

Sercos group plc ANNUAL accounts 2002



Directors, Secretary and Advisers

Chairman	Kevin Beeston
Directors	Ralph Hodge CBE* Christopher Hyman Andrew Jenner Rhidian Jones† DeAnne Julius CBE* Iestyn Williams
Secretary	Julia Cavanagh
Registered Office	Dolphin House Windmill Road Sunbury-on-Thames Middlesex TW16 7HT
Auditors	Deloitte & Touche Chartered Accountants London
Principal Bankers	Barclays Bank plc 54 Lombard Street London EC3P 3AH The Royal Bank of Scotland plc 135 Bishopsgate London EC2M 3UR
Investment Bankers	Lazard Brothers & Co Ltd 21 Moorfields London EC2P 2HT Morgan Stanley & Co Ltd 25 Cabot Square Canary Wharf London E14 4QA
Stockbrokers	Cazenove & Co Ltd 12 Tokenhouse Yard London EC2R 7AN Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ
Solicitors	Allen & Overy One New Change London EC4M 9QQ
Registrar	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA

* Non-Executive Director

† Senior Non-Executive Director

Corporate Governance Report

Introduction

The Board of Serco Group plc (the "Company") is committed to achieving high standards of corporate governance, integrity and business ethics for all its activities around the world. The Company supports the principles of good governance and code of best practice as appended to the Listing Rules of the Financial Services Authority (the "Combined Code"). This report sets out how the Company applies the Combined Code. Reference has also been made to the Higgs' Review of the Role and Effectiveness of Non-Executive Directors (the "Higgs Review") and the Smith Report on Audit Committees Combined Code Guidance (the "Smith Report") where appropriate.

The Board and its Directors

The Board currently comprises seven Directors: Kevin Beeston, Ralph Hodge, Christopher Hyman, Andrew Jenner, Rhidian Jones, DeAnne Julius and Iestyn Williams. Excluding the Chairman, the Board comprises an equal number of Executive and Non-Executive Directors. The Company continues to believe in the need for a full time Executive Chairman who is responsible for the effective operation of the Board, oversight of corporate governance and assurance activities and the Company's relationship with the City and key stakeholders. This role is distinct from that of the Chief Executive who focuses on the operational strategy and delivery of the business. The Directors' profiles are set out on pages 85 to 88.

The Board continues to believe 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. They bring a wide range of experience to the Board including international business operations, strategy and economics. The senior Non-Executive Director is Rhidian Jones. Rhidian has met with shareholders in the past, upon request, and continues to be available to do so as required. Rhidian has expressed his desire to retire from the Board at the end of April 2004 when his current term of appointment expires. The Company is currently seeking a fourth Non-Executive Director and is proposing to commence the search for an additional Non-Executive Director with relevant financial experience to replace Rhidian as Chairman of the Audit Committee on his retirement. The Non-Executive Directors meet on an informal basis during the year without the presence of the Executive Directors.

During the year the Board met six times at varying locations, and took the opportunity to combine the formal business of the Company with site visits and divisional presentations and discussions. There is a formal schedule of matters reserved for the Board including the responsibility for leading and directing the affairs of the Group. During the year a strategy conference was held, hosted by the Chairman, and attended by the Board and 20 key senior managers of the Group. The Chairman has held individual meetings with the Directors to evaluate the performance of the Board and identify any areas for review. His report will be presented to the Board in February 2003.

All Directors have access to the Company Secretary and independent professional advice at the Company's expense. The Company Secretary has the responsibility for ensuring that Board procedures are followed. The appointment and removal of the Company Secretary is one of the matters reserved for the Board. The Company Secretary is also Secretary to all the Board Committees. The information provided to the Board is reviewed by the Chairman and the Company Secretary on a regular basis, to ensure that it remains appropriate and adequate and enables the Directors to discharge their duties.

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 terms of reference are reviewed annually. It is proposed that once a fourth Non-Executive Director has been appointed the Non-Executive Directors will not be required to sit on every Committee. The Chairmen of the Board committees attend the Annual General Meeting to answer questions from shareholders.

Board Committees (continued)**Global Management Board**

The Board has delegated responsibility for the day to day management of the business to the Global Management Board ("GMB"). The GMB meets formally on a quarterly basis and more frequently if required. Matters discussed by the GMB which require formal approval are submitted to the Approvals and Allotment Committee details of which are provided below. Further details relating to the ongoing management of the business can be found in the section 'How do we run our business?' provided in the Annual Review section of the Annual Review and Accounts.

Audit Committee

The Audit Committee, which comprises the three Non-Executive Directors and is chaired by Rhidian Jones, met twice during the year. At the meetings, attended by the internal and external auditors and by invitation the Finance Director, matters relating to the integrity of the financial statements of the Company, the accounting policies adopted, significant financial reporting judgements made and the role of the internal auditors were discussed. Discussions were also held regarding the business risk auditing activities undertaken by the Company's internal audit providers, Grant Thornton and Pannell Kerr Forster. The members of the Committee have access to the Company's auditors without the presence of the Executive Directors. During the year, the Committee has reviewed the independence, objectivity and effectiveness of the external auditors, their terms of engagement and remuneration, and has also approved a policy with regard to the engagement of external auditors in the provision of non-audit services. The Company has identified alternative providers of non-audit services. The members of the Committee receive updates on accounting standards and generally accepted accounting principles on a quarterly basis as part of the Finance Director's report to the Board, and also on a half yearly basis from the external auditors.

Remuneration Committee

The Remuneration Committee comprises the three Non-Executive Directors and is chaired by Ralph Hodge. The Committee met five times during the year to deal with matters relating to remuneration and undertook a comprehensive review of the Executive Directors remuneration. The details of the Company's remuneration policies and the results of the review are detailed in the Remuneration Report on pages 90 to 99. Remuneration of senior executives in the Company is considered and approved by the Remuneration Committee of the GMB, which comprises the Executive Chairman, Chief Executive and Chief Operating Officer and is advised by the Human Resource & Change Director. In the event that any member of the GMB Remuneration Committee is conflicted by the business to be discussed, his place may be taken in that instance by another member of the GMB.

