

Registered no: 07934306

Govia Thameslink Railway Limited

Annual Report and Financial Statements

For the year ended 30 June 2018



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

DIRECTORS AND PROFESSIONAL ADVISORS

Directors

D A Brown
N J F Brown
S P Butcher
A J F Gordon
C A Hodgson
I McLaren
B D M Tabary
H Verwer

Company Secretary

C Ferguson

Auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ
United Kingdom

Bankers

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

Solicitors

Womble Bond Dickinson (UK) LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Registered office

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41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE
United Kingdom

Actuary

Willis Towers Watson
1 Wellington Place
Wellington Street
Leeds
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United Kingdom

Govia Thameslink Railway Limited
Strategic report
For the year ended 30 June 2018

The directors present their Strategic report for year ended 30 June 2018.

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

Business review

The principal activity of Govia Thameslink Railway Limited (“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 23) 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 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 passes these to the DFT, while receiving a management fee from the DFT. The franchise has been structured to facilitate the transformation and modernisation of passenger services, enabling capacity improvements through the government’s Thameslink programme infrastructure project. These improvements include the introduction of several new fleets of trains, the introduction of revised timetables, and the modernisation of working practices.

The modernisation of working practices included, in the previous year, the introduction of additional driver controlled trains and the implementation of the On Board Supervisor (OBS) role, which has limited operational responsibilities and focuses on providing better customer service to our passengers, on Southern and Gatwick Express services. In the previous year this new operating model resulted in much-publicised industrial action. Industrial action is no longer taking place, although the issue of the new working practices remains formally in dispute with the RMT union.

The end of industrial action helped to deliver a steadily improving level of operational performance. Customer satisfaction on the Thameslink service reached its highest level since 1999, according to the Spring 2018 National Rail Passenger Satisfaction (NRPS) survey. This showed an overall 86% satisfaction rate, an increase on 11 percentage points over the previous year.

In May 2018 GTR, in conjunction with industry partners, introduced the largest timetable change in decades. This was a complex and ambitious project that will deliver many more services, new routes and greater service connectivity. Due to an industry-wide failure to finish preparations for the change in time, the implementation was followed by a shortfall against expected service levels. We deeply regret and are sorry for the inconvenience caused to our customers. In July 2018 a revised interim timetable was introduced, which has stabilised the service and resulted in operational performance that customers can rely on. In September 2018 a compensation scheme was introduced for customers affected by the disruption.

The period of disruption following the May timetable introduction has meant that GTR’s operational performance has been below certain contractual thresholds. These shortfalls were in large measure attributable to failings across the industry and were not the sole responsibility of GTR. We are working hard in collaboration with our industry partners to improve the situation for our customers and are co-operating fully with the Office of Rail and Road (ORR) in its independent inquiry. The ORR published an interim report on 20 September 2018. Their main finding was that the industry (Network Rail, GTR, Northern, the DFT and the ORR) all made mistakes in the May timetable change, that there is an apparent gap in industry and accountability for managing systemic risk, and that this needs to change.

Discussions also continue with the DFT in respect of a number of contractual issues that have a range of reasonably possible outcomes. Management’s judgements are that, relating to events up to 30 June 2018, the impact on profitability of these outcomes is likely to be within a range of plus or minus £5 million.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 30 June 2018

Key Performance Indicators

For the year to 30 June 2018, the key operating statistics were as follows:

| | Year ended 30 June 2018 | Year ended 1 July 2017 |
|---|----------------------------|---------------------------|
| Revenue | £1,427m | £1,258m |
| Operating profit | £3.4m | £4.6m |
| Public Performance Measure (PPM) | 81.3% | 74.2% |
| National Rail Passenger Satisfaction (NRPS) | | |
| - Gatwick Express | 87% | 88% |
| - Great Northern | 78% | 79% |
| - Southern | 69% | 72% |
| - Thameslink | 86% | 75% |

Both the PPM and NRPS results are measures of the quality of service offered to customers. The improvement in PPM was a result of the ending of industrial action. The NRPS survey took place in Spring 2018, before the disruption arising from the implementation of the May 2018 timetable. The company is focused on improving customer satisfaction, including the implementation of a revised July 2018 timetable.

Managing the current operational environment and unplanned additional costs for recovery from service disruption following implementation of the May 2018 timetable, have contributed to the financial results in the year. The directors continue to pursue all contractual compensation and legal mechanisms, as appropriate, to mitigate these financial impacts, whilst pursuing efficiency opportunities that arise.

GTR has delivered a resilient financial performance under challenging market conditions. Cash generation was strong and the balance sheet remains robust.

The company has met all of its financial and liquidity covenants contained within the franchise agreement, without the need to call on 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, that previously placed pressure on relations between the company and some of its key stakeholders, have largely ended as the Company has completed the implementation of driver controlled operation and the introduction of the On Board Supervisor (OBS) role. Performance levels following the implementation of the May 2018 timetable led to intense media and political scrutiny of the industry failures that caused the issues, and there have been calls for services to be transferred to the London Mayor or for the rail industry to be nationalised. The Company's senior management continue to work closely with the DFT and have engaged positively with local MPs and stakeholders, and with Rail Ministers and the Secretaries of State. Political and media scrutiny reduced as operational performance improved following implementation of a revised timetable in July 2018.

