

# **Serco Railtest Limited**

## **Annual Report and Financial Statements 31 December 2004**

**A company registered in England and Wales, number 3114741**



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### Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2004.

### 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 2005 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 2004 of £5,809, 000 (2003 - £3,134, 000).

### Directors

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

	Appointed	Resigned
C.C.Napier		
P.J.Edwards		4 February 2004
R.A.Barraclough		
I.W.Downie		4 February 2004
L.Bartholomew	1 February 2004	
D.J.Godley	1 February 2004	
S.D. Morton	6 January 2005	
G W Leach	14 December 2004	
B Burdsall	1 July 2004	

Details of Directors' interests in the shares of Serco Group plc are shown in note 3. 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 2004 were equivalent to 36 days' purchases (2003 – 36 days) based on the average daily amount invoiced by suppliers during the year.

**Directors' Report (continued)**

**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', with a horizontal line drawn through the middle of the signature.

R.A. Barraclough  
Director

11 March 2005

**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 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 23. 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
London  
11 March 2005

**Profit and Loss Account**

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Turnover</b>	2	<b>32,799</b>	41,528
Cost of sales		(24,887)	(35,482)
<b>Gross profit</b>		<b>7,912</b>	6,046
Administrative expenses		(1,895)	(1,921)
<b>Operating profit</b>		<b>6,017</b>	4,125
Other license fee income	6	2,000	-
Interest receivable and similar income	4	442	254
Interest payable and similar charges	5	-	(1)
<b>Profit on ordinary activities before taxation</b>	6	<b>8,459</b>	4,378
Tax on profit on ordinary activities	7	(701)	(1,209)
<b>Profit on ordinary activities after taxation</b>		<b>7,758</b>	3,169
Equity dividends	8	(5,809)	(3,134)
<b>Retained profit for the year transferred to reserves</b>	18	<b>1,949</b>	35

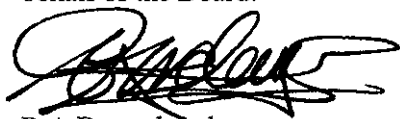
All activities are derived from continuing operations.

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 2004

	Note	2004 £'000	2003 £'000
<b>Fixed Assets</b>			
Tangible assets	10	402	639
Intangible assets	9	694	1,074
		<b>1,096</b>	<b>1,713</b>
<b>Current Assets</b>			
Stocks	11	-	1,377
Debtors	12	6,265	9,771
Cash at bank and in hand		11,530	7,625
		<b>17,795</b>	<b>18,773</b>
<b>Creditors: amounts falling due within one year</b>	13	<b>(12,941)</b>	<b>(17,089)</b>
<b>Net Current Assets</b>		<b>4,854</b>	<b>1,684</b>
<b>Total Assets less Current Liabilities</b>		<b>5,950</b>	<b>3,397</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(1,833)</b>	<b>(1,833)</b>
<b>Provisions for Liabilities and Charges</b>	15	<b>(604)</b>	<b>-</b>
<b>Net Assets</b>		<b>3,513</b>	<b>1,564</b>
<b>Capital and Reserves</b>			
Called up share capital	17	10	10
Profit and loss account	18	3,503	1,554
<b>Equity Shareholders' Funds</b>	19	<b>3,513</b>	<b>1,564</b>

The financial statements were approved by the Board of Directors on 11 March 2005 and signed on behalf of the Board:



R.A. Barraclough  
Director

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**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 experienced 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 23.

**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.

**Development expenditure**

Development expenditure relating to software is capitalised as an intangible asset where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. It is amortised over the period in which the Group is expected to benefit. This period is between three to five years, or the length of the contract if longer. Provision is also made for impairment if required. All other research and development expenditure is written off as incurred.

**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%



**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**1. Accounting policies (continued)****Stocks**

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

**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. 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.

<b>Classes of Business</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>Turnover – Transport</b>	<b>32,799</b>	<b>41,528</b>
<b>Turnover - Geographical Segments</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
United Kingdom	32,569	41,519
Rest of Europe and Middle East	201	3
Asia Pacific	-	1
North America	29	5
<b>Total</b>	<b>32,799</b>	<b>41,528</b>

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**3. Information regarding Directors and Employees**

	<b>2004 £'000</b>	<b>2003 £'000</b>
Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	<b>840</b>	222
• Pension contributions to defined benefit pension scheme	<b>101</b>	28

	<b>2004 Number</b>	<b>2003 Number</b>
Number of directors who are members of a defined benefit pension scheme. (The number reflects those directors for whom the company made contributions)	<b>2</b>	3

	<b>2004 £</b>	<b>2003 £</b>
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).	<b>235</b>	93
• Pension contribution to defined contribution pension scheme	<b>49</b>	17

The amount of the accrued pension benefits of the highest paid director at 31 December 2004 is £28,136 per annum (2003: £6,532 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:

2004 Save as You Earn Scheme (“SAYE”)						
		Balance at 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2004
L Bartholomew	SAYE	-	3,432	-	-	3,432
S Morton	SAYE	-	711	-	-	711

During the year the Directors were granted options under the 2004 Serco Group plc Save as You Earn Scheme ("SAYE").

