

Bringing service to life

serco

Serco Limited

**Annual Report and Financial Statements
31 December 2006**

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A company registered in England and Wales, number 242246

Serco Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2006

Principal activities

The Company operates to improve services by managing people, processes, technology and assets more effectively. Serco Limited supports governments, agencies and companies by offering operational, management and consulting expertise in the aerospace, defence, education, health, home affairs, local government, science, technology, transport and the commercial sectors.

Business review and future developments

The Company has acquired the trade and assets of several Serco Group plc companies during the year encompassing businesses specialising in defence systems and information technology. This increase in trade, allied to the acquisitions of businesses in 2005, has increased turnover by £423.5m or 56%, (2005: £131.0m or 21%). Gross margins have improved from 10.7% in 2005 to 12.1% due to improved contract efficiencies and selective bidding. Operating profit has increased by £7.0m (2005: decrease £9.9m) and now represents 2.1% of turnover (2005: 2.3%).

Net assets of the Company have increased by £136.6m (2005: £25.9m) primarily as a result of a £102.1m (2005: £37m) capital contribution from its holding company that financed the acquisition of the trades and assets of the Company's fellow group undertakings.

The Company manages its business on a market segment basis as reported in note 3.

Civil government

Civil government encompasses home affairs, education, health, local government and consulting. The Company is well placed to provide innovative solutions to the challenges faced by government. Opportunities in home affairs include security measures to counter the threat of terrorism and the increasing cost of crime. Ageing populations and the rising cost of care are driving opportunities in the health market. In both local government and consulting there are opportunities responding to clients who need to transform services and structures in the face of rising consumer demand and technological developments.

Defence

The Company is one of the main providers of support services to the UK Ministry of Defence (MOD) with contracts supporting secure military communications. Opportunities will arise as the nature of threats to national security change, with armed forces looking to operate in more integrated and efficient ways.

Transport

The Company is a major provider of transport services. The urban transportation business runs the award-winning Docklands Light Railway and is a UK market leader in traffic management systems, including the National Traffic Control Centre for England. Opportunities will increase as congestion and falling transport costs are forcing governments and travellers to reconsider how to reach their destination quickly, safely and affordably with the least environmental impact. The Company is well placed to exploit these opportunities through the smarter use of traffic data, greater use of congestion charging and increasing focus on integrating public transport systems.

Science

The Company holds a significant position in the civil nuclear market, providing independent safety, risk management and engineering services. The Company also has a rapidly expanding knowledge transfer business and a growing position running facilities for regional development agencies. Opportunities will arise as governments renew their focus and investment in scientific solutions to manage enormous environmental challenges.

Results and dividends

The profit of the Company after taxation is set out on page 6. The Company has not paid a dividend in the year (2005: - £Nil).

Serco Limited

Directors

The following Directors served throughout the year except as stated below

	Appointed	Resigned
L Adams		
C Barton		
M Brown		
N Brown	1 January 2007	
I Downie		
G Hill	21 July 2006	
S Hill		21 July 2006
K Lavery	12 September 2006	
G Leach		
R McGuinness		
T Riall		
J Roberts		
G Rumbles		
A Smith		1 January 2007
S Taiyeb		
A White		18 December 2006

Details of Directors' interests in the shares of Serco Group plc are shown in note 4 to these financial statements. 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.

The Company's average creditor payment terms in 2006 were 30 days (2005: 24 days).

Charitable and political contributions

Charitable donations to national and local UK charities totalling £157,806 were made during the year (2005: £183,424). There were no political contributions made by the Company (2005: £nil).

Financial risk management

The Company has significant receivable balances from long-term contracts with third party customers. The Directors do not consider that the Company is exposed to significant credit risk due to the nature and size of the contracts and there being no reliance on an individual customer.

The Company has no significant borrowings outside of those loans with other group companies, consequently the Directors do not consider that the Company is exposed to interest rate or liquidity risk.

Financial risk management for the Serco Group is undertaken by Serco Group PLC, details of which can be found in the Serco Group PLC consolidated financial statements.

Serco Limited

Statement of disclosure of information to auditors

At the date of this report, as far as each director is aware there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s2342A of the Companies Act 1985.

Auditors

Elective Resolutions to dispense with holding annual general meetings, the laying of accounts before the company in general meeting and the appointment of auditors annually are currently in force. Deloitte & Touche LLP has expressed their willingness to continue in office and will therefore be deemed to have been reappointed.

Approved by the Board of Directors and signed on its behalf

A handwritten signature in black ink, appearing to read 'G Hill', with a horizontal line underneath.

G Hill
Director

30 April 2007

Serco Limited

Statement of directors' responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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.

Serco Limited

Independent Auditors' Report to the Members of Serco Limited

We have audited the financial statements of Serco Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of Total Recognised Gains and Losses and the related notes 1 to 30. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, UK

1 MAY 2007

Serco Limited

Profit and loss account

For the year ended 31 December 2006

	Notes	2006 £m	2005 (restated) £m
Turnover	1,3	1,175.0	751.5
Cost of sales		(1,032.4)	(670.8)
Gross profit		142.6	80.7
Administrative expenses		(118.0)	(63.1)
Amortisation of intangible assets	10,11	(20.3)	(5.6)
Other administrative expenses		(97.7)	(57.5)
Operating profit		24.6	17.6
Income from investments	5	20.2	-
Interest receivable and similar income	6	38.3	29.6
Interest payable and similar charges	7	(58.0)	(32.4)
Profit on ordinary activities before taxation	8	25.1	14.8
Taxation on profit on ordinary activities	9	(4.3)	(4.1)
Retained profit for the financial year	21	20.8	10.7

All activities are derived from continuing operations

Statement of total recognised gains and losses

For the year ended 31 December 2006

	Notes	2006 £m	2005 (restated) £m
Profit for the financial year		20.8	10.7
Credit to share-based payment reserve	23	3.1	3.9
Tax credit on share-based payment charge		-	1.2
Fair value loss on cash flow hedges	23	(1.2)	-
Net actuarial gain/(loss) on defined benefit pension schemes	30	19.5	(34.6)
Actuarial loss on reimbursable rights	30	(2.7)	(0.5)
Tax on actuarial gains/losses on post employment schemes		(5.0)	10.6
Total recognised gains and losses for the year		34.5	(8.7)
Prior year adjustments			
- Tax credit on adoption of FRS 20		2.4	
Total recognised gains and losses since previous annual report		36.9	

