

Registered no: 07934306

Govia Thameslink Railway Limited

Annual Report and Financial Statements

For the year ended 1 July 2017



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

DIRECTORS AND PROFESSIONAL ADVISORS

Directors

W M Allan
D A Brown
N J F Brown
S P Butcher
A J F Gordon
C A Hodgson
C S Horton
B D M Tabary

Company Secretary

C Ferguson

Auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR
United Kingdom

Solicitors

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Newcastle upon Tyne
NE99 3UR
United Kingdom

Registered office

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NE1 6EE
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Actuary

Willis Towers Watson
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United Kingdom

Govia Thameslink Railway Limited
Strategic report
For the year ended 1 July 2017

The directors present their Strategic report for year ended 1 July 2017.

Business review

The principal activity of Govia Thameslink Railway Limited ("GTR") 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 are operated under a unique franchise agreement, created to facilitate the transformational Thameslink Programme. The franchise agreement has an initial term ending in 2021.

Govia Limited's (Note 25) philosophy of operating its businesses within a devolved framework enables companies to work closely with the communities they serve. 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.

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, the introduction of several new fleets of trains and the modernisation of working practises.

Unfortunately, this modernisation agenda has been impacted by the much publicised industrial action by both the RMT and ASLEF unions. Both unions have publicly declared their intent to resist the further introduction of driver controlled trains, and are resisting any plans on a national level. During the financial year GTR has delivered its new operating model for trains operating on much of the Southern and Gatwick Express services by the introduction of the On Board Supervisor (OBS) role. This new role, which has limited operational responsibilities, focuses on providing improved customer services to our passengers. This change in focus has been well received by passengers and, whilst still the subject of negotiation with the unions, is operating well and reducing the number of cancellations suffered by our customers. With the introduction of the OBS role as well as the continuation of conductors on some routes, GTR now has a second person on more trains than was the case in the previous operating model.

The prolonged disruption, combined with the pre-existing network infrastructure instability, delays in the introduction and operational reliability of the class 700 trains and driver recruitment and training programmes, has meant that the service we have provided has fallen short of our and our customers' expectations, for which we apologise. While service levels remain below these expectations, performance improved during the second half of the financial year, helped in part by fewer strike days.

During the period of the industrial action, the Secretary of State commissioned a report by an independent rail industry expert, Chris Gibb, to suggest changes to improve performance on the Southern network. One of his conclusions was that "I am convinced by what I have seen that if the train crew were to work in the normal manner that they have in previous years, the output of the system, a safe and reliable rail service for passengers, would be delivered in an acceptable manner, which would be similar to other commuter rail services in the South East".

The unique revenue risk terms of this franchise agreement between GTR and the Department for Transport (DFT) results in passenger revenue risk being taken by the DFT, covering both passenger and Network Rail performance regime revenues. The Company collects all revenues and adjusts this revenue to reflect the amounts retained as management fees.

Due to the operational difficulties the company continues to deliver disappointing financial and customer satisfaction results. However, the spring National Rail Passenger Satisfaction results (NRPS), whilst below the required levels, showed a small improvement over the previous year across the brands, and showed significant improvement in many of the key individual measures, demonstrating that the company's continued focus on improving information and customer facilities is being recognised by our passengers.

In July 2017, an agreement was reached with the DFT for GTR to fund a package of performance and passenger improvements worth £13.4m. The discussions with the DFT in relation to changes in services relating to the period up to 1 July 2017 continue, and the impact on profitability is likely to be in a range of plus or minus £5m.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 1 July 2017

Key Performance Indicators

For the year to 1 July 2017, the key operating statistics were as follows:

	Year ended 1 July 2017	Restated Year ended 2 July 2016
Revenue	£1,258m	£1,142m
Operating profit	£4.6m	£5.7m
Public Performance Measure (PPM)	74.2%	81.5%
National Rail Passenger Satisfaction (NRPS)		
- Gatwick Express	88%	79%
- Great Northern	79%	74%
- Southern	72%	69%
- Thameslink	75%	74%

This financial reporting year covers the first full 12 months of full franchise operations as the prior year included the transfer of the services previously operated by Southern on 26 July 2015. The restatement in the prior year is detailed in Note 3.

Both the PPM and NRPS results are used as proxies of the service we offer our customers. The disappointing drop in PPM was a result of the significant industrial action during the year. Despite this drop in punctuality, the customer satisfaction measure has improved, but is still below where we expect to operate.

Managing the current operational environment, recruiting and planning for future developments have involved material levels of expenditure which had not been anticipated. This combined with the bespoke performance penalty regimes contained within the franchise agreement have contributed to the disappointing financial results in the year.

However, the directors continue to pursue all contractual compensation and legal mechanisms, as appropriate, to mitigate these financial impacts, whilst pursuing efficiency opportunities that arise.

Despite the ongoing cost challenges the company has met all of its financial and liquidity covenants contained within the franchise agreement without the need to call on any further financial support from its shareholders.

Principal risks and uncertainties

GTR 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 the political, economic, environmental, infrastructure performance and financial instrument risks.

- **Political Risks**

The long running industrial relations issues with the RMT and ASLEF have placed pressure on relations between the Company and some of its key stakeholders. The resultant poor operational performance on the Southern and Gatwick Express routes has led to pressure from stakeholders, challenging both the franchising model and ownership of the franchise. There have been several calls for services to be transferred to the control of the London Mayor. Despite these difficulties the Company has delivered its planned extension of driver controlled train services and introduced the OBS customer facing role. This allows the trains to run without a second person on board to prevent cancellations. The company's senior management continue to work closely with the DFT and have engaged positively with local MPs, stakeholders and the Rail Ministers and the Secretaries of State. It is well understood that the current industrial relations environment is very challenging, especially now that the dispute has spread to other franchises across the country, which may make finding a resolution to the union negotiations more difficult. Management and directors continue to work closely with the DFT to ensure consistency of messaging to try to manage stakeholder expectations, and have developed a new communication strategy to ensure the issues are better understood by stakeholders.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 1 July 2017

Principal risks and uncertainties (continued)

The existing contract has a seven year initial term, with DFT options to extend for up to two years. It is not anticipated that any significant political change in direction would affect the existing contract. However, the Government's spending constraints are expected to impact on the DFT's ability to fund service changes which passengers would like to see. Whilst Brexit is not expected to have a direct impact on GTR's contract it is expected to lead to potential increases in costs as many of the key suppliers are reliant on their European supply chain. The directors and management will work with the company's supply chain to minimise these impacts where possible.

