

Serco Group plc
Annual Review and Accounts 2000

Financial highlights
Serco has maintained
its record of consistent
growth in sales and profits.

A message from the Board
As well as expanding our base
of existing contracts, we have
continued to win new contracts
that demonstrate our managerial
and technological capabilities.

A very
straightforward
business
To every contract we
bring the same proven
management processes
and expertise in managing
change. Serco is a
straightforward business
with excellent growth
prospects.

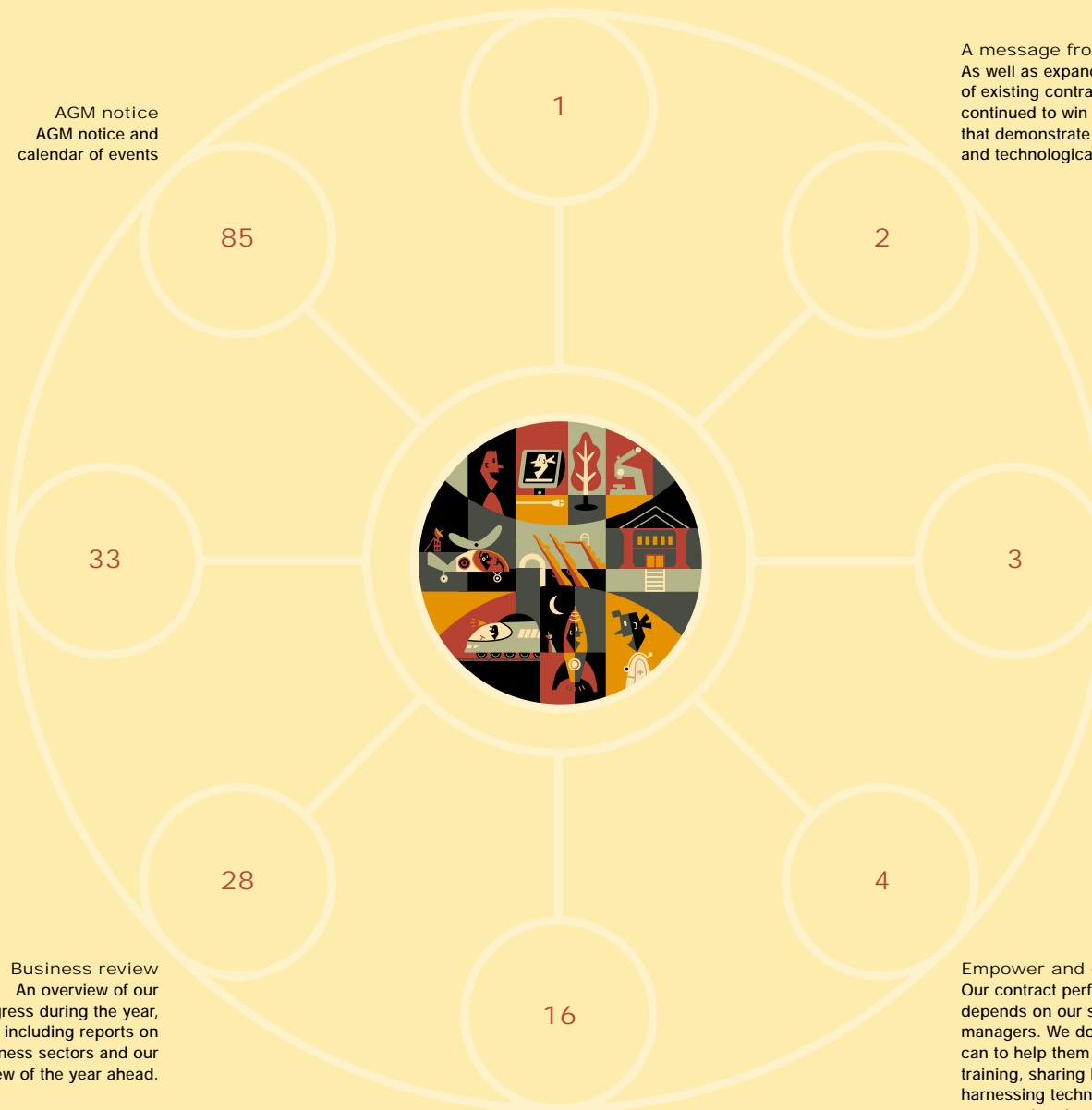
Empower and enable
Our contract performance
depends on our staff and
managers. We do all we
can to help them excel – by
training, sharing best practice,
harnessing technology and
empowering them through
our uniquely open culture.

Growing worldwide
A selection of new business
gained in 2000. We continue
to build on our traditional
areas of strength, while
winning more complex
contracts that require both
technological expertise and
advanced management
techniques.

Business review
An overview of our
progress during the year,
including reports on
business sectors and our
view of the year ahead.

Annual accounts
Accounts information,
including directors and
advisers, corporate
governance, directors'
report, directors'
remuneration and
auditors' reports.

AGM notice
AGM notice and
calendar of events



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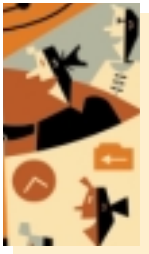
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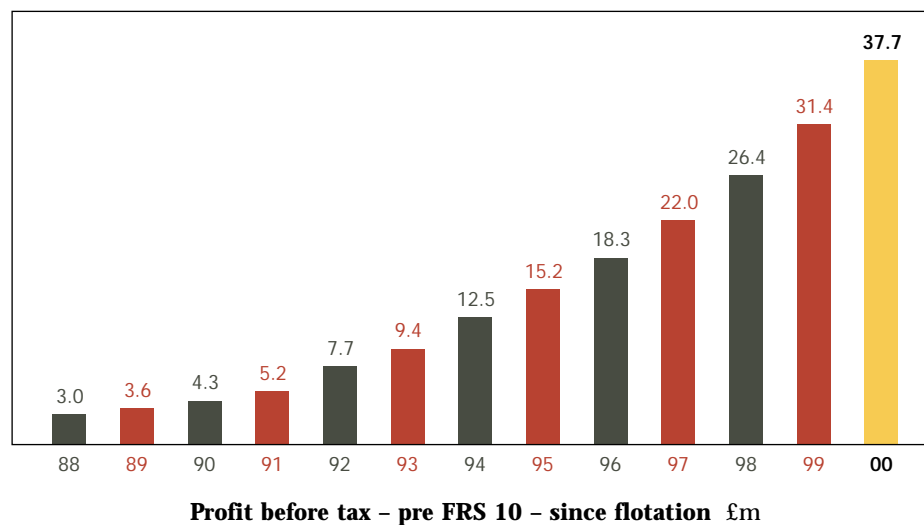
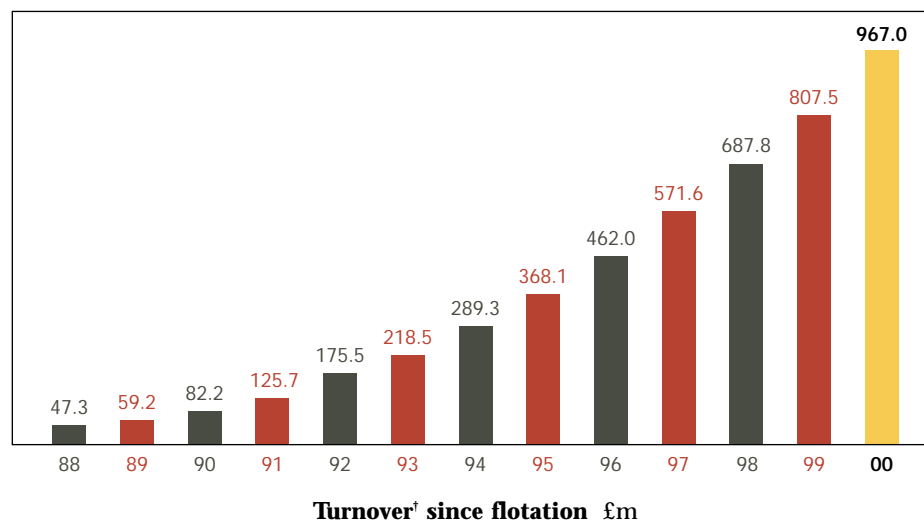
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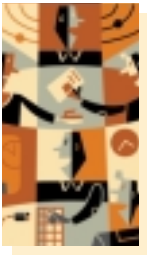
Financial highlights

	2000	1999	
Turnover [†]	£967.0m	£807.5m	up 19.7%
Profit before tax – pre FRS 10	£37.7m	£31.4m	up 20.0%
Earnings per share – pre FRS 10	6.78p	5.63p*	up 20.4%
Dividend per share	1.63p	1.42p*	up 14.4%
Employees at 31 December [†]	32,500	27,500	up 18.2%



[†] including joint ventures

* restated to reflect a share capitalisation of five shares for every one held approved by shareholders on 5 April 2000



A message from the Board

2000 was another year of strong performance. We maintained our record of consistent growth in sales and profits, renewed and expanded our base of existing contracts, and applied our managerial and technological capabilities to win new contracts.

Sales grew 19.7% to £967.0 million. Pre-tax profits rose 20.0% to £37.7 million before goodwill amortisation (FRS 10). Earnings per share rose 20.4% before FRS 10. Operating cash flow performance remained strong at £45.5 million. The recommended final dividend of 1.13p per share makes a total of 1.63p for the year – an increase of 14.4% over 1999.

There were a number of changes to the Serco Board during the year. In March 2000 Gerry Rodgers retired, having successfully led our Y2K project; we are grateful for his contribution to the business over 30 years. In April Ralph Hodge CBE joined as our third non-executive director. He is a former chief executive of ICI Chemicals and Polymers and chaired the committee that created the ISO 9000 quality standard. Gary Sturgess stood down in December after six years' valued contribution as a non-executive director, to join the company full-time as group policy adviser. At the same time, Betsy Bernard joined us as a non-executive director; she was until recently executive vice president of National Mass Markets, part of Qwest Communications International, and brings us valuable technology experience – particularly in the North American market.

Successfully maintaining strong growth in the number, size and complexity of our contracts is not simply a matter of winning bids. We need to secure the necessary depth of management capabilities; share best practice to make the most of the experience we gain; consolidate our growth by retaining contracts as they come up for renewal; and earn our place in the communities we serve by showing social and environmental responsibility.

The following pages show the progress we are making in all these areas. Our success depends entirely on the performance of Serco's people at all levels – we thank them all for their contribution. We will continue to invest in them, empower them with the knowledge, skills and technology that enable them to excel, and develop a pipeline of appropriately skilled managers. The Serco Best Practice Centre is becoming increasingly effective in identifying excellence and making it accessible to contract managers and their teams worldwide. We are successfully maintaining our contract renewal rate at over 90%. And, as a growing number of our customers expect evidence of social and environmental responsibility, we are currently conducting an audit of our performance in these areas.

Serco is growing quickly, but judiciously. We are building organically on a solid foundation of existing contracts; and the sheer scale of new opportunities available to us around the world means that we can be selective about where and how we grow. We are maintaining our emphasis on winning contracts that play to our strengths in management and technology – focusing on sectors such as transport, defence, and the justice, education and science activities of central and local government, where there are substantial opportunities to add real value.

Our track record of successful Private Finance Initiatives (PFIs) and Public Private Partnerships (PPPs) in the UK will prove a competitive asset as similar opportunities emerge in the Asia Pacific region and Continental Europe. We also continue to pursue larger, more complex opportunities in North America, in partnership with major US corporations.

Our bids for initiatives such as the UK's National Air Traffic Services PPP, the proposed Atomic Weapons Establishment PPP and the Future Strategic Tanker Aircraft PFI programme indicate the scale of our ambition and capabilities. In pursuing opportunities on this scale we will not forget that sustainable long term growth depends on consistently excellent performance and organic growth across the whole spectrum of our contracts and businesses: these all continue to have excellent prospects.

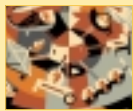
A very straightforward business



AT FIRST SIGHT, SERCO LOOKS BEWILDERINGLY DIVERSE – with over 500 contracts ranging from rail operations to scientific research. In fact, it is very straightforward. To every project we bring the same things: our expertise in managing change, and our other proven management processes for devolving responsibility and delivering continuing performance improvement. These processes are our product.



WE CAN PLAN FOR LONG TERM GROWTH because we can forecast with relative certainty. Future earnings and cash flows are highly visible. Our contracts are typically for 5-10 years, and our success in winning renewals means that in practice they can last for decades. The income is dependable: 90% comes from governments and international agencies, and the rest from major corporations.



OUR GROWTH PROSPECTS ARE EXCELLENT. While the market continues to grow rapidly, we have taken care to grow at a measured pace – to avoid overstressing management or jeopardising our unique culture. And each new contract brings further opportunities: about a third of our new business comes from our customers broadening the scope of existing contracts. Our devolved structure helps us to grow our own managers to match our expansion. 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, then liberate them to run their businesses more entrepreneurially.



ALL SERCO'S PROCESSES ARE UNDERPINNED BY SHARED BELIEFS about how to treat customers, staff and the community. We value our people's 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. In all their dealings with customers, we encourage them to deliver the spirit of our contracts, not merely the letter.



AS THE ORGANISATION EXPANDS, WE ARE PASSIONATE ABOUT SHARING IDEAS AND BEST PRACTICE. Constant communication worldwide helps us understand and manage risks, deliver service improvements ahead of customer expectations and keep our competitive edge. The Serco Institute develops and refines our vision of the future. And the Serco Best Practice Centre makes increasing use of internet and other technologies to help our businesses form networks and share ideas and experience; so that, as we grow and become still more diverse, Serco will remain in essence a very straightforward business.



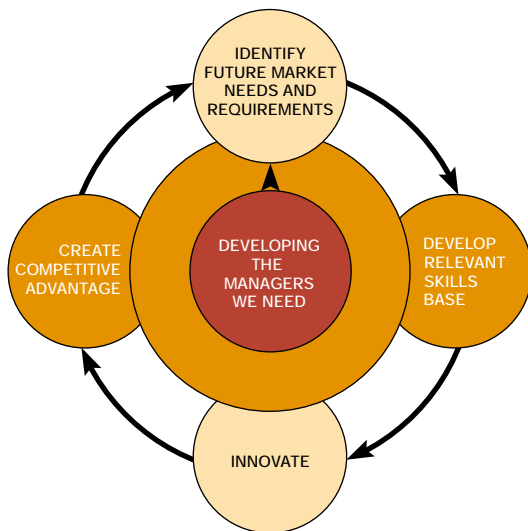
Empower and enable Our contract performance depends fundamentally on the individual performance of our staff and managers. So we do all we can to help them excel – by training, sharing best practice, harnessing technology and empowering them through our uniquely open culture.

Developing the managers we need

What unites all our diverse activities is our systematic application of proven management processes and expertise. To maintain our high growth rate and move into increasingly large and complex contracts, we must constantly develop managers with the right competencies. This has always been a Serco priority.

empowering

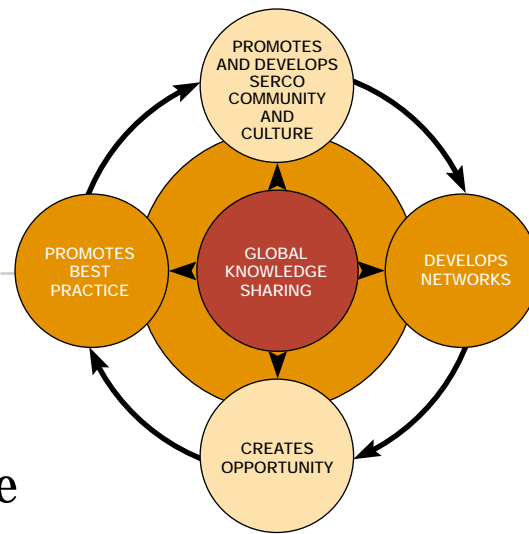
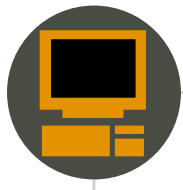
We believe investment in people returns competitive advantage. A key role for both the Serco Institute and our Best Practice Centre is to be vigilant in identifying future needs and innovative in developing managers to meet them. Technology is helping us to achieve consistent standards globally: for example, the centre has developed online self-appraisal software that enables managers to measure their skills against the requirements of their job. The software then offers them a choice of suitable training opportunities, including computer-based training via our intranet.



We are passionate believers in training at all levels: it's one way we can empower people to make a real difference. For example, since taking over a series of service contracts for the Royal Navy we've given training to over 600 staff. In Asia Pacific we have a growing programme of partnerships with academic institutions such as the University of Technology Sydney, where we are pioneering schemes that enable staff to gain vocational, graduate and postgraduate qualifications through projects related to their work. This year we are extending the programme to Hong Kong and Singapore, and introducing a vocational award designed for team leaders and supervisors.

Managing change, changing managers: It's all very well to say you're looking for more complex contracts – but where will you find the skills to manage them? Our UK technology services business created its own solution – and developed a new university degree in the process. Three years ago, its change director and colleagues sat down together to define the competencies the business would need to manage complex contracts effectively. They put together an innovative personal development programme for contract and support office managers with potential, to give them the outlook and skills they'd need in the future. Emma Roycroft, pictured here at GlaxoSmithKline's product supply site, is one of the first 15 managers who've taken part. Brighton University liked the programme so much that it has agreed to accredit it – enabling participants to gain an MA in Change Management. Today, the complex contracts anticipated three years ago are becoming reality, and managers who've participated in the programme are taking them on with confidence – one, for example, is the service delivery manager designate for the Highways Agency's national Traffic Control Centre PFI. Participants are also finding new ways to share what they've learned – they've developed a series of courses for fellow contract managers on skills such as negotiating and change management.





