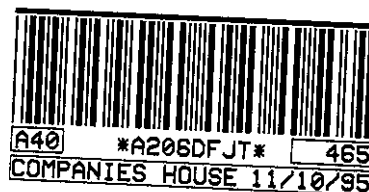


SERCO-IAL LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 1994



A Company registered in England and Wales, number 427272

DIRECTORS' REPORT

The Directors present their Annual Report and the audited Accounts of the company for the year ended 31 December 1994.

ACTIVITIES

The activities of Serco-IAL Limited are the provision of management , technical and support services for the aviation industry.

REVIEW OF DEVELOPMENTS

Serco-IAL Limited traded satisfactorily with a turnover for the year amounting to £27,517,000 (1993: £30,299,000) and loss on ordinary activities after taxation of £433,000 (1993: profit of £1,373,000). The current year loss reflects a high tax charge as a result of group tax relief paid for at a rate in excess of the UK corporation tax rate, as explained in note 7 to the accounts. This level of tax charge is not expected to be repeated in future years.

During the year the Company disposed of the Systems Division to a fellow subsidiary and acquired the entire share capital of Thompson Hickling Aviation Inc. , an aviation services company in Canada, now renamed Serco Aviation Services Inc.

RESULTS

The results for the year are set out on Page 5. The Directors are confident that 1995 will be another successful year.

DIVIDEND AND TRANSFER FROM RESERVES

The Directors do not propose the payment of a dividend (1993 : £nil). The loss of £433,000 (1993: profit of £1,373,000) has been transferred from reserves.

FIXED ASSETS

The Company's fixed assets are detailed in note 8 to the Accounts. Investments of the Company are detailed in note 9 to the Accounts.

EMPLOYEE INVOLVEMENT

The Directors recognise the need to involve employees directly in the success of the business.

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

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become disabled.

DIRECTORS' REPORT**DIRECTORS**

The following Directors served during the year:

	Appointed	Resigned
G Gray		12 March 1994
A Robson		12 March 1994
D Perkins		12 March 1994
K Beeston (Chairman)		
J Duggan		
Sir P Redwood		
P Kehoe		
C Farnfield		21 March 1994
O Oliver	21 March 1994	
D Buckley	21 March 1994	
E Montgomery	1 May 1994	
P Manning	25 June 1994	
P McKoen		25 June 1994

No Director had any interest in the shares of the Company at the beginning or end of the year. The interests of the Directors in the shares of group companies are shown in note 3 to the Accounts.

AUDITORS

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

DIRECTORS' RESPONSIBILITIES

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

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

DIRECTORS' REPORT

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Company made contributions of £6,583 to charitable organisations. No contributions were made for political purposes.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance has been purchased on behalf of the Company during the year by a fellow subsidiary.

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



R P HOGBIN

Secretary

Serco House
Hayes Road
Southall
Middlesex
UB2 5NJ

28 February 1995

AUDITORS' REPORT TO THE MEMBERS

We have audited the Accounts and Notes on pages 5 to 20 which have been prepared under the accounting policies set out on pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on pages 2 and 3 the Company's Directors are responsible for the preparation of the Accounts and Notes. It is our responsibility to form an independent opinion, based on our audit, on those Accounts and Notes and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the Accounts and Notes. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts and Notes, and of whether the accounting policies are appropriate to the Company's circumstances, 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 Accounts and Notes are free from material mis-statement, 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 Accounts and Notes.