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**3. Information regarding Directors and Employees (continued)**

		<b>Executive Option Plan</b>				
		Balance at 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2004
G Leach	Approved	13,788		-	-	13,788
	Unapproved	309,359	100,317	-	-	409,676
C.C.Napier	Approved	11,363	-	-	-	11,363
	Unapproved	106,413	-	-	-	106,413
R.A.Barraclough	Approved	9,363	-	-	-	9,363
	Unapproved	23,571	-	-	-	23,571
L Bartholomew	Approved	13,788	-	-	-	13,788
	Unapproved	47,787	-	-	-	47,787
B Burdsall	Approved	11,363	-	-	-	11,363
	Unapproved	116,476	-	-	-	116,476
D Godfrey	Approved	15,450	-	-	-	15,450
	Unapproved	8,271	-	-	-	8,271
S Morton	Approved	13,071	-	-	-	13,071
	Unapproved	-	-	-	-	-

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.

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Employee costs including Directors:		
Wages and salaries	9,739	10,297
Social security costs	883	938
Other pension costs (Note 23)	292	303
	<b>10,914</b>	<b>11,538</b>
	<b>2004</b> <b>Number</b>	<b>2003</b> <b>Number</b>
Average number of persons employed during the year	<b>308</b>	<b>374</b>

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**4. Interest Receivable and Similar Income**

	2004 £'000	2003 £'000
<b>Bank interest receivable</b>	<b>442</b>	<b>254</b>

**5. Interest Payable and Similar Charges**

	2004 £'000	2003 £'000
<b>Bank loans and overdrafts</b>	<b>-</b>	<b>1</b>

**6. Profit on Ordinary Activities before Taxation**

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation is after charging/(crediting):		
One-off License fee income	(2,000)	-
Rentals under operating leases:		
- Land and buildings	270	265
Depreciation on tangible fixed assets:		
- Owned	272	241
Amortisation of intangible assets	380	380

Auditors' remuneration and other charges from Deloitte & Touche LLP are borne by another group company for the current and preceding year.

**7. Tax Charge on Profit on Ordinary Activities**

	2004 £'000	2003 £'000
Analysis of the charge in the year		
United Kingdom corporation tax at 30% (2003: 30%)	2,547	1,284
Adjustments in respect of previous periods	(1,869)	(113)
<b>Total current tax</b>	<b>678</b>	<b>1,171</b>
<b>Deferred tax:</b>		
Current year	23	39
Prior years	-	(1)
<b>Total deferred tax</b>	<b>23</b>	<b>38</b>
<b>Total taxation</b>	<b>701</b>	<b>1,209</b>

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**7. Tax Charge on Profit on Ordinary Activities (continued)**

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

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	8,459	4,378
Multiplied by the standard rate of corporation tax in the UK (30%)	2,538	1,313
Effects of:		
Expenses not deductible for tax purposes	32	-
Permanent differences	-	10
Capital allowances in excess of depreciation	(11)	(43)
Other short term timing differences	(12)	4
Adjustments in respect of prior years	(1,869)	(113)
Current tax charge for the year	678	1,171

**8. Equity Dividends**

	2004 £'000	2003 £'000
Equity dividend of £580.90 per ordinary share (2003 - £313.40)	5,809	3,134

**9. Intangible Assets**

	Total £'000
<b>Cost:</b>	
At 1 January and 31 December 2004	1,775
<b>Accumulated Amortisation:</b>	
At 1 January 2004	701
Charge for the year	380
At 31 December 2004	1,081
<b>Net Book Value:</b>	
At 31 December 2004	694
At 31 December 2003	1,074

Intangible assets comprise a £1,775,000 premium for the acquisition of two, 5-year leases and are amortised over the licence life.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**10. Tangible Fixed Assets**

	Short leasehold building improvements £'000	Machinery, motor vehicles, furniture and office equipment £'000	Total £'000
<b>Cost:</b>			
At 1 January 2004	141	3,535	3,676
Additions	-	36	36
Disposals	-	(459)	(459)
<b>At 31 December 2004</b>	<b>141</b>	<b>3,112</b>	<b>3,253</b>
<b>Accumulated Depreciation:</b>			
At 1 January 2004	85	2,952	3,037
Charge for the year	12	260	272
Disposals	-	(458)	(458)
<b>At 31 December 2004</b>	<b>97</b>	<b>2,754</b>	<b>2,851</b>
<b>Net Book Value:</b>			
<b>At 31 December 2004</b>	<b>44</b>	<b>358</b>	<b>402</b>
At 31 December 2003	56	583	639