Serco Limited

Balance sheet At 31 December 2006

	Notes	2006 £m	2005 (restated) £m
Fixed assets			
Goodwill	10	383.6	96 0
Intangible assets	11	51 9	5 7
Tangible assets	12	46.7	45 0
Investments	13	63.2	153 5
		545.4	300 2
Current assets			
Stocks	14	32.5	15 0
Debtors - amounts falling due within one year	15a	234.6	195 6
- amounts falling due after more than one year	15b	62.2	47 0
Cash at bank and in hand		-	25 5
		329.3	283 1
Creditors, amounts falling due within one year	16	(425.9)	(273.3)
Net current (liabilities)/assets		(96.6)	9 8
Total assets less current liabilities		448.8	310 0
Creditors: amounts falling due after more than one year	17	(125.4)	(120 1)
Provisions for liabilities	18	(13.2)	(0 7)
Retirement benefit obligations	30(a)	(88.8)	(104 4)
Net assets		221.4	84 8
Capital and reserves			
Called up share capital	20	0 1	0 1
Share premium account	21	222.4	120 3
Hedging and translation reserve	23	(1.2)	-
Share-based payment reserve	23	11.1	8 0
Profit and loss account	22	110.8	90 0
Retirement benefit obligations reserve	23	(121.8)	(133 6)
Shareholders' funds	24	221.4	84 8
Attributable to equity shareholders		221 4	83 2
Attributable to non-equity shareholders		-	1 6

The financial statements were approved by the Board of Directors on 30 April 2007 and signed on behalf of the Board by



G Hill
Director

Serco Limited
Notes to the accounts

1. Accounting policies

The principal accounting policies are set out below and have been applied consistently throughout the current and preceding financial year, with the exception of FRS 20 as disclosed in note 2

Basis of accounting

These financial statements have been prepared in accordance with UK GAAP and applicable UK law and accounting standards

Accounting convention

These financial statements have been prepared under the historical cost convention

Changes to UK GAAP on prior year comparatives

The Company has adopted the revisions to UK GAAP under FRS 20 'Share-based payment' The impact of the revision to FRS 20 on the prior year comparatives is explained further in note 2

Basis of consolidation

These financial statements present information about the Company as an individual undertaking and not about its group Consolidated financial statements have not been prepared as the Company is a wholly owned subsidiary of a company incorporated in Great Britain and registered in England and Wales and so is therefore exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare and deliver group accounts The only group company for which consolidated financial statements are prepared is Serco Group plc

Basis of translation of foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date Gains and losses arising on retranslation are included in the profit or loss account for the period

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes Sales of goods are recognised when goods are delivered and title has passed To the extent that the Company acts as an agent under the definitions of FRS 5 'Reporting the Substance of Transactions', Application Note G, amounts invoiced in respect of items procured on behalf of customers are not recognised within turnover

Taxation

The tax expense represents the sum of current tax expense and deferred tax expense

Current tax expense is based on taxable profit for the year Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided, using the incremental liability method, on 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 measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws in force at the balance sheet date Deferred tax is measured on a non-discounted basis

Serco Limited
Notes to the accounts (continued)

1. Accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of businesses is capitalised in the balance sheet in accordance with FRS 10 'Goodwill and Intangible Assets'. Amortisation of goodwill is provided on a straight-line basis over the economic useful life of the asset or a period of 20 years, whichever is shorter. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

Intangible assets

Development expenditure relating to software is capitalised as an intangible asset only if all of the following conditions are met:

- An asset is created that can be identified,
- It is probable that the asset created will generate future economic benefits, and
- The development cost of the asset can be measured reliably.

Development expenditure is amortised over the period in which the Company 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 any impairment. All other development expenditure is written off as incurred.

Pension related intangibles represent assets arising in relation to the Company's right to manage and operate contracts where there is a defined benefit pension scheme and it is not virtually certain that contributions will be recovered from the customer but where the Company's obligation to contribute to the scheme ends when the contract ends. The intangible assets represent the Company's share of scheme net liabilities on the date that contracts commence and are amortised on a straight-line basis over the contract life.

Tangible fixed assets

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Depreciation

Depreciation is provided on all tangible fixed assets on a straight-line basis at rates, which reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Freehold buildings	2.5%
Short leasehold building improvements	The higher of 10% or rate produced by lease term
Machinery	15% - 20%
Motor vehicles	18% - 50%
Furniture	10%
Office equipment	20%-33%
Leased equipment	The higher of the rate produced by either lease term or useful life

Leases

Assets held under finance leases are recognised as assets of the Company at fair value or, if lower, at the present value of minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to a qualifying asset, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Rentals payable under operating leases are charged on a straight-line basis over the term of the relevant lease, even if the payments are not made on such a basis.

Serco Limited
Notes to the accounts (continued)

1 Accounting policies (continued)

Fixed asset investments: Subsidiaries

Investments held as fixed assets are stated at cost less provision for impairment

Fixed asset investments: Joint ventures

Investments in joint ventures are stated at cost less provision for impairment

Stocks

Stocks are stated at the lower of cost and net realisable value and comprise service spares, parts awaiting installation and long-term project-based contract balances. Cost comprises direct materials and, where applicable, direct labour costs that has been incurred in bringing the stocks to their present location and condition.

Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, 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 stage of completion of the work carried out to date and provision for anticipated future losses on contracts. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Advance payments are included in creditors to the extent that they exceed the related work in progress.

Pre-contract costs

All bid costs are expensed through the profit and loss account up to the point where contract award (or full recovery of costs) is virtually certain in accordance with Urgent Issues Task Force Abstract 34 'Pre-contract Costs'. 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.

Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the shareholders.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Share-based payment

The Company has applied the requirements of FRS 20 'Share-based payment'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were not fully vested as of 1 January 2005.

The ultimate parent company issues equity-settled share-based payments to certain employees of the Company and operates an Inland Revenue approved Save As You Earn share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes, Binomial lattice or Monte Carlo Simulation models depending on the type of scheme. Further details can be found in note 34 of the Serco Group plc financial statements. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Serco Limited
Notes to the accounts (continued)

1. Accounting policies (continued)

Pension costs: Defined benefit schemes

For defined benefit schemes the amount charged to operating profit is the cost of accruing pension benefits promised to employees over the year plus any benefit improvements granted to members by the Company during the year. Other finance charges/income in the profit and loss account includes a credit equivalent to the Company's expected return on the pension schemes' assets over the year, offset by a charge representing the interest on the schemes' liabilities over the year. The difference between the market value of the schemes' assets and the present value of the schemes' liabilities is disclosed as an asset or liability on the Company balance sheet, net of deferred tax (to the extent that it is recoverable). Any differences between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the schemes' are recognised in the statement of total recognised gains and losses.

