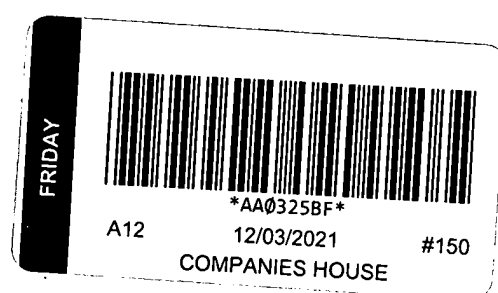


Registered no: 07934306

Govia Thameslink Railway Limited

Annual Report and Financial Statements

For the year ended 27 June 2020



Govia Thameslink Railway Limited
Registered No: **07934306**

DIRECTORS AND PROFESSIONAL ADVISORS

Directors

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C A Hodgson
I McLaren
B D M Tabary
H Verwer
S E White
E Brian

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C Ferguson

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Govia Thameslink Railway Limited
Strategic report
For the year ended 27 June 2020

The directors present their Strategic report for year ended 27 June 2020.

Govia Thameslink Railway Limited (the “Company”) is a member of The Go-Ahead Group plc (the “Group”).

Business review

The principal activity of Govia Thameslink Railway Limited (the “Company”) is the operation of passenger services on the Great Northern, Thameslink, Southern and Gatwick Express routes. This franchise represents approximately 20% of national passenger journeys. These services were operated under a unique franchise agreement until 2021, but currently suspended from 1 March 2020. The agreement was created to facilitate the delivery of the transformational Thameslink Programme.

On 16 March, the UK Government advised against all but essential travel, followed by an announcement on 18 March that schools would close. On 23 March, the UK went into lockdown and national travel restrictions were put in place. As a result of these significant changes, the Company entered into an Emergency Measures Agreement (EMA) on the 23 March 2020. The DfT announced the introduction of an industry-wide EMA, back dated to 1 March 2020, to support rail operators until 20 September 2020.

Due to the COVID-19 pandemic, the franchise agreement was replaced by the EMA, which was awarded by the Department for Transport (DfT). While the Company was already operating within a management contract, the new agreement removed the exposure to the risk of changes in the cost base and ancillary revenue such as car parking and retail commission, enabling a small operating margin to be generated.

Subsequent to the year end in September 2020, the EMA has been superseded when the Company was awarded the Emergency Recovery Measures Agreement (ERMA). This agreement, like the EMA, has no exposure to the risk of changes in the cost base and ancillary revenue whilst generating a margin of up to 1.5%. The agreement has a management fee of 0.5% of the pre-COVID-19 cost base and a potential 1% performance-related incentive payment. The margin over the franchise term is now expected to be between 0.75% to 1%, but there is potential for a margin of up to 1.5%. This agreement has an initial term ending in September 2021, with an option for an up to two year extension.

Under the initial franchise agreement, the operating profit margin over the whole franchise term was expected to be between 0.75% and 1%. This is still the expectation under the existing ERMA.

The franchise has been structured to facilitate the transformation and modernisation of passenger services, enabling capacity improvements through the government’s Thameslink Programme infrastructure project. These improvements include the introduction of several new fleets of trains as well as the introduction of revised timetables and working practices.

Prior to the COVID-19 pandemic operational performance was strong, with all the Company brands ranking highly in industry performance tables. Overall punctuality was 81% contributing to one of the highest customer satisfaction scores achieved by the franchise at 82%. This strong operational performance in turn supported the financial performance of the franchise. During the lockdown, reactionary delay was controlled and often below primary delay, and the average On Time climbed to 90+%. The process of stepping up services to approximately 87% of the pre-COVID-19 timetable, while not reaching the punctuality highs of the initial lockdown period, has created a more consistent and reliable railway for customers. This, as we know from research is what customers value.

The unique revenue risk terms of this franchise agreement between the Company and the Department for Transport (“DfT”) results in passenger revenue risk being taken by the DfT and covers both passenger and Network Rail performance regime revenues. Under the agreement, passenger revenue is collected and remitted to the DfT net of management charges.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Business review (continued)

Govia Limited's (note 25) philosophy of operating its businesses within a devolved framework enables Great Northern, Thameslink, Southern and Gatwick Express to work closely with the communities they serve. For example, during the height of the pandemic, the Company's Southern Railway team transformed a train depot into a hand sanitiser bottling plant. The team in Horsham, West Sussex, set up the system in less than a day when they found that their normal suppliers had started to struggle to fulfil their usual orders. Within a matter of hours, the team decanted hand sanitiser into 1,000 bottles and made deliveries across the network. In keeping with this, the customer facing brands of Great Northern, Thameslink, Southern and Gatwick Express are the way in which the organisation relates to its stakeholders.

In April, we used intelligence from stakeholders, MPs, social media, emails and our conversations with hospital staff to add in extra services where needed on top of the base timetable. This included contacting the CEO's of all hospital Trusts on our network. During June and July, we continued talking to all the above and adding in services where needed and included their previous inputs as part of the July step up timetable. Our partnerships with hospitals also continued with a project to donate abandoned bicycles to NHS workers, leading to over 40 bicycles being donated across the network.

Ahead of schools returning in September, we wrote to 600 schools and colleges within a mile of our stations, with travel safe tips for pupils returning to education and the railway. We also liaised directly with some schools whose pupils rely more on our network to identify hotspots where we could support their return with amendments to the timetable planned on 7 September, book buses and have extra staff on hand where required.

The Company prioritised its business engagement this year, with the focus on providing reassurance, information and collateral to business organisations to encourage commuters back to the railway. This has included working in partnership with the London Chamber of Commerce, the CBI, Institute of Directors as well as local BIDs and local authorities, sharing information and collateral about how to travel safely and arranging speaking opportunities. This has progressed into how we can partner with businesses to help generate local economic regeneration through tourism, supporting business hubs and provide opportunities to learn new skills through our sector based academies. The Company has also taken significant steps to safeguard the health and wellbeing of colleagues and customers alike. There have been enhanced cleaning regimes and social distancing measures implemented on trains and at stations. Measures have been taken to minimise contact and reduce cash handling where possible. Colleagues have been encouraged to work from home where possible following the pandemic outbreak and this in turn, has led to increased support of colleagues' mental health and wellbeing through greater access to enhanced programmes and helplines.

The Company continues to make good progress in relation to talent, diversity and inclusion and in the last year:

- Became an approved Apprenticeship Employer Provider and expanded our offering to include management development apprenticeship programmes from Level 3-Level 7;
- Increased our presence in our local communities through school visits, career fairs and virtual events to engage and attract more diverse talent into the Company. The Company's virtual event to celebrate International Women in Engineering Day was a particular highlight;
- Ran a successful Linked in Campaign to increase the number of female driver applications resulting in an uplift of 78%;
- Extended access to our learning platform for all employees increasing opportunities for our people to learn and develop -particularly important for shielding employees during COVID; and
- Ran a further two Princes Trust 'Get Into Railway' programmes and all successful candidates secured employment with the Company.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Key Performance Indicators

For the year to 27 June 2020, the key operating statistics were as follows:

	Year ended 27 June 2020	Year ended 29 June 2019*
Revenue	£1,791m	£1,726m
Operating profit	£32m	£nil
Public Performance Measure (PPM)	84.9%	82.7%
On Time Performance Measure	60.5%	57.5%
National Rail Passenger Satisfaction (NRPS)		
- Gatwick Express	89%	89%
- Great Northern	86%	77%
- Southern	78%	81%
- Thameslink	81%	83%

*Restated (see note 2)

Revenue has increased by £65m from the previous year. Whilst passenger numbers and in turn passenger revenue dropped as a result of COVID-19, subsidy revenue increased as a result of the Company entering into the EMA. This subsidy revenue offset the fall in passenger revenue and resulted in the increased total revenue.

The PPM, On Time and NRPS results are measures of the quality of service offered to customers. Whilst Southern and Thameslink saw small decreases in their NRPS results; overall all three measures improved during the year as the Company continued to increase its focus on both operational performance and customer service. This was measured by the Transport Focus National Rail Passenger Survey and published as part of the Spring 2020 results.

The Company continue to work hard, in collaboration with industry partners, to improve services for customers, and the improvements have been significant. The significant performance improvements included punctuality reaching a Public Performance Measure ("PPM") of 96.5% in April 2020, the highest achieved during the franchise. This was despite having a challenging start to the year due to a large power outage causing multiple trains to become stranded as well as a number of landslips in the wake of storms Ciara and Dennis which affected our ability to run services. In the last quarter of the year however, On Time performance increased by circa 20% as a result of the COVID-19 pandemic, reaching as high as 90% during April. Our timetable was stepped down in response to passenger demand in March but over a period of time has been stepped back up, and by the end of the year we were operating 86% of our normal services.

The spring 2020 National Rail Passenger Satisfaction survey included a year-on-year increase of 9% in overall satisfaction for Great Northern, and Gatwick Express remained at its highest customer satisfaction level for eight years. Thameslink and Southern experienced a minor decrease in customer satisfaction, but the customer satisfaction levels for Southern are still above Spring 2018 levels and represent an increase of 9% from this date.

Over the last year, the Company have worked across the industry to develop our Performance Improvement Management system (PIMS), an approach that is designed to add rigour and structure to the way we manage performance throughout the business. Our PIMS has our performance vision and performance improvement at the heart of it. It is supported by a programme of maturity assessments and a suite of frameworks and policies that set out our approach to the management of performance, risk and governance to deliver our performance commitment of a Safe on Time railway to customers.

There was an operating profit of £32m in the year. The operating profit was positively affected by the accounting reporting standard IFRS16 where lease costs were classified as depreciation and interest costs instead of operating expense in previous years. This compares to £nil in the prior year as the terms of the agreement with the DfT did not allow for any operating profit. Cash generation was strong and the balance sheet remains robust.

The Company has met all of its financial and liquidity covenants contained within the various franchise agreements entered into within the year, without the need to call on financial support from its shareholders. As at the year end the Company has repaid all Group loans and has not required any permanent financial support over the life of its franchise.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Principal risks and uncertainties

The Company has procedures in place to assess, prioritise, monitor and mitigate business risks. The Company ensures that its Board of directors and senior managers have considerable experience in the rail industry and can address key issues as they arise. The principal business risks monitored in this way include COVID-19, political, economic, environmental, infrastructure performance, information security and financial instrument risks.

- **COVID-19 Risks**

COVID-19 has reshaped the way in which people live, work and communicate. There is increased political and societal pressure to run safe services that meet social distancing requirements. The Company has increased its train cleaning capacity significantly since the pandemic to enable passenger journeys to continue. Train loading data has been closely monitored since the easing of restrictions to ensure that there is adequate space to enforce social distancing. COVID-19 also has had an impact on staff availability and working patterns. The Company has put robust reporting tools in place to monitor availability impacted by COVID-19 and address any issues related to staff wellbeing. To facilitate staff working from home during lock down, the Company has issued the appropriate IT equipment and implemented training to staff enabling them to make a smooth transition. To ensure front line staffs' health and safety, masks gloves and other relevant PPE equipment has been distributed across all offices, stations and depots.

Measures have been taken at stations to minimise physical contact. This is best evidenced in a reduction in cash handling across stations.

There has been close collaboration with the Government and stakeholders to ensure strict compliance to policies and guidelines as they evolve.

- **Environmental Risks**

In common with all Govia companies, the Company focuses on minimising the environmental impact of the Company's activities. Various commitments exist within the franchise agreement to deliver environmental schemes, and delivery of these obligations is overseen by Head of Safety and Environment, a member of the Company's Executive team.

- **Political Risks**

The Company is monitoring the progress of the Williams Rail Review, which has been delayed as a result of the COVID-19 pandemic. Upon publication, this could have a significant impact on the structure of the British rail industry and on the way passenger rail services are delivered.

The Emergency Measures Agreement (EMA) and more recently, the Emergency Recovery Measures Agreement (ERMA) have brought greater state control of the rail industry in the aftermath of COVID-19 to ensure the continuity of services. The Emergency Recovery Measures Agreement (ERMA) contract with the DfT has an initial term until September 2021, with an option for the DfT to extend it.

Brexit is not expected to have a direct impact on the Company's contract. It could potentially lead to cost increases as some key suppliers are reliant on a European supply chain, and the directors and management teams are working with the Company's supply chain to minimise these risks. It is also possible that Brexit could lead to difficulties in the future in filling some types of job role. The company has apprenticeship programmes in place to help mitigate this.

- **Exposure to price, credit, interest and liquidity risk**

The Company's credit risk is primarily attributable to its financial assets, comprising trade and other receivables and cash and cash equivalents. The maximum credit risk exposure comprises amounts from a number of unconnected parties.

The considerable majority of the Company's receivables are with public (or quasi-public) bodies (such as the DfT) or sales are paid as they arise and historically the annual cost of bad debts has been immaterial, so limited disclosures are therefore provided. The trade receivables from such public bodies are not considered to present a significant credit risk, which is supported by cash payment performance.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Principal risks and uncertainties (continued)

- Exposure to price, credit, interest and liquidity risk (continued)

In relation to provisions for impairments of trade receivables, the Company applies the IFRS 9 simplified approach and measures the loss allowance on the lifetime expected credit losses at each reporting date. Expected credit losses are assessed based on the number of days past due, the customer type, a judgement on credit risk, consideration of macroeconomic forecasts, as well as past experience when relevant. Movement in the provisions for the impairment of trade receivables are recorded within operating costs within the income statement. COVID-19 has had a significant impact on rent due from retail units across the Company's network and the Company has taken a prudent approach regarding rent receivable and made bad debt provisions for rent due but not paid.