OPINION

In our opinion the Accounts and Notes give a true and fair view of the state of affairs of the Company as at 31 December 1994 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Touche Ross & Co.
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London
EC4A 3TR

28 February 1995

SERCO-JAL LIMITED**PROFIT AND LOSS ACCOUNT**

for the year ended 31 December 1994

	Note	1994 £'000	1993 £'000
Turnover of continuing operations		27,517	25,251
Turnover of discontinued operation		-	5,048
Total Turnover	2	27,517	30,299
Cost of sales of continuing operations		(23,340)	(21,986)
Cost of sales of discontinued operation		-	(4,520)
Gross profit		4,177	3,793
Administrative expenses of continuing operations		(3,366)	(2,183)
Administrative expenses of discontinued operation		-	-
Operating profit of continuing operations		811	1,082
Operating profit of discontinued operation		-	528
Total Operating profit		811	1,610
Income from shares in associated undertakings		88	417
Interest receivable	4	783	586
Interest payable and similar charges	5	(20)	(55)
Profit on ordinary activities before taxation	6	1,662	2,558
Tax on profit on ordinary activities	7	(2,095)	(1,185)
(Loss)/Profit on ordinary activities after taxation		(433)	1,373
Retained (loss)/profit for the financial period	17	(433)	1,373

SERCO-IAL LIMITED**BALANCE SHEET**

at 31 December 1994

	Note	1994 £'000	1993 £'000
FIXED ASSETS			
Tangible assets	8	7,458	7,282
Investments	9	2,506	1,249
		<u>9,964</u>	<u>8,531</u>
CURRENT ASSETS			
Stocks	10	17	144
Debtors: Amounts receivable within one year	11	18,190	6,621
Cash at bank and in hand		401	9,202
		<u>18,608</u>	<u>15,967</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Trade creditors		246	644
Amounts owed to fellow subsidiaries		6,179	-
Amounts owed to subsidiaries		307	-
Amounts owed to associated undertakings		-	-
Other creditors including taxation and social security	12	874	1,965
Accruals and deferred income		3,789	4,876
		<u>11,395</u>	<u>7,485</u>
NET CURRENT ASSETS		<u>7,213</u>	<u>8,482</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,177</u>	<u>17,013</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	13	-	24
PROVISIONS FOR LIABILITIES AND CHARGES	14	5,079	4,458
		<u>12,098</u>	<u>12,531</u>
CAPITAL AND RESERVES			
Called up share capital	15	11,500	11,500
Revaluation reserve	16	3,960	3,960
Profit and loss account	17	(3,362)	(2,929)
Equity shareholders' funds		<u>12,098</u>	<u>12,531</u>

These Accounts were approved by the Board of Directors
on 28 February 1995 and signed on behalf of the Board:

P MANNING)
K BEESTON) Directors



Paul Manning

SERCO-IAL LIMITED

STATEMENT OF RECOGNISED GAINS & LOSSES

as at 31 December 1994

	1994 £'000	1993 £'000
(Loss)/Profit for the financial period	(433)	1,373
Unrealised profit/(loss) on revaluation of properties	-	142
	<hr/>	<hr/>
Sub-total	(433)	1,515
Unrealised profit on revaluation of investments	-	208
	<hr/>	<hr/>
Total recognised gains and losses relating to the period	(433)	1,723
	<hr/>	<hr/>

There are no movements in shareholders funds in the current or preceding financial year other than the recognised gains and losses for the year as shown above.

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

1. ACCOUNTING POLICIES

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

Accounting convention

These Accounts have been prepared under the historical cost convention, as modified by the revaluation of freehold properties and investments in associated undertakings. Consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of a company incorporated in Great Britain and is therefore exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare and deliver group accounts.

Depreciation

No depreciation is charged in the Accounts in respect of freehold land. The depreciation charged on other assets is provided on a straight-line basis at rates which, in the opinion of the Directors, will reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Freehold buildings	2.5%
Short leasehold building improvements	The higher of 10% or rate produced by lease term
Machinery	15%
Furniture	15%
Motor vehicles	25%
Office machinery	33%

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes an appropriate proportion of direct material and labour.

Long-Term Contracts

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover by reference to the value of the work carried out to date. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Provision is made for the full amount of foreseeable losses on contracts. Advance payments are included in creditors to the extent that they exceed the related work in progress.

Deferred taxation

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

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

1. ACCOUNTING POLICIES (continued)

Investments in subsidiary and associated undertakings

Investments in subsidiary undertakings are shown at cost less amounts written off. Investments in associated undertakings are shown at Directors' valuation, taking into account the underlying net assets.