Using technology to enable our people

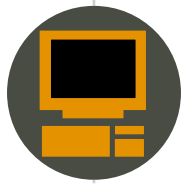
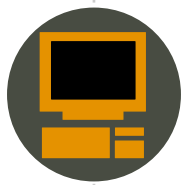
As well as giving people the skills they need, we're also giving them the tools. Our strength in technology enables us to keep on improving the quality of our communication, information, methodology and understanding.




With some 500 contracts worldwide and over 32,500 people, Serco has a wealth of knowledge and experience. But how can we best use it? The Serco Best Practice Centre intranet helps our people tap the group's distilled expertise on core activities such as bidding and phasing-in new contracts, and developing and rebidding existing ones. And the Our World intranet database puts people in touch with colleagues who can help them, enables them to form networks of colleagues with common interests, allows them to search banks of knowledge and opens up job opportunities to the entire workforce worldwide. In the near future it will draw on our own databases and a variety of outside sources to bring them a personalised news service.

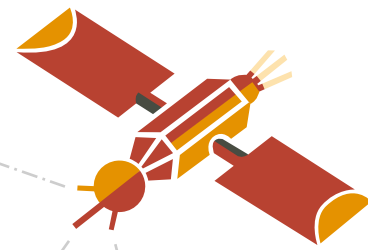
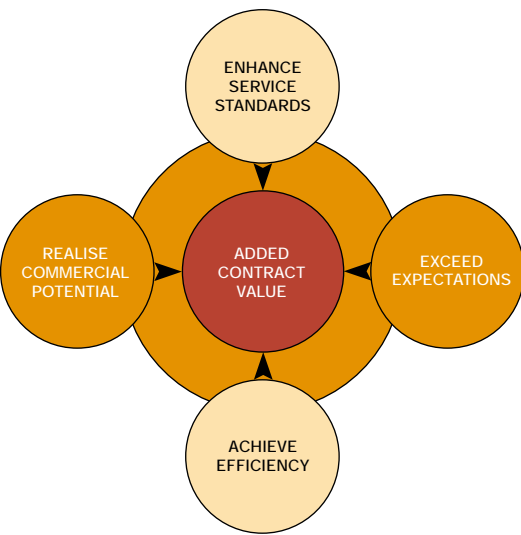
Technology also enables us to do existing tasks better. Like the satellite positioning system that tracks our 150 UK rail infrastructure maintenance vehicles, so that our people can respond faster to urgent maintenance requests by pinpointing the nearest team with the necessary skills.

Technology can also create new possibilities. Valuable business initiatives often start with a chance encounter in a corridor, a casual conversation or an overheard remark. To promote that human interaction on a worldwide scale, our Virtual Office project is installing low-cost teleconference systems that act as 'windows' linking communal areas of our offices in the UK, Asia Pacific and North America for several hours each day. It's one more way in which we're making Serco a real global community.





Giving the controllers more control: Every time you fly, you put your trust in air traffic controllers. You want to know that their knowledge and skills are right up to the minute. In 56 air traffic control (ATC) towers across the US, our 300 controllers provide services within the Federal Aviation Administration (FAA) system. We're currently working with AMTI, a leading information services and systems engineering specialist, to develop a comprehensive Air Traffic Management Information System that all our ATC staff can use via the internet. This will ensure that they always have online access to the latest versions of FAA regulations, corporate manuals and employee handbooks. Staff at all levels will be able to stay informed and up to date on our performance and to share best practice with colleagues across the country in the ever-changing ATC environment. Online bulletin boards will show job vacancies, so that everyone has the best possible chance to fulfil their potential. And, in keeping with our open culture, critical portions of the system will also be available to the FAA – real-time access to data such as traffic movement and activity reports will help improve our customer's efficiency as well as our own.



Using technology to deliver for customers

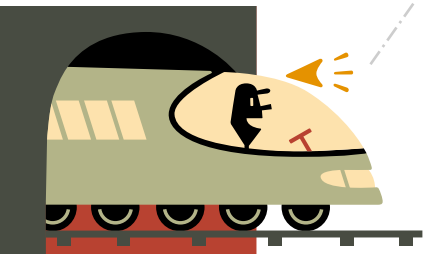
Technology doesn't just help us run our own business better. We also apply our communication and IT skills to achieve greater efficiency, enhance service standards to meet rising expectations, and create new possibilities.

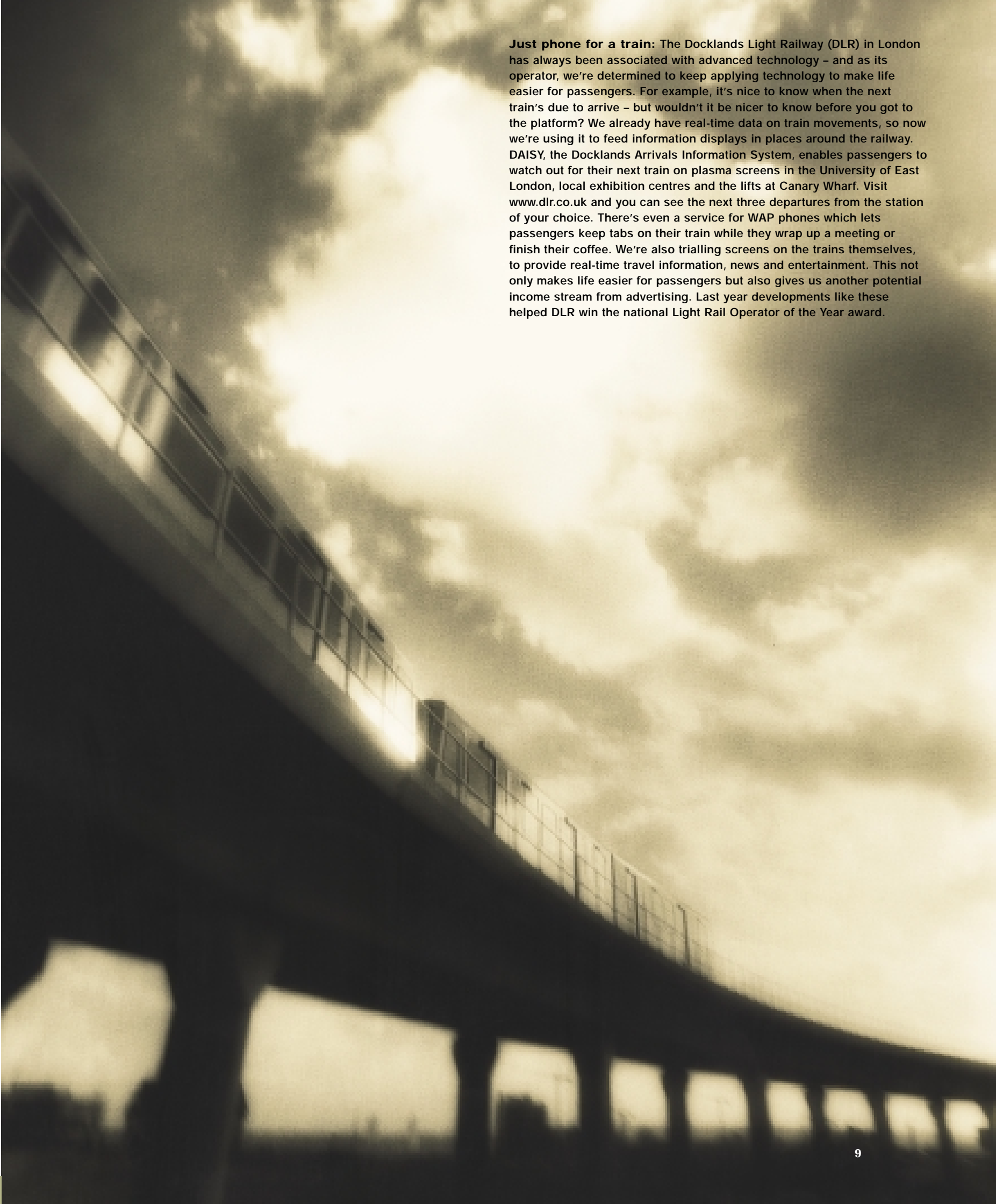
improving

Developing a new information system for the National Rail Enquiry Scheme in the UK was a timely move. As well as cutting a third off the time taken to answer routine enquiries, it also helped the scheme to cope with an unprecedented tenfold upsurge in enquiries during the disruptions that followed the Hatfield rail crash. During this period our new real-time website at www.nationalrail.co.uk handled some 100,000 hits a day.

At the National Physical Laboratory, we've created additional opportunities by working with the DTI in establishing major new scientific facilities that are unique to the UK. And we're making innovative use of the internet by pioneering ways to calibrate scientific instruments online – giving customers direct access to national standards and support information without having to move equipment offsite.

Sharing data helps us refine and improve our services. At the Ministry of Defence Joint Services Command and Staff College, opened in 2000, we use our bespoke information management system to monitor and report performance. This has given our staff the tools to monitor their own teams and take personal responsibility for results. On many of our integrated transport contracts, we're using satellite positioning technology to locate vehicles and give waiting passengers updated information on when buses or trains are due. This has enabled us to go a step further – collating information on journey times, passenger numbers and ticketing types so that we can help our customers refine schedules and services.



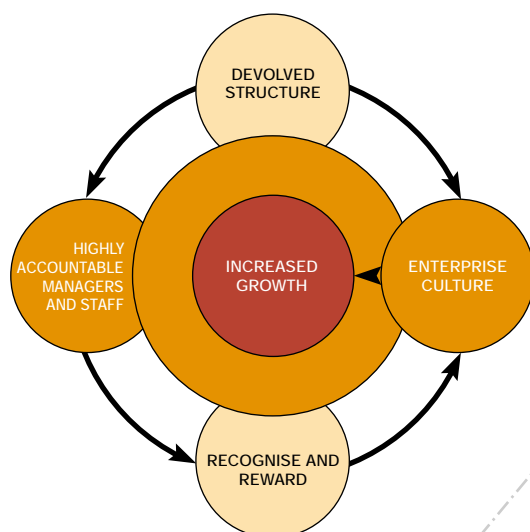


Just phone for a train: The Docklands Light Railway (DLR) in London has always been associated with advanced technology – and as its operator, we're determined to keep applying technology to make life easier for passengers. For example, it's nice to know when the next train's due to arrive – but wouldn't it be nicer to know before you got to the platform? We already have real-time data on train movements, so now we're using it to feed information displays in places around the railway. DAISY, the Docklands Arrivals Information System, enables passengers to watch out for their next train on plasma screens in the University of East London, local exhibition centres and the lifts at Canary Wharf. Visit www.dlr.co.uk and you can see the next three departures from the station of your choice. There's even a service for WAP phones which lets passengers keep tabs on their train while they wrap up a meeting or finish their coffee. We're also trialling screens on the trains themselves, to provide real-time travel information, news and entertainment. This not only makes life easier for passengers but also gives us another potential income stream from advertising. Last year developments like these helped DLR win the national Light Rail Operator of the Year award.



Running every contract as a business

Our readiness to invest in contracts reveals the way we see them: not as tasks to be performed to the letter of the contract but as opportunities to develop them in partnership with our customers. Each contract manager runs a business which they're encouraged to nurture and grow. An increasing number of them have their own 'board of directors' including non-executives.

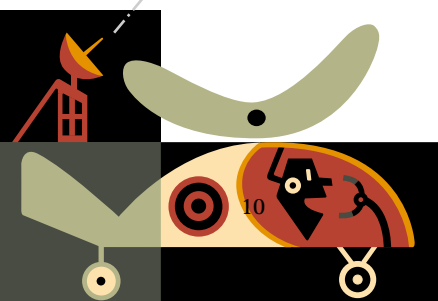


From day one of a contract we're preparing for the rebid – by raising service standards and adding value to benefit our customers, we sharpen our competitive edge. In this way, we often increase the value of contracts and normally extend their duration by winning repeated renewals. We are also alert to the opportunities that one well-run contract provides for winning others.

This entrepreneurial spirit at contract manager level has enabled us to grow our rail business from a standing start to £150 million a year in just five years. Our rail property maintenance business now has almost complete coverage of the UK.

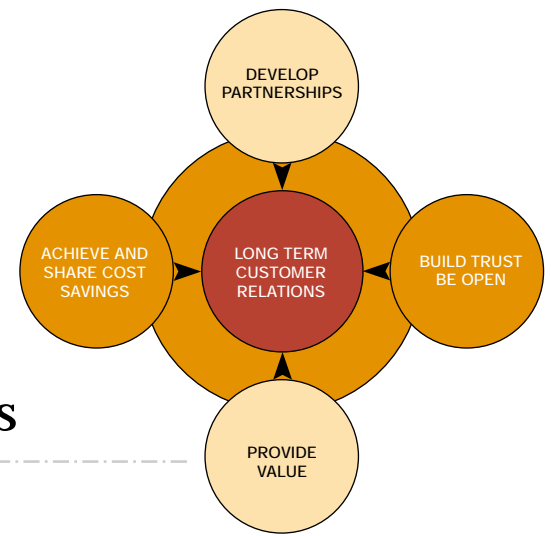
Other acorns-to-oak stories include the small maintenance contract at the National Physical Laboratory which led to Serco managing the entire laboratory and its programmes – and extending our involvement under a PFI contract.

A maintenance contract at an RAF helicopter flying school led to the PFI project in which we are operating the RAF's Medium Support Helicopter Aircrew Training Facility under a contract with CAE worth over £50 million. In turn, our private finance experience at this facility and our involvement in establishing the Defence Helicopter Flying School will add substance to our bids for complex activities such as the National Air Traffic Services PPP and Future Strategic Tanker Aircraft PFI. The commercial experience they've given us complements our proven strength as the world's leading private sector provider of air traffic services and our ability to handle large-scale, sensitive contracts such as managing the Atomic Weapons Establishment.



Watch this space: The European Space Agency (ESA) has developed through political evolution as well as technological advances. By responding flexibly to its changing needs, we have grown our business with ESA from one person in the early 1970s to over 300 today. We now have eight major contracts with the Agency and a wide spectrum of smaller projects and assignments. The key to our success has been a willingness to adapt to changing political, administrative and legislative requirements while also keeping pace with fast-moving technology. We are one of only a few suppliers that can offer ESA a range of capabilities across the board – including satellite engineering at the ESTEC technical centre in the Netherlands, launch site support for CNES at the CSG in French Guiana, satellite control at the ESOC operations centre in Germany, and data collation and analysis at the ESRIN research establishment in Italy. There is no room for complacency: the breadth of our activities means that we rebid a proportion of our contracts every year against stiff competition. Our experience and success in this field are now attracting interest from major organisations across Europe in telecoms, meteorology and global positioning satellites.





Maintaining open relationships with customers

Treating each contract as a business focuses contract managers' attention on customer relationships. In our experience, maximising the quality of relationships delivers a better long term return than any short term focus on maximising margins.


When a contract is up for rebid, the most effective challenge to competitors is a satisfied customer who can see clearly the value we deliver. That is one way we maintain a contract renewal rate of over 90% – and why a five-year contract can be the start of a relationship lasting 10, 20, 30 or even 40 years. We believe in open partnership relationships with customers – we are comfortable with 'open book' contracts, and willing to work in partnership with customers to achieve and share cost savings.

This approach may not deliver the largest profit in the short term but it provides a robust business base on which to grow the company. More and more customers are demanding partner relationships and we believe that this will become the outsourcing pattern of the future: our reputation for successful partnerships will stand us in good stead as we bid for larger contracts and PPP programmes.

In the UK we've developed a pioneering initiative with Railtrack - Partnership in Asset Management. The customer's managers are based at our Midlands depots to work alongside our business managers; we operate joint safety audits, sharing the findings and developing a common response; and we work with Railtrack on new ideas and initiatives.

The competitive benefits of our open approach have been clear at the US Federal Aviation Administration (FAA) since we acquired our original contract in 1997. By maintaining open books we established a strong relationship of trust, and when the FAA rebid its contracts in 2000 it required all tenders to show details of costs and margins. We bid for six contracts and were awarded three – the most that any one company could be awarded.





Open books open doors: The transparency of our relationship with Winchester City Council in the South of England has helped us extend a five-year relationship by a further 10 years. Since taking over the council's direct labour force in 1995 we have been undertaking over 20 contracts ranging from refuse collection and building maintenance to transport hire and highway maintenance. In managing these services to ISO 9002 standards we have always worked in partnership with the council, maintaining open books, sharing its objectives and developing services jointly. During the fuel crisis in mid-2000 we pooled our fuel stocks with the council and shared decisions on priorities for vehicles operated by both Serco and the council; and when the area was hit by extensive flooding, the council trusted us to share crucial decisions on priorities for repairing properties and providing flood defences. We continue to work with the council to enhance services, value for money and the quality of our partnership. For example, under the new 10-year contract awarded in January 2001, we will be teaming-up with both the council and tenants' groups to deliver a more seamless and responsive housing maintenance service.

serco



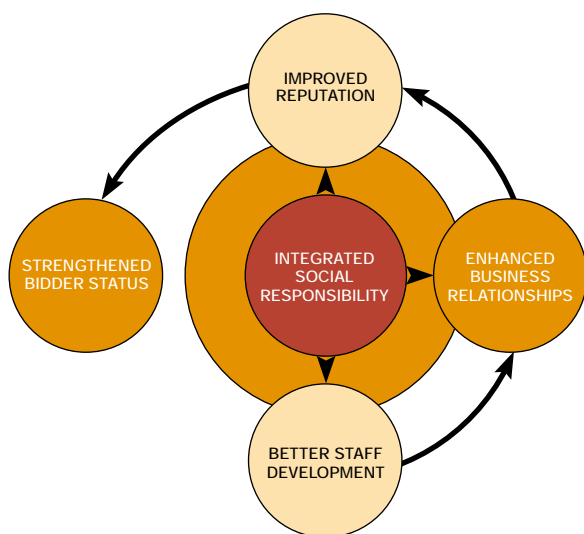
Maintaining partnership with the community

Close relationships with customers in governments and international agencies – some 90% of our business – give us a particular sense of involvement with the communities we serve. And, for a growing number of our clients, social awareness is becoming a critical factor in the contract evaluation process.