Price risk is mitigated through access contracts and ticket price changes being linked to the Retail Prices Index. As detailed above, the impact of Brexit on supplier costs is being monitored.

Interest rate risk is mitigated due to the Company investing the majority of surplus cash in fixed rate interest yielding bank deposit accounts. Interest is charged at a variable rate on Group loans and therefore financial assets, liabilities, interest income, interest charges and cash flows can be affected by movements in interest rates.

Liquidity risk is mitigated by managing cash generated by the Company's operations in line with Group policies and franchise requirements. The Company aims to mitigate liquidity risk by managing the return of bank deposits at defined times in any four week cycle. Risk of exposure to non-return of cash on deposit is managed through a treasury policy of holding deposits with banks rated A- or A3 or above by at least one of the credit rating agencies. A cash sweeping facility also exists with the ultimate parent company (note 25). Further information regarding the way the Group manages liquidity risk can be found in the Group financial statements. Capital expenditure is approved at a Group level.

The Company has negligible foreign currency risk. Nearly all of the transactions, assets and liabilities are in sterling.

- Infrastructure Performance Risks

Network Rail has responsibility for infrastructure performance, which impacts the Company. Both organisations continue to work closely together to understand the underlying cause of delays and agree improvement strategies which will minimise disruption to our customers. In addition to the Alliance Board, established between Network Rail and the Company, Govia and Network Rail have also introduced a joint senior performance Board to ensure that this area gets the highest level of attention.

Very careful preparations are made for major service and infrastructure changes. Timetable enhancements are being made progressively to minimise the risk of disruption. The underlying reliability of the network infrastructure will continue to be of significant concern in relation to the Company's ability to operate at the levels of punctuality that customers expect.

- Economic Risks

The unique terms of the initial franchise agreement, the Emergency Measures Agreement (EMA) and the Emergency Recovery Measures Agreement (ERMA) mean that the majority of normal franchise risks around revenue growth pass directly to the DfT. Under the Emergency Measures Agreement (EMA) and more recently, the Emergency Recovery Measures Agreement (ERMA) the exposure to changes in the cost base and ancillary revenue have also been removed. On this basis, there is no significant economic risk from the agreement. Management are focussed on performance, cost control and compliance with the obligations contained within the ERMA and underlying franchise agreement. Fundamentally, for the Company to remain compliant with the ERMA, management must ensure the Company remains a 'good and efficient' operator in all aspects of its business.

The bespoke performance regimes contained in the franchise agreement comprise both annual bonus and penalty mechanisms. Management continually review projections of current and forecast performance against these regimes to ensure they are recognised appropriately.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Principal risks and uncertainties (continued)

- Economic Risks (continued)

Failure to comply with the obligations contained in the franchise agreement, EMA and ERMA agreements could lead to financial penalties or, in an extreme situation, termination of the franchise. Compliance with the franchise agreement terms is closely monitored by an experienced contract management team.

- Information Security Risks

Cyber security is a key focus area. Specifically, there is continued focus around General Data Protection Regulation (GDPR) and Network and Information System (NIS) compliance, as well as the formalising of an information security management system framework. Monthly KPI reporting of information security issues is in place, and initiatives are planned to increase awareness of cyber risk, such as phishing.

Future developments

In the next twelve months there is a great deal of uncertainty with regards to economic recovery and passenger demand. It is important to recognise that the Company is in a very different place than it was during the national lockdown in the UK. Services are now running at levels around 90% of that pre-COVID-19. Whilst the Company may see increasing levels of home working, more online medical appointments and fewer international trips, all of which could impact demand for our services; the Company may see more domestic holidays, more people moving out of cities and commuting from the countryside and more activity in our local communities, with more home-workers shopping close to home and socialising in their local towns and cities. The Company will adapt to evolving trends and strive to maximise arising opportunities.

To mitigate the uncertainty, the Company will continue to focus on the three strategic pillars of delivering “brilliant basics”, particularly the improvement of operational and customer service performance, “strong partnerships” within the industry and “shifting perceptions” of stakeholders. The directors and management will have an absolute focus on these priorities. This will help to ensure that social distancing is enforced and that all actions are taken to create a safe and reassuring experience on public transport following the pandemic.

The Company will continue to focus on delivering against the performance metrics of the ERMA. This would allow for a potential 1% performance-related incentive if the best outcome were to be achieved. Likewise, it would put the Company in the best possible position to achieve an extension to the existing ERMA agreement.

The Company will continue to respond to the changing pressures and requirements of COVID-19. This will be achieved by adherence to Government policies and guidelines, as well as advice from the WHO. Enhanced cleaning regimes will continue to be implemented across all services and there will be increased levels of engagement with staff.

Network Rail will continue a programme of infrastructure improvements, such as track upgrades on the West Coastway services. A major remodelling of Gatwick Airport station is under way and will provide additional passenger capacity. The project is expected to finish in 2023. These works will present short-term disruption to normal services while they are in progress but will provide significant benefits to customers.

The Company will continue to innovate. The numbers of stations where the Key and Keygo smartcard products can be used will be extended, the number of sales channels for smartcard products will be increased, and the product options will be widened. These will be important in delivering a flexible alternative to traditional ticketing and in turn reduce handling of cash. The Company continues to work with the DfT to explore new opportunities in flexible ticketing.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Section 172(1) of the Companies Act 2006

This report sets out how the Directors comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout the year ended 27 June 2020.

- The role of the Board and how it operates

The Board is responsible for creating and delivering long term sustainable value for the business. The Board is accountable for balancing the varying interests of the business, including those of its parent, colleagues, customers and the communities it serves.

The composition of the Board and how it operates is set out under Principle Two (Board Composition) of our corporate governance report which follows the strategic report.

Board governance

The Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies for the year ended 27 June 2020. These principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to help to improve standards of corporate governance. They also support directors to meet the requirements of Section 172 of the Companies Act 2006 by providing guidance on the following areas:

- Purpose and leadership;
- Board composition;
- Director responsibilities;
- Opportunity and risk;
- Remuneration; and
- Stakeholders.

The corporate governance report, which evidences how the Company applies the principles, follows the strategic report and is also available on the Company's website: www.gtrailway.com

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Compliance with Section 172(1) of the Companies Act 2006 (continued)

The directors confirm that, during the year, they continued to promote the success of the Company for the benefit of all stakeholders. In doing so, the Board's desire to act fairly for its parent, maintain a reputation for high standards of business conduct, and consider the long-term consequences of the decisions they take, have underpinned the way it operates at every level of the business. Further details are set out in the following table:

Section 172	Compliance
<p>a) The likely consequence of any decision in the long term;</p> <p>and</p> <p>e) The desirability of the company maintaining a reputation for high standards of business conduct.</p>	<p>Actively listening to and engaging effectively with our wide variety of stakeholders is key to ensuring responsible decisions are made. We appreciate the need to ensure that the decisions we take create value for all our stakeholders and support creation of long-term sustainable value so that, ultimately, we can continue to be a vital part of the communities we serve. Details of stakeholders are set out in Principle 6 of the corporate governance report.</p> <p>The viability of non-franchise business principal decisions (for example acquisitions, disposals, bids and Board appointments) are considered and approved by the Group Board (under the Company's schedule of matters reserved for the Group Board). The Group's devolved operating management operating model is a key feature of this decision-making process, with the Group executive directors acting as an intermediary and ensuring there is two-way feedback between the Group Board and the Company Board.</p> <p>Any decisions relating to franchise business such as, for instance, the negotiation of the EMA, are first considered and approved by the Company Board. If approved, the Group Chief Executive would then submit a proposal to the Group Board for formal approval before obtaining approval from the Company's sole shareholder, Govia Limited.</p> <p>The directors take the reputation of the Company very seriously which is not limited to only operational and financial performance. The strong reputation and positive stakeholder relationships we have developed over many years have never been more important than during the COVID-19 pandemic. We have worked closely and collaboratively with key industry partners, such as the DfT and Network Rail to find solutions which ensure that service provision remains at the right level, government policy is brought into effect, and transport operators receive funding to enable essential services to be delivered.</p> <p>The directors are committed to the highest standards of ethical conduct, honesty and integrity in our business practices. The Board seeks to have a workforce that more accurately reflects diversity of the communities we serve.</p> <p>During the year, the Board approved the Company's modern slavery statement (available on www.gtrainway.com). With respect to Gender Pay Gap reporting, the Company has been working with the Group to ensure consistency in the collation of the data and reporting and appropriate action plans are being developed to promote gender pay equality.</p>

Compliance with Section 172(1) of the Companies Act 2006 (continued)

Section 172	Compliance
<p>b) The interest of the company's employees</p>	<p>The directors understand the importance of the Company's employees to the long-term success of the business and the Company is certified by Investors in People. Both Thameslink and Great Northern and Southern and Gatwick Express are certified to a Silver standard and have been assessed by Investors in People to be making good progress against their plans to achieve Gold.</p> <p>Safeguarding the health and wellbeing of the Company's employees (and other stakeholders) remains the main priority for the Board with additional precautions having been taken over the past six months in response to the COVID-19 pandemic. Such actions have included adherence to government policies and guidelines and advice from WHO and other relevant advisory bodies; enhanced cleaning regimes and social distancing measures; measures taken to minimise contact, such as reduction in cash handling; provision of protective equipment for customer facing colleagues; customer information helping people to choose quieter services; working from home; increased levels of engagement with colleagues; and greater access to enhanced mental health programmes and helplines.</p> <p>The Company regularly communicates to its employees through internal media, management forums, newsletters and business updates. An annual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at the Company, the results of which provide a measure of colleague engagement and help us identify areas of improvement.</p> <p>Being an employer of choice is important to maintaining a high level of employee retention. The Company provides market competitive remuneration and comprehensive benefit packages. Colleagues are recognised and rewarded for their contribution and commitment.</p> <p>The Company's workforce is represented by trade unions and employee representatives and the Board strive to foster positive working relationships with them. This has never been more vital than in recent months. The Company has been working alongside trade unions to keep colleagues informed and up to date on all government changes and safe working practices during the COVID-19 pandemic.</p> <p>The Company places a premium on an inclusive and diverse workforce, enabling all colleagues to reach their full potential, to be empowered and engaged with a strong commitment to personal development. The Company supports the cross industry 'Women in Rail' initiative which is a mentoring programme to support and encourage the coaching and development of women. Key focus areas during the year have been EMA compliant L&D and D&I initiatives that have taken place during the year.</p>

Compliance with Section 172(1) of the Companies Act 2006 (continued)

Section 172	Compliance
<p>c) The need to foster the Company's business relationships with suppliers, customers and others.</p>	<p>The Board regularly reviews how the Company maintains positive relationships with all stakeholders, including suppliers, customers and others. Details of stakeholders are set out in Principle 6 of the corporate governance report.</p> <p>The directors understand the importance of the Company's supply chain in delivering the long-term plans of both the Company and the Group. Through our Sustainable Supply Charter, we demonstrate high standards of integrity, responsibility and professional conduct. We endeavour to support our suppliers to improve the sustainability of their business. During the COVID-19 pandemic, we have taken active steps to safeguard our essential supply chain, continuing to pay suppliers in line with the Prompt Payment Code and applying a fair and structured process when the reduction of supplier services has been necessary, in line with the Company's Sustainable Supply Chain Charter.</p> <p>Customers are at the heart of the business and the Board is dedicated to providing them with safe, convenient and reliable services. Customer satisfaction is a strong indicator of how well we are meeting customers' needs and the directors monitor this through biannual surveys conducted by the independent watchdog, Transport Focus. During the year, overall punctuality was 81% contributing to one of the highest customer satisfaction scores achieved by the franchise also at 82%. We build relationships with our customers through our passenger-facing colleagues, customer ambassadors and social media channels. We conduct regular customer satisfaction surveys, which are analysed to gain insight into the drivers of satisfaction and to understand where to focus improvements. We also run meet the manager sessions to gain further insight on our performance. Our customers' needs are constantly evolving, and these interactions enable us to better understand the needs of our passengers and where to focus improvements.</p> <p>In response to COVID-19, the Company rolled out swab testing at stations' high touch areas to confirm the effectiveness of its additional cleaning measures. Weight sensors fitted to trains help to identify when they reach maximum capacity while allowing space for social distancing, enabling front line colleagues to assist passengers on which train to board.</p>

Compliance with Section 172(1) of the Companies Act 2006 (continued)

<p>d) The impact of the Company's operations on the community and environment.</p>	<p>As a public transport operator, the Company has a far-reaching impact on the Group as well as its customers, employees, regulators and the communities it serves. The Company aims to align its business values, purpose and strategy with the social, economic and environmental needs of its stakeholders, embedding responsible and ethical business policies and practices in everything it does.</p> <p>With many people using our trains every day to get to work, school or see friends, we understand the importance of rail to passengers, communities, our staff and the economy. Therefore, the Company's commitment is to strengthen our contribution to the economy, increase customer satisfaction, boost local communities through local decision making, and give our employees and communities the opportunity of more jobs and a rewarding career in rail. Highlights for the year ended 27 June 2020 were as follows:</p> <ul style="list-style-type: none"> • Generated over £1.6m in social value over the past five years by helping young people into employment • Completed a five-year £2bn programme to transform passenger journeys with more than 1,500 new carriages, turning one of the UK's oldest fleets into one of the most modern • 126 young people from The Prince's Trust 'Get into Railways' programme were employed across the Company. 14% of the Company's London Bridge station staff recruited through the programme • 18,000 children educated in railway safety • 95 station partnerships make local stations more welcoming and vibrant
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Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 27 June 2020

Compliance with Section 172(1) of the Companies Act 2006 (continued)

Section 172	Compliance
<p>f) The need to act fairly as between members of the company.</p>	<p>The immediate parent company and immediate controlling party of Govia Thameslink Railway Limited is Govia Limited. Govia Limited is a joint-venture between Keolis (UK) Limited (35%) and The Go-Ahead Group plc (65%). In the opinion of the directors, the Company's ultimate parent Company and ultimate controlling party is The Go-Ahead Group plc (the Group).</p> <p>The Group operates a devolved operating model. Whilst day-to-day management of the Group's activities, governance and oversight has been delegated to the Group executive directors, the directors of the Company both individually and collectively support them in this role and the Company is operated as an autonomous business unit. Board meetings are held on a monthly basis with the Group executive directors in attendance who scrutinise and challenge the local management's team execution of strategy. These more formal meetings are supported by several cross-business forums (such as health and safety, engineering, HR and diversity and inclusion) that serve to facilitate the sharing of knowledge, ideas and best practice. This approach encourages the right balance between local and Group initiatives and facilitates fair discussion and decision-making. It also ensures that we deliver more operating collectively than we would independently.</p> <p>The Company operates in accordance with the Govia Limited Revised Shareholders Agreement and Side Letter dated 3 August 2005. This ensures that the Board conducts the business in a manner which is most likely promote the success of the Company for the benefit of its stakeholders collectively.</p>

The strategic report was approved by the Board of Directors on 16 October 2020 and signed on their behalf by:



E Brian
Director

Govia Thameslink Railway Limited

Corporate governance report

For the year ended 27 June 2020

For the year ended 27 June 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website.