Basis of translation of foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Amounts receivable and payable in foreign currencies at the balance sheet date are translated at the rates ruling at that date.

All translation differences are dealt with in the profit and loss account.

Turnover

Turnover, which excludes value added tax and other sales taxes, comprises the value of services provided and equipment sales.

Pension Costs

Retirement benefits to employees are funded by contributions from the Company and its employees. Payments are made to a trust fund which is financially separate from the Company in accordance with periodic calculations by the Company's actuaries. The expected cost to the Company of providing pensions is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme in such a way that the cost is a substantially level percentage of current and expected future payroll cost.

Leases

Assets obtained under finance leases are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Rental costs under operating leases are charged to the profit and loss account in equal agreed amounts over the period of the leases.

Contract termination provisions

In appropriate cases where permanent staff are employed on long term fixed period contracts, contract termination provisions are set up and include redundancy costs based on current legislation.

Comparative figures

The comparative figures for the year ended 31 December 1993 have been restated in compliance with Financial Reporting Standard 3, to show the results of the Systems Division, which was sold on 1 January 1994, as a discontinued operation.

SERCO-IAL LIMITED**NOTES TO THE ACCOUNTS**

for the year ended 31 December 1994

2. SEGMENTAL REPORT

	1994 £'000	1993 £'000
Turnover:		
Facilities Management	9,782	6,954
Operations and Maintenance	9,918	12,117
Project Management	7,817	6,180
Systems Engineering	-	5,048
	<u>27,517</u>	<u>30,299</u>
United Kingdom	10,453	7,678
Europe	3,050	3,561
Middle East & Africa	13,820	14,969
Far East & Australasia	194	4,091
	<u>27,517</u>	<u>30,299</u>
Profit/(loss) on ordinary activities before taxation:		
Facilities Management	330	1,319
Operations and Maintenance	2,086	1,514
Project Management	1,761	1,505
Systems Engineering	-	528
Divisional overheads	(2,515)	(2,308)
	<u>1,662</u>	<u>2,558</u>

**3. INFORMATION REGARDING DIRECTORS
AND EMPLOYEES**

	1994 £'000	1993 £'000
Directors' emoluments:		
Directors' fees	Nil	Nil
Other emoluments	329	167
	<u> </u>	<u> </u>
Remuneration of the Chairman	Nil	Nil
Remuneration of the highest paid Director	61	50
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

**3. INFORMATION REGARDING DIRECTORS
AND EMPLOYEES (continued)**

1994 Number	1993 Number
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Scale of other Directors' remuneration:

£0 - £5,000	5	2
£10,001 - £15,000	-	1
£15,001 - £20,000	1	1
£20,001 - £25,000	1	-
£25,001 - £30,000	-	-
£35,001 - £40,000	-	2
£50,001 - £55,000	1	-
£55,001 - £60,000	3	-

There are three Directors who are also Directors of Serco International Limited and their interests in the shares of Serco Group plc are shown in the notes to the accounts of that company.

The interests of the other Directors as defined by the Companies Act 1985, in the shares of Serco Group plc were as follows:-

	1 January 1994 or date of appointment		31 December 1994	
	Shares	Options	Shares	Options
P Manning	3,720	-	3,720	-
Sir P Redwood	1,075	-	1,075	-

	1994 £'000	1993 £'000
Employee costs including directors:		
Wages and salaries	16,156	15,979
Social security costs	765	786
Other pension costs	42	-
	<u>16,963</u>	<u>16,765</u>

	1994 Number	1993 Number
Average number of persons employed:		
Operations	899	842
Administration and other	27	57
	<u>926</u>	<u>899</u>