We have always aimed to be a socially responsible organisation. Today we are developing initiatives that go beyond conventional charitable activity and integrate social responsibility into our operations. In particular, we have a growing number of schemes to provide jobs and training for disadvantaged people, particularly the long term unemployed.

and communities

We're setting up a pilot site at our Q Stores contract in Sydney which will create traineeships for longer term unemployed people as a first step towards careers in Serco. We plan to extend the programme to other sites during the year. In the UK we've recruited all the fireground support staff at our International Fire Training College on Teesside from government schemes for the long term unemployed. In the US we've been recruiting staff to our San Francisco parking meters contract under the government Welfare to Work programme. And on our Huntington, West Virginia Department of Motor Vehicles contract, many staff have been recruited through a charity that trains the long term unemployed: contract manager Betty Belville now sits on its local board.




Our joint venture prison services company, Premier Custodial Group, is addressing employment issues from both sides. Dovegate Prison, opening in July 2001, is working with local groups to create opportunities for socially excluded people and ethnic minorities; while Doncaster Prison has won the prestigious Butler Trust Development Award – which recognises excellence and innovation in prison work – for a pioneering scheme which prepares inmates for employment after their release.

Getting engaged: The company, its staff and the local community aren't separate entities. They're all inextricably interlinked. We do our best to recognise this by blurring the boundaries between work, home and neighbourhood. Especially in remote communities like those in North West Scotland, where we manage Raasay Ranges for the Ministry of Defence. As you'd expect, both the company and individual staff members support local organisations and charities. In partnership with our customer we also give full support to staff who belong to voluntary organisations such as the fire service, lifeboat crew and mountain rescue team. Our estates manager is supervising an extension to the village swimming pool, the IT supervisor advises local schools on computer issues and our senior managers help local businesses and community organisations. We've installed facilities in customer buildings so that they can be used to house the lifeboat and, for a time, the fire service. As well as providing work experience for school students, we offer local residents spare places on our company training courses, to help them gain relevant career skills. Our staff value the opportunity to make a real contribution to the wellbeing of the community – and the more we support our neighbours, the more we find that our neighbours support us.



australia



A hand holding a mobile phone in a dimly lit room with blurred lights in the background.

IT interface design and usability
The internet, interactive TV and mobile internet technologies are enabling governments and businesses to make themselves more accessible. But how accessible is the technology in practice? Our Usability Services business has become the UK leader in usability studies and user interface design, helping clients fulfil the potential of interactive technology. It started as a small team measuring the user-friendliness of IT systems at the National Physical Laboratory. Today we have 15 consultants in the UK, with facilities in London and Manchester, and the team is set to double in size within the next year. Their customers already include the BBC and the ITV network, leading UK clearing banks, two international mobile phone operators, supermarket chains and the Inland Revenue. To meet growing international demand for usability consultancy we've acquired one of the world's top three consultancies, The Hiser Group. The AUS\$6 million acquisition, completed in January 2001, brings us an internationally recognised team of specialists based in Australia. Our global capability in this field will enable us to help many more customers use the internet more effectively – particularly as national and local administrations adopt 'e-government' initiatives to put a growing proportion of their services online.



new zealand



Army Training Group Waiouru
In Australasia we're continuing to strengthen our position as a leading provider of services to the armed forces. In October 2000 we received a further vote of confidence from the New Zealand Army when Serco was named as preferred service provider for a NZ\$60 million contract at its Waiouru facility. Our innovative approach and willingness to invest were key factors in the decision. Army Training Group Waiouru is the New Zealand Army's principal training area. All officers and soldiers spend substantial parts of their careers there - for initial training, professional development courses or collective training exercises. The six-year contract, with scope for extension to 10 years, covers a wide range of logistic support services - including catering, inventory management, ammunition warehousing, transport, facilities management, range management, equipment repair, reprographic, library and security services.

sweden



Forsmark Nuclear Power Station
We've sharply raised our profile in Sweden by winning one of the country's largest public sector contracts. In 1999 the management of the nuclear power station at Forsmark decided to outsource a range of technical services – including decontamination and related services – as well as building maintenance and operation. Some 25 companies expressed interest in aspects of the work, and four consortia were formed to bid for a single all-encompassing contract. Serco was the only company with the breadth of resources to bid for the entire contract without partners. Our proven experience of nuclear and politically sensitive installations helped us win a contract worth up to SEK450 million in June 2000, and we've subsequently added responsibility for managing almost 700 residential accommodation units. Since phase-in began we've formed a close partnership with the customer, steered by a joint Relationship Committee. This year we've extended the contract to include operation of the site's fire and rescue services.

serco


www.sercoSweden.se

National Crime Squad

Our new strategic partnership with the UK's National Crime Squad (NCS) builds on long experience of security-related IT with the Government Communications-Electronics Security Group. Under this £65 million, 10-year contract we are providing strategic consultancy on IT, communications and crime-related technologies, seeking best practice from around the world. We will develop a strategy for the NCS's information management and communications needs and implement a comprehensive, integrated and highly secure solution to meet its business requirement. This complex technical task will involve providing and supporting a secure IT infrastructure, data centres, fixed and mobile communications, secure storage and tracking of vital evidence, IT and technology training for NCS staff and operation of a helpdesk for all NCS technology services. Key factors in selecting Serco for this challenging project included not only our grasp of technology and security issues but also our partnership approach and willingness to adopt an open book relationship.

united kingdom






united states



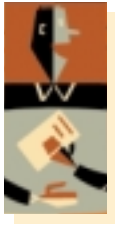
Seminole County, Florida
Serco's readiness to form mutually beneficial partnerships - with customers and fellow suppliers - was a key factor in winning an important new contract with Seminole County, Florida. The contract covers maintenance of almost 1,900 vehicles for the fire, police, forestry and other county services - ranging from mowing machines to bulldozers. The county authorities were impressed by our willingness to set a firm price ceiling and work with them to achieve and share cost savings. They also liked our partnership with DMG Maximus, the US industry leader in IT consultancy for fleet maintenance. This enabled us to provide a customised IT package that met their very demanding requirements for performance tracking. We're expecting our relationship with DMG Maximus to generate further business for both companies, and our customers at the Washington DC Police have already agreed to adopt the same IT system.



united arab
emirates



Middle East international airports
Our aeronautical services business in the Middle East, Serco-IAL, has over 50 years' experience of serving the aviation industry in the Gulf and elsewhere. In the past year we have successfully renegotiated contracts at three airports – Dubai, Ras Al Khaimah and Sharjah. These contracts include provision of air traffic control (ATC) services and the maintenance and operation of ATC-related systems. At Ras Al Khaimah and Sharjah they also cover fire and rescue systems and airport security. An important part of our relationship with customers on these contracts is our commitment to training local staff so that they can manage day to day operations to the highest international standards. In addition to these renewed contracts, we also won a new contract to provide consultancy for the specification, installation and commissioning of upgraded navigational aids at Bahrain International Airport.



Business review

Our strong performance in 2000 reflected successes in all regions. We retained and extended much of our existing business while winning new contracts – many of which allow us to demonstrate new levels of management and technical capability.

In the UK we began four very large contracts: the Atomic Weapons Establishment (AWE), the Joint Services Command and Staff College, an infrastructure maintenance contract for Railtrack and an information management and communication partnership with the National Crime Squad.

In continental Europe our German, Italian and Belgian businesses are making an increasingly valuable contribution. We won significant contracts in Sweden, including technical services at the Forsmark nuclear power station, and from CERN, the European Organisation for nuclear research in Switzerland. We also gained important new projects from the European Space Agency.

In the Middle East we successfully renewed the aeronautical technical services contracts at Dubai, Ras Al Khaimah and Sharjah International Airports, and phased-in a new air traffic management system in Dubai.

We had a good year in North America. In rebidding for air traffic control (ATC) contracts from the Federal Aviation Administration (FAA) we increased the number of towers we operate, giving us scope for further expansion. New opportunities have opened up for our relationship with Lockheed Martin, enabling us to begin negotiations on a private finance initiative (PFI) project to provide an astrobiology laboratory.

In Asia Pacific our principal successes were in defence – in Australia, where we now provide 50% of all garrison support services, and in New Zealand, where we continued to win significant contracts.

Public private partnerships (PPPs) and PFIs remain a significant source of opportunity for us. In the UK, at the Joint Services Command and Staff College, where Serco has an operating contract worth more than £200 million over 27 years, our joint venture completed the £90 million facility and we recruited 300 staff to operate it. Dovegate Prison, Norfolk and Norwich Hospital and Wishaw General Hospital are on schedule for completion this year. We are in advanced negotiations for the Highways Agency's new national Traffic Control Centre PFI.

At AWE we are currently discussing a PPP which would extend our 10-year contract by a further 15 years and enable our consortium to raise private finance for a series of major capital works. We have been included on the final shortlist of three for the National Air Traffic Services PPP.

We have successfully completed the first selection stage for the UK's Future Strategic Tanker Aircraft programme; and we are investigating the opportunities for a similar programme due to be announced in Australia – the fact that the Australian military are developing PFI projects augurs well for the spread of this procurement method and for our own future growth prospects. We are pursuing our first opportunities in Japan; and we have formally agreed a joint working group with Lockheed Martin in the US to identify further projects beyond our astrobiology laboratory PFI proposal.



National, regional and local government

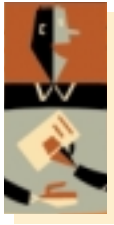
Our aim in this market is to maintain a solid foundation through rebids and extensions, while winning increasingly critical, complex projects with existing and new customers.

In the UK we won and successfully began a major partnership with the National Crime Squad. Under a 10-year contract, valued at over £65 million, we will develop its information management and communications strategy and provide comprehensive and highly secure technical resources ranging from the provision of data centres to the storage and tracking of vital evidence.

Justice has become an increasingly important sector for us. During the year we successfully rebid a 10-year contract for management and operation of Doncaster Prison in Yorkshire. In 2001 we begin operation of Dovegate Prison in Staffordshire under a PFI contract.

We won our largest Swedish contract to date, for technical services and facilities management at Forsmark nuclear power station. This covers a wide range of activities from decontamination services to managing almost 700 accommodation units and we have already broadened its scope.

In Germany we won a further extension of the contracts we have held since 1984 with the Federal Employment Office. Under these contracts we provide further education and retraining for over 1,000 job-seekers a day at 13 training centres.



Serco Group plc

In the Netherlands we extended our mainframe computer support contract with the European Patent Office. We won our second contract with the Dutch government, to manage the Housing Ministry's telecommunications infrastructure at its three main sites in The Hague. Our IT contracts with the European Commission were extended. These cover primarily PC user support to over 15,000 staff in some 30 buildings in Brussels and Luxembourg, and continue to achieve good organic growth.

We began a new contract for CONSOB, the National Commission that oversees the Italian Stock Exchange and public companies: we are supporting its entire IT infrastructure for 450 employees at two offices in Rome and one in Milan.

We are actively pursuing opportunities in the UK education market, where we see significant future growth potential. In December 2000 we acquired Quality Assurance Associates, which is one of the UK's primary providers of school inspection services and head teacher leadership training. The acquisition, for £2.6 million, complements our change management and process improvement expertise and will support our proposals for partnerships with local education authorities.

In 1995 we took over the direct labour organisation of Winchester City Council for five years. The success of the contract, and the strong partnership we have built with the council, won us a 10-year renewal beginning in April 2001.

In the US the outsourcing of state government services is gathering momentum. We made further progress by winning the vehicle fleet maintenance contract for Seminole County in Florida. This includes police and county vehicles and the firefighting fleet at Sanford Airport.

In Asia Pacific we renewed our housing management contract with JTC Corporation in Singapore; and renewed and extended contracts to maintain nearly 300 parks and open spaces in Manukau City, New Zealand. In Australia we won a five-year contract employing 60 staff to manage and operate the Transinfo public transport information service jointly funded by Queensland Transport, Queensland Rail and Brisbane City Council.

We are building increasing strength in leisure centre management. In the UK we won a 10-year contract

to manage the Manchester Aquatics Centre. Built to host the Commonwealth Games in 2002 and to provide a community legacy, this is the world's most technically advanced pool complex.

We also won a 10-year extension to our management and operation contract at Tenterden Leisure Centre in Kent, which will include significant investment in new facilities. In Aylesbury Vale we won a 10-year extension to a leisure centre contract, also involving investment in new facilities; and our customer's satisfaction with our performance has led to a second leisure centre contract. In Sweden we renewed our contract to run the Linköping Leisure Centre and won a five-year contract to manage the Umeå Leisure Centre.



Defence Defence is a growing and rapidly evolving market where customers are increasingly looking to procure services or capabilities rather than assets. In the UK alone the market for defence services is expected to reach £15.1 billion by 2009. We aim to maintain our position as a major service provider to national defence forces through contract extensions and rebids, while extending the depth and geographic spread of our capability.

In October we were named as preferred service provider for logistical support, facilities management and range management services to the New Zealand Army's principal training area in Waiouru. The six-year contract, with scope for extension to 10 years, is worth NZ\$60 million.

Importantly, we won a seven-year renewal of our contract at the Defence Procurement Agency headquarters in Abbey Wood near Bristol. With work services management added to our previous contract, we will have over 350 people delivering a total corporate support service.

Another valuable renewal was a second one-year extension to our Royal Navy marine services support contract at the Portsmouth, Devonport and Clyde submarine bases, taking the original five-year term to seven years. This £35 million a year contract involves operating 140 Ministry of Defence vessels and employs 700 seagoing and shore-based support staff.

We also successfully rebid for a further four years' consultancy to Germany's part of a NATO Air Command and Control System project, and for the management of the Defence Evaluation and Research Agency (DERA) Hebrides and Raasay weapons testing ranges in Scotland.



Business review

We achieved an important addition to our facilities management business in Germany by winning the contract to provide serviced accommodation for OCCAR, the joint defence procurement body formed by Germany, the UK, France and Italy.

Significant new UK contracts included spares and support for the Sonar 2093 system in Sandown Class minehunters; maintenance and repair support for Sonar 2054 training systems; and a contract from DERA to crew, operate and maintain its new experimental research vessel RV Triton – a revolutionary trimaran that will be used to test the triple hull concept for future Royal Navy warships.

To broaden our defence engineering skills and enhance our ability to provide complete solutions, we acquired Rakmulti in July for £1 million. This is a UK-based systems integration business specialising in high bandwidth satellite communications, a growth area which is particularly important to naval operations and 'out of area' activity for land and air forces.

In January 2001 we delivered the final vessel under a UK contract to design and build seven passenger support vessels for the Naval Bases and Supply Agency. The vessels were built at two UK shipyards.



Air transport Air transport is a major global growth market and our aim has been to consolidate our position as the world's leading provider of private air traffic control (ATC) and aviation technical services.

In the US we successfully rebid for our ATC contracts with the FAA, further increasing the number of towers under our control from 51 to 56. The contracts are now worth over US\$19 million a year. In the Middle East we renewed ATC and technical services contracts at Dubai, Ras Al Khaimah and Sharjah International Airports; and at Bahrain International Airport we will manage the installation and commissioning of upgraded navigational aids. In Europe we further extended our contracts with Eurocontrol and our operations at Zaventem Airport in Brussels.

Under a planned PPP, the UK government is selling a controlling share of the National Air Traffic Services (NATS) to a strategic partner. NATS is the UK's ATC service covering UK airspace and the eastern parts of the North Atlantic as well as 14 of the country's busiest airports. We have been shortlisted for this partnership.



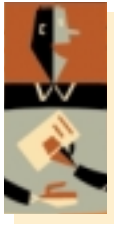
Rail transport Rail is a large and technically complex market that is changing fast as a result of deregulation worldwide. Our service expertise and in-depth experience of safety management position us well for growth in activities as diverse as infrastructure maintenance, testing and passenger services.

In the UK we phased-in our infrastructure maintenance contract with Railtrack's East Midlands Zone, covering some 1,200 miles of track and employing about 600 people. We have already been awarded additional contracts for structures inspection and property maintenance, and are in discussions to add track renewals. We also bid successfully for the property management and maintenance contracts in Railtrack's Southern and Anglia Zones, increasing our business in this field by 250%. Together with the renewal of our contract for the North West Zone, this means that we now provide over 60% of Railtrack's property maintenance.

Train testing is under way for the Copenhagen Metro, where we are scheduled to start operating passenger services in 2002.

Information technology for transport infrastructures is a significant growth area for us. In the UK we won the contract to run the Association of Train Operating Companies' communication centre, which collects and distributes rail information from Railtrack and train operators. At the National Rail Enquiry Scheme we implemented a new information system and internet site – in time to assist with a tenfold increase in enquiries during the prolonged upheaval that followed the Hatfield rail crash. In Scotland, the rail operator ScotRail, part of the National Express Group, extended our information and telesales contract after we helped to increase revenues by 50% in two years.

As operator of London's award-winning Docklands Light Railway (DLR) we have been enhancing the service by displaying real-time train information in streets and buildings around stations, on the DLR website and via WAP mobile phones. We are also trialling real-time news and information screens in trains – a UK first. In Australia we introduced email booking and enquiry facilities for our Ghan, Indian Pacific and Overland trains, followed by direct internet booking early in 2001. These services, which rank among the great train journeys of the world, attract tourists from all over the globe.



Serco Group plc

In the UK we began acceptance testing of new non-tilting trains for Virgin CrossCountry services, under a new contract with Bombardier Transportation. We also secured a contract from ALSTOM to undertake certain aspects of the acceptance testing on the Coradia 1000 Class 180 diesel trains.



