

Registration number: SC477821

Serco Caledonian Sleepers Limited

Annual Report and Financial Statements

for the Period from 1 January 2018 to 31 March 2018

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Serco Caledonian Sleepers Limited

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Serco Caledonian Sleepers Limited

Company Information

Directors	Peter Strachan John Michael Heron John Whitehurst
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 1 January 2018 to 31 March 2018

The directors present their strategic report for the period from 1 January 2018 to 31 March 2018.

Prior year financial statements were prepared from 18 September 2016 to 31 December 2017.

The reporting period has been aligned with the franchise year ending 31 March and therefore the prior year amounts presented in the financial statements are not entirely comparable due to the differing period lengths.

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

In 2017 an additional charge of £48,983,692 was added to the onerous contract provision, of which £4,726,780 has been utilised in the current period. The charge in 2017 reflected 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 (2017: £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 1 January 2018 to 31 March 2018

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 are 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.

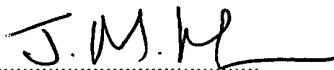
There is considered to be limited credit risk given the majority of revenues are either cash based or Government franchise receipts.

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 18 July 2018 and signed on its behalf by:



John Michael Heron
Director

Serco Caledonian Sleepers Limited

Directors' Report for the Period from 1 January 2018 to 31 March 2018

The directors present their report and the financial statements for the period from 1 January 2018 to 31 March 2018.

Directors of the company

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

Peter Strachan

John Michael Heron

Keith Wallace (resigned 31 March 2018)

The following director was appointed after the period end:

John Whitehurst (appointed 2 July 2018)

Proposed dividend

The directors do not recommend the payment of a dividend (2017: £nil).

Charitable donations

During the period the Company made charitable donations of £nil (2017: £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 (2017: £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 1 January 2018 to 31 March 2018

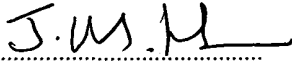
Disclosure of information to the auditor

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 18 July 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 Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102").

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.

Serco Caledonian Sleepers Limited

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

Opinion

We have audited the financial statements of Serco Caledonian Sleepers Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 have 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.

Serco Caledonian Sleepers Limited

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

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 reflect 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.

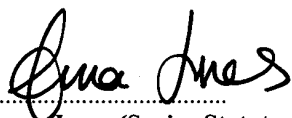
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material statement, 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 ISA's (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 2016. 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

London

E14 5GL

18 July 2018

Serco Caledonian Sleepers Limited

Profit and Loss Account for the Period from 1 January 2018 to 31 March 2018

	Note	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Turnover	4	8,142	53,244
Cost of sales		<u>(5,841)</u>	<u>(90,500)</u>
Gross profit/(loss)		2,301	(37,256)
Administrative expenses		<u>(2,259)</u>	<u>(12,087)</u>
Operating profit/(loss)		42	(49,343)
Interest payable and similar expenses	6	<u>(392)</u>	<u>(1,406)</u>
Loss before tax		<u>(350)</u>	<u>(50,749)</u>
Loss for the period		<u><u>(350)</u></u>	<u><u>(50,749)</u></u>

The above results were derived from continuing operations.

The notes on pages 13 to 31 form an integral part of these financial statements.

Serco Caledonian Sleepers Limited

Statement of Comprehensive Income for the Period from 1 January 2018 to 31 March 2018

	Note	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Loss for the period		(350)	(50,749)
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	18	<u>109</u>	<u>499</u>
Total comprehensive loss for the period		<u>(241)</u>	<u>(50,250)</u>

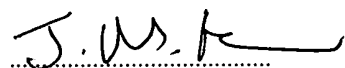
The notes on pages 13 to 31 form an integral part of these financial statements.

Serco Caledonian Sleepers Limited

(Registration number: SC477821)
Balance Sheet as at 31 March 2018

	Note	31 March 2018 £ 000	31 December 2017 £ 000
Fixed assets			
Tangible assets	11	-	-
Current assets			
Stocks	12	1,781	1,041
Debtors	13	3,453	3,810
Cash at bank and in hand		3,669	4,971
		<u>8,903</u>	<u>9,822</u>
Creditors: Amounts falling due within one year			
Trade and other creditors	14	(9,524)	(8,728)
Provisions	16	<u>(22,652)</u>	<u>(22,604)</u>
Creditors: Amounts falling due within one year		<u>(32,176)</u>	<u>(31,332)</u>
Net current liabilities		<u>(23,273)</u>	<u>(21,510)</u>
Total assets less current liabilities		<u>(23,273)</u>	<u>(21,510)</u>
Creditors: Amounts falling due after more than one year			
Loans and borrowings	15	(41,581)	(38,381)
Provisions for liabilities	16	<u>(16,971)</u>	<u>(21,697)</u>
Net liabilities		<u><u>(81,825)</u></u>	<u><u>(81,588)</u></u>
Capital and reserves			
Called up share capital	19	-	-
Other reserves		930	817
Profit and loss account		<u>(82,755)</u>	<u>(82,405)</u>
Shareholders' deficit		<u><u>(81,825)</u></u>	<u><u>(81,588)</u></u>

