING THE KNOWLEDGE In an increasingly diverse organisation we are passionate about sharing ideas and best practice to avoid reinventing the wheel. Constant communication worldwide helps us understand and manage risks, deliver service improvements to meet customer expectations and keep our competitive edge.

We are exploring what motivates people to share knowledge and developing techniques to help them do it more readily. And we are also helping our businesses to form networks and build 'communities of practice' which share ideas and experience. To support this process we will be making further investment in training and technology in 2000.

We are making increasing use of information technology to identify knowledge dispersed around the organisation and create sustainable, globe-spanning virtual communities. Our intranet is an increasingly valuable tool, and we are introducing new knowledge management processes and systems. These will bring the intranet to almost every employee and lead ultimately to systems that intelligently search the intranet and internet to bring our people individually tailored information.

record levels of new business. Key examples are featured on the following pages...

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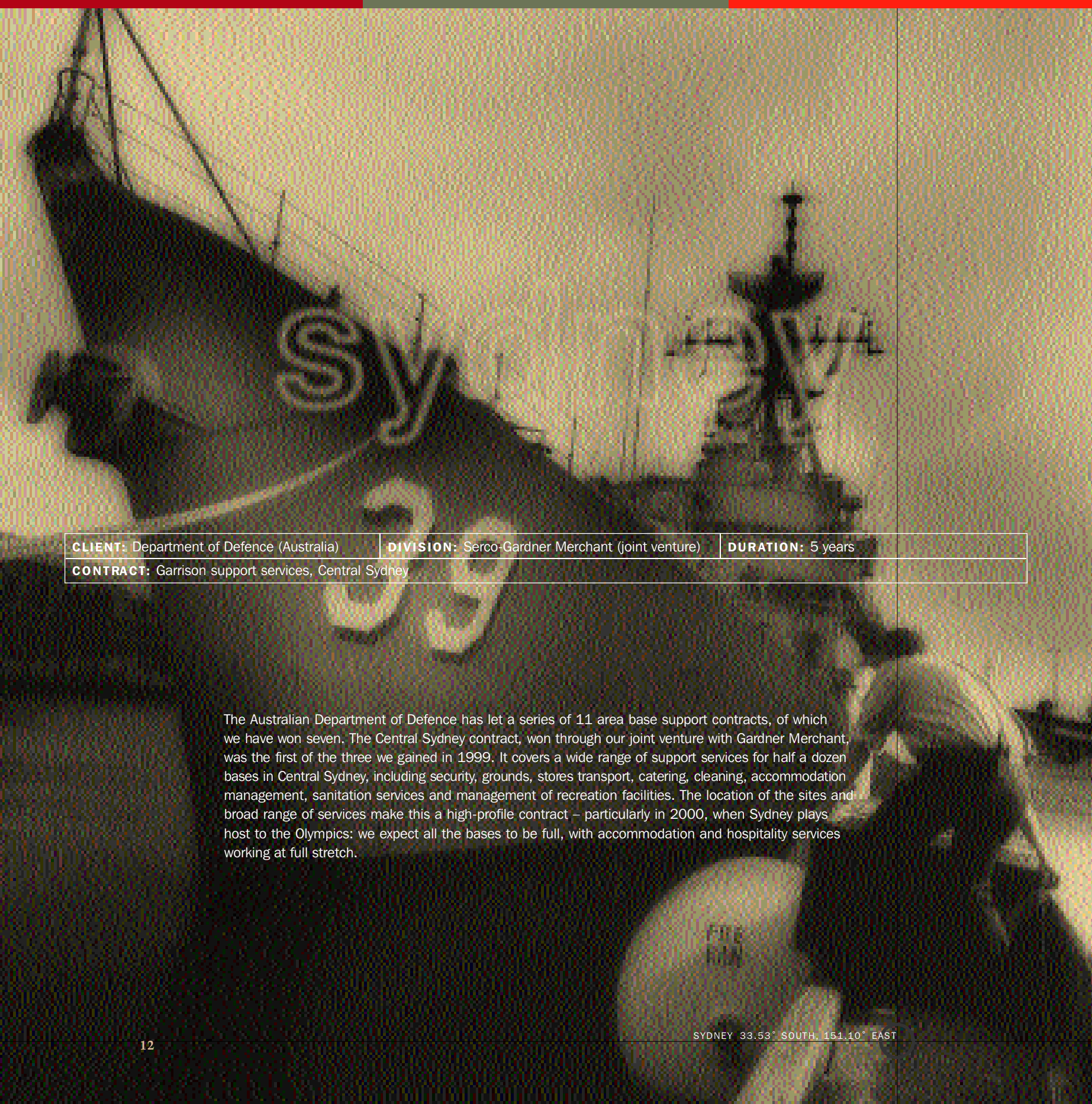
SEPA

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Service manager **Jim Shaw** joined Serco-Gardner Merchant in 1998. Previously at Gardner Merchant, he worked on the company's successful 1993 joint tender with Serco for Puckapunyal Military Base. He enjoys the 'autonomy and sense of ownership' he has in managing the contract, and 'Serco's philosophy of looking after its employees'.



CLIENT: Department of Defence (Australia)

DIVISION: Serco-Gardner Merchant (joint venture)

DURATION: 5 years

CONTRACT: Garrison support services, Central Sydney

The Australian Department of Defence has let a series of 11 area base support contracts, of which we have won seven. The Central Sydney contract, won through our joint venture with Gardner Merchant, was the first of the three we gained in 1999. It covers a wide range of support services for half a dozen bases in Central Sydney, including security, grounds, stores transport, catering, cleaning, accommodation management, sanitation services and management of recreation facilities. The location of the sites and broad range of services make this a high-profile contract – particularly in 2000, when Sydney plays host to the Olympics: we expect all the bases to be full, with accommodation and hospitality services working at full stretch.



Klaus Tiemann was managing director of Elekluft and now heads Serco GmbH & Co. KG. He believes the Serco culture is 'well suited to the service business in Germany – especially the way Serco people don't just talk about their values but really live them.' The outsourcing market is now taking off in Germany, he says, and 'our access to relevant experience in Serco will help us to go for bigger opportunities'.

BONN 50.43° NORTH, 7.6° EAST

ACQUIRED BUSINESS: Elekluft Elektronik und Luftfahrtgeräte GmbH (Germany)

ACTIVITIES: Services to German government and commercial sectors

NOW TRADING AS: Serco GmbH & Co. KG

We acquired Elekluft from DaimlerChrysler Aerospace (DASA) in October 1999 and have reorganised it as Serco GmbH & Co. KG, with three divisions. Government Services will concentrate on opportunities arising from the German government's desire for better value for money in central and local administration as well as the German Ministry of Defence (MOD). Current customers include the MOD and NATO. Facilities Management will build on its service centre offerings in Southern Germany, where we provide a full range of technical and administrative services to customers from our sites. In addition, we will develop the services provided to major customers on their own sites. Our major customer is DASA. Service Support provides an extensive range of documentation, training and engineering services to manufacturing industry and will extend this portfolio to offer full 'cradle to grave' support. Customers include Ford and DaimlerChrysler. We see a bright future in Germany as we bring our expertise to a market which is in the early stages of contracting-out complex technical tasks.



Bob Pritchard has been managing our Adelaide bus contract from the beginning. Since then it has almost tripled in size. He believes in working hard to get results, and giving recognition where it's due. After four years with Serco, he finds it 'a very good company to work for – support, good advice and a team approach'.

Adelaide

CLIENT: Adelaide Passenger Transport Board (Australia)	DIVISION: Serco Transport Services	DURATION: 5 years, extendable by 5 years
CONTRACT: Provision of bus services in the Adelaide metropolitan area		

Serco has been operating bus services in Adelaide since 1996 and under a new contract we will operate about 50% of the city's services. This latest contract, more than doubling the number of Serco-operated buses from 165 to 400, reflects both the public's and the transport authority's satisfaction with our performance to date. Included is the city's innovative guided busway, O'Bahn, which is the transport system's centrepiece. We have increased demand by offering service reliability, new late night services, clean buses and friendly, helpful staff. Culture change has been a key factor: bus operators are encouraged to get to know their passengers and to take part in community initiatives including the innovative Serco Watch scheme. This enables passengers and operators to report suspicious behaviour and incidents by radio to colleagues at base, who call the police immediately. The scheme has resulted in a number of arrests and convictions. It also brought emergency medical attention to an elderly passenger who was taken ill at home: an alert driver called for help when she missed her regular bus.



The newly appointed chief executive of AWE Management Limited is **John Rae**, who joined us in 1995 from the science and innovation business AEA Technology. At Serco, which he describes as an 'energetic and exciting business', he has been our managing director at the National Physical Laboratory, responsible for greatly expanding its capabilities and worldwide commercial success.

ALDERMASTON 51.27° NORTH, 00.47° WEST

CLIENT: Ministry of Defence (UK)

DIVISION: AWE Management Limited (joint venture)

DURATION: 10 years, extendable to 25 years

CONTRACT: Management and operation of Atomic Weapons Establishment

Beginning in April 2000, this is our largest contract to date, and a remarkable responsibility. Initially for 10 years, and with the potential for conversion to a 25-year term, it gives us technical custodianship of Britain's nuclear weapons stockpile and the associated world-class R&D establishment that underpins the nation's nuclear capability and security if required. The contract includes waste and environmental management, manufacture, and extremely demanding science and research programmes. A crucial challenge is to maintain the ability to design effective weapons and new systems if required. We are working as AWE Management Limited, a joint venture with Lockheed Martin UK Limited and British Nuclear Fuels plc. The award of this contract recognises the calibre of all three partners and the spectrum of technical, scientific and management capability that we are able to deploy.



Contract director **Ian Jones** has spent the past decade on safety-critical contracts in aviation facilities management and engineering. Most recently, he has been contract support and engineering director supporting 43 civil and military aerospace contracts. He joined us from a partner company, impressed by our concern to 'make people feel valued, however large or small their role'.

LEICESTER 52.40° NORTH, 1.9° WEST

CLIENT: Railtrack (UK)

DIVISION: Serco Rail

DURATION: 5 years

CONTRACT: Maintenance of railway infrastructure assets

Although we already have a broad range of engineering and maintenance contracts with Railtrack, this infrastructure contract is a breakthrough – making us the first new player in UK track maintenance since the rail network was privatised. We are assuming responsibility for the stewardship of track, signalling and overhead electrics in the Derby, Leicester and Midland Mainline South area. We will be bringing a characteristically innovative approach to improving track quality and track access. Combined with our portfolio of other rail operations, this contract should provide a springboard to further opportunities in the rail sector both in the UK and overseas.



David Tetreault liked the Serco service so much that he joined the company. He was able to assess our work when he was at the District of Columbia Water and Sewer Authority, where we provided fleet maintenance. Now he's enjoying a culture which, he says, 'is the next best thing to being in business for myself'.



CLIENT: District of Columbia (DC) Metropolitan Police Department (US)

CONTRACT: Fleet maintenance and management services

DIVISION: Serco Management Services, Inc.

DURATION: 14 months, extendable to 3 years

The benefits to the citizens of Washington DC are not only financial. By outsourcing the maintenance and management of its 1,470 vehicle fleet, the Metropolitan Police Department (MPD) has been able to devote more resources to its core job: policing. We have also helped the MPD to go a step further by broadening the scope of the original contract to include installing and commissioning communications equipment. Contracts such as this are still rare in the US, although Serco does maintain several other municipal fleets ranging from police cars to fire tenders and construction equipment. Given its high visibility in the nation's capital the MPD contract should provide a convincing example to other municipal authorities of the benefits of outsourcing fleet management.

WASHINGTON 38.52° NORTH, 77.00° WEST



John Mathias has managed a succession of leisure contracts for us and, appropriately, believes that success comes from combining hard work with fun. He is moving to Aqua Vale from Towcester Centre for Leisure, where our performance has won us contracts for two more facilities from the same council.

AYLESBURY 51.48° NORTH, 0.49° WEST

aylesbury

CLIENT: Aylesbury Vale District Council (UK)

DIVISION: Serco Services

DURATION: 10 years, with extension opportunities

CONTRACT: Operation of Aqua Vale swimming complex

Many local authorities, in Britain and elsewhere, have ageing leisure assets that they want to refurbish or replace – but financing can be a problem. To add to the 20 local authority leisure contracts we already manage, we are developing new forms of Public Private Partnerships to help them provide their communities with high-quality facilities. This is the third UK leisure site where we have been involved in design, fitting-out and partial financing. The £9 million complex, opening in April 2001, offers one of the largest water areas in the region, with leisure waters, a 20m eight lane outdoor pool, 25m main pool, dance studio, health and fitness studio and catering facilities. The main pool is equipped to stage televised international events and offers the best venue of its kind in the heart of England. Opportunities for 'design, finance and operate' contracts on leisure facilities are proliferating, and we expect to win a growing number in the years ahead.



Contract manager **Mathieu Notéris** joined Serco in May 1999 and has enjoyed having the opportunity to build our relationship with swTch. He attributes our success in expanding this contract to the professionalism of our people and the substantial degree of autonomy Serco gives to managers who are dealing directly with customers.

brusselle

BRUSSELS 50.51° NORTH, 4.21° EAST

CLIENT: nv swTch sa (Belgium)

DIVISION: Serco Belgium

DURATION: 2 years, then renewable annually

CONTRACT: Flight information display systems and PC support services at Brussels Airport (Zaventem)

This contract is one of Serco Belgium's first for a private sector client and marks a new – and already growing – relationship with nv swTch sa. swTch is the company formed from the specialised IT resources of the Brussels International Airport Company (BIAC), and the contract is for support services at Brussels National Airport, Zaventem. Systems covered include over 800 Bacroscreens/LCD panels spread around the airport, split-flap display panels, over 650 PCs and the entire airport PA system. Within the first six months we have already enlarged the contract, taking over services previously covered by other companies and increasing the number of staff employed by 40%. Our success with this contract has been noted by companies operating the same hardware as Zaventem, raising the prospect of further similar contracts elsewhere.



Yeovilton contract manager **Stan Charles** is a self-confessed 'Serco freak'. He joined us from the Royal Navy after acting as the Navy's host to a Serco phase-in team and liking what he saw: 'I love the culture, the can-do approach, the empowerment to run my business without micro-management from support office but with help, guidance, encouragement and the strong feeling that we're all playing for the same team'.

YEOVILTON 50.56° NORTH, 2.39° WEST

yeovilton

CLIENT: Royal Navy (UK)

DIVISION: Serco Aerospace

DURATION: 3 years, extendable by 2 years

CONTRACT: Aircraft engineering services and operations at Yeovilton and Culdrose Royal Naval Air Stations

We already have a well-established presence at Yeovilton and Culdrose, the Fleet Air Arm's two major bases, both in our own right and through the former FRA Serco joint venture. After successfully bidding for new contracts in 1999 we are substantially enlarging our role in 2000. At Yeovilton we currently provide in-depth maintenance on Sea King and Lynx helicopters and modifications to Sea Harriers; at Culdrose we maintain Sea Kings. At both sites we provide numerous other aircraft and ground support services. The new contract adds duties that include engineering support and provision of aircrew for 750 Squadron and engineering support for 899 Squadron as well as ground radio at both bases. These additional responsibilities reflect the Navy's satisfaction with our record of professionalism and flexibility, and clearly enhance our credentials for future provision of services across the Naval Air Command.



Phil Cornwell joined Serco from AWA-Plessey in 1997 and has been senior project manager on two projects for the New South Wales Roads and Traffic Authority. His reason for joining Serco was compelling enough: the personal recommendation of a friend who was already working for us.

Sydney

CLIENT: Roads and Traffic Authority of New South Wales (Australia)	DIVISION: Serco Traffic Solutions/Serco Technology
CONTRACT: Post-development support for Serco-installed traffic management computer system	DURATION: 2 years

World-leading technology we developed for a traffic management contract in Scotland, UK will keep Olympic traffic flowing more smoothly and safely in Sydney in September 2000. In 1997 we won a contract to install a computerised traffic control system in Sydney, shortly after the city was awarded the 2000 Olympics. Facing the prospect of a large influx of vehicles, the Roads and Traffic Authority decided to make an upgraded version of our system the centrepiece of a new Transport Management Centre. Our technology enables operators to monitor traffic flows on the entire road network around the Olympic site and on major arterial roads across New South Wales. When incidents or blockages arise, they can monitor and direct traffic by controlling variable message signs and speed control signals. A further new contract covers support for the system and further development during what will undoubtedly be a gruelling test of its capabilities.



