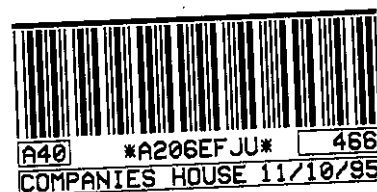


SERCO INTERNATIONAL LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 1994



A company registered in England and Wales, number 2324094

SERCO INTERNATIONAL LIMITED

Financial Results 1994 "at a glance"

	£'000
Turnover	49,723
Operating profit	3,339
Income from Associates	300
	<hr/>
Profit before Interest and Tax	3,639
	<hr/>
PBIT as percent of sales	7.3%
Average employees	1,373

<u>Gross Segmental Profits by Region</u>		£'000
-	Europe	3,329
-	UK	2,607
-	Middle East & Africa	1,519
-	Other, including Canada	529
		<hr/>
	Total Gross Segmental Profits	7,684
		<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARIES

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

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

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 beginning of the year saw the creation of the Serco International Group as the result of a significant reorganisation of Serco Group plc.

Serco International Limited commenced trading, and acquired its subsidiary companies with effect from January 1st 1994. During the year, the subsidiary, Serco International BV, was created in the Netherlands and Serco-IAL Limited acquired Thompson-Hickling Aviation Inc., an aviation services company in Canada, now renamed Serco Aviation Services Inc. The structure of the companies within the Group has subsequently been reviewed and revised. This restructuring, which will continue into 1995, will develop a structure of legal entities in each country in which we do business, and will support the continual growth of the Group.

Serco International is currently funded entirely from Intra-Group debt, primarily from the parent company, Serco Group plc. It is our intention to review this arrangement and to establish an ongoing level of capitalisation during 1995.

Profits for the Group, including associates, at £3,639,000 (1993 - £nil) were fully in line with expectations and represented quality growth in each of the subsidiary companies. In its first year of trading, Serco International has applied a significant level of resources to research and marketing in new markets, including mainland Europe and the Middle East. These efforts are expected to generate growth in revenue and profits for next year and beyond.

The level of retained profits reflects a high tax charge arising from group tax relief paid for at a rate in excess of the UK corporation tax rate, as explained in note 8 to the Accounts. This level of tax charge is not expected to be repeated in future years.

The majority of Serco International's earnings are overseas, giving rise to currency exposures. Group policy is to establish planning levels of profit, and then to use the derivatives market to reduce earnings volatility, and, where possible, to fix earnings at or above plan exchange rates. Derivatives are used to reduce trading risk, and not in a speculative manner.

The Directors look forward to 1995 as a year of solid revenue and earnings growth.

The Consolidated Profit and Loss Account of Serco International Limited and its subsidiaries for the year ended 31 December 1994 is set out on page 5.

DIVIDEND AND TRANSFER TO RESERVES

The directors do not propose the payment of a dividend (1993 - £nil).

Retained profits of £791,000 (1993 - £nil) have been transferred to reserves.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

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

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.

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 £8,750 (1993 - £nil) 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	12 March 1994	
P.S. McKoen	FCMA	12 March 1994	
P. Kehoe	MBA	12 March 1994	
G. Bryden		12 March 1994	
J.C. Duggan		1 May 1994	
D. E. Perkins			12 March 1994
A. L. Robson	FCA FCT F INST D		12 March 1994

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

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.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

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

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 Group and enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of 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 1995

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 31 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 1994 and of the profit of the Group 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 INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1994

	Note	1994 £'000	1994 £'000	1993 £'000	1993 £'000
Turnover					
Continuing operations		-		-	
Acquisitions		49,723		-	
		<u> </u>		<u> </u>	
Total Turnover	3		49,723		-
Cost of sales	2		(41,578)		-
			<u> </u>		<u> </u>
Gross profit			8,145		-
Administrative expenses	2		(4,806)		-
			<u> </u>		<u> </u>
Operating profit					
Continuing operations		-		-	
Acquisitions		3,339		-	
		<u> </u>		<u> </u>	
		3,339		-	
Total operating profit	3		3,339		-
Income from shares in associated undertakings			300		-
Interest receivable	5		792		-
Interest payable and similar charges	6		(127)		-
			<u> </u>		<u> </u>
Profit on ordinary activities before taxation	7		4,304		-
Tax on profit on ordinary activities	8		3,513		-
			<u> </u>		<u> </u>
Retained profit for the financial year	20		791		-
			<u> </u>		<u> </u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