• *Economic Risks*

The unique terms of this contract mean that the majority of normal franchise risks around revenue growth pass directly to the DFT and therefore the economic risks are focussed on performance, cost control and compliance with the obligations contained in the franchise agreement. Staff costs in particular are impacted directly by the collective settlements reached by other operators, especially in the London market. This market is being significantly impacted by the unprecedented demand for resources being driven by projects and schemes dealing with passenger growth. These situations are monitored closely by management and have led to negotiations resulting in higher than RPI settlements to ensure the continuity of service provision. To further mitigate these issues, management have entered into multi-year agreements with several groups of staff.

The cost impacts of the ongoing industrial disputes are mitigated as far as possible, and specialist legal advice has been sought which allowed the successful challenge of ASLEF in the courts in relation to the introduction of the new 12 car trains on the Gatwick Express. Management continue to manage the situation in line with the contractual mechanisms included in the Franchise Agreement.

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.

Industry contracts also contain standard variation mechanisms to cater for occasions where network capability changes necessitate service changes which will be used where appropriate to mitigate incremental costs arising. Failure to comply with the obligations contained in the Franchise Agreement 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.

Whilst the contract is very clear about the triggers of contractual change the financial outcome of these changes is subject to lengthy and detailed negotiation. The directors use their skill and experience to assess the likely outcomes of these negotiations, but this inevitably leads to a range of possibilities having to be considered. There are several major changes at differing stages of agreement which leads to continuing uncertainty around their ultimate outcome.

• *Environmental Risks*

In common with all Govia companies, GTR focuses on minimising any environmental impact of the Company. Various commitments exist within the franchise agreement to deliver a variety of schemes to manage effectively the Company's environmental obligations and this is overseen by the Head of Safety and Environment on the company's Executive. Operational depots in various areas have been developed close to residential housing and to mitigate noise nuisance issues the Safety and Environment team work closely with local councils to manage the impact on surrounding residents.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 1 July 2017

Principal risks and uncertainties (continued)

• *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 causation 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. The well-publicised problems with the Thameslink project and issues with the nature and age of the infrastructure over which the Company's services operate continue to offer significant challenge to punctuality and service provision. This continues to significantly impact GTR and its shareholders' reputations, and is reflected in numerous press articles and recent customer satisfaction surveys. In recognition of the impact of underinvestment in the Brighton Mainline specifically an incremental fund of £300m was awarded to Network Rail by the DFT to allow for the acceleration of focussed maintenance activities.

Due to the nature of the contract the compensation payments from Network Rail flow directly to the DFT. GTR continues to work closely with its key passenger stakeholders to communicate what it is doing to address the issues and has planned customer information system improvements under development.

Network Rail has a large and complex plan for significant major asset improvements. However, the Hendy Review into Network Rail's Control Period 5 projects has also impacted on previously planned infrastructure works, by either delaying or cancelling some of the enabling works required for future service improvements. This has a direct impact on the Company's ability to deliver some of the future service improvements as part of the full Thameslink programme. The Company has worked closely with the DFT to develop performance led timetable solutions to take account of these and other infrastructure limitations whilst also addressing both the growth and capacity constraints and conflicts to protect the delivery of the key Thameslink target of 24 trains per hour in December 2018. The changes required were substantial, varied and complex affecting several industry parties. These new timetables have been widely consulted with stakeholders and are currently being reviewed as part of the standard industry processes by Network Rail.

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

The Company's principal financial instruments comprise cash and cash equivalents. Other financial assets and liabilities, such as trade creditors, trade debtors and Group trading balances, arise directly from the Company's operating activities.

The main risks associated with the Company's financial assets and liabilities are set out below. Given that the majority of the risks outlined below derive from transactions with other Group companies or with public or quasi-public bodies (DFT, etc.), the Company does not undertake any hedging activity locally. Significant financial risks from a group perspective are addressed on a case-by-case basis at a group level.

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 currently being monitored.

Credit risk is the risk that one party will cause a financial loss for the other party. Given that the majority of third party Company debtors are with public or quasi-public bodies these parties are not considered to be a significant credit risk.

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. 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.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 1 July 2017

Principal risks and uncertainties (continued)

- *Ongoing review of emerging issues*

Review of wider economic risks and uncertainties by the Group's audit committee encompasses emerging risks and considers the impact of each on the Group. Where appropriate, specific legal or other professional advice is sought to support Group's assessment.

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. In arriving at the operating profit numbers for the Company, management have made judgements on the outcome of contractual discussions with Network Rail and the DFT. These principally relate to the allocation of financial responsibility for train cancellations and delays, and the successful justification of incremental costs in relation to contractual claims and clawbacks.

Future developments

The next twelve months will focus on improving the industrial relations and operational and financial performance of the whole company. Key to delivering this is the resolution of the existing industrial disputes and delivering the customer focussed changes planned as well as the continued introduction of the new rolling stock fleets. However, 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 our customers expect.

Cost control, in the absence of the performance compensation from Network Rail, which like passenger revenue passes directly to the DFT, will of course continue to be of the highest importance, despite the cost pressures being added by industry issues.

The next eighteen months will see significant milestones delivered by the company, as it plays a key role in the transformation of services as a result of the Thameslink programme investments. Much of the service area will see newer and improved trains on their services as the class 700 introduction is completed and the resulting cascade of the 387 and 377 fleets continue. During the autumn the whole Thameslink service will be operated by the new class 700 units. Great Northern services will also see the introduction of some class 700 services from late 2017. Preparations will also commence for the introduction of the last new fleet on the franchise, the Moorgate fleet, which is due to enter service in 2019.

The company will also continue to promote and develop its smartcard offering and will extend the area in which its Key and Keygo smartcard product can be used. This will be important in delivering a flexible alternative to the traditional "orange" ticket and should improve the customer experience as the company has also introduced automatic delay compensation for users of the Key in times of disruption.

Improving operational performance is the key to improving the reputation and customer experience for GTR and the directors and management will continue to have an absolute focus on this in the coming year.

The strategic report was approved by the Board of Directors on 3 October 2017 and signed on their behalf by:



S P Butcher
Director

Govia Thameslink Railway Limited
Directors' report
For the year ended 1 July 2017

The directors present their Annual Report and Audited Financial Statements for the year ended 1 July 2017.