John Cardona, who manages a similar contract in the Royal Borough of Kingston-upon-Thames, sees the Merton win as 'giving Serco Property & Design the springboard, capability and motivation to grow our business even more'.

MERTON 51.25° NORTH, 00.12° WEST

CLIENT: London Borough of Merton (UK)

DIVISION: Serco Property & Design

DURATION: 5 years, extendable to 10 years

CONTRACT: Building professional services

The London Borough of Merton was looking for a long-term partner and awarded us preferred contractor status on this contract after considering tenders from a wide range of bidders. We are managing a team of 20 – architects, surveyors, mechanical and electrical design engineers and other professionals – whose responsibilities include design, repairs and maintenance on some 65 schools and 400 civic and public buildings. This is the second such contract Serco has won, and confirms that we are adding a new string to our bow: as we establish a significant capability in building professional services, we now have the resources to service other property portfolios.



The New Zealand Army marches on more contented stomachs since **Allan Martin** devised an improved process for assembling its Operational Ration Packs. Now he's managing the New Zealand Police contract – and still looking out for innovation: 'Serco people will listen to new ideas regardless of who presents them, and accept the need to change plans with changing situations'.

CLIENT: New Zealand Police

DIVISION: Serco Project Engineering (joint venture)

DURATION: 7 years

CONTRACT: Purchasing, warehousing and distribution services nationwide

This is no ordinary warehousing and distribution contract. It breaks new ground because we finance the inventory until it is drawn from store. We act as sole suppliers – buying, holding and supplying some 1,600 lines ranging from police uniforms to technical spares, forms and publications. The total value of goods is around £2 million a year. We are carrying out the contract through Serco Project Engineering, our joint venture with William Adams Pty Limited Australia, which was formed to provide warehousing, supply and base repair services to the New Zealand Defence Force. The comprehensive supply chain and inventory management approach we are applying for the police offers clear benefits by releasing capital previously tied-up in inventory, and should prove attractive to other government departments and large commercial organisations.

WELLINGTON 41.19° SOUTH, 17.46° EAST

Business Review

Importantly, we continue to win new contracts that take us further up the **size and complexity curve** – into areas where Serco is more

Sales growth continues worldwide

In the UK, the largest contract win of the year – in fact, our largest ever – was for the management of the UK's Atomic Weapons Establishment at Aldermaston. The contract includes a 25-year Public Private Partnership (PPP) option to add private finance to accelerate development of the site. This is in addition to the 10 other Private Finance Initiative (PFI) opportunities that we are currently pursuing. We were shortlisted for the STEPS programme, under which the contractor will assume ownership of the entire Inland Revenue and HM Customs & Excise property portfolios and provide office facilities to meet both organisations' requirements. We also made a breakthrough into infrastructure maintenance for Railtrack. As the first new entrant to this market we believe we have opened the door to an area with considerable potential. These are all exciting developments, but they should not overshadow the strong underlying growth that we achieved in our traditional business.

In Continental Europe we built on a well established base in Italy, France, Belgium, the Netherlands and Sweden. We are also making our mark in Germany, and in 1999 we acquired Elekluft Elektronik und Luftfahrtgeräte GmbH, a German company providing engineering and facilities management services to military, aerospace and other commercial customers. This business has now been renamed Serco GmbH & Co. KG.



In Asia Pacific business was buoyant, particularly in the Australian and New Zealand defence sectors. We also had significant wins in the transport sector and acquired the remaining 50.8% of shares in Great Southern Railway, which operates three interstate passenger rail services in Australia.

We made good headway in North America, where state and local governments are becoming increasingly alert to the value of outsourcing and new large-scale strategic opportunities are emerging.

Growing in Asia Pacific

Stephen Ell has been one of the prime movers of our rapid expansion in Asia Pacific since he joined Serco from our joint venture partner AWA in 1993. Today, as chief executive of Serco Asia Pacific, he heads a company of some 6,000 people which, he says, is 'capable of participating in just about any government or industry opportunity that involves organisational change and development'. He is proud of the company's high growth rate, which 'stretches people's capabilities and gives them many opportunities for advancement'.

Central and local government

We continued to make good progress in PPP and PFI projects. In the UK the contract for a new prison in Staffordshire brought our total signed contracts to 12: our share of the total operating turnover will amount to more than £80 million a year.

The new contract is for an 800-bed unit which will be the UK's first private-sector prison to incorporate a therapeutic community. It is the fifth PFI contract won by Premier Prison Services (PPS), our joint venture with Wackenhut Corrections, to design, construct, manage and finance custodial facilities. In addition to the five PFI projects, PPS manages HM Prison and Young Offenders Institution, Doncaster (where we have been awarded preferred bidder status of a further 10-year contract), has two prisoner escort contracts handling 250,000 prisoners a year, manages two of the UK's four electronic tagging contracts and provides over 60% of the equipment for electronic tagging used in the UK.



Building great teams

John Jeffery, who runs our Serco Services business in the UK, sees his principal contribution as 'building great teams that will continue to grow a successful business for Serco, its customers and shareholders'. John joined us in 1990 from a company we were in the process of acquiring, and spent two years growing our UK local authority business. He ran our UK health business and chaired our Swedish joint venture before taking charge of Serco Services, which operates contracts for local and central government, the health service and the commercial sector in the UK. 'At Serco I've been able to develop my management skills in a supportive environment,' he says. 'And I've worked with some tremendous people whose values and enthusiasm have made it fun to be part of the team.'

sharply differentiated. The Atomic Weapons Establishment contract we won in 1999 is worth at least **£2.2 billion**, and we have



Alaska to Antarctica

After 17 years in the company, Mike Walker is still struck by 'the infectious enthusiasm for doing the right thing, which so characterises Serco people'. Now president of Serco Management Services in the US, Mike brings his own infectious enthusiasm to the helm of a company whose activities stretch from Alaska to Antarctica. He joined us in 1983 from the UK Science and Engineering Research Council as a computer specialist and since then his career has taken him to Hong Kong, London, Edinburgh and Gibbsboro, New Jersey. The company he now heads provides a wide range of services to state and local governments and is a leading provider of ATC services.

In the UK the Central Computer and Telecommunications Agency chose Serco for a framework agreement to provide a range of live and automated call handling services including call centres, linked to client or Serco operated databases. This could be a key contract, as the government wants it to be possible for 25% of public dealings with government departments to be made electronically by 2002 – rising to 50% in 2005 and 100% in 2008. We also won a two-year extension of our call centre contract with the Driver and Vehicle Licensing Agency – the first time this contract has been extended in partnership in this way. The Aqua Vale swimming complex – our third PPP to develop new public leisure facilities – confirmed our strength in this growth market. We are also developing a promising position in professional services for property portfolios, having been awarded preferred bidder status on our second contract in this field from a UK local authority.

The National Physical Laboratory (NPL) won over £15 million of commercially competed business in 1999, from clients as diverse as BP Amoco and the Greek Government. NPL is developing a growing portfolio of innovation-related management contracts for governments – including for example, a contract to carry out initial appraisal of year 2000 innovation applications for the Queen's Awards for Enterprise. During 1999 the members of the Metre Convention signed a Mutual Recognition Agreement, which NPL expects will create new opportunities in the international market for calibration and measurement services.

We were one of 33 companies that signed an outline agreement with the German defence ministry, which is a first step to opening up the market for government services in Germany.

In North America, the Federal Aviation Administration recognised our excellence in air traffic control (ATC) by adding 13 towers to our existing contract. We renewed parking enforcement contracts in California and Maryland and won another in Chicago. The Serco operated Hopewell Rocks site in New Brunswick, Canada won a British Airways award as one of the best tourist destinations in North America.

In the Middle East we renewed our contracts at Dubai International Airport and the United Arab Emirates Air Traffic Control Centre. We also won our first contract in Lebanon, managing part of the American University of Beirut.

Defence

We maintained our growth in the UK, partly by extending the scope of existing contracts – for example at the Royal Navy's two major Fleet Air Arm bases, where we added significant new responsibilities. We also won a Ministry of Defence contract to manage the procurement and building of seven auxiliary passenger vessels for the existing port services contracts supporting RN Naval Bases.

In Asia Pacific we made strong gains in support services for the Australian and New Zealand military.

We continue to extend our reach into the most remote parts of the world with the award of preferred contractor status at the New Zealand Antarctic base. Added to our existing US Antarctic ATC contract, this means we will have over 60 staff based on the ice in Antarctica.



6,000 by 2000

'When I joined Serco in Australia in May 1989, we had just 3,000 staff worldwide,' says Chris Bowman. 'If somebody had told me that we'd have 6,000 staff in Asia Pacific alone by the turn of the millennium, I'd have said they were mad.' As marketing director of Serco Asia Pacific since 1992, Chris was a driving force in developing the market and achieving that growth.

Serco Group plc 1999

signed our 12th Private Finance Initiative contract. A worldwide survey confirmed **general customer satisfaction** with our approach

International agencies

In Belgium we won our first two contracts from Eurocontrol, the European organisation for air navigation safety, and a support contract for the European Commission's Data Centre.

Our relationship with the European Meteorological Satellite Agency (EUMETSAT) continued to develop during the year: we won a new contract for data archive and retrieval services and, in partnership with Alcatel, a substantial increase in our existing contract for the provision of spacecraft operations analysts and operators for existing and future missions.

Transport

In a good year for new rail business we won our first contract for infrastructure maintenance, a market with great potential. This Railtrack contract involved the transfer to Serco of some 700 staff from the existing contractor. It followed another contract worth over £48 million to operate and maintain Railtrack's new fleet of multi-purpose vehicles for traction improvement, de-icing and vegetation control.

We also entered new geographical territory – winning a contract to mobilise and operate the highly automated Copenhagen Metro, opening in 2002, and our first US rail contract, to supply Amtrak with testing services.

We made good progress in traffic management systems in Asia Pacific and Europe, using increasingly sophisticated technology. HM Customs & Excise ordered our automatic number plate recognition equipment in the UK and we saw growing demand for Gatsometer speed and red light cameras in Ireland and the UK.



Spreading the esprit

Phil Edwards, now chief executive of Serco North America, has managed Serco businesses on three continents. Since he joined us from the British Army in 1988, he has been pleased to see how successfully the company's 'esprit de corps' has translated across so many different national cultures around the world.

Among several new aircraft maintenance contracts, we began a promising relationship with MAS Aerotechnologies, which is a wholly-owned subsidiary of Malaysian Airlines. MAS Aerotechnologies is building a substantial aircraft maintenance operation based in Kuala Lumpur. We are providing licensed engineers and consultants (when they are not locally available) to support their current maintenance operations and help build new maintenance businesses on aircraft types which are outside their current capabilities. We anticipate significant opportunities to build on this contract, both by increasing our contribution to MAS Aerotechnologies and by providing similar services to other customers. In the UK we enlarged our contracts with Inflight Engineering Services at Stansted Airport and Marshall Aerospace.

On the European mainland we began a new relationship with the Belgian airport authorities with a contract to support technical operations at Zaventem, the country's national airport. Our International Fire Training Centre at Teesside, UK, won a contract from the Hellenic Civil Aviation Authority.

Commerce and industry

We saw an increase in opportunities for facilities management which should continue through 2000, winning contracts from blue-chip customers such as Boots The Chemists, Ericsson, IBM and Microsoft.

Our online services operation benefited from the continuing growth of call centre and e-commerce business. And our consultancy operation experienced overwhelming demand for its advice on the usability of information systems and new developments in e-commerce and interactive TV. Despite taking on additional consultants it was unable to keep pace with demand and expects to continue rapid growth in 2000.

and performance and we look forward to **further strong growth** in 2000 – both in our traditional business and in exciting new areas.



Catching the buzz

When Julia Bowler joined Serco Systems in 1995, 'my manager warned me that it was a rapidly changing company – and in fact my first job changed between the time I accepted and the day I joined'. There have been many more changes since then: Julia was closely involved with a succession of companies as Serco's UK businesses grew, and she became group company secretary in 1999 at the age of 32. The pace of change is part of what she enjoys: 'The buzz of the organisation, the excitement and opportunities associated with a company that is growing rapidly'.

Managing the business

As we grow, it becomes increasingly important to check – both formally and informally – that we are still living up to our customers' and our own expectations.

In 1999 we commissioned the Serco Institute to conduct a worldwide customer survey. This confirmed general satisfaction with our approach and performance – as our contract renewal rate of over 90% continues to confirm. We are encouraged by the positive overall response, but not complacent. We are using the findings to improve our service wherever we can: for example, although our communication was considered good, some respondents wanted us to pay more attention to discussing their future requirements, particularly the skills they need.

We believe that much of our success stems from a strong culture based on clear values. To formalise the way we monitor these, we asked Arthur Andersen to evaluate the application of our values across senior management in January 2000. The review concluded that Serco is clearly differentiated by its culture, particularly in the way it values people, devolves responsibility, and shows commitment to straightforwardness in dealings with staff and customers.

We apply effective risk management to all our activities and have had a risk manager reporting directly to the group chief executive since August 1998. Risks and proposed responses are regularly reviewed at all levels and, as part of this process, we will be continuing to review and audit the effectiveness of internal controls in 2000.

Our non-executive directors play an important role in monitoring our performance from an independent perspective. We are pleased to announce the appointment of a third non-executive director, Ralph Hodge, with effect from 5 April 2000. A distinguished engineer with a keen interest in management education, Ralph was formerly chief executive of ICI Chemicals and Polymers, a non-executive director of Halifax Plc and chairman of Enron Europe Limited. He also chaired the committee that created the ISO 9000 quality standard. He is currently chairman of the Water Research Council, deputy chairman of Azurix International Limited, a director of Wessex Water Services Limited and a non-executive chairman of the Addis Group.

Outlook

With our global reach and ability to handle operations on the scale of the UK Atomic Weapons Establishment, we are a highly credible contender for very large challenges such as the UK's National Air Traffic Services PPP and the many large PFIs currently under discussion. These large opportunities are not confined to the UK: they exist in Asia Pacific and North America. Looking further ahead, we are also seeking opportunities in Japan in association with the Itochu Corporation. Meanwhile, we should not lose sight of the continuing strong growth in our traditional business, across all our regional markets. It is this underlying strength that makes us confident of delivering continued progress in 2000 and beyond.



Can do

The keys to Serco's success: 'The can-do attitude, and the willingness of the team to think outside the box and find service solutions that work for the customer,' believes Ian Downie, managing director of our Strategic Development Group. He says the highlight of his career so far was helping to win the AWE management contract: 'This ground-breaking contract gives impetus to the new smart procurement era in the UK'.



Values Statement

Serco's growth is often attributed to its strong organisational culture and values. To date the Group has relied on informal processes to check the application of its values across the organisation. In January 2000, Serco subjected itself to a review by Arthur Andersen, Human Capital, on how well its corporate values are enacted within the organisation. The review was conducted within the senior management population and consisted of:

- Structured one on one interviews with all managing directors;
- A web-based survey for managing directors and directors.

In total the views of 130 managing directors and directors were obtained, representing more than 80% of those invited to participate. This response rate is considerably greater than would be expected for such reviews and appears to confirm that Serco's values are regarded as highly important to its management.

The results of the assessment clearly emphasise that the culture at Serco is perceived by its managing directors and directors to be special and that although there may be some differences in the way in which different operating units adopt Serco's stated values, in general they are shared across the entire organisation. In Arthur Andersen's opinion, the senior management team regards the values to be important and relevant to Serco's current operating environment. The behaviours described by those surveyed would also imply that, as a group, they take pride as role models in promoting the values to staff.

The assessment highlighted a number of key themes with regard to the way in which Serco's values are translated into the organisational environment. Firstly, it is significant that participants felt that the culture at Serco was special, in the main due to the way it treats its people and the way managers are supported by the Board. Particular behaviours emphasised included devolving responsibility extensively throughout the organisation, operating an open and non-hierarchical style and practical, symbolic demonstrations that individuals are important to the organisation. The values cited as being most important to the business and the most deeply embedded were those relating to the commitment of Serco to its customers and staff, especially its determination to be straightforward and easy to deal with.