Road transport Congestion is a major issue for cities worldwide – it costs the UK economy alone over £15 billion a year. The efficient use of traffic infrastructure has become a major growth area, and we aim to develop a breadth of capability across road transport that enables us to support customers in devising and implementing integrated transport plans.

We are in negotiation with the UK Highways Agency for a contract to build and operate its national Traffic Control Centre. This will allow the strategic management of traffic on England's core trunk road network, monitor traffic and journey times, and distribute traffic and travel information through existing and new media. We would construct the centre and develop its IT systems over a 2½-year period, and then operate and maintain it for a further 7½ years.

In Scotland we bid successfully to expand the scope of the country's National Driver Information and Control System. This integrated traffic management system, which we have been developing since 1993, is now one of the world's largest and most advanced driver information and control systems.

In New Zealand we have won a three-year contract to operate and maintain a traffic control centre for the Auckland motorway system. This contract complements our existing communications and traffic control contracts. We successfully rebid our contract to manage Auckland's state highway and motorway network including maintenance, asset management strategy and traffic planning.

In Hong Kong we won a further six-year contract to manage the Lion Rock and Airport Road tunnels. The new contracts – extending a relationship begun in 1993 – will employ over 200 staff.

The City of Birmingham in England appointed us to set up a bus tracking and passenger information system modelled on the satellite-based systems we have provided in Coventry and Sheffield. These supply real-time information to operators and passengers, and give buses priority at traffic-signalled junctions.



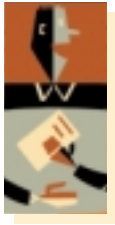
Science and technology Governments around the world are increasingly concerned to improve the effectiveness of their science and technology spend through investment in new equipment and better knowledge transfer to industry. As a major employer of scientists, we are looking to extend our presence in this market.

We successfully phased-in the management and operation of the UK Atomic Weapons Establishment (AWE), managing over 4,000 staff through our joint venture with Lockheed Martin UK Ltd and British Nuclear Fuels plc. Both the Nuclear Installations Inspectorate and the Environment Agency have praised our safety and environmental performance to date. Our operations have already been extended to include support for the weapons convoys serving the AWE – a significant demonstration of our customer's confidence in our capability.

We are negotiating a two-year extension to our contract to manage the National Physical Laboratory (NPL), where we are currently investing in extensive new laboratory facilities to replace 50 of the site's 73 buildings. Another investment to maintain the NPL's position among the world's top three measurement laboratories is the creation of one of the world's largest scientific websites. We continue to create revenue-generation opportunities, including a new Knowledge Transfer Centre which is already producing income of £4 million a year. Current NPL programmes include a £7 million government project to promote environmental best practice and a series of R&D contracts with companies leading the fibre optic communications revolution.

We further extended our activities with the European Space Agency by winning two new contracts at the European Space Research and Technology Centre in the Netherlands. The first provides support services in thermal microgravity instruments, robotics and optics laboratories; the second is for radiation and quality testing of satellite components.

In partnership with Air Liquide of France and Linde Kryotechnik of Switzerland we have been selected by the European organisation for nuclear research, CERN, to maintain and operate its helium cryogenic plants, the world's largest cryogenic installation, from July 2001. This is the fourth contract we have secured with CERN.



Business review



Private sector As businesses focus their talent and investment on areas of competitive advantage, they increasingly seek external management support for non-core activities. Our experience of managing critical services for governments positions us well to handle the outsourcing of ever more complex tasks for the private sector.

We have become Ireland's leading facilities management company, benefiting from the country's economic growth and the influx of US companies. In January we began a facilities management contract with Microsoft, covering a wide range of technical and non-technical services in the company's 12 Dublin premises. These include its European operations and product localisation centres.

We have also extended our reach in Northern Ireland with a two-year facilities management contract for the Bank of Ireland at its new Belfast operations centre.

Worldwide developments in e-commerce, internet application services, interactive television and WAP are creating exciting prospects for our usability business, which helps companies to make their technology user-friendly. In November we opened a new purpose-built usability laboratory in London. To increase our international presence in this field we acquired The Hiser Group in Australia; the AUSD\$6 million deal, completed in January 2001, brings us one of the world's most respected consultancies in user interface design and usability. We have recently been asked by the UK government to form an industry network covering interactive TV issues.

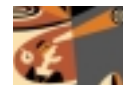
In New Zealand we extended our contract to provide property maintenance and building services at 4,000 sites for Telecom New Zealand, the country's largest business. This contract has grown to include Telecom's preventive maintenance programme, and in the past two years we have earned substantial incentive payments for achieving cost savings.

In Sweden we built on our existing building maintenance contract at Stockholm's Grand Hotel, winning a new contract to manage a SEK150 million renovation project. We continue to extend our relationship with the hotel – this year we have added responsibility for cleaning and transport support services.

We extended our Welsh facilities management contract with the stainless steel company AvestaPolarit after successfully growing the contract since 1992.

In the US we built on our existing vehicle fleet maintenance contract with Dayton Power & Light to win an additional contract to provide mobile tanker refuelling for its 900-strong vehicle fleet. We added value to the contract by enhancing our mobile maintenance service – introducing hand-held data terminals and a wireless internet management information system.

The expertise we gain in the public sector can often have applications in the commercial sector. For instance, our defence business has won a contract to provide engineering support to Global Marine Systems, the world's leading submarine cable maintenance and installation company. The contract includes operation and maintenance of sub-sea vehicles for installing fibre optic telecommunication cables.

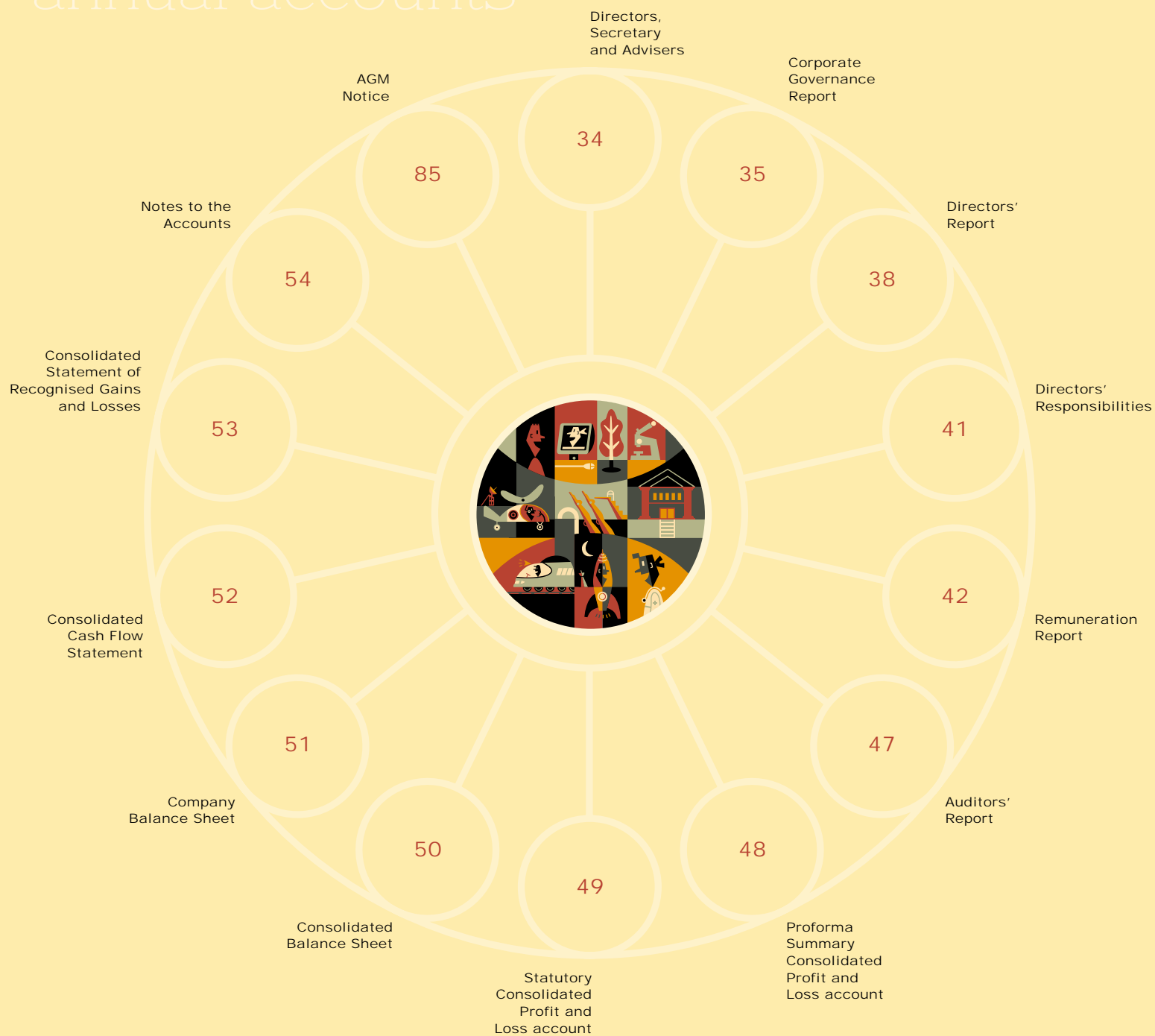


Outlook Our markets remain buoyant and our ability to deliver a full range of services in a single contract is increasingly in demand. Our largest markets, in defence and transport, remain very strong – and we also see increasing opportunity in new fields such as science, justice and education. The scale and complexity of opportunities continue to increase, and this plays to our strengths in both bidding and implementation.

We are seen as a world leader in private sector solutions for delivering public services and we expect to be a significant beneficiary of a worldwide trend towards PFIs and PPPs. The US has started discussing PPPs in the space sector, the Australian Department of Defence is developing a PFI methodology, the state of New South Wales has released a green paper on PFIs, Japan has begun inviting PFI tenders, and Germany has initiated pilot projects in defence. We have formed a Global Projects team to identify and bid for the very large and complex opportunities that are beginning to emerge around the world; and we are forming partnerships and strategic alliances with major international corporations where we believe they will enhance our credibility in this exciting new arena.

The outlook for the future remains bright and we are confident of maintaining our growth record for the foreseeable future.

annual accounts



Directors, Secretary and Advisers

Executive Chairman	Richard White
Directors	Kevin Beeston Betsy Bernard* Ralph Hodge CBE* Christopher Hyman Rhidian Jones* Iestyn Williams
Secretary	Julia Cavanagh
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 The Royal Bank of Scotland plc 135 Bishopsgate London EC2M 3UR
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 of good governance and code of best practice set out by the Hampel Committee as appended to the Listing Rules of the UK Listing Authority (“the Combined Code”). This Report sets out how the Company applies the Combined Code.

The Board and its Directors

The Board currently comprises seven Directors: Kevin Beeston, Betsy Bernard, Ralph Hodge, Christopher Hyman, Rhidian Jones, Richard White, and Iestyn Williams. Their profiles and roles are set out on page 40.

It is the opinion of the Board that the Non-executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The senior independent Non-executive Director is Rhidian Jones.

The Board is responsible to the shareholders of the Company and meets regularly to discuss and decide on issues of strategy, performance and control. There is a formal schedule of matters specifically reserved to the Board for decision, including but not limited to, submission of major bids, material acquisitions and disposals, and corporate objectives. Information required by Directors on issues concerning the Company and its subsidiaries (“the Group”) is supplied by management on a timely basis. In addition, regular presentations are made to the Board by senior employees on business performance, health, safety and the environment, corporate governance and risk management. The adequacy of this information is regularly reviewed.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company’s expense.

In accordance with the Company’s Articles of Association, one third of the Board are required to retire by rotation each year so that over a three-year period all Directors will have retired from the Board and faced re-election.

Board Committees

The Board has delegated authority to a number of committees to deal with matters in accordance with written terms of reference. The Chairman of each of the Committees provides a report of any meeting of that Committee at the next Board Meeting, and the Chairmen of the four standing Committees are present at the Annual General Meeting to answer questions from shareholders.

Brief details relating to each of the standing Committees are set out below:

The Audit Committee

The Audit Committee is comprised of all three Non-executive Directors and is chaired by Rhidian Jones. The Committee meets on at least two occasions each year to examine and consider matters relating to the affairs of the Group. These matters include examination of the Company’s Annual Accounts and review of the internal financial control procedures in place for controlling the Group’s business, as well as compliance with accounting standards and generally accepted accounting principles.

In addition, the fees and objectivity of the Company’s auditors and other external accounting advisers are considered by members of the Committee.

Detailed presentations to the Committee are made, on request, but no less than annually, by the Company’s internal and external auditors. The presence of the Finance Director and other senior managers from the Group may be requested.

The Remuneration Committee

The Remuneration Committee comprises all three of the Non-executive Directors and is chaired by Ralph Hodge. The Committee meets on at least two occasions each year to examine and consider matters relating to the remuneration of Executive Directors and their terms and conditions of service. The recommendations of this Committee, as adopted by the Board, are set out in the Remuneration Report on pages 42 to 46.

Corporate Governance Report

The Training Committee

The Training Committee is comprised of Betsy Bernard, Ralph Hodge, Christopher Hyman, Rhidian Jones and Iestyn Williams. The Committee is chaired by Iestyn Williams and meets at least once a year to examine and consider the training needs of Directors and senior executives.

During the year, the Committee has reviewed ongoing training requirements for all Directors, and the Company Secretary. The Committee has also formalised the Company's induction programme for Non-executive Directors to ensure that a comprehensive familiarisation programme is in place.

The Nomination Committee

The Nomination Committee is comprised of the Executive Chairman of the Company, together with the three Non-executive Directors. The Committee, which is chaired by Richard White, meets as required to examine and consider proposed appointments to the Board.

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

The Company and its Shareholders

The Board values dialogue with its institutional and private shareholders. This year the Board has hosted site visits for institutional investors to facilitate a deeper understanding of the operations of the Group. Formal presentations are made to institutional investors and brokers' analysts after the release of the interim and final results, and individual meetings by request are held during the year.

The principal methods of communication with private investors are the Interim Statement, the Annual Review and Accounts, Annual Review and Summary Financial Statement and the Annual General Meeting.

Additional information about the Company's heritage, markets, services and significant announcements is available on the Company's web site.

Internal Control and Risk Management

The Board of Directors has overall responsibility for the system of internal control, including financial, operational and compliance controls and risk management, to safeguard shareholders' investments and the Company's assets. It is acknowledged that any system of internal controls is designed to manage rather than eliminate risk and that even the most effective system can only provide reasonable and not absolute assurance against misstatement or loss.

The Company's Risk Management Policy formalises the requirement for all business units to operate appropriate and effective risk management processes. The Company has a detailed risk management process which identifies the key risks facing each business unit. These processes are designed to support the Group's strategic direction and business objectives. Implementation of this approach is based on the premise that responsibility for risk management rests with line management and the Company endeavours to ensure that the appropriate infrastructure, controls, systems, staff, training and processes are in place. Some of the key management control processes are set out below:

Sound project management and change implementation disciplines are applied to all major development projects including new contract phase-ins, acquisitions, new technology applications and other major initiatives.

The commitment and capability of all staff is critical for the effective management of risk. Ongoing training and development is made available to improve the skills of managers to ensure the current and future needs of the business can be met.

Safety management systems in the Company's aviation, rail, defence and nuclear businesses have been addressed by the appointment of safety specialists for each area who report regularly to the Board and are charged with maintaining and further developing the very high standards of safety expected in these industries. Additionally all business units have clearly detailed health and safety management systems.

The operational risk framework tracks key risk indicators. These include analysis of business planning, customer satisfaction, staff turnover and satisfaction levels, occupational health and safety incidents and error and exception reporting. The Company maintains insurance cover and ensures that the policies are reviewed on a regular basis.

Each contract and project produces a risk register which identifies the key risks, the probability of those risks occurring, their likely impact and the mitigating actions being undertaken. Risk data is reviewed and consolidated to produce business unit risk registers which are reviewed quarterly. The Group risk register is derived from the business unit analysis and identifies the key risks facing the Group including certain risks which are managed directly at a Group level. A review of the risk register is undertaken at the Board Meeting on a quarterly basis.

Corporate Governance Report

A full time Risk Director has the responsibility to oversee and review the internal control and risk policies and 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 Risk Director reports to the Board on any material findings of these meetings.

Significant internal control processes used by the Group are described below:

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

There is a clearly defined framework for approving all acquisitions, capital projects and expenditure within the Group.

Appropriate authorisation procedures are in place for the review and submission of bid documents to customers, and contract documents are reviewed at an appropriate level to ensure the terms and conditions therein are acceptable to the Group.

During 2000, Grant Thornton and Pannell Kerr Forster have continued to provide an internal audit function within the Group. Their programme has been designed to address internal control and risk management processes and the recommendations of the Turnbull Report. Their findings are reported to business units, the Audit Committee and the Board.

Following publication of Internal Control: Guidance for Directors on the Combined Code ("the Turnbull Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and that this process has been in place for the year under review and up to the date of approval of the Annual Review and Accounts. This process is regularly reviewed by the Board and is consistent with the Turnbull Guidance.

Going Concern

Following a review of the Group's financial results and forecasts, as well as holding discussions with relevant individuals, the Directors confirm that they are satisfied that the Group has adequate resources to continue in operational business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Review and Accounts.

Compliance during 2000

With exception of those matters detailed below the Company has fully complied with the provisions stated in Section 1 of the Combined Code.

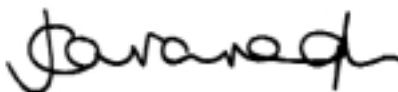
Number of Non-executive Directors

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. Since the appointment of a third Non-executive Director on 5 April 2000, the Company has complied with both provisions.

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' service contracts. 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 Cavanagh
Secretary

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

20 February 2001

Directors' Report

Annual Review and Accounts

The Directors of the Company have pleasure in presenting the Annual Review and Accounts of the Group for the year ended 31 December 2000.

