

Registration number: SC477821

Serco Caledonian Sleepers Limited

Annual Report and Financial Statements

for the Period from 18 September 2016 to 31 December 2017

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Serco Caledonian Sleepers Limited

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Serco Caledonian Sleepers Limited

Company Information

Directors	Peter Strachan John Michael Heron Keith Wallace
Registered office	Basement and Ground Floor Premises 1-5 Union Street Inverness IV1 1PP
Auditor	KPMG LLP 15 Canada Square London E14 5GL

Serco Caledonian Sleepers Limited

Strategic Report for the Period from 18 September 2016 to 31 December 2017

The directors present their strategic report for the period from 18 September 2016 to 31 December 2017.

Prior year financial statements were prepared from 20 September 2015 to 17 September 2016.

The reporting period end has been extended to 31 December 2017 to align with the parent company's reporting. The prior year amounts presented in the financial statements are therefore not entirely comparable due to the differing period lengths. In subsequent discussions with the customer we have agreed that in future we will align the statutory reporting date to the franchise year which ends 31 March.

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

During the period from 18 September 2016 to 31 December 2017, an additional charge of £48,983,692 was added to the onerous contract provision. This charge reflects a sharp increase in the estimated costs related to the delayed introduction and operation of the new sleeper service. We will be examining every option for reducing operating costs; the position under the contract is expected to improve over time, as the terms of the Franchise Agreement provide a mechanism that requires Transport Scotland to bear 50% of contract losses from 1 April 2020. In addition, from 1 April 2022, we have the right to seek adjustments to the financial terms of the Franchise Agreement that would result either in a small positive profit margin for Serco from that date, or allow us to exit the contract.

The Company has not paid a dividend in the period (2016: £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 revised new trains project schedule, along with achievement of franchise agreement obligations.

Serco Caledonian Sleepers Limited

Strategic Report for the Period from 18 September 2016 to 31 December 2017

Principal risks and uncertainties

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. There continue to be a number of assumptions underpinning the provision that have a range of potential outcomes, including the train manufacturer delivering the new trains to the latest delivery schedule and volume and pricing increases driven by the improved passenger service from the new trains. Although there has been a significant revaluation of the future losses on the contract, the directors are satisfied with the way in which the Company is managing the operational risks that support this revised view.

Given the loss position, a funding arrangement is in place with Serco Group plc 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.

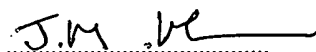
There is considered to be limited credit risk given the majority of revenues are either cash based or Government franchise receipts.

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 a result the going concern basis of accounting continues to be adopted in preparing the financial statements.

Approved by the Board on 22 March 2018 and signed on its behalf by:



John Michael Heron
Director

Serco Caledonian Sleepers Limited

Directors' Report for the Period from 18 September 2016 to 31 December 2017

The directors present their report and the financial statements for the period from 18 September 2016 to 31 December 2017.

Directors of the company

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

Gary Shilston (resigned 1 March 2017)

Peter Strachan

David Stretch (resigned 31 December 2016)

John Michael Heron (appointed 13 March 2017)

Keith Wallace (appointed 8 February 2017)

Proposed dividend

The directors do not recommend the payment of a dividend (2016: £nil).

Charitable donations

During the period the Company made charitable donations of £nil (2016: £nil).

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 (2016: £nil).

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 18 September 2016 to 31 December 2017

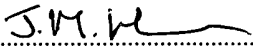
Disclosure of information to the auditor

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 auditor

KPMG LLP, having indicated its willingness to continue in office and will be deemed to be reappointed as auditor under section 487(2) of the Companies Act 2006.