There were a number of examples where the stated value of working to the spirit rather than the letter of a contract was seen as the preferred approach to customers. Instances of innovation and being proactive in terms of helping its customers to develop their business were often given as examples of the way in which Serco adds value to its customers. Maintaining a proactive approach in this regard was viewed as a challenge. In addition, effective communications remains a priority as Serco continues to grow.

The Arthur Andersen, Human Capital survey indicates that Serco manages to maintain a small company feel and is regarded by management as an enjoyable place to work. Teamworking is also deemed to be good within individual operating units.

It is clearly the view of senior management that the stated organisational values remain important in the current operating climate, and several respondents indicated that there has been increased vigour to ensure their implementation across the business over the past two years. There is also a view that continuing emphasis will need to be placed on staff-related values in the future so as to ensure that Serco retains its competitive edge by recruiting and retaining committed employees.

It appears that there is a high correlation in terms of the personal value sets of the senior management team and the Serco values, thereby facilitating the internalisation of those values.

It is Arthur Andersen's opinion that the senior management team at Serco does in the main, live the stated Serco values consistently across the world. At the same time, Serco's management is working to improve the application of values in areas identified as more challenging.

Arthur Andersen, Human Capital

1 Surrey Street
London
WC2R 2PS

2 March 2000

annual accounts

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Directors, Secretary and Advisers

Executive Chairman	Richard White
Directors	Kevin Beeston Christopher Hyman Rhidian Jones* Gerrard Rodgers Gary Sturgess* Iestyn Williams
Secretary	Julia Bowler
Registered Office	Dolphin House Windmill Road Sunbury-on-Thames Middlesex TW16 7HT
Auditors	Deloitte & Touche Chartered Accountants Hill House 1 Little New Street London EC4A 3TR
Principal Bankers	Barclays Bank PLC 54 Lombard Street London EC3P 3AH National Westminster Bank Plc 1 Princes Street London EC2R 8PB
Merchant Bankers	Lazard Brothers & Co. Limited 21 Moorfields London EC2P 2HT
Stockbrokers	Cazenove & Co. 12 Tokenhouse Yard London EC2R 7AN
Solicitors	Allen & Overy One New Change London EC4M 9QQ
Registrar	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA

*Non-executive

Corporate Governance Report

Introduction

The Board of Serco Group plc (“the Company”) supports the principles set out in the Hampel Committee’s Principles of Good Governance and Code of Best Practice as appended to the London Stock Exchange Listing Rules (“the Combined Code”). This Report sets out how the Company applies the Combined Code in practice.

The Board and its Directors

The Board currently comprises five Executive and two Non-executive Directors: Kevin Beeston, Chief Executive; Christopher Hyman, Finance Director; Rhidian Jones, Senior Non-executive Director; Gerrard Rodgers, Executive Director; Gary Sturgess, Non-executive Director; Richard White, Executive Chairman and Iestyn Williams, Executive Director. Their profiles are set out on page 36. The members of the Board are responsible to the shareholders of the Company and meet regularly to discuss and decide on issues of strategy, performance and control. Information required by Directors on issues concerning Serco Group plc and its subsidiaries (“the Group”) is supplied by management on a timely basis. In addition, regular detailed presentations are made to the Board by senior employees on business performance and significant developments that require Board consideration. A Director wishing to seek independent professional advice may do so at the Company’s expense.

The Board and its Committees

The Board has delegated authority to a number of Committees to deal with matters in accordance with written terms of reference. The Chairmen of the Audit, Remuneration, Training and Nomination Committees are present at the Annual General Meeting of the Company to answer questions from shareholders.

Brief details relating to each of the principal Committees are outlined below:

The Audit Committee

The Audit Committee comprises both Non-executive Directors and is chaired by Rhidian Jones. The members of this Committee meet on at least two occasions each year to examine and consider matters relating to the affairs of the Group.

Such matters include the examination of the Company’s Annual Accounts, the procedures in place for the control of the Group’s business, as well as compliance with accounting standards and policies. In addition, the fees and objectivity of the Company’s auditors and other external accounting advisers are considered by the members of that Committee.

Detailed presentations to the Committee are made, on request, by the Company’s internal and external auditors. The presence of senior members of the management team within the Group, as well as that of the Finance Director, may also be requested by the members of the Committee.

The conclusions of the Audit Committee meetings are reported to the Board by the Chairman of that Committee.

The Remuneration Committee

The Remuneration Committee comprises both Non-executive Directors and is chaired by Gary Sturgess. The members of this Committee meet on at least two occasions each year to examine and consider matters relating to the remuneration of Executive Directors as well as the terms and conditions of their service. The recommendations of this Committee, as adopted by the Board, are set out in the Remuneration Report on pages 39 to 43.

The conclusions of the Remuneration Committee meetings are reported to the Board by the Chairman of that Committee.

The Training Committee

The Training Committee comprises Iestyn Williams, Christopher Hyman, Rhidian Jones and Gary Sturgess. The Committee is chaired by Iestyn Williams and the members of this Committee meet on at least two occasions each year to examine and consider the training needs of the Directors and senior executives.

The conclusions of the Training Committee meetings are reported to the Board by the Chairman of that Committee.

Corporate Governance Report

The Nomination Committee

The Nomination Committee comprises the Executive Chairman of the Company, as well as both Non-executive Directors. The Committee is chaired by Richard White and the members of the Committee meet on an ad-hoc basis to examine and consider proposed appointments to the Board.

Where required, the members of the Committee consult with other members of the Board before submitting their final recommendation for approval by the whole Board.

The conclusions of the Nomination Committee meetings are reported to the Board by the Chairman of that Committee.

The Company and its shareholders

The Board encourages dialogue with its shareholders and holds both formal and informal discussions with institutional investors. Formal presentations are made to institutional investors and brokers' analysts after the release of the interim and final results.

The principal methods of communication employed by the Company with private investors are the Interim Statement, the Annual Review and Accounts and the Annual General Meeting. On each occasion a detailed review of the Company's performance and achievements is communicated to shareholders. Additional information about the Company's history, markets, services and significant announcements is on the Company's web site on the internet.

Internal Control

The Board is mindful of its responsibility to maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets as detailed in the Combined Code, Principle D.2. It is acknowledged that any system of internal control has inherent limitations and that even the most effective system can only provide reasonable, as opposed to absolute, assurance against misstatement or loss.

During the year the Board appointed a senior executive with Group responsibility to oversee and review the internal control and risk policies, procedures and management framework within the Group. Each business unit has an audit committee which meets at least twice a year and focuses on risk and internal controls. The senior executive reports to the Board on the findings of these meetings.

The Board has also identified a number of key support activities that are subject to regular reporting. These include management of treasury and pension, risk and insurance, health and safety and quality assurance.

Other significant financial, operational and compliance procedures used by the Group are described below:

Executive Directors agree marketing, sales and financial targets with business units on an annual basis. Progress against these targets is reviewed at formal quarterly meetings attended by the business unit management and senior Serco Group management who act in the capacity of Non-executive Directors for that unit. This process is replicated at key individual contracts.

Executive Directors agree annual budgets with each of the business units. Performance against these budgets is reviewed regularly as part of the management process.

The Group has a clearly defined framework for reviewing and approving capital projects and expenditure. Appropriate authorisation levels are in place.

Business unit management teams or, where applicable senior executives, review bid documents, tenders and pricing prior to their submission to customers. There are formal sign off procedures to ensure that the appropriate authority levels are observed. Contract documents are also reviewed at an appropriate level to ensure that the terms and conditions therein are acceptable to the Group.

External audit firms are appointed by the Company to perform an internal audit function on behalf of the Group, reporting on selected aspects of the internal controls, such as those identified above. Grant Thornton and Pannell Kerr Forster were appointed to undertake this function during 1999. The senior executive who reports to the Board has implemented an appropriate programme for internal audit that addresses the recommendations of the Turnbull Report.

The Board has performed its annual review of internal controls which has not revealed any significant matters that indicate a lack of effectiveness.

The transitional approach for the internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange to listed companies dated 27 September 1999 has been adopted for this Annual Review and Accounts. The Board is of the opinion that the Group has established the necessary procedures for the implementation of 'Internal Control: Guidance for Directors on the Combined Code' for the year 2000.

Corporate Governance Report

Risk Management

As detailed in the Business Review on pages 24 to 27, effective risk management is undertaken throughout the Group. A risk manager reports to the Chief Executive and each business unit team reviews risk as part of the internal control process. Managers throughout the Group have risk management manuals and are encouraged to attend training courses on the subject. Following the recommendations of the Turnbull Report, the internal audit function is reviewing the Group's risk management procedures and the Chief Executive will be formally reporting to the Board on a quarterly basis.

Going Concern

Following a review of the Group's financial results and forecasts, as well as holding discussions with relevant individuals, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently, the going concern basis continues to be adopted in preparing the Annual Accounts.

Compliance during 1999

With the exception of matters set out in the following paragraphs, the Company has fully complied with the provisions stated in Section 1 of the Combined Code.

Retirement and Re-election

Prior to April 1999 the Company's Articles of Association did not require Executive Directors to retire by rotation. New Articles of Association were adopted by the Company, at an Extraordinary General Meeting on 1 April 1999, embodying Principle A.6 that Directors submit themselves for re-election by the shareholders every three years. Kevin Beeston, Gary Sturgess and Richard White voluntarily retired and submitted themselves for re-election at the 1999 Annual General Meeting. Rhidian Jones and Iestyn Williams, who have not retired by rotation since their appointment to the Board, are submitting themselves for re-election at the forthcoming Annual General Meeting. Christopher Hyman who was appointed following the 1999 Annual General Meeting, will also be retiring and submitting himself for re-election in accordance with the Company's Articles of Association.

Composition of Nomination Committee

Since 1 April 1999, the composition of the Nomination Committee has been in accordance with Provision A.5.1 of the Combined Code, which requires the majority of the members of that Committee to be Non-executive Directors. Prior to his retirement from the Company on 1 April 1999, Dr George Gray CBE had been Chairman of the Committee and the membership comprised two Executive and two Non-executive Directors.

Number of Non-executive Directors

Provision A.3.1 of the Combined Code recommends that at least one third of the Board be Non-executive Directors. Similarly, under Provision D.3.1 of the Combined Code it is recommended that the Audit Committee should have at least three Non-executive Directors. The Directors of the Company resolved to appoint a third Non-executive Director and following a formal selection process are now pleased to announce the appointment of Ralph Hodge with effect from 5 April 2000.

Contractual Notice Periods

The Remuneration Committee and the Board continue to believe that the nature of the business and the competitive environment in which the Company operates warrants the retention of a two year contractual notice period in Executive Directors' contracts of service. This departs from the recommendation set out in Provision B.1.7 of the Combined Code to reduce contractual notice periods to one year or less.

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



Julia Bowler
Secretary

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

2 March 2000

Directors' Report

Annual Review and Accounts

The Directors of the Company submit the Annual Review and Accounts of the Company for the year ended 31 December 1999.

Principal Activities and Business Review

The Company is a holding company, which operates via its subsidiaries to provide facilities management, systems engineering services and equity investment management.

The review of the business for the year ended 31 December 1999 can be found in the Business Review on pages 24 to 27.

Dividends and Transfers to Reserves

An interim dividend of 2.65p (1998 – 2.3p) per Ordinary Share was paid on 15 October 1999. A final dividend of 5.9p (1998 – 5.1p) per Ordinary Share is being recommended by the Directors for payment in April 2000 as set out in Note 8 of the Annual Accounts on page 58. After dividends, retained profits of £14,201,000 will be transferred to reserves.

Share Capital

The increase in the issued Ordinary Share Capital during the period is explained in Note 21 to the Annual Accounts set out on pages 72 and 73. The Directors are proposing a capitalisation issue, the details of which are set out in the Notice of Extraordinary General Meeting which accompanies this document.

Substantial Shareholdings

As at the close of business on 15 February 2000 (being the latest practical date prior to the printing of the Directors' Report), the Company had received notifications of the following substantial interests:

Putnam Investments	7.16%
Legal & General Investment Management	3.97%
Standard Life Assurance Company	3.91%
Salomon Smith Barney Inc.	3.78%

Directors

The names of the Directors of the Company are shown on page 30. Their profiles are given on page 36.

Details of the Directors' interests in the Share Capital of the Company are listed below. The Executive Directors' service contracts and the Non-executive Directors' letters of appointment are reported on in the Remuneration Report on page 43.

At the conclusion of the Annual General Meeting on 1 April 1999, Dr George Gray CBE retired as Executive Chairman of the Company. Richard White, who was the Group's Chief Executive, became Executive Chairman. Kevin Beeston, who had served as the Group's Finance Director became Chief Executive and Christopher Hyman was welcomed to the Board of Directors as Group Finance Director, having previously served as Group Company Secretary. Everton Bryan left the Company on the same date.

Other than the Executive Directors' service contracts and the Non-executive Directors' letters of appointment, there were no contracts in which Directors had an interest.

Directors' Shareholdings

The Directors' interests in the shares of the Company (including the percentages held of the issued Share Capital of the Company) were as follows:

	Ordinary Shares of 2p each fully paid			
	1 January 1999		31 December 1999	
	Shares	%	Shares	%
K S Beeston	10,130	0.02%	7,830	0.01%
E Bryan*	–	–	–	–
G G Gray*	424,908	0.66%	–	–
C R Hyman	200	–	200	–
R H B Jones	7,750	0.01%	7,750	0.01%
G Rodgers	12,500	0.02%	12,500	0.02%
G L Sturgess	–	–	–	–
R D White	369,502	0.57%	369,502	0.57%
I M Williams	476,945	0.74%	416,945	0.64%

* Following G G Gray's retirement, and E Bryan's leaving, their shareholdings at 31 December 1999 no longer require disclosure.

Directors' Report

Annual General Meeting

The Thirteenth Annual General Meeting of the Company will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on Wednesday 5 April 2000 at 10:00 am. The Notice of the Annual General Meeting, together with relevant notes, is set out on pages 85 and 86. The proxy card accompanies this Report.

Extraordinary General Meeting

An Extraordinary General Meeting will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on Wednesday 5 April 2000 immediately following the conclusion of the Annual General Meeting. The Notice of the Extraordinary General Meeting, together with relevant notes and a proxy card accompany this Report.

Employment Policies

The Board is committed to maintaining a working environment, where staff are individually valued and recognised.

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

The Board understands its responsibility to encourage and assist in the employment, training, promotion and personal career development of disabled people. The Group gives proper consideration to applications for employment received from the disabled and offers employment when suitable opportunities arise. If employees become disabled during their services with the Group, wherever practicable, arrangements are made to continue their employment and training.

Health, Safety and Environmental Policies

The Company recognises and accepts its responsibilities for health, safety and the environment. The Group has a health, safety and environment senior executive, who reports to the Board, and is responsible for the development and monitoring of policies, procedures and control systems.

Advice and support on health, safety and environmental issues is provided within the Group by a dedicated team who operate closely with the local business unit teams and with site representatives. Training is encouraged and regular courses are held in order to maintain a high level of safety and environmental awareness.

The Group health, safety and environment team conducts audits of systems to ensure compliance with legislation and Group standards. In addition, external advisers conduct audits from time to time.

Creditor Payment Policies

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

The Group's average creditor payment terms in 1999 were 30 days (1998 - 36 days) (Company - 28 days (1998 - 30 days)).

Year 2000

Following the Year 2000 review which was undertaken throughout the Group, the Directors continue to be alert to the potential risks and uncertainties surrounding the millennium date change on computer programmes. As at 15 February 2000 (being the latest practical date prior to the printing of the Directors' Report), the Directors were not aware of any significant factors that have arisen, or may arise, which will affect the activities of the Group. The Board will continue to receive regular reports on any risks relating to the Year 2000 issue. Although any future costs associated with the Year 2000 issue cannot be quantified, they are not expected to be significant.

Charitable and Political Donations

During 1999, the Group made contributions of £43,000 (1998 - £52,000) to charities in the United Kingdom. There were no political contributions made by the Group.