These new corporate governance reporting requirements apply to company reporting for financial years starting on or after 1 January 2019 and Companies adopt the Wates Principles as an appropriate framework when making a disclosure regarding corporate governance arrangements. We have adopted the disclosure in our 2020 Annual Report and Accounts and set out below is how we have applied the Principles over the past year in our work.

Principle 1 – Purpose and Leadership

Whilst the Company does not have a defined purpose statement, it is focused on the communities it serves and has effective and longstanding partnerships with local user groups, commuter associations, local authorities and elected representatives. The Company considers that its purpose is influenced and aligned with the Group's purpose "To be the local partner taking care of journeys that enhance the lives and wellbeing of our communities across the world."

Within the Company, simply put, we are creating a New Rail Way, bringing improvements to our services and customer experiences across our network, so that our customers feel we are with them.

The Company has worked closely with industry groups and partners to develop its thinking around purpose and the strategy to deliver to its maximum potential. This has taken the form of canvassing views and opinions in forums and meetings and has been briefed out to colleagues and stakeholders in business wide events. During the year, the Company has bought and converted two buses to facilitate the briefing and roll out of its strategic objectives.

The purpose of the Company and the three strategic pillars of "brilliant basics, strong partnerships and shifting perceptions" have been incorporated into the corporate governance of the business, with business cases and organisational design reflecting these pillars. The strategic objectives of the Company include:

- Advancing the business – targeting scarce resource and investment in key strategic areas.
- Providing robust governance – recognising the growing importance of capturing, storing and providing secure, effective access to data that is growing exponentially year on year.
- Supporting operational excellence – providing structural solutions that support the business and various departmental service excellence initiatives.
- Simplifying system complexity and supporting one version of the truth – reducing the burden of maintaining and evolving existing systems and services, thereby making resources available to further deliver advances to the business.

The Company's People Strategy was approved by the Board in February 2020. Our ambition is to have the highest levels of employee engagement and customer satisfaction in the industry. The Company believes that if we care for our people and they love to work at the Company, they will care for our customers and help the Company build a sustainable, high performance organisation.

Govia Thameslink Railway Limited
Corporate governance report (continued)
For the year ended 27 June 2020

Principle 1 – Purpose and Leadership (continued)

The Company is determined that its focus over the next three years will be on the following:

- *Leadership provides a strong strategic narrative*; repeated and amplified so all colleagues understand who we are, what we are seeking to achieve and where their contribution fits in
- *Get the best from our operating model*; decentralised, agile and responsive, ensuring that we continuously learn and improve our business
- *Fix the basics for our colleagues*; to demonstrate that they are valued and respected
- *Make diversity and inclusion part of our DNA*; ensure that we are representative of the communities we serve and that all colleagues can succeed and thrive in our inclusive culture
- *Foster a culture of life-long learning*; colleagues are encouraged to take ownership of their own development and access to on-line development resources are available to all
- *Develop capable and engaging managers*; our managers are empowered; we expect them to care, coach, support, resolve problems and develop their people
- *Ensure our colleagues have a voice – and show we are listening*; we seek feedback from our colleagues and check-in regularly to know how they are feeling and hear their ideas for improvement
- *Recognise and celebrate our everyday heroes*; we ensure our colleagues feel valued and recognised for a job well done

To make sure we are delivering on our strategy it is essential to measure progress against our goals and objectives and to do this we need to ensure that we are completing our tasks and delivering the milestones on time and budget.

From time to time it will be necessary to implement additional actions if a milestone is slipping or interventions are not having the desired effect and all this should be visible from a simple dashboard of Key Performance Indicators (KPIs) and Performance Indicators (PIs). These include: Customer Experience (NRPS); People (Employee Engagement); Performance (On-time Railway); Community Engagement; Safety (Fatalities and Weighted Accidents Index) and Sustainability (Operating Profit).

Principle 2 – Board Composition

The Board operates in accordance with the Govia Limited Revised Shareholders Agreement and Side Letter dated 3 August 2005.

The Board comprises the Group Chief Executive and the Group Chief Financial Officer (the Group executive directors), the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the Group Managing Director of Rail Development (together the "Go-Ahead directors") and two Keolis directors. All Go-Ahead directors on the Board are full time employees of either the Group or the Company. This composition ensures that the Board has the appropriate balance of skills, knowledge and experience.

The Chairman (the Group Chief Executive) leads the Board and promotes a culture of open and constructive debate. This role is separate to that of the Company's Chief Executive Officer who is empowered to operate the business autonomously with the support of the rest of the Board.

Board meetings are held on a four-weekly basis with the Group executive directors in attendance who scrutinise and challenge execution of strategy. Robust independent challenge is also ensured by attendance of the Keolis directors who bring a range of perspectives from different businesses and geographies.

Govia Thameslink Railway Limited
Corporate governance report (continued)
For the year ended 27 June 2020

Principle 2 – Board Composition (continued)

The Company's Chief Executive Officer reports to the Group executive directors directly on day to day management issues including risk and is responsible for ensuring compliance with the Group's policies and procedures.

We acknowledge that there is a relative lack of diversity on the Board. The Board is committed to developing a more diverse workforce, including at the most senior levels.

The Board believes that continuous director training and development supports Board effectiveness. With the ever-evolving regulatory landscape in which the Company operates, it is critical that the Board maintains a good working knowledge of the transport sector and how the Company operates within its sector, as well as being aware of recent and upcoming developments in the wider legal and regulatory environment. To assist the Board in undertaking its responsibilities, regular presentations are provided from senior management. Where required, support is also provided from Group Company Secretariat such as, for instance, in relation to new reporting requirements required to assist the Group complying with the revised version of the UK Corporate Governance Code published in July 2018 and, more recently, the Section 172(1), corporate governance and other requirements under The Companies (Miscellaneous Reporting) Regulations 2018.

Whilst a formal Board evaluation does not take place, the Group executive directors' individual effectiveness is assessed as part of the Group's wider annual review. The individual director effectiveness for the other Go-Ahead directors on the Board is assessed through peer review, regular one to one meetings, annual appraisals and team building events.

Principle 3 – Director Responsibilities

The Board holds eleven scheduled meetings a year with all directors expected, wherever possible, to attend all Board meetings. The Board receives regular and timely information (at least every four weeks) on all key aspects of the business including financial performance and KPIs, capital expenditure, contracts and tendering, health and safety, operating and engineering performance, people and engagement, market and competition and industrial relations. The Board continuously challenges itself and governance procedures against the strategy set out in Principle 1 (Purpose and Leadership).

The Group Board reviews governance processes, including policies and procedures, on at least an annual basis to ensure that these remain fit for purpose and strengthen the governance of the Company. The Company complies with the Group Policies and Procedures Manual and reports its compliance to the Group annually on a self-certification basis. More recently, this also includes an Operating Company Board Procedures Manual which sets out formal procedures for the working of the Board, delegated authorities, the timely provision of appropriate information and the duties and responsibilities of directors, including standards of conduct and compliance.

The Board has established robust procedures for ensuring that its power to authorise conflicts of interest is operated in accordance with the Companies Act 2006. All directors are required to make the Board aware of any other commitments and actual/potential conflicts of interest that could interfere with their ability to act in the best interests of the Company. Situations considered by the Board and authorisations given are recorded in the Board minutes and in a register of conflicts and are reviewed annually by the Board. The authorisations are for an indefinite period, but the Board retains the power to vary or terminate the authorisation at any time. The Board believes that this system operates effectively.

The Board believes in equal opportunities and apply fair and equitable employment practices. Our Code of Conduct states that all employees should be treated with respect and that their health, safety and basic human rights should be protected. The Company has a zero-tolerance approach to bribery and corruption and all our colleagues are required to adhere to our Anti-bribery and Corruption policy.

Govia Thameslink Railway Limited
Corporate governance report (continued)
For the year ended 27 June 2020

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk. The Company produces a corporate plan which includes identified risks and opportunities. The time limited structure of the franchise however mitigates against long term value excepting that delivery of good results and performance is a factor in bid evaluation. Risk appetite is set at Group level and is monitored in aggregate for operating companies. Risk tolerance is advised to operating companies and is included in the Group's Annual report.

A summary of the Company's key principal risks and mitigations are as outlined in the Strategic report.

Ultimate accountability of risk identification and management lies with the Company's Chief Executive Officer, supported by all other directors on the Board with the Head of Internal Audit and Compliance facilitating the regular review and update of the corporate risk register.

The assessment of key principal and emerging risks is embedded within the day to day operations of the Company. Such assessments are consolidated and reviewed as part of periodic Board reporting as well as being reported to the Group twice a year in accordance with full year and half year results reporting. As part of this reporting process, risk reports are completed which outline the key principal and emerging risks facing the Company, provide an explanation of the procedures in place to mitigate and manage such risks and prioritise the most important risks from both an inherent and residual perspective. These reports are then discussed with the Group executive directors at bi-annual risk Board meetings with discussion focused on the most important risk and control areas within the business. Following such meetings, the Group executive directors report to the Group audit committee with final approval being granted by the Group Board for key risks that could have a material impact on the Group performance, strategy or business model.

Principle 5 – Remuneration

Remuneration arrangements are based on the principles that reward should be sufficient to attract and retain high calibre directors, senior management and the wider workforce.

For the Company's Chief Executive Officer, Chief Finance Officer and Chief Operating Officer (the Company directors), remuneration is determined by the Group Board in line with the Group's Senior Management Remuneration Policy. Remuneration is structured to support both the financial objectives and the strategic priorities of the Group in a manner which is aligned with shareholders' and stakeholders' long-term interests. The Group executive directors and Group Managing Director of Rail development are remunerated by the Group. The Company directors' remuneration is disclosed within note 6 of the financial statements. For further details of the remuneration policy which applies to the Group executive directors together with details of the remuneration paid to them in the 2020 financial year, please see pages 90 to 112 of the Group's 2020 Annual Report and Accounts.

Remuneration for senior management and administrative roles is reviewed annually and is linked to job performance. Total remuneration for these roles is linked to level, contract of employment and market forces. Remuneration for the wider workforce such as, for instance, drivers and engineers is collectively bargained with trade unions.

As principle, all salaries, benefits, pensions and other elements of remuneration are benchmarked regularly to ensure they remain competitive in the markets in which we operate.

During the year, the Board considered the data, and narrative, relevant to the Company's Gender Pay Reporting in preparation for external publication, including proposed improvement plans to enhance performance.

Govia Thameslink Railway Limited
Corporate governance report (continued)
For the year ended 27 June 2020

Principle 6 – Stakeholder Relationships and Engagement

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our vision and protect the Company's brand, reputation and relationships with all our stakeholders. The Company's key stakeholders include the Group, DfT, workforce, customers, government and local authorities, strategic partners and suppliers, the communities we serve and a wide range of regulators, associations and administrative bodies.

The Go-Ahead Group plc (the Group)

The Group is the Company's ultimate parent. The Board believe that effective communication and proactive engagement with the Group is paramount in establishing a mutual understanding of both the Company's and the Group's wider objectives. The Group executive directors, who also sit on the Company's Board, form the primary communication route between the Company's Board and the Group board. This facilitates effective open, transparent and two-way engagement, the feedback from which forms part of the Board's strategic discussions.

DfT

Under the Emergency Measures Agreement (EMA), the DfT has a significant interest in the financial and operational performance of the Company and takes an active role in decision-making where the EMA allows. Communication with the DfT is via weekly senior meetings and a periodic Board meeting, in addition to liaison by the GTR contract management team.

Workforce

Having an engaged workforce is key to our success. The Company uses a range of engagement channels and approaches in our business and colleagues are kept informed of key messages through internal media, management forums, newsletters and business updates. The Company also conduct annual colleague engagement surveys, the results of which provide a measure of colleague engagement and help us identify areas for improvement. Colleague forums, colleague network groups and area partnership programmes are just some of the other channels that exist to enable colleagues to interact with senior management and have their say on the latest developments as well as share ideas.