Approved by the Board on 22 March 2018 and signed on its behalf by:



John Michael Heron
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 UK Accounting Standards (UK 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERCO CALEDONIAN SLEEPERS LIMITED

Opinion

We have audited the financial statements of Serco Caledonian Sleepers Limited ("the company") for the period ended 31 December 2017 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, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

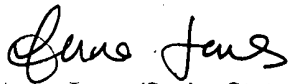
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Anna Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
United Kingdom
E14 5GL

22 March 2018

Serco Caledonian Sleepers Limited

Profit and Loss Account for the Period from 18 September 2016 to 31 December 2017

	Note	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Turnover	4	53,244	38,554
Cost of sales		<u>(90,500)</u>	<u>(35,363)</u>
Gross (loss)/profit		(37,256)	3,191
Administrative expenses		<u>(12,087)</u>	<u>(7,348)</u>
Operating loss		(49,343)	(4,157)
Interest payable and similar charges	6	<u>(1,406)</u>	<u>(888)</u>
Loss before tax		<u>(50,749)</u>	<u>(5,045)</u>
Loss for the period		<u><u>(50,749)</u></u>	<u><u>(5,045)</u></u>

The above results were derived from continuing operations.

The notes on pages 13 to 29 form an integral part of these financial statements.

Serco Caledonian Sleepers Limited

Statement of Comprehensive Income for the Period from 18 September 2016 to 31 December 2017

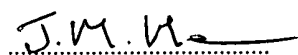
		18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
	Note		
Loss for the period		(50,749)	(5,045)
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	18	<u>499</u>	<u>143</u>
Total comprehensive income for the period		<u><u>(50,250)</u></u>	<u><u>(4,902)</u></u>

Serco Caledonian Sleepers Limited

(Registration number: SC477821)
Balance Sheet as at 31 December 2017

	Note	31 December 2017 £ 000	17 September 2016 £ 000
Fixed assets			
Property, plant and equipment	11	-	-
Current assets			
Stocks	12	1,041	-
Debtors	13	3,810	6,988
Cash at bank and in hand		4,971	4,635
		<u>9,822</u>	<u>11,623</u>
Creditors: Amounts falling due within one year			
Trade and other payables	14	(8,728)	(9,206)
Provisions	16	<u>(22,604)</u>	<u>(3,463)</u>
Creditors: Amounts falling due within one year		<u>(31,332)</u>	<u>(12,669)</u>
Net current liabilities		<u>(21,510)</u>	<u>(1,046)</u>
Total assets less current liabilities		(21,510)	(1,046)
Creditors: Amounts falling due after more than one year			
Loans and borrowings	15	(38,381)	(25,081)
Provisions for liabilities	16	<u>(21,697)</u>	<u>(5,248)</u>
Net liabilities		<u><u>(81,588)</u></u>	<u><u>(31,375)</u></u>
Capital and reserves			
Called up share capital	19	-	-
Other reserves		817	281
Profit and loss account		<u>(82,405)</u>	<u>(31,656)</u>
Shareholders' deficit		<u><u>(81,588)</u></u>	<u><u>(31,375)</u></u>

Approved by the Board on 22 March 2018 and signed on its behalf by:



John Michael Heron
Director

Serco Caledonian Sleepers Limited

Statement of Changes in Equity for the Period from 18 September 2016 to 31 December 2017

	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)

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 18 September 2016	-	281	(31,656)	(31,375)
Loss for the period	-	-	(50,749)	(50,749)
Actuarial gain on defined benefit pension scheme	-	499	-	499
Total comprehensive income	-	499	(50,749)	(50,250)
Share based payment transactions	-	37	-	37
At 31 December 2017	-	817	(82,405)	(81,588)

Included within 'other reserves' are retirement benefit obligation reserves of £770,000 (2016: £271,000) and share based payment reserves of £47,000 (2016: £10,000).

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

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 31 December 2017, which falls within 7 days of the the Company's accounting reference date of 6 January 2018.

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 18 September 2016 to 31 December 2017

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. Franchise payments are received from Transport Scotland each rail period and are recognised in the period to which they relate. These are adjusted for penalties incurred and changes to the network rail track access charges for each control period.

