

Serco group plc  
SUMMARY  
financial  
STATEMENT  
2002



## Summary Financial Statement

### Introduction

The Summary Financial Statement has been produced to allow readers of the accounts an overview of the financial affairs of Serco Group plc and its subsidiaries (the "Group"), through the principal financial statements, without the need to refer to the more detailed Annual Review and Accounts. This Summary Financial Statement is only a summary of the Annual Review and Accounts, which contain the full annual accounts, other statutory information and the full Report of the Directors.

This Summary Financial Statement does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as is provided by the full Annual Review and Accounts.

Shareholders have the right to receive, free of charge, a copy of the Annual Review and Accounts from the Company's Registered Office.

Shareholders who wish to receive, free of charge, full Annual Review and Accounts in place of the Summary Financial Statement for all future years, should write to the Company at the Registered Office.

### Summary Directors' Report

The Directors have pleasure in presenting this Summary Financial Statement for the year ended 31 December 2002.

### Results and dividends

The profit before tax on ordinary activities for the year ended 31 December 2002 was £48,941,000 (2001 Restated – £40,039,000).

An interim dividend of 0.64p per Ordinary Share was paid on 11 October 2002 (2001 – 0.57p). The Directors recommend a final dividend of 1.44p (2001 – 1.29p) per Ordinary Share which, if approved at 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.

### Restatement

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

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

### Business review and future activities

The 2002 business review is set out on pages 21 to 30.

### Directors

The following Directors served during 2002:

Kevin Beeston

Ralph Hodge (Non-Executive)

Christopher Hyman

Andrew Jenner (appointed 3 May 2002)

Rhidian Jones (Senior Independent Non-Executive)

DeAnne Julius (Non-Executive)

Richard White (resigned 3 May 2002)

Iestyn Williams

The total emoluments of Directors, excluding pensions, for the year ended 31 December 2002 were £1,827,000 (2001 – £1,402,000). The prior year comparative includes Directors who did not serve in 2002.

### **Summary Directors' Remuneration Report**

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 section of the Annual Review and Accounts, 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.

Executive Directors' remuneration comprises the following:

Base salary – which was reviewed in September 2002;

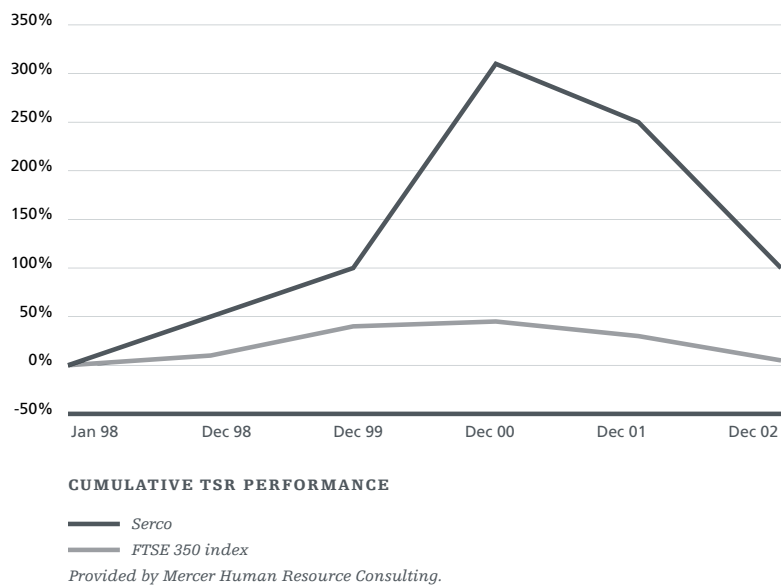
Annual Bonus – Full time Executive Directors will be entitled to receive a one off cash bonus up to 50% of salary depending on the earnings per share pre FRS 10 (Goodwill amortisation) ("EPS") growth of the Company during the 2002 financial year. The Company is expecting to introduce a deferred bonus scheme in 2003 following shareholder approval at the forthcoming Annual General Meeting. The maximum payment under this plan will be 40% depending on EPS growth relative to RPI. Participants can elect to defer, for three financial years, up to 100% of the bonus earned to purchase shares in the Company. Shares purchased will be matched by the Company, if stretching performance targets comparing the Company's total shareholder return ("TSR") growth versus the FTSE 350 are met;

Long Term Incentive Plan – Awards made under this plan are structured as options with a zero exercise price and may be exercised after the third year of grant. For awards made up to and including 1 January 2002 the performance criteria is measured by reference to EPS growth. Following shareholder approval, for awards made after this date, performance will be measured by reference to the Company's TSR growth versus the FTSE 350 over the three year period. The awards are granted at 64% of salary at the date of grant;

Executive Option Plan – Options granted under this scheme can be exercised after the third anniversary of grant. For grants made up to and including 1 January 2002 the performance criteria is measured by absolute growth in EPS over the performance period. Following shareholder approval, for grants made after this date, performance will be measured by reference to EPS growth compared to RPI over the three year period;

Pensions and Life Assurance – The Executive Directors receive pension and life assurance benefits consistent with those provided by other leading companies.

