

Registered no: 07934306

# **Govia Thameslink Railway Limited**

## **Annual Report and Financial Statements**

For the period from 4 July 2021 to 31 March 2022

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

## **DIRECTORS AND PROFESSIONAL ADVISORS**

### **Directors**

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**Govia Thameslink Railway Limited**  
**Strategic report**  
**For the period ended 31 March 2022**

The directors present their Strategic report for the nine-month period ended 31 March 2022.

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

**Business review**

The principal activity of Govia Thameslink Railway Limited (GTR) (the “Company”) is the operation of passenger services on the Thameslink, Great Northern, Southern and Gatwick Express routes. This franchise is the largest of its type in the UK, representing approximately 18% of national passenger journeys. The franchise has been structured to facilitate the transformation and modernisation of passenger services, enabling capacity improvements through the government’s Thameslink Programme infrastructure project. These improvements include the introduction of several new fleets of trains as well as the introduction of revised timetables and working practices.

Along with the majority of UK rail franchises, the Company transitioned from an Emergency Measures Agreement (EMA) with the Department for Transport (DfT) to an Emergency Recovery Measures Agreement (ERMA) on 20 September 2020. In June 2021, the DfT extended GTR’s ERMA under the same contractual terms, from its original end date of September 2021 to 31 March 2022.

The ERMA is a management contract with limited revenue and cost risk. Under the ERMA, the Company’s margin was capped at 1.5%, comprising a 0.5% fixed management fee and 1.0% maximum performance-based fee. As with the EMA, the ERMA performance-based fee results from operating performance, customer experience, financial performance and collaboration. During the reporting period, the scoring for these measures was confirmed for the EMA assessment period up to 19 September 2020 and for the ERMA assessment period up to 31 March 2021. The EMA management fee had been paid by DfT when the FY21 statutory accounts were published. The performance-based fee relating to the ERMA assessment period from 1 April 2021 to 31 March 2022 was recognised in this reporting period and confirmed on 23 August 2022. The ERMA management fee and Performance Based Fee (PBF) are recognised as receivable items at the balance sheet date.

The Company’s financial statements also include the impact of disallowable costs under the EMA and ERMA and the costs and income that related to the pre-EMA period (prior to March 2020).

On 25 March 2022 the Department for Transport (DfT) awarded a National Rail Contract (NRC) to GTR to continue operating the Thameslink, Great Northern, Southern and Gatwick Express rail services. The new contract commenced on 1 April 2022 and will run until at least 1 April 2025, with the potential for a further three years at the Secretary of State’s discretion. Like the ERMA it replaced, the NRC is a management contract through which GTR provides agreed rail services for a fee. The contract has limited revenue and cost risk in relation to disallowable costs, which is managed through the Company’s internal processes and controls, but is not exposed to changes in passenger demand. Changes in allowable costs (as defined in the contract) are at the risk of the DfT, not the operator. In addition to the fixed management fee and potential performance fee stipulated by the contract, the NRC also allows for individual project fees to be earned by GTR on the delivery of additional initiatives as directed by the DfT.

Between summer 2021 and spring 2022, GTR continued to play a key role in supporting the Government’s recovery agenda, welcoming and encouraging people back to rail as the Company continued to keep people safe and run trains on time. Much focus continued to be placed on collaborating with the Company’s industry partners and building strong local partnerships to help its regions grow and prosper, with a timetable that met their changing needs as well as new and emerging travel patterns. GTR’s commitment to making improvements right across the business ranged from removing barriers for disabled people, to encouraging a more diverse workforce and supporting a greener future for rail.

As we saw last year, the COVID-19 pandemic dramatically accelerated flexible working patterns and fundamentally altered working life, reducing demand on particular weekdays as more people decide to work from home. In rail the new travel landscape has continued to change shape, requiring a timetable better geared to meet the changing needs of customers. As a result, GTR continued to react with agility to the impact of the Omicron variant in winter 2021/22, reducing its timetable to mitigate the impact of the reduction in the number of passengers and the increased non-availability of staff at key times.

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**Strategic report (continued)**  
For the period ended 31 March 2022

Following the lifting of Government restrictions, GTR welcomed back passengers with a focus on safety reassurance messages (including data about stations and trains being treated with long-lasting viricides) to reassure people and give them the confidence and peace of mind to travel by train. While GTR focused on adapting timetables to the changing demand level, the Company also deployed a campaign to attract more people to GTR services. "It's go time" was the first major revenue recovery campaign launched since the beginning of the pandemic. Aimed at attracting leisure and commuter customers back to GTR's railway, it supported the national recovery agenda and the sector's national awareness campaign.

In response to the increase in customer demand, in February 2022 the Company introduced more services to support commuters into London. The Gatwick Express returned on 3 April to support the recovery of the airport, with a further timetable change introduced in May 2022.

Throughout 2022 and into 2023, industrial action has impacted rail services across the UK, including GTR on some days. GTR regrets the impact such action has on its customers and urges the unions to continue to engage with the Rail Delivery Group over changes to the industry that are required to secure a sustainable and positive future. Under the management contract structure, which is based upon a management fee and performance-related fees, the direct cost and revenue risk of industrial action remains with the DfT, subject to the overriding obligation on the company to act in compliance with the contract and at all times as a 'good and efficient operator'.

GTR continues to be at the forefront in the use of app technology, taking the lessons learned through the pandemic and continually refining app-based products. GTR's safety reporting app, which was introduced in 2021 and enables faster and more accurate reporting of all safety-related incidents, is now on version 3 and has been instrumental in improving reporting, realising an increase in reporting of all incidents of approximately 40 per cent. With better data and insights, GTR has been able to ensure that initiatives are targeted, and resources focused, in the right areas.

GTR's zero harm ambition, now embedded across the Go-Ahead Group, is moving to its next phase post pandemic of getting back to basics, ensuring all colleagues are equipped to deliver on the promise of caring for each other, customers and vulnerable persons.

GTR continues to refine its messaging and assess the residual risk associated with post-pandemic life and the current socio-economic environment. The Company recognises that its customers and people in its local communities can be vulnerable, which is why GTR was the first rail company to employ a dedicated suicide prevention manager and to train colleagues to make life-saving interventions.

Additionally, new risks have emerged, such as an increase in antisocial behaviour. To respond to this, GTR has pioneered the first-ever joint policing plan which has been countersigned by GTR and the British Transport Police. It pledges to collectively improve passenger and colleague confidence by increasing visibility and engagement and reducing violence and antisocial behaviour. The plan also aims to reduce assaults and increase prosecutions and protect, support and safeguard vulnerable people and those at risk of exploitation and harm, as well as tackle violence against females, hate crimes and sexual harassment.

GTR also instigated Operation Safeguard, which saw the introduction of Travel Safe Officers across the network, who have collectively made over 25,000 interventions since July 2021.

Services continued to be built based on insight gained over several months of engagement with local stakeholders, and feedback received from customers, Rail User Groups (RUGs) and other local contacts. This more targeted and local approach to seeking input is something GTR is continuing to do as the Company works closely with Local Authorities, schools and hospitals to ensure their needs are met as far as possible.

Working in collaboration with the industry and its stakeholders, GTR wants to encourage people and communities to connect, grow and thrive again. With many commuting and leisure travelling habits potentially changed forever, it is more important than ever to provide the best experience for customers and make sure

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services are welcoming and open to as many people as possible. This is also true at times when large scale infrastructure improvements are required. The Brighton Main Line upgrade by Network Rail (NR) in February 2022 was led successfully by a joint team of NR and GTR colleagues, with the customer communication and passenger handling plan considered best practice in the region.

GTR has continued to work closely with several local stakeholders, including local authorities, to deliver benefits across a wide range of areas for local communities, including cycle park improvements to promote integrated travel and green modes of transport that complement train travel. Other initiatives have seen GTR secure funding for station upgrades at major hubs such as the brand-new development at Brent Cross West.

GTR's Accessibility Travel Policy outlines in detail the Company's commitment to accessible travel and recent developments, such as the reduced time required to book assistance from six to two hours before departure, for those who prefer to pre-book. GTR continues to extend its Mobile Assistance Team approach, with teams now providing assistance support from hub locations at 27 of its smaller accessible (unstaffed or partially staffed) stations and further teams will be established to provide support at a further 24 stations in due course.

GTR participates in the Go-Ahead Group's Accessibility Forum, which meets regularly to share best practice from across the Group and to enable continuous improvement and innovation for passengers both in the UK and internationally.

This past couple of years have been difficult on people's mental health, the industry is seeing an increasing trend in unsafe behaviors. To help support people who travel with us and in some cases save lives, GTR invited stakeholders and partners to join the employee training programme, so more people could be equipped with the right tools to help those in need. Education and training can make a real difference, more people are now able to identify vulnerable people at the Company's train stations so they can intervene when support is needed. During the period between July 2021 and March 2022, 481 people completed the training, and just over 100 life savers were recognised for their interventions.

The Company continues to make good progress in relation to talent, diversity and inclusion and the Company has had a number of successes in the last year.

Following an initial assessment against the National Equality Standard, which took place from April to September 2021, GTR only fell short of achieving the standard by one competency. From the feedback of Ernst & Young, the Company's external consultants, this is an excellent achievement. A plan to address the recommendations was developed and GTR was extremely pleased to achieve the standard in October 2022.

20 diverse individuals came through the Government Kick Start scheme into Customer Service, Engineering and HQ roles. This scheme has been rewarding to the individuals providing them with a varied work experience within the rail industry coupled with employability skills training. After the programme, two individuals have secured permanent roles with GTR.

GTR exceeded its apprenticeship target of 200 by almost 20 per cent in 2021, providing new career opportunities for 240 people, aged from 16 to over 61. On top of this, GTR attracted a higher number of female and Black Minority Ethnic (BME) applicants into apprenticeship roles/programmes. More than a third of new recruits this year were women (34 per cent) whilst 27 per cent identified as BME.

Continuing the Company's drive to attract and recruit more female and BME colleagues into train driver roles, since starting the campaign GTR has seen an increase of 8% in female applications and 8.7% uplift in BME applications. Over the last ten train driver apprenticeship programmes GTR has seen a 50/50 male/female split on all Southern & Gatwick Express courses and on average a 40/60 split on Thameslink & Great Northern programmes.

GTR won or was shortlisted for a raft of Diversity and Inclusion awards during 2021 including the achievement of 'Best Apprentice/School Leaver Recruitment Strategy' in the Recruiter Awards and winning the 'Macro Employer of the Year' in the Regional Apprenticeship Awards.

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**Key Performance Indicators**

For the period from 4 July 2021 to 31 March 2022, the key operating statistics were as follows:

	Period ended 31 March 2022*	Year ended 3 July 2021
Revenue	£1,259m	£1,758m
Operating profit	£23m	£55m
Public Performance Measure (PPM)	86.2%	89.7%
On Time Performance Measure	74.8%	71.4%
National Rail Passenger Satisfaction (NRPS)*	n/a	n/a

*\* The latest wave of NRPS surveys were published 2 July 2020 and due to the pandemic and a significant drop in the numbers of people using public transport, the NRPS has been paused. There is currently no available independent measure of passenger satisfaction. At the date of signing the accounts, the NRPS has not yet resumed.*

Overall revenue decreased by £499m from the previous year, however on a like-for-like basis (9-month period for both years) the total revenue was broadly flat year-on-year. Total revenue consists of passenger revenue, other income and subsidy from DfT. Passenger revenue recovery in FY22 reduced the subsidy required from DfT to fund the delivery of passenger service operations.

GTR had a more challenging 2021/22 compared to the previous year; the Company began to see a large increase in the number of unavailable drivers (from period 3) triggered initially by the third wave of COVID-19 infections; this resulted in high levels of cancellations and On Time loss. Cancellations remained high through the rest of the year, with peaks occurring as a result of increased levels of staff self-isolating and the Omicron variant during the Christmas annual leave season. Over the course of the year, the Company introduced seven timetable changes plus short-term timetable and control change to align service patterns and driver diagrams against driver availability. Despite the challenges, On Time has generally remained strong this year, with nearly three quarters of the approximately 11.5 million train stops arriving at their scheduled time (74.8% On time vs a target of 73.8% agreed with Network Rail), and PPM has remained strong despite a fall to 86.2% for the period.

While there are some areas where GTR performed well, the Company recognises there are several key areas it needs to improve on for customers. Working with Network Rail the Company has identified four focus areas for improved performance: traincrew; network management and sub-threshold delay; speed restrictions; and trespass/fatality incidents.

GTR Fleet performance was consistently within target. A key factor was the lower mileage from the reduced timetables, but fleet reliability also improved with miles-per-incidents also on an improving trend since period 05. GTR has also worked very closely with its Network Rail partners, and together have delivered a number of infrastructure initiatives, blockades and upgrades to provide passengers with a stronger and more reliable railway.

The spring 2020 National Rail Passenger Satisfaction survey is the last set of results published by Transport Focus. The National Rail Passenger Satisfaction survey was paused as a result of the COVID-19 pandemic. As a result of this survey being paused, the Board has looked for alternative metrics on which to measure performance:

- GTR has used its online passenger panel to keep up to date with customers' satisfaction levels.
- For the period to 31 March 2022, the online panel returned an average rating of 6.7/10 for overall satisfaction, a result mainly driven by train performance, helpful information and the ambience of both the Company's stations and trains despite it being a challenging period.

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- The 2021 annual stakeholder scores have shown very strong engagement results, confirming the quality of the engagement. With an overall net good engagement score, the 2021 results benchmark at the top end of GTR's scores since the start of the GTR franchise. Results from the autumn 2022 survey showed similar results.
- A new industry customer survey is being progressed and is due to be piloted in Summer 2023.