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

4. INTEREST RECEIVABLE	1994	1993
	£'000	£'000
Bank interest	167	467
Other interest receivable	616	119
	<u>783</u>	<u>586</u>
	<u><u>783</u></u>	<u><u>586</u></u>
 5. INTEREST PAYABLE AND SIMILAR CHARGES	 1994	 1993
	£'000	£'000
On liabilities repayable within five years:		
Bank loans and overdrafts	20	54
Other	-	1
	<u>20</u>	<u>55</u>
	<u><u>20</u></u>	<u><u>55</u></u>
 6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	 1994	 1993
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Hire of plant and machinery	58	44
Depreciation of tangible fixed assets - owned	499	848
Depreciation of tangible fixed assets - leased	-	11
	<u>-</u>	<u>11</u>
	<u><u>-</u></u>	<u><u>11</u></u>

Auditors' remuneration and other charges from Touche Ross and Co. are borne by the parent company.

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge on the results for the year is made up as follows:

	1994 £'000	1993 £'000
United Kingdom corporation tax at 33% (31 December 1993- 33%)	(2)	1,157
Group Relief	2,119	-
Adjustment in respect of prior years	(22)	28
	<u>2,095</u>	<u>1,185</u>

The tax charge for the year is high in relation to the profit on ordinary activities as a result of the purchase of group relief at a rate in excess of the rate of UK corporation tax and deferred tax asset timing differences for which no credit has been taken.

8. TANGIBLE FIXED ASSETS

	Freehold Land & Buildings £'000	Machinery, motor vehicles, furniture and office machinery £'000	Total £'000
Cost or valuation:			
At 1 January 1994	6,150	4,426	10,576
Additions	268	443	711
Disposals	-	(889)	(889)
Foreign exchange differences	-	(7)	(7)
At 31 December 1994	<u>6,418</u>	<u>3,973</u>	<u>10,391</u>
Accumulated depreciation:			
At 1 January 1994	-	3,294	3,294
Provided during the period	91	408	499
Disposals	-	(853)	(853)
Foreign exchange differences	-	(7)	(7)
At 31 December 1994	<u>91</u>	<u>2,842</u>	<u>2,933</u>
Net book values:			
At 31 December 1994	<u>6,327</u>	<u>1,131</u>	<u>7,458</u>
At 31 December 1993	<u>6,150</u>	<u>1,132</u>	<u>7,282</u>

NOTES TO THE ACCOUNTS
for the year ended 31 December 1994

8. TANGIBLE FIXED ASSETS (continued)

The historical cost of the freehold land and buildings as at 31 December 1994 was £6,476,000 and the cumulative depreciation to that date £225,000.

The cost of assets held by the Company under finance leases at 31 December 1994 was £NIL (1993: £38,137). The accumulated depreciation provided on assets held under finance leases at 31 December 1994 was £NIL (1993 - £11,441).

The main freehold properties were valued by Adlers, a firm of Surveyors, in December 1993. Their open market valuation at that date was £6,150,000, apportioned by them as to £2,820,000 in respect of land and £3,330,000 in respect of buildings. The valuations have been incorporated in the balance sheet. The differences between the valuations and the net book values for both properties totalled £42,000. The difference for each individual property was applied to the revaluation reserve when there was a surplus and otherwise to the profit and loss account.

9. INVESTMENTS HELD AS FIXED ASSETS

	Interests in subsidiary undertakings £'000	Interests in associated undertakings £'000	Other investments £'000	Total £'000
Cost or valuation:				
At 1 January 1994	-	1,958	747	2,705
Dividends received	-	(62)	-	(62)
Additions	1,319	-	311	1,630
Disposals	-	(28)	-	(28)
Revaluation adjustment			-	-
At 31 December 1994	<u>1,319</u>	<u>1,868</u>	<u>1,058</u>	<u>4,245</u>
Amounts written off:				
At 1 January 1994	-	709	747	1,456
Provided during the period	-	-	311	311
Disposals	-	(28)	-	(28)
At 31 December 1994	<u>-</u>	<u>681</u>	<u>1,058</u>	<u>1,739</u>
Net book value:				
At 31 December 1994	<u>1,319</u>	<u>1,187</u>	<u>-</u>	<u>2,506</u>
31 December 1993	<u>-</u>	<u>1,249</u>	<u>-</u>	<u>1,249</u>

NOTES TO THE ACCOUNTS**for the year ended 31 December 1994**

The Company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare and deliver group accounts.