Dividends

Ordinary dividends of £nil (2016: £nil) were paid and proposed during the year.

Future developments

Future developments in the business are discussed in the Strategic report.

Financial instruments

Details of financial instruments are provided in the Strategic report.

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.

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 in the notes to the financial statements.

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

It is the Company's policy to give full consideration to suitable applications for employment by disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the Company.

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 has considerable financial resources, together with a Franchise Agreement with the DfT to provide passenger railway services. The directors believe that the Company is well placed to manage its business risks successfully during the franchise term.

The directors have considered the Company's current and future prospects, risks and uncertainties set out in the risk management objectives and policies, and its availability of financing, and are satisfied that the Company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and to meet its liabilities when they fall due. This is after consideration of forecast trading expectations and committed parent company support. Accordingly, the directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Events after the balance sheet date

In July 2017, an agreement was reached with the DfT for GTR to fund a package of performance and passenger improvements worth £13.4m. As this related to past events, this liability has been recognised at the balance sheet date.

Otherwise, there were no significant events occurring after the balance sheet date requiring disclosure in these financial statements.

Govia Thameslink Railway Limited
Directors' report (continued)
For the year ended 1 July 2017

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.

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:

W M Allan
D A Brown
N J F Brown (appointed 7 November 2016)
S P Butcher
D Crowther (resigned 3 December 2016)
A Gordon
C Hodgson
C Horton
B Tabary

Messrs D A Brown and S P Butcher were directors of the ultimate parent company, The Go-Ahead Group plc, during the period.

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
41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE

By order of the board



S P Butcher
Director
3 October 2017

Govia Thameslink Railway Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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:

- give a true and fair view of the state of the company's affairs as at 1 July 2017 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 of Govia Thameslink Railway Limited (the 'company') which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of changes in equity;
- the Balance sheet;
- the related notes 1 to 25.

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 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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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 independent 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

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 independent 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our independent auditor's report.

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 independent 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.

Report on other legal and regulatory requirements

Opinions 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.

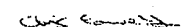
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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.



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

3 October 2017

Govia Thameslink Railway Limited
Income statement
for the year ended 1 July 2017

		2017	Restated*
	Notes	£'000	2016 £'000
Revenue	4	1,257,854	1,141,963
Operating costs	5(a)	(1,253,249)	(1,134,720)
Exceptional operating costs	5(b)	—	(1,580)
Total operating costs		<u>(1,253,249)</u>	<u>(1,136,300)</u>
Operating profit		4,605	5,663
Interest receivable and similar income	8	1,030	1,406
Interest payable and similar charges	9	(721)	(1,071)
Profit on ordinary activities before taxation		<u>4,914</u>	<u>5,998</u>
Tax on profit on ordinary activities	10	(1,149)	48
Profit for the year from continuing operations		<u>3,765</u>	<u>6,046</u>

* Restated for the change in accounting policy regarding rail pensions as explained in note 3.

Operating activities, comprising operation of the Thameslink and Great Northern routes, commenced at the start of the GTR franchise on 14 September 2014. The operating activities of Southern Railway Limited, comprising the Southern and Gatwick Express routes, transferred to GTR on 26 July 2015.

Govia Thameslink Railway Limited
Statement of comprehensive income
for the year ended 1 July 2017

		2017	Restated 2016
	Notes	£'000	£'000
Profit for the year from continuing operations		3,765	6,046
Total comprehensive income for the year		<u>3,765</u>	<u>6,046</u>

Statement of changes in equity
for the year ended 1 July 2017

	Share capital £'000	Retained earnings £'000	Total Equity £'000
At 27 June 2015	5,000	(6,147)	(1,147)
Profit and total comprehensive income for the year - restated (note 3)	—	6,046	6,046
Share based payments (note 22)	—	283	283
At 2 July 2016	5,000	182	5,182
Profit and total comprehensive income for the year	—	3,765	3,765
Share based payments (note 22)	—	306	306
At 1 July 2017	<u>5,000</u>	<u>4,253</u>	<u>9,253</u>

Govia Thameslink Railway Limited
Registered No: 07934306
Balance sheet
at 1 July 2017

	Notes	2017 £000	2016 £000
Assets			
<i>Non-current assets</i>			
Intangible assets	12	1,067	1,367
Tangible assets	13	30,598	14,449
		<u>31,665</u>	<u>15,816</u>
<i>Current assets</i>			
Inventory	14	7,792	8,434
Debtors: amounts due within one year	15	135,423	159,480
Deferred tax assets	10	810	1,624
Current tax assets	10	864	92
Cash at bank		233,741	265,045
		<u>378,630</u>	<u>434,675</u>
Total assets		<u>410,295</u>	<u>450,491</u>
Liabilities			
<i>Current liabilities</i>			
Creditors: amounts falling due within one year	16	(366,863)	(413,019)
<i>Non-current liabilities</i>			
Retirement benefit obligations	18	–	–
Provisions	17	(34,179)	(32,290)
		<u>(34,179)</u>	<u>(32,290)</u>
Total liabilities		<u>(401,042)</u>	<u>(445,309)</u>
<i>Net current assets</i>		<u>11,767</u>	<u>21,656</u>
<i>Total assets less current liabilities</i>		<u>43,432</u>	<u>37,472</u>
Net assets		<u>9,253</u>	<u>5,182</u>
Capital and reserves			
Share capital	21	5,000	5,000
Retained earnings		4,253	182
Total equity		<u>9,253</u>	<u>5,182</u>

The financial statements were approved by the Board of Directors and authorised for issue on 3 October 2017 and signed on their behalf by:



S P Butcher
Director

Govia Thameslink Railway Limited
Notes to the financial statements
For the year ended 1 July 2017

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 1 July 2017 were authorised for issue by the Board of Directors on 3 October 2017 and the balance sheet was signed on the Board's behalf by S P Butcher. 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.

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 Company has considerable financial resources, together with a Franchise Agreement with the DfT to provide passenger railway services. The directors believe that the Company is well placed to manage its business risks successfully during the franchise term. Accordingly the financial statements are prepared on a going concern basis.

The financial statements have been prepared on a historical cost basis as modified by financial instruments 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:

- 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 1 July 2017

2. Accounting policies (*continued*)

2.1 Basis of preparation (*continued*)

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j)-(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66, B67 of IFRS3 *Business Combinations*; and
- the requirements of paragraphs 134 (d)-(f) and 135(c)-(e) of IAS 36 *Impairment of Assets*.