**11. Stocks**

	2004 £'000	2003 £'000
Service spares	-	836
Work in progress	-	541
	-	1,377

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

**12. Debtors – amounts falling due within one year**

	2004 £'000	2003 £'000
Amounts recoverable on contracts	5,614	8,281
Prepayments and accrued income	382	1,205
Deferred tax asset	231	254
Corporation tax	38	31
	<b>6,265</b>	<b>9,771</b>

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**13. Creditors – amounts falling due within one year**

	2004 £'000	2003 £'000
Trade creditors	809	5,259
Amounts owed to group companies	6,519	6,264
Group relief payable	1,969	1,284
Other taxes and social security	722	1,163
Accruals and deferred income	2,922	3,119
	<b>12,941</b>	<b>17,089</b>

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

	2004 £'000	2003 £'000
<b>Amounts owed to group companies</b>	<b>1,833</b>	<b>1,833</b>

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

**15. Provisions for liabilities and charges**

	2004 £'000	2003 £'000
As at 1 January 2004	-	-
Charged to the Profit and Loss account	604	-
<b>As at 31 December 2004</b>	<b>604</b>	<b>-</b>

The provision for redundancy stands at £604,000. This represents costs expected to be payable in 2005.

**16. Deferred Taxation**

An analysis of the deferred tax asset is:

	2004 £'000	2003 £'000
Capital allowances in excess of depreciation	(231)	(250)
Short term timing differences	-	(4)
<b>Deferred tax asset</b>	<b>(231)</b>	<b>(254)</b>

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**16. Deferred Taxation (continued)**

Movement on deferred taxation balance in the year

	2004 £'000	2003 £'000
Opening balance	(254)	(292)
Current year charge to the profit and loss account	23	39
Adjustment in respect of prior years	-	(1)
Closing balance	(231)	(254)

**17. Called Up Share Capital**

	2004 £'000	2003 £'000
Authorised: 5,000,000 ordinary shares of £1.00 each	5,000	5,000
Called up, allotted and fully paid: 10,000 ordinary shares of £1.00 each	10	10

**18. Reserves**

	Profit and loss account £'000
Balance at 1 January 2004	1,554
Retained profit for the year	1,949
<b>Balance at 31 December 2004</b>	<b>3,503</b>

**19. Reconciliation of movement in Equity Shareholders' Funds**

	2004 £'000	2003 £'000
Profit for the financial year	7,758	3,169
Equity dividends paid and proposed	(5,809)	(3,134)
Net increase in shareholders' funds	1,949	35
Opening shareholders' funds	1,564	1,529
Closing shareholders' funds	3,513	1,564



**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**20. 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.

**21. Capital and Other Commitments**

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

	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Between two and five years	250	-	265	-
	250	-	265	-

**22. Related Parties and Ultimate Parent Company**

The immediate parent company is Serco Holdings 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.

**23. 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 2004 was £292, 000 (2003 - £303, 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 Company accounts for this scheme as a defined contribution scheme since at rebid any surplus or deficit would transfer to the next contractor. Cash

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**23. Pension schemes (continued)**

contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, the last such review being carried out as at 31 December 2001. The funding policy is to contribute such variable amounts as will achieve 100% funding on a projected unit basis.

The main actuarial assumptions used in the valuation were:

Investment return	6.3% p.a.
Salary growth	4.0% p.a. (plus promotional scale)
Price Inflation	2.5% p.a.
Pension increases	2.5% p.a.

The actuarial value of assets represented 117% of the ongoing liabilities of the scheme. The current contribution rate is 17.8% for the scheme.

Employer pension contributions paid into the scheme during the year were £208,000 (2003 - £170,000).

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

The two principal defined benefit schemes, Serco Pension and Life Assurance Scheme (SPLAS), and the Serco - IAL Pension Scheme were merged in February 2003. During 2003 a bulk transfer was received from the Serco IAL Pension Scheme. A full actuarial valuation was carried out at 6 April 2002 and updated to 31 December 2004 by a qualified independent actuary.

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 27%.

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 projected unit method was adopted for the actuarial valuation of the Scheme for accounting purposes. The main actuarial assumptions used are:

Investment yield	7.25% p.a.
Salary growth	4.0% p.a.
Price inflation	2.75% p.a.
Pension increases	2.75% 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.

The actuarial value of the assets represented 86% of the ongoing liabilities of the Scheme. Variations from the normal costs 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 £61,000 (2003 - £41,000).

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2004

**23. Pension schemes (continued)**

**Other defined contribution schemes**

The Company paid employer contributions of £23,000 (2003 - £54, 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.