The Company works collaboratively with trade unions, our focus being to maintain a trustful relationship and secure a mutual view of colleague engagement. A set of collective bargaining principles have been developed and agreed with a clear framework in place that covers effective joint working at all levels within the business.

The Company has formal and comprehensive whistleblowing policy in place which is accessible to all colleagues and provides them with the opportunity to raise legitimate concerns about any form of wrongdoing in confidence, anonymously and with protection from retaliation. This policy is reviewed by the Board on an annual basis, with this year's review confirming that the policy remains fit for purpose and enables a good level of communication with colleagues at all levels of the business. There is also a range of other channels which provide a genuine means for colleagues to raise concerns and these include discussions with line managers, performance development reviews, Skills Enhancement Days (drivers and conductors), local HR, Trade Union H&S representatives, Close Call reporting and the industry confidential reporting system CIRAS.

Customers

The Company builds its relationships with customers through passenger-facing colleagues, customer ambassadors and social medial channels. The Company's customers' needs are constantly evolving, and these interactions enable us to better understand the needs of our customers. The Company's conduct's regular customer satisfaction surveys, which are analysed to gain insight into the drivers of satisfaction and to understand where to focus improvements. The Company also operates customer panels and run meet the manager sessions to gain further insight on our performance.

Government and local authorities

Working closely with both central and local government enables us to contribute our private sector experience and expertise to the public agenda and produce better policy outcomes and service delivery. In addition to meetings, newsletters and email correspondence, effective two-way engagement is facilitated by parliamentary engagement events and representation at local council committee meetings.

Govia Thameslink Railway Limited
Corporate governance report (continued)
For the year ended 27 June 2020

Principle 6 – Stakeholder Relationships and Engagement (continued)

Strategic partners and suppliers

We work collaboratively with strategic partners, including Transport for London and Network Rail, and build strong relationships with core suppliers. Engagement takes place in the form of contract review meetings to discuss supplier performance and areas of improvement as well as to identify risk and mitigating plans. Detailed tender processes are undertaken for high value goods/service requirements to ensure that business requirements are fulfilled, ensure supply chain assurance and value for money.

Communities

Public transport is critical to the functioning of society and has been fundamental in supporting communities through the COVID-19 crisis. The Company's various channels for facilitating effective two-way engagement our communities, one example of which is Stakeholder Forums which take place regularly. These provide stakeholders with an exclusive update on the Company's network developments such as, for instance, capacity, and provide an opportunity for them to ask questions. A virtual forum took place during the COVID-19 lockdown.

In making decisions, the Board considers how the Company's activities may impact both current and future stakeholders, which, for example, could include impacts on the environment. Refer to the sustainability report for more details (available on www.gtrainway.com).

Regulators, associations and administrative bodies

The Company has relationships and engages with a wide range of regulators (Office of the Rail Regulator, Health and Safety Executive, Rail Safety Standards), associations (Rail Delivery Group) and administrative bodies (London Travel Watch, Transport Focus, Rail Users Consultative Committee, Rail Ombudsman and Rail User Groups).

The corporate governance report was approved by the Board of Directors on 16 October 2020 and signed on their behalf by:



Elodie Brian
Director

Govia Thameslink Railway Limited
Directors' report
For the year ended 27 June 2020

The directors present their Annual Report and Audited Financial Statements for the year ended 27 June 2020.

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to set out in the Company's strategic report the following which the directors believe to be of strategic importance:

- Review of business;
- Future developments; and
- Financial risk management objectives and policies.

Dividends

Ordinary dividends of £nil (2019: £nil) were paid and proposed during the year. The directors do not recommend a final ordinary dividend for the year.

Management and staff

The Company is committed to involving all employees in its performance and development. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting the day-to-day operations of the Company. The Company recognises that increasing the level of employee engagement with the Company's objectives can increase motivation and performance and invests in programmes to measure and develop engagement.

For details on how the directors have engaged with employees, had regard to their interests and the effect of that regard including on principal decisions made by the directors, please see our section 172(1) statement within the Strategic report. Further details on employee engagement are also given under Principle 6 (Stakeholder Relationships and Engagement) in the Company's corporate governance report.

The Company also encourages employee involvement in the Company's performance through a number of share schemes including a Share Incentive Plan and Save As You Earn Scheme. Details of these schemes can be found within note 23 of the financial statements.

Discussions take place regularly with trade unions representing the employees on a wide range of issues.

The Company believes in equal opportunities regardless of gender, age, religion or belief, sexual orientation, race and, where practicable, disability. This approach is underpinned by a commitment to providing equal opportunities to current and potential employees and applying fair and equitable employment practices. The Company gives full and fair consideration to job applications from people with disabilities, considering their skills and abilities. In respect of existing colleagues who may become disabled, the Company's policy is to provide continuing employment, training and career development.

Stakeholder interests

For details on how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, please see the Company's Section 172(1) statement. Further detail is also provided under Principle Six (Stakeholder Relationships and Engagement) in the Company's Corporate governance report.

Govia Thameslink Railway Limited
Directors' report (continued)
For the year ended 27 June 2020

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position and financial risk management objectives and policies are described in the Strategic report.

The Company will continue to operate the franchise under its franchise agreement which runs from 14 September 2014 to at least 19 September 2021. An ERMA, signed by the DfT, is in place until this date. For the ERMA to cease earlier than this date both the Company and the DfT would need to mutually agree to its termination. After 19 September 2021, there is no certainty over whether the Company will continue to operate the franchise.

The franchise agreement sets out the deliverables required from the Company over the franchise term. The ERMA sits over the franchise agreement and varies the contract for COVID-19 impact. Due to the ERMA being in place the Company is insulated from the economic impact of COVID-19, with the DfT funding any shortfall between revenue and costs, and subject to DfT controls.

The DfT have until 19 June 2021 to activate a pre-negotiated extension to the franchise of up to 16 September 2023. This period extends beyond the assessment period of at least 12 months from the date of the financial statements. Following the end of the franchise agreement's franchise term, if no further direct award has been agreed between the Company and DfT, then the franchise will run down the assets and liabilities of the business. The Directors have considered this as an option in the absence of a direct award and believe that there is sufficient cash and other assets to settle outstanding liabilities.

The Directors have considered the going concern assumptions as a result of these events and accordingly the financial statements have been prepared on a going concern basis. However, the Directors do recognise that the end of the franchise agreement's franchise term does create a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Accordingly, the directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Events after the balance sheet date

On 19 September 2020, the Department for Transport (DfT) awarded an Emergency Recovery Measures Agreement (ERMA) to the Company. This agreement replaces the existing franchise agreement and has been awarded for a period of 12 months. The contract end date of September 2021 is the same as the previous franchise agreement.

As part of the industry's rail settlement period 6 ending 19 September 2020, the Company settled £1.3m for the redistribution of historic ticket on departure commission receivable for the two years to 31 March 2020. The outcome of the settlement and the related repayment of this commission receivable, and associated profit share to the DfT, has been included within these Financial Statements. See note 26.

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against the directors. The Company has also granted indemnities to each of its directors and the Company Secretary which represent "qualifying third party indemnity provisions" (as defined by section 234 of the Companies Act 2006), in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors (or Company Secretary) or employees of the Company or of any associated Company.

Govia Thameslink Railway Limited
Directors' report (continued)
For the year ended 27 June 2020

Directors of the company

Except as noted, the directors who served the Company during the year, and up to the date of signing the financial statements, were as follows:

D A Brown
A J F Gordon
C A Hodgson
I McLaren
B D M Tabary
H Verwer
S E White
E Brian

D A Brown and E Brian were directors of the ultimate parent company, The Go-Ahead Group plc, during the year.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the Board at the time of approving the Directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (this is, information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

A resolution to re-appoint Deloitte LLP as auditor will be put to the members at the Company's Annual General Meeting.

Registered office:
3rd Floor
by
41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE

The directors' report was approved by the Board of Directors on 16 October 2020 and signed on their behalf



E Brian
Director
16 October 2020

Govia Thameslink Railway Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 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 then apply them consistently;
- make judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Govia Thameslink Railway Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Govia Thameslink Railway Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 27 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that after 19 September 2021, there is no certainty over whether the Company will continue to operate the franchise. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

to the members of Govia Thameslink Railway Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Options on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Use of our report

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.

Christopher Powell, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP,
Statutory Auditor,
London, United Kingdom

16 October 2020

Govia Thameslink Railway Limited
Income statement
for the year ended 27 June 2020

	Notes	2020 £'000	2019* £'000
Revenue	3	1,790,768	1,725,867
Operating costs	4	(1,758,294)	(1,725,867)
Operating profit		32,474	–
Interest receivable and similar income	7	2,149	2,051
Interest payable and similar expenses	8	(12,389)	(1,030)
Profit before taxation		22,234	1,021
Tax on profit	9	(4,473)	(1,759)
Profit/(loss) for the year from continuing operations		<u>17,761</u>	<u>(738)</u>

*Restated (see note 2)

At 30 June 2019, the Group implemented IFRS 16 Leases using the modified retrospective transition method. As a result, the comparative figures have not been restated and are presented on an IAS 17 basis.

Operating activities comprise operation of the Thameslink and Great Northern routes and the operation of Southern and Gatwick Express routes.

Govia Thameslink Railway Limited
Statement of comprehensive income
for the year ended 27 June 2020

	2020 £'000	2019 £'000
<i>Profit/(loss) for the year from continuing operations</i>	17,761	(738)
<i>Total comprehensive income/(expense) for the year</i>	<u>17,761</u>	<u>(738)</u>

Statement of changes in equity
for the year ended 27 June 2020

	Share capital £'000	Retained earnings £'000	Total Equity £'000
At 30 June 2018	5,000	7,029	12,029
Loss and total comprehensive expense for the year	—	(738)	(738)
Share based payments (note 23)	—	(57)	(57)
At 29 June 2019	5,000	6,234	11,234
Loss and total comprehensive income for the year	—	17,761	17,761
Share based payments (note 23)	—	27	27
At 27 June 2020	<u>5,000</u>	<u>24,022</u>	<u>29,022</u>

Govia Thameslink Railway Limited
Registered No: **07934306**
Balance sheet
at 27 June 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	11	86	267
Plant, property and equipment	12	19,342	30,959
Right of use assets	13	383,644	–
Finance lease receivables	14	14,456	–
Deferred tax assets	9	2,853	1,672
		<u>420,381</u>	<u>32,898</u>
Current assets			
Inventories	15	8,248	5,762
Trade and other receivables	16	65,816	166,863
Cash at bank		275,522	326,144
		<u>349,586</u>	<u>498,769</u>
Total assets		<u>769,967</u>	<u>531,667</u>
Liabilities			
Current liabilities			
Trade and other payables	17	(279,890)	(461,254)
Lease liabilities	13	(354,509)	–
Current tax liabilities	9	(717)	(2,350)
		<u>(635,116)</u>	<u>(463,604)</u>
Non-current liabilities			
Lease liabilities	13	(44,001)	–
Provisions	18	(61,828)	(56,829)
		<u>(105,829)</u>	<u>(56,829)</u>
Total liabilities		<u>(740,945)</u>	<u>(520,433)</u>
Net current (liabilities)/assets		<u>(285,530)</u>	<u>35,165</u>
Total assets less current liabilities		<u>134,851</u>	<u>68,063</u>
Net assets		<u>29,022</u>	<u>11,234</u>
Capital and reserves			
Share capital	22	5,000	5,000
Retained earnings		24,022	6,234
Total equity		<u>29,022</u>	<u>11,234</u>

At 30 June 2019, the Group implemented IFRS 16 Leases using the modified retrospective transition method. As a result, the comparative figures have not been restated and are presented on an IAS 17 basis.

The financial statements were approved by the Board of Directors and authorised for issue on 16 October 2020 and signed on their behalf by:



E Brian, Director

Govia Thameslink Railway Limited
Notes to the financial statements
For the year ended 27 June 2020

1. Authorisation of financial statements and statement of compliance with FRS 101

These financial statements of Govia Thameslink Railway Limited (the “Company”) for the year ended 27 June 2020 were authorised for issue by the Board of Directors on 16 October 2020 and the balance sheet was signed on the Board’s behalf by E Brian. The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company’s registered office is shown on page 1.

The Company is required to comply with IAS 1 *Presentation of Financial Statements*, except in extremely rare circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to ‘present fairly’ its financial statements.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

Principal accounting policies adopted by the Company are set out in note 2. They have been applied consistently throughout the year and the prior year unless otherwise stated.

2. Accounting policies

2.1 Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, The Go-Ahead Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of The Go-Ahead 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 Companies House, Cardiff and The Go-Ahead Group plc website.

The financial statements have been prepared on a historical cost basis as modified by certain items recognised at fair value. The presentation and functional currency used is sterling and amounts have been presented in round thousands (“£’000”).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures and standards not yet effective:

- the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- the requirements in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- the requirements of paragraphs 10(d), 111 and 134 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- the requirements in IAS 24 *Related Party Transactions* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based payments*;

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- the requirements of paragraphs 134 (d)-(f) and 135(c)-(e) of IAS 36 *Impairment of Assets*;
- the requirements of paragraphs 110 (2nd sentence), 113(a), 114, 115, 118, 119(a)-119(c), 120-127 and 129 of IFRS 15 *Revenue from Contracts with Customers*; and
- the requirements of paragraph 52, 89 (2nd sentence), 90, 91 and 93 of IFRS 16 *Leases* and the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position and financial risk management objectives and policies are described in the Strategic report.

The Company will continue to operate the franchise under its franchise agreement which runs from 14 September 2014 to at least 19 September 2021. An ERMA, signed by the DfT, is in place until this date. For the ERMA to cease earlier than this date both the Company and the DfT would need to mutually agree to its termination. After 19 September 2021, there is no certainty over whether the Company will continue to operate the franchise.