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

Accounting for the rail pension schemes

The Company participates in the Rail Pension Scheme ("RPS"), a defined benefit pension scheme which covers the whole of the UK rail industry. The RPS is partitioned into sections and the Company is responsible for the funding of its scheme whilst it operates the franchise. 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. In the year ended 1 July 2017 the Company has revised its accounting policy so that only the Company's resulting share of costs are recognised. This compares to the previous approach where the full service cost was included within the Income Statement and the majority of the franchise adjustments were recognised through the Statement of Comprehensive Income. Please refer to note 3 for further details.

Uninsured claims

The measurement of uninsured liabilities is based on an assessment of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Company, as detailed in note 17. In order to assess the appropriate level of provisions the Company engages with its brokers and claims handlers to ensure external expertise is adequately factored in to the provision for known claims.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

2. Accounting policies (continued)

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

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 is 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 the Company. 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.

The franchise contract also allows for changes to the franchise payments arising from predetermined triggers, however the financial evaluation of these changes is subject to detailed and lengthy negotiation around the justification of relevant costs and incomes. The Company has significant internal expertise to assess and manage these issues and use a combination of outcomes of negotiations to date and assessments of risk of cost recovery to inform the range of probable outcomes.

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 the Franchise Agreement with the DfT 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. The GTR franchise is complex and there are a number of contractual discussions underway with the DfT that have a range of reasonably possible outcomes. Management's judgements are that, relating to events up to 1 July 2017, the impact on profitability of these outcomes is likely to be within a range of plus or minus £5m.

Measurement of franchise commitments

The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations is set out in note 17. 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.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

2. Accounting policies (continued)

2.3 Significant accounting policies

Revenue

Revenue is recognised to the extent that it is probable that the income will flow to the Company and that the value can be reliably measured. Revenue is measured at the fair value of the consideration received and receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Revenue comprises the following:

Franchise management charges & Rendering of services

Revenue comprises passenger revenue collected and remitted to the DFT net of franchise management charges payable by the DFT.

Revenue is adjusted to reflect the payment of passenger revenue and performance regime receipts to the DFT, in accordance with the terms of the franchise agreement between the Company and the DFT. Revenue includes payments to the Company by Network Rail under operational performance regimes, and revenue from services related to passenger train operations, such as commission from tickets sold, rolling stock maintenance, advertising concessions and car parking.

Rental income

Rental income is generated from rental of surplus properties and subleasing of rolling stock and railway infrastructure access. It is accounted for on a straight-line basis over the lease term.

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.

Exceptional items

The Company presents as exceptional items on the face of the income statement those material items of revenue or expense which, because of the size or the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow better understanding of financial performance.

Franchise handover

The award of rail franchises does not meet the definition of a business, as defined in IFRS 3 (revised in 2007) and therefore has not been accounted for as a business combination; nor does it fall to be accounted for as a service concession using either the financial asset or intangible asset models in IFRIC 12, due to the various parties involved within the franchise. Details of the assets and liabilities transferred on franchise handover, assessed on an individual basis, are within note 24.

Intangible fixed assets

Software

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.

Licenses

License costs are capitalised as an intangible asset when the license is separately identifiable and arises from a contract. The asset is stated at cost less amortisation and any impairment in value. Amortisation is charged to the income statement evenly over the license term.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

3. Accounting policies (continued)

2.3 Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets. 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

Inventory

Inventory 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. Inventory is 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.

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.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement on a straight-line basis over the period of the lease. At the end of certain operating leases the Company has an obligation to return the assets to the lessor in an appropriate condition. The anticipated cost of meeting these return conditions are included within provisions in the financial statements.

Operating lease incentives

The Company recognises the aggregate effect of operating lease incentives as an element of rental expense. The value of the incentive is included within accruals and deferred income, and amortised over the life of the lease.

Operating lease income

Operating lease income is credited to the income statement on a straight line basis over the duration of the related contract.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

2. Accounting policies (continued)

2.3 Significant accounting policies (continued)

Retirement benefits

The Company participates in the RPS, a defined benefit scheme which covers the whole of the UK rail industry. This is partitioned into sections and the Company is responsible for the funding of these schemes whilst it operates the relevant franchise. 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 and 40% employee. A liability or asset is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability or asset (including as appropriate the impact of any minimum funding requirements) represents the deficit or surplus that the Company expects to fund or benefit from during the franchise term. Please refer to note 3 'Restatement of prior year comparatives' and note 18 'Retirement benefit obligations' for further details.

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 provision is recognised for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss.

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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Notes to the financial statements (*continued*)

For the year ended 1 July 2017

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 1 July 2017

3. Restated prior year comparatives

In the financial statements for the year ended 1 July 2017, the Company has changed the way in which it accounts for the rail defined benefit pension scheme impacting the income statement, reflecting that the long-term contractual responsibility for the rail pension scheme rests with the DFT, and that the franchisee is only responsible for agreed funding contributions over the period of the franchise.

The Company's balance sheet recognises the share of the surplus or deficit expected to be realised over the life of the franchise based on the assumptions and agreements at the balance sheet date. The assessment at 1 July 2017 and at 2 July 2016 is that no net surplus or deficit was required to be included in the balance sheet in respect of the railway pension scheme, after reflecting a franchise adjustment in an approach consistent with prior years.

The Company has revised its accounting policy to now only recognise the Group's resulting share of service costs in its income statement. This compares to the previous approach where the full service cost was included within the income statement and the franchise adjustments arising were recognised through the statement of comprehensive income. Accordingly the railway pensions cost for the period reflects the service cost calculated of £46,500k (2016: £39,920k) and administration costs of £5,500k (2016: £2,550k) now reduced by a franchise adjustment of £33,500k (2016: £21,262k) leading to a net income statement charge of £18,500k (2016: £21,208k).

This new approach better reflects that a substantial part of the service cost relates to an estimate of the cost of benefits accruing in the current year but for which funding falls beyond the duration of the franchise, the contributions for which will be borne by future franchise holders and the DFT. The change has been effected by means of utilising part of the franchise adjustment arising to reduce the expense charged in the income statement to the extent it will be borne by others, rather than it being reflected only through the statement of comprehensive income.