at 31 December 1994

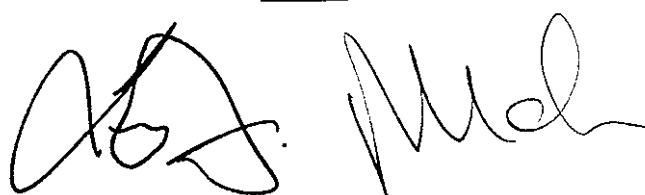
	Note	1994 £'000	1993 £'000
FIXED ASSETS			
Tangible assets	9	8,124	-
Investments	10	1,345	-
		<u>9,469</u>	<u>-</u>
CURRENT ASSETS			
Stocks	11	109	-
Debtors	12	11,193	-
Amounts owed by associated undertakings		52	-
Amounts owed by group companies	16	665	-
Cash at bank and in hand		3,811	-
		<u>15,830</u>	<u>-</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank loans and overdrafts - secured		667	-
Trade creditors		1,185	-
Amounts owed to group companies	16	1,074	-
Other creditors including taxation and social security	13	2,185	-
Accruals and deferred income		8,315	-
		<u>13,426</u>	<u>-</u>
NET CURRENT ASSETS		<u>2,404</u>	<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,873</u>	<u>-</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	10,096	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	6,824	-
		<u>(5,047)</u>	<u>-</u>
CAPITAL AND RESERVES			
Called up share capital	18	-	-
Goodwill written off	19	(5,717)	-
Profit and loss account	20	670	-
EQUITY SHAREHOLDERS' FUNDS		<u>(5,047)</u>	<u>-</u>

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

K.S. BEESTON)

P.S. McKOEN)

Directors



SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES


BALANCE SHEET

at 31 December 1994

	Note	1994 £'000	1993 £'000
FIXED ASSETS			
Tangible assets	9	115	-
Investments	10	17,571	-
		<u>17,686</u>	<u>-</u>
CURRENT ASSETS			
Stocks	11	-	-
Debtors	12	122	-
Amounts owed by group companies	16	7,834	-
Cash at bank and in hand		12	-
		<u>7,968</u>	<u>-</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank overdrafts - secured		346	-
Trade creditors		13	-
Amounts owed to group companies	16	14,938	-
Other creditors including taxation and social security	13	55	-
Accruals and deferred income		274	-
		<u>15,626</u>	<u>-</u>
NET CURRENT LIABILITIES		<u>(7,658)</u>	<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		10,028	-
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	10,019	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	60	-
		<u>(51)</u>	<u>-</u>
CAPITAL AND RESERVES			
Called up share capital	18	-	-
Profit and loss account	20	(51)	-
EQUITY SHAREHOLDERS' FUNDS		<u>(51)</u>	<u>-</u>

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

K.S. BEESTON)
P.S. McKOEN) Directors



SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 1994

	1994 £'000	1993 £'000
Profit for the financial year	791	-
Currency translation differences on foreign currency net investments	(121)	-
Total recognised gains and losses relating to the year	<u>670</u>	<u>-</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

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 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 1994

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 1994

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	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Acquisitions	41,578	-	4,806	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Serco International Limited commenced trading and acquired its subsidiary companies with effect from 1 January 1994.

3. SEGMENTAL REPORT

In the opinion of the Directors the turnover and 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 1994

3. SEGMENTAL REPORT (continued)

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

This segmental report shows the impact of the acquisition during the year of Serco-IAL Limited, Serco Europe Limited, Serco Servizi Srl, Serco Education Limited, Serco Southall Services Limited and Thompson-Hickling Aviation Inc.