These financial statements were approved by the board of directors on 18 July 2018 and signed on its behalf by:



John Michael Heron
Director

Serco Caledonian Sleepers Limited

Statement of Changes in Equity for the Period from 1 January 2018 to 31 March 2018

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
Balance 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
Balance at 31 December 2017	-	817	(82,405)	(81,588)

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
Balance at 1 January 2018	-	817	(82,405)	(81,588)
Loss for the period	-	-	(350)	(350)
Actuarial gain on defined benefit pension scheme	-	109	-	109
Total comprehensive income	-	109	(350)	(241)
Share based payment transactions	-	4	-	4
Balance at 31 March 2018	-	930	(82,755)	(81,825)

Included within 'other reserves' are retirement benefit obligation reserves of £879,000 (2017: £770,000) and share based payment reserves of £51,000 (2017: £47,000).

The notes on pages 13 to 31 form an integral part of these financial statements.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

1 General information

Serco Caledonian Sleepers Limited is a private company limited by share capital. It is incorporated, domiciled and registered in United Kingdom under the Companies Act. The registered number is SC477821 and 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 March 2018 which is in alignment with the Company's accounting reference date.

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 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

This was the first period of applying FRS102, for the period from 18 September 2016 to 31 December 2017 FRS 101 Reduced Disclosure Framework was applied. In the transition to FRS 102 from Adopted IFRS, there is no difference in the accounting treatment applied and therefore the Company has made no measurement and recognition adjustments. From this accounting period the Board has selected to produce the accounts under FRS 102 rather than FRS 101 as was done previously. We have chosen to make this change given FRS 102 more closely aligns to UK GAAP and therefore maintains the consistency of the SCSL accounts both with previous periods and the basis on which the contract was bid.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

The Company's ultimate parent undertaking, Serco Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Serco Group plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the address provided in note 22. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Serco Group plc include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

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.

Prior period adjustments

Reclassification between prepayments and other debtors

Certain recoverable costs of £276,912 had been reclassified from prepayments to other debtors as at 31 December 2017 (note 13). There is no impact on the overall debtors balance, income statement or the balance sheet as a result of this reclassification.

Obligations under leases and hire purchase contracts

In the current period it was identified that certain arrangements do not contain leases as they are not dependent on the use of specific assets and the Company has no right to control the use of the assets. Consequently, the future minimum operating lease payments disclosed at 31 December 2017 have been reduced by £79,502,500 and non-cancellable operating lease payments recognised as an expense has been reduced by £8,155,000 (see note 5 and 17). The adjustment has no impact on the profit and loss account or the balance sheet in previous periods.

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 1 January 2018 to 31 March 2018

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.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of tangible fixed assets includes directly incremental costs incurred in their acquisition and installation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example motor vehicles are treated separately from furniture, fittings and equipment.

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

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out (FIFO) principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing 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 1 January 2018 to 31 March 2018

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.

Contingent liabilities

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

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.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

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.

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.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are stated at amortised cost using the effective interest method.

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

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.

Material revisions were made to historic provisions in the prior period, which 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 2018: £471,313 (2017: £519,858). 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).

4 Turnover

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

	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Catering sales	111	776
Transport Scotland franchise payments	4,180	22,797
Passenger ticket sales	3,851	29,671
	<u>8,142</u>	<u>53,244</u>

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

5 Operating loss

The operating loss is stated after charging:

	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
OCP charge	-	48,983
OCP utilisation	(4,727)	(13,393)
Operating lease expense (*restated)	444	2,195
Write-down of PPE to net realisable value	-	20
	<u>-</u>	<u>20</u>

* See note 2.