The revision to accounting for railway pension schemes was announced by the Group on 29 November 2016 and is considered by the directors to be a better approach to reflect the Company's share of the costs of the railway defined benefit pension schemes in its franchises.

The tables below detail the adjustments made to the income statement as a result of the revision to the accounting policy. There was no impact on the balance sheet as a result of the revision to the accounting policy.

Restated Income Statement

		Reported 2016 £'000	Impact of policy change £'000	Restated 2016 £'000
	Notes			
Revenue	4	1,141,963	–	1,141,963
Operating costs	5(a)	(1,155,982)	21,262	(1,134,720)
Exceptional operating costs	5(b)	(1,580)	–	(1,580)
Total operating costs		(1,157,562)	21,262	(1,136,300)
Operating (loss)/profit		(15,599)	21,262	5,663
Interest receivable and similar income	8	1,406	–	1,406
Interest payable and similar charges	9	(1,071)	–	(1,071)
(Loss)/profit on ordinary activities before taxation		(15,264)	21,262	5,998
Tax on (loss)/profit on ordinary activities	10	3,875	(3,827)	48
(Loss)/profit for the year from continuing operations		(11,389)	17,435	6,046

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

3. Restated prior year comparatives (continued)

Restated Statement of Comprehensive Income

		<i>Reported</i>	<i>Impact of</i>	<i>Restated</i>
	<i>Notes</i>	<i>2016</i>	<i>policy</i>	<i>2016</i>
		<i>£000</i>	<i>change</i>	<i>£000</i>
(Loss) / profit for the year from continuing operations		(11,389)	17,435	6,046
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss:</i>				
Remeasurement gain on defined benefit pension plans	18	21,262	(21,262)	–
Tax relating to items that will not be reclassified	10	(3,827)	3,827	–
Other comprehensive income for the year, net of income tax		17,435	(17,435)	–
Total comprehensive income for the year		<u>6,046</u>	<u>–</u>	<u>6,046</u>

4. Revenue

Revenue is derived from the Company's ordinary activities, all of which are in the UK and continuing.

An analysis of revenue by class of business is given below:

	<i>2017</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>
Franchise management charges	1,148,577	1,076,634
Rendering of services	88,681	48,887
Rental income	20,596	16,442
	<u>1,257,854</u>	<u>1,141,963</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

5(a) Operating costs

	2017		Restated 2016	
	£000	£000	£000	£000
Staff costs (<i>see note 6</i>)		364,157		330,994
Operating lease payments				
- rail access	340,293		314,042	
- vehicle and rolling stock	241,133		202,622	
Total lease payments recognised as an expense		581,426		516,664
Auditor's remuneration				
- fees payable to the Company's auditor for the audit of the Company's financial statements	279		163	
- non-audit services	16		1	
Total auditor's remuneration		295		164
Amortisation of intangible assets		567		338
Depreciation of tangible fixed assets		2,575		2,009
Other operating costs		304,229		284,551
Total operating costs		1,253,249		1,134,720

Included within other operating costs are net payments that the Company paid to Network Rail during the year of £10.7m (2016: £7.0m).

5(b) Exceptional operating costs

	2017 £'000	2016 £'000
Costs of restructuring	-	1,580

Restructuring costs relate to the change programme and preparation of a new organisation structure and associated systems for the integrated businesses with the former Southern Railway franchise, and the staff restructuring processes required to deliver one operating unit.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

6. Staff costs and numbers

	2017 £'000	Restated 2016 £'000
Wages and salaries	313,248	284,925
Social security costs	32,103	24,578
Other pension costs (note 18)	18,500	21,208
Share based payments (note 22)	306	283
	<u>364,157</u>	<u>330,994</u>

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

	2017 No.	2016 No.
Administration and supervision	1,203	1,089
Maintenance and engineering	607	588
Operations	5,136	4,874
	<u>6,946</u>	<u>6,551</u>

7. Directors' remuneration

	2017 £'000	2016 £'000
Aggregate emoluments in respect of qualifying services	<u>1,344</u>	<u>1,248</u>

	2017 No.	2016 No.
Number of directors accruing benefits under defined benefit schemes	<u>1</u>	<u>2</u>
Number of directors who exercised share options	<u>3</u>	<u>1</u>

The amounts in respect of the highest paid director are as follows:

	2017 £'000	2016 £'000
Emoluments	<u>482</u>	<u>478</u>

Included within Emoluments, the Company contributed £nil (2016: £40,000) to the defined benefit pension scheme of the highest paid director. During the year the highest paid director also exercised share options over 1,393 (2016: 8,248) shares and 1,749 shares were granted in respect of a deferred share bonus plan (DSBP) (2016: 3,631). See note 22.

Certain directors are also directors of The Go-Ahead Group plc. These directors received total remuneration of £1,223,000 (2016: £1,483,000) from The Go-Ahead Group plc during the year, but it is not practical to allocate this between their services as directors of The Go-Ahead Group plc and their services to the Group's subsidiaries. Further details on the remuneration of the directors of The Go-Ahead Group plc can be found in the consolidated financial statements, available as described in note 25.

8. Interest receivable and similar income

	2017 £'000	2016 £'000
Bank interest receivable	<u>1,030</u>	<u>1,406</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

9. Interest payable and similar charges

	2017 £'000	2016 £'000
Other finance charges	691	742
Discounting of provisions	16	300
Interest payable to group undertakings	14	29
	<u>721</u>	<u>1,071</u>

10. Taxation

(a) Tax recognised in the income statement

The tax charge/(credit) is made up as follows:

	2017 £'000	Restated 2016 £'000
<i>Current tax:</i>		
UK corporation tax	335	1,509
Total current tax	<u>335</u>	<u>1,509</u>
<i>Deferred tax:</i>		
Transferred on franchise handover	–	(1,455)
Origination and reversal of temporary differences	654	(124)
Adjustments in respect of deferred tax of previous periods	(11)	19
Effect of rate change on opening deferred tax balance	171	3
Total deferred tax (note 10(d))	<u>814</u>	<u>(1,557)</u>
Total reported in the income statement (note 10(b))	<u>1,149</u>	<u>(48)</u>

(b) Factors affecting current tax charge/(credit)

A reconciliation of taxation applicable to accounting profit before tax at the statutory tax rates for the years ended 1 July 2017 and 2 July 2016 is shown below.

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 1 July 2017 was 19.75% (2016: 20%).