Directors' Report

Director profiles

Kevin Stanley Beeston FCMA (37)

Chief Executive

Kevin joined Serco in 1985 as a financial analyst and has since held a number of financial and commercial roles. When the Group acquired International Aeradio Limited in 1992 he became its Finance Director and later its Managing Director. He became Chairman and Chief Executive of Serco International Limited in 1994 and in 1996 he was appointed Finance Director of the Group. He was appointed Chief Executive in April 1999.

Christopher Rajendran Hyman CA(SA) (36)

Finance Director

Christopher joined Serco in 1994, as Finance Director for Serco Europe, the division specialising in providing services to European government agencies. He was appointed Group Company Secretary with additional responsibility for corporate finance in 1996. He was appointed Finance Director of the Group in April 1999.

Rhidian Huw Brynmor Jones MA FCIS FIMgt (56)

Non-executive Director

Rhidian is a partner at solicitors Nabarro Nathanson, where he is Head of the Corporate Department. He also has first-hand experience of commerce and industry, having worked in management for 10 years. He was a Serco Non-executive Director from 1987 to 1994 and was reappointed in 1996. He is also a Non-executive Director of the Britannia Building Society.

Gerrard Rodgers (51)

Executive Director

Gerry is responsible for IT and innovation. He joined the business in 1970, when it was part of RCA, and worked in a number of engineering, project management and contract management roles before becoming Chairman and Chief Executive of Serco Services in 1993. In 1995 he became Managing Director of Serco Systems and joined the Board in 1997.

Gary Leon Sturgess LLB (46)

Non-executive Director

Gary was Cabinet Secretary and Director General of the Cabinet Office in the New South Wales State Government from 1988 to 1992. He is now the Principal of Sturgess Australia, a business specialising in strategic policy advice to government and the private sector. He has been a Serco Non-executive Director since 1994. He is also a Non-executive Director for Serco Asia Pacific Pty Limited, a principal subsidiary of the Company.

Richard David White BSc (Hons) (50)

Executive Chairman

Richard joined the business in 1970, when it was part of RCA. He worked in both operations and marketing roles, becoming Director of Government Services in 1984. After the management buyout from RCA in 1987 he became the new company's Managing Director and subsequently Chief Executive, taking particular responsibility for developing Serco's marketing philosophy and operational strategy. He was appointed Executive Chairman following the retirement of Dr George Gray CBE.

Iestyn Milton Williams BA (48)

Executive Director

Iestyn is responsible for leading the Group's expansion in Europe. He joined RCA in 1978 and became Director of Personnel six years later. After the management buyout in 1987 he became Personnel Director of Serco. Since then he has been involved in acquiring businesses in Asia Pacific and later spent two years as Chairman of Serco North America before returning to the UK in 1998 to take up his present position.

Directors' Report

Auditors

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

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



Julia Bowler
Secretary

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

2 March 2000

Directors' Responsibilities

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

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

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

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



Julia Bowler
Secretary

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

2 March 2000

Remuneration Report

Introduction

This Report details the remuneration policy and remuneration of the Directors of the Company for the year ended 31 December 1999, as determined by the Remuneration Committee ("the Committee") and adopted by the Board.

In preparing this Report, consideration has been given to the provisions set out in Schedule B of the Combined Code.

Composition

The Committee comprises Gary Sturgess and Rhidian Jones, the Company's Non-executive Directors. The Committee is chaired by Gary Sturgess.

Remuneration Policy

The remuneration policy is set to attract, retain and motivate senior executives within the Group. When determining policy, consideration is given to the international nature of the business, the culture fostered within the Group, the continuing growth of the Group and the need to provide competitive and market-related terms and conditions in light of these changing circumstances.

Executive Directors' remuneration comprises short-term rewards such as salary and benefits and long-term elements such as pensions, life assurance and share-based incentives. It is not the Company policy to pay annual cash bonuses except in exceptional circumstances. The share-based incentives are linked to performance criteria and effectively align the interests of Directors with those of the Company's shareholders.

Business and Accountability

The members of the Committee meet on at least two occasions each year to examine and consider matters relating to the remuneration of Executive Directors as well as the terms and conditions of their service with the Company.

The business of the Committee and the remuneration policy for Executive Directors is determined in accordance with written terms of reference, as well as taking into consideration best practice in remuneration policies.

In developing the Company's remuneration policy, or when setting an individual Director's pay, the Committee consults with the Executive Chairman in respect of other Director's remuneration and with the Chief Executive in respect of the Executive Chairman's remuneration. In addition, the Committee retains firms of external specialists to advise on market trends and competitive packages.

The conclusions of the Committee meetings are reported to the Board by the Chairman of the Committee. The Chairman of the Committee also attends the Company's Annual General Meeting and is available to take questions from shareholders in respect of the matters outlined in this Report.

Executive Directors' Remuneration

The details of Directors' short and long term rewards are set out on pages 40 to 43.

Remuneration Report

1. Salaries and Benefits

The base salaries and benefits of each Director are as follows:

	Basic Salary £	Fees £	Other £	Benefits £	Total Remuneration excluding pensions 1999 £	Total Remuneration excluding pensions 1998 £
K S Beeston	234,500	–	–	1,349	235,849	216,729
E Bryan	48,446	–	175,888	182	224,516	251,973
G G Gray	31,897	–	–	287	32,184	142,805
C R Hyman	134,000	–	–	842	134,842	–
R H B Jones	–	25,000	–	–	25,000	36,000
G Rodgers	206,000	–	–	1,121	207,121	186,447
G L Sturgess	–	35,101	–	–	35,101	43,353
R D White	310,462	–	–	2,016	312,478	299,819
I M Williams	211,725	–	–	2,552	214,277	209,218
Total	1,177,030	60,101	175,888	8,349	1,421,368	1,386,344

Notes:

On 1 April 1999: G G Gray retired from the Board; C R Hyman was appointed to the Board; E Bryan left the Company, and on cessation of his employment he received a one-off payment of £175,888 which included a £25,000 pension contribution.

2. Share-based Incentives

Long-term share-based incentives are awarded to Directors under the Serco Group plc 1996 Long-Term Incentive Scheme (“the LTIS”) and the Serco Group plc 1998 Executive Option Plan (“the EOP”).

Awards made under the LTIS, which are structured as options with a zero exercise price, may be exercised after the third anniversary of grant. The extent to which an award vests (and thus becomes exercisable) is measured by reference to growth in the Company’s earnings per share (“EPS”) before FRS 10 over the performance period. If the growth in EPS before FRS 10 is less than 35%, no part of the award vests. If the growth in EPS before FRS 10 is more than 50%, all of the award vests. Where growth is between 35% and 50%, a proportion of the award vests.

No awards were made under the LTIS in 1999. However the Remuneration Committee has reviewed the LTIS and has made proposals which, if approved by shareholders at the Extraordinary General Meeting on 5 April 2000, would apply to future awards under the LTIS.

Options granted under the EOP may be exercised after the third anniversary of grant, dependent upon the achievement of a financial performance target. If the growth in EPS before FRS 10 is less than 10% p.a. over the performance period, none of the options may be exercised. If the growth in EPS before FRS 10 is more than 15% p.a., all of the options may be exercised. Where growth is between 10% p.a. and 15% p.a., a proportion of the options may be exercised.

Remuneration Report

i) Serco Group plc 1996 Long Term Incentive Scheme

The total share options granted under the Serco Group plc 1996 Long Term Incentive Scheme to Directors are as follows:

		Number of options at 1 January 1999	Exercised during the period	Lapsed during the period	Balance at 31 December 1999	Exercise price	Market price on exercise date £	Value realised on exercise £	End of performance period	Date of expiry of option
K S Beeston	3 Yr Award	19,701	19,701	-	-	Nil	14.70	289,605	01-01-99	01-01-03
	Add' Award	9,851	7,299	-	2,552	Nil	14.70	107,295	01-01-99	01-01-03
	3 Yr Award	12,240	-	-	12,240	Nil	-	-	01-01-00	01-01-04
	Add' Award	6,120	-	-	6,120	Nil	-	-	01-01-99	01-01-04
E Bryan	3 Yr Award	19,701	19,701	-	-	Nil	14.70	289,605	01-01-99	01-01-03
	Add' Award	9,851	9,851	-	-	Nil	14.70	144,810	01-01-99	01-01-03
	3 Yr Award	12,240	-	12,240	-	Nil	-	-	01-01-00	01-01-04
	Add' Award	6,120	6,120	-	-	Nil	14.70	89,964	01-01-99	01-01-04
G G Gray*	Add' Award	14,096	-	-	-	Nil	-	-	01-01-99	01-01-03
C R Hyman	3 Yr Award	3,000	-	-	3,000	Nil	-	-	01-01-00	01-01-04
R H B Jones		-	-	-	-	-	-	-	-	-
G Rodgers	3 Yr Award	19,701	15,833	-	3,868	Nil	14.70	232,745	01-01-99	01-01-03
	Add' Award	9,851	-	-	9,851	Nil	-	-	01-01-99	01-01-03
	3 Yr Award	12,240	-	-	12,240	Nil	-	-	01-01-00	01-01-04
	Add' Award	6,120	-	-	6,120	Nil	-	-	01-01-99	01-01-04
G L Sturgess		-	-	-	-	-	-	-	-	-
R D White	3 Yr Award	31,114	31,114	-	-	Nil	14.27 ^{1/2}	444,152	01-01-99	01-01-03
	Add' Award	15,557	15,557	-	-	Nil	14.27 ^{1/2}	222,076	01-01-99	01-01-03
	3 Yr Award	20,772	-	-	20,772	Nil	-	-	01-01-00	01-01-04
	Add' Award	10,386	10,386	-	-	Nil	14.27 ^{1/2}	148,260	01-01-99	01-01-04
I M Williams	3 Yr Award	26,155	-	-	26,155	Nil	-	-	01-01-99	01-01-03
	Add' Award	13,077	-	-	13,077	Nil	-	-	01-01-99	01-01-03
	3 Yr Award	14,466	-	-	14,466	Nil	-	-	01-01-00	01-01-04
	Add' Award	7,233	-	-	7,233	Nil	-	-	01-01-99	01-01-04

The scheme is an unapproved scheme for Inland Revenue purposes.

*Following G G Gray's retirement, his options at 31 December 1999 no longer require disclosure.

Remuneration Report

ii) Serco Group plc 1998 Executive Option Plan

The total share options granted under the Serco Group plc 1998 Executive Option Plan to Directors are as follows:

		Numbers of options at 1 January 1999	Granted during the period	Exercised during the period	Lapsed during the Period	Balance at 31 December 1999	Exercise price £	Date from which exercisable	Date of expiry of option
K S Beeston	Approved	2,298	-	-	-	2,298	13.05	21-05-01	20-05-08
	Unapproved	11,487	-	-	-	11,487	13.05	21-05-01	20-05-05
	Unapproved	-	12,789	-	-	12,789	14.70	01-04-02	31-03-06
E Bryan	Approved	2,298	-	-	2,298	-	13.05	21-05-01	20-05-08
	Unapproved	11,487	-	-	11,487	-	13.05	21-05-01	20-05-05
G G Gray		-	-	-	-	-	-	-	-
C R Hyman	Approved	2,298	-	-	-	2,298	13.05	21-05-01	20-05-08
	Unapproved	4,215	-	-	-	4,215	13.05	21-05-01	20-05-05
	Unapproved	-	6,802	-	-	6,802	14.70	01-04-02	31-03-06
R H B Jones		-	-	-	-	-	-	-	-
G Rodgers	Approved	2,298	-	-	-	2,298	13.05	21-05-01	20-05-08
	Unapproved	11,487	-	-	-	11,487	13.05	21-05-01	20-05-05
	Unapproved	-	12,789	-	-	12,789	14.70	01-04-02	31-03-06
G L Sturgess		-	-	-	-	-	-	-	-
R D White	Approved	2,298	-	-	-	2,298	13.05	21-05-01	20-05-08
	Unapproved	19,908	-	-	-	19,908	13.05	21-05-01	20-05-05
	Unapproved	-	20,602	-	-	20,602	14.70	01-04-02	31-03-06
I M Williams	Approved	2,298	-	-	-	2,298	13.05	21-05-01	20-05-08
	Unapproved	13,165	-	-	-	13,165	13.05	21-05-01	20-05-05
	Unapproved	-	14,346	-	-	14,346	14.70	01-04-02	31-03-06

The scheme is an approved scheme for Inland Revenue purposes, but has an unapproved schedule.
No options have been exercised by Directors since the end of the financial year.

iii) Serco Group plc Senior Staff Share Option Scheme

The total share options that remain under the Serco Group plc Senior Staff Share Option Scheme to Directors are as follows:

	Numbers of options at 1 January 1999	Exercised and sold during the period	Lapsed during the period	Balance at 31 December 1999	Exercise Price £	Market price on date of exercise £	Value realised on exercise £	Date from which exercisable	Date of expiry of option
K S Beeston	-	-	-	-	-	-	-	-	-
E Bryan	10,000	10,000	-	-	3.69	14.70	110,100	16-10-98	15-10-05
G G Gray	-	-	-	-	-	-	-	-	-
C R Hyman	-	-	-	-	-	-	-	-	-
R H B Jones	-	-	-	-	-	-	-	-	-
G Rodgers	-	-	-	-	-	-	-	-	-
G L Sturgess	-	-	-	-	-	-	-	-	-
R D White	-	-	-	-	-	-	-	-	-
I M Williams	-	-	-	-	-	-	-	-	-

No options have been exercised by Directors since the end of the financial year.
The scheme was an approved Scheme for Inland Revenue purposes, and had an unapproved schedule.

Remuneration Report

3. Pension and Life Assurance

The Executive Directors receive pension and life assurance benefits consistent with those provided by other leading companies. The details of the defined benefit schemes operated by the Group are set out in Note 34. In the event of death in service, each scheme provides for a lump sum payment as well as a dependents' pension.

The accrued pension benefits of Executive Directors are as follows:

	Increase in pension during the year	Transfer value of increase	Total accrued pension at year end
	£	£	£ p.a.
K S Beeston	11,090	67,762	54,931
E Bryan	–	–	17,288
C R Hyman	3,395	18,128	5,278
G Rodgers	19,041	241,779	89,580
R D White	12,925	149,462	136,055
I M Williams	1,666	9,491	99,416

Notes to pension benefits:

- i) E Bryan received and C R Hyman receives an additional benefit from a supplementary arrangement whereby the Company contributes 15% of that remuneration in excess of the Permitted Maximum under the Inland Revenue approved pension scheme into a Funded Unapproved Retirement Benefit Scheme.
- ii) The total accrued pension shown is that which would be paid annually on retirement, based on service to the end of this year. The increase in accrued pension during the year excludes any increase for inflation.
- iii) The transfer value of the increase in accrued pension has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less Directors' contributions.
- iv) Members have the option to pay Additional Voluntary Contributions: neither the contributions nor the resulting benefits are included in the above table.
- v) Transfer values disclosed do not represent the sum paid or payable to the individual Director. Instead, they represent a potential liability of the pension scheme.

Service Contracts and Compensation

Each Executive Director has a service contract with the Company, and these service contracts will be available for inspection prior to and after the Company's Annual General Meeting.

The Company can terminate such service contracts by giving two years' notice to an Executive Director. It is the opinion of the Remuneration Committee and the Board, given the competitive environment in which the Company operates, that such notice periods are necessary to retain, recruit and motivate Executive Directors.

Compensation for early termination of a service contract is not addressed in the contracts. The Remuneration Committee considers and determines the level of compensation on a case by case basis, taking into account the circumstances surrounding termination and the individual's responsibility to mitigate loss.

Non-executive Directors' Appointment and Fees

The Non-executive Directors of the Company are appointed for a three-year term, and that appointment may be terminated on three months' written notice. Renewal of appointments are not automatic, and Non-executive Directors are required to retire and stand for re-election in accordance with the Company's Articles of Association.

The Non-executive Directors of the Company have no personal financial interests in the matters determined by the Committee, no potential conflicts of interest arising from cross-directorships and no involvement in the day-to-day running of the Group.

The fees and terms of engagement of Non-executive Directors are determined and set by the Board.