Over the last year, the Company has continued to work across the industry to develop its Performance Improvement Management System (PIMS), an approach that is designed to add rigour and structure to the way GTR manages performance throughout the business. The PIMS has GTR's performance vision and performance improvement at the heart of it. It is supported by a programme of maturity assessments and a suite of frameworks and policies that set out the Company's approach to the management of performance, risk and governance to deliver GTR's performance commitment of a Safe On Time railway to customers. Across the industry, PIMS moved into the sustain phase during this year to ensure consistent application, and GTR focussed on local RM3P assessments (eg at Hornsey depot) and process capability reviews leading to performance improvement (eg on thermal imaging technology and Network Management Improvements).

There was an operating profit of £23m in the year. The key drivers of operating profit were the EMA and ERMA Management & Performance fees and one-off settlement of historical claims. On a like for like basis, the year-on-year decrease in operating profit was driven by a one-off true-up benefit of EMA fees and one-off settlement credit of Pre-EMA claims with DfT in the prior year. The ERMA was a management contract with limited revenue and cost risk and the margin was capped at 1.5 per cent, comprising a 0.5 per cent fee and 1.0 per cent performance incentive. Operating performance for the duration of the ERMA was good, resulting in the achievement and recognition of £9.7m of ERMA performance bonus fee in the period. The position to 31 March 2022 has since been confirmed by the DfT. Cash generation was strong, and the balance sheet remains robust.

GTR held provisions for income and costs which relate to unsettled historical performance regimes and contractual obligations. The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations, particularly in relation to the settlement as part of the transition from the ERMA franchise to the NRC is set out in note 18. Significant elements of the dilapidation provisions 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.

The Company has disclosed contingent liabilities for (i) Boundary Zone Fare proceedings against GTR and other parties (London & South Eastern Railway, The Go-Ahead Group Limited, Govia Limited and Keolis (UK) Limited); and (ii) Pricing Practice proceedings against GTR, The Go-Ahead Group Limited and Keolis (UK) Limited. No provision associated with the claim has been made and the Company cannot make a reliable estimate of any contingent liability in respect of this matter at the time of publishing the Annual Report and Accounts. Provisions for legal fees of £6.9m have been recognised.

The Company has met all its financial obligations contained within the various franchise agreements entered into within the period, without the need to call on financial support from its shareholders. As at the period end, other than the commitments detailed in note 20, the Company has not required any permanent financial support from its shareholders over the life of its franchise.

### **Principal risks and uncertainties**

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

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**Strategic report (continued)**  
For the period ended 31 March 2022

#### Environmental Risks

As part of the Govia group, the Company focuses on minimising the environmental impact of the Company's activities. Within the Emergency Recovery Management Agreement (ERMA) there are a number of obligations which are overseen by the Head of Safety and Environment. These obligations include annual reporting of environmental performance data, to both DfT and the Rail Safety and Standards Board (RSSB), and the maintenance of both ISO 50001 and ISO14001 environmental sustainability accreditations. These obligations will continue into the National Rail Contract, in addition to other contractual obligations that will arise through the annual business planning process

#### Political Risks

In May 2021, the Company welcomed the publication of the Government's 'Williams-Shapps Plan for Rail' White Paper detailing its blueprint for the future of UK rail and establishing a direction of travel for the industry which was delayed as a result of the COVID-19 pandemic. As an operator of one of the UK's largest rail contracts, the Company is actively working with the Government to shape the future of the industry, now under the transition to GBR.

The Emergency Measures Agreement (EMA) and the successor Emergency Recovery Measures Agreement (ERMA) have brought greater state control of the rail industry in the aftermath of COVID-19 to ensure the continuity of services. The Emergency Recovery Measures Agreement (ERMA) contract with the DfT ran to 31 March 2022, when it was succeeded by the National Rail Contract. The NRC transfers additional risk to the operator, notably a significant tightening of controls over sub-contracts, in particular affiliate trading; disallowance of costs above budget by cost category; and a commitment to adapt and respond to changes directed by the DfT.

#### Exposure to price, credit, interest and liquidity risk

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

The considerable majority of the Company's receivables are with public (or quasi-public) bodies (such as the DfT) or sales are paid as they arise and historically the annual cost of bad debts has been immaterial, so limited disclosures are therefore provided. The trade receivables from such public bodies are not considered to present a significant credit risk, which is supported by cash payment performance. During the year, £8.4m was recognised for bad debt on property, resulting from the impact of the COVID-19 pandemic and increasing "cost of living" pressures.

Price risk is mitigated through access contracts and ticket price changes being linked to the Retail Price Index.

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

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

From the inception of the NRC on 1st April 2022, deposits are no longer held by the Company as season ticket monies received in advance and any other excess cash is returned to the DfT. The Company will also receive cash from the DfT where there is a shortfall to maintain cash levels within contractually agreed limits to maintain liquidity.

The contractual payment mechanism agreed in the NRC gives the Company greater certainty and foresight in respect of the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support.

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

**Infrastructure Performance Risks**

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

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

**Economic Risks**

Under the Emergency Recovery Measures Agreement (ERMA) the DfT underwrote both revenue and cost risk. On this basis, there is no significant economic risk from the Agreement. Management is focussed on performance, cost control and compliance with the obligations contained within the ERMA and the underlying franchise agreement. Fundamentally, for the Company to remain compliant with the ERMA, management needed to ensure the Company remains a 'good and efficient operator' in all aspects of its business.

Failure to comply with the obligations contained in the franchise agreement and the ERMA could lead to financial penalties or, in an extreme situation, termination of the franchise. Compliance with the franchise agreement terms has been closely monitored by an experienced franchise compliance team. Refer to the Future Developments section below, where the risks of the National Rail Contract (NRC) have been considered.

**Information Security Risks**

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

On 5 September 2022, unauthorised access to Go-Ahead's IT systems was discovered. The Go-Ahead IT team, in collaboration with an external incident response specialist, acted quickly to contain the incident and restore critical services. Following the incident, Go-Ahead Finance teams followed procedures to ensure the integrity of financial information, with no data loss or corruption noted. It was confirmed that GTR's IT systems were not compromised by the incident. As part of the agreement with DfT when entering the NRC, the Company is currently in the process of implementing an IT separation project, which began before the incident, which will involve removing all remaining links between GTR and Go-Ahead's IT systems.

**Industrial Relations Risks**

COVID19 has had a significant impact on rail usage and consequently the rail industry's finances. Even though revenues are now recovering, they remain below pre-pandemic levels, with the shortfall continuing to be funded by the taxpayer, a situation generally acknowledged to be unsustainable. To ensure the future sustainability of the sector, significant cost savings must be found, which will necessitate significant reforms to working practices.

Undertaking these reforms will increase the risk of disruption and industrial action. To mitigate these effects, GTR has, among other actions, engaged external legal support in relation to industrial relations and litigation; commenced weekly briefing of Regional Organisers and local union representatives; provided training for managers on Trades Union relations and sharpened its focus on employee communication and engagement. GTR maintains high levels of collaboration with other operators through the Rail Delivery Group and other industry bodies, with Network Rail and with the DfT and on a practical level, have established effective operational contingency plans.

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### **Future developments**

The NRC was awarded on the 25<sup>th</sup> March 2022. Like the EMA and ERMA contracts, within the NRC all revenue and inflationary cost risk remains with the DfT. Consequently, from the 1<sup>st</sup> April 2022 the NRC does not significantly change the risk profile of the business, although the NRC brings the need for greater cost control and management of compliance with certain approval and reporting obligations relating to affiliate trading and staffing decisions.

### **Section 172(1) of the Companies Act 2006 Statement**

In their discussions and decisions during the year, the directors of the Company acted in a way that they considered, in good faith, was most likely to promote the success of the Company for the benefit of its sole member. In doing so, they had regard to the Company's key stakeholders and the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 as explained below.

#### **The likely consequences of any decision in the long term:**

The directors recognise that their decisions will have an impact on the Company's long-term success. Board discussions take account of all stakeholder interests, and the decision-making process includes balancing competing interests, whether short or long term. Decisions may benefit some stakeholders more than others, and the impact on each stakeholder group forms an integral part of board debate. In particular, board decisions take into account and seek to align with, the purpose and strategy set by the Company's parent, The Go-Ahead Group Limited (the "Group"), for the Go-Ahead Group as a whole. The membership of the Board also includes representatives from Keolis (UK) Limited owing to their status as a significant shareholder. Further information on stakeholder engagement and its impact on principal decisions made during the year is set out in the respective sections below.

#### **The interests of the Company's employees:**

The Company's employees are fundamental to its success, both in the short and long term, and their health, safety and wellbeing is a top priority for the directors. "Health and safety", "People and engagement" and "Industrial relations" have been mandated by the Group as items to be considered at each scheduled board meeting of every operating company within the Group, supported by detailed briefing papers circulated in advance of each meeting. The Company's employees are a key stakeholder group, and further information on workforce engagement, outcomes from that engagement and any impact on principal decisions is set out in the stakeholder engagement and principal decisions sections below.

#### **The need to foster the Company's business relationships with suppliers, customers and others:**

Positive business relationships with suppliers, customers, government and other key stakeholders underpin the Company's delivery of services. Relations with suppliers, particularly in relation to dealings with smaller suppliers, are guided by the Group's Sustainable Suppliers policy, which can be found, together with other related policies, on the Group website [www.go-ahead.com/sustainability/policies](http://www.go-ahead.com/sustainability/policies). The Board regularly reviews how the Company maintains positive relationships with all stakeholders, including suppliers, customers and others. Details of stakeholders are set out in Principle 6 of the Corporate Governance Report. Please refer to the Corporate Governance Report on page 15 for further details on how GTR engages with its suppliers, customers and others.

#### **The impact of the Company's operations on the community and the environment:**

As an operator of public transport, the Company aims to enhance the lives and wellbeing of every community where it operates by providing them with vital transport services. Communities are a key stakeholder group and further information on community engagement and outcomes is set out in the stakeholder engagement section. Environmental considerations are central to the strategy of the Group, and therefore to the Company. The Group has committed to reduce carbon emissions by 75% by 2035 and consolidating zero emissions capabilities is one of five key enablers underpinning the Group's strategic priorities. Further information on the Group's approach to environmental considerations can be found in the Group's Annual Report & Accounts 2022 published on [www.go-ahead.com](http://www.go-ahead.com).

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GTR is the UK's largest operator of electric trains with 98 per cent of its fleet comprised of electric trains. The Company's electric fleet includes Siemens Class 700 trains, which recycle 15.8GWh of energy each month from its braking system and return it to the network. GTR has also worked in partnership with Network Rail to install solar film at Denmark Hill station.

The Company aims to align its business values, purpose and strategy with the social, economic and environmental needs of its stakeholders, embedding responsible and ethical business policies and practices in everything it does.

With many people using GTR's trains every day to get to work, school or see friends, GTR understands the importance of rail to passengers, communities, its colleagues and the economy. Therefore, the Company's commitment is to strengthen its contribution to the economy, increase customer satisfaction, focus on adding value in local communities through sustainability schemes, safety awareness and wellbeing, and by giving community members the opportunity to access training and a rewarding career in rail.

**Highlights for the period ending 31 March 2022 were as follows:**

- Thousands of children educated in railway safety
- Suicide Prevention Training rolled out to stakeholder and community rail partners to mark World Suicide Prevention Day
- Mental health awareness campaign collaborating with Stevenage Football Club launched
- Several young people commenced their 6-month work placements across the business through the government's Kickstart scheme
- 12-month pilot recycling initiative launched at Brighton station with The Green Block
- Your Station Your Community webinar series launched, providing community partners with access to expert speakers on key themes such as biodiversity and third-party funding applications
- Abandoned bikes donated to community partner to support upcycle and upskilling programmes
- Multiple station partnerships making local stations more welcoming and vibrant

**The desirability of the Company maintaining a reputation for high standards of business conduct:**

The directors acknowledge their responsibility for setting and monitoring the Company's culture, values and reputation. This is undertaken in line with the Group's purpose and values and the Group policies for responsible business management, which can be found at [www.go-ahead.com/sustainability/policies](http://www.go-ahead.com/sustainability/policies).

**The need to act fairly as between members of the Company:**

The Company is owned by Govia Limited which is a joint venture between the Group (65%) and Kcolis (UK) Limited (35%) The Group is structured around a devolved operating model and the Company is managed by its board of directors as a standalone business unit in accordance with the joint venture arrangements established by the shareholders of Govia Limited. Further details are set out in the corporate governance arrangements section of the Directors' Report.

For details of how the Company engages with the Group, please refer to Principle 6 in the Corporate Governance Report on page 15.