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 2000 can be found in the Business Review on pages 28 to 32.

Share Capital

At an Extraordinary General Meeting held on 5 April 2000, the shareholders approved a share capitalisation of five Ordinary Shares for each existing Ordinary Share already held.

This change together with other increases in the issued Ordinary Share Capital during the period is explained in Note 21 to the Annual Accounts set out on pages 73 and 74.

During the year the Company purchased 2,298,090 Ordinary Shares to satisfy options granted under employee incentive schemes. The value of these shares is included within fixed assets on the Balance Sheet.

Dividends and Transfers to Reserves

An interim dividend of 0.50p (1999 – 0.44p restated as a result of the share capitalisation detailed above) per Ordinary Share was paid on 13 October 2000. A final dividend of 1.13p (1999 – 0.98p restated as detailed above) per Ordinary Share is being recommended by the Directors for payment on 6 April 2001 as set out in Note 8 to the Accounts on page 62. After dividends, retained profits of £16,583,000 will be transferred to reserves.

Substantial Shareholdings

As at the close of business on 9 February 2001 (being the latest practical date prior to the printing of the Directors' Report), the Company had received notifications of the following substantial interests representing over 3% of the issued share capital:

Standard Life Investments Company	3.58%
FMR Corp. and Fidelity International Limited	4.11%

In the case of non-material interests representing 10% or more of the issued share capital, the Company had received the following notification:

Merrill Lynch Investment Managers Limited	10.42%
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Directors

The names of the current Directors of the Company are given on page 34 and their profiles are provided on page 40.

Details of the Directors' interests in the Share Capital of the Company are listed below. The Executive Directors' service contracts and Non-executive Directors' letters of appointment are detailed in the Remuneration Report on page 46.

The following changes have been made to the Board during the year. On 3 March, Gerry Rodgers retired as an Executive Director; at the conclusion of the Annual General Meeting on 5 April, Ralph Hodge was appointed as a Non-executive Director; on 20 December, Betsy Bernard was appointed as a Non-executive Director and Gary Sturgess resigned as a Non-executive Director to join the Company as a full time executive. During the second half of the year Gary Sturgess provided consultancy services to the Group via his company, Sturgess Australia.

Excluding Executive Directors' service contracts, the Non-executive Directors' letters of appointment and the consultancy services disclosed above, there were no other contracts in which Directors had an interest.

Directors' Shareholdings

The Directors' interests in the shares of the Company were as follows:

	1 January 2000	1 January 2000 restated	Ordinary Shares of 2p each fully paid 31 December 2000
K S Beeston	7,830	46,980	107,140
B J Bernard	–	–	–
R N Hodge	–	–	2,010
C R Hyman	200	1,200	15,879
R H B Jones	7,750	46,500	46,500
R D White	369,502	2,217,012	2,217,012
I M Williams	416,945	2,501,670	2,501,670

The number of shares as at 1 January 2000 has been restated to reflect the capitalisation issue on 5 April 2000.

Annual General Meeting

The Fourteenth Annual General Meeting of the Company will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on 29 March 2001 at 10.00am.

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.

Directors' 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 all employees without prejudice. 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 service with the Group, wherever practicable, arrangements are made to continue their employment and training.

The Group encourages employees to be involved in the local communities in which we operate. Last year our employees supported local charities and good causes through their own initiatives.

Participation by staff in the success of the Group is encouraged by the availability of a world wide share save scheme, and a share option plan for senior staff which effectively aligns their interests with those of shareholders by requiring that options may only be exercised conditional upon performance criteria being achieved.

Health, Safety and Environmental Policies

The Group recognises and accepts its responsibilities for health, safety and the environment ("H,S&E"). The Group has an H,S&E Director who is responsible for the development and monitoring of policies, procedures and control systems and reports to the Board via the Chief Executive.

Within the Group there is a dedicated team which provides advice and support on H,S&E issues. This team operates closely with the H,S&E Managers within the business units. Regular H,S&E meetings are held and are attended by business unit Managing Directors or their nominated representatives. A Company H,S&E Conference is held annually with representatives from around the world. In order to maintain a high level of H,S&E awareness, great emphasis is placed on training in all related subjects and regular in-house and external courses are provided for staff at all levels of the organisation.

To ensure compliance with all relevant legislation and Company standards in operation throughout the Group there is a comprehensive audit system. The Group H,S&E team undertakes regular audits of the Health, Safety and Environmental Management systems around the Group. Detailed audit reports are produced, best practice is shared, corrective action identified if relevant and remedial action promptly implemented. In addition the business units are frequently externally audited.

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 2000 were 31 days (1999 - 30 days)(Company - 29 days (1999 - 28 days)).

Charitable and Political Donations

During 2000, the Group made contributions of £103,000 (1999 - £43,000) to charities in the United Kingdom. There were no political contributions made by the Group.

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.

Directors' Report

Directors Profiles

Kevin Stanley Beeston FCMA (38)

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.

Betsy Jane Bernard MBA (45)

Non-executive Director

Betsy was until recently Executive Vice President of National Mass Markets, part of Qwest Communication International. She previously worked at AT&T for 18 years. Betsy has a wealth of commercial experience, an understanding of operating in an environment of rapidly changing technology and knowledge of the North American Market.

Ralph Noel Hodge CBE B.Eng (Hons) (66)

Non-executive Director

Ralph is Chairman of the Water Research Council, a Non-executive Director of British Ceramic Tiles and ORC (Inc) and a member of the International Board of Faircourt Capital. He was previously Non-executive Chairman of Enron Europe Limited and Chief Executive of ICI Chemicals and Polymers. He is a distinguished Engineer and has recently been awarded a CBE in recognition of his services to the power generation and gas industries.

Christopher Rajendran Hyman CA (SA) (37)

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 (57)

Senior 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 re-appointed in 1996. He is also the Non-executive Deputy Chairman of the Britannia Building Society.

Richard David White BSc (Hons) (51)

Executive Chairman

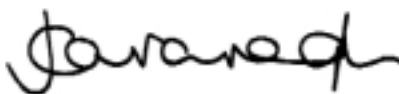
Richard joined the business in 1970, when it was part of RCA. He worked in both operations and marketing roles, becoming Director of Government Services in 1984. After the management buyout from RCA in 1987 he became the new company's Managing Director and subsequently Chief Executive, taking particular responsibility for developing Serco's marketing strategy and operational philosophy. He was appointed Executive Chairman in April 1999.

Iestyn Milton Williams BA (49)

Executive Director

Iestyn 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 building the business 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. Over the last two years Iestyn has focussed on leading the Group's expansion in Europe.

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



Julia Cavanagh

Secretary

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

20 February 2001

Directors' Responsibilities

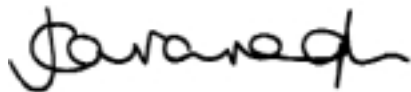
Directors' Responsibilities

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, 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 Cavanagh

Secretary

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

20 February 2001

Remuneration Report

Introduction

This Report details the remuneration policy and actual remuneration of the Directors of the Company for the year ended 31 December 2000, 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 all three Non-executive Directors and is chaired by Ralph Hodge.

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 the light of 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 Group 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 remuneration, the Committee consults with the Executive Chairman and the Chief Executive. 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 43 to 46.

Remuneration Report

1. Salaries and Benefits

The salaries and benefits of the Directors are as follows:

	Basic salary £	Fees £	Other £	Benefits £	Total Remuneration excluding pensions 2000 £	Total Remuneration excluding pensions 1999 £
K S Beeston	286,458	-	-	1,078	287,536	235,849
B J Bernard	-	828	-	-	828	-
R N Hodge	-	20,208	-	-	20,208	-
C R Hyman	244,042	-	-	859	244,901	134,842
R H B Jones	-	26,458	-	-	26,458	25,000
G Rodgers	57,077	-	15,000	-	72,077	207,121
G L Sturgess	-	22,307	86,250	-	108,557	35,101
R D White	329,292	-	-	1,836	331,128	312,478
I M Williams	244,042	-	-	2,273	246,315	214,277
Total	1,160,911	69,801	101,250	6,046	1,338,008	1,164,668

Notes:

On 3 March 2000 G Rodgers retired as an Executive Director and subsequently retired from the Company. On retirement he received a one off payment of £15,000 and a contribution of £467,196 was made to his pension fund, as referred to in paragraph 3 note (ii) of the Remuneration Report. On 5 April 2000, R N Hodge was appointed as a Non-executive Director. On 20 December 2000 B J Bernard was appointed as a Non-executive Director of the Company and G L Sturgess resigned. During the second half of the year G L Sturgess received £86,250 in relation to consultancy services. G G Gray received a final payment of £18,838 in relation to additional days worked prior to his retirement.

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").

On 5 April 2000, shareholders approved a resolution to amend the terms of the LTIS and the EOP for any subsequent awards made under the schemes.

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 therefore becomes exercisable) is measured by reference to growth in the Company's earnings per share before FRS 10 (Accounting for Goodwill and Intangible Assets) ("EPS") over the performance period of three financial years.

Prior to this year, the last grant of awards made under the LTIS was in 1997 with a performance period expiring on 31 December 1999. Growth in EPS for the performance period exceeded 50% and all of the awards have vested.

For awards made after 5 April 2000 the EPS target growth has been made more rigorous and full vesting will only occur if the cumulative EPS growth is at least 64%. Awards will partially vest where the cumulative EPS growth is at least 35% and will continue to vest on a straight line basis for each percentage increase in EPS growth over the three year period until full vesting is achieved at a cumulative growth rate of 64%. Except in exceptional circumstances awards must be made to employees prior to the commencement of the performance period to which they relate.

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

Remuneration Report

2. Share-based Incentives (continued)

i) Serco Group plc 1996 Long Term Incentive Scheme

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

		Number of options at 1 January 2000	Granted during the period	Exercised during the period	Lapsed during the period	Balance at 31 December 2000	Exercise price £	Market price on exercise date £	Value realised on exercise £	End of performance period	Date of expiry of option
K S Beeston	Add' Award	15,312	-	15,312	-	-	Nil	4.61	70,588	01-01-99	01-01-03
	3 Yr Award	73,440	-	73,440	-	-	Nil	4.61	338,558	01-01-00	01-01-04
	Add' Award	36,720	-	36,720	-	-	Nil	4.61	169,279	01-01-99	01-01-04
	3 Yr Award	-	38,736	-	-	38,736	Nil	-	-	31-12-02	04-04-10
	3 Yr Award	-	51,885	-	-	51,885	Nil	-	-	31-12-03	23-11-10
B J Bernard	-	-	-	-	-	Nil	-	-	-	-	
R N Hodge	-	-	-	-	-	Nil	-	-	-	-	
C R Hyman	3 Yr Award	18,000	-	18,000	-	-	Nil	4.53	81,540	01-01-00	01-01-04
	3 Yr Award	-	32,868	-	-	32,868	Nil	-	-	31-12-02	04-04-10
	3 Yr Award	-	44,474	-	-	44,474	Nil	-	-	31-12-03	23-11-10
R H B Jones	-	-	-	-	-	Nil	-	-	-	-	
G Rodgers	3 Yr Award	23,208	-	23,208	-	-	Nil	4.83	112,095	01-01-99	01-01-03
	Add' Award	59,106	-	59,106	-	-	Nil	4.83	285,482	01-01-99	01-01-03
	3 Yr Award	73,440	-	73,440	-	-	Nil	4.83	354,715	01-01-00	01-01-04
	Add' Award	36,720	-	36,720	-	-	Nil	4.83	177,358	01-01-99	01-01-04
R D White	3 Yr Award	124,632	-	124,632	-	-	Nil	4.53	564,583	01-01-00	01-01-04
	3 Yr Award	-	48,516	-	-	48,516	Nil	-	-	31-12-02	04-04-10
	3 Yr Award	-	51,885	-	-	51,885	Nil	-	-	31-12-03	23-11-10
I M Williams	3 Yr Award	156,930	-	-	-	156,930	Nil	-	-	01-01-99	01-01-03
	Add' Award	78,462	-	-	-	78,462	Nil	-	-	01-01-99	01-01-03
	3 Yr Award	86,796	-	-	-	86,796	Nil	-	-	01-01-00	01-01-04
	Add' Award	43,398	-	-	-	43,398	Nil	-	-	01-01-99	01-01-04
	3 Yr Award	-	32,868	-	-	32,868	Nil	-	-	31-12-02	04-04-10
3 Yr Award	-	44,474	-	-	44,474	Nil	-	-	31-12-03	23-11-10	

The number of options at 1 January 2000 and the market price on exercise have been restated to reflect the capitalisation issue on 5 April 2000.

The scheme is an unapproved scheme for Inland Revenue purposes.

No awards have been exercised by the Directors since the end of the financial year.

Remuneration Report

ii) Serco Group plc 1998 Executive Option Plan

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

		Number of options at 1 January 2000	Granted during the period	Exercised during the period	Balance at 31 December 2000	Market price on exercise date £	Value realised on exercise £	Exercise price £	Date from which exercisable	Date of expiry of option
K S Beeston	Approved	13,788	-	-	13,788	-	-	2.18	21-05-01	20-05-08
	Unapproved	68,922	-	-	68,922	-	-	2.18	21-05-01	20-05-05
	Unapproved	76,734	-	-	76,734	-	-	2.45	01-04-02	31-03-06
	Unapproved	-	58,764	-	58,764	-	-	4.26	05-04-03	04-04-07
B J Bernard	-	-	-	-	-	-	-	-	-	
R N Hodge	-	-	-	-	-	-	-	-	-	
C R Hyman	Approved	13,788	-	-	13,788	-	-	2.18	21-05-01	20-05-08
	Unapproved	25,290	-	-	25,290	-	-	2.18	21-05-01	20-05-05
	Unapproved	40,812	-	-	40,812	-	-	2.45	01-04-02	31-03-06
	Unapproved	-	49,830	-	49,830	-	-	4.26	05-04-03	04-04-07
R H B Jones	-	-	-	-	-	-	-	-	-	
G Rodgers	Approved	13,788	-	13,788	-	5.30	43,019	2.18	21-05-01	20-05-08
	Unapproved	68,922	-	68,922	-	5.30	215,037	2.18	21-05-01	20-05-05
	Unapproved	76,734	-	76,734	-	5.30	218,692	2.45	01-04-02	31-03-06
R D White	Approved	13,788	-	-	13,788	-	-	2.18	21-05-01	20-05-08
	Unapproved	119,448	-	-	119,448	-	-	2.18	21-05-01	20-05-05
	Unapproved	123,612	-	-	123,612	-	-	2.45	01-04-02	31-03-06
	Unapproved	-	73,572	-	73,572	-	-	4.26	05-04-03	04-04-07
I M Williams	Approved	13,788	-	-	13,788	-	-	2.18	21-05-01	20-05-08
	Unapproved	78,990	-	-	78,990	-	-	2.18	21-05-01	20-05-05
	Unapproved	86,076	-	-	86,076	-	-	2.45	01-04-02	31-03-06
	Unapproved	-	49,830	-	49,830	-	-	4.26	05-04-03	04-04-07

The opening balance and the exercise price on those options granted prior to 5 April 2000 have been restated to reflect the capitalisation.

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

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 31. In the event of death in service, each scheme provides for a lump sum payment as well as a dependants' 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	12,152	77,362	68,895
C R Hyman	2,272	-	7,724
G Rodgers	-	-	86,889
R D White	8,807	99,695	149,352
I M Williams	1,415	5,829	104,112

Notes to pension benefits:

- i) C R Hyman is to receive an additional benefit from an arrangement to which the Company contributes 15% of remuneration in excess of the Permitted Maximum under the Inland Revenue approved pension scheme.
- ii) On his retirement the Company made a contribution to G Rodgers pension of £467,196. A further payment of £43,195 is to be made in 2001.
- iii) 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.
- iv) 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.
- v) Members have the option to pay Additional Voluntary Contributions: neither the contributions nor the resulting benefits are included in the above table.
- vi) 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.

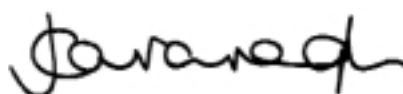
Non-executive Directors' Appointment and Fees

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. Gary Sturgess resigned as a member of the Committee prior to undertaking consultancy services to the Group via his company Sturgess Australia.

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 Cavanagh
Secretary

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

20 February 2001

Auditors' Report

Auditors' Report to the members of Serco Group plc

We have audited the financial statements on pages 48 to 84, which have been prepared under the accounting policies set out on pages 54 and 55.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 41 preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authority 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 37 reflects the compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority 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 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 United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 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

20 February 2001

Proforma Summary Consolidated Profit and Loss Account

For the year ended 31 December 2000

	<i>Note</i>	2000 £'000	1999 £'000
Turnover: Group and share of joint ventures	<i>2</i>	966,991	807,544
Less: share of joint ventures	<i>2</i>	(194,948)	(138,982)
Group turnover	<i>2</i>	772,043	668,562
Cost of sales		(669,361)	(580,586)
Gross profit		102,682	87,976
Administrative expenses excluding goodwill		(74,601)	(58,259)
Share of profits arising from joint ventures - including group joint venture costs and joint venture interest		13,172	4,350
Profit before group interest and goodwill		41,253	34,067
Net group interest	<i>4,5</i>	(3,543)	(2,643)
Profit on ordinary activities before taxation – pre amortisation of goodwill		37,710	31,424
Amortisation of goodwill		(3,681)	(2,092)
Profit on ordinary activities before taxation	<i>6</i>	34,029	29,332
Taxation on profit on ordinary activities	<i>7</i>	(11,059)	(9,538)
Profit on ordinary activities after taxation		22,970	19,794
Dividends	<i>8</i>	(6,387)	(5,593)
Retained profit for the financial year	<i>23</i>	16,583	14,201
Earnings per Share (“EPS”) of 2p each:	<i>9</i>		
Basic EPS, after amortisation of goodwill		5.85p	5.09p*
Basic EPS, before amortisation of goodwill		6.78p	5.63p*
Diluted EPS, after amortisation of goodwill		5.79p	5.06p*
Diluted EPS, before amortisation of goodwill		6.72p	5.60p*

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

The basis of preparation of this statement is set out in Note 1.