Training Committee

The Training Committee comprises Iestyn Williams, its Chairman, Christopher Hyman and the three Non-Executive Directors. It meets once per year to consider the training needs of all Directors and the Company Secretary. The induction programme for new Directors provides a comprehensive familiarisation programme including the role of the Board and its Committees, the Company's corporate governance framework and latest financial statements, together with site visits and meetings with senior management around the Group. The induction programme and the individual development needs of the Executive Directors, in relation to their new roles, were reviewed by the Committee during the year. All Directors and the Company Secretary are encouraged to attend relevant training courses at the Company's expense.

Nomination Committee

The Nomination Committee comprises Kevin Beeston and the three Non-Executive Directors. The Company believes that the Executive Chairman should remain as the Chairman of the Committee in order to discharge his responsibility for the effective functioning of the Board. The Committee meets to discuss proposed changes to and development of the Board, but has also carried out a review of succession planning for the Directors. A similar review is also being undertaken for senior executives by members of the GMB. The members of the Committee consult with other members of the Board prior to submitting final recommendations for approval by the whole Board.

Approvals and Allotment Committee

This Committee meets as required and comprises the Executive Directors, the Chief Operating Officer and Strategic Development Director, with any two Executive Directors forming a quorum. The business of the Committee is varied and ranges from bid approval to approval to release share options. Matters requiring formal approval following consideration by the GMB can also be approved by this Committee.

The Company and its Shareholders

The Board remains committed to ongoing dialogue with its institutional and private shareholders. This year has seen the continuation of the Company's programme of site visits and strategy presentations attended by institutional investors and analysts designed to facilitate a greater understanding of the Company. As part of the review of Executive Directors' remuneration undertaken by the Remuneration Committee, Ralph Hodge sought the opinion of the six largest shareholders (representing 35% of the share register) and the ABI prior to making a recommendation for approval by the Board and shareholders at the forthcoming Annual General Meeting. The senior Non-Executive Director is also available to shareholders on request.

Formal presentations are made to institutional investors and brokers' analysts after the release of the interim and final results. Individual requests for meetings have been satisfied by the Executive Chairman and the Finance Director, although the other Directors are available as required.

During the year the Company increased its on-line communication with a web cast of the interim results presentation and an on-line interview with the Executive Chairman on its website www.serco.com. It is proposed that a web cast will be repeated for the final results presentation. During the year the Company has also introduced a programme of quarterly trading updates in line with best practice and the recommendations of the Financial Services and Markets Act.

The principal methods of communication with private investors remains the News Announcements, Interim Report, the Annual Review and Accounts, the Annual Review and Summary Financial Statement, the Annual General Meeting and the Company's website www.serco.com.

Internal Control and Risk Management

The Company has a well-established and embedded system of internal control, including financial, operational and compliance controls and risk management designed to safeguard shareholders' investments and the Company's assets and reputation. Whilst the Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, it is the role of management to implement the policies on risk and control. The Group's risk management process identifies the key risks facing each business and reports to the Board on how those risks are being managed. The Board confirms that this process has been in place for the year under review and up to the date of approval of the Annual Report. These processes are reviewed annually by the Board and conform to the guidance set out in Internal Control: Guidance for Directors on the Combined Code (the "Turnbull Report"). Such a system however can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Company has a full time Risk Director who is a member of the Corporate Assurance Group ("CAG"). CAG was formed in 2001 with specific responsibility to oversee and review the internal control and risk management policies, procedures and management framework within the Group and to develop guidance, training material and management training to ensure the current and future needs of the business are met.

CAG sponsors three specialist groups:

- An Assurance Network, chaired by the Assurance Director, and comprising senior assurance representatives from across the Group. During the year this network met four times to review Company policy and procedures and the development, integration and dissemination of the Serco Management System that defines how the Company operates.
- A Risk Oversight Group, chaired by the Risk Director, comprising assurance representatives from across the Group, met twice during the year to discuss the Group risk register and key risk controls. This group provides additional assurance in relation to the system of internal control and risk management and enhances the Board's ability to discharge its responsibilities in relation to internal control.
- An Aviation Oversight Group, chaired by the Aviation Safety Director and comprising the aviation safety representatives from across the Group met twice during the year. This group has been responsible for the implementation of the aviation safety management system across the Group, and for transferring best practice across the world.

Following a review of rail safety undertaken during 2001 and chaired by Ralph Hodge, a Rail Safety Oversight Group commenced operations during the year. It is proposed that a formal group holding regular meetings is established during 2003.

Internal Control and Risk Management (continued)

During the year CAG hosted a conference attended by almost 100 assurance representatives from around the world. Presentations were received from internal and external speakers, including the Executive Chairman and Senior Non-Executive Director, on varying aspects of assurance and attendees took the opportunity to network and discuss best practice during informal sessions held as part of the meeting.

A further explanation of the role of CAG can be found in the Annual Review and Accounts section 'How do we manage our responsibilities to stakeholders?'

During the year the Serco Management System, including the Company's risk management standard, was rolled out across the business. The business divisions and their operating companies are following processes and procedures to implement the system, including the risk management standard, in ways that are appropriate to the type of business being undertaken. Divisional Chief Executives and company Managing Directors have the responsibility and authority to implement the system and monitor its operation within their businesses. As part of this process CAG has reviewed and revised all company policies. These policies were authorised by the Board in December. Supporting company standards and guidance have also been produced.

The risk management process requires that at each level in the organisation risk registers are maintained that identify the key risks, the probability of those risks occurring, their potential impact and the actions being taken to mitigate the risks. Risks are ranked using a scoring system across the business. Risk registers are maintained at a contract, company, divisional and Group level and are reviewed at least quarterly and more frequently as required. The Group risk register identifies the key risks facing the business including risks that are managed directly at a Group level. The Group risk register is updated regularly and discussed at quarterly Board meetings. Each Group risk is assigned an owner at Board level.

