

Serco Railtest Limited

Annual Report and Financial Statements 31 December 2003

A company registered in England and Wales, number 3114741



Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2003.

Principal Activities

The Company provides a comprehensive range of data management, testing and measurement services to the railway industry.

Business Review and Future Developments

The Directors consider the results for the year to be satisfactory.

The Directors are confident that 2004 will be another successful year.

Results and Dividends

The profit of the Company after taxation is set out on page 5. The Directors recommend a dividend in respect of the year ended 31 December 2003 of £3,134,000 (2002 - £2,771,000).

Directors

The following Directors served throughout the year and to the date of this report, except as stated below:

	Appointed	Resigned
D.K.Partridge		14 April 2003
A.P.Harrison		18 September 2003
C.C.Napier		
P.J.Edwards	20 January 2003	4 February 2004
R.A.Barraclough	20 January 2003	
B.L.Clementson		18 August 2003
I.W.Downie		4 February 2004
L.M.F.Loh		20 January 2003
L.Bartholomew	1 February 2004	
D.J.Godley	1 February 2004	

Details of Directors' interests in the shares of Serco Group plc are shown in note 3 to the accounts. None of the Directors had any beneficial interests in the shares of the Company or any other group company during the year.

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 into account when making decisions that 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.

Creditor Payment Policy

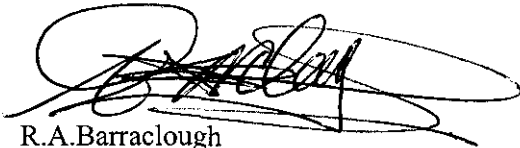
The Company requires its business units to negotiate and agree the terms and conditions of payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters. Suppliers are made aware of the agreed terms and the way in which disputes are settled. Payment is then made in accordance with these terms.

Trade creditors of the company at 31 December 2003 were equivalent to 36 days' purchases (2002 - 36 days) based on the average daily amount invoiced by suppliers during the year.

Auditors

Deloitte & Touche LLP 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.

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

A handwritten signature in black ink, appearing to read 'R.A. Barraclough', is written over a horizontal line.

R.A. Barraclough
Director

1 March 2004

Statement of Directors' Responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Serco Railtest Limited

We have audited the financial statements of Serco Railtest Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

2 March 2004

Profit and Loss Account

For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover	2	41,528	41,608
Cost of sales		(35,482)	(35,654)
Gross profit		6,046	5,954
Administrative expenses		(1,921)	(1,991)
Operating profit		4,125	3,963
Interest receivable and similar income	4	254	207
Interest payable and similar charges	5	(1)	-
Profit on ordinary activities before taxation	6	4,378	4,170
Tax on profit on ordinary activities	7	(1,209)	(1,376)
Profit on ordinary activities after taxation and for the financial year		3,169	2,794
Equity dividends	8	(3,134)	(2,771)
Retained profit for the year transferred to reserves	17	35	23

All activities are derived from continuing operations.


There are no recognised gains or losses in either the current or preceding financial years other than those shown above. Accordingly, no statement of total recognised gains and losses is presented.

Balance Sheet

31 December 2003

	Note	2003 £'000	2002 £'000
Fixed Assets			
Tangible assets	10	639	722
Investments	9	1,074	1,454
		1,713	2,176
Current Assets			
Stocks	11	1,377	1,121
Debtors	12	9,740	14,109
Cash at bank and in hand		7,625	4,683
		18,742	19,913
Creditors: amounts falling due within one year	13	(17,058)	(18,727)
Net Current Assets		1,684	1,186
Total Assets less Current Liabilities		3,397	3,362
Creditors: amounts falling due after more than one year	14	(1,833)	(1,833)
Net Assets		1,564	1,529
Capital and Reserves			
Called up share capital	16	10	10
Profit and loss account	17	1,554	1,519
Equity Shareholders' Funds	18	1,564	1,529

The financial statements were approved by the Board of Directors on 1 March 2004 and signed on behalf of the Board:



R.A. Barraclough
Director

Notes to the Financial Statements

For the year ended 31 December 2003

1. Accounting policies

These financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are detailed below. These have all been applied consistently throughout the current and preceding financial year.

Accounting convention

These financial statements have been prepared under the historical cost convention.

Pension costs: Defined benefit schemes

Retirement benefits to employees of Group companies are funded by contributions from the Company and employees. Payments are made to trust funds which are financially separate from the Company in accordance with periodic calculations by consulting actuaries. The expected cost to the Company of providing defined benefit pensions is charged to the profit and loss account so as to spread the cost of pensions over the average service lives of employees in the schemes, in such a way that the cost is a substantially level percentage of payroll cost, with experience surpluses and deficits being amortised on a straight-line basis.

