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Contact: See below

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### **Serco Group plc Update on Transition to IFRS**

Serco Group plc ("Serco" or "the Group") today releases the following update on its transition to International Financial Reporting Standards ("IFRS"). This follows Serco's presentation on its transition to IFRS on 9 December 2004.

Separately today, the Group has announced its preliminary results for the year ended 31 December 2004. The preliminary results released today were prepared under UK Generally Accepted Accounting Principles ("UK GAAP").

The date of transition to IFRS for the Group is 1 January 2004. The Group's first reported results under IFRS will be for the six months to 30 June 2005 and the first full year reported under IFRS will be the year ending 31 December 2005.

The key points arising from the adoption of IFRS are:

- The Group's underlying performance, cash flow and ability to pay dividends will be unaffected;
- The impact on year on year earnings growth after transition is likely to be minimal;
- The fair value concept may introduce volatility into the balance sheet, largely due to the inclusion of financial instruments and actuarial gains and losses on defined benefit pension schemes;
- On transition, the Group's profit before tax will be principally affected by non-amortisation of goodwill, partially offset by a charge for share based payment; and
- On transition, net assets will be reduced principally through recognition of actuarial losses on defined benefit pension schemes.

The Group's analysis of the effect of IFRS is ongoing. In addition, the interpretation of standards is evolving so further changes may arise, notably in accounting for pension schemes and private finance initiatives.

However, to assist stakeholders with understanding how existing standards are likely to affect the Group's reported profit before tax and net assets, estimates of the main changes to the Group's profit before tax for 2004 and net assets at 31 December 2004 are set out below. These estimates are indicative only and may change. The estimates have not been audited.

**Serco Group plc**  
Serco House, 16 Bartley Wood Business Park  
Bartley Way, Hook, Hampshire  
RG27 9UY, United Kingdom

T +44 (0)1256 745900  
F +44 (0)1256 744111

**Serco Group Pty Limited**  
Level 10, 90 Arthur Street  
North Sydney, NSW 2060  
Australia

T +61 (0)2 9964 9733  
F +61 (0)2 9964 9924

**Serco Group, Inc.**  
20 E Clementon Road, Suite 102 South  
Gibbsboro, New Jersey 08026  
United States

T +1 856 346 8800  
F +1 856 346 8463



	UK GAAP	Amortisation of intangible assets (Note 1)	Share based payment (Note 2)	Pensions "SPLAS" (Note 3)	Deferred tax (Note 4)	Dividends (Note 5)	Other (Note 6)	Indicative IFRS  (Unaudited)
	£m	£m	£m	£m	£m	£m	£m	£m
Profit before tax and intangible amortisation	74	-	(4)	-	-	-	-	70
Amortisation of intangibles	(17)	11	-	-	-	-	-	(6)
Profit before tax	57	11	(4)	-	-	-	-	64
Net assets	304	11	-	(157)	53	8	(25)	194

Notes:

1. Under IFRS 3 *Business Combinations*, goodwill is no longer amortised but is subject to annual impairment tests. Other intangible assets continue to be amortised over their useful lives.
2. IFRS 2 *Share Based Payment* results in an incremental charge for share based payments over and above the existing UK GAAP amortisation charge in respect of the ESOP reserve. Due to changes already implemented in the structure of remuneration packages within the Group, this charge is expected to decline from 2007.
3. Under IAS 19 *Employee Benefits*, actuarial gains and losses on defined benefit pension schemes may be recognised partially or in full. The estimate above assumes that actuarial gains or losses will be recognised in full on the balance sheet, with movements reported in the Statement of Recognised Income and Expense. Therefore the full IAS 19 deficit on the Serco Pension and Life Assurance Scheme ("SPLAS") is included in the balance sheet. This adjustment includes the reversal of the SSAP 24 prepayment of £35 million, which accounts for the difference between payments made by the business, the actuarial charge and amortisation of the deficit.

In addition to SPLAS, the Group and its joint ventures have a number of other pension obligations that form part of long-term contractual arrangements. Under IFRS, these obligations are likely to be treated as defined benefit schemes. The accounting treatment under IFRS for such obligations is the subject of debate that concerns whether recognition of the IAS 19 deficit on these schemes should be accompanied by a reduction in reserves or by the inclusion in the balance sheet of an equivalent intangible asset, which will be amortised over the remaining contract life. The deficit on these schemes is estimated to be approximately £60 million, net of deferred tax.

4. IAS 12 *Income Taxes* requires deferred tax to be recognised in full. The adjustment consists principally of deferred tax on pension liabilities and therefore partially offsets the adjustment discussed in note 3.



5. Under IAS 10 *Events After the Balance Sheet Date*, dividends are recognised in the period in which they are declared rather than the period to which they relate.
6. Other adjustments principally relate to the requirements of IAS 19 *Employee Benefits*, under which benefits such as accrued holiday entitlement are accounted for as they are earned by employees.

The above estimates do not include the impact of IAS 39 *Financial Instruments: Recognition and Measurement*. IAS 39 is applicable for years commencing on or after 1 January 2005 and the Group will adopt it from this date.

The estimates have been prepared on the assumption that there is no change to the accounting treatment of private finance initiatives (PFIs). The accounting treatment of service concessions, including PFIs, is currently the subject of debate by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is expected to issue an interpretation on accounting for service concessions.

Under IAS 31 *Interests in Joint Ventures*, the benchmark treatment for joint ventures is to proportionately consolidate. This has been assumed in the above estimates. Proportionate consolidation will change the appearance of the financial statements, although there will be no effect on reported net assets or profit.

**- Ends -**

**For further information please contact Serco Group plc on +44 (0) 1256 745 900:**

Andrew Jenner, Finance Director  
Dominic Cheetham, Corporate Communications Director  
Richard Hollins, Head of Investor Relations

### **Notes to Editors**

Serco is one of the world's leading service companies operating on an international basis in a diverse range of sectors, including transport and traffic management, justice, defence, aerospace, science, health, education and local government.