

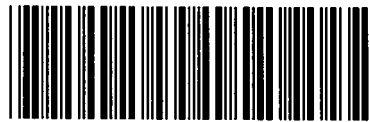
Registration number: SC477821

Serco Caledonian Sleepers Limited

Annual Report and Financial Statements

for the Period from 20 September 2015 to 17 September 2016

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Serco Caledonian Sleepers Limited

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Serco Caledonian Sleepers Limited

Company Information

Directors	Gary Shilston Peter Strachan David Stretch
Registered office	Basement and Ground Floor Premises 1-5 Union Street Inverness IV1 1PP
Auditors	KPMG LLP 15 Canada Square London E14 5GL

Serco Caledonian Sleepers Limited

Strategic Report for the Period from 20 September 2015 to 17 September 2016

The directors present their strategic report for the period from 20 September 2015 to 17 September 2016.

Prior year financial statements were prepared from 16 May 2014 to 19 September 2015 due to timing of incorporation and commencement of the franchise operation.

Principal activity

The principal activity of the company is a train operating company, providing overnight sleeper services between Scotland and London.

Fair review of the business

Following the first full year of operating experience, a loss of £5,045,170 was recorded. An onerous contract provision is in place with £10,015,767 being utilised through the financial period. A further £4,798,124 was added to the provision during the period. These movements were attributable to increased maintenance costs associated with an ageing fleet, along with increased costs due to disruptions and industrial actions.

A clear maintenance plan has been established ahead of the planned new rolling stock introduction in 2018, and management is working to further improve the trading position.

The Company has not paid a dividend in the period (2015: £nil). There have not been any significant events after the balance sheet date requiring any adjustment or disclosure.

Key performance indicators for the company continue to be safety, timetable achievement, number of guests travelling, customer satisfaction, adherence to the new trains project schedule, along with achievement of all franchise agreement obligations.

Serco Caledonian Sleepers Limited

Strategic Report for the Period from 20 September 2015 to 17 September 2016

Principal risks and uncertainties

The company is operating in an environment of uncertainty and which presents challenges with significant operating risks, including, higher maintenance costs associated with ageing rolling stock, the timing, configuration and maintenance costs associated with the new train introduction, and disruption or industrial action, along with risk around passenger numbers and ticket prices. The Directors are satisfied with how the company has managed these operational risks.

Given the loss position, a funding arrangement is in place with Group and a related letter of support is in place. This ensures that there is sufficient cash flow to meet obligations as they fall due and mitigates any liquidity risk.

There is considered to be limited credit risk given the majority of revenues are either cash based or Government franchise receipts.

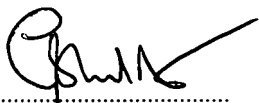
Price risk is considered limited given historical upward trending of rail fares.

There is considered to be an interest rate risk as a result of the loan in place, however the level of exposure of the risk is mitigated by the fact the loan is held with a group undertaking.

Serco Group manage and oversee financial risk for all Serco Group entities. A quarterly risk register is maintained by the Company and discussed at quarterly Board meetings. This input feeds the Group risk register, which is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly board meetings. Risk management is fundamental to how the business is managed. Risk management policies, systems and processes form part of the Serco Management System (SMS). Certain risks identified at Group level also apply to the company and procedures are put in place within the company to manage these risks with guidance from the Risk Oversight Group.

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. This is supported by a Group funding arrangement for which a letter of support is in place, as stated in the Business review above. As a result the going concern basis of accounting continues to be adopted in preparing the financial statements.

Approved by the Board on 16 December 2016 and signed on its behalf by:



.....
Gary Shilston
Director

Serco Caledonian Sleepers Limited

Directors' Report for the Period from 20 September 2015 to 17 September 2016

The directors present their report and the financial statements for the period from 20 September 2015 to 17 September 2016.

Directors of the company

The directors who held office during the period were as follows:

Gary Shilston

Peter Strachan

David Stretch

Proposed dividend

The directors do not recommend the payment of a dividend.

Employment of disabled persons

Full and fair consideration is given to applications for employment made by the disabled, having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become disabled.

Employee involvement

Managers are tasked with developing employees' awareness of factors affecting business and matters concerning them as employees and noting employees' views so that they can be taken in to account when making decisions that may affect them or the business. Regular meetings are held with employee representatives where trade union or staff associations are recognised or where works councils are constituted.

Political Contributions

The Company made no political donations or incurred any political expenditure during the period.

Going concern

The company is reliant upon the on-going financial support of its ultimate parent Serco Group plc to remain a going concern. The company has received a letter of support from Serco Group plc that confirms it will make cash or equity funds available to the company to allow it to meet its financial obligations as and when they fall due over the period up to 12 months from the date of the accounts.