The Company has adopted the transitional disclosure requirements of Financial Reporting Standard 17 ("FRS 17") – Retirement Benefits. For further information see Note 22.

Pension costs: Defined contribution schemes

Contributions for the year in respect of defined contribution schemes are charged to the profit and loss account. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the balance sheet.

Turnover

Turnover represents net sales of goods and services to third parties together with investment related income.

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation

Depreciation is provided on a straight-line basis at rates which, in the opinion of the Directors, reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Short leasehold building improvements	The higher of 10% or rate produced by lease term
Machinery	10%
Motor vehicles	25%
Furniture	10%-20%
Office equipment	33%

Stocks

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

Pre-contract costs

All bid costs are expensed through the profit and loss account up to the point where contract award is virtually certain in accordance with UITF 34. Bid costs incurred after this point are then capitalised within debtors. On contract award these bid costs are amortised through the profit and loss account on a straight-line basis over the contract period.

Deferred taxation

The charge for taxation takes account of taxation deferred because of differences between the timing of recognition of certain items for taxation purposes and for accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where the transactions or events that give rise to an obligation to pay more or less tax in the future have occurred by the balance sheet date. A deferred tax asset is recognised only when it is considered more likely than not that it will be recovered. Deferred tax is recognised on a non-discounted basis using tax rates in force at the balance sheet date.

Foreign currency

Transactions denominated in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date and any differences are taken to the profit and loss account.

Cash flow statement and related party disclosure

The Company is a wholly owned subsidiary of Railtest Operations Limited and is included in the consolidated financial statements of Serco Group plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 ("FRS 1") (revised 1996) – Cash flow statements (revised). The Company is also exempt under the terms of Financial Reporting Standard 8 ("FRS 8") – Related party disclosure, from disclosing related party transactions with entities that are part of the Serco Group plc group.

2. Segmental Information

It should be noted that the Company pursues all projects on their individual merits regardless of sector.

Classes of Business	2003 £'000	2002 £'000
Turnover		
Transport	41,528	41,608
Geographical Segments	2003 £'000	2002 £'000
Turnover		
United Kingdom	41,519	41,604
Rest of Europe and Middle East	3	3
Asia Pacific	1	-
North America	5	1
Total	41,528	41,608

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

3. Information regarding Directors and Employees

	2003 £'000	2002 £'000
• Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	222	223
• Pension contributions to defined benefit pension scheme	28	34

	2003 Number	2002 Number
Number of directors who are members of a defined benefit pension scheme. (the number reflects those directors for whom the company made contributions)	3	3

	2003 £	2002 £
Highest paid director's remuneration:		
• Aggregate of emoluments and awards under long term incentive schemes (excluding pension contributions, share options gains and awards in the form of shares).	93	89
• Pension contribution to defined contribution pension scheme	17	15

The amount of the accrued pension benefits of the highest paid director at 31 December 2003 is £6,532 per annum (2002: £4,893 per annum).

Except as shown in the accounts of Serco Group plc, the interests of the Serco Railtest Limited Directors in the ordinary shares of 2 pence each fully paid of Serco Group plc are as follows:

	Shares	
	Balance at 1 January 2003 *	Balance at 31 December 2003
I.W.Downie	14,662	14,848

Long Term Incentive Scheme Options					
	Balance at 1 January 2003 *	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2003
I.W.Downie	83,459	206,748	-	-	290,207

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

3. Information regarding Directors and Employees (continued)

		Executive Option Plan				
		Balance at 1 January 2003 *	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2003
C.C.Napier	Approved	11,363	-	-	-	11,363
	Unapproved	59,091	47,322	-	-	106,413
P.J.Edwards	Approved	13,788	-	-	-	13,788
	Unapproved	144,831	127,838	-	-	272,669
R.A.Barraclough	Approved	9,363	-	-	-	9,363
	Unapproved	11,136	12,435	-	-	23,571
I.W.Downie	Approved	13,788	-	-	-	13,788
	Unapproved	262,426	169,196	-	-	431,622

* or date of appointment if later.

During the year the Directors were given options under the Serco Group plc 1998 Executive Option Plan. The awards have been made in accordance with the rules of the Serco Group plc 1998 Executive Option Plan and accordingly the exercise of the options is conditional upon the performance criteria of the plan being met. Details of the performance criteria in respect of the above awards are set out in the Remuneration Report in the Serco Group plc accounts.

