Registration number: SC477821

Serco Caledonian Sleepers Limited

Annual Report and Financial Statements

For the Year Ended 31 March 2020

Contents

Company Information

Directors	Peter Strachan Ryan Robert Flaherty John Anthony Richard Whitehurst
Company secretary	Serco Corporate Services Limited
Registration number	SC477821
Registered office	Basement and Ground Floor Premises 1-5 Union Street Inverness IV1 1PP
Auditor	KPMG LLP 15 Canada Square London E14 5GL

Strategic Report
for the Year Ended 31 March 2020

The directors present their strategic report for the year ended 31 March 2020.

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 the year ended 31 March 2020 £17,547k of the onerous contract provision was utilised and the balance of the provision now stands at £17,346k (2019: £28,554k). Delays to the introduction and operation of the new sleeper services resulted in an additional charge to the provision of £6,224k. The OCP includes a discounting impact of £125k. 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, the Company has the right to seek adjustments to the financial terms of the Franchise Agreement that would result either in a small positive profit margin for the Company from that date, or allow an exit from the contract.

Subsequent to the year-end, an Emergency Measures Agreement (EMA) was entered into with Transport Scotland, which was effective from 1 March 2020 and is currently in place until 19 September 2020. The EMA provides protection against the loss of revenue due to the impact of the pandemic and also against the potential of increased cost of delivering the service against a backdrop of heightened requirements around cleaning and social distancing. As the EMA was signed subsequent to the Company's financial year-end, but had been announced to the Company, with a Heads of Terms in place, in advance of this date, the impact of the EMA on the financial performance of the Company subsequent to its effective date have been included in the result for the year ended 31 March 2020. The Company is currently involved in discussions around the potential for an extension to, or replacement for, the EMA, although as at the date of these accounts no such agreement has been reached.

The Company has not paid a dividend in the year (2019: £nil).

Key performance indicators for the Company continue to be safety, timetable achievement, number of guests travelling and customer satisfaction, along with achievement of franchise agreement obligations.

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 volume and pricing increases driven by the improved passenger service from the new trains and the ongoing impact on public transport usage following the COVID-19 pandemic in the short to medium term. 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 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.

Strategic Report
for the Year Ended 31 March 2020 (continued)

There is considered to be an interest rate risk as a result of the loan in place, however the level of exposure to the risk is mitigated by the fact the loan is held with the Company's ultimate parent undertaking, Serco Group plc, which is also the group entity that provides the letter of support used by the directors in finalising their assessment of the Company's ability to continue as a going concern.

Serco Group manage and oversee financial risk for all Serco Group entities. A quarterly risk register is maintained by the Company and discussed at Senior Management Team 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.

Risks associated with the coronavirus outbreak
Coronavirus (COVID-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic.

As the impact of the pandemic grew, passenger numbers on the Sleeper services fell. Subsequent to the year-end, an Emergency Measures Agreement (EMA) was entered into with Transport Scotland, which was effective from 1 March 2020 and is currently in place until 19 September 2020. The EMA provides protection against the loss of revenue due to the impact of the pandemic and also against the potential of increased cost of delivering the service against a backdrop of heightened requirements around cleaning and social distancing. As the EMA was signed subsequent to the Company's financial year-end, but had been announced to the Company in advance of this date, the impact of the EMA on the financial performance of the Company subsequent to its effective date have been included in the result for the year ended 31 March 2020.

The full impact of the pandemic is still unknown, however the directors are of the opinion that there will be an impact on future revenue even once the current restrictions on non-essential travel are lifted. The current EMA period ends on 19 September 2020 and it is currently uncertain as to whether any further arrangement will be reached regarding protection from the probable ongoing reduction in passenger volumes, although as noted above, the Company is currently involved in discussions around the possibility of an extension to, or replacement for, the EMA. Due to this, and the uncertainty over future volumes, the directors have opted not to adjust the balance on the OCP subsequent to the year-end for the impact of the EMA. The operating performance and forecasts for the Company will continue to be reviewed on a regular basis, and the directors will consider the requirement for charges or releases as the level of certainty around future performance increases, however at the date of approving the accounts, the directors believe that the existing OCP is sufficient to cover the range of possible outcomes.

The existing EMA comes to an end in 19 September 2020 and we have commenced discussions with the customer about the future trading arrangement, including the possibility of an extension or a second EMA.

Strategic Report
for the Year Ended 31 March 2020 (continued)

The Company has a letter of support in place from its ultimate parent company, Serco Group plc, as outlined in note 2 of the financial statements.