The differences are reconciled below:

	2017 £'000	Restated 2016 £'000
Accounting profit on ordinary activities before tax	4,914	5,998
Tax at the UK corporation tax rate of 19.75% (2016: 20%)	971	1,200
Expenses not deductible for tax purposes	2	169
Depreciation on non-qualifying assets	67	10
Schedule 23 deductions on share schemes	55	–
Adjustment in respect of deferred tax of previous periods	(11)	19
Effect of the difference between current year corporation tax and deferred tax rates	(106)	6
Impact of opening deferred tax rate reduction	171	3
Deferred tax transferred on franchise handover	–	(1,455)
Tax reported in the income statement	<u>1,149</u>	<u>(48)</u>
Effective tax rate	23.4%	(0.8)%

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

10. Taxation (continued)

(c) Current tax assets

	2017 £000	2016 £000
Current tax assets at start of year	92	1,849
Corporation tax reported in income statement (note 10(a))	(335)	(1,509)
Paid (received) in the year	1,107	(248)
Current tax assets at end of year	<u>864</u>	<u>92</u>

(d) Deferred tax

Constituents of the deferred tax asset shown within debtors are as follows:

	2017 £'000	2016 £'000
<i>Deferred tax asset</i>		
Decelerated capital allowances	<u>810</u>	<u>1,624</u>

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

	2 July 2016 £'000	Recognised in income statement £'000	1 July 2017 £'000
Decelerated capital allowances	<u>1,624</u>	<u>(814)</u>	<u>810</u>

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

Of the deferred tax asset, £28k (2016: £57k) is classed as current and £782k (2016: £1,567k) is classed as non-current.

(e) Factors that may affect future tax charge

The standard rate of UK corporation tax reduced from 20% to 19% from 1 April 2017. A rate of 19.75% therefore applies to the current tax charge arising during the year ended 1 July 2017.

In addition to the change in rate of UK corporation tax identified above, a further reduction in the rate to 17% from 1 April 2020 was substantively enacted prior to the balance sheet date and has been applied to the Company's deferred tax balance at the balance sheet date.

11. Dividends

	2017 £000	2016 £000
Paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2017: £nil per share (2016: £nil per share)	<u>-</u>	<u>-</u>

No dividends are proposed as at 1 July 2017.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

12. Intangible assets

	<i>Software & Licence Costs £'000</i>
<i>Cost:</i>	
At 2 July 2016	1,705
Additions	267
At 1 July 2017	<u>1,972</u>
<i>Amortisation:</i>	
At 2 July 2016	338
Provided during the year	567
At 1 July 2017	<u>905</u>
<i>Net book value:</i>	
At 1 July 2017	<u>1,067</u>
At 2 July 2016	<u>1,367</u>

Amortisation is included within operating costs in the income statement.

13. Tangible fixed assets

	<i>Plant & Equipment £'000</i>
<i>Cost:</i>	
At 2 July 2016	18,069
Additions	18,724
At 1 July 2017	<u>36,793</u>
<i>Depreciation:</i>	
At 2 July 2016	3,620
Provided during the year	2,575
At 1 July 2017	<u>6,195</u>
<i>Net book value:</i>	
At 1 July 2017	<u>30,598</u>
At 2 July 2016	<u>14,449</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

14. Inventory

	2017 £'000	2016 £'000
Raw materials and consumables	<u>7,792</u>	<u>8,434</u>

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

15. Debtors

	2017 £'000	2016 £'000
Trade debtors	65,402	98,093
Prepayments and accrued income	54,214	46,536
Central government debtors	15,807	14,851
	<u>135,423</u>	<u>159,480</u>

16. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Amounts owed to group undertakings	7,781	7,122
Trade creditors	162,125	182,836
Other taxation and social security	10,351	9,473
Other creditors	27,447	25,450
Central government creditors	48,494	69,637
Deferred season ticket income	81,874	85,900
Accruals and deferred income	28,791	32,601
	<u>366,863</u>	<u>413,019</u>

Amounts owed to group undertakings are repayable on demand.

Other creditors include pension contributions payable amounting to £799,000 (2016: £907,000).

No amounts fall due for payment greater than one year after the balance sheet date.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

17. Provisions

	<i>Uninsured claims £'000</i>	<i>Franchise commitments £'000</i>	<i>Total £'000</i>
At 27 June 2015	83	3,437	3,520
Provisions transferred on franchise handover	–	27,656	27,656
Provided in year (after discounting)	687	4,956	5,643
Utilised in year	(28)	(4,062)	(4,090)
Released in year	(44)	(95)	(139)
Unwinding of discounting	–	(300)	(300)
At 2 July 2016	698	31,592	32,290
Provided in year (after discounting)	1,764	4,831	6,595
Utilised in year	(237)	(1,314)	(1,551)
Released in year	(162)	(2,977)	(3,139)
Unwinding of discounting	7	(23)	(16)
At 1 July 2017	2,070	32,109	34,179

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.

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.

18. Retirement benefit obligations

Employees of Govia Thameslink Railway Limited participate in the defined benefit section of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The operations of the Southern franchise, including the defined benefit scheme, transferred to Govia Thameslink Railway Limited on 26 July 2015.

The Southern and Govia Thameslink sections of the RPS are open to new entrants. The Company is currently contributing: Southern 15.94%; and Govia Thameslink 15.36% of Section Pay to the scheme. The RPS is a shared costs scheme, with assets and liabilities split 60%/40% between the franchise holder/employee respectively. The RPS sections are open to new entrants and the assets and liabilities of each Company's section are separately identifiable and segregated for funding purposes. The latest re-measurement valuation of the RPS was carried out with an effective date of 31 December 2013.

All pension obligations to the RPS cease on expiry of the franchises without cash or other settlement, and therefore the obligations recognised on the balance sheet under IAS 19 (revised) are only those that are expected to be funded during the franchise term. However, in spite of our past experience and that of other train operating companies proving otherwise, our legal obligations are not restricted. On entering into a franchise, the operator becomes the designated employer for the term of the contract and under the RPS rules is obliged to meet the schedule of contributions agreed with the scheme trustees and actuaries, in respect of which no funding cap is set out in the franchise contract over the period of the franchise.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

18. Retirement benefit obligations (continued)

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

The total surplus or deficit recorded is adjusted by way of a 'franchise adjustment', which includes an assessment of surpluses or deficits that could arise from future contributions, and is that portion of the deficit or surplus projected to exist at the end of the franchise which the Company will not be required to fund or benefit from.