The existing contract with the DFT has a seven year initial term until 2021, with an option for the DFT to extend for up to two years. The ORR and the DFT investigation into the timetable implementation process is continuing. It is possible that the DFT will determine that a sufficient part of the timetable failings are down to GTR, and that it is in breach of its contractual obligations. To mitigate this risk, GTR will continue to focus on improving operational performance and on resolving contractual issues with the DFT.

Principal risks and uncertainties (continued)

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

- *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 pay 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 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.

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 which are not agreed with the DFT, which leads to continuing uncertainty around their ultimate outcome.

- *Environmental Risks*

In common with all Govia companies, GTR focuses on minimising the 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.

- *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 industry failings in implementing the May 2018 timetable are currently under investigation by the ORR and the DFT, and there may be changes to the timetable implementation process in the future. Timetable enhancements are currently being made progressively to minimise the risk of further disruption.

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 service improvements. This has had a direct impact on the Company's ability to deliver some Thameslink Programme improvements. Revised working arrangements have improved Network Rail's access to infrastructure to carry out work.

The underlying reliability of the network infrastructure will continue to be of significant concern in relation to the Company's ability to operate at the levels of punctuality that customers expect.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 30 June 2018

Principal risks and uncertainties (continued)

- *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 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 23). 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.

- *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.

Govia Thameslink Railway Limited
Strategic report (continued)
For the year ended 30 June 2018

Future developments

In the next twelve months the Company will focus on improving operational and financial performance. 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. Given that passenger revenue and performance compensation pass to the DFT, cost control will continue to be of the highest importance.

The Company will focus on resolving contractual claims with the DFT, and on cooperating with the investigations by the ORR and the DFT into the timetable change process. It is possible that the DFT will determine that a sufficient part of the timetable implementation failings are down to GTR, and that it is in breach of its contractual obligations. At that point, the DFT may choose, as is usual, to require the production of a remedial plan, and/or may seek to impose penalties or may seek to terminate the contract. In the event of a termination, it is possible that there will be costs that the DFT will seek to recover from GTR. These are not possible to estimate at this stage and in any event would be contested.

The Company will progressively introduce the timetable improvements that had been planned for May. The overall number of services will be increased, and the number of services operating through the “core” route between North and South London will be increased towards a target of 24 trains per hour each way during peak hours. The increased service levels will be facilitated by other projects that will be completed during 2019 as part of the Thameslink programme, such as the implementation of new technology that allows automatic train operation through the core, the completion of new driver depots, and an interchange with the new Elizabeth Line.

During 2019 passengers will benefit from the last new fleet of trains to be introduced by GTR, the new class 717 trains for Moorgate services. Further passenger benefits will arise from completion of the refurbishment of class 377 trains, and from completion of fitment of passenger wi-fi to all train fleets.

The company will also continue to develop and promote its smartcard offering, and will further extend the area in which its Key and Keygo smartcard products can be used. This will be important in delivering a flexible alternative to traditional ticketing, and will allow customers to take advantage of automatic delay compensation for users of the Key in times of disruption.

The strategic report was approved by the Board of Directors on 2 October 2018 and signed on their behalf by:



S P Butcher
Director

Govia Thameslink Railway Limited
Directors' report
For the year ended 30 June 2018

The directors present their Annual Report and Audited Financial Statements for the year ended 30 June 2018.

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

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

Dividends

Ordinary dividends of £nil (2017: £nil) were paid and proposed during the year.

Management and staff

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

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

There are no significant events occurring after the balance sheet date, up to the date of approval of the financial statements, requiring disclosure in these financial statements.

Govia Thameslink Railway Limited
Directors' report (continued)
For the year ended 30 June 2018

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 | Resigned 8 December 2017 |
| D A Brown | |
| N J F Brown | |
| S P Butcher | |
| A Gordon | |
| C Hodgson | |
| C Horton | Resigned 6 July 2018 |
| I McLaren | Appointed 11 December 2017 |
| B Tabary | |
| H Verwer | Appointed 9 July 2018 |

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
2 October 2018

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 of Govia Thameslink Railway Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

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

Basis for opinion

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

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

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 auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

to the members of Govia Thameslink Railway Limited

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

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

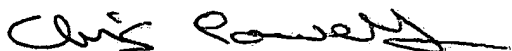
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Christopher Powell, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP,
Statutory Auditor,
London, United Kingdom
02 October 2018