Brexit
The Company makes specific reference below to the UK's proposed withdrawal from the European Union ("Brexit") and the current assessment of its impact on the Company. The UK formally left the European Union on 31 January 2020. The transition period is expected to end on 31 December 2020 and the current shape of the economic and political partnership between the UK and EU is not known. Notwithstanding this, the Company's direct exposure to Brexit is small as the Company, and the Group of which it is a subsidiary of, neither exports nor imports to any significant degree; the Group of which the Company is a subsidiary of has a business in continental Europe which is conducted through long-established local subsidiaries; and employs relatively few continental European citizens in the UK. The Group continues to monitor the potential implications of the UK's withdrawal from the European Union and its impact and continues to believe that Brexit will not impact the Group to a material extent. This is based on regular assessment and review of the UK and EU contracts, supply chain, workforce requirements and regulatory obligations. By operating many contracts across diverse geographies outside of Europe, the Group has a natural hedge from material Brexit risks that may arise. The impact of Brexit on the Group is relevant to the Company as it relies on a letter of support which is required for the Company to continue to operate as a going concern.

Section 172 (1) Statement
Board Engagement with Stakeholders

The Board is committed to enhancing engagement with all our stakeholders, and as well as acting in the best interest of the Company, the Board looks to the activities undertaken by the Board of Directors of Serco Group plc (the 'Serco Group plc Board'), the Company's ultimate parent company, in engaging with the Group's wider stakeholders. In addition to the methods of engagement described below, the interests of the Company's stakeholder groups are considered for the Serco Group as a whole by the Serco Group plc Board through a combination of:

- Regular reports and presentations at scheduled Serco Group plc Board and Committee meetings, including operational reports presented by the Chief Executive and updates from senior management on health and safety, ethics and compliance, people matters (including employee engagement) and investor feedback.
- A rolling agenda of matters to be considered by the Serco Group plc Board and Committees throughout the year, including a strategy review which considers the purpose of the Company and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids and other matters, including any factors which are relevant to major decisions taken by the Serco Group plc Board through the year in line with the regularly reviewed Delegation of Authority and Terms of Reference for each Serco Group plc Board Committee.
- The risk management process and other routine agenda items of the Serco Group plc Audit Committee, Corporate Responsibility Committee, Group Risk Committee and Remuneration Committee, as described in the Serco Group plc 2019 Annual Report and Accounts.

Strategic Report
for the Year Ended 31 March 2020 (continued)

As with other large and complex companies, the Directors of the Company fulfil their duties partly through a governance framework that delegates day-to-day decision-making. The Serco Group plc Board recognises that such delegation needs to be much more than simple financial authorities. Presented in the Serco Group plc 2019 Annual Report and Accounts is a summary of the governance structure which covers the values and behaviours expected of our employees; the standards they must adhere to; how the Group as a whole engages with stakeholders; and how the Serco Group plc Board looks to ensure that we have a robust system of control and assurance processes (see pages 76 to 95 of the Serco Group plc Annual Report and Accounts).

The Group's Corporate Responsibility (CR) framework, of which the Company forms part, is structured around our key stakeholders and progress and performance in delivering The Group's CR agenda is set out in the CR section of Serco Group plc 2019 Annual Report and Accounts. The following disclosure describes how the Board has had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Stakeholder group - Our owners
Engagement with and receiving the support of our ultimate parent company and its owners is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity - all of which are critical for building trust.

Stakeholder concerns
The Serco Group plc shareholders are concerned with a broad range of issues, including operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate. Performance developments are comprehensively assessed in the Strategic Report of the Serco Group plc 2019 Annual Report and Accounts more widely, including the Key Performance Indicators section and the broader discussion and analysis.

How the Board engages with stakeholders
- The financial results of the components making up the Company are reviewed according to delegated authorities on a monthly basis.
- The Group Chief Executive and Group Chief Financial Officer and other members of the Serco senior management team, including Directors of the Company, attend monthly divisional performance reviews and divisional executive management team meetings to discuss financial and operational developments in the business.
- The Investor Relations team provides regular reports to the Serco Group plc Board, which includes activities within the Company.

Key topics of engagement
- The Company's performance against the strategy of the wider Group.
- Developments in our customer markets and the competitive landscape.
- Opportunities for acquisitions.
- Capital allocation considerations.

Strategic Report
for the Year Ended 31 March 2020 (continued)

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc shareholders' opinions were, and continue to be, taken into consideration by the Serco Group plc when developing and reviewing the Group's strategy and performance and these guiding principles are reflected in the strategy of the Company.

Stakeholder group - Our people

Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.

Stakeholder concerns

Through the annual Group-wide Viewpoint survey and other dialogue with our colleagues, we know that our people feel passionately about the place they work and the services that they deliver. As you would expect for a business as diverse as that of the Group, our colleagues express their opinions across a very wide range of areas. However there are currently three main areas of concern raised by colleagues on a regular basis: connection and collaboration within Serco, individual recognition, and having a voice in the decision making within the business. The Group's People Report, available on the Group's website, sets out the work being undertaken to make Serco a better, safer and more inclusive place to build a career.