While operational risk can never be eliminated, the Company endeavours to minimise the impact by ensuring that appropriate infrastructure, controls, systems, staff and processes are in place. Some of the key management controls are set out below:

- The principles of clear delegation of authority and segregation of duties are fully reflected in the Company's operating processes;
- Comprehensive process development and business acquisition review programmes have been established to ensure that our services and products meet customer expectations, performance criteria, operational effectiveness, regulatory requirements, investment returns and profitability;
- Sound project management and change implementation disciplines are applied to all major development projects including new contract phase-ins, acquisitions, new technology applications, change programmes and other major initiatives;
- The commitment and capability of staff is critical for the effective management of operational risk. Ongoing training and career development constantly improve the skills of our workforce. Selective recruitment, succession planning and other human resource policies and practices are in place to ensure that staff skills are aligned with the needs of the organisation;
- Safety management systems in the Company's aviation, rail, defence, nuclear and marine businesses have been addressed by the appointment of safety specialists for each area who report directly to the Board and are charged with maintaining and further developing the very high standards of safety expected in these industries. Occupational health, safety and environmental protection are addressed by qualified and experienced staff in each business unit;
- The operational risk framework tracks key risk indicators. These include analysis of business planning and variance, customer satisfaction and retention data, staff turnover and satisfaction levels, occupational health and safety incidents and error and exception reporting;
- The Company maintains insurance policies to provide protection from losses arising from circumstances such as damage or destruction of physical assets, theft and legal liability for third party loss. The adequacy of the insurance cover is reviewed at regular intervals.

During 2002, Grant Thornton and Pannell Kerr Forster, the Company's internal auditors, had their term extended for a further three years. As part of the continually evolving approach to business risk auditing the Company has developed, in association with Grant Thornton, a risk matrix designed to profile relative risk across the contracts and support functions of the Group, thereby ensuring that the audit focus is retained in the key risk areas as well as a more general approach to the rest of the business. Both Grant Thornton and Pannell Kerr Forster reported to the Audit Committee during the year.

Internal Control and Risk Management (continued)

In addition to contracts held in Serco's name, the Group has material investments in a number of joint ventures and associated companies. Where these investments are not wholly managed by Serco, the Group can influence, but not control, management practices. Serco representatives within these companies ensure that the processes and procedures for identifying and managing risk are appropriate for the business and that internal controls exist and are regularly monitored. Employees from the Company's joint ventures are invited to participate in the risk oversight group and were invited to attend the CAG conference held in October 2002.

Going Concern

The Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the Annual Review and Accounts.

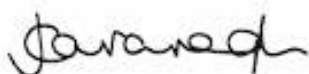
Compliance during 2002

With the exception of contractual notice periods for the Executive Directors, the Company has fully complied throughout the year with the provisions stated in Section 1 of the Combined Code.

Contractual Notice Periods

As detailed in the Remuneration Report, a number of recommendations have been made for shareholder consideration in relation to Executive Directors' remuneration. Following approval of the relevant resolutions at the forthcoming Annual General Meeting, the Executive Directors' service contracts will be amended to incorporate the changes. At this time the notice period for all Executive Directors will be reduced from 24 to 12 months in line with the notice period operational for those directors appointed after 1 January 2002.

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



Julia Cavanagh
Secretary

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

19 February 2003

Report of the Directors

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 2002.

Activities

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

The review of the business for the year ended 31 December 2002 can be found in the Business Review on pages 21 to 30.

Share Capital

The authorised and issued share capital of the Company, together with the details of shares issued during the year, are shown in Note 21 of the Accounts.

Dividends and Transfers to Reserves

An interim dividend of 0.64p (2001 – 0.57p) per Ordinary Share was paid on 11 October 2002. The Directors recommend a final dividend of 1.44p (2001 – 1.29p) per Ordinary Share, which if approved by the Annual General Meeting, will be paid on 13 May 2003, to those shareholders on the register at the close of business on 28 February 2003. After dividends, retained profits of £22,861,000 will be transferred to reserves.

Substantial Shareholdings

At close of business on 18 February 2003 (being the latest practical date prior to the signing of the Report of the Directors), the Company had received notifications of the following substantial interests representing over 3% of the issued capital:

Legal & General Group plc – 3.84%
Morley Fund Management Limited – 4.99%

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 – 10.85%

Changes to the Board

The current Directors of the Company are listed on page 76 and their profiles are provided on pages 85 and 88.

As detailed in the 2001 Annual Review and Accounts, Richard White retired as Executive Chairman following the Annual General Meeting on 3 May 2002. Kevin Beeston was appointed Executive Chairman, Christopher Hyman was appointed Chief Executive and Andrew Jenner was appointed Finance Director. In accordance with the Company's Articles of Association, Andrew Jenner will be subject to election by shareholders at the forthcoming Annual General Meeting.

Directors' Interests

With the exception of the Executive Directors' service contracts and Non-Executive Directors' letters of appointment, there were no contracts in which any Director has an interest.

Details of the Directors' interests in the Ordinary Shares and options over the Ordinary Shares of the Company are set out in the Remuneration Report on pages 94 to 96.

Annual General Meeting

The sixteenth Annual General Meeting of the Company will be held at the Queen Elizabeth II Conference Centre, London on 6 May 2003 at 11.00am.

The Notice of the Annual General Meeting, together with relevant notes and proxy card are circulated with this document.

Employment Policies

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

The Group is committed to ensuring equal opportunity, honouring the rights of the individual and fostering partnership and trust in every working relationship. We maintain a safe working environment that provides appropriate remuneration and benefits, training, personal development and compliance with employment laws and regulations of the countries within which we operate. The Group recognises the United Nations Universal Declaration of Human Rights and implements appropriate policies and processes to meet the requirements of the declaration.

The Group remains proud of its record of managing employee relations and continues to believe that the structures of individual and collective consultation and negotiation are best developed at a local level. Over the years the Group has demonstrated that working with trade unions and creating effective partnerships allows improvements to be delivered in business performance as well as terms and conditions of employment. Where employees choose not to belong to a trade union, employee communication forums such as works councils exist to ensure involvement of staff within the business.