Govia Thameslink Railway Limited
Income statement
for the year ended 30 June 2018

| | <i>Notes</i> | <i>2018</i> <i>£'000</i> | <i>2017</i> <i>£'000</i> |
|---|--------------|-----------------------------|-----------------------------|
| Revenue | 3 | 1,427,310 | 1,257,854 |
| Operating costs | 4 | (1,423,876) | (1,253,249) |
| | | <hr/> | <hr/> |
| Operating profit | | 3,434 | 4,605 |
| Interest receivable and similar income | 7 | 1,090 | 1,030 |
| Interest payable and similar charges | 8 | (790) | (721) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 3,734 | 4,914 |
| Tax on profit | 9 | (930) | (1,149) |
| | | <hr/> | <hr/> |
| Profit for the year from continuing operations | | <u>2,804</u> | <u>3,765</u> |

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

Govia Thameslink Railway Limited

Statement of comprehensive income

for the year ended 30 June 2018

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| <i>Profit for the year from continuing operations</i> | 2,804 | 3,765 |
| <i>Total comprehensive income for the year</i> | <u>2,804</u> | <u>3,765</u> |

Statement of changes in equity

for the year ended 30 June 2018

| | Share capital £'000 | Retained earnings £'000 | Total Equity £'000 |
|--|---------------------------|-------------------------------|--------------------------|
| 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 21) | – | 306 | 306 |
| At 1 July 2017 | <u>5,000</u> | <u>4,253</u> | <u>9,253</u> |
| Profit and total comprehensive income for the year | – | 2,804 | 2,804 |
| Share based payments (note 21) | – | (28) | (28) |
| At 30 June 2018 | <u>5,000</u> | <u>7,029</u> | <u>12,029</u> |

Govia Thameslink Railway Limited
Registered No: **07934306**
Balance sheet
at 30 June 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|--|-------|-------------------------|-------------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 11 | 673 | 1,067 |
| Tangible assets | 12 | 37,184 | 30,598 |
| Deferred tax assets | 9 | 1,081 | 810 |
| | | <u>38,938</u> | <u>32,475</u> |
| Current assets | | | |
| Inventory | 13 | 5,604 | 7,792 |
| Debtors: amounts due within one year | 14 | 176,257 | 135,423 |
| Current tax assets | 9 | 799 | 864 |
| Cash at bank | | 248,836 | 233,741 |
| | | <u>431,496</u> | <u>377,820</u> |
| Total assets | | <u>470,434</u> | <u>410,295</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 15 | (412,372) | (366,863) |
| | | <u></u> | <u></u> |
| Non-current liabilities | | | |
| Retirement benefit obligations | 17 | – | – |
| Provisions | 16 | (46,033) | (34,179) |
| | | <u>(46,033)</u> | <u>(34,179)</u> |
| Total liabilities | | <u>(458,405)</u> | <u>(401,042)</u> |
| Net current assets | | <u>19,124</u> | <u>10,957</u> |
| Total assets less current liabilities | | <u>58,062</u> | <u>43,432</u> |
| Net assets | | <u>12,029</u> | <u>9,253</u> |
| Capital and reserves | | | |
| Share capital | 20 | 5,000 | 5,000 |
| Retained earnings | | 7,029 | 4,253 |
| | | <u></u> | <u></u> |
| Total equity | | <u>12,029</u> | <u>9,253</u> |

The financial statements were approved by the Board of Directors and authorised for issue on 2 October 2018 and signed on their behalf by:



S P Butcher
Director

Govia Thameslink Railway Limited
Notes to the financial statements
For the year ended 30 June 2018

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 30 June 2018 were authorised for issue by the Board of Directors on 2 October 2018 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 and standards not yet effective:

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

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- the requirements of paragraphs 134 (d)-(f) and 135(c)-(e) of IAS 36 *Impairment of Assets*.

Adoption of new and revised standards

The following new standards or interpretations are mandatory for the first time for the financial year ended 30 June 2018:

- Amendments to IAS 7 Disclosure Initiative
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to IFRSs 2014 – 2016 Cycle

Reflecting the nature of the Company, adoption of these new standards and interpretations had no material impact on the financial position or reported performance of the Group.

New standards and interpretations not applied

The International Accounting Standards Board has issued the following standards and interpretations with an effective date after the date of these financial statements:

- **IFRS 9 Financial Instruments**
IFRS 9 is effective for periods beginning on or after 1 January 2018. The standard is split into three areas: classification and measurement, impairment and hedging. The Company has assessed the impact that IFRS 9 will have and concluded that it does not have any material impact on the Company's financial statements for the year ending 29 June 2019 or in future periods.
- **IFRS 15 Revenue from Contracts with Customers**
IFRS 15 is effective for periods beginning on or after 1 January 2018. The standard establishes the principles that an entity is required to apply regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The new model is based on a five step approach which identifies whether, how much and when revenue is recognised.
The Company has reviewed its major revenue streams in line with the five step approach. As a result it is not currently expected that there will be a material impact on the Company's financial statements for the year ending 29 June 2019 or in future periods.
- **IFRS 16 Leases**
IFRS 16 is effective for periods beginning on or after 1 January 2019. The standard establishes principles for the recognition, measurement, presentation and disclosure of leases. An initial assessment has been carried out and determined IFRS 16 will have a material impact on the Company's financial statements. Due to the extensive nature of leasing of rolling stock and other items in the rail business, the Company will continue to assess the impact of the standard, and will provide further quantitative data as we approach implementation in the year ended June 2020.