## **Stakeholder Engagement**

GTR's relationships with its stakeholders are key to its success. By engaging meaningfully, the Company gains insights into their needs. This feedback forms part of the Company's decision-making process at every level of the business, from the Board to its' local management teams. The examples which follow demonstrate consideration of the matters set out in Section 172 of the Companies Act 2006.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the period ended 31 March 2022

Stakeholders	Why we engage	How we engage	Key topics of engagement during 2022 financial period	How we responded
<p>Our people</p> <p>Our business is built by colleagues whose commitment, innovation and ambition help deliver the best possible transport service to our customers.</p> <p>We have an experienced, diverse and dedicated workforce who we recognise as a key asset of our business and to whom we have a strong commitment to personal development.</p>	To maintain a highly engaged and motivated workforce	Defined new values and behaviours for leadership	Health, safety and wellbeing	Increased participation in our annual colleague survey.
	To create a constructive, two-way dialogue, ensuring colleagues have a platform to have their voices heard	Colleague engagement surveys	Diversity and inclusion	Development of health and wellbeing initiatives
	To promote wellbeing and ensure the safety of our people	Effective leadership and line management	Maintaining and continually improving colleague engagement	Continued dialogue to understand likely scenarios around return to office working
	To understand how we can best provide a supportive and collaborative workplace	Communication through the Company intranet, newsletters, forums and ad hoc meetings	Development and training opportunities	Continued focus on diversity and inclusion.
	To ensure alignment between people agenda and business strategy	Performance and development reviews	Opportunities for progression	Increases to female and BME apprenticeship applications.
	To encourage equal opportunities and a more diverse workforce	Colleague training programmes and workshops	Opportunity to share ideas and make a difference	Employee apps across operations for safer and more efficient working
	To ensure we develop colleagues through professional development and training	Focus on development and succession planning	Flexible working	Support for remote working practices to balance childcare/home-schooling, etc. where appropriate
		Lunch and learn sessions	Modernising and transforming working environments	
		Business update presentations	Colleague recognition and reward	
		Board and senior management site visits	Working throughout the COVID-19 pandemic, job security and pay	
<p>Customers</p> <p>Customers are at the heart of GTR and we are dedicated to providing them with safe, convenient and reliable services. We understand our local markets and strive to exceed our customers' expectations.</p>	To identify priority areas for improvement in order to maintain our high level of customer satisfaction	Management conferences.		
	To respond quickly and effectively to meet changes in customers' needs and preferences	Engagement with trade unions		
	To fully understand the needs of our different and diverse customer groups	Reinstated annual long service and retirement awards.		
	To improve or maintain a high quality, reliable and safe passenger transport service			
	To enable us to deliver new and innovative products and integrated,			
		Online communications – website, newsletters, emails and social media	Reliability and punctuality of services	Enhanced safety features and cleaning regimes
		Customer satisfaction surveys	Safety measures	Local interaction regarding timetable changes
		Continual review of customer feedback	Overall on-board experience	Continued rollout of tap-on/tap-off contactless ticketing, and increasing emphasis on non-cash transactions
		Customer-facing colleague feedback	Value for money, including ticket price	
		Customer panels and focus groups	Quality and amount of delay and disruption information including timetable changes	
		Customer, industry and on-site events	Station amenities	Rail station improvements with significant cycle hubs to make active travel easier
			Route and timetable enquiries	Access Advisory Panel continued to meet, helping GTR enhance
			Colleague training and development	

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the period ended 31 March 2022

Stakeholders	Why we engage	How we engage	Key topics of engagement during 2022 financial period	How we responded
	customer-focused solutions  To maintain a reputation for high standards of business conduct		Accessibility and support for passengers with different needs  Active travel initiatives	on board and station accessibility.  Disability awareness courses delivered to customer-facing colleagues.  Rail journey planning tools launched to help customers find quieter services.
Strategic partners and suppliers  Collaborative strategic partnerships are core to our business model. We build strong relationships with transport authorities and industry bodies to deliver efficient, high quality services. Our suppliers, which range from large multinational companies to small independently run businesses, partner with us in delivering innovative solutions for our customers.	To develop strong relationships  To ensure closer alignment of values  To provide collaborative and innovative solutions to societal challenges  To ensure those with whom we work demonstrate a commitment to sustainability, employee wellness and diversity  To ensure the effective delivery of contracts  To enhance competitive advantage  To effectively monitor, manage and mitigate risks in our supply chain	Joint membership of industry groups  Collaborative working with partners to deliver specific solutions  Engagement groups to build long term relationships  Periodic surveys of our current suppliers  Regular meetings to discuss supplier performance and areas for improvement, identifying risk and mitigation plans	Specific industry solutions  Long term partnerships  Collaborative approach  Raising standards and delivering long term goals  Delivering value, consistency, engagement and better planning  Sustainability challenges  Open terms of business  Fair contract and payment terms  Prompt payment  Supply chain disruption contingency planning	Maintained key principles introduced last year to our pre-qualification and tender documents in relation to ethical employment practices, the environment, health and wellbeing and community cohesion  Set targets on payment performance and complied with the Prompt Payment Code  Continued engagement with Network Rail and local transport authority providers at multiple levels
Government  Policy and regulatory change directly affects our business and creates the framework through which we operate. Working closely with both central and local government enables us to contribute our private sector experience and expertise to the public agenda and produce better policy outcomes and service delivery.	To secure recovery in passenger volumes that support economic development, environmental targets and social priorities  To raise public transport higher up government agendas  To influence and inform policy making  To represent the views of other stakeholders: customers, colleagues, communities and shareholders  We operate services on behalf of the Government via the DfT and continually	Ongoing engagement with government bodies and clients, notably the Department for Transport (DfT)  Group membership of the All Party Parliamentary Group on rail  Participating in various expert working groups, select committees and government consultations  Engaging in policy discussions over key industry topics and advising on delivery implementation	Passenger volume recovery  Negotiation of a National Rail Contract  Contractual arrangements and features  National rail reform  Environmental policy and compliance, including climate change and transition to zero-emissions  Apprenticeships, skills and diversity  Proactive engagement with local authorities	Engagement with DfT and industry partners on rail reform  Campaigns on customer recovery and confidence

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the period ended 31 March 2022

Stakeholders	Why we engage	How we engage	Key topics of engagement during 2022 financial period	How we responded
	engage on matters relating to the contracts we operate	Ongoing dialogue with local MPs Partnering with campaign groups such as Campaign for Better Transport and Sustrans	Support for local economic plans and strategies Sharing experience and expertise	
Communities  As an operator of public transport, we provide a vital service to communities, transporting passengers to work, education, facilities and services. We strive to provide the social and economic benefits of affordable and accessible travel in the towns and cities in which we operate.	To maintain our role at the heart of our communities and play our part in helping communities thrive To address economic, social and environmental issues and priorities To find the best solutions for connecting people with family, friends, work and facilities To enable us to respond appropriately to the needs of our communities To maintain our focus on operating responsibly within society To achieve our environmental objectives and targets To support social inclusion and tackle isolation	Meetings with councillors, planning officers and other key officials to work in partnership for common community goals Continual two-way communication with local businesses and organisations Onsite community engagement events to understand the needs of the local community Collaboration with local charities, participating in volunteering and fundraising initiatives Regular updates through social media, our website and apps to keep communities informed	Effectively managing our environmental impact Investment in local infrastructure Engaging and responding to community needs Direct contributions through utilising local suppliers, community volunteering, sponsorship and fundraising Providing timely and accurate travel information to ensure safety and adherence to government guidelines on public transport Providing safe and affordable public transport solutions to support social mobility	Direct community investment through volunteering, sponsorship and fundraising Local meetings with MPs, the Chamber of Commerce and Local Economic Partnership Boards and BIDs MP drop-in events Regular stakeholder newsletters Contributed to policy discussion Developed active travel plans for customers at rail stations Try a Train events for local communities to build confidence in rail travel
Shareholders  We provide our shareholders with open and transparent information and encourage two-way communication. Feedback from our shareholders forms part of the strategic board discussions. We operate our business responsibly and with strong financial discipline to protect the interests of our investors.	To ensure that our long term strategy is aligned with the interests of shareholders To explain how we aim to deliver sustainable growth and maximise the growth potential of the business To provide updates relating to the financial performance and position of the business To ensure the views of shareholders are considered in policy setting and aligned to their ESG investment criteria	Face-to-face meetings and phone calls Board meetings and focus topic discussions Annual Report	Leadership changes and board succession planning Corporate governance and internal controls Strategy and business model Financial performance Risk management Passenger demand and travel pattern Future of UK Rail franchising ESG performance Political environment	Commitment to transparent reporting with clear communications at regular intervals throughout the year

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the period ended 31 March 2022

**Principal Decisions**

The Board's principal decisions for the period ended 31 March 2022 addressed the following areas:

**Governance**

In the previous year, the Group Board identified a number of areas to enhance the Group's corporate governance and internal controls. Primarily identified as a consequence of franchise matters in LSER and International Rail, the Group Board committed to a series of improvements, including Group Board and leadership changes, improvements in bid investment decision making and ongoing contract compliance monitoring. Whilst progress has already been observed throughout 2022, such as the enhanced governance structure in GTR (including the appointment of independent directors to the GTR Board), the Group Board is cognisant that further improvements are required and that these will continue to be of focus in the coming year. The impact of the new Group leadership team will take time to embed and the change of ownership of the Group will also bring a fresh perspective to the control environment.

**New Business**

Towards the end of the year, GTR was given the opportunity to bid for a National Rail Contract, the successor to the previous Franchise Agreement. The Board decided to pursue this opportunity and was ultimately successful in its bid.

The National Rail Contract (NRC) commenced on 1 April 2022 and will run until at least 1 April 2025, with up to a further three years at the Secretary of State's discretion. The agreement of the NRC provides significant continuity for employees, stakeholders and suppliers. The contract is designed to build on GTR's experience to date and to partner with Network Rail and the Department for Transport to encourage customers back to the railways. The contract is designed as a bridge to the future Passenger Services Contracts intended to be let and managed by Great British Railways in line with the Williams-Shapps Plan for Rail, announced in May 2021.

**The Strategic Report was approved by the board of directors and signed on their behalf by:**



Hendrikus Verwer  
Director  
31 March 2023

During the period ended 31 March 2022, the Company applied the *Wates Corporate Governance Principles for Large Private Companies* (the "*Wates Principles*"), The *Wates Principles* are published by the Financial Reporting Council (the "*FRC*") and are available on its website. The way in which the Company applied the *Wates Principles* during the period is set out below.

## Principle 1 – Purpose and Leadership

The Board continued during the year, to embed and reinforce the Company purpose which is: "Bringing people together". The Company is focused on the communities it serves and has effective and longstanding partnerships with local user groups, commuter associations, local authorities and elected representatives. Within the Company, we are continuing to bring improvements to our services and customer experiences across our network, so that our customers feel we are with them.

The Company has worked closely with industry groups and partners to develop its thinking around purpose and the strategy to deliver to its maximum potential. This has taken the form of canvassing views and opinions in forums and meetings and has been briefed out to colleagues and stakeholders in business wide events.

The purpose of the Company and the three strategic pillars of "brilliant basics, strong partnerships and shifting perceptions" are now embedded in the corporate governance of the business, with business cases, organisational design and resource prioritisation reflecting these pillars. The strategic objectives of the Company remain:

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

The Company is additionally required to produce an Annual Business Plan for the Department for Transport (DfT), aligned to the DfT's rail sector objectives. This Business Plan not only establishes financial parameters for our operations but also articulates a number of Business Plan Commitments and performance measures that are jointly monitored with the DfT.

Our purpose is supported by a set of values (continuous improvement; dedicated to safety; excellence; working together and committed to customer) and behavioural frameworks. All of these aspects are aligned to the strategic objectives and embedded and integrated throughout the employee life cycle through recruitment, induction, training, internal communications, performance development reviews, colleague engagement surveys, HR policies and procedures, and the Investors in People accreditation process. Initiatives such as the Excellence award recognition scheme are directly aligned to our values and behaviours and provide useful measures of how our people bring the value of our culture to life in their day-to-day roles.

The Company's three-year People Strategy was approved by the Board in February 2020. Our ambition is to have the highest levels of employee engagement and customer satisfaction in the industry. The Company believes that if we care for our people and they love to work at the Company, they will care for our customers and help the Company build a sustainable, high-performance organisation. In line with its People Strategy, the Company's focus has therefore been on the following:

- *Leadership provides a strong strategic narrative*; repeated and amplified so all colleagues understand who we are, what we are seeking to achieve and where their contribution fits in – we continued to hold monthly management forums to provide a regular platform for employee-director communication
- *Get the best from our operating model*; decentralised, agile and responsive, ensuring that we continuously learn and improve our business – we continued to hold senior leadership meetings at a brand level,

## Corporate governance report (continued)

For the period ended 31 March 2022

- *Fix the basics for our colleagues*; to demonstrate that they are valued and respected – in the current year we've continued to encourage engagement through our intranet postings and our internal social media platform
- *Make diversity and inclusion part of our DNA*; ensure that we are representative of the communities we serve and that all colleagues can succeed and thrive in our inclusive culture – in the current year we have seen an increase in female and BME candidates applying for roles
- *Foster a culture of life-long learning*; colleagues are encouraged to take ownership of their own development and access to on-line development resources are available to all – in the current year we continued to invest in our online training portal
- *Develop capable and engaging managers*; our managers are empowered; we expect them to care, coach, support, resolve problems and develop their people
- *Ensure our colleagues have a voice – and show we are listening*; we seek feedback from our colleagues and check-in regularly to know how they are feeling and hear their ideas for improvement – in the period we relaunched our annual employee survey which had been paused in 2019
- *Recognise and celebrate our everyday heroes*; we ensure our colleagues feel valued and recognised for a job well done – in the current year we have implemented an employee recognition scheme

### Principle 2 – Board Composition

#### Chair

Meetings of the Company's board of directors were chaired by the Company's CEO, H Verwer.

#### Balance and diversity

The Board comprises representatives from both The Go-Ahead Group Limited and Keolis (UK) Limited as well as other members with a range of skills and knowledge, and includes key operational roles – the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Appointments to these roles are based on merit, and each individual appointed is experienced both in their field of expertise and in the wider transport industry in which the Company operates. As a subsidiary within the Group, the Company applies the Group Equal Opportunities, Diversity & Inclusion policy, further details of which can be found on the Group's website [www.go-ahead.com/sustainability/policies](http://www.go-ahead.com/sustainability/policies). Diversity in appointments to the Company's board is promoted by GTR.