6 Interest payable and similar expenses

	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Other interest payable	46	168
Interest payable to group undertakings	300	1,240
Interest receivable on pension obligations	(3)	(2)
Movement in discount on OCP	49	-
	<u>392</u>	<u>1,406</u>

7 Staff costs

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

	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Wages and salaries	1,685	8,749
Social security costs	161	838
Pension costs, defined contribution scheme	4	21
Pension costs, defined benefit scheme	202	899
Share-based payment expenses	4	34
	<u>2,056</u>	<u>10,541</u>

The average number of persons employed by the company (including directors) during the period, analysed by category was as follows:

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

	1 January 2018 to 31 March 2018 No.	18 September 2016 to 31 December 2017 No.
Provision of rail services	<u>168</u>	<u>161</u>

8 Directors' remuneration

The total cost of £127,355 (2017: £840,029) in relation to directors' remuneration was shared by the Company and by another Group company.

In respect of the highest paid director:

	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Directors' remuneration	48	237
Company contributions to money purchase pension schemes	<u>-</u>	<u>5</u>

9 Auditor's remuneration

Auditor's remuneration of £10,000 (2017: £10,000) for the audit of the Company's financial statements was borne by another group company in both the current and preceding financial years.

There have been no non-audit fees or audit-related assurance service fees incurred by the Company and payable to KPMG during the period (2017: audit related-assurance service fees of £3,000).

10 Tax

The tax on loss for the period is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19% (2017: 19.4%).

The differences are reconciled below:

	1 January 2018 to 31 March 2018 £ 000	18 September 2016 to 31 December 2017 £ 000
Loss before tax	<u>(350)</u>	<u>(50,749)</u>
Corporation tax at standard rate	(67)	(9,845)
Decrease from effect of expenses not deductible in determining taxable loss	9	14
Increase from effect of unrelieved tax losses carried forward	71	9,856
Deferred tax (credit) from unrecognised tax loss	<u>(13)</u>	<u>(25)</u>
Total tax charge	<u>-</u>	<u>-</u>

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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 £346,095 of deductible temporary differences (2017: £399,500) and £13,581,300 of unused tax losses (2017: £13,517,500) 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 Tangible fixed assets

	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation				
Balance at 1 January 2018	121	1,594	19	1,734
Balance at 31 March 2018	121	1,594	19	1,734
Depreciation and impairment				
Balance at 1 January 2018	121	1,594	19	1,734
Balance at 31 March 2018	121	1,594	19	1,734
Net book value				
At 31 March 2018	-	-	-	-
At 31 December 2017	-	-	-	-

12 Stocks

	31 March 2018 £ 000	31 December 2017 £ 000
Work in progress	1,781	1,041

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

13 Debtors

	31 March 2018 £ 000	31 December 2017 (* restated) £ 000
Trade debtors	297	661
Prepayments	455	1,026
Other debtors	2,701	2,123
	<u>3,453</u>	<u>3,810</u>

All amounts are due within 12 months.

* See note 2.

14 Trade and other creditors

	31 March 2018 £ 000	31 December 2017 £ 000
Trade creditors	1,845	2,531
Accruals and deferred income	6,216	5,296
Amounts due to group undertaking	456	315
Taxation and social security	161	175
Other creditors	846	411
	<u>9,524</u>	<u>8,728</u>

Amounts owed to group companies are due within 30 days of the balance sheet date and do not bear interest.

15 Loans and borrowings

	31 March 2018 £ 000	31 December 2017 £ 000
Non-current loans and borrowings		
Amounts owed to group undertaking	<u>41,581</u>	<u>38,381</u>

There are two loans in place with a group company, both of which have no fixed repayment date. The interest charged on the loans is based on LIBOR plus 2.0% and LIBOR plus 9.0%.

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Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

16 Provisions

	Onerous contracts £ 000
At 1 January 2018	44,301
Provisions used	(4,727)
Increase due to unwinding of discount	49
At 31 March 2018	<u>39,623</u>
Non-current liabilities	<u>16,971</u>
Current liabilities	<u>22,652</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, of which £4,726,780 has been utilised in the current period. The charge in 2017 reflected 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 OCP includes a discounting impact of £471,313 (2017: £519,858).

17 Obligations under leases and hire purchase contracts

Operating leases

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

	2018 £ 000	2017 (*restated) £ 000
Within one year	6,872	5,556
In two to five years	28,032	28,051
In over five years	48,579	50,320
	<u>83,483</u>	<u>83,927</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period was £443,890 (2017 (*restated): £2,195,047).

The most significant leases are those for rolling stock of £82,531,162 (2017 (*restated): £82,938,855). The remaining lease obligation relates to office premises of £952,116 (2017: £988,314).

* See note 2.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

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 £4,632 (2017: £20,945).

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 £82,000 (2017: £396,750).