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.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

2. Accounting policies (continued)

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

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. The Company only recognises its share of costs in the income statement.

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 16. 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.

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.

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 and other contracts. Regular reviews are performed on the expected outcome of these arrangements, which require assessments and judgements relating to the expected level of revenues and costs. 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 30 June 2018, the impact on profitability of these outcomes is likely to be within a range of plus or minus £5m.

Following the implementation of a revised timetable in May, the performance of GTR services has been below certain contractual thresholds. These shortfalls are in large measure attributable to failings across the industry and are not the sole responsibility of GTR. Discussions are continuing with the DfT to apportion accountability for these shortfalls. It is possible that the DfT will determine that a sufficient part of these failings are down to GTR and that it is in breach of its contractual obligations. At that point, the DfT may choose, as is usual, to require the production of a Remedial Plan and/or seek to impose penalties or may seek to terminate the contract.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

2. Accounting policies (continued)

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

In the event of a termination, it is possible that there will be costs that the DfT will seek to recover from GTR. These are not possible to estimate at this stage and in any event would be contested. GTR continues to work hard to further stabilise and improve services for customers and remains committed to working with the DfT to resolve both the long outstanding contract variations which support the delivery of new services and will address remaining contractual performance issues described above.

Measurement of franchise commitments

The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations is set out in note 16. 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.

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.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

2. Accounting policies (continued)

2.3 Significant accounting policies (continued)

Intangible fixed assets

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

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 30 June 2018

2. Accounting policies (continued)

2.3 Significant accounting policies (continued)

Retirement benefits

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

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

The accounting treatment for such pensions scheme is not explicitly considered by IAS 19 Employee Benefits (Revised). However, since the contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised), the Company does not account for uncommitted contributions towards the sections' current or expected future deficits. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise. As a result, the Company consequently reduces any section deficit balance that would otherwise remain after reflecting the cost sharing with the members and reduces any service costs that would give rise to an increase in such deficit through the use of a franchise adjustment with movements in that franchise adjustment, meaning that the service costs appropriately reflect contracted contributions resulting over the term of the franchise.

Provisions

Provisions are recognised when the Company has a present contractual or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Uninsured liabilities

The Company limits its exposure to the cost of motor, employer and public liability claims through insurance policies issued by third parties. These provide individual claim cover, subject to high excess limits and an annual aggregate stop loss, for total claims within the excess limits. A 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 30 June 2018

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.

Notes to the financial statements (*continued*)

For the year ended 30 June 2018

3. Revenue

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

| | 2018 £'000 | 2017 £'000 |
|------------------------------|------------------|------------------|
| Franchise management charges | 1,271,247 | 1,148,577 |
| Rendering of services | 122,876 | 88,681 |
| Rental income | 33,187 | 20,596 |
| | <u>1,427,310</u> | <u>1,257,854</u> |

4. Operating costs

| | 2018 £'000 | | 2017 £'000 | |
|---|----------------|------------------|----------------|------------------|
| Staff costs (note 5) | | 388,995 | | 364,157 |
| Operating lease payments | | | | |
| - rail access | 379,717 | | 340,293 | |
| - vehicle and rolling stock | <u>307,414</u> | | <u>241,133</u> | |
| Total lease payments recognised as an expense | | 687,131 | | 581,426 |
| Auditor's remuneration | | | | |
| - audit fee for the audit of the financial statements | 256 | | 279 | |
| - non-audit services | <u>10</u> | | <u>16</u> | |
| Total auditor's remuneration | | 266 | | 295 |
| Amortisation of intangible assets | | 672 | | 567 |
| Depreciation of tangible fixed assets | | 10,105 | | 2,575 |
| Other operating costs | | <u>336,707</u> | | <u>304,229</u> |
| Total operating costs | | <u>1,423,876</u> | | <u>1,253,249</u> |

Included within other operating costs are net payments that the Company paid to Network Rail during the year of £8.5m (2017: £10.7m).

Notes to the financial statements (continued)

For the year ended 30 June 2018

5. Staff costs and numbers

| | 2018 £'000 | 2017 £'000 |
|--------------------------------|----------------|----------------|
| Wages and salaries | 335,175 | 313,248 |
| Social security costs | 34,548 | 32,103 |
| Other pension costs (note 17) | 19,300 | 18,500 |
| Share based payments (note 21) | (28) | 306 |
| | <u>388,995</u> | <u>364,157</u> |

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

| | 2018 No. | 2017 No. |
|--------------------------------|--------------|--------------|
| Administration and supervision | 1,250 | 1,203 |
| Maintenance and engineering | 636 | 607 |
| Operations | 5,251 | 5,136 |
| | <u>7,137</u> | <u>6,946</u> |

6. Directors' remuneration

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Aggregate emoluments in respect of qualifying services | <u>1,688</u> | <u>1,344</u> |

| | 2018 No. | 2017 No. |
|---|-------------|-------------|
| Number of directors accruing benefits under defined benefit schemes | <u>1</u> | <u>1</u> |
| Number of directors who exercised share options | <u>2</u> | <u>3</u> |

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

| | 2018 £'000 | 2017 £'000 |
|---------------------------------------|---------------|---------------|
| Emoluments | 434 | 482 |
| Contractual payment in lieu of notice | 386 | — |
| | <u>820</u> | <u>482</u> |

Included within Emoluments, the Company contributed £nil (2017: £nil) to the defined benefit pension scheme of the highest paid director. During the year the highest paid director also exercised share options over 3,541 (2017: 1,393) shares and 1,719 (2017: 1,749) shares were granted in respect of a deferred share bonus plan (DSBP). See note 21.

