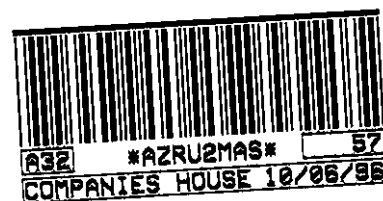


SERCO INTERNATIONAL LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 1995



A company registered in England and Wales, number 2324094

SERCO INTERNATIONAL LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT TO BE PRESENTED TO THE SEVENTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

The Directors present herewith their Annual Report and Accounts for the year ended 31 December 1995.

ACTIVITIES

Serco International Limited and its subsidiary companies and associated undertakings provide a wide range of services, including airport facilities management and other aviation-related services, computer support and estate management services, aviation and other training and education development.

REVIEW OF DEVELOPMENTS

The Consolidated Profit and Loss Account of Serco International Limited and its subsidiaries for the year ended 31 December 1995 is set out on page 5. The Directors are confident that 1996 will be another successful year.

DIVIDEND AND TRANSFER TO RESERVES

The directors do not propose the payment of a dividend (1994 - £nil).

Retained profits of £6,087,000 (1994 - £791,000) have been transferred to reserves.

FIXED ASSETS

Tangible fixed assets of the Company and its subsidiaries are detailed in note 9 to the Accounts.

Investments of the Group and the Company are detailed in note 10 to the Accounts. Group assets include the land and buildings of Southall occupied by support staff of Serco International Limited, Serco Limited and Serco Systems Limited, and the Bailbrook Training College, near Bath.

EMPLOYEE INVOLVEMENT

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 account of in 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 works councils are constituted.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT TO BE PRESENTED TO THE SEVENTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

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.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group has made contributions amounting to £1,534 (1994 - £8,750) to charitable organisations. No contributions were made for political purposes.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance has been purchased by the Group during the year.

DIRECTORS

The following Directors served during the year:

		Appointed	Resigned
K.S. Beeston	FCMA		31 December 1995
P.S. McKoen	FCMA		31 December 1995
P. Kehoe	MBA		31 December 1995
G. Bryden			31 December 1995
J.C. Duggan			31 December 1995
G. Rodgers		24 July 1995	31 December 1995
J. Wyke		5 September 1995	31 December 1995
E. Bryan	BA (Hons) ACA	6 November 1995	
R. McGregor-Smith	BA (Hons) ACA	6 November 1995	

Details of Directors' interests in the shares of Serco Group plc are shown in note 4 to the Accounts. None of the Directors had any beneficial interest in the shares of the Company, or any other Group company.

AUDITORS

On 1st February 1996 our auditors changed their name under which they practise to Deloitte & Touche and, accordingly, have signed their report in their new name.

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

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT TO BE PRESENTED TO THE SEVENTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

STATEMENT OF 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 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, 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 Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Accounts comply with the Companies Act. They are also responsible 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 behalf of the Board:



R.P. HOGBIN, FCMA, ACIS
Secretary

Serco House
Hayes Road
Southall
Middlesex
UB2 5NJ

28 February 1996

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

AUDITORS' REPORT TO THE MEMBERS OF SERCO INTERNATIONAL LIMITED

We have audited the Accounts and Notes on pages 5 to 30 which have been prepared under the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the Company's Directors are responsible for the preparation of 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.

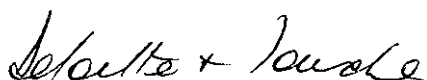
Basis of opinion

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 and the Group'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 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 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 and the Group as at 31 December 1995 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

28 February 1996

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 1995

	Note	1995 £'000	1994 £'000
Turnover from continuing operations		57,795	49,723
Cost of sales	2	(43,156)	(41,578)
Gross profit		<u>14,639</u>	<u>8,145</u>
Administrative expenses	2	(4,035)	(4,806)
Operating profit from continuing operations	3	10,604	3,339
Income from shares in associated undertakings		105	300
Interest receivable	5	1,118	792
Interest payable and similar charges	6	(237)	(127)
Profit on ordinary activities before taxation	7	11,590	4,304
Tax on profit on ordinary activities	8	(5,503)	(3,513)
Retained profit for the financial year	20	<u>6,087</u>	<u>791</u>