There was no trading in the prior period, therefore no comparatives for the year ending 31 December 1993 have been shown.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1994 £'000	1993 £'000
Directors emoluments:		
Directors' fees	-	-
Other emoluments	260	-
	<u>260</u>	<u>-</u>
Remuneration of the Chairman (who was also the highest paid Director)	<u>88</u>	<u>-</u>

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

	1994 Number	1993 Number
£ Nil - £ 5,000	3	1
£50,001 - £55,000	2	-
£55,001 - £60,000	1	-

A director of Serco International Limited held an interest in the Ordinary Shares of 2p each fully paid of Serco Group plc as shown below. Mr G Bryden is also a director of Serco Systems Limited and his interests are shown in the notes to the accounts of that company. No other directors held an interest in the shares of Serco Group plc or any other group companies.

	1 January 1994 or date of appointment	31 December 1994
	Shares Options	Shares Options
K.S. Beeston	- *140,000	- 140,000

* Restated for the 4 for 1 capitalisation issue on 30 March 1994.

	1994 £'000	1993 £'000
Employee costs including directors:		
Wages and salaries	27,881	-
Social security costs	1,853	-
Other pension costs	592	-
	<u>30,326</u>	<u>-</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1994	1993
	Number	Number
Average number of persons employed in the provision of services:	1,373	2
	<hr/>	<hr/>

5. INTEREST RECEIVABLE

	1994	1993
	£'000	£'000
Short term deposits	192	-
Amounts receivable from group companies	600	-
	<hr/>	<hr/>
	792	-
	<hr/>	<hr/>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1994	1993
	£'000	£'000
On liabilities repayable within five years:		
Bank loan and overdrafts	54	-
Finance leases	3	-
Amounts payable to group companies	70	-
	<hr/>	<hr/>
	127	-
	<hr/>	<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1994	1993
	£'000	£'000
Profit on ordinary activities before taxation is after charging:		
Rentals under operating leases:		
Hire of plant and machinery	664	-
Rental of property	1,136	-
Depreciation on tangible fixed assets:		
Owned	652	-
Assets held under finance leases	5	-
Auditors' remuneration	60	-
Other fees paid to Touche Ross & Co.	19	-

Further fees of £78,000 have also been paid to Touche Ross & Co. in respect of acquisitions of subsidiary companies where costs have been charged as part of the cost of acquisition.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1994	1993
	£'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	634	-
Less: Double taxation relief	(363)	-
Group relief	2,239	-
Overseas taxation	1,100	-
Adjustment in respect of prior years	(97)	-
Share of associated undertakings' tax charge	-	-
	<u>3,513</u>	<u>-</u>

The tax charge is high in relation to the profits for the year as a result of deferred tax asset timing differences for which no credit has been taken, higher rates of overseas taxation and payment for group relief at a rate in excess of the UK corporation tax rate.

No provision for deferred taxation is required.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

9. TANGIBLE FIXED ASSETS

GROUP	Freehold land and buildings £'000	Machinery, motor vehicles, furniture and equipment £'000	Total £'000
Cost or valuation:			
At 1 January 1994	-	-	-
Subsidiaries acquired	6,177	4,709	10,886
Transfer to/from Group undertakings	-	461	461
Capital expenditure	268	813	1,081
Disposals	(27)	(567)	(594)
Exchange differences	-	(18)	(18)
At 31 December 1994	6,418	5,398	11,816
Accumulated Depreciation:			
At 1 January 1994	-	-	-
Subsidiaries acquired	8	3,350	3,358
Provided during the year	91	566	657
Transfer to/from Group undertakings	-	243	243
Disposals	(8)	(545)	(553)
Exchange differences	-	(13)	(13)
At 31 December 1994	91	3,601	3,692
Net book values:			
At 31 December 1994	6,327	1,797	8,124
At 31 December 1993	-	-	-

The cost of motor vehicles held under finance leases at 31 December 1994 was £38,137 (1993 - £nil).
The accumulated depreciation provided for those assets at 31 December 1994 was £16,134 (1993 - £nil).