#### Size and structure

The number of directors appointed to the Company's board is calibrated to the size and complexity of the Company's operations. As the Board benefits from the support of the Group's executive directors and representatives from Keolis (UK) Limited, it considers the appointment of independent non-executive directors to be unnecessary. However, with effect from 1 April 2022, the Group's audit committee chair was appointed to the Company's board to provide an enhanced connection between the boards of the Company and the Group.

Board meetings continue to be held on a monthly basis, with longer deep dive review meetings held every quarter. The Group's Audit Committee Chair was appointed to the board of GTR with effect from 1 April 2022, the date of the new National Rail Contract, and provides a clear line of sight to the Group Audit Committee and Group Board.

#### Effectiveness

The Company's board held monthly and quarterly deep dive review meetings during the year. In accordance with the Group's operating company board procedures manual (the "Board Manual"), board meetings addressed standing agenda items, and meeting papers were circulated to all directors in the week prior to each meeting to allow sufficient time for preparation. All directors are expected to attend all meetings of the Company's board. Attendance and contribution to board discussions is a key element of the Company's senior leadership roles. Explanation and guidance on the role and statutory duties of a director are provided to the board in the Board Manual, and further support is available to the directors from both the Group's Company Secretary and its Legal Director.

As a result of the Group's decision to appoint independent directors, the Board has applied increased scrutiny to the operational performance and decisions of the Company, and this has resulted in greater challenge and improved effectiveness of board meetings.

Govia Thameslink Railway Limited  
**Corporate governance report (continued)**  
For the period ended 31 March 2022

GTR was awarded a National Rail Contract by the Department for Transport which commenced on 1 April 2022. Undertaking an extensive review of the contract terms formed a key focus area during the year and, in doing so, the Board received regular training on NRC contract compliance from external counsel to support their assessment of compliance requirements.

### **Principle 3 – Director Responsibilities**

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

The Group Board reviews governance processes, including policies and procedures, on at least an annual basis to ensure that these remain fit for purpose and strengthen the governance of the Company. The Company complies with the Group Policies and Procedures Manual and reports its compliance to the Group annually on a self-certification basis. This includes an Operating Company Board Procedures Manual which sets out formal procedures for the working of the Board, delegated authorities, the timely provision of appropriate information and the duties and responsibilities of directors, including standards of conduct and compliance. The Company's HR policy sets out, amongst other things, policies on code of conduct, conflicts of interests and public interest disclosure.

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

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

### **Principle 4 – Opportunity and Risk**

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

Ultimate accountability of risk identification and management lies with the Company's Chief Executive Officer, supported by all other directors on the Board. The Head of Internal Audit and Compliance co-ordinates a quarterly review and update of the corporate risk register for board approval.

The assessment of key principal and emerging risks is embedded within the day to day operations of the Company. Such assessments are consolidated and reviewed as part of periodic board reporting and reported to the Group. As part of this reporting process, risk reports are completed which outline the key principal and emerging risks facing the Company, provide an explanation of the procedures in place to mitigate and manage such risks and prioritise the most important risks from both an inherent and residual perspective. These reports are then discussed with the Group executive directors at bi-annual risk Board meetings with discussion focused on the most important risk and control areas within the business.

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

Govia Thameslink Railway Limited  
**Corporate governance report (continued)**  
For the period ended 31 March 2022

### **Principle 5 – Remuneration**

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

For the Chief Executive Officer, Chief Finance Officer and Chief Operating Officer (the Group directors), remuneration is determined by the Group Board in line with the Group's Senior Management Remuneration Policy. Remuneration is structured to support both the financial objectives and the strategic priorities of the Group in a manner which is aligned with shareholders' and stakeholders' long-term interests. The Group directors' remuneration, is disclosed within note six of the financial statements.

Remuneration for senior management and administrative roles is reviewed annually and is linked to job performance. Total remuneration for these roles is linked to level, contract of employment and market forces. Remuneration for the wider workforce such as drivers and engineers is collectively bargained with trade unions. As a principle, all salaries, benefits, pensions and other elements of remuneration are benchmarked regularly to ensure they remain competitive in the markets in which we operate. Per the EMA, ERMA and NRC contracts, DfT approval is required for all pay increases, bonus payments and discretionary benefits with the exception of a multi-year pay deal agreed before the Company entered into the EMA. Following the government's announcement of a public sector pay freeze in November 2020, the Company is currently operating a mandated pay freeze for rail workers and has suspended bonus payments and most discretionary benefits with the exception of the multi-year pay deal referred to above.

Following a review of Gender Pay Reporting in the previous financial year, the Board made changes to the Company's recruitment process to attract a more diverse range of applicants, supporting network groups and training for all managers on how to address unconscious bias.

### **Principle 6 – Stakeholder Relationships and Engagement**

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our vision and protect the Company's brand, reputation and relationships with all our stakeholders.

A full commentary on the Company's stakeholder engagement is contained in the S172 statement as part of the Strategic report.

Govia Thameslink Railway Limited  
**Directors' report**  
For the period ended 31 March 2022

The directors present their Annual Report and Audited Financial Statements for the period ended 31 March 2022.

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

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

### **Dividends**

Ordinary dividends of £nil (2021: £nil) were paid and proposed during the year. Subsequent to the year end, in October 2022, following permission given by the Department for Transport, the Directors agreed to make a dividend payment of £16.9m to its shareholders.

### **Management and staff**

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

For details on how the directors have engaged with employees, had regard to their interests and the effect of that regard including on principal decisions made by the directors, please see our section 172 statement within the Strategic Report and our stakeholder engagement and principal decisions disclosures that follow it.

During the period under review, the Company encouraged employee involvement in the Group's performance through a number of share schemes including a Share Incentive Plan and Save As You Earn Scheme. Details of these schemes can be found within note 23 of the financial statements. Following the acquisition of The Go-Ahead Group Limited's entire issued share capital by Gerrard Investment Bidco Limited, and the subsequent delisting of the Group's equity shares in October 2022, the Group's share schemes were closed.

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

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

### **Stakeholder interests**

A summary of how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the Company's principal decisions, is set out in the stakeholder engagement section of the strategic report.

### **Corporate governance arrangements**

The Company's statement of corporate governance arrangements is included within the Corporate Governance Report and is incorporated by reference into this Directors' Report.

Govia Thameslink Railway Limited  
**Directors' report (continued)**  
For the period ended 31 March 2022

### 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.

On 25 March 2022 the Department for Transport (DfT) awarded the Company a National Rail Contract (NRC) to continue operating the Thameslink, Gatwick Express, Southern and Great Northern rail services, the UK's largest railway network. The new contract commenced on 1 April 2022 and will run until at least 1 April 2025, with a potential three-year extension at the Secretary of State's discretion. The NRC, like the Emergency Recovery Measures Agreement (ERMA) contract it replaced, is a management contract which has limited exposure to changes in passenger demand. There is cost risk to the Company, but this risk is managed through the Company's internal processes and controls. Disallowable expenditure, based on current and historical trends, is estimated at approximately £1m-£2m a financial year. The Board and management team of GTR will continue to employ active cost control measures to prevent any significant disallowable costs being incurred.

The franchise agreement and subsequent NRC set out the deliverables required from the Company over the contract term. The NRC includes a large number of deliverables spread across the business that need to be met to avoid contractual default. A specialist Contract Compliance Team is in place within the Company to ensure NRC deliverables are met within the timescales set out by the DfT. As a result of the NRC being in place the Company is insulated from the economic impacts of passenger travelling trends, industrial action and cost inflation. The Company earns a fixed management fee, performance-based fee and industry reform fee for specific Industry Change Projects ("ICPs") during the NRC period which gives more certainty on the Company's financial results. Whilst there is uncertainty over the final amounts to be received for the performance-based fee and industry reform fee, the management fee is sufficient to mitigate GTR's cost risk under normal trading conditions. The contractual payment mechanism agreed in the NRC gives the Company certainty and foresight in respect of the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support.

The Directors have considered the going concern assumptions as a result of these events and accordingly the financial statements have been prepared on a going concern basis. As part of this assessment the Directors considered a number of forecast sensitivities inherent within the NRC contract including the performance-based fee, the risk of incurring disallowable expenditure, the risk of under-achieving the budget agreed within the contract, the DfT making a claim against the Company, additional regulatory obligations and revenue foregone. None of the conclusions suggested the financial statements should not be prepared on a going concern basis. The Directors have, based on their assessment of the prospects and going concern of the Company, concluded that they have a reasonable expectation that the Company will be able to continue in operation and meet all of its liabilities as they fall due during the going concern period.

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

### Events subsequent to the end of the period

As part of the NRC requirements, the Company is seeking to finalise its franchise commitments position with the relevant contracted third-party suppliers as at 31 March 2022. As of the date of issuance of these financial statements this process has not yet been completed.

The continued conflict in Ukraine has had a global impact on energy prices and the key impact has been an increase in utility costs over the Company's energy use.

On 13 June 2022, the boards of directors of Gerrard Investment Bidco Limited ("Bidco") and The Go-Ahead Group plc (now The Go-Ahead Group Ltd) announced they had reached agreement on the terms of a recommended cash offer for the Group, pursuant to which BidCo would acquire the entire issued share capital of Go-Ahead (the "Scheme of Arrangement").

For further details please refer to note 28.

Govia Thameslink Railway Limited  
**Directors' report (continued)**  
For the period ended 31 March 2022

**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 period, and up to the date of signing the financial statements, were as follows:

M R Dean (resigned 1 April 2022)  
G Boyd (appointed 28 September 2021, resigned 28 March 2022)  
A J F Gordon (resigned 13 April 2022)  
I McLaren (resigned 23 May 2022)  
B D M Tabary (resigned 1 July 2022)  
D A Brown (resigned 5 November 2021)  
E Brian (resigned 27 September 2021)  
S E White (resigned 8 October 2021)  
  
C Schreyer (appointed 5 November 2021)  
H Verwer  
A Doll (appointed 17 June 2022)  
L Francis (appointed 9 May 2022)  
D Lavelle (appointed 1 April 2022)  
V Merle (appointed 1 July 2022)  
S Mussenden (appointed 9 May 2022, resigned 31 December 2022)

C Schreyer is a director of The Go-Ahead Group Limited. G Boyd, E Brian and S Mussenden were also directors of the parent company in the year.

**Directors' statement as to disclosure of information to the auditor**

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

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

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

Govia Thameslink Railway Limited  
**Directors' report (continued)**  
For the period ended 31 March 2022

**Auditor**

The Company, and the Group, has commenced a retender process for its external audit for the 2023 financial year but Deloitte has confirmed that it will not participate in the tender process.

Registered office:  
3rd Floor  
41 - 51 Grey Street  
Newcastle upon Tyne

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

NE1 6EE  
United Kingdom



Hendrikus Verwer  
Director  
31 March 2023

## Govia Thameslink Railway Limited

### **Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# 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 31 March 2022 and of its profit for the 9 month period ended 31 March 2022;
- 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;
- the related notes 1 to 28.

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*

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- performing accuracy, completeness and reasonableness checks on the underlying cash flow forecasts in the base case scenario by comparing to historic results and challenge of the new National Rail Contract effective from 1 April 2022;
- challenging the key assumptions applied by management by agreeing to supporting evidence such as contractual agreements and evaluating the sensitivities identified by management;
- assessing evidence that may contradict the conclusions drawn in management's evaluation; and
- evaluating the appropriateness of disclosures made by management within the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Independent auditor's report (continued)**

**to the members of Govia Thameslink Railway Limited**

### *Other information*

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

### *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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### *Extent to which the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT, forensic and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

## Independent auditor's report (*continued*)

### to the members of Govia Thameslink Railway Limited

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our procedures performed to address them are described below:

- *Completeness of disallowable costs within the Govia Thameslink Railway ('GTR') operations:*
  - inspecting the ERMA contract to challenge the appropriateness of costs included or excluded by management in the subsidy income calculations. Our procedures also included undertaking a detailed risk assessment over the company's cost categories, testing a sample of allowable and disallowable costs to assess the accuracy of treatment by management, evaluating affiliate (related party) trading submissions to the Department for Transport ('DfT') and validating transactions to third party evidence and DfT submissions.
- *Settlement of the ERMA franchise including the judgement regarding the best estimate of the liabilities to be settled with the DfT in respect of historic depot and rolling stock dilapidation provisions:*
  - Obtained latest estimates of dilapidation costs prepared by the lessors, understanding movements in the provision including utilisation in the period. Other procedures included challenging management as to the status of the settlement process for dilapidations, performing direct inquiries with the DfT to corroborate the status of the settlement process and evaluating the build-up of the provision over the life of the GTR franchise, specifically assessing the nature of the contract and funding positions that affect how any residual credits that may arise would likely be attributed to GTR and the DfT.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house / external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the DfT.

#### *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.

**Independent auditor's report (*continued*)**  
**to the members of Govia Thameslink Railway Limited**

*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.