The Board understands its responsibility to encourage and assist in the employment, training, promotion and personal career development of all employees without prejudice. Included within the Annual Review is a section entitled 'How do we develop our people?' which provides an insight into the work of the Best Practice Centre and its development of an Institute of Directors programme within the United Kingdom.

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.

Participation by staff in the success of the Group is encouraged by the availability of share save schemes, and a share option scheme for senior staff which effectively aligns their interests with those of shareholders by requiring that performance criteria are achieved prior to exercise.

Health, Safety and Environmental Policies

The Group recognises and accepts its responsibility for health, safety and the environment ("H,S&E"). A full time Company H,S&E Adviser, a member of the Corporate Assurance Group ("CAG"), is responsible for the development and monitoring of H,S&E policies, procedures and control systems and reports to the Board via the Executive Chairman. The Executive Chairman is the director responsible for H,S&E matters on behalf of the Board. H,S&E is also formally reported to the Global Management Board on a quarterly basis as part of the Corporate Assurance Report.

The Group is committed to maintaining a safe and healthy working environment in all places that the Company operates, for our staff, our customers, members of the public and any other third party. The Group recognises that it is everyone's responsibility for reducing injury and illness at work. Equally the Group is committed to the protection of the environment, recognising everyone's responsibility for minimising the impact that we have on it. This commitment extends to all our activities, wherever they take place, which have the potential to adversely affect the environment. The Group aims to reduce environmental harm, minimise the use of energy and other resources and ensure that the principles of sustainable development are operated throughout the range of activities in which we are engaged.

Health, Safety and Environmental Policies (continued)

CAG is supported by dedicated H,S&E teams in each business unit, either in contracts or the support office, which provide advice and support on H,S&E issues. All employees share responsibility for continuously improving the Company's performance in relation to H,S&E management.

Regular H,S&E meetings are held and representatives from the business units attended the CAG Conference held in October 2002. In order to maintain a high level of H,S&E awareness, great emphasis is placed on training both in relation to specific H,S&E matters but also in the overall context of assurance within the Company.

To ensure compliance with all relevant legislation and Company standards as detailed in the Serco Management System, there is a comprehensive audit system. 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 audited by regulatory authorities.

Creditor Payment Policies

The Company requires each of its business units to negotiate and agree terms and conditions for 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 terms and the way in which disputes are to be settled. Payment is then made in accordance with those terms.

The Group's average creditor payment terms in 2002 were 29 days (2001 – 27 days); Company 29 days (2001 – 34 days).

Donations

Charitable donations totalling £94,859 (2001 – £116,000) were made during the year. In addition there were a number of community initiatives and support provided in kind to charitable and voluntary organisations made by contract and support office staff.

During the year the Company made no political donations and intends to continue this policy.

The Political Parties and Referendums Act 2000 (the "Act") became effective in December 2000 and requires companies to obtain shareholder approval before incurring European Union ("EU") political expenditure. The Group may need, as part of its business, to contact politicians and political parties within the EU on a non-partisan basis in order to make them aware of industry views, technology and trends. As the Act defines EU political organisations and political expenditure widely, the Directors are proposing to seek shareholder authority to incur such expenditure at its Annual General Meeting in May 2003.

Auditors

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

Directors' Profiles

Kevin Stanley Beeston FCMA (40) Executive Chairman

Kevin joined Serco in 1985 and has since held a number of financial and commercial roles. He was Finance Director of the Group from 1996 to 1999 and Chief Executive from 1999 to 2002. He was appointed Executive Chairman in May 2002. He is a member of the CBI's President's Committee and Deputy Chairman of the CBI's Public Services Strategy Board.

Ralph Noel Hodge CBE BEng (Hons) (68) Non-Executive Director

Ralph is Chairman of the Water Research Council, and a Non-Executive of British Ceramic Tiles and ORC (Inc). He was previously Non-Executive Chairman of Enron Europe Limited, Chief Executive of ICI Chemicals and Polymers and a Non-Executive Director of the Halifax Building Society. He was appointed to the Board of Serco on 5 April 1999, and is Chairman of the Board's Remuneration Committee.

Christopher Rajendran Hyman CA (SA) (39) Chief Executive

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. In 2000 Christopher was given additional responsibility as Chief Executive of a new Serco division, Serco Global Projects and has been instrumental in developing new processes and capabilities at the leading edge of the Group's activities. He was appointed Chief Executive in May 2002.

Andrew Mark Jenner ACA (34) Finance Director

Andrew joined Serco in 1996 as Group Financial Controller, having previously worked for Unilever. He was appointed Corporate Finance Director with additional responsibility for Treasury activities in 1999. He was appointed Finance Director of the Group in May 2002. Andrew has primary responsibility along with the Executive Chairman for the Company's relationship with shareholders and the City.

Rhidian Huw Brynmor Jones MA FCIS FCMI (59) Senior Non-Executive Director

Rhidian is an experienced corporate finance lawyer and was Head of the Corporate Department of solicitors Nabarro Nathanson until retiring from that firm in May last year. He is also a Non-Executive Director of Britannia, the UK's second largest building society, and a policy adviser on company law to ICSA. Before training as a solicitor at Herbert Smith he worked in commerce and industry, including seven years in a senior finance and property role at Granada. He was appointed a Serco Non-Executive Director in 1996, having previously served on the Board from 1987 to 1994. He is Chairman of the Board's Audit Committee.





From left to right:

Kevin Beeston

DeAnne Julius

Christopher Hyman

Andrew Jenner

Ralph Hodge

Rhidian Jones

Julia Cavanagh
(Company Secretary)

Iestyn Williams

With thanks to Rushall JMI School, Walsall.

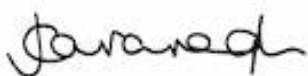
Directors' Profiles (continued)**DeAnne Shirley Julius CBE PhD (Econ) (53)** Non-Executive Director

DeAnne sits on the Court of the Bank of England, having been a member of its Monetary Policy Committee from its formation in 1997 until June 2001. Previously she held senior strategy positions with British Airways and Royal Dutch Shell. Before moving to the UK from America, DeAnne spent seven years with the World Bank developing infrastructure projects in Asia and Africa. She is a Non-Executive Director of Lloyds TSB, BP, Roche and was appointed to the Board of Serco on 29 October 2001.