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 18 September 2016 to 31 December 2017

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. The onerous contract provision is discounted.

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 18 September 2016 to 31 December 2017

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 the share based payments reserves (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 (OCP)

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Company's core 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. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be material adjustment to the carrying amounts of the onerous contract provision within the next financial year.

Major sources of uncertainty which could result in a material adjustment within the next financial year are:

- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels.
- Volume driven revenue and costs being within the expected ranges.
- The outcome of matters dependent on the behaviour of the customer.
- The ability of suppliers to deliver their contractual obligations on time and on budget.

In the current year material revisions have been made to historic provisions, which have led to a charge to contract provisions of £48,983,692. To mitigate the level of uncertainty in making these estimates Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Company's formal annual budgeting process.

The onerous contract provision is discounted as the impact is assessed as significant (2017: £519,858; 2016: £nil). The discount rate of 0.717% is calculated based on the estimated risk free rate of interest for the UK and matched against the ageing profile of the contract.

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).

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

4 Turnover

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

	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Catering sales	776	538
Transport Scotland franchise payments	22,797	16,092
Passenger ticket sales	29,671	21,924
	<u>53,244</u>	<u>38,554</u>

5 Operating loss

Arrived at after charging

	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Additional OCP provision	48,983	4,798
OCP provision utilisation	(13,393)	(10,016)
Operating lease expense	10,350	8,313
Write-down of PPE to net realisable value	19	121

The additional OCP provision includes a discounting impact of £519,858 (2016: £nil).

6 Interest payable and similar charges

	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Other interest payable	168	145
Interest payable to group undertakings	1,240	747
Interest receivable on pension obligations	(2)	(4)
	<u>1,406</u>	<u>888</u>

7 Staff costs

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

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Wages and salaries	8,749	5,460
Social security costs	838	430
Pension costs, defined contribution scheme	21	11
Pension costs, defined benefit scheme	899	395
Share-based payment expenses	34	9
	<u>10,541</u>	<u>6,305</u>

The average number of persons employed by the Company (including directors) during the period was 161 (2016: 132).

8 Directors' remuneration

The total cost of £840,029 (2016: £667,345) in relation to directors' remuneration was shared by the Company and by another Group company.

In respect of the highest paid director:

	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Remuneration	237	203
Company contributions to money purchase pension schemes	<u>5</u>	<u>46</u>

9 Auditor's remuneration

Auditor's remuneration of £10,000 (2016: £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.

Audit-related assurance services of £3,000 were incurred by the Company and payable to the auditor during the year (2016: £3,000).

10 Tax

The tax on loss for the period is higher than the standard rate of corporation tax in the UK (2016 - higher than the standard rate of corporation tax in the UK) of 19.4% (2016 - 20%).

The differences are reconciled below:

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

	18 September 2016 to 31 December 2017 £ 000	20 September 2015 to 17 September 2016 £ 000
Loss before tax	(50,749)	(5,045)
Corporation tax at standard rate	(9,845)	(1,009)
Decrease from effect of expenses not deductible in determining taxable loss	14	93
Tax impact of utilisation of tax losses	-	682
Increase from effect of unrelieved tax losses carried forward	9,856	-
Deferred tax (credit)/expense from unrecognised tax loss	(25)	97
Deferred tax expense relating to changes in tax rates or laws	-	137
Total tax charge	-	-

In Summer 2016, the UK Government announced a reduction in the UK corporation tax rate from 20% to 19% effective from April 2017. Further measures enacted during 2016 cut the rate further from April 2020 to 17%. 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 £399,500 of deductible temporary differences (2016: £380,000) and £13,517,500 of unused tax losses (2016: £4,865,000) for which no deferred tax asset is recognised in the statement of financial position. Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable profit will be available against which they can be realised.