Certain directors are also directors of The Go-Ahead Group plc and are remunerated by The Go-Ahead Group plc. It is not practical to allocate their remuneration between their services as directors of The Go-Ahead Group plc and their services to the Group's subsidiaries. For details on the remuneration of the directors of The Go-Ahead Group plc please refer to the Go-Ahead Group plc's consolidated financial statements, available as described in note 23.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

7. Interest receivable and similar income

| | 2018 £'000 | 2017 £'000 |
|--------------------------|---------------|---------------|
| Bank interest receivable | 1,090 | 1,030 |

8. Interest payable and similar charges

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Other finance charges | 637 | 691 |
| Discounting of provisions | 132 | 16 |
| Interest payable to group undertakings | 21 | 14 |
| | <u>790</u> | <u>721</u> |

9. Taxation

(a) Tax recognised in the income statement

The tax charge is made up as follows:

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| <i>Current tax:</i> | | |
| UK corporation tax | 1,201 | 335 |
| Total current tax | <u>1,201</u> | <u>335</u> |
| <i>Deferred tax:</i> | | |
| Origination and reversal of temporary differences | (324) | 654 |
| Adjustments in respect of deferred tax of previous periods | 53 | (11) |
| Effect of rate change on opening deferred tax balance | – | 171 |
| Total deferred tax (note 9(d)) | <u>(271)</u> | <u>814</u> |
| Total reported in the income statement (note 9(b)) | <u>930</u> | <u>1,149</u> |

(b) Factors affecting current tax charge

A reconciliation of taxation applicable to accounting profit before tax at the statutory tax rates for the years ended 30 June 2018 and 1 July 2017 is shown below.

The tax assessed on the profit before taxation for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 30 June 2018 was 19% (2017: 19.75%).

The differences are reconciled below:

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Profit before taxation | 3,734 | 4,914 |
| Tax at the UK corporation tax rate of 19% (2017: 19.75%) | 709 | 971 |
| Expenses not deductible for tax purposes | 10 | 2 |
| Depreciation on non-qualifying assets | 97 | 67 |
| Schedule 23 deductions on share schemes | – | 55 |
| Adjustment in respect of deferred tax of previous periods | 53 | (11) |
| Effect of the difference between current year corporation tax and deferred tax rates | 38 | (106) |
| Impact of opening deferred tax rate reduction | – | 171 |
| Write off of share bonus payment | 23 | – |
| Tax reported in the income statement | <u>930</u> | <u>1,149</u> |
| Effective tax rate | 24.9% | 23.4% |

Notes to the financial statements (continued)

For the year ended 30 June 2018

9. Taxation (continued)

(c) Current tax assets

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Current tax assets at start of year | 864 | 92 |
| Corporation tax reported in income statement (note 9(a)) | (1,201) | (335) |
| Paid in the year | 1,136 | 1,107 |
| Current tax assets at end of year | <u>799</u> | <u>864</u> |

(d) Deferred tax

Constituents of the deferred tax asset are as follows:

| | 2018 £'000 | 2017 £'000 |
|--------------------------------|---------------|---------------|
| Deferred tax asset | | |
| Decelerated capital allowances | <u>1,081</u> | <u>810</u> |

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

| | 1 July 2017 £'000 | Recognised in income statement £'000 | 30 June 2018 £'000 |
|--------------------------------|----------------------|---|-----------------------|
| Decelerated capital allowances | <u>810</u> | <u>271</u> | <u>1,081</u> |

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

(e) Factors that may affect future tax charge

The standard rate of UK corporation tax reduced from 20% to 19% from 1 April 2017. A rate of 19% therefore applies to the current tax charge arising during the year ended 30 June 2018.

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.

10. Dividends

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Paid during the year | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for 2018: £nil per share (2017: £nil per share) | <u>-</u> | <u>-</u> |

No dividends are proposed as at 30 June 2018.

Notes to the financial statements (continued)

For the year ended 30 June 2018

11. Intangible assets

| | <i>Software & Licence Costs £'000</i> |
|--------------------------|---|
| <i>Cost:</i> | |
| At 1 July 2017 | 1,972 |
| Additions | 278 |
| At 30 June 2018 | <u>2,250</u> |
| <i>Amortisation:</i> | |
| At 1 July 2017 | 905 |
| Provided during the year | 672 |
| At 30 June 2018 | <u>1,577</u> |
| <i>Net book value:</i> | |
| At 30 June 2018 | <u>673</u> |
| At 1 July 2017 | <u>1,067</u> |

Amortisation is included within operating costs in the income statement.