Iestyn Milton Williams BA (51) 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. In 1995 he was 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. Since then he has spent his time developing new business, first in the expansion of the Group's activities in Europe, and for the last two years leading the Group's entry into the education sector. Iestyn is also a Non-Executive Director of Law at Work Ltd and Dolphin Schools Ltd.

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



Julia Cavanagh
Secretary

Dolphin House
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Middlesex
TW16 7HT

19 February 2003

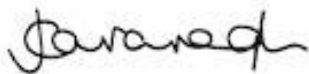
Directors' Responsibilities

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; and
- State whether applicable accounting standards have been followed.

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

19 February 2003

Remuneration Report

Introduction

During the year the Remuneration Committee (the "Committee") commissioned a review of Executive Directors' remuneration, the first external benchmarking exercise undertaken since 1999, and the first review of base salary levels since September 2000. The recommendations of the review which are included in detail in the Remuneration Report detailed below are based on a remuneration philosophy grounded in the following four principles: total rewards should be market competitive; incentive plans should be used to reinforce a high performance culture; the interests of Directors and shareholders should be aligned as far as reasonably possible, and the reward structure should be easily understood by all. In revising the remuneration framework the Committee consulted with the Company's six largest institutional investors, representing approximately 35% of the shareholder base, and the ABI before making its recommendations.

The following report details the remuneration policy, the actual remuneration of the Directors of the Company for the year ended 31 December 2002 and the proposed changes to elements of the remuneration framework to be introduced during 2003, as determined by 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 and the new requirements for the disclosure of Directors' remuneration under the Directors' Remuneration Report Regulations 2002. Reference has also been made to the Higgs Review where it is deemed appropriate.

Composition and Terms of Reference of the Remuneration Committee

The Committee is comprised of all three Non-Executive Directors; Ralph Hodge (Chairman), Rhidian Jones and DeAnne Julius. It operates in accordance with written terms of reference which are determined by the Board and takes into account best practice and the requirements of the Combined Code. The Executive Chairman and Human Resource & Change Director may attend the meetings of the Committee by invitation.

Advisers to the Remuneration Committee

During the year, the Committee has been advised by Neil Hayward, Human Resource & Change Director and Mercer Human Resource Consulting ("Mercer") who were appointed by the Committee following a competitive tendering process. Advice has been sought from Mercer on matters surrounding remuneration policy and philosophy, benchmarking exercises for both individual Executive Directors and remuneration packages based on current market trends. Support was also provided in relation to the consultation exercise with the major institutional investors. Advice on legislation and best practice in this area has also been provided by the Company's legal advisers Allen & Overy.

Remuneration Policy and Practice

The members of the Committee met five times during the year to consider matters relating to the remuneration of Executive Directors as well as the terms and conditions of their service with the Company. Recommendations to the Board following the extensive review process were made within a framework based on the four key principles detailed above.

Executive Directors remuneration comprises a combination of short and long term rewards as explained below and then detailed on pages 94 to 99. All aspects of Executive Directors' remuneration are performance related with the exception of base salary, pensions and life assurance.

i) Salaries and Benefits

Base Salary

Salary changes were introduced in September 2002 following the remuneration review to reflect market conditions, and take account of a pay freeze agreed by Executive Directors since September 2000. Base salaries were increased by 10% for full time Executive Directors and will be reviewed annually in September on an ongoing basis. During the year Iestyn Williams elected to work part time (three days per week) and the reduction in his base salary is a direct reflection of that decision.

Remuneration Policy and Practice (continued)

i) Salaries and Benefits (continued)

Bonus Schemes

Following the remuneration review, the Committee has recommended to the Board that the Company introduce a deferred bonus scheme for full time Executive Directors with effect from 2003. The maximum value of this bonus will be 40% of base salary and will be awarded on the basis that the Company achieves earnings per share growth before FRS 10 (Goodwill Amortisation) ("EPS") of RPI +10% in that financial year. The bonus will reduce to 20% on a straight-line basis for EPS growth in excess of RPI +5%. No payment will be made if EPS growth falls below that level. Participants can elect to defer, for three financial years, up to 100% of the bonus earned to purchase shares in the Company. The shares purchased will be matched by the Company if stretching performance targets are met. Achievement of the performance criteria will be measured by comparing Serco's total shareholder return ("TSR") to that of the constituent companies in the FTSE 350 over the three year period. No matching will occur for below median performance, matching will be made on a one for two basis for median performance increasing to a one for one matching for top quartile performance. An explanation of TSR and the use of the FTSE 350 as a comparator group is provided below.

Approval to implement this plan will be sought from shareholders at the Company's Annual General Meeting.

Following discussions with Mercer, the Remuneration Committee approved an interim cash only bonus plan for the financial year 2002 for full time Executive Directors which will provide a maximum benefit of 50% of salary dependent on EPS growth. If EPS growth is below 10% none of the bonus will be available, at 10%, 25% bonus will be available increasing on a straight-line basis for EPS growth between 10% and 15%, with a maximum bonus available for growth of more than 15%. This bonus will be determined following sign off of the 2002 Annual Review and Accounts by the external auditors. The Executive Directors have agreed to use 50% of any net bonus received to purchase shares at market value in the Company. It is proposed to replace this scheme with the deferred bonus scheme following shareholder approval at the Annual General Meeting in May 2003.

TSR and the FTSE 350

The Committee has recommended the introduction of TSR as a performance measure in the light of current practice and following the consultation process with institutional investors. TSR is defined as the return shareholders would receive if they held a notional number of shares, and received dividends on those shares over a three year time period. It measures the percentage growth in the company's share price together with the value of any dividends paid, assuming that the dividends are re-invested into the company's shares. TSR performance is being measured against the FTSE 350 as the Company has been unable to identify a large or appropriate enough peer group against which to compare its performance more directly, and at present the Company is positioned in the middle of the FTSE 350. The relevance of measuring performance against this group of companies will be reviewed on a regular basis by the Committee.

ii) Share Based Incentives

Long term share based incentives are awarded to Executive Directors under the Serco Group plc 1996 Long Term Incentive Scheme (as amended on 5 April 2000) (the "LTIS") and the Serco Group plc 1998 Executive Option Plan (the "EOP"). The performance conditions relating to each of the schemes is set out below.