In December 2006, the ASB published an amendment to FRS17, which changed the definition of fair value of assets such that this now refers to bid value of assets, rather than the mid-market value. The amendment is effective for accounting periods beginning on or after 6 April 2007, however we have adopted the amendment early, as encouraged by the ASB. The impact of the change at 31 December 2005 of £1.0m has been recorded as a loss through the STRGL in the year ended 31 December 2006.

Pension costs: Defined contribution schemes

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

Derivative financial instruments and hedging activities

The Company has adopted FRS 26 'Financial Instruments: Recognition and Measurement'. Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. The Company designates derivatives as

- a hedge of the fair value of an asset or liability ('fair value hedge')
- a hedge of the income/cost of a highly probable forecast transaction or commitment ('cash flow hedge')

Gains and losses on fair value hedges are recorded in the income statement with the gain or loss on the hedged item attributable to the hedged risk.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, only gains or losses previously recognised in equity are reclassified to profit or loss in the same period as the asset or liability affects profit or loss. Where the forecast transaction or commitment results in a non-financial asset or liability, any gains or losses previously deferred in equity are included in the cost of the related asset or liability if the forecast transaction or commitment results in future income or expenditure. Gains and losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. The ineffective portion of the gain or loss on the hedging instrument is recognised in the consolidated income statement.

For the ineffective portion of hedges or transactions that are not designated for hedge accounting under FRS 25 'Financial Instruments: Disclosure and Presentation', any change in assets or liabilities is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the income statement when the committed or forecast transaction is recognised in the income statement. However, where cash flow hedge accounting has been applied for a forecast or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

Serco Limited
Notes to the accounts (continued)

1. Accounting policies (continued)

Cash flow statement and related party disclosure

The Company is a wholly owned subsidiary of Serco Holdings 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 FRS 1 'Cash flow statements'. The Company is also exempt under the terms of FRS 8 'Related party transactions', from disclosing related party transactions with entities that are part of the Serco Group plc group.

2 Prior year adjustments

The Company has adopted the reporting requirements of FRS 20 'Share-based payment' in its primary financial statements from 1 January 2006.

In the primary financial statements and all relevant notes to the financial statements, the comparative information has been restated as appropriate.

FRS 20. 'Share-based payment'

The revised standard requires that options over the shares of Serco Group plc awarded to employees of the Company are charged to the Company and not, as previously, expensed to the profit and loss account of Serco Group plc. The charge has been accounted for by creating a share-based payment reserve and the recognition of associated tax, as a result the value of equity shareholders funds has increased by tax of £2.4m.

The adoption of FRS 20 has reduced the reported operating profit for the year ended 31 December 2005 by £3.9m. This debit has been offset by a decrease in the tax charge of £1.2m giving a net decrease in the profit on ordinary activities after taxation for the year of £2.7m. Consequently, a credit of £3.9m has been taken to the share-based payment reserve and a £1.2m debit has been taken to the deferred tax provision.

3. Segmental information

The Company manages its business on a market segment basis and these segments are the basis on which the Company reports its segment information.

Classes of business	2006 £m	2005 £m
Turnover		
Civil Government	663.6	358.7
Defence	303.7	262.5
Transport	116.1	87.2
Science	91.6	43.1
Total	1,175.0	751.5
Geographical segments	2006 £m	2005 £m
Turnover		
United Kingdom	1,170.9	744.2
Overseas	4.1	7.3
Total	1,175.0	751.5

Both turnover and net assets are shown by geographical origin. Turnover and net assets analysed by geographical destination are not materially different.

Serco Limited
Notes to the accounts (continued)

4. Information regarding directors and employees

Details of directors' emoluments are as follows

	2006 £m	2005 £m
Aggregate emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	3.5	2.8
	2006 Number	2005 Number
Number of directors who		
• Are members of a defined benefit pension scheme	13	13
• Are members of a defined contribution pension scheme	-	-
• Exercised share options	5	-
• Have received awards during the year in the form of shares under long-term incentive schemes	12	7
	2006 £m	2005 £m
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)	0.5	0.3

The amount of the accrued pension benefits of the highest paid director at 31 December 2006 is £119,330 per annum (2005 - £45,173 per annum)

The interests of the Serco Limited Directors in the ordinary shares of 2 pence each fully paid of Serco Group plc are as follows

	Shares	
	Balance at 1 January 2006 / Date of appointment	Balance at 31 December 2006
L Adams	-	-
C Barton	-	-
M Brown	-	-
I Downie	15,188	15,328
G Hill	-	-
K Lavery	-	-
G Leach	-	-
R McGuinness	-	-
T Riall	-	-
J Roberts	2,000	2,000
G Rumbles*	-	-
A Smith	-	-
S Tayeb	-	-

* Highest paid director

Serco Limited
Notes to the accounts (continued)

4. Information regarding directors and employees (continued)

2005 Serco Group plc Save As You Earn Scheme					
	Balance at 1 January 2006, or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2006
L Adams	2,072	-	-	-	2,072
G Hill	3,432	-	-	-	3,432

Serco Group plc Long Term Incentive Scheme Options					
	Balance at 1 January 2006, or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2006
L Adams	1996 plan	14,591	-	-	14,591
	2006 plan	-	13,313	-	13,313
C Barton	1996 plan	38,961	-	-	38,961
	2006 plan	-	26,627	-	26,627
M Brown	1996 plan	-	-	-	-
	2006 plan	-	9,751	-	9,751
I Downie	1996 plan	303,203	-	(135,433)	167,770
	2006 plan	-	49,262	-	49,262
G Hill	1996 plan	-	-	-	-
	2006 plan	-	6,736	-	6,736
K Lavery	1996 plan	-	-	-	-
	2006 plan	-	-	-	-
G Leach	1996 plan	19,120	-	-	19,120
	2006 plan	-	14,538	-	14,538
R McGuiness	1996 plan	16,512	-	-	16,512
	2006 plan	-	12,555	-	12,555
T Riall	1996 plan	17,023	-	-	17,023
	2006 plan	-	12,943	-	12,943
J Roberts	1996 plan	-	-	-	-
	2006 plan	-	5,917	-	5,917
G Rumbles*	1996 plan	45,454	-	-	45,454
	2006 plan	-	43,550	-	43,550
A Smith	1996 plan	17,544	-	-	17,544
	2006 plan	-	13,339	-	13,339
S Taiyeb	1996 plan	21,776	-	-	21,776
	2006 plan	-	16,557	-	16,557