How the Board engages with stakeholders

- Feedback is sought from our people annually through the Group-wide engagement survey, Viewpoint, supplemented with more frequent 'pulse' surveying in selected parts of the business.
- Kirsty Bashforth, Non-Executive Director of Serco Group plc, was appointed as the Group's lead representative on the Board for Employee Voice and reports to the Serco Group plc Board the feedback received from our people at engagement activities attended throughout the year as part of the Employee Voice and Colleague ConneXions initiatives.
- The Serco Inclusion Hub was introduced in across the Group during the year to provide a platform for our employee networks, Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco, to better coordinate and collaborate. Regular reports on the activities of each network are provided to the Serco Group plc Board through the regular People reports provided by the Group HR Director. Operational people matters are considered at monthly divisional executive management team meetings attended by the Directors of the Company during the year.
- Members of the Company's Board and the Executive Directors of Serco Group plc meet with employees during contract visits and with senior management monthly at divisional performance review and divisional executive management team meetings.

Key topics of engagement

- Global focus areas for diversity and inclusion: Gender, Disability, Multicultural and LGBT+.
- Matters impacting employees on the frontline of our contracts.
- Talent and leadership succession.
- Review of pension provisions.
- Feedback received from employees through the Viewpoint survey and the actions proposed by management in response.

Strategic Report
for the Year Ended 31 March 2020 (continued)

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board considered the impact to employees of the Company of restructuring activities that have taken place during the year, such as the IT and Procurement Transformation programmes, the development opportunities that potential acquisitions and contract bids would afford our employees, and the impact on the Company's ability to attract and retain staff.
- Discussions of the Company Board and the Serco Group plc Board have been better informed due to the deeper understanding of the work undertaken by our employees, which has been developed during contract visits undertaken in each Division. At these contract visits and events, the Directors meet and hear directly from Serco employees on a variety of topics.

Stakeholder group - Our customers

As an international B2G business our customers are many and varied, consisting of local, regional, national governments and agencies, those receiving our services at a contract level versus those procuring the services, and those who use the services we provide on behalf of our customers. Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with, and responding to customer needs is a critical priority.

Stakeholder concerns

While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents value for money. This requires us to have both deep understanding of their sector specific needs, as well as technical and commercial nous as to how to deliver public services most efficiently. In addition, there are significant regional and sector specific priorities, that vary enormously and also change over time. For example, the increasing demand for the employment of nationals in the Middle East and the increasing drive for social value outcomes in the UK. It is critical that we maintain a detailed appreciation of these so that we can respond accordingly.

How the Board engages with stakeholders

- The Group Chief Executive and Group Chief Financial Officer meet directly with different customers across all our regions on a regular basis.
- Members of the Serco Group plc Board regularly, and throughout the year, visit our different international operations and contracts where they engage directly with customers.
- Our Group-wide 'Operational Report' gives updates and feedback on our markets, customers, and operational performance to the Serco Group plc Board at every meeting. The Company's directors present regularly to the Serco Group plc Board on the same. Other colleagues also present regularly on operations, customer satisfaction and Business Development.
- The annual Strategy Planning process is a bottom-up exercise including every part of the business, taking into account both existing and future customer needs and trends over the next 5 years. This process culminates in a day-long Group-wide Board Strategy Day during which the Serco Group plc debate current and future customer requirements at length.
- Attendance by the Serco Group plc Directors at Serco-led and other industry events, including events run by the Serco Institute on public policy priorities such as Social Value, which customers both attend and speak at.

Strategic Report
for the Year Ended 31 March 2020 (continued)

Key topics of engagement

- Customer and Serco strategy and operational performance.
- The procurement processes employed by key customers, such as the Outsourcing Playbook in the UK.
- New and future customer requirements and trends, such as focus on environmental, social, and governance matters.
- Specific business development opportunities.
- The overall performance of the sector.
- Serco innovations in response to customer trends and needs.

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board deployed their customer insight to positive effect in decisions relating to our submission of our largest bids over the year and the nature of our proposals, which they scrutinise.
- Following customer engagement and insight gathered from the annual strategy process, the Serco Group plc Board provided guidance on our strategy, strategic decisions, as well as resource allocation, and prioritisation across our markets and customers in 2019-20.
- The Serco Group plc Board continued to drive the Executive Directors of Serco Group plc and in turn the Directors of the Company to act on new customer trends and priorities as a result of engagement in 2019. For example, our plans on sustainability, social value, and voluntary, community, and social enterprise organisations.

Stakeholder group - Our suppliers

Suppliers have an important role to play in Serco being a superb provider of public services. We aim to build honest, respectful and transparent relationships with suppliers who follow regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

Stakeholder concerns

Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms, and receiving prompt payment.

How the Board engages with stakeholders

- Direct engagement via the Group Chief Executive and Group Chief Financial Officer.
- Regular reports to the Serco Group plc Board from senior management and discussion at monthly divisional performance review and divisional executive management team meetings attended by the Directors of the Company concerning operational matters on specific business units.
- Regular reports to the Serco Group plc Board from the Group Director, Enterprise Risk, the Group Director, Business Compliance and Ethics, and the Director of Procurement concerning management and assessment of suppliers.
- Regular reports from individual business units, including creditor payable days.

Strategic Report
for the Year Ended 31 March 2020 (continued)

Key topics of engagement

- Due diligence processes.
- Supplier relationships.
- Supply chain management.
- Fair payment practices.