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

9. TANGIBLE FIXED ASSETS (continued)

COMPANY	Machinery, motor vehicles, furniture and equipment £'000
Cost or valuation:	
At 1 January 1994	-
Capital expenditure	79
Transfers from group undertakings	75
Disposals	-
	<hr/>
At 31 December 1994	154
	<hr/>
Accumulated Depreciation:	
At 1 January 1994	-
Provided during the year	12
Transfers from group undertakings	27
Disposals	-
	<hr/>
At 31 December 1994	39
	<hr/>
Net book values:	
At 31 December 1994	115
	<hr/>
At 31 December 1993	-
	<hr/>

The cost of motor vehicles held by the Company under finance leases at 31 December 1994 was £38,137 (1993 - £nil). The accumulated depreciation provided for those assets at 31 December 1994 was £16,134 (1993 - £nil).

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

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 1994 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 (formerly International Aeradio Limited)	11,500,000 Ordinary Shares of £1 each	England and Wales	United Kingdom/ Europe/ Middle East
Serco Europe Limited (formerly Serco Space Services 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	2,510 Ordinary Shares of Dutch FL 100 each	Netherlands	Europe

- (b) At 31 December 1994, 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
Serco Aviation Services Inc. (formerly Thompson-Hickling Aviation Inc.)	2,000 Class A Common Shares of Can. \$1 each	Canada	Canada
International Aeradio (Hong Kong) Limited	10,000 Ordinary Shares of HK \$1 each	Hong Kong	Hong Kong

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

- (c) At 31 December 1994, 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	10 Ordinary Shares of DM 1,000 each	Germany	Germany

- (d) At 31 December 1994, 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 Ordinary Shares of 1 million Lira each	Italy	Italy
Serco France Sarl	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

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

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

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

	Allotted shares	% Held	Investments as at 31 December 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%	606
(f)	At 31 December 1994, 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.		87

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

(g)	Investments in associated and other undertakings:	£'000
	At 1 January 1994	-
	Additions on acquisition of subsidiaries	1,350
	Dividends receivable	(186)
	Foreign exchange translation differences	(81)
	Retained profits	262
	At 31 December 1994	<u>1,345</u>

- (h) At 31 December 1994, Serco Europe Limited had a branch in France, and Serco Education Limited had a branch in the USA.
- (i) At 31 December 1994, 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 1994

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

(k) Acquisition - Serco-IAL Limited (formerly International Aeradio Limited) and Group undertakings.

All the issued share capital of Serco-IAL Limited was acquired on 1 January 1994 for consideration of £17,262,527 fully satisfied by way of a loan account with Serco Group plc.

The profits before tax of the Serco-IAL Limited Group were as follows:

Profits before tax, after acquisition included in the consolidated accounts:	£'000
Date of acquisition to 31 December 1994	1,807
Preceding financial period:	
Year ended 31 December 1993	2,589

Profits before Tax in 1994 include the effect of management charges from the group.

The fair values of the assets and liabilities acquired are considered to be the same as the book values. The goodwill arising on consolidation was £4,473,000 which has been written off to reserves in the current year (note 19).

Analysis of purchase of Serco-IAL Limited:

Group assets acquired:	£'000	Discharged by:	£'000
Tangible fixed assets	7,317	Loan	17,262
Investments	1,249	Acquisition costs	100
Goodwill	4,473		
Debtors	7,132		
Creditors	(12,003)		
Cash at bank and in hand	9,194		
	<hr/>		<hr/>
	17,362		17,362
	<hr/>		<hr/>

(l) Acquisition - Serco Europe Limited (formerly Serco Space Services Limited).

All the issued share capital of Serco Europe Limited was acquired on 1 January 1994 for consideration of £119,248 fully satisfied by way of a loan account with Serco Group plc.

The profits before tax of Serco Europe Limited were as follows:

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

	£'000
Profits before tax, after acquisition included in the consolidated accounts:	
Date of acquisition to 31 December 1994	1,046
Preceding financial period:	
Year ended 31 December 1993	1,689

The comparison of profits before tax has been affected by the reorganisation which took place in the year following the acquisition of Serco Europe Limited by Serco International Limited.

The fair values of the assets and liabilities acquired are considered to be the same as the book values.