12 Tangible fixed assets

| | <i>Plant & Equipment £'000</i> |
|--------------------------|--|
| <i>Cost:</i> | |
| At 1 July 2017 | 36,793 |
| Additions | 16,691 |
| At 30 June 2018 | <u>53,484</u> |
| <i>Depreciation:</i> | |
| At 1 July 2017 | 6,195 |
| Provided during the year | 10,105 |
| At 30 June 2018 | <u>16,300</u> |
| <i>Net book value:</i> | |
| At 30 June 2018 | <u>37,184</u> |
| At 1 July 2017 | <u>30,598</u> |

Notes to the financial statements (continued)

For the year ended 30 June 2018

13. Inventory

| | 2018 £'000 | 2017 £'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | <u>5,604</u> | <u>7,792</u> |

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

14. Debtors

| | 2018 £'000 | 2017 £'000 |
|--------------------------------|----------------|----------------|
| Trade debtors | 84,597 | 65,402 |
| Prepayments and accrued income | 69,000 | 54,214 |
| Central government debtors | 22,660 | 15,807 |
| | <u>176,257</u> | <u>135,423</u> |

15. Creditors: amounts falling due within one year

| | 2018 £'000 | 2017 £'000 |
|------------------------------------|----------------|----------------|
| Amounts owed to group undertakings | 12,800 | 7,781 |
| Trade creditors | 171,175 | 162,125 |
| Other taxation and social security | 11,886 | 10,351 |
| Other creditors | 27,034 | 27,447 |
| Central government creditors | 78,108 | 48,494 |
| Deferred season ticket income | 84,925 | 81,874 |
| Accruals and deferred income | 26,444 | 28,791 |
| | <u>412,372</u> | <u>366,863</u> |

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

Other creditors include pension contributions payable amounting to £904,000 (2017: £799,000).

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 30 June 2018

16. Provisions

| | <i>Uninsured claims £'000</i> | <i>Franchise commitments £'000</i> | <i>Total £'000</i> |
|--------------------------------------|---------------------------------------|--|------------------------|
| 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 |
| Provided in year (after discounting) | 1,332 | 18,786 | 20,118 |
| Utilised in year | (207) | (6,955) | (7,162) |
| Released in year | (648) | (425) | (1,073) |
| Unwinding of discounting | (34) | 5 | (29) |
| At 30 June 2018 | 2,513 | 43,520 | 46,033 |

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.

17. Retirement benefit obligations

Defined benefit plans

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

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

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

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

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

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

17. Retirement benefit obligations (continued)

The accounting treatment for such pension schemes is not explicitly considered by IAS 19 Employee Benefits (Revised). However, since the contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised), the Company does not account for uncommitted contributions towards the sections' current or expected future deficits. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise. As a result, the Company consequently reduces any section deficit balance that would otherwise remain after reflecting the cost sharing with the members and reduces any service costs that would give rise to an increase in such deficit through the use of a franchise adjustment with movements in that franchise adjustment meaning that the service costs appropriately reflect contracted contributions resulting over the term of the franchise.

British Railways Additional Superannuation Scheme (BRASS) matching AVC Company contributions of £214,000 (2017: £242,000) were paid in the year.

The contributions made by the company in the year were £19,100,000 (2017: £18,300,000).

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 30 June 2018 and 1 July 2017. 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.

Summary of year end assumptions:

| | 2018 | 2017 |
|---|------|------|
| | % | % |
| Rate of increase in salaries | 3.4 | 3.5 |
| Rate of increase in pensions in payment | 2.1 | 2.3 |
| Rate of increase in deferred pensions | 2.1 | 2.3 |
| Discount rate | 2.7 | 2.6 |
| Inflation assumptions: | | |
| RPI | 3.1 | 3.3 |
| CPI | 2.1 | 2.3 |

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

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

| | 2018 | 2017 |
|---------------|-------|-------|
| | Years | Years |
| Pensioner | 21 | 22 |
| Non-pensioner | 23 | 24 |

The mortality assumptions adopted as at 30 June 2018 and 1 July 2017 are based on the results of the latest funding valuation as at 31 December 2013.

Notes to the financial statements (continued)

For the year ended 30 June 2018

17. Retirement benefit obligations (continued)*Sensitivity analysis:*

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.