**Highest paid director*

During the year the Directors were given options under the Serco Group plc 2006 Long Term Incentive Scheme

The awards have been made in accordance with the rules of the Serco Group plc 2006 Long Term Incentive Scheme 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

For each share under an LTIS option that is unexpired at the end of the financial year, the market price at the end of the financial year was 382.00p (2005 314.25p) and the highest and lowest market prices during the financial year were 386p (2005 317p) and 290p (2005 234p) respectively

Serco Limited
Notes to the accounts (continued)

4. Information regarding directors and employees (continued)

Serco Group plc Executive Option Plans						
		Balance at 1 January 2006, or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2006
L Adams	Approved	8,098	-	-	-	8,098
	Unapproved	19,156	-	-	-	19,156
C Barton	Approved	12,240	8,849	(12,240)	-	8,849
	Unapproved	228,698	28,319	(135,233)	-	121,784
M Brown	Approved	-	-	-	-	-
	Unapproved	-	-	-	-	-
I Downie	Approved	13,788	-	-	-	13,788
	Unapproved	657,292	76,745	-	-	734,037
G Hill	Approved	19,672	-	(19,672)	-	-
	Unapproved	22,184	-	(22,184)	-	-
K Lavery	Approved	-	-	-	-	-
	Unapproved	-	-	-	-	-
G Leach	Approved	13,788	-	-	-	13,788
	Unapproved	403,170	-	-	-	403,170
R McGuiness	Approved	7,050	-	-	-	7,050
	Unapproved	238,543	-	-	-	238,543
T Riall	Approved	-	-	-	-	-
	Unapproved	-	-	-	-	-
J Roberts	Approved	-	-	-	-	-
	Unapproved	-	-	-	-	-
G Rumbles*	Approved	11,206	671	-	-	11,877
	Unapproved	267,138	67,175	-	-	334,313
A Smith	Approved	19,672	-	(19,672)	-	-
	Unapproved	132,610	-	(66,927)	-	65,683
S Taiyeb	Approved	12,240	-	(12,240)	-	-
	Unapproved	348,613	-	(17,760)	-	330,853

* Highest paid director

During the year Directors were given options under the Serco Group plc 2005 Executive Share Option Scheme

The awards have been made in accordance with the rules of the Serco Group plc 2005 Executive Share Option Scheme 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

	2006 £m	2005 £m
Employee costs including Directors		
Wages and salaries	499.8	337.9
Social security costs	45.3	28.2
Share-based payment	3.1	3.9
Other pension costs (Note 30)	27.9	18.3
	576.1	388.3

	2006 Number	2005 Number
Average monthly number of persons (including Directors) employed by the Company during the year	18,751	14,437

Serco Limited
Notes to the accounts (continued)

5. Income from investments

	2006 £m	2005 £m
Income from shares in subsidiaries and joint ventures	20.2	-

6. Interest receivable and similar income

	2006 £m	2005 £m
Bank interest receivable	5.2	3.4
Interest receivable from Group companies	0.7	1.5
Interest receivable on loans to joint ventures	-	0.1
Expected return on pension scheme assets (Note 30a)	32.4	24.6
	38.3	29.6

7. Interest payable and similar charges

	2006 £m	2005 £m
Bank loans and overdrafts	7.1	3.6
Interest payable to Group companies	15.7	0.4
Amounts payable under finance leases	0.5	0.7
Interest payable on pension liabilities (Note 30a)	34.7	27.7
	58.0	32.4

8. Profit on ordinary activities before taxation

	2006 £m	2005 £m
Profit on ordinary activities before tax is stated after charging		
Loss on disposal of tangible fixed assets	-	-
Amortisation of goodwill	17.2	4.4
Amortisation of other intangible assets	3.1	1.2
Net foreign exchange (gains)/losses	(0.1)	0.3
Rentals under operating leases		
- Land and buildings	3.9	5.3
- Plant and machinery	5.7	6.0
Depreciation on tangible fixed assets		
- Owned	9.7	7.1
- Held under finance leases	5.3	4.8
Fees paid to Deloitte & Touche for non-audit services		
- Tax services	0.1	0.2
- Other services	0.1	0.1

Auditors' remuneration of £0.1m (2005: £0.1m), for the audit of the Company's annual accounts, from Deloitte & Touche LLP is borne by another group company

Serco Limited
Notes to the accounts (continued)

9. Taxation on profit on ordinary activities

	2006 £m	2005 (restated) £m
United Kingdom corporation tax at 30% (2005 – 30%)	0.6	(0.1)
Group relief	3.7	6.4
Adjustments in respect of prior years	3.3	(0.5)
Total current tax	7.6	5.8
Deferred tax:		
Origination and reversal of timing differences	1.0	(1.5)
Adjustment in respect of prior years	(4.3)	(0.2)
Total deferred tax	(3.3)	(1.7)
Total tax charge on profit on ordinary activities	4.3	4.1

The current tax recognised for the year is lower (2005 lower) than the United Kingdom corporation tax rate of 30% (2005 30%). The reasons for this are set out below

	2006 £m	2005 (restated) £m
Profit on ordinary activities before taxation	25.1	14.8
UK corporation tax at 30%	7.6	4.4
Effect on the reported tax charge of		
Expenses not deductible for tax purposes	8.4	1.7
Tax allowances in excess of depreciation	(1.5)	0.1
Other short term timing differences	(3.7)	0.3
Tax incentives and tax exempt income	(6.5)	(0.2)
Adjustments in respect of prior periods	3.3	(0.5)
Current tax charge for the year	7.6	5.8

Serco Limited
Notes to the accounts (continued)

10. Goodwill

	2006 £m	2005 (restated) £m
Cost:		
At 1 January	112.5	72.8
Additions during the year	304.8	37.4
Transfers	-	2.3
At 31 December	417.3	112.5
Accumulated amortisation:		
At 1 January	16.5	12.1
Charge for the year	17.2	4.4
At 31 December	33.7	16.5
Net book value.		
At 31 December	383.6	96.0

The 2005 comparatives have been restated to reflect the fair value of the trade and assets transferred from other group companies previously recorded at net book values. Trades with a fair value of £22.6m were acquired on 30 June 2005 for a consideration of £22.6m payable via loans from group companies.