Long Term Incentive Scheme ("LTIS")

Awards made under the LTIS, which are structured as options with a zero exercise price, may be exercised after the third anniversary of grant. Awards made to Executive Directors are calculated at 64% of salary at the time of grant. For awards made in relation to performance periods commencing up to and including 1 January 2002, the extent to which an award vests (and therefore becomes exercisable) is measured by reference to growth in the Company's EPS over the performance period of three financial years.

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%. EPS was initially selected as the appropriate performance criteria for the scheme as it is visible, easily understood and audited on an annual basis.

Remuneration Policy and Practice (continued)**ii) Share Based Incentives (continued)**

Following the remuneration review, the Committee has recommended for approval by shareholders at the forthcoming Annual General Meeting, a revision to the performance criteria under which the LTIS currently operates. It is proposed that for future awards made under the LTIS, achievement of the performance criteria will be measured by comparing Serco's TSR to that of the constituent companies in the FTSE 350. No awards will vest for below median performance, 40% will vest for median performance, increasing on a straight-line basis to full vesting for top quartile performance. A justification of the selection of TSR and use of the FTSE 350 as a comparator group together with an explanation of the terms is provided above.

Except in exceptional circumstances, awards are made to employees prior to the commencement of the performance period to which they relate.

Executive Option Plan ("EOP")

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. Grants made to Executive Directors are based on 100% of salary as at 31 December prior to grant. For grants made in relation to performance periods commencing up to and including 1 January 2002 the extent to which an option vests (and therefore becomes exercisable) is measured by reference to the growth in the Company's EPS. If the compound annual growth in EPS is less than 10%, 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. EPS was initially selected as the appropriate performance criteria for the scheme as it is visible, easily understood and audited on an annual basis.

The Committee has recommended for approval by shareholders a revision to the performance criteria under which the EOP currently operates. It is proposed that for options granted for performance periods commencing 1 January 2003 or later, achievement of the performance criteria will be measured by reference to the Company's growth in EPS relative to RPI. If the compound annual growth in EPS is less than RPI +5%, none of the options may be exercised. If compound annual growth in EPS is more than RPI +10%, all the options may be exercised. Where compound growth is between RPI +5% and RPI +10%, a proportion of the options may be exercised. The decision to measure compound EPS growth against an RPI index rather than by reference to a peer group of companies was made, as no group of a suitable size or composition could be identified. The decision to retain EPS as the relevant performance measure for this scheme was based on two factors; firstly this scheme applies broadly within the Company to over 800 senior staff and therefore simplicity and visibility is important; and secondly it is considered by the Committee to be an appropriate performance measure with a degree of balance against the TSR measures applied in other aspects of remuneration design.

iii) Pensions 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 to the Accounts. In the event of death in service, each scheme provides for a lump sum payment as well as a dependants' pension.

iv) Service Contracts and Compensation

Each Executive Director has a rolling service contract with the Company and these service contracts will be available for inspection prior to the start and after the Company's Annual General Meeting. Following approval of the shareholder resolutions in relation to Executive Remuneration, the service contracts will be amended to reflect the revised conditions. The service contracts will also be amended to reflect a reduction in notice period from 24 months to 12 months, thereby bringing all Executive Directors' notice periods in line. Executive Directors appointed since 1 January 2002 already operate with a one year notice period. This change will rectify the one area of non-compliance by the Company in relation to the current Combined Code.

Remuneration Policy and Practice (continued)

iv) Service Contracts and Compensation (continued)

Compensation for early termination of a service contract is not currently addressed in the contracts. The 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. Under the new service agreements being proposed for Executive Directors following the Annual General Meeting, the Company reserves the right to make a payment in lieu of notice. In addition, where a Director leaves the Company following a change of control, either because he is dismissed or he elects to leave on notice, he will receive a payment equivalent to one year's remuneration. The service agreements do not provide for termination payments to be made in any other circumstances.

There have been no payments made during the year in relation to compensation for loss of office.

A summary of contract details relating to each director who served during the year is provided below:

Name of Director	Date of contract/ letter of appointment	Unexpired term and notice period at 31 December 2002
Executive Directors:		
K S Beeston	29 March 1996	Refer to note a) below
C R Hyman	1 April 1999	Refer to note a) below
A M Jenner	3 May 2002	Rolling contract with 12 month notice period
I M Williams	1 April 1999	Refer to note a) below
R D White	29 March 1996	None
Non-Executive Directors:		
R N Hodge	5 April 2000	3 months unexpired at 31 December 2002, now extended to 4 April 2004
R H B Jones	1 September 2002	16 months
D S Julius	29 October 2001	22 months

Notes:

- Executive Directors have a rolling contract with a 24 month notice period which will be reduced to 12 months following approval of the shareholder resolutions at the Annual General Meeting in May 2003.
- Compensation to Executive Directors for early termination of a service contract is not currently addressed in the contracts. The Committee considers and determines the level of compensation on a case by case basis.
- Non-Executive Directors have a three month notice period and no compensation or other benefits are payable on early termination.

Non-Executive Directors

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.

As at 31 December 2002, the Non-Executive Directors of the Company have no personal financial interest in the matters determined by the Committee, no potential conflicts of interest arising from cross-directorships and no involvement in the day to day running of the Group.

The fees and terms of engagement of Non-Executive Directors are reviewed on an annual basis and approved by the Board. Following the publication of the Higgs Review, the Board will consider the recommendation to make additional payments to Chairmen of the Board Committees. The Board does not believe that the partial payment of fees in shares is appropriate and will therefore continue to make cash only payments. Non-Executive Directors' fees are not performance related.