Scott Bayne, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds, United Kingdom  
31 March 2023

Govia Thameslink Railway Limited  
**Income statement**  
for the period ended 31 March 2022

	<i>Notes</i>	<i>Period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
<b>Revenue</b>	3	1,258,441	1,758,149
Operating costs	4	(1,235,181)	(1,703,616)
		<hr/>	<hr/>
<b>Operating profit</b>		23,260	54,533
Interest receivable and similar income	7	220	488
Interest payable and similar expenses	8	(1,588)	(5,196)
		<hr/>	<hr/>
<b>Profit before taxation</b>		21,892	49,825
Tax on profit	9	(3,217)	(9,829)
		<hr/>	<hr/>
<b>Profit for the period from continuing operations</b>		<u>18,675</u>	<u>39,996</u>

Operating activities from continuing operations 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 period ended 31 March 2022

	<i>Period ended 31 March 2022</i>	<i>Year ended 3 July 2021</i>
	<i>£'000</i>	<i>£'000</i>
<b>Profit for the period from continuing operations</b>	18,675	39,996
<b>Total comprehensive income for the period</b>	18,675	39,996

# Statement of changes in equity

for the period ended 31 March 2022

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total Equity</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>At 27 June 2020</b>	5,000	24,022	29,022
Profit and total comprehensive income for the year	–	39,996	39,996
Share based payments (note 23)	–	86	86
<b>At 3 July 2021</b>	5,000	64,104	69,104
Profit and total comprehensive income for the period	–	18,675	18,675
Share based payments (note 23)	–	50	50
<b>Period ended 31 March 2022</b>	5,000	82,829	87,829

Govia Thameslink Railway Limited

Registered No: 07934306

**Balance sheet**

at 31 March 2022

	Notes	31 March 2022 £'000	3 July 2021 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	–	1
Plant, property and equipment	12	–	7,688
Right of use assets	13	357,531	230,234
Finance lease receivables	14	6,753	2,794
Deferred tax assets	9	5,766	3,446
		<u>370,050</u>	<u>244,163</u>
<b>Current assets</b>			
Inventories	15	5,979	7,705
Trade and other receivables	16	279,940	146,785
Finance lease receivables	14	3,674	–
Cash and cash equivalents	27	173,186	379,602
		<u>462,779</u>	<u>534,092</u>
<b>Total assets</b>		<u><b>832,829</b></u>	<u><b>778,255</b></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(248,799)	(426,867)
Lease liabilities	13	(125,393)	(209,988)
Current tax liabilities	9	(5,178)	(3,046)
Provisions	18	(97,804)	(3,000)
		<u>(477,174)</u>	<u>(642,901)</u>
<b>Non-current liabilities</b>			
Lease liabilities	13	(242,632)	–
Provisions	18	(25,194)	(66,250)
		<u>(267,826)</u>	<u>(66,250)</u>
<b>Total liabilities</b>		<u><b>(745,000)</b></u>	<u><b>(709,151)</b></u>
<b>Net current assets/(liabilities)</b>		<u><b>(14,395)</b></u>	<u><b>(108,809)</b></u>
<b>Total assets less current liabilities</b>		<u><b>355,655</b></u>	<u><b>135,354</b></u>
<b>Net assets</b>		<u><b>87,829</b></u>	<u><b>69,104</b></u>
<b>Capital and reserves</b>			
Share capital	22	5,000	5,000
Retained earnings		82,829	64,104
<b>Total equity</b>		<u><b>87,829</b></u>	<u><b>69,104</b></u>

The financial statements were approved by the Board of Directors and authorised for issue on 31 March 2023 and signed on their behalf by:



Hendrikus Verwer, Director

Govia Thameslink Railway Limited  
**Notes to the financial statements**  
For the period ended 31 March 2022

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

These financial statements of Govia Thameslink Railway Limited (the "Company") for the nine-month period ended 31 March 2022 were authorised for issue by the Board of Directors on 31 March 2023 and the balance sheet was signed on the Board's behalf by Hendrikus Verwer. The prior period was for the year ended 3 July 2021. The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

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

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

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

**2. Accounting policies**

**2.1 Basis of preparation**

This note details the accounting policies which have been applied in the financial statements. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("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 Ltd, includes the Company in its consolidated financial statements. The consolidated financial statements of The Go-Ahead Group Ltd are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Companies House, Cardiff and The Go-Ahead Group Ltd website.

The financial statements have been prepared on a historical cost basis, except for financial instruments that are measured at fair value as explained in the accounting policies below. The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures and standards:

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

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

**Going Concern**

On 25 March 2022 the Department for Transport (DfT) awarded a National Rail Contract (NRC) to Govia Thameslink Railway (GTR) to continue operating the Thameslink, Gatwick Express, Southern and Great Northern rail services, the UK's largest railway network. The new contract commenced on 1 April 2022 and will run until at least 1 April 2025, with a potential three-year extension at the Secretary of State's discretion. The NRC, like the Emergency Recovery Measures Agreement (ERMA) contract it will replace, is a management contract which has limited exposure for the Company to changes in passenger demand. There is cost risk to GTR, but this risk is managed through the Company's internal processes and controls. Disallowable expenditure, based on current and historical trends, are estimated at approximately £1m-£2m a financial year. The Board and management team of GTR will continue to employ active cost control measures to prevent any significant disallowable costs being incurred.

The franchise agreement and subsequent NRC set out the deliverables required from the Company over the franchise term. The NRC includes a large number of deliverables spread across the business that need to be met to avoid contractual default. A specialist Contract Compliance Team is in place within the Company to ensure NRC deliverables are met within the timescales set out by the DfT. Due to the NRC being in place the Company is insulated from the economic impact of passenger travelling trends, industrial action and cost inflation. The Company earns a fixed management fee, performance-based fee and industry reform fee for specific Industry Change Projects ("ICPs") during the NRC period which gives more certainty on the Company's financial results. Whilst there is uncertainty over the final amounts to be received for the performance-based fee and industry reform fee, the management fee is sufficient to mitigate the Company's cost risk under normal trading conditions. The contractual payment mechanism agreed in the NRC gives the Company certainty and foresight in respect of the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support.

The Directors have considered the going concern assumptions as a result of these events and accordingly the financial statements have been prepared on a going concern basis. As part of this assessment the Directors considered a number of forecast sensitivities inherent within the NRC contract including the performance-based fee, the risk of incurring disallowable expenditure, the risk of under-achieving the budget agreed within the contract, the DfT making a claim against GTR, additional regulatory obligations and revenue foregone. None of the conclusions suggested the financial statements should not be prepared on a going concern basis. The Directors have, based on their assessment of the prospects and going concern of the Company, concluded that they have a reasonable expectation that the Company will be able to continue in operation and meet all of its liabilities as they fall due during the going concern period.

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

**New standards**

The following new standards or interpretations are mandatory for the first time for the financial period ended 31 March 2022:

- Impact of the initial application of Interest Rate Benchmark Reform – Phase 2 amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16
- Impact of the initial application of COVID-19 Related Rent Concessions beyond 30 June 2021 - amendment to IFRS 16

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**2. Accounting policies (continued)**

**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 ultimately differ from these estimates.

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

**Critical judgements in applying the Company's accounting policies**

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

*Accounting for the Railways Pension Scheme (RPS)*

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

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

Under circumstances where contributions are renegotiated, for example, following a statutory valuation, an adjustment will be recognised in the income statement.

The directors deem this to be the most appropriate interpretation of IAS 19 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise. An alternative approach would involve not limiting the measurement of the service cost through the recognition of an income statement franchise adjustment, but recognising all movements on the franchise adjustment as a movement in a reimbursement right in other comprehensive income. For the nine-month period ended 31 March 2022 the impact of this alternative treatment, on a post-tax basis, would be an increase in costs of £12.2m (2021: £136.7m) to the income statement and a debit to other comprehensive income of £348.8m (2021: debit of £46.7m). Since the franchise contract only refers to the contribution requirements during the franchise term, and not any reimbursement rights, the directors consider that viewing the treatment as contribution sharing with the next franchisee is most appropriate.

*Contract and franchise accounting*

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**2. Accounting policies (continued)**

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

*Contract and franchise accounting (continued)*

The useful economic lives of assets within the Train Operating Companies (TOCs) are determined by reference to the length of the franchise and are matched to the contractual franchise end date. The residual value of assets is determined by their condition at the franchise end date and by the level of maintenance that has been undertaken during the period of operation.

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

Accordingly, judgements in these and other areas are made on a continuing basis with regard to amounts due and the recoverable carrying value of related assets and liabilities arising from franchises and other contracts. Regular reviews are performed on the expected outcome of these arrangements, which require assessments and judgements relating to the expected level of revenues and costs. Please refer to note 26 for details of contingent liabilities relating to these judgements and estimations.

The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations is set out in notes 18 and 25. Significant elements of the provisions required are subject to interpretation of franchise agreements and rolling stock agreements. The Company has significant internal expertise to assess and manage these aspects of the agreements and to enable management to assess the most probable outcomes. Where appropriate, and specifically in assessing dilapidation provisions, this process is supported by valuations from professional external advisors to support provision levels. Sensitivity analysis with respect to franchise commitments is provided in note 18.

**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:

*Pre-EMA settlements*

Accruals were held in respect of qualifying changes relating to pre-EMA periods and recovery of strike costs. Agreement was reached in writing with the DfT that all outstanding qualifying changes will be settled based on the outcome of the audited financial model. The DfT also confirmed that strike costs are considered already settled through the 'big change' settlement in December 2018. In the prior year, as a result of this agreement and settlement with the DfT, the previously held provisions totalling £12.4m were released to the P&L. This was considered by management per the Company's accounting policy for designation as an exceptional operating item but determined not to meet the criteria due to the Company regularly transacting settlements in relation to these types of matters given the size, nature and complexity of this franchise. Further, previous precedent has been seen with both similar costs and releases being taken to the income statement and not presented as exceptional in previous years.

For the period ended 31 March 2022, provisions are being held relating to dilapidations which will be settled at the end of the NRC. These will constitute pre-EMA settlements and are explained in detail in note 18.

## Notes to the financial statements *(continued)*

For the period ended 31 March 2022

### 2. Accounting policies *(continued)*

#### 2.3 Significant accounting policies

##### *Revenue Recognition*

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

An explanation of the main revenue streams is set out below:

##### *Passenger revenue*

Passenger revenue mainly relates to revenue from rail ticket sales.

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

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

##### *Other revenue*

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

##### *Franchise subsidy*

Franchise subsidy revenue comprises receipts from the relevant local transport authorities which are receivable under the terms of the franchise agreements. The franchise agreements include minimum specifications of passenger services to be provided by the operator, which is determined to be the performance obligation within the contract. Franchise premium payments to the DfT, for amounts due under the terms of the Company, are recognised in operating costs.

The Emergency Measures Agreements (EMAs) and later Emergency Recovery Measures Agreements (ERMAs) in the UK transferred all revenue and cost risk to the Government from 1 March 2020 to the end of March 2022. The Company is paid a small management fee to continue running a revised National Rail timetable across the UK. Net EMA funding, including the management fee, is recognised as franchise subsidy within revenue. For EMAs, the performance payment is assessed through a review process, which awards rail franchisees with a score of 1, 2 or 3 against three criteria (four for the ERMA) over the entire term of the EMA in areas of: operational performance, customer experience and acting as a 'good and efficient operator' and was extended to include collaboration for the ERMA. The performance payment is recognised in accordance with IFRS 15 paragraph 56 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The most likely method is applied in estimating the variable consideration.

All franchise subsidies are recognised in the period to which they relate.

## Notes to the financial statements (*continued*)

For the period ended 31 March 2022

### 2. Accounting policies (*continued*)

#### 2.3 Significant accounting policies (*continued*)

##### **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.

##### **Interest payable and similar expenses**

Debt is initially stated at the amount of the net proceeds, being the fair value of the consideration received after deduction of issue costs. Following initial recognition, the carrying amount is measured at amortised cost using the effective interest method. Amortisation of liabilities and any gains and losses arising on the repurchase, settlement or other derecognition of debt are recognised directly in the income statement. Issue costs relating to any term extensions are offset against the proceeds and amortised over the life of the extension.

##### **Government grants**

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

##### **Intangible fixed assets**

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

##### **Plant, property and equipment**

Plant, property and equipment are stated at cost, or deemed cost, less accumulated depreciation, any impairment in value and any residual value. Freehold land is not depreciated.

Residual values and useful economic lives are reviewed annually. Where there is a contract end date, useful economic lives are based on this, not including any possible extensions not yet confirmed. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal and over their expected useful life on a straight-line basis as follows:

Plant & equipment                      -     1 to 7 years

The carrying values of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists the assets are written down to their recoverable amount, being the higher of value in-use or fair value less costs of disposal. Any impairment in value is recognised immediately in the income statement.

##### **Inventories**

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

##### **Cash at bank**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less.

## Notes to the financial statements *(continued)*

For the period ended 31 March 2022

### 2. Accounting policies *(continued)*

#### 2.3 Significant accounting policies *(continued)*

##### **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 except on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

##### **Leases**

###### *Lease identification*

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

###### *Right of use asset*

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

###### *Lease liability*

At the commencement date of the lease, the lease liability is initially measured at the present value of lease payments to be made over the lease term with payments discounted at the rate implicit in the lease or, where that cannot be measured, at the Company's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

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

The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments made.

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**2. Accounting policies (continued)**

**2.3 Significant accounting policies (continued)**

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

**Short term and low value asset leases**

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

**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, these contributions being subject to change on consideration of future statutory valuations. The net liability reflects the Company's obligation to fund the statutory deficits of the relevant RPS sections over the franchise term.

The last statutory valuation of the RPS scheme sections in which the Company is involved, carried out on 31 December 2016, and its IAS 19 actuarial valuation are carried out for different purposes and may result in materially different amounts. There are ongoing funding deficits across the RPS schemes in which the Company participates and the IAS 19 valuation is set out in the disclosures below.