Category of assets at the year end:

| | 2018 | | 2017 | |
|------------------------------|------------------|------|------------------|------|
| | Value £'000 | % | Value £'000 | % |
| Equities | 1,089,200 | 98.0 | 1,000,100 | 96.7 |
| Properties | 19,800 | 1.8 | 31,700 | 3.1 |
| Others | 2,900 | 0.2 | 2,200 | 0.2 |
| Total market value of assets | <u>1,111,900</u> | | <u>1,034,000</u> | |

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

Funding position of the Company's pension arrangements:

| | 2018 £'000 | 2017 £'000 |
|---|------------------|------------------|
| Employer's 60% share of pension scheme: | | |
| Liabilities at the end of the year | (1,476,600) | (1,428,500) |
| Assets at fair value | 1,111,900 | 1,034,000 |
| Gross deficit | <u>(364,700)</u> | <u>(394,500)</u> |
| Franchise adjustment | 364,700 | 394,500 |
| Pension scheme liability | <u>—</u> | <u>—</u> |

Pension cost for the financial year:

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Service cost | 54,900 | 46,500 |
| Franchise adjustment to current period costs | (37,600) | (33,500) |
| Administration costs | 2,000 | 5,500 |
| Interest cost on net liabilities | 10,700 | 9,200 |
| Interest on franchise adjustments | (10,700) | (9,200) |
| Pension cost | <u>19,300</u> | <u>18,500</u> |

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

17. Retirement benefit obligations (continued)

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

| | 2018 £'000 | 2017 £'000 |
|---|------------------|------------------|
| Employer's 60% share of pension scheme liabilities at start of year | 1,428,500 | 1,235,800 |
| Franchise adjustment (100%) | (394,500) | (316,500) |
| | <u>1,034,000</u> | <u>919,300</u> |
| Liability movement for members' share of assets (40%) | 43,000 | 58,100 |
| Service cost (60%) | 54,800 | 46,500 |
| Franchise adjustment to current period costs | (37,600) | (33,500) |
| Interest cost (60%) | 26,800 | 24,300 |
| Interest on franchise adjustment (100%) | (10,700) | (9,200) |
| Re-measurement loss due to experience (60%) | 15,200 | 2,900 |
| Re-measurement (gain)/loss due to financial assumptions (60%) | (37,000) | 92,100 |
| Re-measurement gain due to demographic assumptions (60%) | (24,600) | – |
| Benefits paid (100%) | (30,100) | (31,200) |
| Franchise adjustment movement (100%) | 78,100 | (35,300) |
| | <u>1,111,900</u> | <u>1,034,000</u> |
| Franchise adjustment (100%) | 364,700 | 394,500 |
| Employer's 60% share of pension scheme liabilities at end of year | <u>1,476,600</u> | <u>1,428,500</u> |

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

| | 2018 £'000 | 2017 £'000 |
|--|------------------|------------------|
| Fair value of assets at start of year (100%) | 1,034,000 | 919,300 |
| Interest income of plan assets (60%) | 16,100 | 15,100 |
| Re-measurement gain on assets (60%) | 31,700 | 59,700 |
| Company contributions (100%) | 19,100 | 18,300 |
| Benefits paid (100%) | (30,100) | (31,200) |
| Administrative expenses incurred (100%) | (3,300) | (9,100) |
| Members share of movement of assets (40%) | 44,400 | 61,900 |
| Fair value of assets at end of year (100%) | <u>1,111,900</u> | <u>1,034,000</u> |

Estimated contributions for future:

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.

| | £'000 |
|---|---------------|
| Estimated company contributions in financial year 2019 | 19,800 |
| Estimated employee contributions in financial year 2019 | 13,200 |
| Estimated total contributions in financial year 2019 | <u>33,000</u> |

Notes to the financial statements (continued)

For the year ended 30 June 2018

17. Retirement benefit obligations (continued)*Franchise adjustment:*

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

| | 2018 £'000 | 2017 £'000 |
|--|------------------|------------------|
| Balance sheet | | |
| Defined benefit pension plan | (364,700) | (394,500) |
| Deferred tax asset | 61,999 | 71,010 |
| | <u>(302,701)</u> | <u>(323,490)</u> |
| Other comprehensive income | | |
| Re-measurement gains | (78,100) | 35,300 |
| Tax on re-measurement gains | 13,277 | (6,354) |
| | <u>(64,823)</u> | <u>28,946</u> |
| Income statement | | |
| Operating costs – franchise adjustment | (10,700) | (9,200) |
| Deferred tax charge | 1,819 | 1,656 |
| | <u>(8,881)</u> | <u>(7,544)</u> |

Experience recognised in other comprehensive income:

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Gain/(loss) on pension scheme liabilities | 46,400 | (95,000) |
| Experience gains on assets | 31,700 | 59,700 |
| Franchise adjustment movement | (78,100) | 35,300 |
| Total gain recognised in other comprehensive income during the year | <u>–</u> | <u>–</u> |

Risks associated with defined benefit plans:

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

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

18. 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 30 June 2018 and 1 July 2017 were as follows:

| | <i>Rail contracts</i> | <i>Rail contracts</i> |
|--|-----------------------|-----------------------|
| | <i>2018</i> | <i>2017</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Within one year | 661,804 | 564,679 |
| In the second to fifth years inclusive | 1,477,664 | 1,893,927 |
| Over five years | – | – |
| | <u>2,139,468</u> | <u>2,458,606</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 30 June 2018 and 1 July 2017 were as follows:

| | <i>Rail contracts</i> | <i>Rail contracts</i> |
|--|-----------------------|-----------------------|
| | <i>2018</i> | <i>2017</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Within one year | 28,308 | 15,931 |
| In the second to fifth years inclusive | 62,745 | 51,240 |
| Over five years | – | – |
| | <u>91,053</u> | <u>67,171</u> |

Performance bonds and other guarantees

The Company has provided bank guaranteed performance bonds of £20,671,000 (2017: £20,000,000), season ticket bonds of £111,584,000 (2017: £112,018,000) and loan guarantee bond of £36,250,000 (2017: £36,250,000) to the DFT in support of the Company's rail franchise operations.