The franchise agreement sets out the deliverables required from the Company over the franchise term. The ERMA sits over the franchise agreement and varies the contract for COVID-19 impact. Due to the ERMA being in place the Company is insulated from the economic impact of COVID-19, with the DfT funding any shortfall between revenue and costs, and subject to DfT controls.

The DfT have until 19 June 2021 to activate a pre-negotiated extension to the franchise of up to 16 September 2023. This period extends beyond the assessment period of at least 12 months from the date of the financial statements. Following the end of the franchise agreement's franchise term, if no further direct award has been agreed between the Company and DfT, then the franchise will run down the assets and liabilities of the business. The Directors have considered this as an option in the absence of a direct award and believe that there is sufficient cash and other assets to settle outstanding liabilities.

The Directors have considered the going concern assumptions as a result of these events and accordingly the financial statements have been prepared on a going concern basis. However, the Directors do recognise that the end of the franchise agreement's franchise term does create a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Accordingly, the directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

New standards

The following new standards or interpretations are mandatory for the first time for the financial year ended 27 June 2020:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment features with negative compensation
- Amendment to IAS 28 Long term interests in associates and joint ventures
- Amendments to IAS 19 Plan amendment, curtailment or settlement
- Annual improvements to IFRSs 2015-17 cycle

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 16 Leases

The Company initially adopted IFRS 16 Leases on 30 June 2019, which replaces IAS 17 Leases and three interpretations (IFRIC 4 Determining whether an Arrangement contains a lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases and eliminates the operating lease classification meaning lessees are required to recognise right of use assets and lease liabilities for all leases on the balance sheet. On the income statement, the operating lease expense has been replaced by a combination of depreciation and interest.

Where the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right of use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Company applies IFRS 16 to allocate the consideration under the contract to each component.

Adoption approach

On transition the Company has applied IFRS 16 using the modified retrospective approach on a lease by lease basis. Prior periods have not been restated and are presented as previously reported under IAS 17.

- **IAS 17**

Prior to the adoption of IFRS 16, leases were either classified as operating or finance leases. Payments made in respect of operating leases were charged to the income statement on a straight-line basis over the duration of the lease. Finance leases were recognised on the balance sheet with depreciation and interest being charged to the income statement.

- **IFRS 16 – The standard**

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The new standard eliminates the operating lease classification and therefore lessees are required to recognise right of use assets and lease liabilities for all leases on the balance sheet, unless lease terms are less than twelve months or are of low value. In the income statement, the operating lease expense has been replaced by a combination of depreciation and interest.

For leases previously classified as finance leases, the Company has recognised the carrying amount of the finance lease asset and liability under IAS 17 as at 29 June 2019 as the carrying amount of the right of use asset and the lease liability under IFRS 16 at 30 June 2019.

- **IFRS 16 adoption - Lease identification**

On transition to IFRS 16, the Company elected to apply the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 30 June 2019.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Impact of adoption

The Company's incremental borrowing rate applied to the lease liabilities as at 29 June 2019 was 2.02% and the Company's weighted average incremental borrowing rate was 2.02%.

This rate is the interest rate the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value over a similar term and with similar security to the right of use asset in a similar economic environment.

• **IFRS 16 impact – Balance sheet**

In respect of leases that would previously have been classified as operating leases, the Company has recognised £718,087,000 right of use assets and £717,151,000 of lease liabilities as at 30 June 2019.

	3 June 19 IFRS 16 basis £'000	IFRS 16 Effect £'000	29 Jun 19 IAS 17 basis £'000
Assets			
Plant, property and equipment	30,959	–	30,959
Right of use assets	718,087	718,087	–
Trade and other receivables	165,927	(936)	166,863
Other assets not impacted by IFRS 16	333,845	–	333,845
Total assets / impact on assets	1,248,818	717,151	531,667
Liabilities			
Trade and other payables	(461,254)	–	(461,254)
Lease liabilities	(717,151)	(717,151)	–
Other liabilities not impacted by IFRS 16	(59,179)	–	(59,179)
Total liabilities / impact on liabilities	(1,237,584)	(717,151)	(520,433)
Net assets	11,234	–	11,234
Capital and reserves			
Retained earnings	6,234	–	6,234
Other equity not impacted by IFRS 16	5,000	–	5,000
Total equity	11,234	–	11,234

The lease liabilities as at 30 June 2019 can be reconciled to the opening lease commitments as at 29 June 2019 as follows:

	3 June 19 IFRS 16 basis £'000
Operating lease commitments as at 29 June 2019	1,789,596
Rail charges for track, station and depot access	(753,617)
Components of leases which do not meet the definition of a lease under IFRS 16	(302,144)
Other	(636)
Effect of discounting	(16,048)
Lease liabilities recognised as at 30 June 2019	717,151

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- **IFRS 16 impact – Income Statement**

In respect of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating costs of £7,818,000 and an increase in depreciation and interest expense compared to IAS 17. During the year ended 27 June 2020, the Company recognised £319,446,000 of depreciation charges, £11,309,000 of interest costs from such leases and short term and low value lease expenses of £84,000.

Other new standards

Adoption of the other standards and interpretations had no material impact on the Company's financial position or related performance.

Restatement of comparative 2019 amounts in the 2020 financial statements

During the year, there was a change to how certain revenue streams in the Company have been recognised. For the year ended 29 June 2019, the amounts payable to the DfT exceeded the amounts receivable from the DfT in relation to the Company. In accordance with IFRS 15 Revenue from Contracts with Customers, the financial statements should have reflected the amounts received from passengers as income and the net payments to the DfT as an expense. In the prior year, while some of the amounts relating to DfT were correctly recognised as an expense, £115,013,000 was incorrectly recorded as an adjustment (increase) to revenue. These changes have resulted in a prior year restatement of £115,013,000 within revenue and operating costs (decrease to both) in the income statement and the corresponding notes. There is no impact to operating profit and no impact on the other primary statements.

2.2 Critical judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Going concern

During the financial year, and up to the date of signing the annual report and accounts, the COVID-19 pandemic has had a significant impact on the Company. Whilst the Company has seen positive trends emerging in the past few weeks, it is difficult to assess what the long-term impact of the pandemic will be to the wider economy and, in particular, the transport sector in which the Company operates. Owing to this, the going concern assessment is considered a critical accounting judgement.

The DfT have until 19 June 2021 to activate a pre-negotiated extension to the franchise of up to 16 September 2023. Following the end of the franchise agreement's franchise term, if no further direct award has been agreed between the Company and DfT, then the franchise will run down the assets and liabilities of the business. The Directors have considered this as an option in the absence of a direct award and believe that there is sufficient cash and other assets to settle outstanding liabilities.

The Directors have considered the going concern assumptions as a result of these events and accordingly the financial statements have been prepared on a going concern basis. However, the Directors do recognise that the end of the franchise agreement's franchise term does create a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

2. Accounting policies (continued)

2.2 Critical judgements and key sources of estimation uncertainty (continued)

COVID-19: Rail – Emergency Measures Agreements (EMAs)

The COVID-19 pandemic has had a major impact on the global economy and has had an impact on the Company's operational performance during the current year. The Company has received government support in each area of its divisional operations and it is expected that this support will continue as operations gradually return to normal. From 1 March 2020, the Company has seen all the revenue and cost risk being transferred to the Government by way of Emergency Measures Agreements (EMAs). As part of this agreement, signed by the DfT and the Company, there are two income streams. A management fee to run a revised National Rail timetable across the UK and a performance payment bonus receivable from the DfT once the EMA term ends. The term end for the Company was 19 September 2020. The management fee is recognised within franchise subsidy revenue, in line with the revenue recognition policy for subsidy receipts received from the DfT. The performance payment bonus is assessed through an EMA review process, which awards the Company with a score of 1, 2 or 3 against three criteria over the entire term of the EMA in areas of operational performance, customer experience and acting as a good and efficient operator. The performance payment bonus can range between £nil and £4.7m over the EMA term. The EMA review process is subjective, and the directors' consider there is not a sufficient basis to recognise any revenue in respect of these performance payments, in the year ended 27 June 2020.

Whilst the Company was already operating within a management contract, the new terms have removed the risk to changes in the cost base but also other revenue such as car parking and retail commission. The EMA was in place for an initial period to 19 September 2020. Post this date, the Company is operating under an Emergency Recovery Measures Agreement (ERMA) for a further 12 months. The ERMA is similar in nature to that of the EMA with the Company continuing to receive a management fee for the remainder of its franchise.

Leases

At the lease commencement date, the lease liability is calculated by discounting the lease payments. The discount rate used should be the interest rate implicit in the lease (IRIL). However, if that rate cannot be readily determined, the lessee's incremental borrowing rate (IBR) is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions. This is based on the Company's IBR. Due to the capital structure of the Company, the Company's cost of debt forms the base of the IBR with specific finance and lease adjustments made, when applicable, which are linked to the lease term, country of lease and start date.

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term. Break and extension options are aligned with specific contract and franchise agreements which contain possible extension options, with the awarding of such extensions outside the control of the Company. Hence at commencement of the lease, break or extension options are not typically considered reasonably certain that they will be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

Accounting for the rail pension schemes

The Company participates in the Railways Pension Scheme (RPS), a defined benefit pension scheme which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer 40% employee. The Company only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the Company is responsible for the funding of these sections whilst it operates the relevant franchise. At the end of the franchise term, responsibility for the funding, and consequently any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date, a franchise adjustment is recognised to the IAS 19 net pension asset or liability to reflect that portion expected to pass to the next franchisee.

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

2. Accounting policies (*continued*)

2.2 Critical judgements and key sources of estimation uncertainty (*continued*)

Accounting for the rail pension schemes (continued)

The directors view this arrangement as synonymous to the circumstances described in paragraphs 92–94 of IAS 19 Employee Benefits (Revised), with a third party taking on the obligation for future contributions. As there is no requirement to make contributions to fund the current deficit, then it is assumed that all of the current deficit will be funded by another party and hence none of the deficit is attributable to the current franchisee. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in the future, which is recognised as an adjustment to service cost in the income statement. As a result, any portion of service cost not expected to be covered by contributions paid during the franchise but expected to transfer at the end of the franchise is treated as an adjustment to the income statement. Under circumstances where contributions are renegotiated, for example, following a statutory valuation, an adjustment will be recognised in the income statement.

The directors deem this to be the most appropriate interpretation of IAS 19 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise. An alternative approach would involve not limiting the measurement of the service cost through the recognition of an income statement franchise adjustment, but recognising all movements on the franchise adjustment as a movement in a reimbursement right in other comprehensive income. For the year ended 27 June 2020 the impact of this alternative treatment, on a post tax basis, would be an increase in costs of £28.7m (2019: £39.6m) to the income statement and a debit to other comprehensive income of £110m (2019: £42.9m). Since the franchise contract only refers to the contribution requirements during the franchise term, and not any reimbursement rights, the directors consider that viewing the treatment as contribution sharing with the next franchisee is most appropriate.

Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are in relation to:

Contract and franchise accounting

The commercial entities in the UK rail industry were created at the time of privatisation and the relationships between them are governed by a number of contracts between the major participants, the DfT, Network Rail and train operating companies. These contracts include detailed performance regimes which determine the allocation of financial responsibility relating to the attribution of delays. The processes for attribution, whilst well understood, require detailed assessment and can take significant time to resolve, particularly in unusual circumstances.

The Company makes provision for income and costs relating to performance regimes and contractual obligations relating to operating delays caused by Network Rail, or caused by our own operating companies. This process can be based primarily on previous experience of settling such claims, or, in certain circumstances, based on management's view of the most likely outcome of individual claims. The Company has significant internal expertise to assess and manage these aspects of the agreements and the issues relating to delay attribution to enable management to assess the most probable outcomes; nonetheless significant judgements are required, which can have material impacts on the financial statements.

Accordingly, judgements in these and other areas are made on a continuing basis with regard to amounts due and the recoverable carrying value of related assets and liabilities arising from franchises and other contracts. Regular reviews are performed on the expected outcome of these arrangements, which require assessments and judgements relating to the expected level of revenues and costs.

As a result of the COVID-19 pandemic, on 23 March 2020 the UK Government suspended all rail franchise agreements and introduced an industry-wide Emergency Measures Agreement (EMA) scheme to support train operating companies.

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

2. Accounting policies (*continued*)

2.2 Critical judgements and key sources of estimation uncertainty (*continued*)

Contract and franchise accounting (continued)

The Company's EMA was in place for an initial period to 19 September 2020. Post this date, the Company is operating under an Emergency Recovery Measures Agreement (ERMA) for a further 12 months. The ERMA is similar in nature to that of the EMA with the Company continuing to receive a management fee for the remainder of its franchise.

The accounting for EMAs is deemed to be a critical accounting judgement, rather than a source of estimation uncertainty and as such no sensitivity analysis has been disclosed.

Measurement of franchise commitments

The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations is set out in note 18. Significant elements of the provisions required are subject to interpretation of franchise agreements and rolling stock agreements. The Company has significant internal expertise to assess and manage these aspects of the agreements and to enable management to assess the most probable outcomes. Where appropriate, and specifically in assessing dilapidation provisions, this process is supported by valuations from professional external advisors to support provision levels.

Sensitivity analysis with respect to franchise commitments is provided in note 18.