Analysis of purchase of Serco Europe Limited:

Net assets acquired:	£'000	Discharged by :	£'000
Tangible fixed assets	29	Loan account	119
Debtors	5,539		
Creditors	(6,190)		
Cash at bank and in hand	741		
	<hr/>		<hr/>
	119		119
	<hr/>		<hr/>

(m) Acquisition - Serco Servizi Srl

All the issued share capital of Serco Servizi Srl was acquired on 1 January 1994 by Serco International BV for consideration of £219,703 fully satisfied by way of a loan account with Serco Group plc.

The fair values of the assets and liabilities acquired are considered to be the same as the book values.

Analysis of purchase of Serco Servizi Srl:

Net Assets acquired	£'000	Discharged by:	£'000
Tangible fixed assets	12	Loan account	220
Debtors	579		
Creditors	(847)		
Cash at bank and in hand	476		
	<hr/>		<hr/>
	220		220
	<hr/>		<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

(n) Acquisition - Serco Education Limited

All the issued share capital of Serco Education Limited was acquired on 1 January 1994, for which the Company received consideration of £3,028,026 fully satisfied by way of a loan account with Serco Group plc.

The profits before tax of Serco Education Limited were as follows:

£'000

Profits before tax, after acquisition included in the consolidated accounts:

Date of acquisition to 31 December 1994 58

Preceding financial period:

Year ended 31 December 1993 16

The fair values of the assets and liabilities acquired are considered to be the same as the book values.

Analysis of purchase of Serco Education Limited:

Net Liabilities acquired	£'000	Discharged by:	£'000
Tangible fixed assets	16	Consideration	
Stocks	173	received	
Debtors	875	through loan account	(3,028)
Creditors	(4,405)		
Cash at bank and in hand	313		
	<hr/>		<hr/>
	(3,028)		(3,028)
	<hr/>		<hr/>

(o) Acquisition - Serco Southall Services Limited (formerly Serco Secretarial Services Limited)

All the issued share capital of Serco Southall Services Limited was acquired on 1 January 1994 for consideration of £2 fully satisfied by way of a loan account with Serco Group plc.

The profits before tax of Serco Southall Services Limited were as follows:

£'000

Profits before tax, after acquisition included in the consolidated accounts:

Date of acquisition to 31 December 1994 324

The Company did not trade prior to acquisition.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

(p) Acquisition - Serco Aviation Services Inc. (formerly Thompson-Hickling Aviation Inc.)

All the issued capital of Serco Aviation Services Inc. was acquired by Serco-IAL Limited on 2 May 1994 for consideration of £1,226,678, satisfied by cash paid of £1,135,354 and deferred cash consideration of £91,324. This acquisition has been accounted for by the acquisition method of accounting.

The fair values of the assets and liabilities acquired are considered to be the same as the book values. The goodwill arising on consolidation was £1,244,000 which has been written off to reserves in the current year (note 19).

Analysis of purchase of Serco Aviation Services Inc.:

Net Assets acquired:	£'000	Discharged by	£'000
Tangible Fixed assets	92	Cash paid	1,136
Investments	102	Deferred cash payment	91
Goodwill	1,244	Acquisition costs	91
Debtors	298		
Creditors	(309)		
Bank loan	(109)		
	<hr/>		<hr/>
	1,318		1,318
	<hr/>		<hr/>

(q) Sale of International Aeradio Pakistan (Private) Limited

On 11 April 1994 Serco-IAL Limited disposed of the entire share capital of International Aeradio Pakistan (Private) Limited for a consideration of £100,000, which resulted in a profit on disposal of £39,240.