The expected contributions to the plan for the next twelve months are £Nil.

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 March 2018	31 December
	£ 000	2017
		£ 000
Fair value of scheme assets	6,945	6,940
Present value of scheme liabilities	(12,760)	(12,940)
	(5,815)	(6,000)
Other amounts recognised in the statement of financial position - Member's share	2,326	2,400
Other amounts not recognised in the statement of financial position - Franchise adjustment	3,489	3,600
Defined benefit pension scheme surplus/(deficit)	-	-

Scheme assets

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

	31 March 2018	31 December
	£ 000	2017
		£ 000
Fair value at start of period	6,940	5,492
Interest income	46	190
Return on plan assets, excluding amounts included in interest income	(266)	629
Employer contributions	82	397
Contributions by scheme participants	54	259
Benefits paid	104	42
Administrative expenses paid	(15)	(69)
Fair value at end of period	6,945	6,940

Analysis of assets

The major categories of scheme assets are as follows:

	31 March 2018	31 December
	Fair value	2017
	£ 000	Fair value
		£ 000
Cash and cash equivalents	827	1,005
Equity instruments	4,144	4,145
Debt instruments	888	746
Real estate	680	667
Other	406	377
	6,945	6,940

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

Actual return on scheme's assets

	31 March 2018 £ 000	31 December 2017 £ 000
Actual return on scheme assets	<u>220</u>	<u>819</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

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

	31 March 2018 £ 000	31 December 2017 £ 000
Present value at start of period	12,940	11,260
Current service cost	308	1,356
Effect of changes in financial assumptions	(671)	746
Effect of experience adjustments	-	(833)
Interest cost	79	369
Benefits paid	<u>104</u>	<u>42</u>
Present value at end of period	<u>12,760</u>	<u>12,940</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 March 2018 %	31 December 2017 %
Discount rate	2.60	2.50
Future salary increases	3.00	3.10
Future pension increases	2.10	2.20
Inflation	<u>2.10</u>	<u>2.20</u>

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Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

Post retirement mortality assumptions

	31 March 2018	31 December
	Years	2017
		Years
Current UK pensioners at retirement age - male	85	85
Current UK pensioners at retirement age - female	87	87
Future UK pensioners at retirement age - male	87	87
Future UK pensioners at retirement age - female	89	89

Serco Caledonian Sleepers Limited

Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

Expense recognised in the profit and loss account

	31 March 2018 £ 000	31 December 2017 £ 000
Amounts recognised in operating profit		
Current service cost	185	860
Administrative expenses paid	9	38
Recognised in arriving at operating profit	194	898
Amounts recognised in finance income or costs		
Net interest	(3)	(2)
Total expense recognised in profit or loss	191	896

Amounts taken to the Statement of Comprehensive Income

	31 March 2018 £ 000	31 December 2017 £ 000
Gain on franchise adjustment	133	(29)
Actuarial loss arising from change in member's share	163	246
Effect of changes in financial assumptions	(671)	746
Effect of experience adjustments	-	(833)
Return on plan assets, excluding amounts included in interest expense	266	(629)
Amounts recognised in the Statement of Comprehensive Income	(109)	(499)

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Notes to the Financial Statements for the Period from 1 January 2018 to 31 March 2018

Sensitivity analysis

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

		2018			2017	
Adjustment to discount rate	+ 0.25%	0.0%	- 0.25%	+ 0.50%	0.0%	- 0.50%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>11,970</u>	<u>-</u>	<u>13,600</u>	<u>11,410</u>	<u>12,940</u>	<u>14,690</u>
		2018			2017	
Adjustment to rate of inflation	+ 0.25%	0.0%	- 0.25%	+ 0.50%	0.0%	- 0.50%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>13,600</u>	<u>-</u>	<u>11,970</u>	<u>14,680</u>	<u>12,940</u>	<u>11,410</u>
		2018			2017	
Adjustment to rate of salary growth	+ 0.25%	0.0%	- 0.25%	+ 0.50%	0.0%	- 0.50%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>12,440</u>	<u>-</u>	<u>13,080</u>	<u>13,610</u>	<u>12,940</u>	<u>12,300</u>

The defined benefit obligation as at 31 March 2018 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 26.0 years.

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19 Share capital

Allotted, called up and fully paid shares

	31 March 2018		31 December 2017	
	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 (2017: £Nil).

21 Related party transactions

The Company is a wholly owned subsidiary of Serco Group plc, and has taken advantage of the exemption afforded within FRS102 to not disclose transactions or balances with other entities which form part of its group.

22 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.