Therefore the directors have a reasonable expectation that the company will continue to have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Serco Caledonian Sleepers Limited

Directors' Report for the Period from 20 September 2015 to 17 September 2016

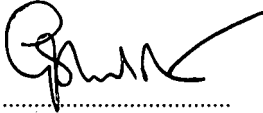
Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Reappointment of auditors

In accordance with Section 487 of the Companies Act 2006, Deloitte LLP has not been re-appointed as the Company's auditor. Following a competitive tender process, KPMG LLP have confirmed their willingness to be appointed as the Company's auditor for the period ending 17 September 2016.

Approved by the Board on 16 December 2016 and signed on its behalf by:



.....
Gary Shilston
Director

Serco Caledonian Sleepers Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Serco Caledonian Sleepers Limited

Independent Auditor's Report to the Members of Serco Caledonian Sleepers Limited

We have audited the financial statements of Serco Caledonian Sleepers Limited for the period from 20 September 2015 to 17 September 2016, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet the Statement of Changes in Equity, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 6), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 17 September 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Serco Caledonian Sleepers Limited

Independent Auditor's Report to the Members of Serco Caledonian Sleepers Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Sarah Rolls

Sarah Rolls (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Chartered Accountants and Statutory Auditor

15 Canada Square

London

E14 5GL

Date: 16/12/2016

Serco Caledonian Sleepers Limited

Profit and Loss Account for the Period from 20 September 2015 to 17 September 2016

	Note	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Turnover	4	38,554	20,372
Cost of sales		<u>(35,363)</u>	<u>(40,955)</u>
Gross profit/(loss)		3,191	(20,583)
Administrative expenses		<u>(7,348)</u>	<u>(5,372)</u>
Operating loss		(4,157)	(25,955)
Interest payable and similar charges	6	<u>(888)</u>	<u>(656)</u>
Loss before tax		<u>(5,045)</u>	<u>(26,611)</u>
Loss for the period		<u><u>(5,045)</u></u>	<u><u>(26,611)</u></u>

The above results were derived from continuing operations.

Serco Caledonian Sleepers Limited

Statement of Comprehensive Income for the Period from 20 September 2015 to 17 September 2016

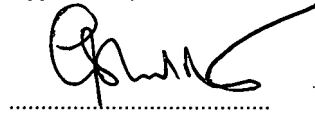
	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Note		
Loss for the period	(5,045)	(26,611)
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	<u>143</u>	<u>128</u>
Total comprehensive income for the period	<u><u>(4,902)</u></u>	<u><u>(26,483)</u></u>

The notes on pages 13 to 27 form an integral part of these financial statements.

Serco Caledonian Sleepers Limited
(Registration number: SC477821)
Balance Sheet as at 17 September 2016

	Note	17 September 2016 £ 000	19 September 2015 £ 000
Fixed assets			
Property, plant and equipment	11	-	-
Current assets			
Stocks	12	-	181
Debtors	13	6,988	5,592
Cash at bank and in hand		4,635	5,719
		<u>11,623</u>	<u>11,492</u>
Creditors: Amounts falling due within one year			
Trade and other payables	14	(9,206)	(10,814)
Provisions	16	<u>(3,463)</u>	<u>(1,889)</u>
Creditors: Amounts falling due within one year		<u>(12,669)</u>	<u>(12,703)</u>
Net current liabilities		<u>(1,046)</u>	<u>(1,211)</u>
Total assets less current liabilities		(1,046)	(1,211)
Creditors: Amounts falling due after more than one year			
Loans and borrowings	15	(25,081)	(13,232)
Provisions for liabilities	16	<u>(5,248)</u>	<u>(12,040)</u>
Net liabilities		<u><u>(31,375)</u></u>	<u><u>(26,483)</u></u>
Capital and reserves			
Called up share capital	19	-	-
Other reserves		281	128
Profit and loss account		<u>(31,656)</u>	<u>(26,611)</u>
Shareholders' deficit		<u><u>(31,375)</u></u>	<u><u>(26,483)</u></u>

Approved by the Board on 16 December 2016 and signed on its behalf by:



.....
Gary Shilston
Director

Serco Caledonian Sleepers Limited

Statement of Changes in Equity for the Period from 20 September 2015 to 17 September 2016

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
Loss for the period	-	-	(26,611)	(26,611)
Actuarial gain on defined benefit pension scheme	-	128	-	128
Total comprehensive income	-	128	(26,611)	(26,483)
At 19 September 2015	-	128	(26,611)	(26,483)