The accounting treatment for the time-based risk-sharing feature of the Company's participation in the RPS is not explicitly considered by IAS 19 Employee Benefits (Revised). Since the contributions currently committed to being paid to each TOC section are lower than the share of the service cost (for current and future service) than would normally be calculated under IAS 19 Employee Benefits (Revised), the Company does not account for uncommitted contributions towards the section's 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 period will be funded in future years beyond the term of the current franchise and committed contributions. As a result, the Company consequently reduces any section deficit balance and reduces any service costs that would give rise to an increase in such deficit through the use of a franchise adjustment. The franchise adjustment reflects the extent to which third parties are expected to contribute towards the cost of the plan as a consequence of the deficit transferring at the end of the franchise, which is deemed, in the directors' view, in line with paragraphs 92–94 of IAS 19 Employee Benefits (Revised). Under circumstances where contributions are renegotiated, for example, following a statutory valuation, an adjustment will be recognised in the income statement, whilst changes in actuarial assumptions continue to be recognised through the statement of other comprehensive income.

## Notes to the financial statements *(continued)*

For the period ended 31 March 2022

### 2. Accounting policies *(continued)*

#### 2.3 Significant accounting policies *(continued)*

##### **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.

The Company provides for property, station and fleet dilapidations, where appropriate, based on the future expected repair costs required to restore them to their fair condition at the end of their respective lease terms, where it is considered a reliable estimate can be made. The Company also provides for penalties where appropriate.

A provision is recognised in the balance sheet for any contract that is onerous. A contract is considered onerous where it is probable that the unavoidable costs of delivering the contract exceed the future economic benefits expected to be derived from the contract. Determining the amount of an onerous contract provision (the lower of the net costs of fulfilling the contract or costs of terminating the contract) may involve forecasting future financial performance. The amount of any onerous contract provision is re-assessed at each balance sheet date. Any increase or decrease required to the amount of the provision is charged or credited to the income statement.

##### **Uninsured liabilities**

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

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

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

##### **Financial instruments**

###### **Financial assets**

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

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

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

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**2. Accounting policies (continued)**

**2.3 Significant accounting policies (continued)**

The Company uses an impairment model with impairment provisions based on expected credit losses. The Company applies the IFRS 9 simplified approach and measures the loss allowance on the lifetime expected credit losses at each reporting date for trade receivables, contract assets, accrued income and lease receivables using a provision matrix based on the Company's historical credit loss experience. The loss allowance on the receivables from central government is measured at an amount equal to 12-months' expected credit losses because these assets have a low credit risk at the reporting date.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk (such as changes to credit ratings) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

For the purposes of impairment assessment, receivables from governments are considered to be low risk as a result of the ability of governments to meet contractual cashflows.

Trade receivables, amounts recoverable on contracts and accrued income are written-off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written-off are credited against the same line item.

Financial assets are derecognised when the right to receive cash flows from the asset has expired, the right to receive cash flows has been retained but an obligation to on-pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

*Financial liabilities*

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

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

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

## Notes to the financial statements *(continued)*

For the period ended 31 March 2022

### 2. Accounting policies *(continued)*

#### 2.3 Significant accounting policies *(continued)*

##### Financial instruments *(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 Ltd (market conditions); conditions not related to performance or service (non-vesting conditions); performance conditions (a vesting condition); and service conditions (a vesting condition).

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. As these relate to shares of The Go-Ahead Group Ltd when the awards are vested the amounts are recharged from the Group.

No cost is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**3. Revenue**

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

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
Passenger Revenue	667,112	412,239
Subsidy Revenue	488,154	1,234,245
Other Revenue	103,175	111,665
	<u>1,258,441</u>	<u>1,758,149</u>

Since 1 March 2020, when the DfT awarded the Company an EMA contract and then subsequently an ERMA contract and an NRC contract, the Company has switched from a 'premium' to a 'subsidy' position. See the passenger revenue accounting policy note for further detail.

All revenue is generated within the United Kingdom.

**4. Operating costs**

	<i>9-month period ended 31 March 2022 £'000</i>	<i>£'000</i>	<i>Year ended 3 July 2021 £'000</i>	<i>£'000</i>
Staff costs (note 5)		348,028		477,108
Rail operating charges				
- rail access	337,047		492,793	
- vehicle and rolling stock	<u>20,222</u>		<u>29,526</u>	
Total rail operating charges		357,269		522,319
Auditor's remuneration				
- audit fee for the audit of the financial statements	648		466	
- non-audit services	<u>133</u>		<u>52</u>	
Total auditor's remuneration		781		518
Amortisation of intangible assets		1		85
Depreciation of plant, property and equipment		7,688		11,728
Depreciation of right of use assets		229,766		316,157
Impairment of ROU assets		–		3,212
Other operating costs		<u>291,648</u>		<u>372,489</u>
<b>Total operating costs</b>		<u>1,235,181</u>		<u>1,703,616</u>

The Company holds agreements with Network Rail for access to the railway infrastructure (track, stations and depots). These are classified as rail operating charges as they do not constitute a right of use asset. The majority of other operating costs relate to railway infrastructure costs, including track, depot and station access and costs of electrification.

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**5. Staff costs and numbers**

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
Wages and salaries	296,849	407,773
Social security costs	31,629	42,922
Pension costs (note 19)	19,500	26,200
Share based payments (note 23)	50	213
	<u>348,028</u>	<u>477,108</u>

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

	<i>9-month period ended 31 March 2022 No.</i>	<i>Year ended 3 July 2021 No.</i>
Administration and supervision	1,389	1,378
Maintenance and engineering	718	711
Operations	5,426	5,452
	<u>7,533</u>	<u>7,541</u>

**6. Directors' remuneration**

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
Aggregate emoluments in respect of qualifying services	692	1,034

	<i>9-month period ended 31 March 2022 No.</i>	<i>Year ended 3 July 2021 No.</i>
Number of directors accruing benefits under defined benefit schemes	—	—
Number of directors who exercised share options	—	1

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

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
Emoluments	354	420

Included within Emoluments, the Company contributed £nil (2021: £nil) to the defined benefit pension scheme of the highest paid director. During the period the highest paid director did not exercise any share options (2021: 2,612) and nil (2021: 7,395) shares were granted in respect of a deferred share bonus plan (DSBP). See note 23.

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**6. Directors' remuneration (continued)**

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

**7. Interest receivable and similar income**

	9-month period ended 31 March 2022 £'000	Year ended 3 July 2021 £'000
Bank interest receivable	197	301
Interest receivable on net investment	23	187
	<u>220</u>	<u>488</u>

**8. Interest payable and similar expenses**

	9-month period ended 31 March 2022 £'000	Year ended 3 July 2021 £'000
Other finance charges	318	507
Discounting of provisions	6	–
Interest payable on lease liabilities	1,264	4,689
	<u>1,588</u>	<u>5,196</u>

**9. Taxation**

**(a) Tax recognised in the income statement**

The tax charge is made up as follows:

	9-month period ended 31 March 2022 £'000	Year ended 3 July 2021 £'000
<i>Current tax:</i>		
UK corporation tax	5,555	10,422
Corporation tax in respect of previous periods	(18)	–
Total current tax	<u>5,537</u>	<u>10,422</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(1,382)	(549)
Adjustments in respect of deferred tax of previous periods	–	(44)
Effect of rate change on opening deferred tax balance	(938)	–
Total deferred tax (note 9(d))	<u>(2,320)</u>	<u>(593)</u>
Total reported in the income statement (note 9(b))	<u>3,217</u>	<u>9,829</u>

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**9. Taxation (continued)****(b) Factors affecting current tax charge**

A reconciliation of taxation applicable to accounting profit before tax at the statutory tax rates for the period and year ended 31 March 2022 and 3 July 2021 respectively is shown below.

The tax assessed on the profit before taxation for the period is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the period ended 31 March 2022 was 19% (2021: 19%).

The differences are reconciled below:

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
Profit before taxation	21,892	49,825
Tax at the UK corporation tax rate of 19% (2021: 19%)	4,159	9,467
Expenses not deductible for tax purposes	182	65
Depreciation on non-qualifying assets	130	341
Adjustment in respect of deferred tax of previous periods	–	(44)
Effect of the difference between current period corporation tax and deferred tax rates	(1,236)	–
Adjustment in respect of corporation tax of previous periods	(18)	–
Tax reported in the income statement	3,217	9,829
Effective tax rate	14.7%	19.7%

**(c) Current tax liabilities**

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
Current tax liabilities at start of period	(3,046)	(717)
Corporation tax reported in income statement (note 9(a))	(5,537)	(10,422)
Paid in the period	3,405	8,093
Current tax liabilities at end of period	(5,178)	(3,046)

**(d) Deferred tax**

Constituents of the deferred tax asset are as follows:

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
<b>Deferred tax asset</b>		
Decelerated capital allowances	5,729	3,409
Other temporary differences	37	37
	5,766	3,446

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**9. Taxation (continued)**

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

	<i>Year ended 3 July 2021 £'000</i>	<i>Recognised in income statement £'000</i>	<i>9-month period ended 31 March 2022 £'000</i>
Origination and reversal of temporary differences	3,409	2,320	5,729
Other temporary differences	37	–	37
	<u>3,446</u>	<u>2,320</u>	<u>5,766</u>

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

**(e) Factors that may affect future tax charge**

The standard rate of UK corporation tax is 19% and therefore 19% applies to the current tax charge arising during the nine-month period ended 31 March 2022.

Legislation within the Finance Bill 2021 amended this rate to 25% with effect from April 2023 and therefore 25% has been applied, where applicable, to the Company's deferred tax balance as at the balance sheet date for balances which are expected to reverse after this date.

**10. Dividends**

	<i>9-month period ended 31 March 2022 £'000</i>	<i>Year ended 3 July 2021 £'000</i>
<b>Paid during the period</b>		
Equity dividends on ordinary shares:		
Final dividend for 2022: £nil per share (2021: £nil per share)	<u>–</u>	<u>–</u>

No dividends are proposed as at 31 March 2022.

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**11. Intangible assets**

	<i>Software &amp; Licence Costs £'000</i>
<i>Cost:</i>	
At 3 July 2021 and 31 March 2022	2,250
<i>Amortisation:</i>	
At 3 July 2021	2,249
Provided during the period	1
At 31 March 2022	2,250
<i>Net book value:</i>	
At 31 March 2022	–
At 3 July 2021	1

Amortisation is included within operating costs in the income statement.

**12. Plant, property and equipment**

	<i>Plant &amp; Equipment £'000</i>
<i>Cost:</i>	
At 3 July 2021 and at 31 March 2022	60,075
<i>Depreciation:</i>	
At 3 July 2021	52,387
Provided during the period	7,688
At 31 March 2022	60,075
<i>Net book value:</i>	
At 31 March 2022	–
At 3 July 2021	7,688

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**13. Leases**

**Right of use assets**

	<i>Land &amp; Buildings £'000</i>	<i>Plant &amp; Equipment £'000</i>	<i>Rolling Stock £'000</i>	<i>Total £'000</i>
<b>Cost:</b>				
At 3 July 2021	3,236	336	842,290	845,862
Additions	–	–	357,063	357,063
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2022	3,236	336	1,199,353	1,202,925
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation:</b>				
At 3 July 2021	(2,374)	(192)	(613,062)	(615,628)
Provided during the period	(862)	(144)	(228,760)	(229,766)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2022	(3,236)	(336)	(841,822)	(845,394)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>				
At 31 March 2022	–	–	357,531	357,531
	<hr/>	<hr/>	<hr/>	<hr/>
At 3 July 2021	862	144	229,228	230,234
	<hr/>	<hr/>	<hr/>	<hr/>

Right of use asset additions comprise new leases which were signed prior to the period end as a result of the commencement of the NRC.

**Lease liabilities**

The balance sheet includes the following amounts:

	<i>31 March 2022 £'000</i>	<i>3 July 2021 £'000</i>
Current	(125,393)	(209,988)
Non-current	(242,632)	–
	<hr/>	<hr/>
Lease liabilities	(368,025)	(209,988)
	<hr/>	<hr/>

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

	<i>31 March 2022 £'000</i>	<i>3 July 2021 £'000</i>
Less than one year	(143,391)	(211,634)
One to two years	(257,082)	–
	<hr/>	<hr/>
Total undiscounted lease liabilities	(400,473)	(211,634)
	<hr/>	<hr/>

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**13. Leases (continued)**

Amounts recognised in the Group income statement

	31 March 2022	3 July 2021
	£'000	£'000
Interest payable on lease liabilities	(1,264)	(4,689)
Depreciation on right of use assets	(229,766)	(316,158)
Expenses relating to low value assets	–	(85)
Impairment of right of use asset	–	(3,212)
	<u>(231,030)</u>	<u>(324,144)</u>

**14. Finance lease receivables**

Amounts receivable under finance leases:

	31 March 2022	3 July 2021
	£'000	£'000
Undiscounted lease payments analysed as:		
Recoverable within one year	3,887	2,803
Recoverable within one to two years	6,922	–
Undiscounted lease payments	<u>10,809</u>	<u>2,803</u>
Less: unearned finance income	(382)	(9)
Net investment in the lease	<u>10,427</u>	<u>2,794</u>

During the financial period £23,202 (2021: £186,930) was recognised within interest receivable and similar income.

**15. Inventories**

	31 March 2022	3 July 2021
	£'000	£'000
Raw materials and consumables	<u>5,979</u>	<u>7,705</u>

During the financial period £1.04m (2021: £0.03m) of inventories was written down and recognised as an expense, relating to obsolete stock. The amount of any other write downs of inventories recognised as an expense during the period is immaterial.

During the financial period £14,905,000 (2021: £33,516,000) of inventories was recognised as an expense.