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

	Shares in Subsidiary Companies £'000
At 1 January 1994	-
Cost of investments in the year	17,571
	<hr/>
At 31 December 1994	17,571
	<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

11. STOCKS

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Service spares	102	-	-	-
Work in progress	7	-	-	-
	<u>109</u>	<u>-</u>	<u>-</u>	<u>-</u>

12. DEBTORS

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Amounts recoverable on contracts	8,339	-	-	-
Other debtors	1,599	-	67	-
Prepayments and accrued income	1,255	-	55	-
	<u>11,193</u>	<u>-</u>	<u>122</u>	<u>-</u>

13. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Obligations under finance leases	13	-	5	-
Corporation Tax	1,226	-	48	-
Other taxes and social security	946	-	2	-
	<u>2,185</u>	<u>-</u>	<u>55</u>	<u>-</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

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

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
(a) Amounts falling due after more than one year:				
Amounts owed to group companies	11,074	-	24,938	-
Obligations under finance leases	44	-	24	-
Other loans	65	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total loans	11,183	-	24,962	-
Less: Amounts included in creditors falling due within one year	1,087	-	14,943	-
	<hr/>	<hr/>	<hr/>	<hr/>
Amounts falling due after more than one year	10,096	-	10,019	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(b) Analysis of loan repayments:

Amounts owed to Group Companies:

Within one year or on demand	1,074	-	14,938	-
Between one and two years	10,000	-	10,000	-
Between two and five years	-	-	-	-

Other borrowings:

Within one year or on demand	13	-	5	-
Between one and two years	12	-	6	-
Between two and five years	84	-	13	-
	<hr/>	<hr/>	<hr/>	<hr/>
	11,183	-	24,962	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- (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.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

15. PROVISIONS FOR LIABILITIES AND CHARGES

Contract termination	GROUP £'000	COMPANY £'000
Balance at 1 January 1994	-	-
Subsidiaries acquired	6,379	-
Transfers (to) / from group companies	(212)	60
Charged to Profit and Loss Account	1,416	-
Applied	(759)	-
Balance at 31 December 1994	<u>6,824</u>	<u>60</u>

16. AMOUNTS OWED BY/TO GROUP COMPANIES

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
(a) Owed by:				
Subsidiaries	-	-	7,834	-
Other group companies	665	-	-	-
	<u>665</u>	<u>-</u>	<u>7,834</u>	<u>-</u>
(b) Owed to:				
Subsidiaries	-	-	2,245	-
Other group companies	1,074	-	12,693	-
	<u>1,074</u>	<u>-</u>	<u>14,938</u>	<u>-</u>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

17. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	1994 £'000	1993 £'000
Profit for the financial year	791	-
currency translation differences	(121)	-
Goodwill written-off	(5,717)	-
	<hr/>	<hr/>
Net reduction in shareholders' funds	(5,047)	-
Opening shareholders' funds	-	-
	<hr/>	<hr/>
Closing shareholders' funds	(5,047)	-
	<hr/>	<hr/>

18. CALLED UP SHARE CAPITAL

	1994 £	1993 £
Authorised:		
50,000 ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>
Allotted and fully paid:		
2 ordinary shares of £1 each	2	2
	<hr/>	<hr/>

19. GOODWILL WRITTEN OFF

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

	£'000
Serco-IAL Limited	4,473
Serco Aviation Services Inc. (formerly Thompson-Hickling Aviation Inc.)	1,244
	<hr/>
	5,717
	<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

20. PROFIT AND LOSS ACCOUNT

	£'000
GROUP	
Balance at 1 January 1994	-
Profit retained transferred to reserves	791
Foreign exchange translation differences	(121)
	<hr/>
Balance at 31 December 1994	670
	<hr/>

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 £51,110.

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 £2,627,843 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 £502,638 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	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Capital expenditure contracted but not provided	25	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Capital expenditure authorised but not contracted	14	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

22. CAPITAL AND OTHER COMMITMENTS (continued)

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	162
Between 1 and 5 years	234	423
After 5 years	-	-
	<hr/> 938	<hr/> 585
	<hr/> <hr/>	<hr/> <hr/>

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.

24. PENSION SCHEMES

The net pension charge for the year ended 31 December 1994 was £592,000.

The Group paid defined employer contributions of £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 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.

SERCO INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

for the year ended 31 December 1994

24. PENSION SCHEMES (continued)

Employer pension contributions paid into the Scheme during the year were £22,271 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 are carried out by independent qualified actuaries, with the last such review being carried out as at 1 January 1993.

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 Group'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 were no provisions or prepayments in respect of the Scheme included in the Accounts (1993 - £nil).

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