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 20 September 2015	-	128	(26,611)	(26,483)
Loss for the period	-	-	(5,045)	(5,045)
Actuarial gain on defined benefit pension scheme	-	143	-	143
Total comprehensive income	-	143	(5,045)	(4,902)
Share based payment transactions	-	10	-	10
At 17 September 2016	-	281	(31,656)	(31,375)

The notes on pages 13 to 27 form an integral part of these financial statements.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

1 General information

Serco Caledonian Sleepers Limited is a private company limited by share capital incorporated and domiciled in United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

In compliance with the Companies Act, these financial statements have been made up to the period ending 17th September 2016, which falls within 7 days of the the Company's accounting reference date of 19th September 2016.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, share based payments, standards not yet effective, impairment of assets and related party transactions. This is because the Company is included within the consolidated financial statements of Serco Group plc which are available from the address provided in note 21.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Going concern

The company is reliant upon the on-going financial support of its ultimate parent Serco Group plc to remain a going concern. The company has received a letter of support from Serco Group plc that confirms it will make cash or equity funds available to the company to allow it to meet its financial obligations as and when they fall due over the period up to 12 months from the date of the accounts.

Therefore the directors have a reasonable expectation that the company will continue to have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts due for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Turnover is split between Passenger ticket revenue, Catering revenue and Franchise payments received from Transport Scotland.

Turnover is deferred when the Company has received consideration under the terms of a contract in advance of performing the related service or delivering the associated goods. Deferred revenue is recognised as revenue in the income statement when the advance ticket sales are redeemed and used for journeys. Catering revenue is recognised at point of transaction, when on-board sales are made.

Tax

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Given the loss making nature of the contract, and requirement for an onerous contract provision, non-current assets purchased are impaired immediately to the Profit and Loss.

Stocks

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except where this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of termination costs payable for an early exit and the expected loss over the remaining contract period. Where a customer has an option to extend a contract and it is likely that such an extension will be made, any loss expected to be made during the extension period, is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid into publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Defined benefit pension obligation

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the profit and loss account and are presented in the statement of comprehensive income.

The current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current period.

Past service cost is recognised immediately to the extent that the benefits are already vested, and is amortised on a straight line basis over the average period until the benefit vests. Gains and losses on curtailments or settlements are recognised in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Share based payments

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the ultimate parent. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described above, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Onerous contract provision

Determining whether provisions are required for loss making contracts requires significant judgements to be made regarding the ability of the company to maintain or improve operational performance. Judgements can also be made regarding the outcome of matters dependent on the behaviour of the customer in question or other parties involved in delivering the contract.

The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery.

Retirement benefit obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates (see note 18).

4 Turnover

The analysis of the Company's revenue for the period from continuing operations is as follows:

	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Catering Sales	538	305
Transport Scotland franchise payments	16,092	7,910
Passenger ticket sales	21,924	12,157
	<u>38,554</u>	<u>20,372</u>

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

5 Operating loss

Arrived at after charging

	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
OCP Provision	4,798	23,300
Write-down of PPE to net realisable value	121	1,594
Operating lease expense - plant and machinery	8,313	3,451
	<u>13,232</u>	<u>28,345</u>

6 Interest payable and similar charges

	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Other interest payable	145	402
Interest payable to group undertakings	747	253
Interest (receivable)/payable on pension obligations	(4)	1
	<u>888</u>	<u>656</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Wages and salaries	5,460	2,809
Social security costs	430	228
Pension costs, defined contribution scheme	6	16
Other post-employment benefit costs	400	176
Share-based payment expenses	9	-
	<u>6,305</u>	<u>3,229</u>

The average number of persons employed by the Company (including directors) during the period was 132 (2015: 126).

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

8 Directors' remuneration

The total cost of £667,345 (2015: £961,200) in relation to directors' remuneration was shared by the Company and by another Group company.

In respect of the highest paid director:

	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Remuneration	203	280
Company contributions to money purchase pension schemes	46	1

9 Auditor's remuneration

Auditor's remuneration of £10,000 (2015: £10,000) for the audit of the Company's annual accounts was borne by another group company in both the current and preceding financial years. There have been no non-audit fees incurred by the Company and payable to KPMG during the period (2015: £nil).

10 Tax

The tax on loss for the period is higher than the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20%).