How stakeholder interests influence Board discussions and principal decisions

- The management of suppliers has been discussed at the Serco Group plc Board level and the Procurement Transformation programme was endorsed by the Serco Group plc Board in recognition of the need to improve supplier management processes.
- Key risks in relation to the supply chain were considered by the Serco Group plc Board when approving the approach to due diligence of suppliers, which was revised during the year.
- Feedback on the financial performance of key suppliers was considered periodically during the year, with performance being discussed at the Group Audit and Group Risk Committees, and feedback provided to the Serco Group plc Board concerning the discussions.

Stakeholder group - Our communities and environment

Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government. Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate. We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.

Stakeholder concerns

Our communities are primarily concerned with the impact of our operations on the local society, the economy, and the environment - locally and beyond - and that we operate and conduct our business as a respectful and responsible neighbour.

How the Board engages with stakeholders

- The Serco Group plc Board receives regular operational reports from the Group Chief Executive.
- Regular reports to the Serco Group plc Board from senior management and discussion at monthly divisional performance review and divisional executive management team meetings attended by the Directors of the Company concerning operational matters on specific business units.
- Meeting with users of the services we provide on behalf of our customers during contract visits by the Serco Group plc Board.
- Attendance by the Serco Group plc Board at Serco Institute events.

Key topics of engagement

- Further information on our engagement concerning Corporate Responsibility (CR) matters is provided in the CR Report within the Group's Annual Report.
- Political environment.
- Impact to the community of pursuing business development opportunities.

Strategic Report
for the Year Ended 31 March 2020 (continued)

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board gave careful consideration to issues under our immigration contracts in the UK, including asylum seekers who are housed under the Home Office COMPASS contract and the situation of managing those individuals that overstay beyond the permitted terms of their asylum application.
- The Serco Group plc Board had regular discussion during the year on the issues in prisons under our justice contracts in the UK, including physical assaults, violence and impact on communities.
- Meeting with users of the services we provide on behalf of our customers during contract visits by the Directors of the Company and the Directors of Serco Group plc facilitates a deeper discussion of operational matters. In considering business development proposals from senior management, this also enables the directors to better assess service user needs and the ability to provide the services under the contract to the standards expected and identify any gaps in capabilities.

Approved by the Board on 12 August 2020 and signed on its behalf by:

....

Ryan Robert Flaherty
Director

Directors' Report
for the Year Ended 31 March 2020

The directors present their report and the financial statements for the year ended 31 March 2020.

Directors of the Company
The directors who held office throughout the year and subsequently to the date of this report unless otherwise stated were as follows:

Peter Strachan

John Michael Heron (resigned 9 July 2019)

Ryan Robert Flaherty

John Anthony Richard Whitehurst

Results and dividends
The loss for the financial year, after tax is £4,571k (2019: £3,083k).

The directors do not recommend the payment of a dividend (2019: £nil).

Charitable donations
During the year the Company did not make any charitable donations (2019: £nil).

Political contributions
The Company made no political donations or incurred any political expenditure during the year (2019: £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.

Going concern
Notwithstanding net current liabilities of £6,495k as at 31 March 2020 and a loss for the year then ended of £4,571k, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The financial forecasts prepared by the directors for a period of 12 months from the date of the approval of these financial statements indicate that the Company will continue to make operating losses prior to the utilisation of the onerous contract provision held on the Balance Sheet. In severe but plausible downside scenarios associated with the impact of COVID-19 over the forecast period, including the impact of a second wave, the directors acknowledge that there may be a requirement to request additional funds from the Company's parent. The Company also has a payable due to its ultimate parent company, Serco Group plc, of £70.7m. As a result of the forecast operating losses and the amount payable to Serco Group plc, noting that the Company is in a net liabilities position, the Company has obtained a letter of support from Serco Group plc to meet its liabilities as they fall due for the next twelve months.

Directors' Report
for the Year Ended 31 March 2020 (continued)

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the next twelve months. The directors of the Company have been made aware of the going concern assessment which has been performed in respect of the Group. The directors believe they are able to place reliance on this letter of support for the following reasons.

Most of the Groups contracts deliver critical services to Governments and the delivery requirements of these have not been impacted by COVID-19. However, a small number of contracts within the Group have been impacted by; lower volumes within its UK Transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset to some extent by additional services being delivered to assist Governments with their management and recovery from the COVID-19 pandemic, and financial support from its customers. It is evident that the most significant impact on the Groups operations has been within the UK.

In order to model severe but plausible scenarios to stress test the potential impact of COVID-19 on the Groups forecast, the Group have considered, amongst other scenarios, lower passenger volumes on the Groups train operating contracts, higher costs within the Health portfolio and prolonged closure of leisure centres in the UK,without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Group has reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts.