On 31 March 2006 the Company acquired the trade of Serco Solutions Limited for consideration of £298.4m paid in cash and cash equivalents. During 2006, Serco Solutions Limited contributed revenue of £162.2m and profit before tax and amortisation of £12.6m.

On 31 July 2006 the Company acquired the trade of Serco Systems Limited for consideration of £5.4m paid in cash and cash equivalents.

On 31 December 2006 goodwill with a carrying value of £1.0m was transferred to Serco Limited from another group company.

Serco Limited
Notes to the accounts (continued)

11. Intangible assets

	Development expenditure £m	Pension related £m	Total £m
Cost:			
At 1 January 2006	7.4	-	7.4
Additions during the year	31.0	4.4	35.4
Transfer from tangible fixed assets	2.2	-	2.2
Transfers	12.9	-	12.9
At 31 December 2006	53.5	4.4	57.9
Accumulated amortisation:			
At 1 January 2006	1.7	-	1.7
Charge for the year	2.7	0.4	3.1
Transfers	1.2	-	1.2
At 31 December 2006	5.6	0.4	6.0
Net book value:			
At 31 December 2006	47.9	4.0	51.9

	Development expenditure £m	Pension related £m	Total £m
Cost:			
At 1 January 2005	3.8	-	3.8
Additions during the year	1.6	-	1.6
Transfers	2.0	-	2.0
At 31 December 2005	7.4	-	7.4
Accumulated amortisation			
At 1 January 2005	0.1	-	0.1
Charge for the year	1.2	-	1.2
Transfers	0.4	-	0.4
At 31 December 2005	1.7	-	1.7
Net book value			
At 31 December 2005	5.7	-	5.7

Transfers relate to the assets acquired on the purchase of trade and assets from other group companies

Serco Limited
Notes to the accounts (continued)

12. Tangible fixed assets

	Freehold land and buildings £m	Short leasehold building improvements £m	Machinery, motor vehicles, furniture and equipment £m	Total £m
Cost:				
At 1 January 2006	3.3	14.1	78.2	95.6
Additions	-	0.5	10.4	10.9
Transfers (to)/from group companies	(0.4)	1.4	51.3	52.3
Transfer to intangible assets	-	-	(2.7)	(2.7)
Transfer to inventories	-	0.2	(3.9)	(3.7)
Disposals	-	(1.0)	(13.4)	(14.4)
At 31 December 2006	2.9	15.2	119.9	138.0
Accumulated depreciation:				
At 1 January 2006	0.7	6.0	43.9	50.6
Charge for the year	0.1	1.4	13.5	15.0
Transfers from group companies	-	0.6	41.7	42.3
Transfer to intangible assets	-	-	(0.5)	(0.5)
Transfer to inventories	-	0.1	(2.4)	(2.3)
Disposals	-	(1.0)	(12.8)	(13.8)
At 31 December 2006	0.8	7.1	83.4	91.3
Net book value:				
At 31 December 2006	2.1	8.1	36.5	46.7

	Freehold land and buildings £m	Short leasehold building improvements £m	Machinery, motor vehicles, furniture and equipment £m	Total £m
Cost:				
At 1 January 2005	2.5	12.4	65.4	80.3
Additions	0.2	0.8	7.2	8.2
Transfers from group companies	0.6	1.0	7.6	9.2
Disposals	-	(0.1)	(2.0)	(2.1)
At 31 December 2005	3.3	14.1	78.2	95.6
Accumulated depreciation:				
At 1 January 2005	0.5	4.5	30.6	35.6
Charge for the year	0.2	1.3	10.4	11.9
Transfers from group companies	-	0.3	4.8	5.1
Disposals	-	(0.1)	(1.9)	(2.0)
At 31 December 2005	0.7	6.0	43.9	50.6
Net book value:				
At 31 December 2005	2.6	8.1	34.3	45.0

The net book value of assets held by the Company under finance leases at 31 December 2006 was £13.4m (2005 - £21.2m)

Serco Limited
Notes to the accounts (continued)

13. Fixed asset investments

Shares in subsidiary companies and joint ventures at cost and net book value

	Shares in subsidiaries £m
1 January 2006	153.5
Additions	265.6
Disposals	(1.1)
Write-down of investment against dividend income	(354.8)
At 31 December 2006	63.2
	Shares in subsidiaries £m
1 January 2005	-
Additions	153.5
At 31 December 2005	153.5

On 2 December 2006, the Company acquired all of the issued share capital of Kilmarnock PFI Holdings Limited for a cash consideration of £7.9m

On 31 March 2006, the Company acquired all of the issued share capital of ITNET Limited for a consideration of £257.7m payable via loans from group companies

During the year the Company received dividends from its subsidiary companies that have been applied as a write-down of the investments of those companies

Full details of the Company's principal subsidiaries can be found in note 29

14. Stocks

	2006 £m	2005 £m
Service spares	12.1	7.9
Parts awaiting installation	11.0	-
Long-term project-based contract balances	9.4	7.1
	32.5	15.0

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

Serco Limited
Notes to the accounts (continued)

15. Debtors

a) Amounts falling due within one year

	2006 £m	2005 £m
Amounts recoverable on contracts	182.7	126.3
Amounts owed by group companies	12.7	19.0
Other debtors	10.1	16.2
Prepayments and accrued income	29.1	34.1
	234.6	195.6

Amounts owed by group companies are due within 3 months of the balance sheet date and do not bear interest

b) Amounts falling due after more than one year

	2006 £m	2005 £m
Amounts recoverable on contracts	28.7	26.3
Amounts owed by group companies	27.0	19.7
Deferred tax asset (Note 19)	6.4	-
Other debtors	0.1	1.0
	62.2	47.0

Amounts owed by group companies generally bear interest based on LIBOR plus 1%

16. Creditors' amounts falling due within one year

	2006 £m	2005 £m
Bank loans and overdrafts	13.6	-
Fair value of forward foreign exchange contracts	0.5	-
Other loans	1.2	1.1
Obligations under finance leases and hire purchase contracts	8.0	7.7
Trade creditors	46.1	43.9
Amounts owed to group companies	43.6	19.2
Corporation tax	18.3	10.7
Other taxes and social security	43.2	9.8
Other creditors	59.3	31.1
Accruals and deferred income	192.1	149.8
	425.9	273.3

Amounts owed to group companies are due within 3 months of the balance sheet date and do not bear interest