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



Julia Bowler
Secretary

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

2 March 2000

Auditors' Report

Auditors' Report to the members of Serco Group plc

We have audited the financial statements on pages 45 to 84, which have been prepared under the accounting policies set out on pages 50 and 51.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Accounts, as described on page 38 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

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

We review whether the Corporate Governance statement on page 33 reflects the compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all the risks and controls or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Accounts, including the Corporate Governance Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors

Hill House
1 Little New Street
London
EC4A 3TR

2 March 2000

Consolidated Profit and Loss Account

For the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Turnover: Group and share of joint ventures - continuing operations	2	807,544	687,760
Less: share of joint ventures	2	(138,982)	(113,471)
Group turnover	2	668,562	574,289
Cost of sales		(580,586)	(499,052)
Gross profit		87,976	75,237
Administrative expenses		(63,824)	(51,865)
Amortisation of goodwill		(2,092)	(823)
Other administrative expenses		(61,732)	(51,042)
Operating profit - continuing operations		24,152	23,372
Share of operating profit in joint ventures		11,121	6,315
Gross operating profit		35,273	29,687
Net exceptional items		-	162
Interest receivable	4	1,596	2,840
Group		1,517	2,764
Share of joint ventures		79	76
Interest payable and similar charges	5	(7,537)	(7,070)
Group		(4,160)	(4,852)
Share of joint ventures		(3,377)	(2,218)
Profit on ordinary activities before taxation	6	29,332	25,619
Taxation on profit on ordinary activities	7	(9,538)	(8,199)
Profit on ordinary activities after taxation		19,794	17,420
Dividends	8	(5,593)	(4,888)
Retained profit for the financial year	24	14,201	12,532
Earnings per Ordinary Share of 2p each:	9		
Basic earnings per share, after amortisation of goodwill		30.6p	27.4p
Basic earnings per share, before amortisation of goodwill		33.8p	28.7p
Diluted earnings per share, after amortisation of goodwill		30.4p	27.0p
Diluted earnings per share, before amortisation of goodwill		33.6p	28.3p

Consolidated Balance Sheet

At 31 December 1999

	Note	1999 £'000	1998 £'000
Fixed assets			
Intangible asset	10	66,854	23,332
Tangible assets	11	36,508	23,962
Investments in joint ventures	12	18,022	10,617
Share of gross assets		213,872	128,524
Share of gross liabilities		(195,850)	(117,907)
		121,384	57,911
Current assets			
Stocks	13	26,830	9,127
Debtors: Amounts due within one year	14	132,412	119,757
Debtors: Amounts due after more than one year	14	29,488	37,608
Cash at bank and in hand	17	58,779	53,474
		247,509	219,966
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	16	23,592	9,483
Trade creditors		48,178	48,768
Other creditors including taxation and social security	15	53,533	33,334
Accruals and deferred income		74,970	58,137
Proposed dividend	8	3,854	3,279
		204,127	153,001
Net current assets		43,382	66,965
Total assets less current liabilities		164,766	124,876
Creditors: Amounts falling due after more than one year	16	47,232	48,957
Provisions for liabilities and charges	18	25,906	3,726
		91,628	72,193
Capital and reserves			
Called up share capital	21	1,307	1,285
Share premium account	22	69,517	57,195
Capital redemption reserve		143	143
Other reserve: shares to be issued	23	–	3,078
Profit and loss account	24	20,661	10,492
Equity shareholders' funds	20	91,628	72,193

These Accounts and Notes were approved by the Board of Directors on 2 March 2000 and signed on behalf of the Board:

Richard White *Executive Chairman*

Christopher Hyman *Finance Director*

Company Balance Sheet

At 31 December 1999

	Note	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	11	896	479
Investments	12	27,664	27,664
		28,560	28,143
Current assets			
Amounts owed by subsidiary companies due within one year		4,196	17,518
Amounts owed by subsidiary companies due after more than one year		93,529	45,160
Debtors	14	5,038	6,588
Cash at bank and in hand		36,515	43,219
		139,278	112,485
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	16	11,838	–
Trade creditors		727	418
Other creditors including taxation and social security	15	2,332	4,152
Accruals and deferred income		7,636	7,259
Proposed dividend	8	3,854	3,279
		26,387	15,108
Net current assets		112,891	97,377
Total assets less current liabilities		141,451	125,520
Creditors: Amounts falling due after more than one year	16	41,420	41,430
		100,031	84,090
Capital and reserves			
Called up share capital	21	1,307	1,285
Share premium account	22	69,517	57,195
Capital redemption reserve		143	143
Other reserve: shares to be issued	23	–	3,078
Profit and loss account	24	29,064	22,389
Equity shareholders' funds		100,031	84,090

These Accounts and Notes were approved by the Board of Directors on 2 March 2000 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 1999

	Note	1999 £'000	1998 £'000
Net cash inflow from operating activities	25	36,818	30,032
Dividends received from joint ventures		2,156	1,023
Returns on investment and servicing of finance			
Interest received		678	2,764
Interest paid		(4,160)	(4,852)
Net cash outflow from returns on investments and servicing of finance		(3,482)	(2,088)
Taxation			
UK corporation tax paid		(5,467)	(3,258)
Overseas tax paid		(1,812)	(1,146)
Tax paid		(7,279)	(4,404)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(10,637)	(8,379)
Sale of tangible fixed assets		395	7,902
Net long term loans with joint ventures		6,864	(7,786)
Net short term cashflows with joint ventures		(1,249)	3,374
Reorganisation costs		–	(4,440)
Net cash outflow from capital expenditure and financial investment		(4,627)	(9,329)
Acquisitions and disposals			
Purchase of subsidiary undertakings	29	(26,578)	(20,138)
Net cash acquired with subsidiary undertakings	30	2,504	1,853
Subscription for shares in joint ventures	12	(2,214)	(922)
Proceeds from disposal of PFI investment		–	3,350
Net cash outflow from acquisitions and disposals		(26,288)	(15,857)
Equity dividends paid			
Dividends paid		(5,018)	(4,302)
Net cash outflow from equity dividends paid		(5,018)	(4,302)
Net cash outflow before financing		(7,720)	(4,925)
Financing			
Issue of Ordinary Share Capital		2,348	33,279
Debt due within one year:			
(Decrease)/increase in other loans		(207)	19
Debt due beyond one year:			
(Decrease)/increase in other loans		(838)	113
Capital element of finance lease repayments		(2,387)	(2,104)
Net cash (outflow)/inflow from financing		(1,084)	31,307
(Decrease)/increase in cash		(8,804)	26,382
Balance at 1 January		43,991	17,609
Balance at 31 December		35,187	43,991

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 December 1999

	1999 £'000	1998 £'000
Profit on ordinary activities after taxation	19,794	17,420
Currency translation differences on foreign currency net investments	1,586	(298)
Exercise of Share Scheme options	(5,618)	-
Total recognised gains and losses relating to the year	15,762	17,122

Notes to the Accounts

For the year ended 31 December 1999

1. Accounting policies

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

Accounting convention

These Accounts have been prepared under the historical cost convention.

Basis of consolidation

The Group Accounts consolidate the Accounts of the Company, its subsidiaries and joint ventures made up to 31 December of each year, for the periods they are owned by Serco Group plc.

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.

Deferred taxation

Deferred taxation is provided in full on timing differences relating to pension and other post retirement benefits calculated at the rates at which it is expected that tax will arise.

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

Notes to the Accounts

For the year ended 31 December 1999

Fixed asset investments: Subsidiaries

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

Fixed asset investments: Joint ventures

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

The 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 investments in the joint ventures are shown as the Group's share of the net assets of the joint ventures. The share of net assets is split between gross assets and liabilities.

Goodwill

Goodwill arising on acquisitions is capitalised in the 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.

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 Accounts of overseas subsidiary companies and associated undertakings are translated into Sterling at the closing rates of exchange at the Balance Sheet date and the difference arising from the translation of the opening net investment and matched long term foreign currency borrowings is taken directly to reserves. The Profit and Loss Account is translated using average exchange rates.

Pension costs: 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 service lives of employees in the schemes, in such a way that the cost is a substantially level percentage of payroll cost, which experience surpluses and deficits being amortised on a straight line basis.

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

Turnover

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

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.

Notes to the Accounts

For the year ended 31 December 1999

2. Segmental Report

Classes of Business	Facilities Management £'000	Systems Engineering £'000	Investments £'000	Total £'000
1999				
Turnover				
Total sales: Group and share of joint ventures	713,645	76,323	17,576	807,544
Less: share of joint ventures	(123,098)	(567)	(15,317)	(138,982)
Group turnover: sales to third parties	590,547	75,756	2,259	668,562
Profit before taxation				
Segment profit before common costs, goodwill, joint ventures, interest and taxation	36,262	5,095	222	41,579
Common costs				(15,335)
Amortisation of goodwill				(2,092)
Operating profit				24,152
Share of operating profit of joint ventures	5,275	129	5,717	11,121
Gross operating profit				35,273
Net interest: Group				(2,643)
Share of joint ventures	(88)	33	(3,243)	(3,298)
Group profit before taxation				29,332
Net assets				
Segment net assets before unallocated assets	64,975	6,642	3,365	74,982
Unallocated assets				16,646
Total net assets				91,628

Notes to the Accounts

For the year ended 31 December 1999

Classes of Business	Facilities Management £'000	Systems Engineering £'000	Investments £'000	Total £'000
1998 restated				
Turnover				
Total sales: Group and share of joint ventures	613,471	68,705	5,584	687,760
Less: share of joint ventures	(109,723)	-	(3,748)	(113,471)
Group turnover: sales to third parties	503,748	68,705	1,836	574,289
Profit before taxation				
Segment profit before common costs, goodwill, joint ventures, exceptional items, interest and taxation	29,873	5,819	302	35,994
Common costs				(11,799)
Amortisation of goodwill				(823)
Operating profit				23,372
Share of operating profit of joint ventures	3,298	-	3,017	6,315
Gross operating profit				29,687
Net exceptional items				162
Net interest: Group				(2,088)
Share of joint ventures	(645)	-	(1,497)	(2,142)
Group profit before taxation				25,619
Net assets				
Segment net assets before unallocated assets	52,562	5,896	1,404	59,862
Unallocated assets				12,331
Total net assets				72,193

Notes to the Accounts

For the year ended 31 December 1999

2. Segmental Report (continued)

Geographical Segments	United Kingdom	Rest of Europe	Asia Pacific	Other	Total
1999	£'000	£'000	£'000	£'000	£'000
Turnover					
Turnover by destination:					
Total sales: Group and share of joint ventures	492,733	86,135	137,442	91,234	807,544
Less: share of joint ventures	(63,727)	(7,708)	(46,739)	(20,808)	(138,982)
Group turnover: sales to third parties	429,006	78,427	90,703	70,426	668,562
Turnover by origin:					
Total sales: Group and share of joint ventures	496,137	84,583	137,249	89,575	807,544
Less: share of joint ventures	(63,727)	(7,708)	(46,739)	(20,808)	(138,982)
Group turnover: sales to third parties	432,410	76,875	90,510	68,767	668,562
Profit before taxation					
Segment profit before common costs, goodwill, joint ventures, interest and taxation	22,461	6,073	7,544	5,501	41,579
Common costs					(15,335)
Amortisation of goodwill					(2,092)
Operating profit					24,152
Share of operating profit of joint ventures	7,641	687	1,718	1,075	11,121
Gross operating profit					35,273
Net interest: Group					(2,643)
Share of joint ventures	(3,269)	35	(64)	-	(3,298)
Group profit before taxation					29,332
Net assets					
Segment net assets before unallocated assets	42,925	4,338	19,970	7,749	74,982
Unallocated assets					16,646
Total net assets					91,628

Notes to the Accounts

For the year ended 31 December 1999

Geographical Segments	United Kingdom £'000	Rest of Europe £'000	Asia Pacific £'000	Other £'000	Total £'000
1998 restated					
Turnover					
Turnover by destination:					
Total sales: Group and share of joint ventures	442,857	45,960	126,921	72,022	687,760
Less: share of joint ventures	(53,678)	(3,301)	(36,241)	(20,251)	(113,471)
Group turnover: sales to third parties	389,179	42,659	90,680	51,771	574,289
Turnover by origin:					
Total sales: Group and share of joint ventures	448,906	42,711	125,809	70,334	687,760
Less: share of joint ventures	(53,678)	(3,301)	(36,241)	(20,251)	(113,471)
Group turnover: sales to third parties	395,228	39,410	89,568	50,083	574,289
Profit before taxation					
Segment profit before common costs, goodwill, joint ventures, exceptional items, interest and taxation					
	19,106	4,975	7,800	4,113	35,994
Common costs					
Amortisation of goodwill					(11,799)
Operating profit					(823)
Share of operating profit/(loss) of joint ventures					
	7,459	(105)	(2,104)	1,065	6,315
Gross operating profit					29,687
Net exceptional items					
					162
Net interest: Group					
Share of joint ventures	(1,969)	11	(184)	-	(2,088)
Group profit before taxation					(2,142)
Net assets					
Segment net assets before unallocated assets	36,471	3,510	14,607	5,274	59,862
Unallocated assets					
					12,331
Total net assets					72,193

Notes to the Accounts

For the year ended 31 December 1999

3. Information regarding Directors and employees

	1999 £'000	1998 £'000
a) Directors' remuneration:		
Fees as Directors	60	79
Other emoluments	1,361	1,307
Total remuneration excluding pensions	1,421	1,386

Refer to the Remuneration Report on page 40.

	1999 £'000	1998 £'000
b) Employee costs		
Employee costs including Directors:		
Wages and salaries	323,181	288,067
Social security costs	26,675	22,076
Other pension costs (Note 34)	16,228	14,875
Long Term Incentive Scheme costs	332	1,050
	366,416	326,068

	1999 Number	1998 Number
c) Number of persons employed by Serco Group plc and its subsidiaries		
Average number of persons employed in the provision of services:		
Facilities Management	18,415	16,356
Systems Engineering	929	1,149
Investments	26	12
Non-specific	113	93
	19,483	17,610

Notes to the Accounts

For the year ended 31 December 1999

4. Interest receivable

	1999 £'000	1998 £'000
Short term deposits	560	2,141
Loans to joint ventures	957	623
Total Group	1,517	2,764
Share of joint ventures' interest	79	76
	1,596	2,840

5. Interest payable and similar charges

	1999 £'000	1998 £'000
On liabilities repayable within five years:		
Group bank loans and overdrafts	1,023	1,820
Share of joint ventures' interest	70	194
	1,093	2,014
On liabilities repayable after five years:		
Group bank loans and overdrafts	3,137	3,032
Share of joint ventures' interest	3,307	2,024
	6,444	5,056
	7,537	7,070

6. Profit on ordinary activities before taxation

	1999 £'000	1998 £'000
Profit on ordinary activities before taxation is after charging:		
Rentals under operating leases:		
Land and buildings	7,666	6,436
Plant and machinery	15,251	16,317
Depreciation on tangible assets:		
Owned	7,537	6,257
Held under finance leases	2,033	1,839
Finance lease interest on operational assets	381	428
Amortisation of goodwill	2,092	823
Auditors' remuneration:		
Deloitte & Touche	371	411
Other auditors	82	24
Other fees paid to auditors	794	742

Notes to the Accounts

For the year ended 31 December 1999

7. Taxation on profit on ordinary activities

	1999 £'000	1998 £'000
The taxation charge on the results of the year is made up as follows:		
United Kingdom corporation taxation at 31% to 31 March 1999 and 30% from 1 April 1999 onwards (1998 – 31%) based on the profit for the year	6,334	2,796
Overseas taxation	2,582	1,840
Deferred taxation	(435)	1,429
Adjustment in respect of prior years:		
United Kingdom corporation taxation	(718)	(1,015)
Overseas taxation	3	91
Deferred taxation	(573)	26
Share of joint ventures' taxation charge	2,345	3,032
	<u>9,538</u>	<u>8,199</u>

The effective tax charge for the year is higher than the United Kingdom corporation tax rate principally as a result of higher rates of overseas taxation, losses accruing overseas that are not available for relief and disallowed expenditure.

The above 1998 tax charge includes £585,000 attributable to exceptional items.