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**16. Trade and other receivables**

	31 March 2022 £'000	3 July 2021 £'000
Trade receivables	161,530	67,582
Prepayments	4,677	14,493
Accrued income	8,354	4,931
Central government debtors	105,379	59,779
	<u>279,940</u>	<u>146,785</u>

	31 March 2022 £'000	3 July 2021 £'000	27 June 2020 £'000
Contract assets	86,305	40,652	18,447

Contract assets are the sum of accrued income and amounts receivable from central government shown net of VAT.

Trade receivables includes a reimbursement asset of £49.4m (2021: £nil). This reflects the amounts inherent within the opening maintenance reserves retained by the lessors at the start of the NRC. A corresponding provision is also recognised for the Company's future maintenance obligations expected under the rolling stock lease contracts held, see note 18.

Accrued income and amounts receivable from central government principally comprise amounts relating to contracts with customers. Accrued income primarily comprises contract income which is billed on a regular basis and which is reclassified to trade receivables at the point at which it is billed.

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

**Provision for impairments of receivables**

Trade receivables at nominal value of £8.4m (2021: £7.2m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	31 March 2022 £'000	3 July 2021 £'000
At 3 July 2021	7,234	2,306
Charge for the period	1,329	5,486
Utilised	(115)	(114)
Unused amounts reversed	–	(444)
At 31 March 2022	<u>8,448</u>	<u>7,234</u>

During the financial period £1,329,000 (2021: £5,486,000) was recognised in respect of impairment losses arising from contracts with customers.

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**17. Trade and other payables**

	31 March 2022 £'000	3 July 2021 £'000
Amounts owed to group undertakings	1,828	2,254
Trade payables	68,353	33,552
Other taxation and social security	13,061	13,622
Other payables	20,349	28,674
Central government creditors	25,956	106,094
Deferred season ticket income	13,001	7,817
Accruals	83,870	175,821
Deferred income	22,381	59,033
	<u>248,799</u>	<u>426,867</u>

	31 March 2022 £'000	3 July 2021 £'000	27 June 2020 £'000
Contract liabilities	<u>23,481</u>	<u>55,797</u>	<u>47,034</u>

Contract liabilities at each balance sheet date are expected to be recognised as revenue within the next financial year. The balance as at 31 March 2022 has primarily increased due to the timing of advanced funding received from the Department for Transport (DfT).

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

Other payables include pension contributions payable amounting to £3,116,691 (2021: £1,784,920).

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**18. Provisions**

	<i>Uninsured claims £'000</i>	<i>Franchise commitments £'000</i>	<i>Total £'000</i>
At 27 June 2020	2,576	59,252	61,828
Provided in year (after discounting)	648	14,449	15,097
Utilised in year	(561)	(3,102)	(3,663)
Released in year	(720)	(3,292)	(4,012)
At 3 July 2021	1,943	67,307	69,250
Provided in period (after discounting)	536	59,562	60,098
Utilised in period	(366)	(3,447)	(3,813)
Released in period	(602)	(1,935)	(2,537)
At 31 March 2022	1,511	121,487	122,998
		<i>31 March 2022 £'000</i>	<i>3 July 2021 £'000</i>
Current		97,804	3,000
Non-current		25,194	66,250
		122,998	69,250

*Uninsured claims*

The uninsured claims provision represents 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. Claims can primarily be categorised as either motor insurance-related claims or employers' liability and public liability claims. Of the uninsured claims, £nil (2021: £nil) are classified as current and £1.5m (2021: £1.9m) are classified as non-current based on past experience of uninsured claims paid out annually. It is estimated that the majority of uninsured claims will be settled within the next six years. Both the estimate of settlements that will be made in respect of claims received as well as the estimate of settlements made in respect of incidents not yet reported are based on historic trends which can alter over time reflecting the length of time some matters can take to be resolved. No material changes to carrying values are expected within the next 12 months. Uninsured claims are provided on a gross basis and a separate reimbursement asset, for amounts due back from the insurance providers, of £nil is included within other receivables.

*Franchise commitments*

Franchise commitments of £121.5m (2021: £67.3m) relate to dilapidation provisions on vehicles, depots and stations and maintenance obligation provisions arising from the contractual relationships in place with the lessors. Of these provisions, £nil (2021: £nil) are classified as current and £121.5m (2021: £67.3m) are classified as non-current. During the year £1.9m (2021: £3.3m) of dilapidation provisions which had been previously provided for were released. The remaining dilapidation costs will be incurred as part of a rolling maintenance contract. 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.

Included within the franchise commitments of £121.5m are provisions relating to the settlement of dilapidation obligations as part of the transition from the GTR ERMA franchise to the NRC, amounting to £65.2m. Under this transition, future obligations for dilapidations become the responsibility of the DfT. Therefore, a settlement agreement is required between lessors, the Company and the DfT, which is expected to be completed in 2023 once the DfT have finalised their own analysis and review. This will involve consideration of the build-up of the provision over the life of the franchise against historical contract and funding positions and the amounts utilised

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**18. Provisions (continued)**

over the same period for which the directors do not consider it likely that a significant credit to the Income Statement will be recognised. Consequently these factors will impact how any liabilities or credits that may arise following the settlement would be attributed between the different parties involved. The amounts held reflect the Company's best estimate of the amounts to be paid to settle the remaining franchise obligations.

In addition, the franchise commitments include a provision of £49.4m for the Company's future maintenance obligations expected under the rolling stock lease contracts held. This provision reflects the Company's best estimates of the maintenance obligations to be discharged over the minimum period of the NRC to 1 April 2025. A corresponding reimbursement asset is also recognised reflecting the amounts inherent within the opening maintenance reserves retained by the lessors at the start of the NRC, see note 16.

Estimation uncertainties arise with respect to dilapidation provisions, due to the complex nature of the assets. Estimated dilapidations can range significantly depending on the specific asset being considered. The range of outcomes are assessed on an asset-by-asset basis and the range can vary between a plus or minus 5%-30% dependant on procurement, production or maintenance efficiencies as well as potential economies of scale. Based on the individual assessments, the provision at the period end could fall between an estimated range of £2.8m and £35.2m.

Franchise commitments also comprise an estimate for legal fees in connection to the contingent liabilities within note 26.

## Notes to the financial statements *(continued)*

For the period ended 31 March 2022

### 19. Retirement benefit obligations

#### Defined benefit plans

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

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

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

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

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

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

British Railways Additional Superannuation Scheme (BRASS) matching AVC Company contributions of £112,000 (2021: £137,000) were paid in the period.

The contributions made by the company in the period were £19,500,000 (2021: £26,000,000).

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**19. Retirement benefit obligations (continued)**

*Summary of period end assumptions:*

	31 March 2022	3 July 2021
	%	%
Rate of increase in salaries	3.8	3.4
Rate of increase in pensions in payment	3.2	2.7
Rate of increase in deferred pensions	3.2	2.7
Discount rate	2.7	1.9
Inflation assumptions:		
RPI	3.5	3.1
CPI	3.2	2.7

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.

	31 March 2022 Years	3 July 2021 Years
Pensioner	21	21
Non-pensioner	22	22

The mortality assumptions adopted as at 31 March 2022 are based on the initial results of the funding valuation as at 31 December 2019, which has not yet been completed and the mortality assumptions adopted as at 3 July 2021 are based on the results of the latest funding valuation as at 31 December 2016.

*Sensitivity analysis:*

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

*Category of assets at the period end:*

	31 March 2022		3 July 2021	
	Value £'000	%	Value £'000	%
Equities	1,613,900	99.5	1,517,500	99.2
Properties	300	0.0	5,000	0.3
Others	8,000	0.5	6,900	0.5
Total market value of assets	<u>1,622,200</u>		<u>1,529,400</u>	

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**19. Retirement benefit obligations (continued)**

*Funding position of the Company's pension arrangements:*

	31 March 2022 £'000	3 July 2021 £'000
Employer's 60% share of pension scheme:		
Liabilities at the end of the period	(2,203,100)	(2,198,300)
Assets at fair value	1,622,200	1,529,400
Gross deficit	(580,900)	(668,900)
Franchise adjustment	580,900	668,900
Pension scheme liability	—	—

*Pension cost for the financial period:*

	9-month period ended 31 March 2022 £'000	Year ended 3 July 2021 £'000
Service cost	67,700	86,000
Franchise adjustment to current period costs	(51,400)	(64,800)
Administration costs	3,200	5,000
Interest cost on net liabilities	9,600	10,600
Interest on franchise adjustments	(9,600)	(10,600)
Pension cost	19,500	26,200

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**19. Retirement benefit obligations (continued)**

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

	31 March 2022 £'000	3 July 2021 £'000
Employer's 60% share of pension scheme liabilities at start of period	2,198,300	1,938,300
Franchise adjustment (100%)	(668,900)	(651,200)
	<u>1,529,400</u>	<u>1,287,100</u>
Liability movement for members' share of assets (40%)	49,700	112,700
Service cost (60%)	67,700	86,000
Franchise adjustment to current period costs	(51,400)	(64,800)
Interest cost (60%)	22,300	22,600
Interest on franchise adjustment (100%)	(9,600)	(10,600)
Re-measurement loss due to experience (60%)	39,300	54,800
Re-measurement (loss)/gain due to financial assumptions (60%)	(142,900)	77,900
Re-measurement gain due to demographic assumptions (60%)	–	(53,700)
Benefits paid (100%)	(31,300)	(40,300)
Franchise adjustment movement (100%)	149,000	57,700
	<u>1,622,200</u>	<u>1,529,400</u>
Franchise adjustment (100%)	580,900	668,900
	<u>2,203,100</u>	<u>2,198,300</u>

*Analysis of change in the pension scheme assets over the financial period:*

	31 March 2022 £'000	3 July 2021 £'000
Fair value of assets at start of period (100%)	1,529,400	1,287,100
Interest income of plan assets (60%)	12,700	12,000
Re-measurement gain on assets (60%)	45,400	136,700
Company contributions (100%)	19,500	26,000
Benefits paid (100%)	(31,300)	(40,300)
Administrative expenses incurred (100%)	(5,300)	(8,300)
Members share of movement of assets (40%)	51,800	116,200
	<u>1,622,200</u>	<u>1,529,400</u>

*Estimated contributions for future:*

Company contributions expected to be paid in financial year 2023 are considered to be the principal risk to which membership of the RPS exposes the Company.

	£'000
Estimated company contributions in financial year 2023	25,600
Estimated employee contributions in financial year 2023	17,000
Estimated total contributions in financial year 2023	<u>42,600</u>

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**19. Retirement benefit obligations (continued)**

*Franchise adjustment:*

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

	9-month period ended 31 March 2022 £'000	Year ended 3 July 2021 £'000
<b>Balance sheet</b>		
Defined benefit pension plan	(580,900)	(668,900)
Deferred tax asset	140,752	127,091
	<u>(440,148)</u>	<u>(541,809)</u>
<b>Other comprehensive income</b>		
Re-measurement gains	(149,000)	(57,700)
Tax on re-measurement gains	28,310	10,963
	<u>(120,690)</u>	<u>(46,737)</u>
<b>Income statement</b>		
Operating costs – franchise adjustment	(9,600)	(10,600)
Deferred tax charge	2,326	2,014
	<u>(7,274)</u>	<u>(8,586)</u>

Experience recognised in other comprehensive income:

	9-month period ended 31 March 2022 £'000	Year ended 3 July 2021 £'000
Gain/(Loss) on pension scheme liabilities	103,600	(79,000)
Experience gains on assets	45,400	136,700
Franchise adjustment movement	(149,000)	(57,700)
Total gain recognised in other comprehensive income during the period	<u>—</u>	<u>—</u>

*Risks associated with defined benefit plans:*

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**20. Commitments**

***Rail operating charges – company as lessee***

At 31 March 2022, the Company holds commercial leases on certain properties and other items. Renewals are at the option of the lessee. There are no restrictions placed upon the lessee by entering into these leases.

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

Also, at 31 March 2022, the Company holds agreements under which it leases secure access to railway infrastructure (track, stations and depots). These are now classified as rail operating charges, as they do not result in a right of use asset on the basis that the Company does not retain control of the asset. The leases typically run for a period until the end of the relevant franchise.

Future minimum rentals payable for rail operating charges under non-cancellable financial commitments as at 31 March 2022 and 3 July 2021 were as follows:

	31 March 2022 £'000	3 July 2021 £'000
Within one year	451,354	327,773
In the second to fifth years inclusive	791,415	–
Over five years	–	–
	<u>1,242,769</u>	<u>327,773</u>

***Rail operating charges – company as lessor***

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

Future minimum rentals receivable under non-cancellable financial commitments as at 31 March 2022 and 3 July 2021 were as follows:

	31 March 2022 £'000	3 July 2021 £'000
Within one year	3,162	4,487
In the second to fifth years inclusive	4,523	–
Over five years	–	–
	<u>7,685</u>	<u>4,487</u>

***Performance bonds and other guarantees***

The Company has provided bank guaranteed performance bonds of £24,070,000 (2021: £22,521,000), season ticket bonds of £nil (2021: £51,857,791) and loan guarantee bond of £36,250,000 (2021: £36,250,000) to the DfT in support of the Company's rail franchise operations.

As part of the New Rail Contract ("NRC") the Company entered into a £3,000,000 funding deed and £3,000,000 guarantee financial bonds to the DfT in support of the Company's rail franchise operations.

In addition, the Go-Ahead Group Ltd, together with Keolis, has a joint parental company commitment to provide funds of £136,000,000 (2021: £136,000,000) to the DfT in respect of the Company. At the period-end £nil (2021: £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 31 March 2022, amounts contracted for but not provided in the financial statements for plant and equipment amounted to £nil (2021: £nil).