All aspects of Executive Directors' remuneration are performance related with the exception of base salary, pensions and life assurance.

**Summary Directors' Remuneration Report (continued)****Performance Graph – Serco five year TSR vs FTSE 350 index**

This graph demonstrates the performance of Serco's TSR in relation to the FTSE 350 index over the past five years.

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 reinvested into the company's shares.

**Auditors**

The Auditors' Report on the Annual Review and Accounts of the Company and Group for the year ended 31 December 2002 was unqualified and did not contain a statement under either Section 237(2) or 237(3) of the Companies Act 1985.

**Independent auditors' statement to the members of Serco Group plc**

We have examined the Summary Financial Statement which comprises the summary directors' report, profit and loss account, balance sheet, cash flow statement and summary directors' remuneration report.

This report is made solely to the Company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our 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, for our audit report, or for the opinions we have formed.

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full annual accounts, the Report of the Directors and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Summary Financial Statement as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

**Basis of opinion**

We conducted our work in accordance with bulletin 1999/6 The Auditors' Statement on the Summary Financial Statement issued by the United Kingdom Auditing Practices Board.

**Opinion**

In our opinion, the Summary Financial Statement is consistent with the full Annual Accounts, the Report of the Directors and the Directors' Remuneration Report of Serco Group plc for the year ended 31 December 2002 and Companies Act 1985, and the regulations made thereunder.



**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.

## Consolidated Profit and Loss Account

For the year ended 31 December 2002

	2002 Group £'000	2002 Joint Ventures £'000	2002 Total £'000	Restated 2001 Group £'000	Restated 2001 Joint Ventures £'000	Restated 2001 Total £'000
<b>TURNOVER: GROUP AND SHARE OF JOINT VENTURES - CONTINUING OPERATIONS</b>	<b>1,097,278</b>	<b>228,670</b>	<b>1,325,948</b>	913,693	227,510	1,141,203
Less: Share of joint ventures	–	(228,670)	(228,670)	–	(227,510)	(227,510)
Group turnover	1,097,278	–	1,097,278	913,693	–	913,693
Cost of sales	(947,313)	–	(947,313)	(789,686)	–	(789,686)
<b>GROSS PROFIT</b>	<b>149,965</b>	<b>–</b>	<b>149,965</b>	124,007	–	124,007
Administrative expenses	(120,862)	–	(120,862)	(102,753)	–	(102,753)
Amortisation of intangible assets	(8,098)	–	(8,098)	(5,123)	–	(5,123)
Other administrative expenses	(112,764)	–	(112,764)	(97,630)	–	(97,630)
Exceptional item: Unsuccessful NATS acquisition	–	–	–	(10,187)	–	(10,187)
Operating profit-continuing operations	29,103	–	29,103	11,067	–	11,067
Exceptional item: GSR refinancing	–	–	–	15,356	–	15,356
Share of operating profit in joint ventures	–	21,883	21,883	–	17,374	17,374
Interest receivable	1,422	16,894	18,316	2,207	17,102	19,309
Group	1,422	–	1,422	2,207	–	2,207
Share of joint ventures	–	16,894	16,894	–	17,102	17,102
Interest payable and similar charges	(5,486)	(14,875)	(20,361)	(7,299)	(15,768)	(23,067)
Group	(5,486)	–	(5,486)	(7,299)	–	(7,299)
Share of joint ventures	–	(14,875)	(14,875)	–	(15,768)	(15,768)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>25,039</b>	<b>23,902</b>	<b>48,941</b>	21,331	18,708	40,039
Taxation on profit on ordinary activities	–	–	(16,639)	–	–	(13,012)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	<b>–</b>	<b>–</b>	<b>32,302</b>	<b>–</b>	<b>–</b>	<b>27,027</b>
Dividends	–	–	(9,441)	–	–	(7,265)
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	<b>–</b>	<b>–</b>	<b>22,861</b>	<b>–</b>	<b>–</b>	<b>19,762</b>
<b>EARNINGS PER SHARE (“EPS”) PER ORDINARY SHARE OF 2P EACH</b>						
Basic EPS, after amortisation of goodwill			7.66p			6.94p
Basic EPS, before amortisation of goodwill			9.58p			8.25p
Diluted EPS, after amortisation of goodwill			7.63p			6.91p
Diluted EPS, before amortisation of goodwill			9.54p			8.22p

The results for 2001 have been restated on the basis set out in the Summary Directors' Report.