8. Dividends

	1999 £'000	1998 £'000
Interim dividend of 2.65p per share on 64,868,881 Ordinary Shares (1998 – 2.3p on 64,238,968 Ordinary Shares) of 2p each fully paid – paid 15 October 1999	1,719	1,477
Proposed final dividend of 5.9p per share on 65,329,282 Ordinary Shares (1998 – 5.1p on 64,291,629 Ordinary Shares) of 2p each fully paid – proposed payment in April 2000	3,854	3,279
	<u>5,573</u>	<u>4,756</u>
1997 final dividend of 4.4p on 3,000,000 shares relating to March 1998 share placement	132	132
1998 final dividend of 5.1p on 389,764 shares relating to shares issued between 31 December 1998 and 19 March 1999 (record date)	20	–
	<u>5,593</u>	<u>4,888</u>

Notes to the Accounts

For the year ended 31 December 1999

9. Earnings per Ordinary Share

1999 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 Group Accounts.

The calculation of basic earnings per Ordinary Share after goodwill is based on profits of £19,794,000 for the year ended 31 December 1999 (1998 – £17,420,000) and the weighted average number of 64,785,309 (1998 – 63,662,797) 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 £21,886,000 (adjusted for the effect of goodwill amortisation of £2,092,000) for the year ended 31 December 1999 (1998 – £18,243,000 as adjusted for goodwill amortisation of £823,000) and the weighted average number of 64,785,309 (1998 – 63,662,797) Ordinary Shares of 2p each in issue during the year.

The calculation of diluted earnings per Ordinary Share after goodwill is based on adjusted profits of £19,794,000 for the year ended 31 December 1999 (1998 – £17,420,000) and the weighted average number of 65,158,919 (1998 – 64,474,738) 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 adjusted profits of £21,886,000 (adjusted for the effect of goodwill amortisation of £2,092,000) for the year ended 31 December 1999 (1998 – £18,243,000 as adjusted for goodwill amortisation of £823,000) and the weighted average number of 65,158,919 (1998 – 64,474,738) Ordinary Shares of 2p each assuming that the options are all exercised.

10. Intangible asset: Goodwill

	Group £'000
Cost:	
At 1 January 1999	24,155
Additions during the year	44,979
Adjustments to goodwill capitalised on acquisitions prior to 1 January 1999	635
At 31 December 1999	69,769
Accumulated amortisation:	
At 1 January 1999	823
Charge for the year	2,092
At 31 December 1999	2,915
Net book value:	
At 31 December 1999	66,854
At 31 December 1998	23,332

Notes to the Accounts

For the year ended 31 December 1999

11. Tangible assets

Group	Freehold Land & Buildings £'000	Short Leasehold Building Improvements £'000	Machinery, Motor Vehicles, Furniture & Equipment £'000	Total £'000
Cost:				
At 1 January 1999	4,201	4,062	48,690	56,953
Subsidiaries acquired	4,434	215	30,537	35,186
Reclassifications	(417)	493	(76)	-
Capital expenditure	318	1,412	10,274	12,004
Disposals	(183)	(171)	(5,386)	(5,740)
Transfers to current assets	-	-	(2,669)	(2,669)
Foreign exchange differences	(194)	5	(227)	(416)
At 31 December 1999	8,159	6,016	81,143	95,318
Accumulated depreciation:				
At 1 January 1999	458	1,510	31,023	32,991
Subsidiaries acquired	1,699	59	19,880	21,638
Reclassifications	(187)	231	(44)	-
Provided during the year	158	811	8,601	9,570
Disposals	(39)	(105)	(4,506)	(4,650)
Transfers to current assets	-	-	(117)	(117)
Foreign exchange differences	(81)	(3)	(538)	(622)
At 31 December 1999	2,008	2,503	54,299	58,810
Net book value:				
At 31 December 1999	6,151	3,513	26,844	36,508
At 31 December 1998	3,743	2,552	17,667	23,962

The cost of assets held by the Group under finance leases at 31 December 1999 was £10,722,000 (1998 - £10,503,000). The accumulated depreciation provided for those assets at 31 December 1999 was £6,217,000 (1998 - £4,788,000).

Notes to the Accounts

For the year ended 31 December 1999

Company	Short Leasehold Building Improvements £'000	Machinery, Motor Vehicles, Furniture & Equipment £'000	Total £'000
Cost:			
At 1 January 1999	189	1,293	1,482
Transfers from subsidiary undertakings	-	17	17
Reclassifications	12	(12)	-
Capital expenditure	159	555	714
Disposals	-	(78)	(78)
At 31 December 1999	360	1,775	2,135
Accumulated depreciation:			
At 1 January 1999	70	933	1,003
Transfers from subsidiary undertakings	-	7	7
Reclassifications	3	(3)	-
Provided during the year	54	191	245
Disposals	-	(16)	(16)
At 31 December 1999	127	1,112	1,239
Net book value:			
At 31 December 1999	233	663	896
At 31 December 1998	119	360	479

Notes to the Accounts

For the year ended 31 December 1999

12. Investments held as fixed assets

	Company £'000	
a) Shares in subsidiary companies at cost:		
Balance at 1 January 1999 and 31 December 1999	27,664	
b) Group investments in joint ventures:		
	Group £'000	
At 1 January 1999	10,617	
Dividends receivable	(2,735)	
Acquisitions/disposals	3,049	
Goodwill arising on acquisition	1,417	
Foreign exchange translation difference	196	
Retained profits	5,478	
At 31 December 1999	18,022	
c) A list of the principal undertakings of Serco Group plc is shown in Note 35. All the subsidiaries of the Group have been consolidated.		
d) At 31 December 1999, Group companies had branches in Abu Dhabi, Antarctica, Ascension Island, Bahrain, Chile, Dubai, French Guyana, Korea, Ras Al Khaimah, Saudi Arabia and Switzerland.		
e) All the subsidiaries of Serco Group plc and the joint venture undertakings are engaged in the provision of services with the exception of Serco Investments Limited, which manages investments.		
	1999 £'000	
	1998 £'000	
f) The aggregate of the Group's share in the assets and liabilities of joint ventures is:		
Share of fixed assets	47,034,521	47,035
Share of current assets	173,351	81,489
	213,872	128,524
Share of liabilities due within one year or less	31,357	32,892
Share of liabilities due after more than one year	164,493	85,015
	195,850	117,907
Share of net assets	18,022	10,617

Notes to the Accounts

For the year ended 31 December 1999

g) Acquisitions:

(i) Serco GmbH & Co. KG (formerly Elekluft Elektronik und Luftfahrtgeräte GmbH)

All the issued share capital of Serco GmbH & Co. KG was acquired by Serco International GmbH on 1 August 1999. Concurrently Serco GmbH & Co. KG bought certain assets and liabilities for a cash consideration of £17,735,000. This acquisition has been accounted for by the acquisition method of accounting.

Two fair value adjustments were made: the building held for re-sale (within debtors) was revalued from £5,144,000 to £6,483,000 and the pension provision was increased in accordance with UK GAAP from £17,297,000 to £23,757,000.

The goodwill arising on consolidation of £33,376,000 is being carried forward as an intangible asset and will be amortised over 20 years.

Net liabilities acquired:	£'000	Discharged by:	£'000
Tangible assets	4,598	Cash paid	17,735
Stocks	5,005	Acquisition costs	1,317
Debtors	17,399		
Cash	1,703		
Creditors	(19,272)		
Pension provision	(23,757)		
Net liabilities acquired	(14,324)		
Goodwill	33,376		
	19,052		19,052

(ii) Great Southern Railways Pty Limited ("GSR")

The remaining 50.76% of the shares in GSR were acquired on the 1 October 1999 by Serco Asia Pacific Pty Limited for a cash consideration of £4,098,000 and deferred cash consideration of £3,368,000. The acquisition of GSR has been accounted for by the acquisition method of accounting.

The fair value of assets and liabilities are considered to be the same as the book value. The goodwill arising on consolidation of £7,025,000 is being carried forward as an intangible asset and will be amortised over 20 years.

Net assets acquired:	£'000	Discharged by:	£'000
Tangible assets	8,335	Cash paid	4,098
Stocks	379	Acquisition costs	104
Debtors	4,576	Deferred cash consideration	3,368
Cash	297		
Creditors	(12,755)		
Net assets acquired	832		
Investment in GSR as a joint venture at the date of acquisition:			
Equity	3,245		
Loan notes	(3,532)		
Goodwill	7,025		
	7,570		7,570

Notes to the Accounts

For the year ended 31 December 1999

12. Investments held as fixed assets (continued)

(iii) FRA Serco Limited

The remaining 50% of the shares of FRA Serco Limited were acquired by Serco Limited on 1 June 1999, for a cash consideration of £2,175,000. Acquisition costs of £669,000 were incurred. The acquisition has been accounted for by the acquisition method of accounting.

The fair value of assets and liabilities are considered to be the same as the book value. The investment in FRA Serco Limited as a joint venture at the date of acquisition was £1,784,000. The goodwill arising on consolidation of £4,578,000 is being carried forward as an intangible asset and will be amortised over 20 years.

(iv) Serco Viatech Limited

The remaining 50% of shares of Serco Viatech Limited were acquired by Serco Group NZ Limited on 1 July 1999, for a cash consideration of £480,000. This acquisition has been accounted for by the acquisition method of accounting.

The fair value of assets and liabilities are considered to be the same as the book value. The investment in Serco Viatech as a joint venture at the date of acquisition was £605,000. There is no goodwill arising on consolidation.

(v) Subscriptions for shares in joint ventures

During the year the Group made subscriptions and further equity injections in joint ventures all of which have been accounted for by the gross equity method of accounting. The details of each transaction are as follows:

Further equity injections were made in Defence Management (Holdings) Limited by Serco Investments Limited during 1999, for a total cash amount of £51,000.

Further equity injections were made in Laser (Teddington Holding) Limited by Serco Investments Limited during 1999, for a total cash amount of £1,288,604.

Further equity injections were made in Premier Prison Services Limited by Serco Investments Limited during 1999, for a deferred cash consideration of £200,000.

50% of the Ordinary Share Capital of Moreton Prison (Holdings) Limited was subscribed for by Serco Investments Limited on 27 September 1999, for a cash consideration of £100,000.

Notes to the Accounts

For the year ended 31 December 1999

50% of the Ordinary Share Capital of Brands On Show Pty Limited was subscribed for by Serco Asia Pacific Pty Limited on 31 December 1999, for a cash consideration of £405,000 and with a deferred cash consideration of £1,012,000. The fair value of the net assets of Brands on Show Pty Limited were nil, therefore goodwill arose on this transaction of £1,417,000. The goodwill will be amortised over 20 years.

33.33% of the Ordinary Share Capital of AWE Management Limited was subscribed for by Serco Limited on 1 December 1999, for a cash consideration of £49,998.

50% of the Ordinary Share Capital of Serco-Denholm Shipping Company Limited was subscribed for by Serco Limited on 19 January 1999, for a cash consideration of £124,999.

40% of the Ordinary Share Capital of BAS-Serco Limited was subscribed for by Serco Facilities Management, Inc on 4 May 1999, for a cash consideration of £188,000.

50% of Ordinary Share Capital of Serco S.A.L was subscribed for by Serco IAL Limited on 8 April 1999, the date of incorporation, for a cash consideration of £6,000.

As part of the acquisition of Serco GmbH & Co KG on the 1 August 1999, 51% of the Ordinary Share Capital of ESDAS was acquired. The net asset value on acquisition was £183,000.

50% of the Ordinary Share Capital of Premier Custodial Group Limited was subscribed for by Serco Investments Limited on 2 December 1999, for a deferred cash consideration of £1,000 and its shareholdings in four PFI project companies (Moreton Prison (Holdings) Limited, Lowdham Grange Prison Services Limited, Medomsley Holdings Limited and Pucklechurch Custodial (Holdings) Limited).

13. Stocks

	Group	
	1999	1998
	£'000	£'000
Service spares	10,097	4,967
Long term contract balances	16,733	4,160
	26,830	9,127

Notes to the Accounts

For the year ended 31 December 1999

14. Debtors

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
a) Amounts recoverable within one year:				
Amounts recoverable on contracts	101,459	99,737	-	-
Other debtors	7,383	7,938	4,919	6,397
Prepayments and accrued income	12,096	10,774	119	191
Amounts owed by joint ventures	5,279	1,308	-	-
Building held for re-sale	6,195	-	-	-
	132,412	119,757	5,038	6,588
b) Amounts recoverable after more than one year:				
Amounts recoverable on contracts	11,437	9,600	-	-
Other debtors	3,997	3,376	-	-
Pensions prepayment (Note 34)	8,433	8,779	-	-
Amounts owed by joint ventures	5,621	15,853	-	-
	29,488	37,608	-	-
Total debtors	161,900	157,365	5,038	6,588

Included in amounts recoverable on contracts is an amount of £17,297,000 (1998 - £18,173,000) in respect of items procured on behalf of customers. This is partly offset by an amount of £11,366,000 (1998 - £17,447,000) in trade creditors and an amount of £3,483,000 (1998 - £2,857,000) in accruals.

15. Other creditors including taxation and social security

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Obligations under finance leases	1,764	1,897	-	30
Corporation tax	6,151	4,894	1,874	551
Advance corporation tax on dividends	-	214	-	214
Other taxes and social security costs	19,521	15,167	458	357
Other creditors	20,201	7,398	-	-
Amounts owed to joint ventures	5,339	3,000	-	3,000
Other loans	557	764	-	-
	53,533	33,334	2,332	4,152

Notes to the Accounts

For the year ended 31 December 1999

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

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
a) Amounts falling due after more than one year:				
Bank loans and overdrafts	65,012	50,903	53,258	41,420
Obligations under finance leases	4,290	5,310	–	40
Other loans	3,843	4,888	–	–
Total loans	73,145	61,101	53,258	41,460
Less: amounts included in creditors falling due within one year	25,913	12,144	11,838	30
Amounts falling due after more than one year	47,232	48,957	41,420	41,430
b) Analysis of loan repayments due:				
Bank loans and overdrafts:				
Within one year or on demand	23,592	9,483	11,838	–
After five years	41,420	41,420	41,420	41,420
Obligations under finance leases:				
Within one year or on demand	1,764	1,897	–	30
Between one and two years	1,507	1,449	–	10
Between two and five years	871	1,809	–	–
After five years	148	155	–	–
Other loans:				
Within one year or on demand	557	764	–	–
Between one and two years	84	664	–	–
Between two and five years	3,202	1,120	–	–
After five years	–	2,340	–	–
	73,145	61,101	53,258	41,460
c) All loans are unsecured.				
d) Finance lease obligations are secured by retention of title to the relevant vehicles and equipment.				

Notes to the Accounts

For the year ended 31 December 1999

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 and guidelines authorised and reviewed by the Board.

There has been no 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 have been excluded from the following disclosure other than the currency profile of monetary assets and liabilities.

The fundamental purpose of interest rate and foreign currency financial instruments entered into is to hedge long term and short term financial borrowings, the details of which are set out below:

Interest rate risk

The Group borrows in the required currencies at both fixed and floating rates of interest. The Group's exposure to interest rate fluctuations on its borrowing is managed by using interest rate swaps and forward rate agreements. At the year end and after taking account of interest rate swaps the proportion of the Group's fixed rate borrowings was 53% with the remaining 47% at floating rates.

Foreign currency risk

The Group has a significant investment in overseas subsidiaries. The Group's policy is not to hedge net assets of overseas subsidiaries since the net assets represent a small proportion of the market value of the Group.

Subsidiaries 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 1999 with unmatched transactional exposure.

Notes to the Accounts

For the year ended 31 December 1999

Financial assets and liabilities

(i) Assets

Other than short term debtors, the Group had the following financial assets as at 31 December 1999:

Asset	Sterling £'000	Australian Dollar £'000	US Dollar £'000	Deutsche Mark £'000	Various other currencies £'000	Total £'000	Note
Cash and short term deposits	31,419	6,267	5,298	7,153	8,642	58,779	26
Long term interest bearing loans to joint ventures	5,263	358	–	–	–	5,621	
Other long term debtors	18,636	2,639	2,256	328	8	23,867	
Total long term assets	23,899	2,997	2,256	328	8	29,488	14

The above assets except other long term debtors earn interest at relevant national LIBOR equivalents, net of margins.