After considering these severe but plausible scenarios and with the mitigations available to the Group, the forecasts indicate sufficient capacity in the Groups financing facilities and associated covenants. In order to satisfy themselves that they have adequate resources for the future, the Group has reviewed its existing debt levels, the committed funding and liquidity positions under its debt covenants, and its ability to generate cash from trading activities and working capital requirements. The Groups current principal debt facilities as at 30 June 2020 comprised a £250m revolving credit facility, a 3 year term acquisition facility of £45m and £223m of US private placement notes. As at 30 June 2020, the Group had £518m of committed credit facilities and committed headroom of £366m. In undertaking this review the Group has considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be the period ending 31 December 2021.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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

Directors' Report
for the Year Ended 31 March 2020 (continued)

Reappointment of auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 12 August 2020 and signed on its behalf by:

....
Ryan Robert Flaherty
Director

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

for the financial year ended 31 March 2020

The directors are responsible for preparing the Strategic Report, the Directors' 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 the Republic of Ireland ("FRS 102").

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 year ended 31 March 2020 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 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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

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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a Strategic Report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 14, 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.

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

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.

....

Mark Wrigglesworth (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

12 August 2020

Profit and Loss Account
for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	4	41,222	47,444
Cost of sales		(35,167)	(38,784)
Gross profit		**6,055**	**8,660**
Administrative expenses		(12,183)	(9,933)
Operating loss	5	**(6,128)**	**(1,273)**
Interest receivable and similar income	6	4	-
Interest payable and similar expenses	7	(2,292)	(2,022)
Loss before tax		**(8,416)**	**(3,295)**
Taxation	11	3,845	212
Loss for the financial year		**(4,571)**	**(3,083)**

The above results were derived from continuing operations.

The notes on pages 22 to 42 form an integral part of these financial statements.

Statement of Comprehensive Income
for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Loss for the year		(4,571)	(3,083)
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	18	549	451
Total comprehensive loss for the year		(4,022)	(2,632)

The notes on pages 22 to 42 form an integral part of these financial statements.

Balance Sheet
as at 31 March 2020

Registration number: SC477821

	Note	2020 £ 000	2019 £ 000
Current assets			
Stocks	12	-	3,762
Debtors - amounts due within one year	13	11,635	8,369
Cash at bank and in hand		4,235	5,167
		15,870	17,298
Creditors: Amounts falling due within one year			
Trade and other creditors	14	(16,805)	(15,076)
Provisions	16	(5,560)	(12,628)
Net current liabilities		(6,495)	(10,406)
Total assets less current liabilities		(6,495)	(10,406)
Creditors: Amounts falling due after more than one year	15	(70,165)	(58,124)
Provisions for liabilities	16	(11,786)	(15,916)
Net liabilities		(88,446)	(84,446)
Capital and reserves			
Called up share capital	19	-	-
Other reserves		1,963	1,392
Profit and loss account		(90,409)	(85,838)
Shareholders' deficit		(88,446)	(84,446)

These financial statements were approved by the Board on 12 August 2020 and signed on its behalf by:

Ryan Flaherty

....

Ryan Robert Flaherty
Director

The notes on pages 22 to 42 form an integral part of these financial statements.

Statement of Changes in Equity
for the Year Ended 31 March 2020

	Called up share capital £ 000	*Other reserves £ 000*	*Profit and loss account £ 000*	*Total £ 000*
At 1 January 2018	-	930	(82,755)	(81,825)
Loss for the year	-	-	(3,083)	(3,083)
Actuarial gain on defined benefit pension scheme	-	451	-	451
Total comprehensive loss	-	451	(3,083)	(2,632)
Share based payment transactions	-	11	-	11
At 31 March 2019	-	1,392	(85,838)	(84,446)

	Called up share capital £ 000	*Other reserves £ 000*	*Profit and loss account £ 000*	*Total £ 000*
At 1 April 2019	-	1,392	(85,838)	(84,446)
Loss for the year	-	-	(4,571)	(4,571)
Actuarial gain on defined benefit pension scheme	-	549	-	549
Total comprehensive loss	-	549	(4,571)	(4,022)
Share based payment transactions	-	22	-	22
At 31 March 2020	-	1,963	(90,409)	(88,446)

Included within 'other reserves' are retirement benefit obligation reserves of £1,879k (2019: £1,330k) and share based payment reserves of £84k (2019: £62k).

The notes on pages 22 to 42 form an integral part of these financial statements.

Notes to the Financial Statements
for the Year Ended 31 March 2020

1 General information

Serco Caledonian Sleepers Limited is a private company limited by share capital. It is incorporated and domiciled in the United Kingdom under the Companies Act and registered with the Registrar of Companies for Scotland. 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.

The level of rounding is to the nearest thousand ('000) unless otherwise stated.

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").

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 23. 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.
- Key Management Personnel compensation.
- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments.

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.