The differences are reconciled below:

	20 September 2015 to 17 September 2016 £ 000	16 May 2014 to 19 September 2015 £ 000
Loss before tax	<u>(5,045)</u>	<u>(26,611)</u>
Corporation tax at standard rate	(1,009)	(5,322)
Decrease from effect of expenses not deductible in determining taxable loss	93	125
Tax decrease from utilisation of tax losses	682	-
Deferred tax expense from unrecognised tax loss	97	4,546
Deferred tax expense relating to changes in tax rates or laws	137	-
Other tax effects for reconciliation between accounting profit and tax expense	<u>-</u>	<u>651</u>
Total tax charge/(credit)	<u>-</u>	<u>-</u>

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. At the point the company becomes liable to corporation tax, this will reduce the company's future current tax charge accordingly.

Deferred tax

There are £380,000 of deductible temporary differences (2015 - £362,000) and £4,865,000 of unused tax losses (2015 - £4,184,000) for which no deferred tax asset is recognised in the statement of financial position.

11 Property, plant and equipment

	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost or valuation			
At 20 September 2015	-	1,594	1,594
Additions	121	-	121
At 17 September 2016	121	1,594	1,715
Depreciation			
At 20 September 2015	-	1,594	1,594
Impairment	121	-	121
At 17 September 2016	121	1,594	1,715
Carrying amount			
At 17 September 2016	-	-	-
At 19 September 2015	-	-	-

12 Stocks

	17 September 2016 £ 000	19 September 2015 £ 000
Finished goods and goods for resale	-	181

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

13 Trade and other receivables

	17 September 2016 £ 000	19 September 2015 £ 000
Trade receivables	1,933	859
Prepayments	1,740	1,894
Other receivables	3,315	2,839
	<u>6,988</u>	<u>5,592</u>

All amounts are due within 12 months.

14 Trade and other payables

	17 September 2016 £ 000	19 September 2015 £ 000
Trade payables	3,061	3,641
Accrued expenses	5,045	5,119
Amounts due to group undertaking	304	1,292
Social security and other taxes	118	106
Other payables	678	656
	<u>9,206</u>	<u>10,814</u>

All amounts are due within 12 months.

For presentational purposes the non current provision previously included within other payables of £1,899,000 is now disclosed separately on the face of the balance sheet.

15 Loans and borrowings

	17 September 2016 £ 000	19 September 2015 £ 000
Non-current loans and borrowings		
Amounts owed to group undertaking	<u>25,081</u>	<u>13,232</u>

Amounts owed to group companies have no fixed repayment date and bear interest based on LIBOR plus 2.0%.

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Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

16 Other provisions

	Onerous contracts £ 000
At 20 September 2015	13,929
Additional provisions	4,798
Provisions used	<u>(10,016)</u>
At 17 September 2016	<u>8,711</u>
Non-current liabilities	<u>5,248</u>
Current liabilities	<u>3,463</u>

The provision recognised is in relation to an onerous contract provision. The contract started operating in April 2015 and incurred significant costs during the start-up period. As the contract moves through the initial operating phase, losses are expected to continue, however management expect the level of losses reduce.

17 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	7,588	-
In two to five years	50,716	3,080
In over five years	<u>115,214</u>	<u>20</u>
	<u>173,518</u>	<u>3,100</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period was £8,313,000 (2015 - £3,451,000)

The most significant leases are those for rolling stock. The remaining lease obligation relates to office premises.

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Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

18 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £5,636 (2015 - £15,989).

Defined benefit pension schemes

Caledonian Sleeper Section of the Railways Pension Scheme

As a result of franchising obligations under the Caledonian Sleepers contract, the Company sponsors a section of an industry wide defined benefit scheme, the Railways Pension Scheme (RPS).

The RPS section is required to be funded over the period for which the franchise is held with a defined benefit liability recognised on the balance sheet to the extent of that obligation in accordance with IAS 19. The RPS is a shared cost arrangement. All costs, and any deficit or surplus is shared 60% by the employer and 40% by the members. Furthermore, under the franchising obligations, the responsibility of the employer is to pay the contributions requested of the trustee whilst it operates the franchise. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period. In the event the sponsor of another section of the RPS become insolvent, the company has no responsibility to them beyond the other sections Serco sponsor. Under this scheme members build a 1/60th pension and 1/40th lump sum based upon their pensionable pay. Some members of the RPS are subject to Protected Persons legislation, which requires individual consent to changes to benefits, and certain rights upon transfer between sections of the scheme.

The Company's defined benefit obligations are valued by independent actuaries 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.

As part of governance practice, the Trustees review the contributions required every 3 years, and the pension scheme itself is regulated by the Pensions Regulator.

Contributions payable to the pension scheme at the end of the period are £274,000 (2015 - £70,000).

The expected contributions to the plan for the next reporting period are £149,460.