Statutory Consolidated Profit and Loss Account

For the year ended 31 December 2000

	Note	2000 Group £'000	2000 Joint Ventures £'000	2000 Total £'000	1999 Group £'000	1999 Joint Ventures £'000	Restated 1999 Total £'000
Turnover: Group and share of joint ventures – continuing operations	2	772,043	194,948	966,991	668,562	138,982	807,544
Less: share of joint ventures	2	–	(194,948)	(194,948)	–	(138,982)	(138,982)
Group turnover	2	772,043	–	772,043	668,562	–	668,562
Cost of sales		(669,361)	–	(669,361)	(580,586)	–	(580,586)
Gross profit		102,682	–	102,682	87,976	–	87,976
Administrative expenses		(78,282)	–	(78,282)	(60,351)	–	(60,351)
Amortisation of goodwill		(3,681)	–	(3,681)	(2,092)	–	(2,092)
Other administrative expenses		(74,601)	–	(74,601)	(58,259)	–	(58,259)
Other operating costs relating to joint ventures		–	(7,654)	(7,654)	–	(3,473)	(3,473)
Operating profit – continuing operations		24,400	(7,654)	16,746	27,625	(3,473)	24,152
Share of operating profit in joint ventures		–	28,876	28,876	–	11,121	11,121
Interest receivable	4	1,212	139	1,351	1,517	79	1,596
Group		1,212	–	1,212	1,517	–	1,517
Share of joint ventures		–	139	139	–	79	79
Interest payable and similar charges	5	(4,755)	(8,189)	(12,944)	(4,160)	(3,377)	(7,537)
Group		(4,755)	–	(4,755)	(4,160)	–	(4,160)
Share of joint ventures		–	(8,189)	(8,189)	–	(3,377)	(3,377)
Profit on ordinary activities before taxation	6	20,857	13,172	34,029	24,982	4,350	29,332
Taxation on profit on ordinary activities	7			(11,059)			(9,538)
Profit on ordinary activities after taxation				22,970			19,794
Dividends	8			(6,387)			(5,593)
Retained profit for the financial year	23			16,583			14,201
Earnings per Share (“EPS”) of 2p each:	9						
Basic EPS, after amortisation of goodwill				5.85p			5.09p*
Basic EPS, before amortisation of goodwill				6.78p			5.63p*
Diluted EPS, after amortisation of goodwill				5.79p			5.06p*
Diluted EPS, before amortisation of goodwill				6.72p			5.60p*

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

Consolidated Balance Sheet

At 31 December 2000

	<i>Note</i>	2000 £'000	1999 £'000
Fixed assets			
Intangible asset	10	68,662	66,854
Tangible assets	11	40,269	36,508
Investments in joint ventures	12	27,688	18,022
Share of gross assets		305,588	213,872
Share of gross liabilities		(277,900)	(195,850)
Investment in own shares	12	9,680	–
		146,299	121,384
Current assets			
Stocks	13	25,942	26,830
Debtors: Amounts due within one year	14	158,532	132,412
Debtors: Amounts due after more than one year	14	32,197	29,488
Cash at bank and in hand	17	80,098	58,779
		296,769	247,509
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	16	34,601	23,592
Trade creditors		56,902	48,178
Other creditors including taxation and social security	15	76,630	53,533
Accruals and deferred income		88,386	74,970
Proposed dividend	8	4,425	3,854
		260,944	204,127
Net current assets		35,825	43,382
Total assets less current liabilities		182,124	164,766
Creditors: Amounts falling due after more than one year	16	47,121	47,232
Provisions for liabilities and charges	18	26,078	25,906
Net assets		108,925	91,628
Capital and reserves			
Called up share capital	21	7,877	1,307
Share premium account	22	70,121	69,517
Capital redemption reserve		143	143
Profit and loss account	23	30,784	20,661
Equity shareholders' funds	20	108,925	91,628

These Accounts and Notes were approved by the Board of Directors on 20 February 2001 and signed on behalf of the Board:

Richard White *Executive Chairman*

Christopher Hyman *Finance Director*

Company Balance Sheet

At 31 December 2000

	<i>Note</i>	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	<i>11</i>	1,221	896
Investments in subsidiaries	<i>12</i>	30,314	27,664
		31,535	28,560
Current assets			
Amounts owed by subsidiary companies due within one year		822	4,196
Amounts owed by subsidiary companies due after more than one year		110,576	93,529
Debtors	<i>14</i>	7,870	5,038
Cash at bank and in hand		45,273	36,515
		164,541	139,278
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	<i>16</i>	32,005	11,838
Trade creditors		1,317	727
Other creditors including taxation and social security	<i>15</i>	5,695	2,332
Accruals and deferred income		7,682	7,636
Proposed dividend	<i>8</i>	4,425	3,854
		51,124	26,387
Net current assets		113,417	112,891
Total assets less current liabilities		144,952	141,451
Creditors: Amounts falling due after more than one year	<i>16</i>	41,420	41,420
Net assets		103,532	100,031
Capital and reserves			
Called up share capital	<i>21</i>	7,877	1,307
Share premium account	<i>22</i>	70,121	69,517
Capital redemption reserve		143	143
Profit and loss account	<i>23</i>	25,391	29,064
Equity shareholders' funds		103,532	100,031

These Accounts and Notes were approved by the Board of Directors on 20 February 2001 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 2000

	<i>Note</i>	2000 £'000	1999 £'000
Net cash inflow from operating activities	24	45,534	36,818
Dividends received from joint ventures		7,477	2,156
Returns on investment and servicing of finance			
Interest received		950	678
Interest paid		(4,755)	(4,160)
Net cash outflow from returns on investments and servicing of finance		(3,805)	(3,482)
Taxation			
UK corporation tax paid		(2,856)	(5,467)
Overseas tax paid		(2,797)	(1,812)
Tax paid		(5,653)	(7,279)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(15,332)	(10,637)
Sale of tangible fixed assets		862	395
Net long term loans with joint ventures		(5,009)	6,864
Net short term cashflows with joint ventures		11,514	(1,249)
Purchase of own shares		(10,000)	-
Net cash outflow from capital expenditure and financial investment		(17,965)	(4,627)
Acquisitions and disposals			
Purchase of subsidiary undertakings	12	(4,409)	(26,578)
Net (overdraft)/cash acquired with subsidiary undertakings		(73)	2,504
Subscription for shares in joint ventures	12	(4,963)	(2,214)
Proceeds from disposal of shares in joint ventures	12	1,271	-
Net cash outflow from acquisitions and disposals		(8,174)	(26,288)
Equity dividends paid			
Dividends paid		(5,816)	(5,018)
Net cash outflow from equity dividends paid		(5,816)	(5,018)
Net cash inflow/(outflow) before financing		11,598	(7,720)
Financing			
Issue of Ordinary Share Capital		818	2,348
Debt due within one year:			
Decrease in other loans		(28)	(207)
Debt due beyond one year:			
Increase/(decrease) in other loans		186	(838)
Capital element of finance lease repayments		(2,264)	(2,387)
Net cash outflow from financing		(1,288)	(1,084)
Increase/(decrease) in cash		10,310	(8,804)
Balance at 1 January		35,187	43,991
Balance at 31 December		45,497	35,187

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 December 2000

	2000	1999
	£'000	£'000
Profit on ordinary activities after taxation	22,970	19,794
Currency translation differences on foreign currency net investments	(1,155)	1,586
Exercise of Share Scheme options	(5,305)	(5,618)
Total recognised gains and losses relating to the year	16,510	15,762

Notes to the Accounts

For the year ended 31 December 2000

1. Accounting policies

These Accounts have been prepared in accordance with applicable accounting standards. The statutory profit and loss account for 1999 has been restated to show group and joint venture results separately.

Proforma summary consolidated profit and loss account

To aid in the understanding of the results of the Group and its joint ventures a Proforma Summary Profit and Loss Account has been included as an alternative presentation. The results are derived directly from the Statutory Profit and Loss Account, and explanations have been given on the face of the Proforma Summary Profit and Loss Account where appropriate.

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.

Fixed asset investments: Subsidiaries

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

Notes to the Accounts

For the year ended 31 December 2000

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.

In the Proforma Summary Consolidated Profit and Loss Account operating costs relating to joint ventures have been included within "Share of profits arising from joint ventures – including group joint venture costs and joint venture interest".

Fixed asset investment: Own shares

Investment in own shares represents shares in Serco Group plc held by the Serco Group plc 1998 Employee Share Ownership Trust ("the Trust"). The dividends on these shares have been waived.

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

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, with experience surpluses and deficits being amortised on a straight line basis.

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

Turnover

Turnover represents net sales of goods and services 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 2000

2. Segmental Report

Classes of Business	Facilities Management £'000	Systems Engineering £'000	Investments £'000	Total £'000
2000				
Turnover				
Total sales: Group and share of joint ventures	830,117	61,214	75,660	966,991
Less: share of joint ventures	(120,271)	(1,184)	(73,493)	(194,948)
Group turnover: sales to third parties	709,846	60,030	2,167	772,043
Profit before taxation				
Segment profit before common costs, goodwill, joint ventures, interest and taxation	34,326	3,749	949	39,024
Common costs				(18,597)
Amortisation of goodwill				(3,681)
Operating profit				16,746
Share of operating profit in joint ventures	18,175	315	10,386	28,876
Net interest: Group				(3,543)
Share of joint ventures	(4,471)	(7)	(3,572)	(8,050)
Group profit before taxation				34,029
Net assets				
Segment net assets before unallocated assets	76,941	6,282	8,398	91,621
Unallocated assets				17,304
Total net assets				108,925

Notes to the Accounts

For the year ended 31 December 2000

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, exceptional items, 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 in joint ventures	5,275	129	5,717	11,121
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 2000

2. Segmental Report (continued)

Geographical Segments	United Kingdom £'000	Rest of Europe £'000	Asia Pacific £'000	Other £'000	Total £'000
2000					
Turnover					
Turnover by destination:					
Total sales: Group and share of joint ventures	621,165	112,656	138,967	94,203	966,991
Less: share of joint ventures	(130,379)	(6,204)	(42,095)	(16,270)	(194,948)
Group turnover: sales to third parties	490,786	106,452	96,872	77,933	772,043
Turnover by origin:					
Total sales: Group and share of joint ventures	630,241	106,296	138,331	92,123	966,991
Less: share of joint ventures	(130,379)	(6,204)	(42,095)	(16,270)	(194,948)
Group turnover: sales to third parties	499,862	100,092	96,236	75,853	772,043
Profit before taxation					
Segment profit before common costs, goodwill, joint ventures, interest and taxation	16,476	7,963	8,482	6,103	39,024
Common costs					(18,597)
Amortisation of goodwill					(3,681)
Operating profit					16,746
Share of operating profit in joint ventures	25,523	524	1,316	1,513	28,876
Net interest: Group					(3,543)
Share of joint ventures	(8,073)	(10)	33	-	(8,050)
Group profit before taxation					34,029
Net assets					
Segment net assets before unallocated assets	49,901	5,568	24,573	11,579	91,621
Unallocated assets					17,304
Total net assets					108,925

Notes to the Accounts

For the year ended 31 December 2000

Geographical Segments	United Kingdom £'000	Rest of Europe £'000	Asia Pacific £'000	Other £'000	Total £'000
1999					
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 in joint ventures	7,641	687	1,718	1,075	11,121
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 2000

3. Information regarding Directors and employees

	2000 £'000	1999 £'000
a) Directors' remuneration:		
Fees as Directors	70	60
Other emoluments	1,268	1,361
Total remuneration excluding pensions	1,338	1,421

Refer to the Remuneration Report, sections 1,2 and 3 on pages 43 to 46.
The prior year comparative includes Directors who did not serve in 2000.

	2000 £'000	1999 £'000
b) Employee costs including Directors:		
Wages and salaries	358,707	323,181
Social security costs	33,612	26,675
Other pension costs (Note 31)	17,851	16,228
Long Term Incentive Scheme costs	320	332
Total	410,490	366,416

	2000 Number	1999 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	19,031	18,415
Systems Engineering	803	929
Investments	55	26
Non-specific	167	113
Total	20,056	19,483

4. Interest receivable

	2000 £'000	1999 £'000
Short term deposits	606	560
Loans to joint ventures	606	957
Total Group	1,212	1,517
Share of joint ventures' interest	139	79
Total	1,351	1,596

Notes to the Accounts

For the year ended 31 December 2000

5. Interest payable and similar charges

	2000 £'000	1999 £'000
On liabilities repayable within five years:		
Group bank loans and overdrafts	1,665	1,023
Share of joint ventures' interest	10	70
	1,675	1,093
On liabilities repayable after five years:		
Group bank loans and overdrafts	3,090	3,137
Share of joint ventures' interest	8,179	3,307
	11,269	6,444
	12,944	7,537

6. Profit on ordinary activities before taxation

	2000 £'000	1999 £'000
Profit on ordinary activities before taxation is after charging:		
Rentals under operating leases:		
Land and buildings	10,028	7,666
Plant and machinery	16,640	15,251
Depreciation on tangible assets:		
Owned	9,788	7,537
Held under finance leases	1,950	2,033
Finance lease interest on operational assets	357	381
Amortisation of goodwill	3,681	2,092
Auditors' remuneration:		
Deloitte & Touche	397	371
Other auditors	82	82
Other fees paid to auditors	909	794

7. Taxation on profit on ordinary activities

	2000 £'000	1999 £'000
The taxation charge on the results of the year is made up as follows:		
United Kingdom corporation taxation at 30% (1999 average – 30%) based on the profit for the year	1,646	6,334
Overseas taxation	2,038	2,582
Deferred taxation	(336)	(435)
Adjustment in respect of prior years:		
United Kingdom corporation taxation	(576)	(718)
Overseas taxation	(274)	3
Deferred taxation	157	(573)
Share of joint ventures' taxation charge	8,404	2,345
	11,059	9,538

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 and disallowed expenditure.

Notes to the Accounts

For the year ended 31 December 2000

8. Dividends

	2000	1999
	£'000	£'000
Interim dividend of 0.50p per share on 391,169,280 Ordinary Shares (1999 – 0.44p* on 389,213,286* Ordinary Shares) of 2p each fully paid – paid 13 October 2000	1,956	1,719
Proposed final dividend of 1.13p per share on 391,591,141 Ordinary Shares (1999 – 0.98p* on 391,975,692* Ordinary Shares) of 2p each fully paid – proposed payment on 6 April 2001	4,425	3,854
	6,381	5,573
1999 final dividend of 0.98p* on 658,230 shares issued between 31 December 1999 and 17 March 2000 (record date)	6	–
1998 final dividend of 0.85p* on 2,338,584* shares relating to shares issued between 31 December 1998 and 19 March 1999 (record date)	–	20
	6,387	5,593

*Restated to reflect the capitalisation issue on 5 April 2000

9. Earnings per Ordinary Share

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

The calculation of basic earnings per Ordinary Share after goodwill is based on profits of £22,970,000 for the year ended 31 December 2000 (1999 – £19,794,000) and the weighted average number of 392,825,780 (1999 – 388,711,854*) 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 £26,651,000 (adjusted for the effect of goodwill amortisation of £3,681,000) for the year ended 31 December 2000 (1999 – £21,886,000 as adjusted for goodwill amortisation of £2,092,000) and the weighted average number of 392,825,780 (1999 – 388,711,854*) Ordinary Shares of 2p each in issue during the year.

The calculation of diluted earnings per Ordinary Share after goodwill is based on profits of £22,970,000 for the year ended 31 December 2000 (1999 – £19,794,000) and the weighted average number of 396,763,939 (1999 – 390,953,514*) Ordinary Shares of 2p each assuming that the options are all exercised.

The calculation of diluted earnings per Ordinary Share before goodwill is based on profits of £26,651,000 (adjusted for the effect of goodwill amortisation of £3,681,000) for the year ended 31 December 2000 (1999 – £21,886,000 as adjusted for goodwill amortisation of £2,092,000) and the weighted average number of 396,763,939 (1999 – 390,953,514*) Ordinary Shares of 2p each assuming that the options are all exercised.

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

Notes to the Accounts

For the year ended 31 December 2000

10. Intangible asset: Goodwill

	Group £'000
Cost:	
At 1 January 2000	69,769
Additions during the year	3,278
Adjustments to goodwill capitalised on acquisitions prior to 1 January 2000	2,211
At 31 December 2000	75,258
Accumulated amortisation:	
At 1 January 2000	2,915
Charge for the year	3,681
At 31 December 2000	6,596
Net book value:	
At 31 December 2000	68,662
At 31 December 1999	66,854

11. Tangible assets

Group	Freehold land and buildings £'000	Short leasehold building improvements £'000	Machinery, motor vehicles, furniture and equipment £'000	Total £'000
Cost:				
At 1 January 2000	8,159	6,016	81,143	95,318
Subsidiaries acquired	-	22	259	281
Capital expenditure	521	2,126	14,745	17,392
Disposals	(141)	(175)	(7,460)	(7,776)
Foreign exchange differences	(20)	(40)	(1,154)	(1,214)
At 31 December 2000	8,519	7,949	87,533	104,001
Accumulated depreciation:				
At 1 January 2000	2,008	2,503	54,299	58,810
Subsidiaries acquired	-	14	173	187
Provided during the year	280	979	10,479	11,738
Disposals	(4)	(171)	(6,426)	(6,601)
Foreign exchange differences	12	(28)	(386)	(402)
At 31 December 2000	2,296	3,297	58,139	63,732
Net book value:				
At 31 December 2000	6,223	4,652	29,394	40,269
At 31 December 1999	6,151	3,513	26,844	36,508

The cost of assets held by the Group under finance leases at 31 December 2000 was £11,517,000 (1999 – £10,722,000).