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**21. Related party transactions**

*The Go-Ahead Group Ltd &  
Subsidiary Companies*  
31 March 2022      3 July 2021  
£'000      £'000

Purchases from related party	32,042	46,184
Sales to related party	7,127	26,003
Interest payable to related party	—	—
Amounts owed to related party	1,828	2,254

The Go-Ahead Group owns 65% and Keolis (UK) Limited owns 35% of the ordinary shares in Govia Limited. Govia Thameslink Railway Limited 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. In line with the wider Go-Ahead Group Limited policy, receivable and payables balances held with each related party are settled monthly on a net basis, therefore the balances are presented net in the financial statements.

	<i>9-month period ended 31 March 2022</i>	<i>Year ended 3 July 2021</i>
	£'000	£'000
<b>Purchases from related party</b>		
Brighton & Hove	(825)	(606)
Go South Coast (Hants & Dorset Trim)	—	(3)
London General	(12,640)	(15,723)
LSER	(4,955)	(10,727)
On Track Retail	(944)	(1,139)
The Go-Ahead Group	(12,678)	(17,986)
	<u>(32,042)</u>	<u>(46,184)</u>

	<i>9-month period ended 31 March 2022</i>	<i>Year ended 3 July 2021</i>
	£'000	£'000
<b>Sales to related party</b>		
Brighton & Hove	29	47
Go-Ahead Australia	32	102
Go-Ahead Retail Services	109	117
London Midland	369	9
LSER	6,008	25,259
The Go-Ahead Group	580	469
	<u>7,127</u>	<u>26,003</u>

	<i>31 March 2022</i>	<i>3 July 2021</i>
	£'000	£'000
<b>Amounts owed to related party</b>		
Brighton & Hove	72	64
London General	1,649	1,167
Go-Ahead Australia	22	(8)
Go-Ahead Retail Services	(9)	(10)
Govia	(1,688)	(28)
London Midland	(368)	1
LSER	(103)	(969)
On Track Retail	243	234
The Go-Ahead Group	2,010	1,803
	<u>1,828</u>	<u>2,254</u>

Govia Thameslink Railway Limited

**Notes to the financial statements (continued)**

For the period ended 31 March 2022

**22. Called up share capital**

	31 March 2022		<i>Allotted, called up and fully paid</i> 3 July 2021	
	No.	£'000	No.	£'000
Ordinary shares of £1 each	5,000,000	5,000	5,000,000	5,000

There are no rights attached to the share capital.

**23. Share based payments**

**Share Incentive Plan**

The Company participates in an HMRC approved share incentive plan, operated by the ultimate parent undertaking, known as The Go-Ahead Group Ltd 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 Ltd 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.

The SIP was closed after the year end, see note 28 for more detail.

**Sharesave Scheme**

Shareholder approval was obtained at the 2013 AGM for Savings-Related Share Option Scheme, known as The Go-Ahead Group Ltd 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.

There are currently no active Sharesave schemes in place. There are no savings-related options at 31 March 2022. The expense recognised for the scheme during the period to 31 March 2022 was £nil (2021: £nil). There were no share-based payments or movements during the period.

The Sharesave scheme was closed after the year end, see note 28 for more detail.

Govia Thameslink Railway Limited

**Notes to the financial statements (*continued*)**

For the period ended 31 March 2022

**23. Share based payments (*continued*)**

**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. This is managed centrally by Go-Ahead Group who recharge the costs to the Company.

The expense recognised for the DSBP during the period to 31 March 2022 was £50,000 (2021: £187,000).

The weighted average fair value of options granted during the period was £nil (2021: £8.32).

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

	<i>31 March 2022</i>	<i>3 July 2021</i>
	<i>No.</i>	<i>No.</i>
Outstanding at the beginning of the period	57,283	24,681
Granted during the period	–	38,260
Forfeited during the period	(92)	–
Exercised during the period	(3,650)	(5,658)
Outstanding at the end of the period	<u>53,541</u>	<u>57,283</u>

Options relating to the DSBP award granted in November 2019 vested in full on 6 October 2022, the date the Court sanctioned the scheme of arrangement between Go-Ahead and Gerrard Investment Bidco Limited. All vested but unexercised DSBP awards were also deemed immediately exercised upon this date. The weighted average exercise price of options exercised during the year was £7.69 (2021: £7.33).

At the period-end, 4,628 options related to DSBP awards which vested before the period-end, but which have not yet been exercised by participants. Of these, 294 options related to the award granted in November 2016. 1,331 options related to the award granted in November 2017. 3,003 options, relating to the DSBP award granted in November 2018, will be eligible to vest from November 2021 following the end of a three-year deferral period. The period-end weighted average share price of the options was £8.24 (2021: £11.40).

The weighted average remaining contractual life of the options was 1.17 years (2021: 1.99 years).

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**24. Restricted cash**

Restricted cash balances are included in cash and cash equivalents. The restricted cash is not available for immediate or general business use and can only be distributed with the agreement of the DfT, normally up to the value of revenue reserves or based on a working capital formula. On 19 September 2020, the Department for Transport (DfT) awarded an Emergency Recovery Measures Agreement (ERMA) to the Company, which will be superseded by the National Rail Contract (NRC) commencing on 1 April 2022. As part of these agreements all cash and cash equivalents are restricted. An additional restriction exists in that no distribution can be made during the period without DfT providing formal confirmation.

Included within cash at bank is an amount of £173,186,000 (2021: £379,602,000) held, which cannot be distributed by means of a dividend. Subsequent to the year end, in October 2022, following permission given by the DfT, the Directors agreed to make a dividend payment of £16.9m to its shareholders.

**25. Ultimate parent company**

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

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

The Go-Ahead Group plc was also the parent undertaking of the Group of undertakings for which Group financial statements were drawn up, and it was also the largest and smallest parent company preparing Group financial statements. The Group-Ahead Group plc was registered in United Kingdom and copies of its financial statements can be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

On 10 October 2022, the Group was acquired by Gerrard Investment Bidco Limited ("Bidco"). Bidco is a newly formed company, Bidco's ultimate parent company is Gerrard Investment Topco Limited which is indirectly owned by Kinetic TCo Pty Ltd and Globalvia Inversiones S.A.U.

As such from 10 October 2022, in the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Gerrard Investment Topco Limited, a Company incorporated in United Kingdom whose registered office is C/O Hackwood Secretaries Limited, One Silk Street, London, EC2Y 8HQ, United Kingdom.

**26. Contingent Liabilities**

**Pricing practices proceedings against Govia Thameslink Railway Limited (GTR)**

On 10 June 2021 a Collective Proceedings Application ("CPA") was filed at the Competition Appeal Tribunal ("CAT") under Section 47B of the Competition Act 1998, against GTR, as well as The Go-Ahead Group Ltd and Keolis (UK) Limited (together, the Defendants). The collective proceedings combine claims against the Defendants caused by alleged infringements of the Chapter II prohibition on abuse of dominance in Section 18 of the Competition Act 1998 in respect of alleged loss suffered by rail passengers travelling on the London-Brighton mainline as a result of pricing and other practices of GTR.

The CAT heard the application for a Collective Proceedings Order ("CPO") in July 2022. As with the CPO hearing involving LSER in respect of Boundary Zone Fares (see below), this hearing was an initial stage in proceedings to decide whether the claim meets the legislative criteria to proceed to a full trial. Judgment was handed down on 25 July 2022, certifying the claim to proceed to trial as a collective proceeding. The DfT has been granted permission to intervene in the proceedings. The CAT ordered a first stage trial of liability issues starting in November 2023 for four weeks, but subsequently (in March 2023) decided that this Stage 1 trial must be adjourned and has stayed the claim, pending provision by the Class Representative of a revised expert report. A hearing will be held, likely in summer 2023, to determine whether the claim can continue as certified.

## Notes to the financial statements *(continued)*

For the period ended 31 March 2022

### 26. Contingent Liabilities (continued)

The claim is disputed in respect of its technical merits and the basis of the claim appears to be an initial estimate with assumptions that cannot be substantiated by GTR at this stage. It is therefore not yet possible to assess with any certainty the likely outcome of this case, or to quantify any potential liability of GTR. No provision associated with the claim (other than for legal costs of £4.8m) has accordingly been made.

There is no legal precedent both in respect of this type of claim or how it would be valued if found to be a valid claim. Finally, determining how such a claim would be allocated amongst the various parties, and other stakeholders including the Department for Transport (DfT), is highly uncertain.

Accordingly, GTR cannot make a reliable estimate of any contingent liability in respect of this matter at the time of publishing the Accounts.

#### **Boundary Zone Fare proceedings against Govia Thameslink Railway Limited (GTR)**

On 24 November 2021 a Collective Proceedings Application ("CPA") was filed at the Competition Appeal Tribunal ("CAT") under Section 47B of the Competition Act 1998, against GTR, as well as Govia Limited, The Go-Ahead Group Ltd and Keolis (UK) Limited (together, the Defendants). The claim alleges, similarly to the allegations made against LSER in relation to Boundary Zone Fares, that GTR failed to make Boundary Zone Fares sufficiently available to those rail passengers who held TfL travelcards across its multiple sales channels and failed to ensure that customers were aware of these.

On 15 December 2021 the CAT stayed proceedings pending the determination of any appeals in the Boundary Zone Fare proceedings against LSER. The stay has now expired, and the claim will proceed to a determination on certification to decide whether this is a claim that meets the legislative criteria for this type of claim to proceed to a full trial. This means that proceedings are at an earlier stage than both the collective proceedings against LSER in relation to Boundary Zone Fares, and the proceedings against GTR in respect of pricing practices on the London-Brighton mainline (see above). At a hearing held on 22 March 2023, the claim was certified to proceed. The Tribunal permitted the DfT to intervene by filing written submissions to assist the Tribunal's understanding of the railway regulation and framework. A tentative date was set for a Case Management Conference, following defences, of 7 July 2023.

The claim is disputed in respect of its technical merits and the basis of the claim appears to be an initial estimate with assumptions that cannot initially be substantiated. It is not yet possible to assess with any certainty the likely outcome of this case, or to quantify any potential liability of the Defendants.

There is no legal precedent both in respect of this type of claim or how it would be valued if found to be a valid claim. Finally, determining how such a claim would be allocated amongst the various parties, and other stakeholders including the Department for Transport (DfT), is highly uncertain. No provision associated with the claim (other than for legal costs of £2.1m) has accordingly been made.

Accordingly, GTR cannot make a reliable estimate of any contingent liability in respect of this matter at the time of publishing the Accounts.

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**Notes to the financial statements (continued)**  
For the period ended 31 March 2022

**27. Cash and cash equivalents**

The majority of the Company's cash is held in bank deposits which have a maturity of three months or less to comply with DfT short term liquidity requirements.

	31 March 2022 £'000	3 July 2021 £'000
Cash at bank and in hand	171,695	230,682
Cash equivalents	1,491	148,920
Cash and cash equivalents	<u>173,186</u>	<u>379,602</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective deposit rates. The fair value of cash and cash equivalents is not materially different from book value.

Amounts held by the Company included in cash at bank and on short-term demand deposit can be distributed only with the agreement of the DfT, normally up to the value of distributable reserves or based on a working capital formula. Following the introduction of the Emergency Measures Agreement (EMA) and then the Emergency Recovery Measures Agreement (ERMA), under these emergency measures the calculation mechanism for restricted cash continues to be in place. From 19 September 2020 until the end of March 2022, the Company is operating under an ERMA. As at period end, under the terms of the ERMA, all of the Company's cash continues to be restricted. From 1 April 2022, the Company will be operating under the terms of the National Rail Contract (NRC), which for the purposes of restricted cash will remain the same. Distributions of profit in respect of the period prior to the commencement of the EMA on 1 March 2020, amounting to £16,900,000, were paid by the DfT in October 2022.

**28. Post balance sheet events**

As part of the NRC requirements, the Company is seeking to finalise its franchise commitments position with the relevant contracted third-party suppliers as at 31 March 2022. Once the position is finalised, a separate full and final settlement will also be agreed with the DfT. As at the date of issuance of these financial statements this process has not yet been completed.

The continued conflict in Ukraine has had a global impact on energy prices and the key impact has been an increase in utility costs over the Company's energy use. The NRC has measures in place to protect the Company from significant inflationary increases and therefore the impact on the Company is believed to be minimal.

On 13 June 2022, the boards of directors of Gerrard Investment Bidco Limited ("Bidco") and The Go-Ahead Group plc (now The Go-Ahead Group Ltd) announced they had reached agreement on the terms of a recommended cash offer for the Group, pursuant to which BidCo would acquire the entire issued share capital of Go-Ahead (the "Scheme of Arrangement"). BidCo is a newly formed company indirectly owned by Kinetic TCo Pty Ltd ("Kinetic") and Globalvia Inversiones S.A.U. ("Globalvia"). This offer was increased on 4 August 2022, to 1,550 pence for each Go-Ahead share, comprising 1,450 pence in cash and a special dividend of 100 pence per Go-Ahead share.

On 16 August 2022, the Scheme of Arrangement was approved by the requisite majority of shareholders. The Scheme of Arrangement was subject to certain other conditions including sanction by the Court which took place on 6 October 2022, with the Scheme of Arrangement becoming effective on 10 October 2022 and Go-Ahead's shares being delisted on 11 October 2022. As part of the Group acquisition by Bidco, both the Share Incentive Plan and the Sharesave Scheme were closed on 11 October 2022.

For information on Board changes that occurred subsequent to the period ended 31 March 2022, please see pages 19 to 20 of the Directors Report.