1 Salaries and Benefits

The total salaries, fees and benefits paid to or receivable by each person who served as a Director at any time during the year, are as follows:

Names	Total basic salary £	Fees £	Bonuses £	Total estimated value of any other non-cash benefits £	Total remuneration excluding pensions 2002 £	Total remuneration excluding pensions 2001 £
K S Beeston	361,667	–	192,500	1,286	555,453	351,239
R N Hodge	–	37,125	–	–	37,125	38,500
C R Hyman	344,732	–	242,500	1,029	588,261	300,992
A M Jenner	136,694	–	115,500	686	252,880	–
R H B Jones	–	30,125	–	–	30,125	27,500
D S Julius	–	30,125	–	–	30,125	4,718
R D White	119,487	–	–	2,310	121,797	352,433
I M Williams	210,000	–	–	1,286	211,286	303,886
TOTAL	1,172,580	97,375	550,500	6,597	1,827,052	1,379,268

Notes:

On 3 May 2002 A M Jenner was appointed as Finance Director and R D White retired as Executive Chairman.

With effect from April 2002, I M Williams has worked for the Company on a part time basis.

In addition to the 2002 bonus, C R Hyman received a discretionary bonus during the year.

R N Hodge received fees of £7,000 in relation to additional days worked as chairman of an internal rail safety committee.

Section 1 is subject to audit by Deloitte & Touche.

2 Directors' Shareholdings

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

	Ordinary Shares of 2p each fully paid 1 January 2002	Ordinary Shares of 2p each fully paid 31 December 2002
K S Beeston	98,713	106,520
R N Hodge	2,010	2,010
C R Hyman	21,382	29,394
R H B Jones	46,500	55,000
A M Jenner	1,722*	9,529
D S Julius	–	5,000
I M Williams	2,387,323	2,387,323

* at date of appointment

3 Share Based Incentives

The total share options granted to each person who has served as a Director of the Company at any time in the financial year are as follows:

i) Serco Group plc 1996 Long Term Incentive Scheme ("LTIS")

The total share options granted under the LTIS to such Directors are as follows:

		Number of shares under option at 1 January 2002 (or, if later, the date of appointment as Director)	Granted during period	Exercised during period	Lapsed unexercised during period	Number of shares under option at 31 December 2002 (or, if earlier, cessation date as Director)	Exercise price £	Market price at grant £	Value realised on exercise £	Date exercisable	Date of expiry of option
K S Beeston	3 Yr Award	38,736	–	–	–	38,736	Nil	4.26	–	31.12.02	04.04.10
	3 Yr Award	51,885*	–	–	–	51,885	Nil	4.90	–	31.12.03	23.11.10
	3 Yr Award	54,676*	–	–	–	54,676	Nil	4.65	–	31.12.04	15.11.11
R N Hodge	–	–	–	–	–	–	–	–	–	–	–
C R Hyman	3 Yr Award	32,868	–	–	–	32,868	Nil	4.26	–	31.12.02	04.04.10
	3 Yr Award	44,474*	–	–	–	44,474	Nil	4.90	–	31.12.03	23.11.10
	3 Yr Award	46,865*	–	–	–	46,865	Nil	4.65	–	31.12.04	15.11.11
A M Jenner	–	–	–	–	–	–	–	–	–	–	–
R H B Jones	–	–	–	–	–	–	–	–	–	–	–
D S Julius	–	–	–	–	–	–	–	–	–	–	–
R D White	3 Yr Award	48,516	–	–	–	48,516†	Nil	4.26	–	31.12.02	04.04.10
	3 Yr Award	51,885*	–	–	–	51,885†	Nil	4.90	–	31.12.03	23.11.10
	3 Yr Award	48,172	–	–	–	48,172†	Nil	4.65	–	31.12.04	15.11.11
I M Williams	3 Yr Award	32,868	–	–	–	32,868	Nil	4.26	–	31.12.02	04.04.10
	3 Yr Award	44,474*	–	–	–	44,474	Nil	4.90	–	31.12.03	23.11.10
	3 Yr Award	46,865*	–	–	–	46,865	Nil	4.65	–	31.12.04	15.11.11

* Approximately 13.5% of the options granted under the LTIS represent supplementary options, granted for the sole purpose of compensating participants for agreeing to bear the Company's liability to employers' National Insurance Contributions upon the exercise of the underlying LTIS options.

† At date of retirement from the Board

The Scheme is an unapproved scheme for Inland Revenue purposes.

No payment was made for the grant of the awards, no awards have had terms varied during the period, and no awards have been exercised by the Directors since the end of the financial year.

The performance criteria to which the exercise of awards under the LTIS is conditional are as set out on pages 91 and 92.

For each share under an LTIS option that is unexpired at the end of the financial year, the market price at the end of the financial year was £1.53 and the highest and lowest market prices during the financial year were £4.00 and £1.325 respectively.

3 Share Based Incentives (continued)

ii) Serco Group plc 1998 Executive Option Plan ("EOP")

The total share options granted under the EOP to such Directors are as follows:

		Number of shares under option at 1 January 2002 (or, if later, the date of appointment as Director)	Granted during period	Exercised during period	Lapsed unexercised during period	Balance at 31 December 2002 (or, if earlier, cessation date as Director)	Market price on exercise date £	Exercise price £	Value realised on exercise £	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
	Unapproved	91,321*	-	-	-	91,321	-	4.35	-	28.03.04	27.03.08
	Unapproved	-	152,035*	-	-	152,035	-	2.64	-	03.05.05	02.05.09
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
	Unapproved	78,275*	-	-	-	78,275	-	4.35	-	28.03.04	27.03.08
	Unapproved	-	130,316*	-	-	130,316	-	2.64	-	03.05.05	02.05.09
A M Jenner	Approved	4,134†	-	-	-	4,134	-	2.18	-	21.05.01	20.05.08
	Approved	8,574‡	-	-	-	8,574	-	2.45	-	01.04.02	31.03.09
	Unapproved	7,422‡	-	-	-	7,422	-	2.45	-	01.04.02	31.03.06
	Unapproved	12,336‡	-	-	-	12,336	-	4.26	-	05.04.03	04.04.07
	Unapproved	18,524**	-	-	-	18,524	-	4.35	-	28.03.04	27.03.08
	Unapproved	-	78,189*	-	-	78,189	-	2.64	-	03.05.05	02.05.09
R H B Jones		-	-	-	-	-	-	-	-	-	-
D S Julius		-	-	-	-	-	-	-	-	-	-
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
	Unapproved	91,321*	-	-	-	91,321†	-	4.35	-	28.03.04	27.03.08
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
	Unapproved	78,275*	-	-	-	78,275	-	4.35	-	28.03.04	27.03.08
	Unapproved	-	130,316*	-	-	130,316	-	2.64	-	03.05.05	02.05.09

* Approximately 13.5% of the options granted as unapproved options under the EOP represent supplementary options, granted for the sole purpose of compensating participants for agreeing to bear the Company's liability to employers' National Insurance Contributions upon the exercise of the underlying unapproved options.