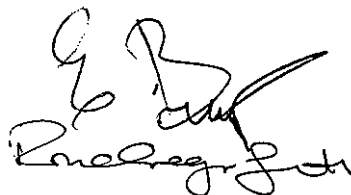
SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET at 31 December 1995

	Note	1995 £'000	1994 £'000
FIXED ASSETS			
Tangible assets	9	8,510	8,124
Investments	10	1,367	1,345
		<u>9,877</u>	<u>9,469</u>
CURRENT ASSETS			
Stocks	11	308	109
Debtors: Amounts falling due within one year	12	11,366	11,193
Debtors: Amounts falling due after more than one year	12	2,460	-
Amounts owed by associated undertakings		70	52
Amounts owed by group companies	16	1,004	665
Cash at bank and in hand		4,853	3,811
		<u>20,061</u>	<u>15,830</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank loans and overdrafts - secured		-	667
Trade creditors		1,595	1,185
Amounts owed to group companies	16	10,536	1,074
Other creditors including taxation and social security	13	4,456	2,185
Accruals and deferred income		7,867	8,315
		<u>24,454</u>	<u>13,426</u>
NET CURRENT (LIABILITIES)/ ASSETS		<u>(4,393)</u>	<u>2,404</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,484</u>	<u>11,873</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	34	10,096
PROVISIONS FOR LIABILITIES AND CHARGES	15	4,426	6,824
		<u>1,024</u>	<u>(5,047)</u>
CAPITAL AND RESERVES			
Called up share capital	18	-	-
Goodwill written off	19	(5,717)	(5,717)
Profit and loss account	20	6,741	670
EQUITY SHAREHOLDERS' FUNDS		<u>1,024</u>	<u>(5,047)</u>

These Accounts and Notes were approved
by the Board of Directors on 28 February 1996
and signed on behalf of the Board:

E. BRYAN)
R. MCGREGOR-SMITH) Directors



SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

BALANCE SHEET

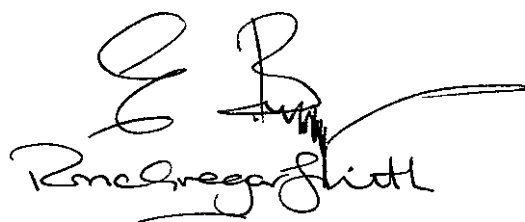
at 31 December 1995

	Note	1995 £'000	1994 £'000
FIXED ASSETS			
Tangible assets	9	118	115
Investments	10	17,598	17,571
		<u>17,716</u>	<u>17,686</u>
CURRENT ASSETS			
Debtors	12	6	122
Amounts owed by group companies	16	8,024	7,834
Cash at bank and in hand		45	12
		<u>8,075</u>	<u>7,968</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank overdrafts - secured		131	346
Trade creditors		30	13
Amounts owed to group companies	16	25,426	14,938
Other creditors including taxation and social security	13	44	55
Accruals and deferred income		396	274
		<u>26,027</u>	<u>15,626</u>
NET CURRENT LIABILITIES		<u>(17,952)</u>	<u>(7,658)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(236)</u>	<u>10,028</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	13	10,019
PROVISIONS FOR LIABILITIES AND CHARGES	15	-	60
		<u>(249)</u>	<u>(51)</u>
CAPITAL AND RESERVES			
Called up share capital	18	-	-
Profit and loss account	20	(249)	(51)
EQUITY SHAREHOLDERS' FUNDS		<u>(249)</u>	<u>(51)</u>

These Accounts and Notes were approved
by the Board of Directors on 28 February 1996
and signed on behalf of the Board:

E. BRYAN
R. MCGREGOR-SMITH

)
) Directors



SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 1995

	1995 £'000	1994 £'000
Profit for the financial year	6,087	791
Currency translation differences on foreign currency net investments	(16)	(121)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	6,071	670
	<hr/>	<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

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 the main freehold properties.