The fair values of the Company's derivative financial instruments are based on quoted market prices for equivalent instruments at the balance sheet date

Serco Limited
Notes to the accounts (continued)

17. Creditors: amounts falling due after more than one year

	2006 £m	2005 (restated) £m
Amounts owed to group companies	110.0	106.4
Other loans	5.0	3.1
Other creditors	5.0	1.6
Obligations under finance leases and hire purchase contracts	5.4	9.0
	125.4	120.1
	2006 £m	2005 £m
Analysis of loan repayments		
Bank loans and overdrafts		
Within one year	13.6	-
Other loans		
Within one year	1.2	1.1
Between two and five years	5.0	3.1
Obligations under finance leases and hire purchase contracts		
Within one year	8.0	7.7
Between two and five years	5.4	8.7
After five years	-	0.3

The 2005 comparatives have been restated to reflect the fair value of the trade and assets transferred from other group companies previously recorded at net book values. The effect is to increase amounts owed to group companies by £22.6m (see note 10 – goodwill).

Amounts owed to group companies generally bear interest based on LIBOR plus 1%.

Other loans are unsecured and include £0.3m (2005: £0.3m) of Floating Loan Notes, repayable on demand. The Floating Loan Notes have an interest rate of 1% above the Bank of England base rate. Of the remainder of Other Loans £3.0m is repayable in 12 equal quarterly instalments with a final instalment due date of 1 December 2009. This loan has an interest rate of 8.775%. The remaining £2.9m is non-interest bearing and is repayable in 2008.

Finance leases are secured by retention of title to the relevant assets.

Serco Limited
Notes to the accounts (continued)

18. Provisions for liabilities

	Deferred Tax £m	Other £m	Total 2006 £m	Deferred Tax (restated) £m	Other (restated) £m	Total 2005 (restated) £m
At 1 January 2006	0.7	-	0.7	4.0	-	4.0
Tax credit on share-based payment charge	-	-	-	(1.2)	-	(1.2)
As restated	0.7	-	0.7	2.8	-	2.8
Arising from acquisitions	-	15.9	15.9	-	-	-
Charged/(credited) to profit and loss account	(3.3)	3.5	0.2	(1.7)	-	(1.7)
Credited to pension deficit	(4.1)	-	(4.1)	(0.4)	-	(0.4)
Charged to hedging reserve	0.3	-	0.3	-	-	-
Utilised during the year	-	(6.2)	(6.2)	-	-	-
At 31 December 2006	(6.4)	13.2	6.8	0.7	-	0.7
Transferred to deferred tax asset (Notes 15b and 19)	6.4	-	6.4	-	-	-
At 31 December 2006	-	13.2	13.2	0.7	-	0.7

Other provisions include amounts relating to property, contracts and restructuring

19. Deferred tax

Deferred tax (asset) / provision	2006 £m	2005 (restated) £m
Capital allowances in excess of depreciation	(0.1)	3.2
Short term timing differences	(6.3)	(2.5)
	(6.4)	0.7

There are no unprovided deferred tax balances

Serco Limited
Notes to the accounts (continued)

20. Called up share capital

	2006 £m	2005 £m
Authorised.		
200,000 (2005 150,000) ordinary shares of £1 each	0.2	0.1
Nil (2005 50,000) redeemable preference shares of £1 each	-	0.1
	0.2	0.2
Called up, allotted and fully paid.		
105,559 (2005 93,316) ordinary shares of £1 each	0.1	0.1
Nil (2005 12,241) redeemable preference shares of £1 each	-	-
	0.1	0.1

During the year two ordinary shares was issued to Serco Holdings Limited, the Company's parent undertaking, for a total premium of £102.1m

The redeemable preference shares were converted to ordinary shares during the year

21. Share premium account

	2006 £m	2005 £m
Balance at 1 January	120.3	83.3
Premium on shares issued	102.1	37.0
Balance at 31 December	222.4	120.3

22. Profit and loss account

	2006 £m	2005 (restated) £m
Balance at 1 January	90.0	82.2
Transfer to share-based payment reserve – prior year adjustment	-	(2.9)
Restated at 1 January	90.0	79.3
Retained profit for the year	20.8	10.7
Balance at 31 December	110.8	90.0

Serco Limited
Notes to the accounts (continued)

23 Reserves

	Hedging and translation reserve £'000	Share-based payment reserve £'000	Retirement benefit obligations reserve £'000	Total £'000
Balance at 1 January 2006	-	8 0	(133 6)	(125 6)
Charge in relation to share-based payment	-	3 1	-	3 1
Hedging and translation reserve	(0 9)	-	-	(0 9)
Tax on hedging and translation reserve	(0 3)	-	-	(0 3)
Net actuarial gain on defined benefit pension schemes	-	-	19 5	19 5
Actuarial loss on reimbursable rights	-	-	(2 7)	(2 7)
Tax on actuarial gains on defined benefit pension schemes	-	-	(5 0)	(5 0)
Balance at 31 December 2006	(1.2)	11.1	(121.8)	(111.9)
Balance at 1 January 2005	-	-	(109 0)	(109 0)
Transfer from profit and loss account	-	4 1	-	4 1
Restated balance at 1 January 2005	-	4 1	(109 0)	(104 9)
Charge in relation to share-based payment	-	3 9	-	3 9
Net actuarial loss on defined benefit pension schemes	-	-	(34 6)	(34 6)
Actuarial loss on reimbursable rights	-	-	(0 5)	(0 5)
Tax on actuarial loss on defined benefit pension schemes	-	-	10 5	10 5
Balance at 31 December 2005	-	8 0	(133 6)	(125 6)

24. Reconciliation of movement in shareholders' funds

	2006 £m	2005 (restated) £m
Profit for the financial year	20 8	13 4
Charge in relation to share-based payment – prior year restatement	-	(3 9)
Tax on charge in relation to share-based payment	-	1 2
Profit for the financial year restated	20.8	10 7
Premium on shares issued during the year	102 1	37 0
Credit to share-based payment reserve	3.1	3 9
Fair value loss on cash flow hedges	(1.2)	-
Actuarial gains/(losses) on post employment schemes	11.8	(24 5)
Net increase/(decrease) in shareholders' funds	136.6	27 1
Opening shareholders' funds	84.8	57 7
Closing shareholders' funds	221.4	84 8

Serco Limited
Notes to the accounts (continued)

25. Contingent liabilities

The Company, together with its ultimate parent and certain other subsidiaries, is included within interest pooling arrangements involving cross guarantee structures. The maximum overdraft permitted by these arrangements is £40m. The overdraft was undrawn on 31 December 2006 (2005: £0.2m).