2.3 Significant accounting policies

Revenue Recognition

The revenue of the Company mainly comprises income from rail passenger transport. The Company has a number of revenue streams which consist of revenue from passengers, contracts, franchise subsidy as well as other miscellaneous revenue streams. Revenue is recognised on satisfaction of performance obligations which are generally clear. Revenue is measured at the fair value of the consideration received or receivable, (excluding discounts, rebates, VAT and other sales taxes or duty) to which the Company expects to be entitled to and excludes amounts collected on behalf of third parties. An explanation of the main revenue streams is set out below:

Passenger revenue

Passenger revenue mainly relates to revenue from ticket sales.

Revenue comprises amounts based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts and other related services such as rolling stock maintenance and commission on tickets sold. Passenger revenue is collected and remitted to the DfT net of management charges payable by DfT as revenue. In accordance with the Company's franchise agreement and IFRS 15 Revenue from Contracts with Customers, passenger revenue is regarded as income and an expense is recognised for the net amount paid to the DfT. Over their lifetime, the Company may switch between being in a 'premium' position (when the amounts payable to the DfT exceed the amounts received from them) and being in a 'subsidy' position (when the amounts received from the DfT exceed the amounts paid to them). When the Company is in a subsidy position subsidy revenue is recognised, in addition to passenger revenue.

Passenger revenue is recognised by reference to the stage of completion of the customer's journey or for other services based on the proportion of services provided. The attributable share of season ticket or travel card income is deferred within liabilities and released to the income statement over the life of the relevant season ticket or travel card.

Other revenue

Other revenue mainly relates to revenue for ancillary services to other rail passenger service providers, for services such as maintenance and cleaning. Other revenue is recognised in the period to which it relates. Other revenue also includes rental income which is generated from rental of surplus properties and subleasing of rolling stock and railway infrastructure access. Other revenue is recognised in the period to which it relates, for the transaction price specified in the contract.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

2. Accounting policies (continued)

2.3 Significant accounting policies (continued)

Revenue Recognition (continued)

Franchise subsidy

Franchise subsidy revenue comprises receipts, from the relevant local transport authorities, which are receivable under the terms of the franchise agreements. The franchise agreements include minimum specifications of passenger services to be provided, which is the performance obligation. Franchise premium payments to the DfT, for amounts due under the terms of the Company, are recognised in operating costs. The Emergency Measures Agreements (EMAs) in the UK transferred all revenue and cost risk to the Government for an initial period from 1 March 2020. The Company is paid a small management fee to continue running a revised National Rail timetable across the UK. Net EMA funding, including the management fee, is recognised as franchise subsidy within revenue. All franchise subsidies are recognised in the period to which they relate.

Profit and revenue sharing/support agreements

The Company has certain revenue and profit sharing agreements with the DfT. An accrual is made within amounts payable to central government for the estimated cost to the Company of the relevant amounts accrued at the balance sheet date. Payments are charged to operating costs. Revenue support is provided by the DfT typically in the last two years of a franchise. Receipts are shown in revenue.

Interest receivable and similar income

Interest on deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in operating costs within the income statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate. Where the grant relates to a non-current asset, value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset.

Intangible fixed assets

Software cost, that is not integral to the related hardware, is capitalised as an intangible asset and stated at cost less amortisation and any impairment in value. Amortisation is charged to the income statement evenly over its expected useful life of three years.

Plant, property and equipment

Plant, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of plant, property and equipment have different useful lives, they are accounted for as separate items of plant, property and equipment. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

Depreciation is calculated so as to write off the cost of an asset, less estimated residual value, over the shorter of the remaining life of the franchise and the below lives on a straight-line basis:

Plant & equipment	- 1 to 7 years
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Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost comprises direct materials and costs incurred in bringing the items to their present location and condition. Net realisable value represents the estimated selling price less costs of sale. Inventories are calculated using the first in first out method (FIFO).

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Govia Thameslink Railway Limited
Notes to the financial statements (*continued*)
For the year ended 27 June 2020

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

Taxation (continued)

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax base of assets and liabilities for taxation purposes and their carrying amounts in the financial statements. It is provided for on all temporary differences.

Deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Tax relating to items recognised outside the income statement is recognised in other comprehensive income or directly in equity in correlation with the underlying transaction. Otherwise, tax is recognised in the income statement.

Leases

Lease identification

At inception of a contract, the Company shall assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right of use asset

Right of use assets are measured initially at cost based on the value of the associated lease liability, adjusted for any payments made before inception, initial direct costs and an estimate of the dismantling, removal and restoration costs required in the terms of the lease. The right of use assets are subsequently depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written-off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised. In addition, the right of use asset is periodically reduced by impairment losses, if applicable, and adjusted for certain remeasurements of the lease liability.

Lease liability

At the commencement date of the lease, the lease liability is initially measured at the present value of lease payments to be made over the lease term with payments discounted at the rate implicit in the lease or, where that cannot be measured, at the Company's incremental borrowing rate.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Company under residual value guarantees. The lease payments also include the exercise price of a purchase option if the Company is reasonably certain to exercise that option. Payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate the lease, are also included.

The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments made. The carrying value is re-measured when there is a change in future lease payments arising from the effective date of a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Short term and low value asset leases

The Company has elected not to recognise right of use assets and lease liabilities for short-term leases that have a lease term of less than 12 months and leases of low-value assets. Lease payments relating to short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Govia Thameslink Railway Limited
Notes to the financial statements (*continued*)
For the year ended 27 June 2020

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

Retirement benefits

The Company participates in the Railways Pensions Scheme (RPS), which is an industry-wide defined benefit scheme. The Company is obligated to fund the relevant section of the scheme over the period for which the franchise is held.

All the costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. In addition, at the end of the franchise, any deficit or surplus in the scheme passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder. The Company's obligations are therefore limited to its contributions payable to the schemes during the period over which it operates the franchise.

The accounting treatment for such pensions scheme is not explicitly considered by IAS 19 Employee Benefits (Revised). However, since the contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised), the Company does not account for uncommitted contributions towards the sections' current or expected future deficits. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise.

As a result, the Company consequently reduces any section deficit balance that would otherwise remain after reflecting the cost sharing with the members and reduces any service costs that would give rise to an increase in such deficit through the use of a franchise adjustment with movements in that franchise adjustment, meaning that the service costs appropriately reflect contracted contributions resulting over the term of the franchise.

Provisions

Provisions are recognised when the Company has a present contractual or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Uninsured liabilities

The Company limits its exposure to the cost of motor, employer and public liability claims through insurance policies issued by third parties. These provide individual claim cover, subject to high excess limits and an annual aggregate stop loss, for total claims within the excess limits. A discounted provision is recognised for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date.

The estimation of this provision is made after taking appropriate professional advice and is based on an assessment of the expected settlement on known claims, together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but that have not yet been reported to the Company by the insurer.

Provisions are accounted for on a gross basis with a separate reimbursement asset recognised for amounts recoverable from insurance providers.

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

Financial instruments

Financial assets

The Company's financial assets are initially recognised at fair value, being the transaction price plus, in the case of financial assets not recorded at fair value through profit or loss in the income statement, directly attributable transaction costs. Financial assets are subsequently classified as being measured at amortised cost, fair value through other comprehensive income, or fair value through the income statement.

The Company's financial assets at amortised cost are non-derivative financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

The Company does not have any financial assets held at fair value through the income statement.

The Company does not have any financial assets held at fair value through other comprehensive income.

The Company uses an impairment model with impairment provisions based on expected credit losses rather than incurred credit losses.

The Company applies the IFRS 9 simplified approach and measures the loss allowance on the lifetime expected credit losses at each reporting date.

Financial liabilities

The Company's financial liabilities include trade payables, accruals, interest-bearing loans and borrowings. At initial recognition, the Company measures financial liabilities at fair value plus, in the case of a financial liability not at fair value through the income statement, transaction costs that are directly attributable to the issue of the financial liability.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

Share based payment transactions

The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In granting equity-settled options, conditions are linked to some or all of the following: the price of the shares of The Go-Ahead Group plc (market conditions); conditions not related to performance or service (non-vesting conditions); and performance conditions. The cost of options is recognised in the income statement over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in equity. The cumulative expense recognised at each reporting date reflects the extent to which the period to vesting has expired and the directors' best estimate of the number of options that will ultimately vest or, in the case of an instrument subject to a market or non-vesting condition, be treated as vesting as described above. This includes any award where non-vesting conditions within the control of the Group or the employee are not met. No cost is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

Govia Thameslink Railway Limited

Notes to the financial statements (continued)

For the year ended 27 June 2020

3. Revenue

Revenue recognised in the income statement is analysed by class of business as follows:

	2020 £'000	2019* £'000
Passenger Revenue	1,242,617	1,528,626
Subsidy Revenue	375,635	–
Other Revenue	172,516	197,241
	<u>1,790,768</u>	<u>1,725,867</u>

*Restated (see note 2)

On 1 March 2020, the DfT awarded the Company an EMA contract in line with the rest of the industry to manage the effects of COVID-19. At this date the Company switched from a 'premium' to a 'subsidy' position. See the passenger revenue accounting policy note for further detail.

All revenue is generated within the United Kingdom.

4. Operating costs

	2020 £'000		2019* £'000	
Staff costs (note 5)		454,426		438,508
Rail operating charges ¹				
- rail access	475,256		458,295	
- vehicle and rolling stock	27,120		350,468	
	<u>502,376</u>		<u>808,763</u>	
Total lease payments recognised as an expense		502,376		808,763
Auditor's remuneration				
- audit fee for the audit of the financial statements	305		250	
- non-audit services	13		3	
	<u>318</u>		<u>253</u>	
Total auditor's remuneration		318		253
Amortisation of intangible assets		181		406
Depreciation of plant, property and equipment		13,458		10,902
Depreciation of right of use assets		319,446		–
Franchise payment/(receipt)		91,119		(1,149)
Other operating costs		376,970		468,184
		<u>1,758,294</u>		<u>1,725,867</u>
Total operating costs		<u>1,758,294</u>		<u>1,725,867</u>

*Restated (see note 2)

¹Rail operating charges constitute costs incurred that were previously classified as operating lease payments under IAS17.

The Company adopted IFRS 16 Leases on 30 June 2019. The Company previously categorised the majority of its rail rolling stock leases as operating leases, under IAS 17. These have now been taken to the balance sheet as right of use assets. The Company holds agreements for access to the railway infrastructure (track, stations and depots). These are now classified as rail operating charges as they do not constitute a right of use asset.

Notes to the financial statements (continued)

For the year ended 27 June 2020

5. Staff costs and numbers

	2020 £'000	2019 £'000
Wages and salaries	389,778	376,753
Social security costs	40,823	39,590
Pension costs (note 19)	23,661	22,085
Share based payments (note 23)	164	80
	<u>454,426</u>	<u>438,508</u>

The average number of employees during the year was as follows:

	2020 No.	2019 No.
Administration and supervision	1,338	1,294
Maintenance and engineering	681	662
Operations	5,354	5,335
	<u>7,373</u>	<u>7,291</u>

6. Directors' remuneration

	2020 £'000	2019 £'000
Aggregate emoluments in respect of qualifying services	<u>1,195</u>	<u>1,281</u>
	2020 No.	2019 No.
Number of directors accruing benefits under defined benefit schemes	<u>–</u>	<u>1</u>
Number of directors who exercised share options	<u>2</u>	<u>1</u>
The amounts in respect of the highest paid director are as follows:	2020 £'000	2019 £'000
Emoluments	<u>497</u>	<u>482</u>

Included within Emoluments, the Company contributed £nil (2019: £nil) to the defined benefit pension scheme of the highest paid director. During the year the highest paid director also exercised share options of 2,608 (2019: 4,098) shares and 3,484 (2019: none) shares were granted in respect of a deferred share bonus plan (DSBP). See note 23.

Certain directors are also directors of The Go-Ahead Group plc and are remunerated by The Go-Ahead Group plc. It is not practical to allocate their remuneration between their services as directors of The Go-Ahead Group plc and their services to the Group's subsidiaries. For details on the remuneration of the directors of The Go-Ahead Group plc please refer to the Go-Ahead Group plc's consolidated financial statements, available as described in note 25.

7. Interest receivable and similar income

	2020 £'000	2019 £'000
Bank interest receivable	2,070	2,051
Interest receivable on net investment	79	–
	<u>2,149</u>	<u>2,051</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

8. Interest payable and similar expenses

	2020 £'000	2019 £'000
Other finance charges	664	622
Discounting of provisions	408	387
Interest payable to group undertakings	8	21
Interest payable on lease liabilities	11,309	–
	<u>12,389</u>	<u>1,030</u>

9. Taxation

(a) Tax recognised in the income statement

The tax charge is made up as follows:

	2020 £'000	2019 £'000
<i>Current tax:</i>		
UK corporation tax	5,782	2,388
Corporation tax in respect of previous periods	(128)	(38)
Total current tax	<u>5,654</u>	<u>2,350</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(1,142)	(687)
Adjustments in respect of deferred tax of previous periods	158	96
Effect of rate change on opening deferred tax balance	(197)	–
Total deferred tax (note 9(d))	<u>(1,181)</u>	<u>(591)</u>
Total reported in the income statement (note 9(b))	<u>4,473</u>	<u>1,759</u>

(b) Factors affecting current tax charge

A reconciliation of taxation applicable to accounting profit before tax at the statutory tax rates for the years ended 27 June 2020 and 29 June 2019 is shown below.

The tax assessed on the profit before taxation for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 27 June 2020 was 19% (2019: 19%).