Basis of consolidation

The Group Accounts consolidate the Accounts of the Company and of its subsidiaries made up to 31 December in each year for the periods they are owned by Serco International Limited. Goodwill arising on the acquisition of subsidiaries and associated undertakings is immediately written off to reserves.

Depreciation

Depreciation 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%
Machinery	15%
Motor vehicles	18% - 50%
Furniture	10%
Office machines	20%
Leased equipment	Higher rate produced by lease term or useful life

Stocks

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

Long term contracts

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover by reference to the value of the work carried out to date. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. 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.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

1. ACCOUNTING POLICIES (continued)

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.

Investments

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

Investment in associated undertakings

In the Consolidated Accounts, investments in associated undertakings are accounted for using the equity method of accounting. The Consolidated Profit and Loss Account includes the Group's share of the profits before taxation and the attributable taxation of the associated undertakings. In the Consolidated Balance Sheet, the investment in the associated undertakings is shown as the Group's share of the net assets of the associated undertakings less provision for any permanent diminution in value.

Basis of translation of foreign currencies

Transactions of UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Amounts receivable and payable in foreign currencies at the balance sheet date are translated at the rates ruling at that date and any differences arising are taken to the profit and loss account.

The Accounts of overseas subsidiary companies and associated undertakings are translated into sterling at the closing rates of exchange at the balance sheet date and the difference arising from the translation of the opening net investment at the closing rates is taken directly to reserves.

Pension costs

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

Turnover

Turnover represents net sales of goods and services sold to third parties.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

1. ACCOUNTING POLICIES (continued)

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. Rentals are charged to the profit and loss account in equal annual amounts.

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.

2. COST OF SALES AND ADMINISTRATIVE EXPENSES

	Cost of Sales		Administrative Expenses	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Continuing Operations	43,156	41,578	4,035	4,806
	=====	=====	=====	=====

3. SEGMENTAL REPORT

In the opinion of the Directors the turnover and operating profit of the Group is attributable entirely to the provision of facilities management services. No split by activity is, therefore, believed to be appropriate.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

3. SEGMENTAL REPORT (continued)

Geographical Segments 1995	United Kingdom £'000	Europe £'000	Middle East & Africa £'000	Other £'000	Total £'000
Continuing Operations					
TURNOVER					
Turnover by destination					
Sales to third parties	14,435	23,735	13,214	6,411	57,795
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Turnover by origin					
Sales to third parties	18,347	20,490	12,165	6,793	57,795
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
PROFIT BEFORE TAXATION					
Segment profit	2,643	3,111	3,366	2,227	11,347
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Common costs					(743)
					<u> </u>
Operating profit					10,604
					<u> </u>
Net interest receivable					881
					<u> </u>
					11,485
Income from shares in associated undertakings	-	-	105	-	105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Group profit before taxation					11,590
					<u> </u>
NET ASSETS					
Segment net assets	12,047	347	2,562	(4,823)	10,133
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Unallocated liabilities					(10,476)
					<u> </u>
					(343)
Group share of the net assets of associated undertakings	-	-	1,291	76	1,367
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets					1,024
					<u> </u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

3. SEGMENTAL REPORT (continued)

Geographical Segments 1994	United Kingdom £'000	Europe £'000	Middle East & Africa £'000	Other £'000	Total £'000
Continuing Operations					
TURNOVER					
Turnover by destination					
Sales to third parties	13,056	18,702	14,566	3,399	49,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Turnover by origin					
Sales to third parties	17,602	15,652	13,264	3,205	49,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
PROFIT BEFORE TAXATION					
Segment profit	2,607	3,329	1,286	462	7,684
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Common costs					(4,345)
					<u> </u>
Operating profit					3,339
					<u> </u>
Net interest receivable					665
					<u> </u>
					4,004
Income from shares in associated undertakings	-	-	233	67	300
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Group profit before taxation					4,304
					<u> </u>
NET ASSETS					
Segment net assets	11,903	(90)	(4,434)	(3,292)	4,087
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Unallocated liabilities					(10,479)
					<u> </u>
					(6,392)
Group share of the net assets of associated undertakings	-	-	1,257	88	1,345
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net liabilities					(5,047)
					<u> </u>