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Going concern
Notwithstanding net current liabilities of £6,495k as at 31 March 2020 and a loss for the year then ended of £4,571k, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The financial forecasts prepared by the directors for a period of 12 months from the date of the approval of these financial statements indicate that the Company will continue to make operating losses prior to the utilisation of the onerous contract provision held on the Balance Sheet. In severe but plausible downside scenarios associated with the impact of COVID-19 over the forecast period, including the impact of a second wave, the directors acknowledge that there may be a requirement to request additional funds from the Company's parent. The Company also has a payable due to its ultimate parent company, Serco Group plc, of £70.7m. As a result of the forecast operating losses and the amount payable to Serco Group plc, noting that the Company is in a net liabilities position, the Company has obtained a letter of support from Serco Group plc to meet its liabilities as they fall due for next twelve months.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the next twelve months. The directors of the Company have been made aware of the going concern assessment which has been performed in respect of the Group. The directors believe they are able to place reliance on this letter of support for the following reasons.

Most of the Groups contracts deliver critical services to Governments and the delivery requirements of these have not been impacted by COVID-19. However, a small number of contracts within the Group have been impacted by; lower volumes within its UK Transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset to some extent by additional services being delivered to assist Governments with their management and recovery from the COVID-19 pandemic, and financial support from its customers. It is evident that the most significant impact on the Groups operations has been within the UK.

In order to model severe but plausible scenarios to stress test the potential impact of COVID-19 on the Groups forecast, the Group have considered, amongst other scenarios, lower passenger volumes on the Groups train operating contracts, higher costs within the Health portfolio and prolonged closure of leisure centres in the UK,without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Group has reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

After considering these severe but plausible scenarios and with the mitigations available to the Group, the forecasts indicate sufficient capacity in the Groups financing facilities and associated covenants. In order to satisfy themselves that they have adequate resources for the future, the Group has reviewed its existing debt levels, the committed funding and liquidity positions under its debt covenants, and its ability to generate cash from trading activities and working capital requirements. The Groups current principal debt facilities as at 30 June 2020 comprised a £250m revolving credit facility, a 3 year term acquisition facility of £45m and £223m of US private placement notes. As at 30 June 2020, the Group had £518m of committed credit facilities and committed headroom of £366m. In undertaking this review the Group has considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be the period ending 31 December 2021.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 Profit and Loss Account when 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.

Penalties incurred and changes to the network rail track access charges are recognised as costs in which the period they relate to.

Tax

The tax expense for the year comprises current 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.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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.

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.

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 Company 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 where the effect is material.

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 pension fund and the Company has no legal or constructive obligation 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 years.

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 expenses when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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 year 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 year.

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 year until the benefit vests. Gains and losses on curtailments or settlements are recognised in the year 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 share capital (nominal value) and share premium when the options are exercised.

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.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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 judgements 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 a 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.
- The impact of COVID-19 on the longer term performance of the contract and how long any additional Government support continues.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

To mitigate the level of uncertainty in making these estimates Management regularly compares actual performance of the contract against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provision 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 2020: £125k (2019: £280k). 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 obligation

Identifying whether the Company has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Company, the customer and the relevant pension scheme. The Company's retirement benefit obligations and other pension scheme arrangements are covered in note 31 of Serco Group plc financial statements.

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

In accounting for the defined benefit schemes, the Company has applied the following principles:

- The asset recognised for the Railways Pension Scheme is equal to the full surplus that will ultimately be available to the Company as a future refund.
- No foreign exchange item is shown in the disclosures as the non UK liabilities are not material.
- No pension assets are invested in the Company's own financial instruments or property.
- Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

4 Turnover

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

	2020 *£ 000*	*2019* *£ 000*
Catering sales	670	731
Transport Scotland franchise payments	14,992	23,390
Passenger ticket sales	25,560	23,323
	41,222	47,444

All turnover amounting to £41,222k (2019: £47,444k) is within the UK.

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

5 Operating loss

The operating loss is stated after charging/(crediting):

	2020 *£ 000*	*2019* *£ 000*
OCP utilisation	(17,547)	(12,706)
OCP release	-	(565)
OCP charge	6,224	2,000
Operating lease expense	16,451	11,659

6 Interest receivable and similar income

	2020 *£ 000*	*2019* *£ 000*
Interest receivable on pension obligations	4	-

7 Interest payable and similar expenses

	2020 *£ 000*	*2019* *£ 000*
Other interest payable	243	200
Interest payable to group undertakings	1,926	1,630
Movement in discount on OCP	123	192
	2,292	2,022

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

8 Staff costs

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

	2020 £ 000	2019 £ 000
Wages and salaries	8,162	7,706
Social security costs	667	680
Pension costs, defined contribution scheme	211	31
Pension costs, defined benefit scheme	946	818
Share-based payment expenses	22	11
	10,008	9,246

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

	2020 No.	2019 No.
Provision of rail services	179	174

9 Directors' remuneration

	2020 £ 000	2019 £ 000
Directors' remuneration	600	535
Pension contributions	18	71

The Company's directors also receive remuneration from other group companies in relation to their services to other Companies within the Serco group.

In respect of the highest paid director:

	2020 £ 000	2019 £ 000
Remuneration	293	170
Company contributions to money purchase pension schemes	13	30

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

10 Auditor's remuneration

Auditor's remuneration of £35k (2019: £10k) for the audit of the Company's financial statements was borne by another group company in both the current and preceding financial years.