The differences are reconciled below:

	2020 £'000	2019 £'000
Profit before taxation	22,234	1,021
Tax at the UK corporation tax rate of 19% (2019: 19%)	4,224	194
Expenses not deductible for tax purposes	74	1,140
Depreciation on non-qualifying assets	342	286
Adjustment in respect of deferred tax of previous periods	158	96
Effect of the difference between current year corporation tax and deferred tax rates	(197)	81
Adjustment in respect of corporation tax of previous periods	(128)	(38)
Tax reported in the income statement	<u>4,473</u>	<u>1,759</u>
Effective tax rate	20.1%	172.3%

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

9. Taxation (continued)

(c) Current tax assets/liabilities

	2020 £'000	2019 £'000
Current tax (liabilities)/assets at start of year	(2,350)	799
Corporation tax reported in income statement (note 9(a))	(5,654)	(2,350)
Paid/(received) in the year	7,287	(799)
Current tax liabilities at end of year	<u>(717)</u>	<u>(2,350)</u>

(d) Deferred tax

Constituents of the deferred tax asset are as follows:

	2020 £'000	2019 £'000
Deferred tax asset		
Decelerated capital allowances	2,314	1,158
Other temporary differences	539	514
	<u>2,853</u>	<u>1,672</u>

The movement in deferred tax in the income statement is as follows:

	29 June 2019 £'000	Recognised in income statement £'000	27 June 2020 £'000
Accelerated capital allowances	1,158	1,156	2,314
Other temporary differences	514	25	539
	<u>1,672</u>	<u>1,181</u>	<u>2,853</u>

The deferred tax asset is recognised as it is considered probable that there will be future taxable profits available.

(e) Factors that may affect future tax charge

The standard rate of UK corporation tax is 19% and applies to the current tax charge arising during the year ended 27 June 2020.

Previous legislation advised a reduction in the UK corporation tax rate to 17% from 1 April 2020 and this rate was applied, where applicable, to the Company's deferred tax balance at the prior year end. Legislation substantively enacted in the Finance Bill 2020 amended this rate to 19% with effect from April 2020 and therefore 19% has been applied, where applicable, to the Company's deferred tax balance as at the balance sheet date.

10. Dividends

	2020 £'000	2019 £'000
Paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2020: £nil per share (2019: £nil per share)	<u>—</u>	<u>—</u>

No dividends are proposed as at 27 June 2020.

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

11. Intangible assets

	<i>Software & Licence Costs £'000</i>
<i>Cost:</i>	
At 29 June 2019 and 27 June 2020	2,250
<i>Amortisation:</i>	
At 29 June 2019	1,983
Provided during the year	181
At 27 June 2020	2,164
<i>Net book value:</i>	
At 27 June 2020	86
At 29 June 2019	267

Amortisation is included within operating costs in the income statement.

12. Plant, property and equipment

	<i>Plant & Equipment £'000</i>
<i>Cost:</i>	
At 29 June 2019	58,161
Additions	1,841
At 27 June 2020	60,002
<i>Depreciation:</i>	
At 29 June 2019	27,202
Provided during the year	13,458
At 27 June 2020	40,660
<i>Net book value:</i>	
At 27 June 2020	19,342
At 29 June 2019	30,959

Notes to the financial statements (continued)

For the year ended 27 June 2020

13. Leases

Right of use assets

The right of use assets were brought onto the balance sheet on 30 June 2019 on transition to IFRS 16 Leases.

	<i>Land & Buildings £'000</i>	<i>Plant & Equipment £'000</i>	<i>Rolling Stock £'000</i>	<i>Total £'000</i>
Cost:				
On transition to IFRS 16	2,558	270	715,259	718,087
Additions	–	–	674	674
Transfers	–	–	(23,731)	(23,731)
At 27 June 2020	2,558	270	692,202	695,030
Depreciation:				
Provided during the year	(1,200)	(68)	(318,178)	(319,446)
Transfers	–	–	8,060	8,060
At 27 June 2020	(1,200)	(68)	(310,118)	(311,386)
Net book value:				
At 27 June 2020	1,358	202	382,084	383,644

The Company sublease rolling stock to a related company, London & South Eastern Railway Limited (LSER). As a result of them winning a direct award contract during the year, management made the judgement that LSER now receives all of the economic benefit of the right of use assets. As a result, the right of use assets within the Company were transferred to LSER. The Company now holds a finance lease receivable in respect of the subleased rolling stock.

Lease liabilities

The balance sheet includes the following amounts:

	<i>2020 £'000</i>
Current	(354,509)
Non-current	(44,001)
Lease liabilities	(398,510)

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	<i>2020 £'000</i>
Less than one year	(359,118)
One to two years	(44,039)
Total undiscounted lease liabilities	(403,157)

The Company initially adopted IFRS 16 Leases on 30 June 2019 using the modified retrospective approach. Due to the adoption, there is no comparative balance for the lease liabilities.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

13. Leases (continued)

Amounts recognised in the Group income statement

	2020 £'000
Interest payable on lease liabilities	(11,309)
Depreciation on right of use assets	(319,446)
Expenses relating to low value assets	(84)
	<u>(330,839)</u>

The Company initially adopted IFRS 16 Leases on 30 June 2019. Due to the adoption, there is no comparative balance for the interest payable on lease liabilities.

14. Finance lease receivables

Amounts receivable under finance leases:

	2020 £'000
Undiscounted lease payments analysed as:	
Recoverable within one year	12,746
Recoverable within one to two years	1,905
Undiscounted lease payments	<u>14,651</u>
Less: unearned finance income	(195)
Net investment in the lease	<u>14,456</u>

The Company initially adopted IFRS 16 Leases on 30 June 2019. Due to the adoption, there is no comparative balance for the finance lease receivables.

During the financial year £79,483 (2019: £nil) was recognised within interest receivable and similar income.

15. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	<u>8,248</u>	<u>5,762</u>

The amount of any write down of inventories recognised as an expense during the year is immaterial.

During the financial year £30,797,109 (2019: £35,267,000) of inventories was recognised as an expense.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

16. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	16,881	101,478
Prepayments and accrued income	23,427	16,872
Central government debtors	25,508	48,513
	<u>65,816</u>	<u>166,863</u>
	2020 £'000	2019 £'000
Contract assets	<u>35,703</u>	<u>57,859</u>

During the financial year £2,000 (2019: £116,000) was recognised in respect of impairment losses arising from contracts with customers.

Accrued income and amounts receivable from central government principally comprise amounts relating to contracts with customers. Accrued income primarily comprises contract income which is billed on a regular basis and which is reclassified to trade receivables at the point at which it is billed. Contract assets have reduced during the year as a result of the COVID-19 pandemic

The credit risk associated with the Company's trade and other receivables is explained in the Strategic report.

17. Trade and other payables

	2020 £'000	2019 £'000
Amounts owed to group undertakings	330	11,587
Trade payables	49,813	70,116
Other taxation and social security	12,524	12,503
Other payables	23,290	18,576
Central government creditors	37,497	116,451
Deferred season ticket income	9,537	87,911
Accruals and deferred income	146,899	144,110
	<u>279,890</u>	<u>461,254</u>
	2020 £'000	2019 £'000
Contract liabilities	<u>47,034</u>	<u>204,362</u>

Contract liabilities at each balance sheet date are expected to be recognised as revenue within the next financial year. The balance as at 27 June 2020 has primarily decreased due to reduced season ticket sales, as a direct result of the COVID-19 pandemic.

Amounts owed to group undertakings are repayable on demand and non-interest bearing.

Other payables include pension contributions payable amounting to £1,186,000 (2019: £1,077,000).

Central government creditors include a £1,568,000 profit share payable (2019: £nil) under the terms of the agreement with the DfT for the year ended 27 June 2020. For the year ended 29 June 2019 central government creditors includes £5,640,000 under the terms of the agreement with the DfT whereby no profit was made in the year.

Deferred season ticket income and deferred income principally comprise amounts relating to contracts with customers.

Notes to the financial statements (continued)

For the year ended 27 June 2020

18. Provisions

	<i>Uninsured claims £'000</i>	<i>Franchise commitments £'000</i>	<i>Total £'000</i>
At 30 June 2018	2,513	43,520	46,033
Provided in year (after discounting)	1,267	28,358	29,625
Utilised in year	(444)	(17,048)	(17,492)
Released in year	(905)	(679)	(1,584)
Unwinding of discounting	30	217	247
At 29 June 2019	2,461	54,368	56,829
Provided in year (after discounting)	1,433	7,571	9,004
Utilised in year	(731)	(2,393)	(3,124)
Released in year	(617)	(699)	(1,316)
Unwinding of discounting	30	405	435
At 27 June 2020	<u>2,576</u>	<u>59,252</u>	<u>61,828</u>

Uninsured claims

Uninsured claims represent the cost to settle claims for incidents occurring prior to the balance sheet date based on an assessment of the expected settlement, together with an estimate of settlements that will be made in respect of incidents that have not yet been reported by the insurer, subject to the overall stop loss. It is estimated that the majority of uninsured claims will be settled within the next six years. Both the estimate of settlements that will be made in respect of claims received, as well as the estimate of settlements made in respect of incidents not yet reported, are based on historic trends which can alter over time reflecting the length of time some matters can take to be resolved. No material changes to carrying values are expected within the next 12 months. Uninsured claims are provided on a gross basis and a separate reimbursement asset, for amounts due back from the insurance providers, of £nil is included within other receivables.

Franchise commitments

Franchise commitments comprise lease return obligations on vehicles, depots and stations. The dilapidations will be incurred as part of a rolling maintenance contract over the remaining term of the franchise to September 2021. The provisions are based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors. Reflecting the nature of the judgements associated with the provisioning for dilapidations it is not practicable to provide further sensitivity analysis of the extent by which these amounts could change in the next financial year.

Estimation uncertainties arise with respect to dilapidation provisions, due to the complex nature of the assets. Estimated dilapidations can range significantly depending on the specific asset been considered. The range of outcomes are assessed on an asset by asset basis and the range can vary between a plus or minus 5%-25% dependant on procurement, production or maintenance efficiencies as well as potential economies of scale. Based on the individual assessments, the provision at the year end could fall between an estimated range of £55,000,000 and £81,600,000.

19. Retirement benefit obligations**Defined benefit plans**

The majority of employees are members of sections of the Railways Pensions Scheme (RPS), an industry-wide defined benefit scheme. The Company is obligated to fund the relevant section of the scheme over the period for which the franchise is held.

The RPS is governed by the Railways Pension Trustee Company Limited and is subject to regulation from the Pensions Regulator and relevant UK legislation.

All the costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. The RPS sections are all open to new entrants and the assets and liabilities are separately identifiable and segregated for funding purposes.

Notes to the financial statements (continued)

For the year ended 27 June 2020

19. Retirement benefit obligations (continued)

In addition, at the end of the franchise, any deficit or surplus in the scheme passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder. The Company's obligations are therefore limited to its contributions payable to the schemes during the period over which it operates the franchise.

Changes in financial assumptions include the effect of changes in the salary cap agreed to offset additional national insurance costs as a result of the schemes no longer "opting out".

The accounting policy for the Railways Pension Scheme (RPS) is detailed in note 2 and the accounting judgements are covered in the critical accounting judgements and key sources of estimation uncertainty section.

British Railways Additional Superannuation Scheme (BRASS) matching AVC Company contributions of £161,000 (2019: £185,000) were paid in the year.

The contributions made by the company in the year were £23,500,000 (2019: £21,900,000).

Summary of year end assumptions:

	2020	2019
	%	%
Rate of increase in salaries	3.1	3.5
Rate of increase in pensions in payment	2.1	2.2
Rate of increase in deferred pensions	2.1	2.2
Discount rate	1.6	2.4
Inflation assumptions:		
RPI	2.8	3.2
CPI	2.1	2.2

Increases are set at RPI for the first five salary reviews as per the results of the re-measurement valuation at 31 December 2016.

The most significant non-financial assumption is the assumed rate of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a male member of each pension scheme at age 65.

	2020	2019
	Years	Years
Pensioner	21	21
Non-pensioner	23	23

The mortality assumptions adopted as at 27 June 2020 are based on the initial results of the funding valuation as at 31 December 2016, which has not yet been completed and 29 June 2019 are based on the results of the latest funding valuation as at 31 December 2013.

Notes to the financial statements (continued)

For the year ended 27 June 2020

19. Retirement benefit obligations (continued)

Sensitivity analysis:

Due to the nature of the franchise adjustment, the balance sheet position in respect of the rail pension schemes is not sensitive to small movements in any of the assumptions and therefore we have not included any quantitative sensitivity analysis.

Category of assets at the year end:

	2020		2019	
	Value		Value	
	£'000	%	£'000	%
Equities	1,265,200	98.3	1,192,500	98.6
Properties	12,700	1.0	14,700	1.2
Others	9,200	0.7	2,100	0.2
Total market value of assets	<u>1,287,100</u>		<u>1,209,300</u>	

All of the asset categories above are held within pooled funds and therefore unquoted in active markets. None of the assets are invested in property occupied by the Company or the Company's own financial instruments.