	2003 £'000	2002 £'000
Employee costs including Directors:		
Wages and salaries	10,297	8,298
Social security costs	938	678
Other pension costs (Note 22)	303	275
	11,538	9,251

	2003 Number	2002 Number
Average number of persons employed during the year	374	318

4. Interest Receivable and Similar Income

	2003 £'000	2002 £'000
Bank interest receivable	254	207

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

5. Interest Payable and Similar Charges

	2003 £'000	2002 £'000
Bank loans and overdrafts	1	-

6. Profit on Ordinary Activities before Taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is after charging/(crediting):		
Profit on disposal of tangible fixed assets	-	(10)
Rentals under operating leases:		
- Land and buildings	265	885
- Plant and machinery	-	2,028
Depreciation on tangible fixed assets:		
- Owned	241	302
Amortisation of intangible assets	380	321

Auditors' remuneration and other charges from Deloitte & Touche LLP are borne by another group company.

7. Tax charge on Profit on Ordinary Activities

	2003 £'000	2002 £'000
Analysis of the charge in the year		
Current tax:		
United Kingdom corporation tax at 30% (2002: 30%)	1,284	1,295
Adjustments in respect of previous periods	(113)	(55)
Group relief		
Adjustments in respect of previous periods		
Total current tax	1,171	1,240
Deferred tax:		
Current year	39	82
Prior years	(1)	54
Total deferred tax	38	136
Total taxation	1,209	1,376

Serco Railtest Limited**Notes to the Financial Statements (continued)**

For the year ended 31 December 2003

7. Tax charge on Profit on Ordinary Activities (continued)

The current tax recognised for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	4,378	4,170
Multiplied by the standard rate of corporation tax in the UK (30%)	1,313	1,251
Effects of:		
Expenses not deductible for tax purposes:		
Permanent differences	10	126
Capital allowances in excess of depreciation	(43)	(82)
Tax losses not utilised in the period	-	-
Other short term timing differences	4	-
Utilisation of losses brought forward	-	-
Untaxed income	-	-
Adjustments in respect of prior years	(113)	(55)
Current tax charge for the year	1,171	1,240

8. Equity Dividends

	2003 £'000	2002 £'000
Equity dividend of £313.40 per ordinary share (2002 - £277.10)	3,134	2,771

9. Intangible Assets

	Total £'000
Cost:	
At 1 January and 31 December 2003	1,775
Accumulated Amortisation:	
At 1 January 2003	(321)
Charge for the year	(380)
At 31 December 2003	(701)
Net Book Value:	
At 31 December 2003	1,074
At 31 December 2002	1,454

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

10. Tangible Fixed Assets

	Short leasehold building improvements £'000	Machinery, motor vehicles, furniture and office equipment £'000	Total £'000
Cost:			
At 1 January 2003	141	3,867	4,008
Additions	-	158	158
Disposals	-	(490)	(490)
At 31 December 2003	141	3,535	3,676
Accumulated Depreciation:			
At 1 January 2003	69	3,217	3,286
Disposals	-	(490)	(490)
Charge for the year	16	225	241
At 31 December 2003	85	2,952	3,037
Net Book Value:			
At 31 December 2003	56	583	639
At 31 December 2002	72	650	722

11. Stocks

	2003 £'000	2002 £'000
Service spares	836	304
Work in progress	541	817
	1,377	1,121

There is no material difference between the value of stock and their replacement cost.

12. Debtors - amounts falling due within one year

	2003 £'000	2002 £'000
Amounts recoverable on contracts	8,281	11,709
Prepayments and accrued income	1,205	1,893
Other debtors	-	215
Deferred tax asset	254	292
	9,740	14,109

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

13. Creditors – amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	5,259	8,764
Amounts owed to group companies	6,264	3,662
Corporation tax	(31)	(38)
Group relief payable	1,284	3,237
Other taxes and social security	1,163	1,413
Accruals and deferred income	3,119	1,689
	17,058	18,727

14. Creditors – amounts falling due after more than one year

	2003 £'000	2002 £'000
Amounts owed to group companies	1,833	1,833

Amounts owed to immediate parent company. This amount is unsecured and does not bear interest.

15. Deferred Taxation

An analysis of the deferred tax asset is:

	2003 £'000	2002 £'000
Capital allowances in excess of depreciation	(250)	(292)
Short term timing differences	(4)	-
Deferred tax asset	(254)	(292)

Movement on deferred taxation balance in the year

	2003 £'000	2002 £'000
Opening balance	(292)	(428)
Current year charge to the profit and loss account	39	82
Adjustment in respect of prior years	(1)	54
Closing balance	(254)	(292)

Serco Railtest Limited**Notes to the Financial Statements (continued)**

For the year ended 31 December 2003

16. Called Up Share Capital

	2003 £'000	2002 £'000
Authorised: 5,000,000 ordinary shares of £1.00 each	5,000	5,000
	5,000	5,000
Called up, allotted and fully paid: 10,000 ordinary shares of £1.00 each	10	10
	10	10