Non-audit services fees amounting to £3,500 was payable to the auditor during the year (2019: £3,500).

11 Tax

Tax (credited)/charged in the profit and loss account:

	2020 *£ 000*	*2019* *£ 000*
Current taxation		
Consortium relief	(1,133)	-
Adjustment in respect of prior years	(2,712)	(212)
	(3,845)	(212)

Factors affecting current tax charge for the year

The tax credit on loss before tax is higher (2019 - lower) than the UK corporation tax rate of 19.0% (2019 - 19.0%).

The differences are reconciled below:

	2020 *£ 000*	*2019* *£ 000*
Loss before tax	(8,416)	(3,295)
Corporation tax at standard rate	(1,599)	(626)
Expenses not deductible for tax purposes	18	2
Movement in unrelieved tax losses	344	473
Movement in deferred tax not provided	104	151
Adjustment in respect of prior years	(2,712)	(212)
Total tax credit	(3,845)	(212)

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

11 Tax (continued)

Factors affecting current tax charge for the year

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. There is no impact of this change on the tax charge as there are no instances of deferred taxation recognised in the income statement or directly in equity in the current year.

Deferred tax

There are £435k of deductible temporary differences (2019: £417k) and £12,691k of unused tax losses (2019: £13,417k) 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.

12 Stocks

	2020 £ 000	2019 £ 000
Work in progress	-	3,762

13 Debtors

	2020 £ 000	2019 £ 000
Debtors - amounts due within one year		
Trade debtors	1,054	1,051
Amounts due from group companies	-	40
Prepayments	4,252	4,779
Consortium relief receivable	1,690	-
Other debtors	4,639	2,499
	11,635	8,369

Amounts due from group companies are in relation to interest charges which are due within 12 months.

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

14 Trade and other creditors

	2020 £ 000	2019 £ 000
Trade creditors	4,436	3,493
Accruals and deferred income	11,089	9,698
Amounts due to group companies	494	817
Taxation and social security	157	170
Other creditors	629	898
	16,805	15,076

Amounts owed to group companies are repayable on demand and do not bear interest.

15 Creditors: Amounts falling due after more than one year

	2020 £ 000	2019 £ 000
Loans and borrowings	70,165	58,124

Within non-current loans and borrowings, there are two loans in place with a group company: £66,075k which incurs an interest at 1 month LIBOR plus 2% and £4,090k which incurs interest at LIBOR plus 9%. Both loans do not have a fixed repayment date and are expected to be repaid after more than one year.

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

16 Provision

	Onerous contract £ 000
At 1 April 2019	28,544
Provision charged	6,224
Provision utilised	(17,547)
Increase due to unwinding discount	125
At 31 March 2020	17,346
Non-current liabilities	11,786
Current liabilities	5,560

In the year ended 31 March 2020 £17,547k of the onerous contract provision was utilised and the balance of the provision now stands at £17,346k (2019: £28,554k). Delays to the introduction and operation of the new sleeper service has resulted in an additional charge to the provision of £6,224k. 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, the Company has the right to seek adjustments to the financial terms of the Franchise Agreement that would result either in a small positive profit margin for the Company from that date, or allow an exit from the contract.

The OCP includes a discounting impact of £125k (2019: £280k).

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

17 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2020 *£ 000*	*2019* *£ 000*
Within one year	7,650	6,546
In two to five years	13,476	21,082
In over five years	385	263
	21,511	27,891

The amount of non-cancellable operating lease payments recognised as an expense during the year was £6,031k (2019 - £560k).

The most significant leases are those for rolling stock of £20,688k (2019: £27,087k). The remaining lease obligation relates to office premises of £823k (2019: £805k).

18 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £211k (2019: £31k).

Defined benefit pension schemes

Caledonian Sleepers 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.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

18 Pension and other schemes (continued)

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.

The Company continued to set CPI on an assumed difference basis to RPI. The assumed long term gap between the two has fallen from 1.0% at 31 March 2019 to 0.4% at 31 March 2020. The estimated impact of the change in the methodology is approximately a £3m increase in the defined benefit obligation in respect of the defined benefit scheme.

Contributions payable to the pension scheme at the end of the year are £400k (2019: £367k).