In addition, the Go-Ahead Group plc, together with Keolis, has a joint parental company commitment to provide funds of £136,000,000 (2017: £136,000,000) to the DFT in respect of the Company. At the year-end £nil (2017: £nil) has been provided.

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

Capital commitments

At 30 June 2018, amounts contracted for but not provided in the financial statements for plant and equipment amounted to £4,445,000 (2017: £3,067,000).

At 30 June 2018, amounts contracted for but not provided in the financial statements for intangible assets amounted to £nil (2017: £nil).

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

19. Related party transactions

| | <i>The Go-Ahead Group plc & Subsidiary Companies</i> | |
|-----------------------------------|--|--------------|
| | <i>2018</i> | <i>2017</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Purchases from related party | 40,873 | 40,121 |
| Sales to related party | 21,745 | 8,291 |
| Interest payable to related party | 21 | 14 |
| Amounts owed to related party | <u>14,427</u> | <u>7,781</u> |

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 (2017: £5m) from Govia Limited.

20. Called up share capital

| | | <i>Allotted, called up and fully paid</i> | |
|----------------------------|------------|---|--------------|
| | | <i>2018</i> | <i>2017</i> |
| | <i>No.</i> | <i>£'000</i> | <i>No.</i> |
| | | | <i>£'000</i> |
| Ordinary shares of £1 each | 5,000,000 | <u>5,000</u> | <u>5,000</u> |

21. 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 2016 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, forfeiture rate and option life.

Govia Thameslink Railway Limited
Notes to the financial statements (continued)
For the year ended 30 June 2018

21. Share based payments (continued)

There are savings-related options at 30 June 2018 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 | 51,327 | – |
| No. options exercised during the year | 65 | 5,778 |
| No. options exercisable at end of year | <u>–</u> | <u>–</u> |

The expense recognised for the scheme during the year to 30 June 2018 was £120,000 (2017: £154,000).

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

| | <i>2018 No.</i> | <i>2018 WAEP £</i> | <i>2017 No.</i> | <i>2017 WAEP £</i> |
|--|---------------------|------------------------|---------------------|------------------------|
| Outstanding at the beginning of the year | 110,220 | 18.29 | 139,929 | 18.19 |
| Granted during the year | – | – | – | – |
| Forfeited during the year | (53,115) | 17.60 | (12,225) | 18.30 |
| Exercised during the year | (5,778) | 17.36 | (17,484) | 17.34 |
| Transferred during the year | – | – | – | – |
| Outstanding at the end of the year | <u>51,327</u> | <u>19.11</u> | <u>110,220</u> | <u>18.29</u> |

The weighted average exercise price at the date of exercise for the options exercised in the year was £17.34 (2017: £17.34).

The options outstanding at the end of the year have a weighted average remaining contracted life of 0.83 years (2017: 0.98 years). These options are exercisable at a weighted average exercise price of £19.11 (2017: £18.29). This represents a range of exercise prices between £19.11 and £19.11 (2017: £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 30 June 2018 was £49,000 (2017: £152,000).

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 £16.30 (2017: £20.08).

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

| | <i>2018 No.</i> | <i>2017 No.</i> |
|--|---------------------|---------------------|
| Outstanding at the beginning of the year | 25,294 | 24,631 |
| Granted during the year | 5,462 | 6,052 |
| Forfeited during the year | (4,639) | (5,389) |
| Exercised during the year | (9,369) | – |
| Outstanding at the end of the year | <u>16,748</u> | <u>25,294</u> |

The weighted average exercise price of options exercised during the year was £15.87 (2017: £nil).

Govia Thameslink Railway Limited
Notes to the financial statements (*continued*)
For the year ended 30 June 2018

21. Share based payments (*continued*)

At the year-end, there were no options related to DSBP awards which vested before the year-end, which have not yet been exercised by participants. 7,020 options, relating to the DSBP award granted in November 2015, will be eligible to vest from November 2018 following the end of a three year deferral period. The year-end weighted average exercise price of the options was £15.88 (2017: £17.77).

The weighted average remaining contractual life of the options was 0.91 years (2017: 0.87 years).

22. 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 £241,806,000 (2017: £233,741,000) held, which cannot be distributed by means of a dividend.

23. 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, United Kingdom. GOVIA Limited is a joint-venture between Keolis (UK) Limited (35%) and The Go-Ahead Group (65%).

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

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