The accumulated depreciation provided for those assets at 31 December 2000 was £6,900,000 (1999 – £6,217,000).

Notes to the Accounts

For the year ended 31 December 2000

11. Tangible assets (continued)

Company	Short leasehold building improvements £'000	Machinery, motor vehicles, furniture and equipment £'000	Total £'000
Cost:			
At 1 January 2000	360	1,775	2,135
Transfers to subsidiary undertakings	–	(243)	(243)
Capital expenditure	283	550	833
At 31 December 2000	643	2,082	2,725
Accumulated depreciation:			
At 1 January 2000	127	1,112	1,239
Transfers to subsidiary undertakings	–	(102)	(102)
Provided during the year	73	294	367
At 31 December 2000	200	1,304	1,504
Net book value:			
At 31 December 2000	443	778	1,221
At 31 December 1999	233	663	896

12. Investments held as fixed assets

	Company £'000
a) Shares in subsidiary companies at cost:	
At 1 January 2000	27,664
Acquisition of Serco QAA Limited	2,650
At 31 December 2000	30,314
	Group £'000
b) Group investments in joint ventures:	
At 1 January 2000	18,022
Dividends receivable	(6,768)
Acquisitions/disposals	3,684
Foreign exchange translation difference	328
Retained profits	12,422
At 31 December 2000	27,688

Notes to the Accounts

For the year ended 31 December 2000

	Group £'000
c) Investment in own shares:	
At 1 January 2000	–
Additions	10,000
Amortisation	(320)
At 31 December 2000	9,680

Investment in own shares represents 2,298,090 shares in Serco Group plc held by the Trust. The market value of shares held by the Trust at 31 December 2000 was £12,237,000.

- d) A list of the principal undertakings of Serco Group plc is shown in Note 32. All the subsidiaries of the Group have been consolidated.
- e) At 31 December 2000, Group companies had branches in Abu Dhabi, Antarctica, Ascension Island, Bahrain, Chile, Dubai, French Guiana, Korea, Ras Al Khaimah, Saudi Arabia, Sharjah and Switzerland.
- f) 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 equity investments.

	2000 £'000	1999 £'000
g) The aggregate of the Group's share in the assets and liabilities of joint ventures is:		
Share of fixed assets	41,144	40,521
Share of current assets	264,444	173,351
	305,588	213,872
Share of liabilities due within one year or less	60,107	31,357
Share of liabilities due after more than one year	217,793	164,493
	277,900	195,850
Share of net assets	27,688	18,022

h) Acquisitions:

i) Rakmulti Technology Limited

All the issued share capital of Rakmulti Technology Limited was acquired by Serco Limited on 1 July 2000, for a cash consideration of £650,000 and deferred cash consideration of £350,000. Acquisition costs of £154,000 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 goodwill arising on consolidation of £787,000 is being carried forward as an intangible asset and will be amortised over 20 years.

Notes to the Accounts

For the year ended 31 December 2000

12. Investments held as fixed assets (continued)

h) Acquisitions: (continued)

ii) Serco QAA Limited (formerly Quality Assurance Associates Limited)

All the issued share capital of Quality Assurance Associates Limited was acquired by Serco Group plc on 20 December 2000, for a cash consideration of £237,000, the issue of 188,346 Serco Group plc shares (equivalent £1,050,000) and deferred consideration comprising loan stock of £763,000 and shares in Serco Group plc equivalent to £500,000. Acquisition costs of £100,000 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 book value.

The goodwill arising on consolidation of £2,491,000 is being carried forward as an intangible asset and will be amortised over 20 years.

iii) 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 2000 for a total cash amount of £2,689,000.

Further equity injections were made in AWE Management Limited by Serco Limited during 2000 for a total cash amount of £400,000.

Further equity injections were made in Laser (Teddington) II Limited (formerly Laser (Teddington Holding) Limited) by Serco Investments Limited during 2000 for a total cash amount of £612,000.

Further equity injections were made in Octagon Healthcare (Holdings) Limited by Serco Investments Limited during 2000, for a total cash amount of £250,000.

i) Disposals

25.76% of the Ordinary Share Capital of Brands on Show Pty Limited was disposed of on 31 December 2000 for consideration amounting to £885,000.

10% of the Ordinary Share Capital of National Remote Sensing Centre was disposed of on 15 February 2000 for a total cash amount of £82,000.

50% of the Ordinary Share Capital of REM Serco AB was disposed of on 31 October 2000 for a total cash amount of £1,189,000.

j) Deferred consideration paid

On the 15 March 2000, the deferred consideration of £3,368,000 due on the acquisition of the shares in Great Southern Railways Pty Limited on 1 October 1999 was paid.

During the year the deferred consideration of £1,012,000 due on Brands on Show Pty Limited was paid.

13. Stocks

	2000 £'000	Group 1999 £'000
Service spares	11,529	10,097
Long term contract balances	14,413	16,733
	25,942	26,830

Notes to the Accounts

For the year ended 31 December 2000

14. Debtors

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
a) Amounts due within one year:				
Amounts recoverable on contracts	121,526	101,459	-	-
Other debtors	16,317	7,383	7,795	4,919
Prepayments and accrued income	11,843	12,096	75	119
Amounts owed by joint ventures	3,940	5,279	-	-
Building held for re-sale	4,906	6,195	-	-
	158,532	132,412	7,870	5,038
b) Amounts due after more than one year:				
Amounts recoverable on contracts	9,451	11,437	-	-
Other debtors	3,246	3,997	-	-
Pensions prepayment (Note 31)	9,212	8,433	-	-
Amounts owed by joint ventures	10,288	5,621	-	-
	32,197	29,488	-	-
Total debtors	190,729	161,900	7,870	5,038

Included in amounts recoverable on contracts is an amount of £15,913,000 (1999 – £17,297,000) in respect of items procured on behalf of customers. This is offset by an amount of £13,499,000 (1999 – £11,366,000) in trade creditors and an amount of £2,886,000 (1999 – £3,483,000) in accruals.

15. Other creditors including taxation and social security

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Obligations under finance leases	1,852	1,764	-	-
Corporation tax	3,501	6,151	-	1,874
Other taxes and social security costs	24,697	19,521	616	458
Other creditors	28,838	20,201	79	-
Amounts owed to joint ventures	17,213	5,339	5,000	-
Other loans	529	557	-	-
	76,630	53,533	5,695	2,332

Notes to the Accounts

For the year ended 31 December 2000

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

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
a) Amounts falling due after more than one year:				
Bank loans and overdrafts	76,021	65,012	73,425	53,258
Obligations under finance leases	4,081	4,290	-	-
Other loans	4,001	3,843	-	-
Total loans	84,103	73,145	73,425	53,258
Less: amounts included in creditors falling due within one year	36,982	25,913	32,005	11,838
Amounts falling due after more than one year	47,121	47,232	41,420	41,420

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
b) Analysis of loan repayments due:				
Bank loans and overdrafts:				
Within one year or on demand	34,601	23,592	32,005	11,838
After five years	41,420	41,420	41,420	41,420
Obligations under finance leases:				
Within one year or on demand	1,852	1,764	-	-
Between one and two years	1,456	1,507	-	-
Between two and five years	713	871	-	-
After five years	60	148	-	-
Other loans:				
Within one year or on demand	529	557	-	-
Between one and two years	257	84	-	-
Between two and five years	3,169	3,202	-	-
After five years	46	-	-	-
	84,103	73,145	73,425	53,258

c) All loans are unsecured.

d) Finance lease obligations are secured by retention of title to the relevant vehicles and equipment.

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.

Notes to the Accounts

For the year ended 31 December 2000

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 after taking account of interest rate swaps the proportion of the Group's fixed rate borrowings was 35.2% with the remaining 64.8% 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 2000 with unmatched transactional exposure.

Financial assets and liabilities

i) Assets

Other than short term debtors, the Group's financial assets as at 31 December 2000 and 31 December 1999 were:

	Sterling £'000	Australian Dollar £'000	US Dollar £'000	Deutsche Mark £'000	Euro £'000	Various other currencies £'000	Total £'000	Note
31 December 2000								
Cash and short term deposits	59,813	1,891	4,952	1,952	6,227	5,263	80,098	25
Long term interest bearing loans to joint ventures	6,576	3,606	106	-	-	-	10,288	
Other long term debtors	16,720	2,306	1,888	-	-	995	21,909	
Total long term assets	23,296	5,912	1,994	-	-	995	32,197	14

	Sterling £'000	Australian Dollar £'000	US Dollar £'000	Deutsche Mark £'000	Euro £'000	Various other currencies £'000	Total £'000	Note
31 December 1999								
Cash and short term deposits	31,419	6,267	5,298	7,153	-	8,642	58,779	25
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 long term debtors earn interest at relevant national LIBOR equivalents, net of margins.

Notes to the Accounts

For the year ended 31 December 2000

17. Treasury policies and risk management (continued)

ii) Liabilities

After taking into account the interest rate and currency swaps the interest profile of the Group's financial liabilities at 31 December 2000 and 31 December 1999 were:

	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
31 December 2000					
Sterling	5,469	5,469	-	-	-
Australian Dollar	2,047	2,047	-	-	-
US Dollar	44,582	14,997	29,585	7.64	7
Deutsche Mark	16,389	16,389	-	-	-
Euro	15,616	15,616	-	-	-
Total (Note 16)	84,103	54,518	29,585		

	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
31 December 1999					
Sterling	5,080	5,080	-	-	-
Australian Dollar	3,156	3,156	-	-	-
US Dollar	53,071	14,610	38,461	7.45	8
Deutsche Mark	11,838	11,838	-	-	-
Total (Note 16)	73,145	34,684	38,461		

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

The maturity of the Group's financial liabilities at 31 December 2000 and 31 December 1999 were:

	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
Sterling	2,535	558	2,369	7	5,469
Australian Dollar	894	986	167	-	2,047
US Dollar	1,548	169	1,346	41,519	44,582
Deutsche Mark	16,389	-	-	-	16,389
Euro	15,616	-	-	-	15,616
Total	36,982	1,713	3,882	41,526	84,103

	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
Sterling	1,333	894	2,705	148	5,080
Australian Dollar	2,618	416	122	-	3,156
US Dollar	10,124	281	1,246	41,420	53,071
Deutsche Mark	11,838	-	-	-	11,838
Total	25,913	1,591	4,073	41,568	73,145

Notes to the Accounts

For the year ended 31 December 2000

iii) Fair Values

The book value and fair value of the Group's financial assets and liabilities at 31 December 2000 and 31 December 1999 were:

	2000			1999		
	Book value £'000	Fair value £'000	Unrecognised gain/(loss) £'000	Book value £'000	Fair value £'000	Unrecognised gain £'000
Assets						
Cash and short term deposits	80,098	80,098	-	58,779	58,779	-
Amounts owed by joint ventures	10,288	10,288	-	5,621	5,621	-
Other long term debtors	21,909	21,909	-	23,867	23,867	-
	32,197	32,197	-	29,488	29,488	-
Liabilities						
Long term borrowings:						
Sterling	2,934	2,934	-	3,747	3,747	-
Australian Dollar	1,153	1,153	-	538	538	-
US Dollar	43,034	46,439	(3,405)	42,947	41,346	1,601
	47,121	50,526	(3,405)	47,232	45,631	1,601
Short term borrowings:						
Sterling	2,535	2,535	-	1,333	1,333	-
Australian Dollar	894	894	-	2,618	2,618	-
US Dollar	1,548	1,548	-	10,124	10,124	-
Deutsche Mark	16,389	16,389	-	11,838	11,838	-
Euro	15,616	15,616	-	-	-	-
Derivatives held to manage the currency and interest rate profile	-	3,231	3,231	-	1,215	1,215
	36,982	40,213	3,231	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.

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 gain of £3,231,000 (1999 - £1,215,000) on the interest rate swaps as at 31 December 2000, as set out in the previous table. The unrecognised gain is not expected to be recognised in the Profit and Loss account in the next period.

Borrowing facilities

The Group had facilities of £30,000,000 committed and £108,000,000 uncommitted that were unused as at 31 December 2000. Committed facilities are renewable every five years and uncommitted facilities annually.

Notes to the Accounts

For the year ended 31 December 2000

18. Provisions for liabilities and charges

Group	Balance 1 January 2000 £'000	Usage £'000	Charged/(credited) to the profit and loss account £'000	Foreign exchange differences £'000	Balance 31 December 2000 £'000
Pensions provision	23,309	(138)	542	116	23,829
Deferred taxation	2,597	-	(179)	(169)	2,249
	25,906	(138)	363	(53)	26,078

19. Deferred taxation

	2000 £'000	Group 1999 £'000
The amounts of deferred taxation provided in the accounts are:		
Capital allowances in excess of depreciation	178	60
Overseas timing differences	38	-
Other timing differences	2,033	2,537
	2,249	2,597
Potential amounts of deferred taxation for which no credit has been taken:		
Depreciation in advance of capital allowances	(546)	(420)
Overseas timing differences	(3,341)	(3,342)
Other timing differences	(295)	(95)
	(4,182)	(3,857)

20. Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Profit on ordinary activities after taxation	22,970	19,794
Dividends	(6,387)	(5,593)
	16,583	14,201
Currency translation differences on foreign currency net investments	(1,155)	1,586
New capital subscribed	7,174	12,344
Issue of shares as deferred consideration for the acquisition of Docklands Railway Management Limited	-	(3,078)
Exercise of Share Scheme options	(5,305)	(5,618)
Net increase in shareholders' funds	17,297	19,435
Opening shareholders' funds	91,628	72,193
Closing shareholders' funds	108,925	91,628

Notes to the Accounts

For the year ended 31 December 2000

21. Called up share capital

	2000 £'000	1999 £'000
a) Authorised 550,000,000 (1999 – 100,000,000) Ordinary Shares of 2p each	11,000	2,000
	2000 £'000	1999 £'000
b) Called up, allotted and fully paid: 393,864,463 (1999 – 65,329,282) Ordinary Shares of 2p each	7,877	1,307

c) At an Extraordinary General Meeting on 5 April 2000 the Authorised Share Capital of the Company was increased from £2,000,000 to £11,000,000 by the creation of an additional 450,000,000 Ordinary Shares of 2p each. Under a general power granted to the Directors at the meeting £6,545,399, being part of the sum standing to the credit of the Company's Share premium account, was capitalised and 327,269,935 fully paid Ordinary Shares of 2p each were distributed among the members who were on the register at 7 April 2000 by allotting five fully paid new Ordinary Shares to them for every Ordinary Share held.

d) Other Ordinary Shares of 2p each allotted in the year:

During the year 1,076,900 Ordinary Shares of 2p each were allotted to the holders of options or their personal representatives.

Of these 124,705 were allotted prior to the capitalisation issue on 5 April 2000, 3,540 were allotted at £13.05, 32,990 at £4.61, 3,000 at £3.69 and 85,175 at nil value (a further 623,525 Ordinary Shares of 2p each were allotted to the holders of these shares in the capitalisation issue).

The remaining 952,195 Ordinary Shares of 2p each were allotted after the capitalisation issue, of which 5,880 were allotted at £4.2542, 4,273 at £3.81, 103,086 at £2.45, 126,222 at £2.175, 72,630 at 76.83 pence, 84,000 at 36.70 pence and 556,104 at nil value.

In addition to the above, 188,346 Ordinary Shares of 2p each were allotted at £5.575 per share on 20 December 2000 as consideration for the acquisition of Serco QAA Limited (formerly Quality Assurance Associates Limited) (Note 12).

e) Options in respect of Ordinary Shares of 2p each:

- i) In January 1996, 1,210,392* options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1996 Long Term Incentive Scheme'. At 31 December 2000 there remained 235,392* options which are exercisable at nil value in accordance with the rules of the Scheme.
- ii) In January 1997, 1,439,622* options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1996 Long Term Incentive Scheme'. At 31 December 2000 there remained 202,194* options which are exercisable at nil value in accordance with the rules of the Scheme.
- iii) 3,341,346* options in respect of Ordinary Shares of 2p each were granted in May and September 1998 in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. At 31 December 2000 there remained 2,778,889* options which are exercisable at a price of £2.175* each and 18,402* at £2.0208* each in accordance with the rules of the Scheme.
- iv) On 1 April 1999, 3,461,664* options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. At 31 December 2000 there remained 3,102,498* options which are exercisable at a price of £2.45* each in accordance with the rules of the scheme.
- v) On 31 March 2000, 4,511,988* options in respect of Ordinary Shares of 2p each were granted as part of a new Company Sharesave Scheme, whereby eligible employees were granted options to apply for shares as part of a save-as-you-earn contract. 4,228,645 options were held by employees on 31 December 2000. The options are exercisable at any time between 1 May 2003 and 31 October 2003 at a price of £3.81* each provided the requirements of the Scheme have been met.

Notes to the Accounts

For the year ended 31 December 2000

21. Called up share capital (continued)

- vi) On 5 April 2000, 2,524,836* options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. At 31 December 2000 there remained 2,504,310* options which are exercisable at a price of £4.2542* each in accordance with the rules of the Scheme.
- vii) On 5 April 2000, 219,900* options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the '1996 Serco Group plc Long Term Incentive Scheme as amended by the company on 5 April 2000'. At 31 December 2000 no options had been exercised or lapsed. These options are exercisable at nil value in accordance with the rules of the Scheme.
- viii) 37,677 options in respect of Ordinary Shares of 2p each were granted in August and November 2000, in accordance with the rules of the 'Serco Group plc 1998 Executive Option Plan'. 26,268 of these options are exercisable at £5.825 and 11,409 at £4.90. No options had been exercised or lapsed at 31 December 2000.
- ix) On 24 November 2000, 259,351 options in respect of Ordinary Shares of 2p each were granted in accordance with the rules of the '1996 Serco Group plc Long Term Incentive Scheme as amended by the Company on 5 April 2000'. At 31 December 2000 no options had been exercised or lapsed. These options have been granted in respect of a three year performance period starting 1 January 2001 and are exercisable at nil value in accordance with the rules of the Scheme.