## Consolidated Balance Sheet

At 31 December 2002

	2002 £'000	Restated 2001 £'000
<b>FIXED ASSETS</b>		
Intangible assets	147,473	141,170
Tangible assets	62,479	48,724
Investments in joint ventures	35,883	30,510
Share of gross assets	317,831	322,338
Share of gross liabilities	(281,948)	(291,828)
Investment in own shares	18,207	18,983
	<b>264,042</b>	<b>239,387</b>
<b>CURRENT ASSETS</b>		
Stocks	38,744	35,838
Debtors: Amounts due within one year	220,042	199,705
Debtors: Amounts due after more than one year	108,932	76,105
Cash at bank and in hand	71,774	34,812
	<b>439,492</b>	<b>346,460</b>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		
Bank loans and overdrafts	2,386	70,647
Trade creditors	74,377	58,034
Other creditors including taxation and social security	93,843	100,621
Accruals and deferred income	136,766	128,629
Proposed dividend	6,184	5,026
	<b>313,556</b>	<b>362,957</b>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<b>125,936</b>	<b>(16,497)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>389,978</b>	<b>222,890</b>
Creditors: Amounts falling due after more than one year	87,588	68,570
Provisions for liabilities and charges	34,533	25,249
<b>NET ASSETS</b>	<b>267,857</b>	<b>129,071</b>
<b>CAPITAL AND RESERVES</b>		
Called up share capital	8,697	7,903
Share premium account	190,791	73,656
Capital redemption reserve	143	143
Profit and loss account	68,226	47,369
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<b>267,857</b>	<b>129,071</b>

This Summary Financial Statement was approved by the Board of Directors on 19 February 2003 and signed on behalf of the Board:

**Kevin Beeston** Executive Chairman

**Andrew Jenner** Finance Director

## Consolidated Cash Flow Statement

For the year ended 31 December 2002

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

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

## 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 ICOSA. 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.

### **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.





**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.*

## Investor and Shareholder Information

### Registrar

The Company's registrar is Lloyds TSB Registrars. They maintain our register of members and make the payment of dividends to our shareholders. Their address is:

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, UK  
 T +44 (0)870 600 3970  
 F +44 (0)870 600 3980

The Lloyds TSB Registrars shareholder website is at [www.shareview.co.uk](http://www.shareview.co.uk) (the "shareview website").

### Shares in issue

At 31 December 2002 there were 434,862,837 Serco Group plc Ordinary 2p Shares in issue.

### Dividend mandate

Dividends can be paid directly into shareholders' bank or building society accounts. If you want to take advantage of this facility, please complete the dividend mandate form attached to your dividend cheque, or contact our registrar by post or by fax.

The form is also available by visiting the shareview website.

### Dividend re-investment plan

The Serco dividend re-investment plan ("DRIP") gives shareholders the chance to re-invest their dividends in Serco Group plc shares instead of receiving cash.

If you participate in the scheme, your cash dividend will be paid directly to the registrar. The administrator will calculate the number of shares to which you are entitled and buy them on the stock market. Participants' share purchases are aggregated, so the dealing costs are relatively low; shares are then distributed to the participants.

To register, you simply have to complete a form and send it to our registrar. For further information about the DRIP please contact the registrar directly or look under the home page section on the shareview website.

### Electronic mailing

Where the law allows, you can now choose not to receive a paper copy of the documentation we send out. Instead we can send you an email notification every time a new shareholder document is posted on our site. This will include annual and interim reports and other shareholder communications. You can then view the document(s) on our website at [www.serco.com](http://www.serco.com).

To receive documents electronically you will need to register online with our registrar on its shareview website. This is a secure, straight forward online service operated free of charge by Lloyds TSB.

### Postal share dealing services

Serco has arranged with Cazenove & Co Ltd a simple, low-cost method of buying and selling its shares by post, where shares are bought and sold on the day Cazenove receives instructions by post. For a dealing form, please contact the postal dealing department at Cazenove.

Cazenove & Co Ltd, 12 Tokenhouse Yard, London, EC2R 7AN, UK  
 T +44 (0)20 7606 1768

The terms and conditions for this service are found on the last page of the form.

### Unsolicited mail

We are legally obliged, whenever requested, to provide copies of our shareholder register to any third parties, so from time to time you may receive unsolicited mail. You can limit the amount of unsolicited mail you receive by contacting:

The Mailing Preference Service, Freepost 22, London, W1E 7EZ, UK

### Change of registered office

On 7 May 2003 the registered office will move to:

Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, UK