† At date of retirement from the Board

‡ At date of appointment

3 Share Based Incentives (continued)

ii) Serco Group plc 1998 Executive Option Plan (continued)

The Scheme is an approved scheme for Inland Revenue purposes but has an unapproved schedule.

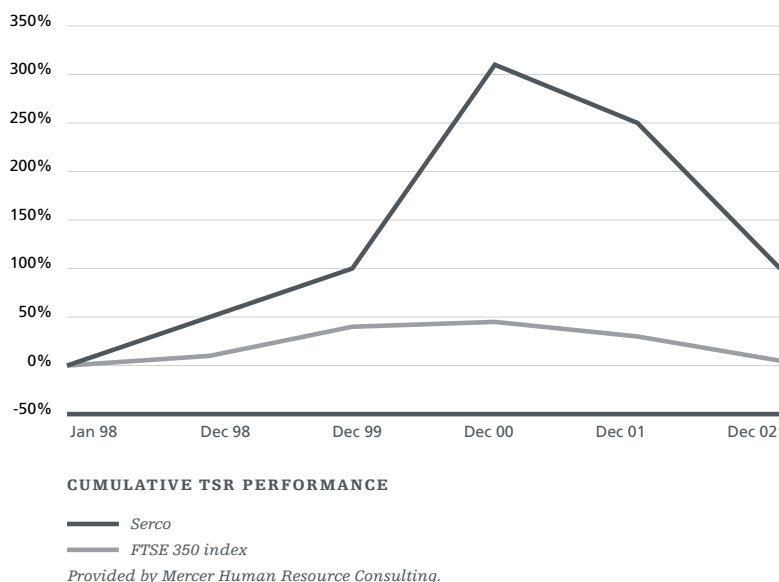
No payment was made for the grant of the options, no options have had terms varied during the period, and no options have been exercised by the Directors since the end of the financial year.

The performance criteria to which the exercise of options under the EOP is conditional are as set out on page 92.

For each share under an EOP option that is unexpired at the end of the financial year, the market price at the end of the financial year was £1.53 and the highest and lowest market prices during the financial year were £4.00 and £1.325 respectively.

Section 3 is subject to audit by Deloitte & Touche.

4 Performance Graph – Serco five year TSR vs FTSE 350 index



This graph demonstrates the performance of Serco's total shareholder return ("TSR") in relation to the FTSE 350 index over the past five years.

As detailed earlier, TSR is defined as the return shareholders would receive if they held a notional number of shares, and received dividends on those shares over a period of time. It measures the percentage growth in the company's share price together with the value of any dividends paid, assuming that the dividends are re-invested into the company's shares.

5 Pensions

The 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 all Directors under defined benefit scheme are as follows:

	Transfer value of accrued benefits as at 31 December 2002 £	Transfer value of accrued benefits as at 31 December 2001 £	Increase in transfer value between 2001 report and 31 December 2002 £	Gross increase in accrued pension during the year £	Increase in accrued pension during the year, net of inflation £	Value of net increase in accrual over the year £	Total accrued pension at year end £ p.a.
K S Beeston	539,342	449,414	72,622	18,429	16,956	86,139	105,073
C R Hyman	100,212	84,132	1,568	3,495	3,265	4,723	17,010
A M Jenner	11,025	–	2,446	2,430	2,430	2,446	2,430
R D White	2,532,643	1,581,562	942,425	14,680	11,873	137,195	179,772
I M Williams	1,141,718	1,009,305	122,107	13,270	11,246	107,721	132,322

Notes to pension benefits:

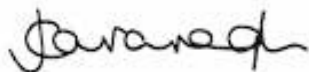
- The total accrued pension shown is that which would be paid annually on retirement, based on service to the end of this year, or date of retirement in the case of R D White. The increase in accrued pension during the year is shown both as a gross increase and excluding any increase in inflation.
- Transfer values have been calculated in accordance with version 1.5 of the Guidance Note GN11 issued by the actuarial profession. The difference between the transfer values at the beginning and end of the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and the Directors, such as stock market movements. It is calculated after deducting Directors' contributions.
- The value of the net increase in accrual represents the incremental value to the director of his service during the year, calculated on the assumption that his service terminated at the year-end. It is based on the accrued pension increase net of inflation after deducting the Director's contribution.
- Members have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- 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.
- In the case of R D White, who retired on 5 July 2002, the increase in transfer value between 2001 and the year-end is a result of the different actuarial valuation approach for a retired member as opposed to an active member, and as the result of his benefits having to be restricted by Inland Revenue limits. These effects have been accentuated as a result of R D White having retired before age 60.

5 Pensions (continued)

- g) C R Hyman also benefits from a defined contribution arrangement to which the Company contributes 15% of remuneration in excess of the Permitted Maximum under the Inland Revenue approved Scheme. Company contributions paid under this arrangement during the year amounted to £33,247.

Section 5 is subject to audit by Deloitte & Touche.

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



Julia Cavanagh
Secretary

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

19 February 2003

Independent Auditors' Report to the Members of Serco Group plc

We have audited the financial statements of Serco Group plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors 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 regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all 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 Report of the Directors and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and 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 and the part of the Directors' Remuneration Report described as having been audited. 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 and the part of the Directors' Remuneration Report described as having been audited 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 and the part of the Directors' Remuneration Report described as having been audited.

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 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
London

19 February 2003

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.