11 Property, plant and equipment

	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation				
At 18 September 2016	121	1,594	-	1,715
Additions	-	-	19	19
At 31 December 2017	121	1,594	19	1,734
Depreciation				
At 18 September 2016	121	1,594	-	1,715
Impairment	-	-	19	19
At 31 December 2017	121	1,594	19	1,734
Carrying amount				
At 31 December 2017	-	-	-	-

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
At 17 September 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
12 Stocks				
			31 December 2017 £ 000	17 September 2016 £ 000
Finished goods and goods for resale			<u>1,041</u>	<u>-</u>

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

13 Debtors

	31 December 2017 £ 000	17 September 2016 £ 000
Debtors	661	1,933
Prepayments	1,303	1,740
Other debtors	1,846	3,315
	<u>3,810</u>	<u>6,988</u>

All amounts are due within 12 months.

14 Trade and other payables

	31 December 2017 £ 000	17 September 2016 £ 000
Trade payables	2,531	3,061
Accrued expenses	5,296	5,045
Amounts due to group undertaking	315	304
Social security and other taxes	175	118
Other payables	411	678
	<u>8,728</u>	<u>9,206</u>

15 Loans and borrowings

	31 December 2017 £ 000	17 September 2016 £ 000
Non-current loans and borrowings		
Amounts owed to group undertaking	<u>38,381</u>	<u>25,081</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 18 September 2016 to 31 December 2017

16 Provisions

	Onerous contracts £ 000
At 18 September 2016	8,711
Additional provisions	48,983
Provisions used	<u>(13,393)</u>
At 31 December 2017	<u>44,301</u>
Non-current liabilities	<u>21,697</u>
Current liabilities	<u>22,604</u>

During the period from 18 September 2016 to 31 December 2017, an additional charge of £48,983,692 was added to the onerous contract provision. This charge reflects a sharp increase in the estimated costs related to the delayed introduction and operation of the new sleeper service. We will be examining every option for reducing operating costs; the position under the contract is expected to improve over time, as the terms of the Franchise Agreement provide a mechanism that requires Transport Scotland to bear 50% of contract losses from 1 April 2020.

The additional OCP provision of £48,983,692 includes a discounting impact of £519,858 (2016: £nil).

17 Obligations under leases and hire purchase contracts

Operating leases

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

	2017 £ 000	2016 £ 000
Within one year	12,046	7,588
In two to five years	54,011	50,716
In over five years	<u>97,373</u>	<u>115,214</u>
	<u>163,430</u>	<u>173,518</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period was £10,350,047 (2016: £8,313,000).

The most significant leases are those for rolling stock of £162,441,335 (2016: £172,634,816). The remaining lease obligation relates to office premises of £988,314 (2016: £882,772).

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

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 £20,945 (2016: £10,773).

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), a UK registered pension scheme which is regulated by the Pensions Regulator.

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 line with UK legislation the trustees review the contributions required every three years. In the event the sponsor of another section of the RPS become insolvent, the company has no responsibility to them beyond the sections within the RPS are ringfenced, therefore Serco has no obligation to any section other than those they 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.

Contributions payable to the pension scheme at the end of the period are £396,750 (2016: £274,000).

The expected contributions to the plan for the next twelve months are £330,000.

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December 2017 £ 000	17 September 2016 £ 000
Fair value of scheme assets	6,940	5,492
Present value of scheme liabilities	<u>(12,940)</u>	<u>(11,260)</u>
	(6,000)	(5,768)
Other amounts recognised in the statement of financial position - Member's share	2,400	2,307
Other amounts not recognised in the statement of financial position - Franchise adjustment	<u>3,600</u>	<u>3,461</u>
Defined benefit pension scheme surplus/(deficit)	<u>-</u>	<u>-</u>