26. Capital commitments

	2006 £m	2005 £m
Capital expenditure contracted but not provided for	0.8	1.4

27. Other commitments

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

	2006 Land and buildings £m	Other £m	2005 Land and buildings £m	Other £m
Leases which expire:				
Within one year	1.7	2.0	0.3	1.5
Between two and five years	3.7	6.7	1.1	8.0
After five years	2.5	-	4.0	0.2
	7.9	8.7	5.4	9.7

28. 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.

Serco Limited
Notes to the accounts (continued)

29. Principal subsidiaries

The companies listed below are, in the opinion of the Directors, the principal undertakings of Serco Limited. The percentage of equity capital directly or indirectly held by Serco Limited is shown. The companies are incorporated and principally operate in the countries designated below.

Principal subsidiaries		Proportion of Shares held
UK	ITNET Limited	100%
	Kilmarnock PFI Holdings Limited	100%
	Premier Detention Services Limited	100%
	Premier Monitoring Services Limited	100%
	Premier Prison Services Limited	100%
	Premier Training Services Limited	100%
	Serco Corporate Services Limited	100%
	Serco Geografix Limited	100%
	Serco Solutions Limited	100%
	The French Thornton Partnership Limited	100%
Principal joint ventures		Proportion of Shares held
UK	Serco Gulf Engineering Limited	50%

All of the principal subsidiaries of Serco Limited and its joint venture undertaking are engaged in the provision of support services.

Serco Limited
Notes to the accounts (continued)

30. Retirement benefits

The Company has accounted for pensions in accordance with FRS 17 'Retirement Benefits'

The Company operates and is a member of a number of defined benefit schemes and defined contribution schemes. The pension charge for the year ended 31 December 2006, including the proportionate share of joint ventures, was £27.8m (2005 - £18.4m)

30(a) Defined benefit schemes

In December 2006, the ASB published an amendment to FRS17, which changed the definition of fair value of assets such that this now refers to bid value of assets, rather than the mid-market value. The amendment is effective for accounting periods beginning on or after 6 April 2007, however we have adopted the amendment early, as encouraged by the ASB. The impact of the change at 31 December 2005 of £1.0m has been recorded as a loss through the STRGL in the year ended 31 December 2006.

The Company operates defined benefit schemes for qualifying employees in the UK.

The assets of the funded plans are held independently of the Company's assets in separate trustee administered funds. The Company's major plans are valued by independent actuaries annually using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of salary growth, and long-term expected rates of return for plan assets. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Long-term expected rates of return for plan assets are based on published brokers' forecasts for each category of scheme assets. Pension assets and liabilities in different defined benefit schemes are not offset unless the Company has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan and intends to exercise this right.

The amounts recognised in the consolidated balance sheet are grouped together as follows:

Contract specific

These are pre-funded defined benefit schemes. The Company has obligations to contribute variable amounts to the pension schemes over the terms of the related contracts. At rebid any deficit or surplus would transfer to the next contractor. The Company has recognised as a liability the defined benefit obligation less the fair value of scheme assets that it will fund over the period of the contracts with a corresponding amount recognised as intangible assets at the start of the contracts. Subsequent actuarial gains and losses in relation to the Company's share of the pension obligations have been recognised in the statement of recognised gains and losses (the 'STRGL'). The intangible assets are amortised over the term of the contracts.

Non contract specific

This consists of a pre-funded defined benefit scheme that does not relate to any specific contract (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). Any liabilities arising are recognised in full.

Serco Limited
Notes to the accounts (continued)

30(a) Defined benefit schemes (continued)

The assets and liabilities of the schemes at 31 December are

Year ended 31 December 2006	Contract specific £m	Non contract specific £m	Total £m
Scheme assets at fair value			
Equities	33.7	307.6	341.3
Bonds	1.9	104.1	106.0
Gilts	3.7	167.6	171.3
Property	-	12.3	12.3
Cash and other	2.3	27.4	29.7
Annuity policies	0.4	23.9	24.3
Fair value of scheme assets	42.0	642.9	684.9
Present value of scheme liabilities	(58.3)	(765.5)	(823.8)
Net amount recognised	(16.3)	(122.6)	(138.9)
Members' share of deficit	-	1.1	1.1
Franchise adjustment	10.9	-	10.9
Deficit in the scheme	(5.4)	(121.5)	(126.9)
Related deferred tax asset	1.6	36.5	38.1
Net pension liability	(3.8)	(85.0)	(88.8)
Related assets at 31 December 2006			
Intangible assets (note 11)	4.0	-	4.0
Year ended 31 December 2005	Contract specific £m	Non contract specific £m	Total £m
Scheme assets at fair value			
Equities	-	245.5	245.5
Bonds	-	87.6	87.6
Gilts	-	128.1	128.1
Property	-	11.7	11.7
Cash and other	-	6.5	6.5
Annuity policies	-	18.9	18.9
Fair value of scheme assets	-	498.3	498.3
Present value of scheme liabilities	-	(648.8)	(648.8)
Net amount recognised	-	(150.5)	(150.5)
Members' share of deficit	-	1.3	1.3
Deficit in the scheme	-	(149.2)	(149.2)
Related deferred tax asset	-	44.8	44.8
Net pension liability	-	(104.4)	(104.4)

Serco Limited
Notes to the accounts (continued)

30(a) Defined benefit schemes (continued)

In some schemes, employee contributions vary over time to meet a specified proportion of the overall costs, including a proportion of any deficit. The liabilities recognised in the balance sheet for these schemes are net of the proportion attributed to employees. In addition, the amounts charged to the consolidated income statement for these schemes are net of the proportion attributed to employees. The amounts attributed to employees are shown separately in the reconciliation of changes in the fair value of scheme assets and liabilities.