IAS 19 (revised) would require the Company to account for its contractual obligation under the formal terms of the RPS and its constructive obligation under the terms of each franchise agreement. Following industry practice, the Company has concluded that the appropriate accounting policy for the RPS to ensure that the financial statements present fairly the Company's financial position, financial performance and cash flows, is to recognise its constructive but not its contractual RPS defined benefit obligations.

In all other respects the Company's accounting policy is consistent with IAS 19 (revised). In doing so, the Company has applied paragraph 17 of IAS 1 and departed from the requirements of IAS 19 (revised) in order to achieve a fair presentation of the Company's obligations regarding its rail schemes and prevent gains arising on transfer of the existing RPS deficits to a new franchise owner at exit.

The franchise adjustment applied to reduce the Company's total obligations under IAS 19 (revised), is in respect of the deficit projected to exist at the end of each current franchise term and which the Company will not be required to fund.

The contributions made by the company in the year were £18.3m (2016: £20.9m).

The valuation used for IAS 19 (revised) disclosures has been based on the re-measurement valuation as at 31 December 2013 in order to assess the liabilities of the scheme at 1 July 2017, 2 July 2016, 27 June 2015 and 28 June 2014. Scheme assets are stated at their market value at the respective balance sheet dates. The expected return on assets has been derived from the expected returns from each of the main assets classes (i.e. equities and properties). The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations. These have been combined, based on the asset portfolio of the section, to determine the overall asset return assumption.

Main assumptions:

	2017	2016
	%	%
Rate of increase in salaries	3.5	3.1
Rate of increase in pensions in payment	2.3	1.9
Rate of increase in deferred pensions	2.3	1.9
Discount rate	2.6	2.8
Inflation assumptions:		
RPI	3.3	2.9
CPI	2.3	1.9

Increases are set at RPI for the first five salary reviews as per the results of the re-measurement valuation at 31 December 2013.

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.

	2017	2016
	Years	Years
Pensioner	22	22
Non-pensioner	24	24

The mortality assumptions adopted as at 1 July 2017 and 2 July 2016 are based on the results of the latest funding valuation as at 31 December 2013.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

18. Retirement benefit obligations (continued)

In making the valuation, the above assumptions have been used. 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.

The fair value of the scheme assets are:

	2017		2016	
	Value £'000	%	Value £'000	%
Equities	964,800	93.3	867,400	94.4
Properties	31,800	3.1	31,500	3.4
Others	37,400	3.6	20,400	2.2
Total market value of assets	1,034,000		919,300	

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:

	2017 £'000	2016 £'000
Employer's 60% share of pension scheme:		
Liabilities at the end of the year	(1,428,500)	(1,235,800)
Assets at fair value	1,034,000	919,300
Gross deficit	(394,500)	(316,500)
Franchise adjustment	394,500	316,500
Pension scheme liability	—	—

An analysis of the defined benefit cost is as follows:

	2017 £'000	Restated 2016 £'000
Service cost	46,500	39,920
Franchise adjustment to current period costs	(33,500)	(21,262)
Administration costs	5,500	2,550
Interest cost on net liabilities	9,200	9,809
Interest on franchise adjustments	(9,200)	(9,809)
Pension cost	18,500	21,208

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

18. Retirement benefit obligations (continued)

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

	2017 £'000	Restated 2016 £'000
Employer's 60% share of pension scheme liabilities at start of year	1,235,800	411,000
Franchise adjustment (100%)	(316,500)	(98,600)
	<u>919,300</u>	<u>312,400</u>
Liability movement for members' share of assets (40%)	58,100	14,143
Service cost (60%)	46,500	39,920
Franchise adjustment to current period costs	(33,500)	(21,262)
Interest cost (60%)	24,300	27,264
Interest on franchise adjustment (100%)	(9,200)	(9,809)
Re-measurement loss due to experience (60%)	2,900	334
Re-measurement loss due to financial assumptions (60%)	92,100	84,842
Re-measurement gain due to salary cap (60%)	–	(22,530)
Benefits paid (100%)	(31,200)	(30,019)
GTR franchise award – employer's share of liabilities (60%)	–	500,968
GTR franchise award – franchise adjustment (100%)	–	14,649
Franchise adjustment movement (100%)	(35,300)	23,049
	<u>1,034,000</u>	<u>933,949</u>
Franchise adjustment (100%)	394,500	301,851
Employer's 60% share of pension scheme liabilities at end of year	<u>1,428,500</u>	<u>1,235,800</u>

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

	2017 £'000	2016 £'000
Fair value of assets at start of year (100%)	919,300	312,400
Interest income of plan assets (60%)	15,100	17,455
Re-measurement gain on assets (60%)	59,700	45,696
Company contributions (100%)	18,300	20,900
Benefits paid (100%)	(31,200)	(30,019)
Administrative expenses incurred (100%)	(9,100)	(4,217)
GTR franchise award (100%)	–	500,979
Members share of movement of assets (40%)	61,900	56,106
Fair value of assets at end of year (100%)	<u>1,034,000</u>	<u>919,300</u>

Company contributions expected to be paid in the year to June 2018 are considered to be the principal risk to which membership of the RPS exposes the Company. Estimated contributions in the financial year:

	£'000
Estimated company contributions in financial year 2018	19,000
Estimated employee contributions in financial year 2018	12,800
Estimated total contributions in financial year 2018	<u>31,800</u>

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

18. Retirement benefit obligations (continued)

Departure from the requirements of IAS 19 (revised)

The franchise adjustment applied to reduce the Company's total obligations under IAS 19 (revised) is in respect of the deficit projected to exist at the end of the franchise term and which the Company will not be required to fund.

If the Company had accounted for the rail scheme in accordance with the full provisions of IAS 19 (revised) the following adjustments would have been made to the financial statements:

	2017 £'000	2016 £'000
Balance sheet		
Defined benefit pension plan	(154,600)	(316,500)
Deferred tax asset	27,828	56,970
	<u>(126,772)</u>	<u>(259,530)</u>
Other comprehensive income		
Re-measurement gains	35,300	(23,049)
Tax on re-measurement gains	(6,354)	4,149
	<u>28,946</u>	<u>(18,900)</u>
Income statement		
Operating costs – franchise adjustment	(3,600)	(9,809)
Deferred tax charge	648	1,766
	<u>(2,952)</u>	<u>(8,043)</u>
Experience recognised in other comprehensive income:		<i>Restated</i>
	2017 £'000	2016 £'000
Loss on pension scheme liabilities	(95,000)	(62,646)
Experience gains on assets	59,700	45,695
Franchise adjustment movement	35,300	16,951
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 train operating companies are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

19. Commitments

Operating lease commitments – company as lessee

The Company has entered into 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.