Scheme assets

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

	31 December 2017 £ 000	17 September 2016 £ 000
Fair value at start of period	5,492	4,370
Interest income	190	171
Return on plan assets, excluding amounts included in interest income	629	664
Employer contributions	397	274
Contributions by scheme participants	259	179
Benefits paid	42	(120)
Administrative expenses paid	<u>(69)</u>	<u>(46)</u>
Fair value at end of period	<u>6,940</u>	<u>5,492</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2017 £ 000	17 September 2016 £ 000
Cash and cash equivalents	1,005	541
Equity instruments	4,145	3,193
Debt instruments	746	883
Real estate	667	567
Other	<u>377</u>	<u>308</u>
	<u>6,940</u>	<u>5,492</u>

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

Actual return on scheme's assets

	31 December 2017 £ 000	17 September 2016 £ 000
Actual return on scheme assets	<u>819</u>	<u>835</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:

	31 December 2017 £ 000	17 September 2016 £ 000
Present value at start of period	11,260	7,680
Current service cost	1,356	655
Effect of changes in financial assumptions	746	2,755
Effect of experience adjustments	(833)	-
Interest cost	369	290
Benefits paid	<u>42</u>	<u>(120)</u>
Present value at end of period	<u>12,940</u>	<u>11,260</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:

	31 December 2017 %	17 September 2016 %
Discount rate	2.50	2.40
Future salary increases	3.10	2.90
Future pension increases	2.20	2.00
Inflation	<u>2.20</u>	<u>2.00</u>

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

Post retirement mortality assumptions

	31 December 2017 Years	17 September 2016 Years
Current UK pensioners at retirement age - male	85	85
Current UK pensioners at retirement age - female	87	86
Future UK pensioners at retirement age - male	87	89
Future UK pensioners at retirement age - female	<u>89</u>	<u>91</u>

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

Amounts recognised in the income statement

	31 December 2017 £ 000	17 September 2016 £ 000
Amounts recognised in operating profit		
Current service cost	860	393
Administrative expenses paid	38	28
Recognised in arriving at operating profit	<u>898</u>	<u>421</u>
Amounts recognised in finance income or costs		
Net interest	<u>(2)</u>	<u>(4)</u>
Total recognised in the income statement	<u><u>896</u></u>	<u><u>417</u></u>

Amounts taken to the Statement of Comprehensive Income

	31 December 2017 £ 000	17 September 2016 £ 000
Gain on franchise adjustment	(29)	(1,399)
Actuarial loss/(gain) arising from change in member's share	246	(835)
Effect of changes in financial assumptions	746	2,755
Effect of experience adjustments	(833)	-
Return on plan assets, excluding amounts included in interest expense	<u>(629)</u>	<u>(664)</u>
Amounts recognised in the Statement of Comprehensive Income	<u><u>(499)</u></u>	<u><u>(143)</u></u>

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

Sensitivity analysis

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

		2017			2016	
Adjustment to discount rate	+ 0.50%	0.0%	- 0.50%	+ 0.25%	0.0%	- 0.25%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>11,410</u>	<u>12,940</u>	<u>14,690</u>	<u>10,642</u>	<u>11,260</u>	<u>11,909</u>
		2017			2016	
Adjustment to rate of inflation	+ 0.50%	0.0%	- 0.50%	+ 0.25%	0.0%	- 0.25%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>14,680</u>	<u>12,940</u>	<u>11,410</u>	<u>11,908</u>	<u>11,260</u>	<u>10,640</u>
		2017			2016	
Adjustment to rate of salary growth	+ 0.50%	0.0%	- 0.50%	+ 0.25%	0.0%	- 0.25%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>13,610</u>	<u>12,940</u>	<u>12,300</u>	<u>11,480</u>	<u>11,260</u>	<u>11,038</u>

The defined benefit obligation as at 31 December 2017 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 25.9 years.

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Notes to the Financial Statements for the Period from 18 September 2016 to 31 December 2017

19 Share capital

Allotted, called up and fully paid shares

	31 December 2017		17 September 2016	
	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 (2016: £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 registered at 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.

The ultimate controlling party is Serco Group plc.