The amounts recognised in the financial statements for the year are analysed as follows:

Year ended 31 December 2006	Contract specific £m	Non contract specific £m	Total £m
Recognised in the consolidated income statement			
Current service cost – employer	1.6	19.0	20.6
Past service cost	-	1.3	1.3
Recognised in arriving at operating profit	1.6	20.3	21.9
Expected return on scheme assets - employer	(1.5)	(30.9)	(32.4)
Interest on franchise adjustment	(0.4)	-	(0.4)
Interest cost on scheme liabilities – employer	1.6	33.5	35.1
Finance costs	(0.3)	2.6	2.3
Included within the STRGL			
Actual return on scheme assets	3.6	45.6	49.2
Less expected return on scheme assets	(1.5)	(31.9)	(33.4)
	2.1	13.7	15.8
Other actuarial gains and losses	(1.0)	4.7	3.7
Actuarial gains and losses recognised in the STRGL	1.1	18.4	19.5
Change in franchise adjustment	(2.4)	-	(2.4)
Change in members' share	-	(0.3)	(0.3)
Actuarial losses on reimbursable rights	(2.4)	(0.3)	(2.7)
Total pension cost recognised in the STRGL	(1.3)	18.1	16.8
Year ended 31 December 2005	Contract specific £m	Non contract specific £m	Total £m
Recognised in the consolidated income statement			
Current service cost – employer	-	12.9	12.9
Past service cost	-	2.0	2.0
Recognised in arriving at operating profit	-	14.9	14.9
Expected return on scheme assets - employer	-	(24.6)	(24.6)
Interest on franchise adjustment	-	-	-
Interest cost on scheme liabilities - employer	-	27.7	27.7
Finance costs	-	3.1	3.1
Included within the STRGL			
Actual return on scheme assets	-	69.3	69.3
Less expected return on scheme assets	-	(25.6)	(25.6)
	-	43.7	43.7
Other actuarial gains and losses	-	(78.3)	(78.3)
Actuarial gains and losses recognised in the STRGL	-	(34.6)	(34.6)
Change in franchise adjustment	-	-	-
Change in members' share	-	(0.5)	(0.5)
Actuarial gains and losses on reimbursable rights	-	(0.5)	(0.5)
Total pension cost recognised in the STRGL	-	(35.1)	(35.1)

Cumulative actuarial losses recognised in equity since 1 January 2004 are £30.3m (2005 - £47.1m)

Serco Limited
Notes to the accounts (continued)

30(a) Defined benefit schemes (continued)

Changes in the fair value of plan liabilities are analysed as follows

	Contract specific £m	Non contract specific £m	Total £m
At 1 January 2005	-	540.9	540.9
Current service cost – employer	-	12.9	12.9
Current service cost – employee	-	0.5	0.5
Past service cost	-	2.0	2.0
Plan participants contributions	-	4.3	4.3
Interest cost – employer	-	27.7	27.7
Interest cost – employee	-	0.7	0.7
Benefits paid	-	(18.5)	(18.5)
Actuarial gains and losses	-	78.3	78.3
At 31 December 2005	-	648.8	648.8
Arising on contract award / transfer of scheme	54.2	80.5	134.7
Current service cost – employer	1.6	19.0	20.6
Current service cost – employee	-	0.7	0.7
Past service cost	-	1.3	1.3
Plan participants contributions	0.4	4.7	5.1
Interest cost – employer	1.6	33.5	35.1
Interest cost – employee	-	0.9	0.9
Benefits paid	(0.5)	(19.2)	(19.7)
Actuarial gains and losses	1.0	(4.7)	(3.7)
At 31 December 2006	58.3	765.5	823.8

Changes in the fair value of plan assets are analysed as follows

	Contract specific £m	Non contract specific £m	Total £m
At 1 January 2005	-	423.8	423.8
Expected return on plan assets - employer	-	24.6	24.6
Expected return on plan assets - employee	-	1.0	1.0
Employer contributions	-	19.4	19.4
Contributions by employees	-	4.3	4.3
Benefits paid	-	(18.5)	(18.5)
Actuarial gains and losses	-	43.7	43.7
At 31 December 2005	-	498.3	498.3
Arising on contract award / transfer of scheme	37.0	72.2	109.2
Expected return on plan assets – employer	1.5	30.9	32.4
Expected return on plan assets - employee	-	1.0	1.0
Employer contributions	1.5	40.8	42.3
Contributions by employees	0.4	5.2	5.6
Benefits paid	(0.5)	(19.2)	(19.7)
Actuarial gains and losses	2.1	13.7	15.8
At 31 December 2006	42.0	642.9	684.9

Employer contributions for non contract specific schemes in 2006 include £19.0m of special contribution paid in December 2006. A further £51.0m was paid in January 2007.

No assets are invested in the Company's own financial instruments, properties or other assets used by the Company.

Serco Limited
Notes to the accounts (continued)

30(a) Defined benefit schemes (continued)

History of experience gains and losses

	2006	2005	2004	2003
Experience adjustments arising on scheme assets.				
Amount (£m)	16.7	43.7	3.4	22.2
Percentage of scheme assets	2%	9%	1%	6%
Experience adjustments arising on scheme liabilities:				
Amount (£m)	(11.4)	5.7	10.8	6.6
Percentage of the present value of the scheme liabilities	(1)%	1%	2%	1%
Fair value of scheme assets (£m)	684.9	498.3	423.8	350.4
Present value of scheme liabilities (£m)	(823.8)	(648.8)	(540.9)	(450.0)
Deficit (£m)	(138.9)	(150.5)	(117.1)	(99.6)

The normal contributions expected to be paid during the financial year ended 31 December 2007 are £33.2m. In addition, a special contribution of £51.0m will be paid in January 2007 into the Company's main UK defined benefit scheme.

	2006 %	2005 %
Main assumptions		
Rate of salary increases	3.90 – 4.40	3.70 – 4.20
Rate of increase in pensions in payment	2.90	2.70
Rate of increase in deferred pensions	2.90	2.70
Inflation assumption	2.90	2.70
Discount rate	5.20	4.80
Expected rates of return on scheme assets		
Equities	7.95	7.00
Bonds	5.20	4.80
Gilts	4.50	4.10
Property	5.75	5.35
Cash and other	5.00	4.50
Annuity policies	5.20	4.80
	2006 Years	2005 Years
Post-retirement mortality		
Current pensioners at 65 – male	20.2	18.7
Current pensioners at 65 – female	23.0	21.7
Future pensioners at 65 – male	21.5	21.3
Future pensioners at 65 – female	24.3	24.2

For some of the smaller schemes, allowance for expected future improvements in life expectancy has been made by reducing the discount rate by 0.2% per annum from the rate shown above.

30(b) Defined contribution schemes

Pre-funded defined benefit schemes treated as defined contribution

The Company paid employer contributions of £5.9m (2005: £3.4m) into UK defined contribution schemes and foreign state pension schemes.