NOTES TO THE ACCOUNTS

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1995 £'000	1994 £'000
Directors' emoluments:		
Directors' fees	-	-
Other emoluments	407	260
	<u>407</u>	<u>260</u>
Remuneration of the Chairman (who was also the highest paid Director)	<u>121</u>	<u>88</u>

The number of other Directors whose remuneration fell within the ranges below was:

	1995 Number	1994 Number
£Nil - £ 5,000	4	3
£50,001 - £55,000	-	2
£55,001 - £60,000	1	1
£65,001 - £70,000	1	-
£70,001 - £75,000	1	-
£80,001 - £85,000	1	-

Except as noted below no other directors held an interest in the shares of Serco Group plc or any other group companies.

	1 January 1995 or date of appointment		31 December 1995	
	Shares	Options	Shares	Options
K.S. Beeston	-	140,000	-	140,000
P. Kehoe	-	5,000	-	5,000
J. Wyke	-	35,000	-	35,000
E. Bryan	-	80,000	-	80,000

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1995 £'000	1994 £'000
Employee costs including directors:		
Wages and salaries	34,860	27,881
Social security costs	2,051	1,853
Other pension costs	764	592
Pension Credit - see note 24	(2,460)	-
	35,215	30,326

	1995 Number	1994 Number
Average number of persons employed in the provision of services:	1,546	1,373

5. INTEREST RECEIVABLE

	1995 £'000	1994 £'000
Short term deposits	131	192
Amounts receivable from group companies	987	600
	1,118	792

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1995 £'000	1994 £'000
On liabilities repayable within five years:		
Bank loan and overdrafts	65	54
Finance leases	6	3
Amounts payable to group companies	166	70
	237	127

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1995	1994
	£'000	£'000
Profit on ordinary activities before taxation is after charging:		
Rentals under operating leases:		
Hire of plant and machinery	708	664
Rental of property	1,229	1,136
Depreciation on tangible fixed assets:		
Owned	621	652
Assets held under finance leases	5	5
Auditors' remuneration		
- Deloitte & Touche	70	60
- Other Auditors	21	20
Other fees paid to Deloitte & Touche	46	97

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1995	1994
	£'000	£'000
The taxation charge on the results of the year is made up as follows:		
United Kingdom Corporation Tax at 33% based on the profit for the year	76	634
Less: Double taxation relief	-	(363)
Group relief	3,020	2,239
Overseas taxation	1,596	1,100
Deferred taxation	805	-
Adjustment in respect of prior years	6	(97)
	5,503	3,513

The tax charge is high in relation to the profits for the year as a result of higher rates of overseas taxation and payment for group relief at a rate in excess of the UK corporation tax rate.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

9. TANGIBLE FIXED ASSETS

GROUP	Freehold land and buildings £'000	Machinery, motor vehicles, furniture and equipment £'000	Total £'000
Cost:			
At 1 January 1995	6,418	5,398	11,816
Transfer to/from Group undertakings	4	1	5
Capital expenditure	145	874	1,019
Disposals	-	(234)	(234)
Exchange differences	-	25	25
At 31 December 1995	6,567	6,064	12,631
Accumulated Depreciation:			
At 1 January 1995	91	3,601	3,692
Provided during the year	96	530	626
Transfer to/from Group undertakings	-	1	1
Disposals	-	(214)	(214)
Exchange differences	-	16	16
At 31 December 1995	187	3,934	4,121
Net book values:			
At 31 December 1995	6,380	2,130	8,510
At 31 December 1994	6,327	1,797	8,124

The cost of assets held under finance leases at 31 December 1995 was £38,137 (1994 - £38,137).

The accumulated depreciation provided for those assets at 31 December 1995 was £20,594 (1994 - £16,134).