Funding position of the Company's pension arrangements:

	2020	2019
	£'000	£'000
Employer's 60% share of pension scheme:		
Liabilities at the end of the year	(1,938,300)	(1,669,700)
Assets at fair value	1,287,100	1,209,300
Gross deficit	<u>(651,200)</u>	<u>(460,400)</u>
Franchise adjustment	651,200	460,400
Pension scheme liability	<u>—</u>	<u>—</u>

Pension cost for the financial year:

	2020	2019
	£'000	£'000
Service cost	64,800	53,900
Franchise adjustment to current period costs	(43,600)	(34,000)
Administration costs	2,500	2,200
Interest cost on net liabilities	11,400	10,000
Interest on franchise adjustments	(11,400)	(10,000)
Pension cost	<u>23,700</u>	<u>22,100</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

19. Retirement benefit obligations (continued)

Analysis of change in the employer's 60% share of pension scheme liabilities over the financial year:

	2020 £'000	2019 £'000
Employer's 60% share of pension scheme liabilities at start of year	1,669,700	1,476,600
Franchise adjustment (100%)	(460,400)	(364,700)
	<u>1,209,300</u>	<u>1,111,900</u>
Liability movement for members' share of assets (40%)	44,600	51,700
Service cost (60%)	64,800	53,900
Franchise adjustment to current period costs	(43,600)	(34,000)
Interest cost (60%)	28,900	28,300
Interest on franchise adjustment (100%)	(11,400)	(10,000)
Re-measurement loss due to experience (60%)	(28,900)	–
Re-measurement gain/(loss) due to financial assumptions (60%)	193,400	91,300
Re-measurement gain due to demographic assumptions (60%)	–	–
Benefits paid (100%)	(34,200)	(32,100)
Franchise adjustment movement (100%)	(135,800)	(51,700)
	<u>1,287,100</u>	<u>1,209,300</u>
Franchise adjustment (100%)	651,200	460,400
Employer's 60% share of pension scheme liabilities at end of year	<u>1,938,300</u>	<u>1,669,700</u>

Analysis of change in the pension scheme assets over the financial year:

	2020 £'000	2019 £'000
Fair value of assets at start of year (100%)	1,209,300	1,111,900
Interest income of plan assets (60%)	17,500	18,300
Re-measurement gain on assets (60%)	28,700	39,600
Company contributions (100%)	23,500	21,900
Benefits paid (100%)	(34,200)	(32,100)
Administrative expenses incurred (100%)	(4,100)	(3,700)
Members share of movement of assets (40%)	46,400	53,400
Fair value of assets at end of year (100%)	<u>1,287,100</u>	<u>1,209,300</u>

Estimated contributions for future:

Company contributions expected to be paid in the year to 27 June 2020 are considered to be the principal risk to which membership of the RPS exposes the Company.

	£'000
Estimated company contributions in financial year 2021	24,600
Estimated employee contributions in financial year 2021	16,400
Estimated total contributions in financial year 2021	<u>41,000</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 27 June 2020

19. Retirement benefit obligations (continued)

Franchise adjustment:

The effect of the franchise adjustment on the financial statements is provided below:

	2020 £'000	2019 £'000
Balance sheet		
Defined benefit pension plan	(651,200)	(460,400)
Deferred tax asset	123,728	78,268
	<u>(527,472)</u>	<u>(382,132)</u>
Other comprehensive income		
Re-measurement gains	135,800	51,700
Tax on re-measurement gains	(25,802)	(8,789)
	<u>109,998</u>	<u>42,911</u>
Income statement		
Operating costs – franchise adjustment	(11,400)	(10,000)
Deferred tax charge	2,166	1,700
	<u>(9,234)</u>	<u>(8,300)</u>

Experience recognised in other comprehensive income:

	2020 £'000	2019 £'000
Loss on pension scheme liabilities	(164,500)	(91,300)
Experience gains on assets	28,700	39,600
Franchise adjustment movement	135,800	51,700
Total gain recognised in other comprehensive income during the year	<u>—</u>	<u>—</u>

Risks associated with defined benefit plans:

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited as under the franchise arrangements, the Company is not responsible for any residual deficit at the end of a franchise. As such, there is limited short term cash flow risk within this business and if agreed it would also be proportionately borne by the employees as well as the Company.

Notes to the financial statements (continued)

For the year ended 27 June 2020

20. Commitments***Rail operating charges – company as lessee***

At 27 June 2020, the Company holds commercial leases on certain properties and other items. Renewals are at the option of the lessee. There are no restrictions placed upon the lessee by entering into these leases.

The Company previously categorised the majority of rail leases (rolling stock, access charges, stations and depots) as operating leases, under IAS 17. The majority of rail rolling stock leases are now deemed to be right of use assets, following the implementation of IFRS 16, and are now recognised on the balance sheet, with a corresponding lease liability. The exception is for short term and low value assets.

Also, at 27 June 2020, the Company holds agreements under which it leases secure access to railway infrastructure (track, stations and depots). These are now classified as rail operating charges, as they do not result in a right of use asset. The leases typically run for a period until the end of the relevant franchise. At 29 June 2019, under IAS 17, the Company held agreements under which it leases rolling stock and secure access to railway infrastructure (track, stations and depots).

Future minimum rentals payable under non-cancellable financial commitments as at 27 June 2020 and 29 June 2019 were as follows:

	2020 £'000	IAS 17 2019 £'000
Within one year	452,764	793,686
In the second to fifth years inclusive	103,539	995,910
Over five years	–	–
	<u>556,303</u>	<u>1,789,596</u>

Rail operating charges – company as lessor

The Company holds agreements under which it leases rolling stock, and agreements with Network Rail for access to the railway infrastructure (track, stations and depots).

Future minimum rentals receivable under non-cancellable financial commitments as at 27 June 2020 and 29 June 2019 were as follows:

	2020 £'000	IAS 17 2019 £'000
Within one year	27,319	32,245
In the second to fifth years inclusive	5,914	39,225
Over five years	–	–
	<u>33,233</u>	<u>71,470</u>

Performance bonds and other guarantees

The Company has provided bank guaranteed performance bonds of £22,521,000 (2019: £20,671,000), season ticket bonds of £90,395,190 (2019: £113,770,000) and loan guarantee bond of £36,250,000 (2019: £36,250,000) to the DfT in support of the Company's rail franchise operations.

In addition, the Go-Ahead Group plc, together with Keolis, has a joint parental company commitment to provide funds of £136,000,000 (2019: £136,000,000) to the DfT in respect of the Company. At the year-end £nil (2019: £nil) has been provided.

These bonds and guarantees are counter-indemnified by the shareholders of Govia Limited, the Company's parent company.

Capital commitments

At 27 June 2020, amounts contracted for but not provided in the financial statements for plant and equipment amounted to £nil (2019: £1,060,000).

Govia Thameslink Railway Limited

Notes to the financial statements (continued)

For the year ended 27 June 2020

21. Related party transactions

	<i>The Go-Ahead Group plc & Subsidiary Companies</i>	
	<i>2020</i>	<i>2019</i>
	<i>£'000</i>	<i>£'000</i>
Purchases from related party	55,157	61,833
Sales to related party	23,443	24,797
Interest payable to related party	8	21
Amounts owed to related party	330	11,587

The Go-Ahead Group plc owns 65% and Keolis (UK) Limited owns 35% of the ordinary shares in Govia Limited. Govia Thameslink Railway is 100% owned by Govia Limited.

The Company enters into arms' length transactions with various Go-Ahead Group companies for the provision of certain services including hire of staff, train maintenance and rail replacement bus services. Part of the amounts owed to related parties includes a loan amount of £nil (2019: £5m) from Govia Limited.

22. Called up share capital

		<i>Allotted, called up and fully paid</i>	
	<i>No.</i>	<i>2020</i>	<i>2019</i>
		<i>£'000</i>	<i>£'000</i>
Ordinary shares of £1 each	5,000,000	5,000	5,000

There are no rights attached to the share capital.

23. Share based payments

Share Incentive Plan

The Company participates in an HMRC approved share incentive plan, operated by the ultimate parent undertaking, known as The Go-Ahead Group plc Share Incentive Plan (the "SIP"). The SIP is open to all group employees (including executive directors) who have completed at least six months service with a group company at the date they are invited to participate in the plan.

The SIP permits The Go-Ahead Group plc to make four different types of awards to employees (free shares, partnership shares, matching shares and dividend shares), although the group has, so far, made awards of partnership shares only. Under these awards, the group invites qualifying employees to apply between £10 and £150 per month in acquiring shares in the group at the prevailing market price. Under the terms of the scheme, certain tax advantages are available to the group and employees.

Sharesave Scheme

Shareholder approval was obtained at the 2013 AGM for Savings-Related Share Option Scheme, known as The Go-Ahead Group plc 2013 Savings-Related Share Option Scheme (the Sharesave scheme) for employees of the group and its operating companies.

The Sharesave scheme is open to all full time and part-time employees (including executive directors) who have completed at least six months of continuous service with a Go-Ahead Group company at the date they are invited to participate in a scheme launch. To take part, qualifying employees have to enter into a savings contract for a period of three years under which they agree to save a monthly amount, from a minimum of £5 to a maximum (not exceeding £500) specified by the group at the time of invitation. For the February 2016 launch (Sharesave 2016), the maximum monthly savings limit set by the group was £50. Participants were given the choice of taking their money back, or to purchase Go-Ahead Group Shares at a 20% discount of the market price set at the date of invitation. Sharesave 2016 participants had six months from the maturity date to exercise their options. Sharesave 2016 matured on 1 May 2019. There are currently no active Sharesave schemes in place.

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

23. Share based payments (*continued*)

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The key assumptions input into the model are future share price volatility, future dividend yield, future risk free interest rate, forfeiture rate and option life.

There are no savings-related options at 27 June 2020.

The expense recognised for the scheme during the year to 27 June 2020 was £nil (2019: £nil).

The following table shows the number and weighted average exercise price (WAEP):

	2020 No.	2020 WAEP £	2019 No.	2019 WAEP £
Outstanding at the beginning of the year	40,109	19.11	51,327	19.11
Forfeited during the year	(31,349)	19.11	(7,150)	19.11
Exercised during the year	(8,760)	19.11	(4,068)	19.11
Outstanding at the end of the year	<u>—</u>	<u>—</u>	<u>40,109</u>	<u>19.11</u>

The options outstanding at the end of the year have a weighted average remaining contracted life of nil years (2019: nil years). These options are exercisable at a weighted average exercise price of £nil (2019: £19.11). This represents an exercise price of £nil (2019: £19.11).

Deferred Share Bonus Plan

The Deferred Share Bonus Plan (DSBP) provides for directors and certain other senior employees to be awarded shares in the Group conditional on the achievement of financial and strategic targets. The shares are deferred over a three year period.

The expense recognised for the DSBP during the year to 27 June 2020 was £111,000 (2019: £80,000).

The weighted average fair value of options granted during the year was £21.12 (2019: £15.74).

The following table shows the number of share options for the DSBP:

	2020 No.	2019 No.
Outstanding at the beginning of the year	19,484	16,748
Granted during the year	10,653	4,658
Forfeited during the year	(370)	—
Exercised during the year	(5,086)	(1,922)
Outstanding at the end of the year	<u>24,681</u>	<u>19,484</u>

The weighted average exercise price of options exercised during the year was £21.41 (2019: £15.82).

At the year-end, 4,278 options related to DSBP awards which vested before the year end, but which have not yet been exercised by participants. Of these 3,383 options related to the award granted in November 2016 and 895 related to the award granted in November 2015. 5,462 options, relating to the DSBP award granted in November 2017, will be eligible to vest from November 2020 following the end of a three-year deferral period. The year-end weighted average share price of the options was £9.06 (2019: £19.72).

The weighted average remaining contractual life of the options was 1.04 years (2019: 0.76 years).

Notes to the financial statements (*continued*)

For the year ended 27 June 2020

24. Restricted cash

Restricted cash balances are included in cash and cash equivalents. The restricted cash is not available for immediate or general business use and can only be distributed with the agreement of the DfT, normally up to the value of revenue reserves or based on a working capital formula. On 1 March 2020, the Department for Transport (DfT) awarded an Emergency Measures Agreement. As part of this agreement all cash and cash equivalents are deemed to be restricted cash. An additional restriction exists for year ended 27 June 2020 in that no distribution can be made during the year. On 19 September 2020, the Department for Transport (DfT) awarded an Emergency Recovery Measures Agreement (ERMA) to the Company. As part of this agreement all cash and cash equivalents are restricted. A distribution can be made during the year ended 3 July 2021 with restrictions on the value imposed.

Included within cash at bank is an amount of £275,522,000 (2019: £326,144,000) held, which cannot be distributed by means of a dividend.

25. Ultimate parent company

The immediate parent company and immediate controlling party of Govia Thameslink Railway Limited is Govia Limited, a Company registered in England and Wales and registered office is 3rd Floor, 41 - 51 Grey Street, Newcastle upon Tyne, NE1 6EE, United Kingdom. Govia Limited is a joint-venture between Keolis (UK) Limited (35%) and The Go-Ahead Group (65%).

In the opinion of the directors, the Company's ultimate parent Company and ultimate controlling party is The Go-Ahead Group plc, a Company registered in England and Wales whose registered office is 3rd Floor, 41 - 51 Grey Street, Newcastle upon Tyne, NE1 6EE, United Kingdom.

The Go-Ahead Group plc is also the parent undertaking of the Group of undertakings for which Group financial statements are drawn up, and it is also the largest and smallest parent company preparing group financial statements. The Go-Ahead Group plc is registered in England and Wales and copies of its financial statements can be obtained from Companies House, Cardiff.

26. Post balance sheet events

On 19 September 2020, the Department for Transport (DfT) awarded an Emergency Recovery Measures Agreement (ERMA) to the Company. This agreement replaces the existing franchise agreement and has been awarded for a period of 12 months. The contract end date of September 2021 is the same as the previous franchise agreement.

As part of the industry's rail settlement period 6 ending 19th September 2020, the Company settled £1.3m for the redistribution of historic ticket on departure commission receivable for the two years to 31 March 2020. The outcome of the settlement and the related repayment of this commission receivable, and associated profit share to the DfT, has been included within these Financial Statements as an adjustment to revenue, other operating costs and trade and other payables.