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Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	17 September 2016 £ 000	19 September 2015 £ 000
Fair value of scheme assets	5,492	4,370
Present value of scheme liabilities	<u>(11,260)</u>	<u>(7,680)</u>
	(5,768)	(3,310)
Other amounts recognised in the statement of financial position - Member's share	2,307	1,324
Other amounts not recognised in the statement of financial position - Franchise adjustment	<u>3,461</u>	<u>1,986</u>
Defined benefit pension scheme surplus/(deficit)	<u>-</u>	<u>-</u>

Scheme assets

Changes in the fair value of scheme assets are as follows:

	17 September 2016 £ 000	19 September 2015 £ 000
Fair value at start of period	4,370	4,500
Interest income	171	70
Return on plan assets, excluding amounts included in interest income/(expense)	664	(275)
Employer contributions	274	70
Contributions by scheme participants	179	45
Benefits paid	(120)	(33)
Administrative expenses paid	<u>(46)</u>	<u>(7)</u>
Fair value at end of period	<u>5,492</u>	<u>4,370</u>

Analysis of assets

The major categories of scheme assets are as follows:

	17 September 2016 £ 000	19 September 2015 £ 000
Cash and cash equivalents	541	495
Equity instruments	3,193	2,719
Debt instruments	883	283
Real estate	567	533
Other	<u>308</u>	<u>340</u>
	<u>5,492</u>	<u>4,370</u>

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Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Actual return on scheme's assets

	17 September 2016 £ 000	19 September 2015 £ 000
Actual return on scheme assets	<u>835</u>	<u>(205)</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	17 September 2016 £ 000	19 September 2015 £ 000
Present value at start of period	7,680	7,800
Current service cost	655	321
Actuarial gains and losses	2,755	(531)
Interest cost	290	123
Benefits paid	<u>(120)</u>	<u>(33)</u>
Present value at end of period	<u>11,260</u>	<u>7,680</u>

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	17 September 2016 %	19 September 2015 %
Discount rate	2.40	4.00
Future salary increases	2.90	3.00
Future pension increases	2.00	2.00
Inflation	<u>2.00</u>	<u>2.00</u>

Post retirement mortality assumptions

	17 September 2016 Years	19 September 2015 Years
Current UK pensioners at retirement age - male	85.00	85.00
Current UK pensioners at retirement age - female	86.00	86.00
Future UK pensioners at retirement age - male	89.00	89.00
Future UK pensioners at retirement age - female	<u>91.00</u>	<u>91.00</u>

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Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Amounts recognised in the income statement

	17 September 2016 £ 000	19 September 2015 £ 000
Amounts recognised in operating profit		
Current service cost	393	193
Administrative expenses paid	28	4
Recognised in arriving at operating profit	421	197
Amounts recognised in finance income or costs		
Net interest	(4)	1
Total recognised in the income statement	417	198

Amounts taken to the Statement of Comprehensive Income

	17 September 2016 £ 000	19 September 2015 £ 000
Actuarial loss/(gain) arising from changes in financial assumptions	2,755	(531)
(Gain)/loss on franchise adjustment	(1,399)	25
Actuarial (gain)/loss arising from change in member's share	(835)	103
Return on plan assets, excluding amounts included in interest income/(expense)	(664)	275
Amounts recognised in the Statement of Comprehensive Income	(143)	(128)

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Notes to the Financial Statements for the Period from 20 September 2015 to 17 September 2016

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

		2016			2015		
Adjustment to discount rate	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	
Present value of total obligation	<u>10,642</u>	<u>11,260</u>	<u>11,909</u>	<u>7,265</u>	<u>7,680</u>	<u>8,116</u>	
		2016			2015		
Adjustment to rate of inflation	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	
Present value of total obligation	<u>11,908</u>	<u>11,260</u>	<u>10,640</u>	<u>8,121</u>	<u>7,680</u>	<u>7,259</u>	
		2016			2015		
Adjustment to rate of salary growth	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	
Present value of total obligation	<u>11,480</u>	<u>11,260</u>	<u>11,038</u>	<u>7,829</u>	<u>7,680</u>	<u>7,530</u>	

The defined benefit obligation as at 17 September 2016 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

There has been no change in the methods and assumptions used in preparing the sensitivity analysis since prior year.

There are no asset-liability matching strategies used by the plan or the entity.

The weighted average duration of defined benefit obligation is 23 years.

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19 Share capital

Allotted, called up and fully paid shares

	17 September 2016		19 September 2015	
	No.	£	No.	£
Ordinary of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

20 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £Nil (2015 - £Nil).

21 Parent and ultimate parent undertaking

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

The Company's immediate parent is Serco Holdings Limited.

The ultimate controlling party is Serco Group plc.