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

9. TANGIBLE FIXED ASSETS (continued)

COMPANY	Machinery, motor vehicles, furniture and equipment £'000
Cost:	
At 1 January 1995	154
Capital expenditure	37
Transfers from group undertakings	6
Disposals	(2)
	<hr/>
At 31 December 1995	195
Accumulated Depreciation:	
At 1 January 1995	39
Provided during the year	37
Transfers from group undertakings	2
Disposals	(1)
	<hr/>
At 31 December 1995	77
Net book values:	<hr/>
At 31 December 1995	118
	<hr/>
At 31 December 1994	115
	<hr/>

The cost of assets held by the Company under finance leases at 31 December 1995 was £38,137 (1994 - £38,137). The accumulated depreciation provided for those assets at 31 December 1995 was £20,594 (1994 - £16,134).

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

10. INVESTMENTS HELD AS FIXED ASSETS

The following information is limited to principal undertakings because full disclosure would result in excessive length.

Group

- (a) At 31 December 1995 Serco International Limited directly held all of the allotted share capital of the following principal subsidiaries:

	Allotted shares	Country of incorporation /registration	Operates principally in
Serco-IAL Limited	11,500,000 Ordinary Shares of £1 each	England and Wales	United Kingdom/ Europe/Middle East
Serco Europe Limited	5,000 Ordinary Shares of £1 each	England and Wales	Europe
Serco Education Limited	2 Ordinary Shares of £1 each	England and Wales	USA / Far East / Europe
Serco Southall Services Limited	2 Ordinary Shares of £1 each	England and Wales	United Kingdom
Serco International BV	5,370 Ordinary Shares of Dutch FL 100 each	Netherlands	Europe

- (b) At 31 December 1995, Serco-IAL Limited directly held all of the allotted share capital of the following principal subsidiaries, namely:

	Allotted shares	Country of incorporation /registration	Operates principally in
International Aeradio (Hong Kong) Limited	10,000 Ordinary Shares of HK \$1 each	Hong Kong	Hong Kong
Serco Facilities Management Inc.	800 Common Shares of Can. \$1 each	Canada	Canada

- (c) At 31 December 1995, Serco Facilities Management Inc. directly held all the allotted share capital of the following principal subsidiary:

Serco Aviation Services Inc.	2,000 Class A Common shares of Can. \$1 each	Canada	Canada
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SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

- (d) At 31 December 1995, Serco Europe Limited directly held all of the allotted share capital of the following principal subsidiary, namely:

	Allotted shares	Country of incorporation /registration	Operates principally in
Serco Services GmbH	60 Ordinary Shares of DM 1,000 each	Germany	Germany

- (e) At 31 December 1995, Serco International B.V. held all of the allotted share capital of the following principal subsidiaries, namely:

	Allotted shares	Country of incorporation /registration	Operates principally in
Serco Servizi Srl	90,000 Ordinary Shares of 1,000 Lira each	Italy	Italy
Serco Facilities Management SA	500 Ordinary Shares of FF 100 each	France	France
Serco GmbH	50 Ordinary Shares of DM 1,000 each	Germany	Germany
Serco Facilities Management B.V.	2,850 Ordinary Shares of Dutch FL 100 each	Netherlands	Netherlands

- (f) At 31 December 1995, Serco-IAL Limited directly held part of the allotted share capital of the following principal undertakings:

	Allotted shares	% Held	Investment as at 31 December	
			1995 £'000	1994 £'000
Principal associated undertaking registered and operating principally in Bahrain:				
Aeradio Technical Services WLL	400 Ordinary Shares of BD 100 each	49%	600	652

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

	Allotted shares	% Held	Investments as at 31 December	
			1995 £'000	1994 £'000

**Principal associated undertaking registered
and operating principally in The United Arab Emirates:**

International Aeradio (Emirates) LLC	100 Ordinary Shares of DHS 10,000 each	49%	691	606
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(g)	At 31 December 1995, Serco Aviation Services Inc. held a 50% share of an unincorporated joint venture with Monenco Consultants Limited, operating principally in Canada. This has been treated as an associate in these financial statements.	76	87
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(h) Investments in associated and other undertakings:

	£'000
At 1 January 1995	1,345
Dividends receivable	(105)
Foreign exchange translation differences	5
Retained profits	122
	<hr/>
At 31 December 1995	1,367
	<hr/>

(i) At 31 December 1995, Serco-IAL Limited had branches in Abu Dhabi, Bahrain, Dubai, Ras Al Khaimah, and Sharjah.