17. Reserves

	Profit and loss account £'000
Balance at 1 January 2003	1,519
Retained profit for the year	35
Balance at 31 December 2003	1,554

18. Reconciliation of Movement in Shareholders' Funds

	2003 £'000	2002 £'000
Profit for the financial year	3,169	2,794
Equity dividends paid and proposed	(3,134)	(2,771)
Net increase in shareholders' funds	35	23
Opening shareholders' funds	1,529	1,506
Closing shareholders' funds	1,564	1,529

19. Contingent Liabilities

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

20. Capital and Other Commitments

	2003 £'000	2002 £'000
Capital expenditure contracted but not provided for	-	-

Annual commitments under non-cancellable operating leases are as follows:

	2003 Land and buildings £'000	Other £'000	2002 Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	-	-	-	34
Between two and five years	765	-	181	230
	765		181	264

21. Related Parties and Ultimate Parent Company

The immediate parent company is Railtest Operations Limited.

The ultimate parent company and controlling entity of the Company is Serco Group plc, a company incorporated in Great Britain and registered in England and Wales. Serco Group plc is the parent undertaking of the smallest and largest group to consolidate these financial statements. The financial statements of Serco Group plc are available from The Company Secretary, Serco Group plc, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

22. Pension schemes

The Company has continued to account for pensions in accordance with SSAP 24. Full adoption of the requirements of FRS 17 will not be mandatory for the Company until the year ended 31 December 2005. The transitional disclosures required by FRS 17 are set out in Part (B) of this note

(A) SSAP 24 Disclosure

The net pension charge in accordance with SSAP 24 for the year ended 31 December 2003 was £303,000 (2002 - £275,000). The Company operates or is a member of a number of pension schemes as follows:

a) Serco Shared Cost section of the Railways 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.

The latest formal valuation of the scheme was carried out as at 31st December 2001. The figures in the profit and loss account and the balance sheet prepayment have been determined in accordance with the requirements of SSAP 24. The average contribution rate is currently 17.8% for the scheme.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

22. Pension schemes (continued)

The projected unit method was adopted for the actuarial valuation of the scheme for accounting purposes. The main actuarial assumptions used in the valuation for accounting purposes this year are:

Investment yield	4.97% p.a
Salary growth	4.00% p.a
Price inflation	2.50% p.a
Pension increases	2.50% p.a.

The scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £58,425,000 at 31st December 2001. Liabilities for this purpose are calculated using the basis for determining individual cash equivalents for active members and deferred pensioners and by estimating the cost of purchasing annuity policies for pensioners.

The actuarial value of the assets represented 116.6% of the ongoing liabilities of the scheme. Variations from the normal cost are amortised for accounting purposes over a fifteen year period as a constant monetary amount.

Employer pension contributions paid into the scheme during the year were £208,000 (2002 - £170,000).

b) Serco Pension and Life Assurance Scheme ("SPLAS")

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.

The latest formal valuation of the scheme was carried out as at 6 April 2002. The figures included in the accounts are based on the formal valuation. During 2003 a bulk transfer was received from the Serco IAL Pension Scheme. The figures in the profit and loss account and the balance sheet prepayment have been determined in accordance with the requirements of SSAP 24. The average contribution rate is currently 27% for the scheme.

The projected unit method was adopted for the actuarial valuation of the scheme for accounting purposes. The main actuarial assumptions used in the valuation for accounting purposes this year are:

Investment yield	7.0% p.a (5.5% post retirement)
Salary growth	3.75% p.a
Price inflation	2.5% p.a
Pension increases	2.5% p.a.

The scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £216,085,000 at 6 April 2002. Liabilities for this purpose are calculated using the basis for determining individual cash equivalents for active members and deferred pensioners and by estimating the cost of purchasing annuity policies for pensioners.

SPLAS and the Serco IAL Pension Scheme, which was disclosed separately in the 2002 accounts, were merged during the year. The figures in this note represent the scheme (2002 comparison figures are the combined SPLAS and Serco IAL scheme disclosure for 2002).

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

22. Pension schemes (continued)

The actuarial value of the assets represented 86% of the ongoing liabilities of the Scheme. Variations from the normal cost are amortised for accounting purposes over a fifteen year period as a constant monetary amount.

Employer pension contributions paid into the scheme during the year were £41,000 (2002 - £40,000).

Other defined contribution schemes

The Company paid employer contributions of £54,000 (2002 - £65,000) into UK defined contribution schemes.

(B) FRS 17 disclosure

Serco Railtest Limited cannot identify its share of the underlying assets and liabilities of the defined benefits schemes therefore this scheme has been accounted for as defined contribution in nature. Full transitional disclosures in accordance with the requirements of FRS 17 are detailed in the financial statements of Serco Group plc.