The expected contributions to the plan for the next twelve months are £412k.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2020 *£ 000*	*2019* *£ 000*
Fair value of scheme assets	8,227	7,981
Present value of defined benefit obligation	(16,810)	(15,770)
	(8,583)	(7,789)
Other amounts not recognised in the statement of financial position - Member's share	3,433	3,116
Other amounts not recognised in the statement of financial position	5,150	4,673
Defined benefit pension scheme surplus/(deficit)	-	-

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

18 Pension and other schemes (continued)

Scheme assets

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

	2020 £ 000	2019 £ 000
Fair value at start of year	7,981	6,945
Interest income	197	183
Return on plan assets, excluding amounts included in interest income	(161)	392
Employer contributions	400	367
Contributions by scheme participants	256	237
Benefits paid	(381)	(80)
Administrative expenses paid	(65)	(63)
Fair value at the end of year	8,227	7,981

Analysis of assets

The major categories of scheme assets are as follows:

	2020 £ 000	2019 £ 000
Cash and cash equivalents	1,037	705
Equity instruments	5,301	5,080
Debt instruments	631	911
Real estate	807	816
Other	451	469
	8,227	7,981

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

18 Pension and other schemes (continued)

Actual return on scheme's assets

	2020 £ 000	2019 £ 000
Actual return on scheme assets	36	575

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 defined benefit obligation are as follows:

	2020 £ 000	2019 £ 000
Present value at start of year	15,770	12,760
Current service cost	1,513	1,300
Effect of changes in financial assumptions	(473)	1,457
Interest cost	378	333
Benefits paid	(381)	(80)
Present value at end of year	16,807	15,770

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:

	2020 %	2019 %
Discount rate	2.40	2.40
Future salary increases	3.00	3.20
Future pension increases	2.10	2.30
Inflation	2.10	2.30

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

18 Pension and other schemes (continued)

Post retirement mortality assumptions

The life expectancy tables used by the scheme actuary in valuing the defined benefit obligation are as follows:

	2020		*2019*	
	Table	Multiplier	Table	Multiplier
Pension under £10,300 pa or pensionable pay under £35,000 pa	S1 normal males heavy	96%	S1 normal males heavy	96%
Pension under £10,300 pa or pensionable pay over £35,000 pa	S1 normal males	93%	S1 normal males	93%

In each year presented, members are segmented into three postcode groups and an adjustment is made to the multipliers accordingly. Allowance for future improvements in mortality from 2011 onwards has been made in line with the 2013 version of the "CMI core projection" model published by the Institute and Faculty of Actuaries, assuming a long-term improvement rate of 1.25% pa. For the period 2002 to 2010, allowance for future improvements in mortality has been made in line with the 2012 version of the "CMI core projection" model.

Expense recognised in the profit and loss account

	2020 *£ 000*	*2019* *£ 000*
Amounts recognised in operating profit		
Current service cost	910	780
Administrative expenses paid	39	38
Recognised in arriving at operating profit	949	818
Amounts recognised in finance income or costs		
Net interest	(3)	-
Total expense recognised in profit or loss	946	818

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

18 Pension and other schemes (continued)

Amounts taken to the Statement of Comprehensive Income

	2020 *£ 000*	*2019* *£ 000*
Loss/(gain) on franchise adjustment	(364)	(1,094)
Actuarial loss/(gain) arising from change in member's share	127	(422)
Effect of changes in financial assumptions	(473)	1,457
Return on plan assets, excluding amounts included in interest expense	161	(392)
Amounts recognised in the Statement of Comprehensive Income	(549)	(451)

Sensitivity analysis

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

		2020		*2019*
	+0.25% *£ 000*	*-0.25%* *£ 000*	*+0.25%* *£ 000*	*-0.25%* *£ 000*
Adjustment to discount rate				
Present value of total obligation	15,770	17,920	14,790	16,810

		2020		*2019*
	+0.25% *£ 000*	*-0.25%* *£ 000*	*+0.25%* *£ 000*	*-0.25%* *£ 000*
Adjustment to rate of inflation				
Present value of total obligation	17,920	15,770	16,810	14,790

		2020		*2019*
	+0.25% *£ 000*	*-0.25%* *£ 000*	*+0.25%* *£ 000*	*-0.25%* *£ 000*
Adjustment to rate of salary growth				
Present value of total obligation	17,240	16,400	16,180	15,370

The defined benefit obligation as at 31 March 2020 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.

Notes to the Financial Statements

for the Year Ended 31 March 2020 (continued)

18 Pension and other schemes (continued)

Sensitivity analysis (continued)

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 years.

19 Share capital

Allotted, called up and fully paid shares

		2020		*2019*
	No.	*£*	*No.*	*£*
Ordinary share capital of £1 each	1	1	1	1

20 Contingent liabilities and contingent assets

The Company is aware that contingent liabilities may exist where there are commercial claims and potential claims which involve or may involve legal proceedings from a range of parties in respect of contracts, employment, health and safety and other laws and regulations, and regulatory and compliance matters that arise in the normal course of business. The timing of resolution of these claims remains uncertain. The directors are of the opinion, having regard to legal advice received and the Company's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Company's financial position.

In respect of any contractual claims made by the Company against third parties in respect of its activities, the directors have assessed that the recognition criteria for any contingent asset has not been met, and the timing of resolution of these claims remains uncertain and not yet virtually certain.

21 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £nil (2019 - £nil).

22 Related party transactions

The Company is a wholly owned subsidiary of Serco Group plc, and has taken advantage of the exemption afforded within FRS 102 to not disclose transactions or balances with other entities which form part of its group.

Notes to the Financial Statements
for the Year Ended 31 March 2020 (continued)

23 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.