(j) All the subsidiaries of Serco International Limited and the associated undertakings are engaged in the provision of services.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

Company - Serco International's purchase of subsidiary companies was as follows -

	Shares in Subsidiary Companies £'000
At 1 January 1995	17,571
Additions	27
At 31 December 1995	17,598

11. STOCKS

	GROUP	
	1995 £'000	1994 £'000
Service spares	116	102
Work in progress	192	7
	308	109

12. DEBTORS

	GROUP		COMPANY	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
a) Amounts falling due within one year				
Amounts recoverable on contracts	9,154	8,339	-	-
Other debtors	781	1,599	2	67
Prepayments and accrued income	1,431	1,255	4	55
	11,366	11,193	6	122
b) Amounts falling due after more than one year				
Pensions prepayment	2,460	-	-	-
Total Debtors	13,826	11,193	6	122

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

13. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	GROUP		COMPANY	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Obligations under finance leases	26	13	6	5
Corporation Tax	2,145	1,226	34	48
Other taxes and social security	2,285	946	4	2
	<u>4,456</u>	<u>2,185</u>	<u>44</u>	<u>55</u>

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

	GROUP		COMPANY	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
(a) Amounts falling due after more than one year:				
Amounts owed to group companies	10,536	11,074	25,426	24,938
Obligations under finance leases	60	44	19	24
Other loans	-	65	-	-
	<u>10,596</u>	<u>11,183</u>	<u>25,445</u>	<u>24,962</u>
Total loans	10,596	11,183	25,445	24,962
Less: Amounts included in creditors falling due within one year	10,562	1,087	25,432	14,943
	<u>34</u>	<u>10,096</u>	<u>13</u>	<u>10,019</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

	GROUP		COMPANY	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
(b) Analysis of loan repayments:				
Amounts owed to Group Companies:				
Within one year or on demand	10,536	1,074	25,426	14,938
Between one and two years	-	10,000	-	10,000
Other borrowings:				
Within one year or on demand	26	13	6	5
Between one and two years	34	12	13	6
Between two and five years	-	84	-	13
	<u>10,596</u>	<u>11,183</u>	<u>25,445</u>	<u>24,962</u>

- (c) The Group's overdrafts and loans are secured by a number of guarantees and debentures over various assets of the company's UK subsidiaries. Finance lease obligations are secured by retention of title to the relevant vehicles and equipment.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Contract Termination	Deferred Taxation	Total
(a) Group			
Balance at 1 January 1995	6,824	-	6,824
Charged/(released) to Profit & Loss Account	(2,529)	812	(1,717)
Applied	(841)	-	(841)
Exchange Difference	160	-	160
Balance at 31 December 1995	<u>3,614</u>	<u>812</u>	<u>4,426</u>
(b) Company			
Balance at 1 January 1995	60	-	60
Transfers to subsidiary	(60)	-	(60)
Balance at 31 December 1995	<u>-</u>	<u>-</u>	<u>-</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

The amounts of deferred taxation provided in the accounts are:

	GROUP	
	1995	1994
	£'000	£'000
Accelerated capital allowances	-	-
Other timing differences	812	-
	<u>812</u>	<u>-</u>
	<u><u>812</u></u>	<u><u>-</u></u>

Potential amounts of deferred taxation for which no credit has been taken:

	GROUP	
	1995	1994
	£'000	£'000
Accelerated capital allowances	(205)	-
Other timing differences	(1,455)	-
	<u>(1,660)</u>	<u>-</u>
	<u><u>(1,660)</u></u>	<u><u>-</u></u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