(ii) Liabilities

After taking into account the interest rate and currency swaps the interest rate profile of the Group's financial liabilities at 31 December 1999 were:

Currency	Total liabilities £'000	Floating rate liabilities £'000	Fixed rate liabilities £'000	Fixed Rate Liabilities	
				Weighted average interest rate %	Weighted average time for which rate is fixed Years
US Dollar	53,071	14,610	38,461	7.45	8
Deutsche Mark	11,838	11,838	–	–	–
Australian Dollar	3,156	3,156	–	–	–
Sterling	5,080	5,080	–	–	–
Total (Note 16)	73,145	34,684	38,461	–	–

The floating rate borrowings bear interest at relevant national LIBOR equivalents, plus margin.

Notes to the Accounts

For the year ended 31 December 1999

17. Treasury policies and risk management (continued)

The maturity of the Group's financial liabilities at 31 December 1999 was as follows:

Currency	Maturing within one year £'000	Maturing between one and two years £'000	Maturing between two and five years £'000	Maturing after more than five years £'000	Total £'000
US Dollar	10,124	281	1,246	41,420	53,071
Deutsche Mark	11,838	-	-	-	11,838
Australian Dollar	2,618	416	122	-	3,156
Sterling	1,333	894	2,705	148	5,080
	25,913	1,591	4,073	41,568	73,145

(iii) Fair Values

The book value and fair value of the Group's financial assets and liabilities are as follows:

	Book value £'000	Fair value £'000	Unrecognised gain/(loss) £'000
Assets			
Cash and short term deposits	58,779	58,779	-
Amount owed by joint ventures	5,621	5,621	-
Other long term debtors	23,867	23,867	-
	29,488	29,488	-
Liabilities			
Long term borrowings:			
US Dollar	42,947	41,346	(1,601)
Australian Dollar	538	538	-
Sterling	3,747	3,747	-
	47,232	45,631	(1,601)
Short term borrowings:			
US Dollar	10,124	10,124	-
Deutsche Mark	11,838	11,838	-
Australian Dollar	2,618	2,618	-
Sterling	1,333	1,333	-
Derivatives held to manage the currency and interest rate profile	-	1,215	1,215
	25,913	27,128	1,215

The fair value of the interest rate swaps, foreign currency contracts and US Dollar denominated long term fixed rate debt, with a carrying amount of USD70,000,000, have been determined by reference to prices available from the markets on which the instruments involved are traded.

Notes to the Accounts

For the year ended 31 December 1999

Gains and losses on hedges

The Group uses interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. There were no unrecognised gains or losses brought forward that were charged to the profit and loss account during the period. There was an unrecognised loss of £1,601,000 on the long term US Dollar loan and an unrecognised gain of £1,215,000 on the interest rate swaps as at 31 December 1999, as set out in the previous table. The unrecognised loss and gain are not expected to be recognised in the Profit and Loss Account in the next financial year.

Borrowing facilities

The Group had facilities of £10,000,000 committed and £80,000,000 uncommitted that were unused as at 31 December 1999. Facilities are renewable on an annual basis.

18. Provisions for liabilities and charges

Group	Balance 1 January 1999 £'000	Liability Assumed £'000	Usage £'000	Charged/(Credited) to the Profit & Loss Account £'000	Foreign Exchange Differences £'000	Balance 31 December 1999 £'000
Pensions provision	-	23,757	(113)	662	(997)	23,309
Deferred taxation	3,726	-	-	(1,008)	(121)	2,597
	3,726	23,757	(113)	(346)	(1,118)	25,906

19. Deferred taxation

	Group	
	1999 £'000	1998 £'000
The amounts of deferred taxation provided in the accounts are:		
Capital allowances in excess of depreciation	60	-
Overseas timing differences	-	582
Other timing differences	2,537	3,144
	2,597	3,726
Potential amounts of deferred taxation for which no credit has been taken:		
Depreciation in advance of capital allowances	(420)	(701)
Overseas timing differences	(3,342)	(341)
Other timing differences	(95)	(772)
	(3,857)	(1,814)

Notes to the Accounts

For the year ended 31 December 1999

20. Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Profit on ordinary activities after taxation	19,794	17,420
Dividends	(5,593)	(4,888)
	14,201	12,532
Currency translation differences on foreign currency net investments	1,586	(298)
New capital subscribed	12,344	33,279
Issue of shares as deferred consideration for the acquisition of Docklands Railway Management Limited	(3,078)	-
Exercise of Share Scheme options	(5,618)	-
Net increase in shareholders' funds	19,435	45,513
Opening shareholders' funds	72,193	26,680
Closing shareholders' funds	91,628	72,193

21. Called up share capital

	1999 £'000	1998 £'000
a) Authorised 100,000,000 (1998 - 100,000,000) Ordinary Shares of 2p each	2,000	2,000
b) Called up, allotted and fully paid: 65,329,282 (1998 - 64,291,629) Ordinary Shares of 2p each	1,307	1,285
c) Ordinary Shares of 2p each allotted in the year: During the year 1,037,653 Ordinary Shares of 2p each were allotted to the holders of options or their personal representatives. 758 of these were allotted at £13.05, 366,403 at £8.40, 459,430 at £4.61, 10,000 at £4.30, 32,000 at £3.69, 27,500 at £2.20 and 141,562 at nil value.		
d) Options in respect of Ordinary Shares of 2p each:		
i) On 10 September 1993, 70,000 options in respect of Ordinary Shares of 2p each were granted, of these there remain 14,000 options which are exercisable at any time up to 10 September 2003 at a price of £2.20 each.		
ii) On 16 October 1995, 80,000 options in respect of Ordinary Shares of 2p each were granted, of these there remain 3,000 options which are exercisable at any time up to 16 October 2005 at a price of £3.69 each.		
iii) In January 1996, 201,732 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 1999 there remained 82,676 options which are exercisable at nil value in accordance with the rules of the Scheme.		
iv) The Company operates a Sharesave Scheme whereby eligible employees are granted options to apply for shares as part of a save-as-you-earn contract. 64,320 options were held by employees on 31 December 1999 which were granted on 28 August 1996. The options are exercisable at any time up to 30 April 2000 at a price of £4.61 each provided the requirements of the Scheme are met.		

Notes to the Accounts

For the year ended 31 December 1999

- v) In January 1997, 239,937 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 1999 there remained 181,191 options which are exercisable at nil value in accordance with the rules of the Scheme.
- vi) On 21 May 1998, 553,824 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 1999 there remained 539,281 options which are exercisable at a price of £13.05 each in accordance with the rules of the Scheme.
- vii) On 4 September 1998, 3,067 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 1999 there remained 3,067 options which are exercisable at a price of £12.12^{1/2} each in accordance with the rules of the Scheme.
- viii) On 1 April 1999, 576,944 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 a price of £14.70 each. At 31 December 1999 no options had been exercised or lapsed.

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- e) The market price of Serco Group plc Ordinary Shares of 2p each as at 31 December 1999 was £19.42^{1/2} and ranged from £11.33^{1/2} to £22.47^{1/2} during the year.
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22. Share premium account

	£'000
Balance at 1 January 1999	57,195
Share premium on issue of shares upon exercise of options	12,322
Balance at 31 December 1999	69,517

23. Other reserve – shares to be issued

	£'000
Balance at 1 January 1999	3,078
Issue of shares as deferred consideration for the acquisition of Docklands Railway Management Limited	(3,078)
Balance at 31 December 1999	–

24. Profit and loss account

	£'000
Group	
Balance at 1 January 1999	10,492
Retained profit transferred to reserves	14,201
Foreign exchange translation differences	1,586
Exercise of Share Scheme options	(5,618)
Balance at 31 December 1999	20,661

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.

Notes to the Accounts

For the year ended 31 December 1999

24. Profit and loss account (continued)

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 these accounts. The consolidated profit for the financial year includes the Parent Company profit of £10,305,000 which includes dividends of £17,653,000 received from subsidiary companies.

A final ordinary dividend of £3,854,000 is proposed which together with the interim dividend of £1,719,000 and the payment in relation to the 1998 final dividend caused by the movement in number of shares of £20,000, leaves a profit of £4,712,000 which has been added to reserves brought forward of £22,389,000 along with a foreign exchange movement of £516,000 and an employee Share Scheme reserve movement of £1,447,000, result in reserves carried forward of £29,064,000.

25. Reconciliation of operating profit to net cash inflow from operating activities

	1999 £'000	1998 £'000
Operating profit	24,152	23,372
Depreciation	9,570	8,096
Goodwill amortisation	2,092	823
Loss on sale of tangible assets	695	346
Increase in stocks	(9,767)	(865)
Decrease/(increase) in debtors	19,971	(7,143)
(Decrease)/increase in creditors	(9,447)	7,854
Decrease in provisions	(448)	(2,451)
Net cash inflow from operating activities	36,818	30,032

26. Analysis of net debt

	Balance 1 January 1999 £'000	Cash Flow £'000	Other non-cash changes £'000	Balance 31 December 1999 £'000
Cash at bank and in hand	53,474	5,305	-	58,779
Overdrafts	(9,483)	(14,109)	-	(23,592)
Cash net of overdrafts	43,991	(8,804)	-	35,187
Bank loans due after more than one year	(41,420)	-	-	(41,420)
Cash net of overdrafts and bank loans	2,571	(8,804)	-	(6,233)
Other loans due after more than one year	(4,124)	838	-	(3,286)
Other loans due within one year	(764)	207	-	(557)
Finance leases	(5,310)	2,387	(1,367)	(4,290)
Net debt	(7,627)	(5,372)	(1,367)	(14,366)

Notes to the Accounts

For the year ended 31 December 1999

27. Reconciliation of (decrease)/increase in cash to movement in net debt

	1999 £'000	1998 £'000
(Decrease)/increase in cash	(8,804)	26,382
Cash outflow from debt and lease financing	3,432	1,972
Change in net debt resulting from cash flows	(5,372)	28,354
New finance leases	(1,367)	(1,885)
Movement in net debt in the period	(6,739)	26,469
Net debt at 1 January	(7,627)	(34,096)
Net debt at 31 December	(14,366)	(7,627)

28. 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 £1,367,000 (1998 – £1,885,000).

During the year the option to purchase the remaining share capital of Docklands Railway Management Limited was exercised, resulting in 366,403 Serco Group plc shares (equivalent to £3,078,000) being issued for nil cash consideration.

As part of the acquisition of the remaining 50.76% of the shares in Great Southern Railways Pty Limited, deferred consideration of £3,368,000 is payable on 15 March 2000.

During the year £5,618,000 has been charged to the profit and loss reserve in respect of shares issued under Employee Share Scheme options.

29. Purchase of subsidiary undertakings

	1999 £'000	1998 £'000
Net liabilities acquired:		
Tangible assets	13,548	1,469
Stock	5,384	163
Debtors	31,402	5,998
Cash	2,675	1,967
Creditors	(41,438)	(13,310)
Pension provision	(23,757)	–
Bank overdraft	(171)	(114)
Net liabilities	(12,357)	(3,827)
Investment in joint ventures at the dates of acquisition:		
Equity	856	(190)
Loan notes	(3,532)	–
Goodwill (see Note 10)	44,979	24,155
	29,946	20,138
Discharged by:		
Cash paid in current year	26,578	20,138
Deferred cash consideration	3,368	–
	29,946	20,138

Notes to the Accounts

For the year ended 31 December 1999

30. Analysis of the net outflow of cash in respect of the purchase of subsidiary undertakings

	1999 £'000	1998 £'000
Cash consideration	26,578	20,138
Cash of acquired subsidiary undertakings	(2,675)	(1,967)
Bank overdrafts of acquired subsidiary undertakings	171	114
Net outflow of cash in respect of the purchase of subsidiaries	24,074	18,285

31. Contingent liabilities

The Group has given indemnities to banks totalling £23,207,000 in respect of performance bonds in the normal course of business. In addition the Group has given financial guarantees in respect of a lease security to a subsidiary and equity contributions to joint ventures of £8,605,000.

32. Capital and other commitments

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Capital expenditure contracted but not provided	4,262	2,637	–	–

During the year ending 31 December 2000 the Group is to make the following payments in respect of operating leases:

	Land and Buildings £'000	Other £'000
Leases which expire:		
Within one year	1,528	4,627
Between one and five years	2,205	10,257
After five years	4,755	1,936
	8,488	16,820

Notes to the Accounts

For the year ended 31 December 1999

33. Related parties

Directors

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts and in relation to Directors' liability insurance. Details of the Directors' remuneration is disclosed in the Remuneration Report.

Joint ventures

The following material transactions took place between the Group and its joint ventures during 1999:

	1999 £'000	1998 £'000
Net loans during the year	12,271	(5,563)
Net trading	2,635	(2,084)
Royalties and management fees receivable	2,021	744
Dividends receivable	2,735	1,023
	19,662	(5,880)

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

	1999 £'000	1998 £'000
Amounts due within one year:		
Loans	1,420	1,120
Trading balance	1,725	2
Royalties and management fees	1,425	56
Dividends	709	130
	5,279	1,308
Amounts due after more than one year:		
Loans	5,621	15,853

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

	1999 £'000	1998 £'000
Amounts payable within one year:		
Loans	5,339	3,000

Details of Group investments in joint ventures and other principal undertakings are given in Note 35. No amounts were written off during the period.

Notes to the Accounts

For the year ended 31 December 1999

34. Pension schemes

The net pension charge for the year ended 31 December 1999 was £16,228,000 (1998 – £14,875,000).

The Group paid employer contributions of £3,206,000 (1998 – £3,179,000) into other UK defined contribution and foreign state pension schemes.

The other main Group operated pension schemes were as follows:

a) Serco Pension and Life Assurance Scheme (“SPLAS”)

This is a pre-funded defined benefit scheme.

With effect from 6 April 1999, the Serco Alternative Pension Scheme 1994 (“SAPS”) and the Serco Services Pension Scheme (“SSPS”), were merged into the SPLAS. This merger was carried out by transferring all assets and liabilities into the SPLAS. No change in benefits or contributions was made at the time of the merger.

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

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 6 April 1999.

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

Investment yield	9.5% p.a.
Salary growth	7.5% p.a. (including 0.5% p.a. in respect of promotion)
Increase in LEL offset	5.0% p.a. (SPLAS section only)
Price inflation	5.0% p.a.
Equity dividend growth	5.0% p.a.
Pension increases (in excess of GMP)	5.0% p.a. (for SAPS and Services section) 4.5% p.a. (for SPLAS section accrual after 6/4/97) 0% p.a. (for SPLAS section accrual prior to 6/4/97)

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

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

Employer pension contributions paid into the Scheme during the year were £7,165,000 (1998 – £4,355,000 SPLAS, £348,000 SSPS, £3,802,000 SAPS), of which £448,000 related to special contributions in respect of a discretionary increase to pensions in payment awarded during the year (1998 – £619,000 SPLAS, £399,000 SAPS).

At 31 December 1999 a prepayment of £684,000 (1998 prepayments – £248,000 SPLAS, £396,000 SSPS, £250,000 SAPS) in respect of the Scheme was included in the Balance Sheet. £7,376,000 was charged to the 1999 Profit and Loss Account, in respect of the Scheme (1998 – £3,405,000 SPLAS, £221,000 SSPS, £3,585,000 SAPS).

Notes to the Accounts

For the year ended 31 December 1999

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.

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 1998. On the assumptions adopted for accounting purposes and based on a market value of assets of £97,316,000 at 31 March 1998, the actuarial value of the assets represented 117% of the ongoing past service liabilities of the Scheme as at that date.

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

Investment yield	8.50% p.a.
Salary growth (excluding salary scale)	6.00% p.a.
Equity dividend growth	5.50% p.a.
Pension increases (Part 4 and 6 members)	3.75% p.a.
Pension increases (others)	4.00% p.a.

The past service surplus as at 31 March 1998 is being amortised for accounting purposes over a nine year period as a constant monetary amount.

No employer pension contributions were paid into the Scheme during the year.

An amount of £135,000 (1998 – £154,000 credit) has been charged to the 1999 Profit and Loss Account in respect of the Scheme and a prepayment of £7,749,000 (1998 – £7,885,000) has been included in the Balance Sheet as at 31 December 1999.

Notes to the Accounts

For the year ended 31 December 1999

34. Pension schemes (continued)

c) Serco Superannuation Fund

This is a combined defined benefit and defined contribution scheme which 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, and the AWA Group Superannuation Fund (1987), a defined contribution scheme.