In the opinion of the Directors, the aggregate values of the assets consisting of shares in, and amounts owing from, its subsidiaries and associated undertakings is not less than the amount at which these assets are included in the balance sheet.

At 31 December 1994, Serco-IAL Limited directly held all of the allotted share capital of the following principal subsidiaries, namely:

Name	Allotted shares	Country of incorporation /registration	Operates principally in
International Aeradio (Hong Kong) Limited	10,000 ordinary shares of HK\$1	Hong Kong	Hong Kong
Serco Aviation Services Inc.	2,000 ordinary shares of C\$1	Canada	Canada

On 2 May 1994 Serco-IAL Limited purchased the entire share capital of Thompson-Hickling Aviation Inc. for a consideration of £1,226,678 (excluding associated costs of acquisition). Thompson-Hickling Aviation Inc. changed its name to Serco Aviation Services Inc upon acquisition.

At 31 December 1994, Serco-IAL Limited directly held part of the allotted share capital of the following principal associated undertakings:

Name	Allotted shares	Percentage of allotted capital owned	Country of registration or incorporation
Aeradio Technical Services WLL	400 ordinary shares of BD 100	49	Bahrain
International Aeradio (Emirates) LLC	100 ordinary shares of DHS 10,000	49	United Arab Emirates

The principal activity of all subsidiary and associated undertakings is the provision of communication services and equipment.

SERCO-IAL LIMITED

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

10. STOCKS

	1994 £'000	1993 £'000
Service spares	15	-
Work in progress	2	144
	<u>17</u>	<u>144</u>

**11. DEBTORS: AMOUNTS RECEIVABLE
WITHIN ONE YEAR**

	1994 £'000	1993 £'000
Amounts recoverable on contracts	3,517	3,932
Other debtors	1,042	338
Prepayments and accrued income	517	140
Amounts owed by fellow subsidiaries	418	2,211
Amounts owed by ultimate holding company	12,575	-
Amounts owed by subsidiaries	71	-
Amounts owed by associated undertakings	50	-
	<u>18,190</u>	<u>6,621</u>

**12. OTHER CREDITORS INCLUDING TAXATION AND
SOCIAL SECURITY**

	1994 £'000	1993 £'000
Corporation tax	349	1,483
Other taxation and social security	525	479
Obligations under finance leases	-	3
	<u>874</u>	<u>1,965</u>

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1994 £'000	1993 £'000
(a) Amounts falling due after more than one year:		
Obligations under finance leases	-	27
Other loans	-	-
	<u>-</u>	<u>-</u>
Total loans	-	27
Less: Amounts included in creditors falling due within one year	-	3
	<u>-</u>	<u>3</u>
Loans falling due after more than one year	-	24
	<u>-</u>	<u>24</u>
(b) Analysis of loan repayments:		
Other borrowings:		
Finance leases:		
Within one year or on demand	-	3
Between one and two years	-	5
Between two and five years	-	19
	<u>-</u>	<u>27</u>
	<u>-</u>	<u>27</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation £'000	Other Provisions £'000	Total £'000
At 1 January 1994	-	4,458	4,458
Charged against profit for the period	-	1,363	1,363
Other Transfers	-	(149)	(149)
Expenditure	-	(482)	(482)
Foreign Exchange Differences	-	(111)	(111)
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 1994	-	5,079	5,079
	<u>-</u>	<u>5,079</u>	<u>5,079</u>

Other provisions were solely in respect of contract termination.