Future minimum rentals payable under non-cancellable operating leases as at 1 July 2017 and 2 July 2016 were as follows:

	<i>Rail contracts</i> 2017 £'000	<i>Rail contracts</i> 2016 £'000
Within one year	564,679	386,251
In the second to fifth years inclusive	1,893,927	1,995,804
Over five years	–	110,018
	<u>2,458,606</u>	<u>2,492,073</u>

Operating lease commitments – 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 operating leases as at 1 July 2017 and 2 July 2016 were as follows:

	<i>Rail contracts</i> 2017 £'000	<i>Rail contracts</i> 2016 £'000
Within one year	15,931	12,043
In the second to fifth years inclusive	51,240	48,174
Over five years	–	2,607
	<u>67,171</u>	<u>62,824</u>

Performance bonds

The Company has provided bank guaranteed performance bonds of £20,000,000 (2016: £20,000,000), season ticket bonds of £112,018,322 (2016: £114,393,118) and loan guarantee bond of £36,250,000 (2016: £36,250,000) to the DfT in support of the Company's rail franchise operations.

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

Capital commitments

At 1 July 2017, amounts contracted for but not provided in the financial statements for plant and equipment amounted to £3,067,000 (2016: £nil).

At 1 July 2017, amounts contracted for but not provided in the financial statements for intangible assets amounted to £nil (2016: £nil).

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

20. Related party transactions

	<i>The Go-Ahead Group plc & Subsidiary Companies</i>	
	<i>2017</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>
Purchases from related party	40,121	39,101
Sales to related party	8,291	6,384
Interest payable to related party	14	29
Amounts owed to related party	7,781	7,122

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 £5m (2016: £5m) from Govia Limited.

21. Called up share capital

		<i>Allotted, called up and fully paid</i>	
		<i>2017</i>	<i>2016</i>
	<i>No.</i>	<i>£'000</i>	<i>No.</i>
		<i>£'000</i>	<i>£'000</i>
Ordinary shares of £1 each	5,000,000	5,000	5,000

22. 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 Plan

Shareholder approval was obtained at the 2013 AGM for the introduction of a new HM Revenue & Customs approved 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 2014 launch, the maximum monthly savings limit set by the group was £50. At the end of the savings period, employees can buy shares at a 20% discount of the market price set at the date of invitation or take their full savings back.

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, and forfeiture rate and option life.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

22. Share based payments (continued)

There are savings-related options at 1 July 2017 as follows:

<i>Scheme maturity</i>	<i>01-May-19</i>	<i>01-May-17</i>
Option price (£)	19.11	17.34
No. options unexercised at end of year	59,062	51,158
No. options exercised during the year	–	17,484
No. options exercisable at end of year	<u>–</u>	<u>51,158</u>

The expense recognised for the scheme during the year to 1 July 2017 was £154,000 (2016: £77,000).

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

	<i>2017 No.</i>	<i>2017 WAEP £</i>	<i>2016 No.</i>	<i>2016 WAEP £</i>
Outstanding at the beginning of the year	139,929	18.19	550	17.34
Granted during the year	–	–	66,044	19.11
Forfeited during the year	(12,225)	18.30	(7,148)	17.43
Exercised during the year	(17,484)	17.34	(497)	17.34
Transferred during the year	–	–	80,980	17.34
Outstanding at the end of the year	<u>110,220</u>	<u>18.29</u>	<u>139,929</u>	<u>18.19</u>

The weighted average fair value of options granted during the year was £nil (2016: £17.34).

The options outstanding at the end of the year have a weighted average remaining contracted life of 0.98 years (2016: 1.77 years). These options are exercisable at a weighted average exercise price of £18.29 (2016: £18.19). This represents a range of exercise prices between £17.34 and £19.11 (2016: £17.34 and £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 1 July 2017 was £152,000 (2016: £206,000).

The DSBP options are not subject to any market based performance conditions. Therefore the fair value of the options is equal to the share price at the date of grant.

The weighted average fair value of options granted during the year was £20.08 (2016: £26.38).

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

	<i>2017 No.</i>	<i>2016 No.</i>
Outstanding at the beginning of the year	24,631	10,705
Granted during the year	6,052	14,402
Forfeited during the year	(5,389)	(2,443)
Transferred during the year	–	1,967
Outstanding at the end of the year	<u>25,294</u>	<u>24,631</u>

The weighted average exercise price of options exercised during the year was £nil (2016: £nil). This represents a range of exercise prices between £nil and £nil (2016: £nil).

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 1 July 2017

22. Share based payments (continued)

At the year end, 9,369 (2016: £nil) options relating to the 2014 DSBP will be eligible to vest from November 2017 following the end of a three year deferral period. The year-end weighted average share price of the options was £17.77 (2016: £19.78).

The weighted average remaining contractual life of the options was 0.87 years (2016: 1.55 years).

23. 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.

Included within cash at bank is an amount of £233,741,000 (2016: £265,045,000) held, which cannot be distributed by means of a dividend.

24. Cash flow movement

During the year ended 2 July 2016, certain assets and liabilities were transferred to Govia Thameslink Railway Limited following the Southern Franchise handover. Cash received by Govia Thameslink Railway as a result of the rail franchise handover is detailed below:

	2017 £'000	2016 £'000
Tangible fixed assets	—	—
Inventories	—	5,385
Trade and other receivables	—	662
Trade and other payables	—	(69,920)
Provisions	—	(27,658)
Cash and cash equivalents	—	91,531
	<hr/>	<hr/>
	—	—
	<hr/>	<hr/>

25. Ultimate parent company

The immediate parent company and immediate controlling party of Govia Thameslink Railway Limited is GOVIA Limited, a Company incorporated in Great Britain and registered office is 3rd Floor, 41 - 51 Grey Street, Newcastle upon Tyne, NE1 6EE. 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 incorporated in England and Wales whose registered office is 3rd Floor, 41 - 51 Grey Street, Newcastle upon Tyne, NE1 6EE.

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.