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 1997. The attained age method was used for the actuarial valuation of the Scheme as at 31 December 1997. 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 this year were:

Average long term interest rate (net of investment and administration expenses and investment tax)	9.5% p.a.
Average long term allowance for salaries increases	7.0% p.a.

The defined benefit element of the Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £1,158,000 (A\$2,860,000) at 31 December 1997 with a ratio of market value of assets to current funding level liabilities of 108%.

The actuarial value of assets of the defined benefit element of the Scheme represented 112% of its ongoing liabilities at 31 December 1997. 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 14 years.

Employer pension contributions paid into the Scheme during the year were as follows:

		1999 £'000	1999 A\$'000
Defined benefit element	Regular cost	91	228
	Variation cost	41	103
		132	331
Defined contribution element		1,630	4,086
Total		1,762	4,417

		1998 £'000	1998 A\$'000
Defined benefit element	Regular cost	96	261
	Variation cost	(9)	(24)
		87	237
Defined contribution element		1,852	5,025
Total		1,939	5,262

Notes to the Accounts

For the year ended 31 December 1999

d) The NPL Management Limited Pension Scheme

This is a pre-funded defined benefit scheme.

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

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 6 April 1998.

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

Investment yield	9.5% p.a.
Salary growth	7.0% p.a. (plus promotional scale)
Price inflation	5.0% p.a.
Pension increases	5.0% p.a.

The Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £15,677,000 at 6 April 1998. 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 72% of the ongoing liabilities of the Scheme. Variations from the normal cost are amortised for accounting purposes over a fifteen year period as a constant monetary amount. At 31 December 1999 a provision of £16,000 (1998 – nil) in respect of the Scheme was included in the Balance Sheet. £1,827,000 was charged to the 1999 Profit and Loss Account in respect of the Scheme (1998 – £1,607,000).

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

The Serco Shared Cost Section of the Scheme was established on 6 January 1997 after the acquisition of Nationwide Fire Services from the British Railways Board.

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.

An initial actuarial valuation was carried out as at 6 January 1997 and the first of the regular valuations was as at 31 December 1998. The attained age method was adopted for the actuarial valuation of the Scheme. The main actuarial assumptions used in the valuation for accounting purposes were:

Investment yield	6.75% p.a.
Salary growth	4.50% p.a.
Dividend growth	3.75% p.a.
Pension increases	3.00% p.a.

As at 31 December 1998 the actuarial value of the assets represented 133% of the value of the liabilities, after including reserves for contributions to be paid at the reduced rate of 12½% (employer 7½%, members 5%) until September 2003 and for employer matching voluntary contributions to be subsumed within the normal 7½% rate.

Employer pension contributions paid into the Scheme and charged to the 1999 Profit and Loss Account during the year were £202,000 (1998 – £203,000).

Notes to the Accounts

For the year ended 31 December 1999

34. Pension schemes (continued)

f) Serco Metrolink Pension Scheme

This is a pre-funded defined benefits scheme established on 1 September 1990. On 27 May 1997 Serco Metrolink Limited replaced Greater Manchester Metro Limited as the principal employer of the Scheme.

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

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 1 September 1998.

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

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

The Scheme is assessed to be fully funded on a current funding level basis at 1 September 1998. Liabilities for this purpose were calculated using the MFR basis, which corresponds to the basis for determining individual cash equivalents for active members and deferred pensioners and an estimate of the cost of purchasing annuity policies for pensioners. Assets for this purpose were taken at their market value of £2,674,000.

As at 1 September 1998 the actuarial value of the assets represented 101% of the ongoing liabilities of the Scheme based on the assumptions used for the formal triennial valuation. As the surplus at 1 September 1998 was negligible, no variation has been made to the regular cost in its respect.

The regular cost estimated as at 1 September 1998 was 8.2% of total pensionable salaries, including an allowance for future expenses and the cost of insuring lump sum benefits on death in service.

Employer pension contributions paid into the Scheme during the year and charged to the 1999 Profit and Loss Account totalled £204,000 (1998 – £205,000).

Notes to the Accounts

For the year ended 31 December 1999

g) Docklands Light Railway Pension Scheme

Docklands Railway Management Limited became a participating employer in the Scheme on 6 April 1997. The Scheme is a pre-funded defined benefit scheme, with Docklands Light Railway Limited being the principal employer.

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

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 1 April 1998.

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

Investment yield	8.5% p.a.
Salary growth	6.5% p.a.
Equity dividend growth	5.2% p.a.
Pension increases	4.25% p.a. for Pre 1/4/1989 joiners 4.0% p.a. for Post 1/4/1989 joiners

The Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £15,316,000 at 1 April 1998.

The actuarial value of the assets represented 100% of the ongoing liabilities of the Scheme. Variations from the normal cost are amortised for accounting purposes over the future working lifetime of current active members as a percentage of salaries.

Employer pension contributions paid into the Scheme and charged to the 1999 Profit and Loss Account totalled £854,000 (1998 – £685,000).

h) Serco GmbH & Co. KG Pension arrangement

This is an un-funded defined benefit arrangement.

Actuarial assessments covering liabilities are carried out by independent qualified actuaries, with the last such review being carried out as at 23 December 1999.

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

Investment yield	6.0% p.a.
Salary growth	3.0% p.a.
Price inflation	2.0% p.a.

Employer expenses for the arrangement during the period were £662,000 and a provision of £23,309,000 has been included in the Balance Sheet as at 31 December 1999.

Notes to the Accounts

For the year ended 31 December 1999

35. 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 companies are incorporated and principally operate in the countries designated below.

Principal subsidiaries

<i>United Kingdom</i>		<i>USA</i>	
Serco Limited*	100%	Serco, Inc.	100%
Serco Contracting Limited	100%	Serco Management Services, Inc. (Delaware)	100%
Serco-Denholm Limited	90%	Barton ATC, Inc.	100%
Serco Europe Limited	100%	Serco Management Services, Inc. (Tennessee)	
Serco-IAL Limited	100%	(formerly Barton ATC International, Inc)	100%
Serco International Limited	100%	JL Associates, Inc.	100%
Serco Railtest Limited	100%		
Sercoserve Limited	100%	Joint venture undertakings	
Serco Systems Limited*	100%	<i>United Kingdom</i>	
Serco Test Technology Limited	100%	Premier Prison Services Limited	50%
Serco Overseas Investments Limited*	100%	Kilmarnock Prison (Holdings) Limited	50%
Serco Project Development Limited*	100%	Serco Gulf Engineering Limited	50%
Serco Research & Development Limited*	100%	Defence Management (Holdings) Limited	50%
Serco Insurance Co Limited*	100%	Laser (Teddington Holding) Limited	50%
NPL Management Limited*	100%	Altram (Manchester) Limited	26%
Docklands Railway Management Limited	100%	Premier Custodial Group Limited	50%
Serco Investments Limited*	100%	Lowdham Grange Prison Services Limited	50%
Community Leisure Management Ltd	100%	Medomsley Holdings Limited	50%
FRA Serco Limited	100%	Pucklechurch Custodial (Holdings) Limited	50%
		Moreton Prison (Holdings) Limited	50%
		Serco-Denholm Shipping Company Limited	50%
		AWE Management Limited	33%
		Serco Fleet Services Limited	50%
<i>Rest of Europe</i>		<i>Asia Pacific</i>	
<i>Belgium</i>		<i>Australia</i>	
Serco Belgium S.A.	100%	Defence Maritime Service Pty Limited	50%
<i>Denmark</i>		InfoDirect Pty Limited	50%
Metro Service A/S	67%	Serco-Gardner Merchant Pty Limited	50%
<i>France</i>		Brands on Show Pty Limited	50%
Serco France Sarl	100%	<i>New Zealand</i>	
<i>Germany</i>		Serco Project Engineering Ltd	50%
Serco International GmbH	100%	Serco Gardner Merchant NZ	50%
Serco GmbH & Co. KG (formerly Elekluft Elektronik und Luftfahrtgeräte GmbH)	100%	<i>Hong Kong</i>	
Serco Services GmbH	100%	Serco Guardian (FM) Limited	50%
Serco FM GmbH (formerly Serco GmbH)	100%		
<i>Ireland</i>		<i>Other</i>	
Serco Services Ireland Limited	100%	<i>Bahrain</i>	
<i>Italy</i>		Aeradio Technical Services WLL	49%
Serco s.r.l. (formerly Serco Servizi s.r.l.)	100%	<i>Bermuda</i>	
<i>Luxembourg</i>		BAS-Serco Limited	40%
Serco Facilities Management S.A.	100%	<i>Cyprus</i>	
<i>The Netherlands</i>		Serco Kalisperas	50%
Serco Facilities Management BV	100%	<i>Dubai</i>	
Serco International BV	100%	International Aeradio (Emirates) LLC	49%
Serco Investments BV	100%	<i>Johnston Atoll, Pacific Ocean</i>	
<i>Sweden</i>		Kalama Services	38%
Serco Services AB	100%	<i>Saudi Arabia</i>	
Serco Sverige AB (formerly Serco Newsec AB)	100%	Key Communications Development Co Limited	N/A
<i>Switzerland</i>		<i>Singapore</i>	
Serco Facilities Management S.A.	100%	JBS Singapore Pte Limited	20%
		Serco Guthrie Pte Ltd	50%
<i>Asia Pacific</i>		<i>Sweden</i>	
<i>Australia</i>		REM Serco AB	50%
Serco Asia Pacific Pty Limited	100%	<i>Turkey</i>	
Serco Australia Pty Limited	100%	ESDAS	51%
Serco Water (WA) Pty Limited	100%	<i>USA</i>	
Great Southern Railways Pty Limited	100%	Baker Serco Wright Patterson	49%
<i>New Zealand</i>			
Serco Group NZ Limited	100%		
Serco Viatech Limited	100%		
<i>Other</i>			
<i>Canada</i>			
Serco Facilities Management, Inc.	100%		
Serco Aviation Services, Inc.	100%		

*directly held by Serco Group plc

Notice of Annual General Meeting

Notice is hereby given that the Thirteenth Annual General Meeting of the Company will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on Wednesday 5 April 2000 at 10:00 am for the purpose of considering the following resolutions:

To be passed as Ordinary Resolutions

1. To receive and adopt the Annual Review and Accounts and reports of the Directors and Auditors of the Company for the year ended 31 December 1999.
2. To declare a final dividend of 5.9p per share for the year ended 31 December 1999.
3. To re-elect Christopher Hyman as an Executive Director. (Note 3)
4. To re-elect Iestyn Williams as an Executive Director. (Note 4)
5. To re-elect Rhidian Jones as a Non-executive Director. (Note 4)
6. To re-appoint Deloitte & Touche as the Company's auditors and to authorise the Directors to fix the auditors' remuneration. (Note 5)
7. To authorise the Directors to allot relevant securities up to a maximum nominal amount of £431,384 in accordance with Article 6 of the Company's Articles of Association. All previous authorities under s80 of the Companies Act 1985 shall be revoked. This authority shall expire on the fifth anniversary of the passing of this resolution. (Note 6)

To be passed as Special Resolutions

8. To authorise the Directors to allot equity securities for cash in accordance with Article 7 of the Company's Articles of Association. For the purposes of paragraph (b) of that Article, the nominal amount to which this power is limited to is £65,361. This authority shall expire on the fifth anniversary of the passing of this resolution. (Note 7)
9. To authorise the Directors to make market purchases (within the meaning of s163 of the Companies Act 1985) of the Company's Ordinary Shares in accordance with Article 11 of the Company's Articles of Association on such terms and in such manner as the Directors may from time to time determine, provided that:
 - (a) the maximum number of Ordinary Shares that may be purchased under this authority is 6,536,124;
 - (b) the minimum price which may be paid for an Ordinary Share purchased under this authority is 2p;
 - (c) the maximum price which may be paid for an Ordinary Share purchased under this authority is an amount equal to 5% above the average of the middle market prices shown in the quotations for Ordinary Shares in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Ordinary Share is purchased;
 - (d) this authority will expire at the conclusion of the Company's next Annual General Meeting or, if earlier, 15 months after the passing of this Resolution; and
 - (e) a contract, or contracts, to purchase Ordinary Shares entered into by the Company before the expiry of this authority can be executed, wholly or partly, by the Company after the expiry of this authority. (Note 8)

By order of the Board:



Julia Bowler
Secretary

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

2 March 2000

Notes to Annual General Meeting

Notes

1. If your name appears on the Register of Shareholders on 5 April 2000, you will be entitled to attend and vote at the Thirteenth Annual General Meeting of the Company. If you wish to appoint someone else to attend and vote on your behalf, you may do so by completing the proxy form and returning it to our Registrars by 10:00 am on 3 April 2000. If you change your mind about your proxy, you may still attend and vote at the meeting. The proxy does not need to be a shareholder in the Company.

Please bring some form of identification with you to the Annual General Meeting, in case we need to verify that your name appears on our register of shareholders or proxies.

2. The Register of Directors' Interests, as well as Directors' Service Contracts, will be available for inspection during normal business hours at the Registered Office, Dolphin House, Windmill Road, Sunbury-on-Thames, Middlesex TW16 7HT from 10:00 am on 2 March 2000 to 9:00 am on 5 April 2000. If you wish to arrange a time to view these documents please telephone the Company Secretarial Department on + 44 (0)1932 755900.

The same documents will also be available for inspection for a period of 15 minutes before the commencement and after the conclusion of the Annual General Meeting on 5 April 2000.

3. Christopher Hyman retires following his appointment since the last Annual General Meeting and submits himself for re-election in accordance with the Company's Articles of Association.
4. Iestyn Williams and Rhidian Jones retire by rotation and submit themselves for re-election in accordance with the Company's Articles of Association.
5. This appointment will be effective from the conclusion of this Annual General Meeting and remain in effect until the conclusion of the next Annual General Meeting.
6. This authority is in respect of 33% of the issued share capital of the Company on 15 February 2000 (the last practical date before printing this report), and is in accordance with the recommendations of the Association of British Insurers ("ABI"). It is the Directors' intention to seek renewal of this authority annually. The Directors have no present intention of exercising this authority other than to allot shares or grant options pursuant to the Company's share schemes.
7. This authority is in respect of 5% of the issued share capital of the Company on 15 February 2000 (the last practical date before printing this report), and is in accordance with the recommendations of the ABI. It is the Directors' intention to seek renewal of this authority annually. The Directors have no present intention of exercising this authority other than to allot shares or grant options pursuant to the Company's share schemes.
8. This authority is in respect of 10% of the issued share capital of the Company on 15 February 2000 (the last practical date before printing this report), and the power given by this resolution will only be exercised if the Directors are satisfied that any purchase will increase the Earnings per Share of the Ordinary Share Capital in issue after the purchase and accordingly, that the purchase is in the interests of shareholders.

Notes

Shareholder Information

Annual General Meeting

The Thirteenth Annual General Meeting of Serco Group plc ("the Company") will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on Wednesday 5 April 2000 at 10.00 am. The Notice of the Annual General Meeting, together with the relevant notes, is set out on pages 85 and 86. A proxy card accompanies this Review.

Extraordinary General Meeting

An Extraordinary General Meeting of the Company will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on Wednesday 5 April 2000 immediately following the conclusion of the Annual General Meeting. The Notice of the Extraordinary General Meeting, together with the relevant notes and a proxy card accompany this Review.

Final Dividend

The 1999 final dividend will be paid on 14 April 2000, to shareholders registered at the close of business on Friday 17 March 2000 (the record date).

Shareholder Enquiries

In the event of any enquiries such as the loss of a share certificate, dividend payments or, to notify a change of address, shareholders should write to the Company's Registrars at the address detailed below:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA
United Kingdom

Internet

Information about the Company's history, markets, financial results, share price and significant news announcements are available on the Company's internet site: <http://www.serco.com>

Registered Office

Dolphin House
Windmill Road
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United Kingdom

Telephone: + 44 (0)1932 755900

Facsimile: + 44 (0)1932 755854

calendar of events

5 April	Annual General Meeting
14 April	Proposed payment of Final Dividend for 1999
September	Announcement of Interim Results
October	Proposed payment of Interim Dividend for 2000



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