16. AMOUNTS OWED BY/TO GROUP COMPANIES

	GROUP		COMPANY	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
(a) Owed by:				
Subsidiaries	-	-	8,007	7,834
Other group companies	1,004	665	17	-
	<u>1,004</u>	<u>665</u>	<u>8,024</u>	<u>7,834</u>
	<u><u>1,004</u></u>	<u><u>665</u></u>	<u><u>8,024</u></u>	<u><u>7,834</u></u>
(b) Owed to:				
Subsidiaries	-	-	2,342	2,245
Other group companies	10,536	1,074	23,084	12,693
	<u>10,536</u>	<u>1,074</u>	<u>25,426</u>	<u>14,938</u>
	<u><u>10,536</u></u>	<u><u>1,074</u></u>	<u><u>25,426</u></u>	<u><u>14,938</u></u>

17. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	1995 £'000	1994 £'000
Profit for the financial year	6,087	791
Currency translation differences	(16)	(121)
Goodwill written-off	-	(5,717)
	<u>6,071</u>	<u>(5,047)</u>
Net increase/(reduction) in shareholders' funds	6,071	(5,047)
Opening shareholders' funds	(5,047)	-
	<u>(5,047)</u>	<u>-</u>
Closing shareholders' funds	<u>1,024</u>	<u>(5,047)</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

18. CALLED UP SHARE CAPITAL

	1995	1994
	£	£
Authorised:		
50,000 ordinary shares of £1 each	50,000	50,000
Allotted and fully paid:	<u> </u>	<u> </u>
2 ordinary shares of £1 each	2	2
	<u> </u>	<u> </u>

19. GOODWILL WRITTEN OFF

Goodwill of £5,717,000 arising on the acquisition of subsidiary companies has been written off directly to reserves in prior years:

	£'000
Serco-IAL Limited	4,473
Serco Aviation Services Inc.	1,244
	<u>5,717</u>
	<u> </u>

20. PROFIT AND LOSS ACCOUNT

	£'000
GROUP	
Balance at 1 January 1995	670
Profit retained transferred to reserves	6,087
Foreign exchange translation differences	(16)
	<u> </u>
Balance at 31 December 1995	6,741
	<u> </u>

COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented as part of these accounts. The consolidated profit for the financial year includes the Parent Company loss of £198,000. This loss has been added to brought forward losses of £51,000 resulting in losses carried forward of £249,000.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

21. CONTINGENT LIABILITIES

The Group participates in the overall bank facility provided to Serco Group Plc. Within the facility the Group has given indemnities on behalf of subsidiary undertakings to banks totalling £3,442,140 in respect of performance bonds and other guarantees during the normal course of business. During the year the Group has also given indemnities to banks totalling £849,896 in respect of the overdraft facilities of associated undertakings.

The Group 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.

22. CAPITAL AND OTHER COMMITMENTS

	GROUP		COMPANY	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Capital expenditure contracted but not provided	23	25	-	-
Capital expenditure authorised but not contracted	178	14	-	-

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

	Land & Buildings £'000	Other £'000
Leases which expire:		
Within 1 year	704	233
Between 1 and 5 years	373	271
After 5 years	-	10
	1,077	514

23. 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. 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.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

24. PENSION SCHEMES

The net pension (credit)/charge for the year ended 31 December 1995 was £(1,696,000) (1994 - £592,000).

The Group paid defined employer contributions of £273,000 (1994 - £278,000) into foreign state pension schemes in respect of overseas employees.

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

(a) 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 being carried out as at 1 January 1995.

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

Employer pension contributions paid into the Scheme during the year were £19,957 by associated companies.

The Group operates the following pension scheme in the UK:

(b) The Serco-IAL Pension Scheme

This is a pre-funded defined benefit scheme.

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

Actuarial assessments covering expense and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 31 March 1995.

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 (Part 6 members)	0.0% 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 £66,651,000 at 31 March 1995.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1995

24. PENSION SCHEMES (continued)

The actuarial value of the assets represented 124% of the on-going liabilities of the Scheme. The surplus is being amortised for accounting purposes over a nine year period as a constant monetary amount.

No employer pension contributions were paid into the Scheme during the year (1994 - £nil).

At 31 December 1995, a prepayment of £2,460,000 has been included in the balance sheet whilst a similar amount has been credited to the 1995 profit and loss account in respect of the scheme.

- (c) The company also contributes to defined contribution pension schemes operating independently from the company.