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

- f) The market price of Serco Group plc Ordinary Shares of 2p each as at 31 December 2000 was £5.32½.

After adjusting for the capitalisation issue the market price of these shares ranged from £3.31½ to £6.80 during the year.

22. Share premium account

	£'000
Balance at 1 January 2000	69,517
Capitalisation – issue of new shares	(6,545)
– costs	(54)
Acquisition of Serco QAA Limited (formerly Quality Assurance Associates Limited)	1,046
Share premium on issue of shares upon exercise of options	6,157
Balance at 31 December 2000	70,121

23. Profit and loss account

	£'000
Group	
Balance at 1 January 2000	20,661
Retained profit transferred to reserves	16,583
Foreign exchange translation differences	(1,155)
Exercise of Share Scheme options	(5,305)
Balance at 31 December 2000	30,784

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 2000

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 £2,062,000 which includes dividends of £19,598,000 received from subsidiary companies.

A final ordinary dividend of £4,425,000 is proposed which together with the interim dividend of £1,956,000 and the payment in relation to the 1999 final dividend caused by the movement in number of shares of £6,000, leaves a loss of £4,325,000 which has been deducted from reserves brought forward of £29,064,000. This along with a foreign exchange credit of £652,000 results in reserves carried forward of £25,391,000.

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

	2000 £'000	1999 £'000
Operating profit	16,746	24,152
Depreciation	11,738	9,570
Goodwill amortisation	3,681	2,092
Loss on sale of tangible assets	313	695
Decrease/(increase) in stocks	1,094	(9,767)
(Increase)/decrease in debtors	(25,657)	19,971
Increase/(decrease) in creditors	37,099	(9,447)
Increase/(decrease) in provisions	520	(448)
Net cash inflow from operating activities	45,534	36,818

25. Analysis of net debt

	Balance 1 January 2000 £'000	Cash flow £'000	Other non-cash changes £'000	Balance 31 December 2000 £'000
Cash at bank and in hand	58,779	21,319	-	80,098
Overdrafts	(23,592)	(11,009)	-	(34,601)
Cash net of overdrafts	35,187	10,310	-	45,497
Bank loans due after more than one year	(41,420)	-	-	(41,420)
Cash net of overdrafts and bank loans	(6,233)	10,310	-	4,077
Other loans due after more than one year	(3,286)	(186)	-	(3,472)
Other loans due within one year	(557)	28	-	(529)
Finance leases	(4,290)	2,264	(2,055)	(4,081)
Net debt	(14,366)	12,416	(2,055)	(4,005)

Notes to the Accounts

For the year ended 31 December 2000

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

	2000 £'000	1999 £'000
Increase/(decrease) in cash	10,310	(8,804)
Cash outflow from debt and lease financing	2,106	3,432
Change in net debt resulting from cash flows	12,416	(5,372)
New finance leases	(2,055)	(1,367)
Movement in net debt in the period	10,361	(6,739)
Net debt at 1 January	(14,366)	(7,627)
Net debt at 31 December	(4,005)	(14,366)

27. Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £2,055,000 (1999 – £1,367,000).

As part of the acquisition of 100% of the shares in Serco QAA Limited (formerly Quality Assurance Associates Limited), 188,346 Serco Group plc shares (equivalent to £1,050,000) were issued for nil cash consideration.

During the year £5,305,000 (1999 – £5,618,000) has been charged to the profit and loss reserve in respect of shares issued under Employee Share Scheme Options.

28. Contingent liabilities

The Group has given indemnities to banks totalling £13,707,000 in respect of performance bonds in the normal course of business. In addition the Group has given indemnities to banks and financial guarantees in respect of a lease security to a subsidiary and equity contributions to joint ventures of £16,528,000.

29. Capital and other commitments

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Capital expenditure contracted but not provided	1,172	4,262	-	-

During the year ending 31 December 2001 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	1,575	4,116
Between one and five years	7,405	8,840
After five years	3,382	1,045
	12,362	14,001

Notes to the Accounts

For the year ended 31 December 2000

30. Related parties

Directors

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts, Directors' liability insurance and consultancy services provided by Gary Sturgess as detailed in the Remuneration Report. 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 2000:

	2000 £'000	1999 £'000
Net loans during the year	8,431	12,271
Net trading	2,848	2,635
Royalties and management fees receivable	2,429	2,021
Dividends receivable	6,768	2,735
	20,476	19,662

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

	2000 £'000	1999 £'000
Amounts due within one year:		
Loans	196	1,420
Trading balance	760	1,725
Royalties and management fees	2,984	1,425
Dividends	-	709
	3,940	5,279
Amounts due after more than one year:		
Loans	10,288	5,621

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

	2000 £'000	1999 £'000
Amounts payable within one year:		
Loans	17,213	5,339

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

Notes to the Accounts

For the year ended 31 December 2000

31. Pension schemes

The net pension charge for the year ended 31 December 2000 was £17,851,000 (1999 – £16,228,000).

The Group paid employer contributions of £3,659,000 (1999 – £3,206,000) into 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.

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

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

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

Employer pension contributions paid into the Scheme during the year were £8,861,000 (1999 – £7,165,000), of which £640,000 related to special contributions in respect of a discretionary increase to pensions in payment awarded during the year (1999 – £448,000).

At 31 December 2000 a prepayment of £1,550,000 (1999 – £684,000) in respect of the Scheme was included in the Balance Sheet. £7,995,000 was charged to the 2000 Profit and Loss Account, in respect of the Scheme (1999 – £7,376,000).

Notes to the Accounts

For the year ended 31 December 2000

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 £87,000 (1999 – £135,000) has been charged to the 2000 Profit and Loss Account in respect of the Scheme and a prepayment of £7,662,000 (1999 – £7,749,000) has been included in the Balance Sheet as at 31 December 2000.

c) Serco Superannuation Fund

This is a combined defined benefit and 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 was assessed to be fully funded on a current funding level based on a market value of assets of £1,063,830 (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 and charged to the 2000 Profit and Loss Account during the year were £2,171,000 (1999 – £1,762,000).

Notes to the Accounts

For the year ended 31 December 2000

31. Pension schemes (continued)

		2000	2000
		£'000	AS'000
Defined benefit element	Regular cost	91	238
	Variation cost	26	68
		117	306
Defined contribution element		2,054	5,359
Total		2,171	5,665

		1999	1999
		£'000	AS'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

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 return	8.0% p.a.
Salary growth	6.0% p.a. (plus promotional scale)
Price inflation	3.5% p.a.
Equity dividend growth	3.5% p.a.
Pension increases	3.5% p.a.

The Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £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. Employer pension contributions paid into the Scheme during the year were £1,664,000. At 31 December 2000 a provision of £82,000 (1999 – £16,000) in respect of the Scheme was included in the Balance Sheet. £1,730,000 was charged to the 2000 Profit and Loss Account in respect of the Scheme (1999 – £1,827,000).

Notes to the Accounts

For the year ended 31 December 2000

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 2000 Profit and Loss Account during the year were £527,000 (1999 – £202,000).

f) Serco Metrolink 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 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	8.0% p.a.
Salary growth	6.0% p.a.
Price inflation	3.5% p.a.
Equity dividend growth	3.5% p.a.
Pension increases	3.0% p.a.

The Scheme is assessed to be fully funded on a current funding level basis at 1 September 1998. Liabilities for this purpose are calculated using the basis for determining individual cash equivalents for active members and deferred pensioners. Pension liabilities at the valuation date were fully secured with an insurance company and so have been excluded from the valuation.

The actuarial value of the assets represented 90% of the ongoing liabilities of the Scheme. Variations from the normal cost are amortised for accounting purposes over an eighteen year period as a constant monetary amount.

Employer pension contributions paid into the Scheme during the year 2000 were £218,000 (1999 – £204,000). At 31 December 2000 a provision of £23,000 (1999 – nil) in respect of the Scheme was included in the Balance Sheet. £241,000 (1999 – £204,000) was charged to the 2000 Profit and Loss Account, in respect of the Scheme.

Notes to the Accounts

For the year ended 31 December 2000

31. Pension schemes (continued)

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 £15,338,000 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 2000 Profit and Loss Account totalled £921,000 (1999 – £854,000).

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 £520,000 (1999 – £662,000) and a provision of £23,829,000 (1999 – £23,309,000) has been included in the Balance Sheet as at 31 December 2000.

Notes to the Accounts

For the year ended 31 December 2000

32. List of principal undertakings

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

Principal subsidiaries

United Kingdom	Serco Limited*	100%
	Serco Contracting Limited	100%
	Serco-Denholm Limited	90%
	Serco Europe Limited	100%
	Serco-IAL Limited	100%
	Serco International Limited	100%
	Serco Railtest Limited	100%
	Sercoserve Limited	100%
	Serco Systems Limited*	100%
	Serco Overseas Investments Limited*	100%
	Serco Research & Development Limited*	100%
	Serco Insurance Co Limited*	100%
	NPL Management Limited*	100%
	Serco Docklands Limited	
	(formerly Docklands Railway Management Limited)	100%
	Serco Investments Limited*	100%
	Community Leisure Management Ltd	100%
	Serco Aerospace Limited (formerly FRA Serco Limited)	100%
	Rakmulti Technology Limited	100%
	Serco QAA Limited (formerly Quality Assurance Associates Limited)*	100%
Rest of Europe		
<i>Belgium</i>	Serco Belgium S.A.	100%
<i>Denmark</i>	Metro Service A/S	67%
<i>France</i>	Serco France Sarl	100%
<i>Germany</i>	Serco International GmbH	100%
	Serco GmbH & Co. KG	
	(formerly Elekluft Elektronik und Luftfahrtgeräte GmbH)	100%
	Serco Services GmbH	100%
	Serco FM GmbH (formerly Serco GmbH)	100%
<i>Ireland</i>	Serco Services Ireland Limited	100%
<i>Italy</i>	Serco s.r.l. (formerly Serco Servizi s.r.l.)	100%
<i>Luxembourg</i>	Serco Facilities Management S.A.	100%
<i>The Netherlands</i>	Serco Facilities Management BV	100%
	Serco International BV	100%
	Serco Investments BV	100%
<i>Sweden</i>	Serco Services AB	100%
	Serco Sverige AB (formerly Serco Newsec AB)	100%
<i>Switzerland</i>	Serco Facilities Management S.A.	100%
Asia Pacific		
<i>Australia</i>	Serco Group Pty Limited	
	(formerly Serco Asia Pacific Pty Limited)	100%
	Serco Australia Pty Limited	100%
	Serco Water (WA) Pty Limited	100%
	Great Southern Railways Pty Limited	100%
<i>New Zealand</i>	Serco Group NZ Limited	100%
	Serco Viatch Limited	100%

*directly held by Serco Group plc

Notes to the Accounts

For the year ended 31 December 2000

32. List of principal undertakings (continued)

Principal subsidiaries

Other		
<i>Canada</i>	Serco Facilities Management, Inc.	100%
	Serco Aviation Services, Inc.	100%
<i>USA</i>	Serco Group, Inc.	100%
	Serco, Inc.	100%
	Serco Management Services, Inc. (Delaware)	100%
	Barton ATC, Inc.	100%
	Serco Management Services, Inc. (Tennessee) (formerly Barton ATC International, Inc)	100%
	JL Associates, Inc.	100%

Joint venture undertakings

United Kingdom		
	Premier Prison Services Limited	50%
	Kilmarnock Prison (Holdings) Limited	50%
	Serco Gulf Engineering Limited	50%
	Defence Management (Holdings) Limited	50%
	Laser (Teddington) II Limited (formerly Laser (Teddington Holding) Limited)	50%
	Altram (Manchester) Limited	26%
	Premier Custodial Group Limited	50%
	Lowdham Grange Prison Services Limited	50%
	Medomsley Holdings Limited	50%
	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%
Asia Pacific		
<i>Australia</i>	Defence Maritime Service Pty Limited	50%
	InfoDirect Pty Limited	50%
	Serco-Gardner Merchant Pty Limited	50%
<i>New Zealand</i>	Serco Project Engineering Ltd	50%
	Serco Gardner Merchant NZ	50%
<i>Hong Kong</i>	Serco Guardian (FM) Limited	50%
Other		
<i>Bahrain</i>	Aeradio Technical Services WLL	49%
<i>Bermuda</i>	BAS-Serco Limited	40%
<i>Cyprus</i>	Serco Kalisperas	50%
<i>Dubai</i>	International Aeradio (Emirates) LLC	49%
<i>Saudi Arabia</i>	Key Communications Development Co Limited	N/A
<i>Singapore</i>	JBS Singapore Pte Limited	20%
	Serco Guthrie Pte Ltd	50%
<i>Turkey</i>	ESDAS	51%
<i>USA</i>	Baker Serco Wright Patterson	49%

Notice of Annual General Meeting

Notice is hereby given that the Fourteenth Annual General Meeting of the Company will be held at the National Physical Laboratory, Teddington, Middlesex, TW11 0LW on 29 March 2001 at 10.00am for the purpose of considering the following resolutions:

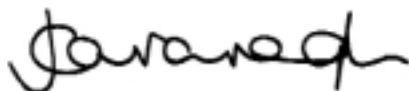
To be passed as Ordinary Resolutions

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 2000.
2. To declare a final dividend of 1.13p per share for the year ended 31 December 2000.
3. To re-elect Kevin Beeston as an Executive Director. (Note 3)
4. To elect Ralph Hodge as a Non-executive Director. (Note 4)
5. To elect Betsy Bernard 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 £2,599,614 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 purpose of paragraph (b) of that Article, the nominal amount to which this power is limited is £393,881. 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 39,388,096;
 - 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 proceeding the day on which the 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 Cavanagh
Secretary

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

20 February 2001

Notes to the Notice of Annual General Meeting

1. If your name appears on the Register of Shareholders on 29 March 2001, you will be entitled to attend and vote at the Fourteenth 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 10.00am on 27 March 2001. 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.

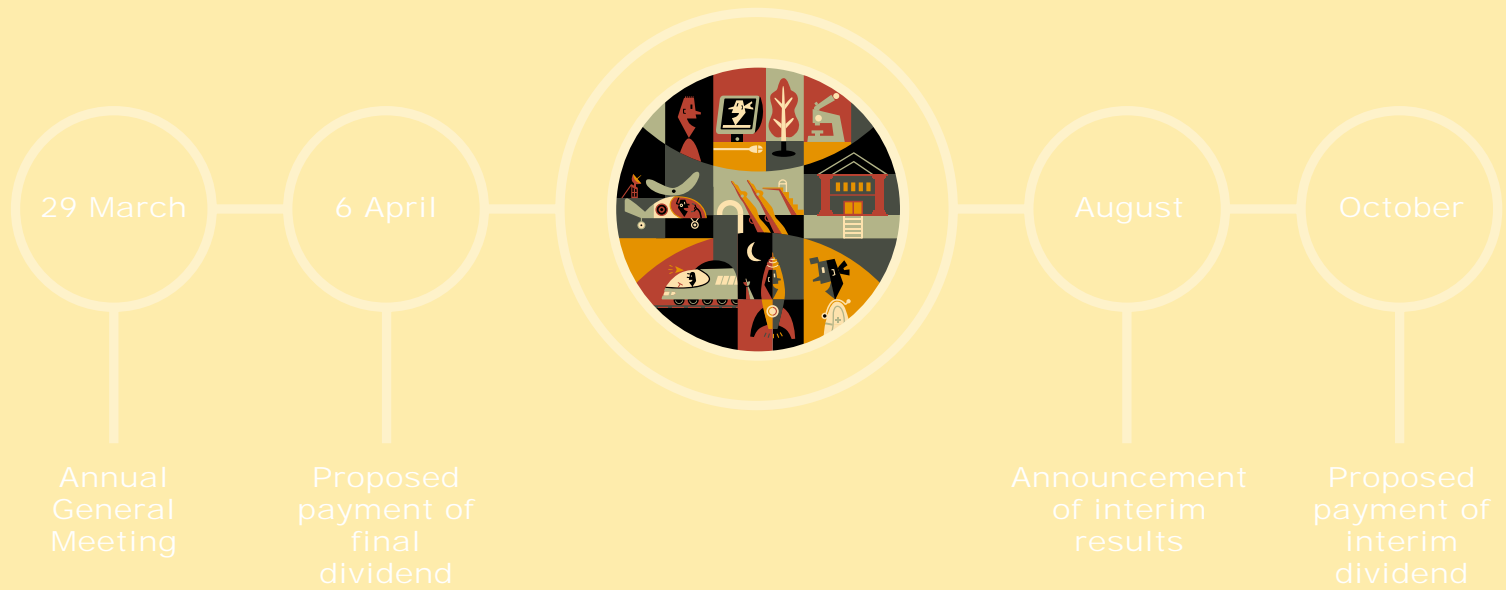
Please bring some form of identification with you to the Annual General Meeting, in case we need to verify that your name appears on our register of shareholders or proxies.

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 20 February 2001 to 9:00 am on 29 March 2001. If you wish 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 29 March 2001.

3. Kevin Beeston retires by rotation and submits himself for re-election in accordance with the Company's Articles of Association.
4. Ralph Hodge and Betsy Bernard retire following their appointment since the last Annual General Meeting and submit themselves for 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 9 February 2001 (the latest 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 9 February 2001 (the latest 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 9 February 2001 (the latest 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.

calendar of events



Serco Group plc

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