SERCO-IAL LIMITED

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

15. CALLED UP SHARE CAPITAL	1994 £'000	1993 £'000
Authorised:		
21,000,000 ordinary shares of £1 each	21,000	21,000
	<u> </u>	<u> </u>
Called up, allotted and fully paid:		
11,500,000 ordinary shares at £1 each	11,500	11,500
	<u> </u>	<u> </u>

16. REVALUATION RESERVE	Land and Buildings £'000	Investment £'000	1994 Total £'000
Balance at 1 January 1994	2,489	1,471	3,960
Movement in the period	-	-	-
	<u> </u>	<u> </u>	<u> </u>
At 31 December 1994	2,489	1,471	3,960
	<u> </u>	<u> </u>	<u> </u>

17. PROFIT AND LOSS ACCOUNT	1994 £'000
At 1 January 1994	(2,929)
Loss for the year	(433)
	<u> </u>
At 31 December 1994	(3,362)
	<u> </u>

18. PENSION SCHEME INFORMATION

The Company operates the following pension scheme in the UK:

Serco-IAL Pension Scheme

This is a pre-funded defined benefit scheme.

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

Actuarial assessments covering expense are carried out by independent qualified actuaries, with the last such review being carried out as at 1 January 1993.

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

Serco - IAL Pension Scheme (cont)

The projected unit method was adopted for the actuarial review of the Scheme. The main actuarial assumptions used in the valuations for accounting purposes at the date of the last valuation were:

Investment yield	9.5% p.a.
Salary growth	7.5% p.a.
Equity dividend growth	5.0% p.a.
Pension increases (Part 4 members)	4.0% p.a.
Pension increases (others)	5.0% p.a.

The Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £60,220,000 at 1 January 1993.

The actuarial value of the assets represented 125% of the on-going liabilities of the Scheme. The Company's policy is to amortise any surplus over the average remaining working lives of the employees. However, the amount of amortisation is currently being restricted to an amount equal to the cost to the employer of accruing benefits so that no pension credit is recognised in the profit and loss account.

No employer pension contributions were paid into the Scheme during the year (1993 - £nil).

At 31 December 1994 there was no provision or prepayment in respect of the Scheme included in the Accounts (1993 - £nil).

The Company is a member of the following pension scheme in the UK:

Serco Pension and Life Assurance Scheme

The scheme has defined benefit arrangements and is operated on a pre-funded basis.

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

Actuarial assessments covering expense and contributions are carried out by independent qualified actuaries, with the last such review for the Serco Pension and Life Assurance Scheme being carried out as at 1 January 1993.

The particulars of the actuarial valuation are detailed in the Consolidated Accounts of Serco Group plc.

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

19. CAPITAL AND OTHER COMMITMENTS

	1994 £'000	1993 £'000
Capital expenditure contracted but not provided	-	177
Capital expenditure authorised but not contracted	14	242
	<u>14</u>	<u>419</u>

During the year ending 31 December 1995, the Company is to make the following payments in respect of operating leases:

	Land and Buildings £'000	Other £'000
Leases which expire:		
Within one year	697	27
Between one and five years	216	196
After five years	-	-
	<u>913</u>	<u>223</u>

20. CONTINGENT LIABILITIES

The Company has given indemnities to banks totalling £1,679,520 in respect of performance bonds and other guarantees during the normal course of business. This includes indemnities of £502,638 in respect of the overdraft facilities of associated undertakings.

The Company has entered into an unlimited cross guarantee with its ultimate parent Company and fellow subsidiaries in order to guarantee the borrowings of the Group under the Group's borrowing arrangements.

21. ULTIMATE PARENT COMPANY

The Company's ultimate parent Company is Serco Group plc, a Company incorporated in Great Britain and registered in England and Wales. Serco International Limited is the smallest group for which consolidated accounts are prepared and of which this Company is a part. Serco International Limited is incorporated in Great Britain and registered in England and Wales. Copies of Serco International's consolidated accounts can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ. Copies of Serco Group plc's consolidated accounts can be obtained from the Company Secretary, Serco Group plc, Serco House, Hayes Road, Southall, Middlesex UB2 5NJ.