

Serco Group plc

Serco's Transition to International Financial Reporting Standards

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Agenda

Introduction

Areas of financial impact

Other areas of impact

Summary

Agenda

Introduction

Andrew Jenner
Finance Director

Introduction

Transition to IFRS

- European Union regulation
- Full change management programme
- Key dates
- Work still ongoing

Key implications of IFRS

- No impact on underlying business
- Ongoing year on year earnings growth impact likely to be minimal
- Fair value concept introduces volatility, principally to balance sheet
- On transition
 - Net assets reduced largely due to pensions
 - Earnings principally affected by share based payments and non-amortisation of goodwill
- Increased levels of disclosure

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Areas of financial impact

Stephen Hill
**Director of Corporate
Finance**

Employee Benefits - Pensions

Financial Instruments - Derivatives

Business Combinations

Share Based Payment

Other Areas of Financial Impact

Areas of Financial Impact

IAS 19 Employee Benefits – Pensions

- Actuarial gains / losses brought onto the balance sheet
- Market value approach – increased balance sheet volatility due to movements in assets and liabilities
- On transition, Serco likely to recognise all cumulative gains / losses – impact on net assets

Future accounting treatment may change

IAS 19

Cumulative gains / losses exceeding pension corridor recognised in income statement and can be spread over remaining working lives

Corridor is greater of 10% of pension assets or liabilities

Exposure Draft

Full recognition of gains and losses in Statement of Changes in Equity

Comparable treatment to FRS 17

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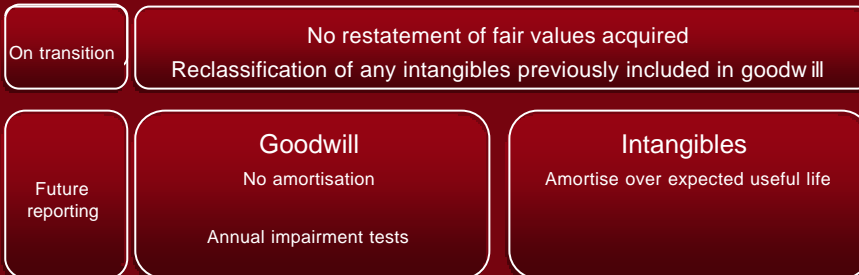
IAS 39 Financial Instruments: Recognition and Measurement

- Serco only uses derivatives to reduce risk
- All derivatives recognised at fair value in balance sheet from 1 January 2005
- For effective hedges changes in fair value go through reserves

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IFRS 3 Business Combinations

- Accounted for using purchase method
 - Cost of acquisition allocated to identifiable assets
 - More intangibles may be recognised



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IFRS 2 Share Based Payment

- Share based payments measured at fair value at date of grant and recognised in income statement over vesting period
- Results in charges to income statement
- Applies to grants after 7 November 2002
- Reduced impact from 2006

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Other areas of financial impact

- IAS 12 Income Taxes
- IAS 19 Employee Benefits
- IAS 10 Events after the Balance Sheet Date

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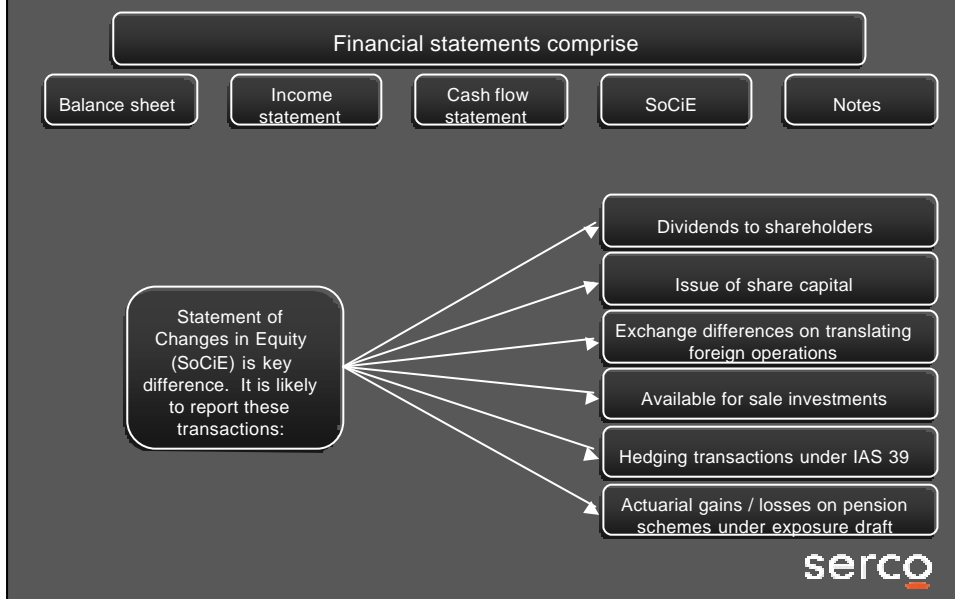
Other Areas of Impact

Nick Treston
IFRS Project Manager

Disclosure
PFI Accounting

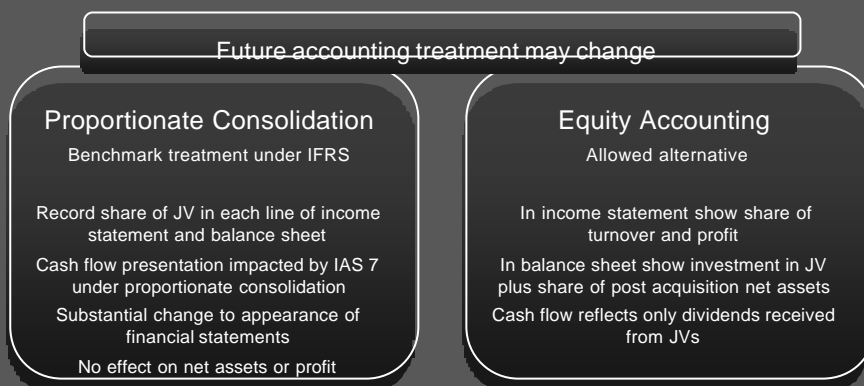
Other Areas of Impact

Disclosure - IAS 1 Presentation of Financial Statements



Disclosure - IAS 31 Interests in Joint Ventures

- JVs are significant part of Serco's business
- Currently accounted for using gross equity method



Disclosure - Other

- IAS 7 Cash Flow Statements
- IAS 14 Segment Reporting
- SIC 29 Disclosure - Service Concession Arrangements

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Accounting for PFIs

- Under current IFRS no change to income statement treatment expected
- Accounting treatment determined by multiple standards
- Further interpretation due from IFRIC

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Summary

Andrew Jenner
Finance Director

Summary

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- Underlying business unaffected
- Fair value concept may introduce balance sheet volatility
- Interpretation continuing to evolve
- Transition process on track to meet timetable
- Further disclosure of IFRS impact with 2004 preliminary results

Questions and Answers

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