

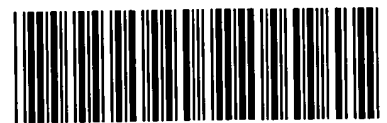
Registered no: 07934306

# Govia Thameslink Railway Limited

## Annual Report and Financial Statements

For the year ended 3 July 2021

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

## **DIRECTORS AND PROFESSIONAL ADVISORS**

### **Directors**

M R Dean  
A J F Gordon  
I McLaren  
C Schreyer  
B D M Tabary  
H Verwer

### **Company Secretary**

C Ferguson

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Govia Thameslink Railway Limited  
**Strategic report**  
For the year ended 3 July 2021

The directors present their Strategic report for year ended 3 July 2021.

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

## **Business review**

The principal activity of Govia Thameslink Railway Limited (the “Company”) is the operation of passenger services on the Great Northern, Thameslink, Southern and Gatwick Express routes. This franchise represents approximately 20% of national passenger journeys. 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.

As of 1 March 2020, the company entered into Emergency Measurement Agreement (EMA) with the Department for Transport along with other TOCs in the country. The industry-wide EMA was introduced, as a result of the COVID-19 pandemic to support rail operators until 20 September 2020.

Along with the majority of UK rail franchises, the Company transitioned to an Emergency Recovery Measures Agreement (ERMA) on 20 September 2020. Similar to the EMA, the ERMA is a management contract with no revenue or cost risk. While the maximum margin under the EMA was 2.0%, with a 1.5% fixed management fee and 0.5% maximum performance-based fee, the ERMA’s margin is capped at 1.5% comprising a 0.5% fixed management fee and 1.0% maximum performance-based fee. Under the EMA and ERMA the performance-based fee is based on a set of components from operating performance, customer experience, financial performance and collaboration. The scoring for these measurements were confirmed for the EMA period up to 19 September 2020 and the first 6 periods up to 31 March 2021 under the ERMA. For the ERMA period from 1 April 2021 the estimated performance-based fee was recognised in the financial year end reporting. The financial year end results also include the impact of disallowable costs under EMA and ERMA and the costs and income that related to Pre-EMA period. The scoring for ERMA period up to 18 September 2021 was confirmed on 25 February 2022 after the Go-Ahead Group plc accounts were published. The scoring was broadly in line with the directors’ estimated/accrued performance-based fee for the periods up to 3 July 2021.

The Company was not subject to any termination sum payable to the DfT on transition to the ERMA agreement. 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. 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, Southern and Great Northern rail services, the UK’s largest railway network. The new contract commences 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 NRC, like the Emergency Recovery Measures Agreement (ERMA) contract it will replace, is a management contract which has limited exposure to changes in passenger demand. There is cost risk to GTR, but this risk is managed through the Company’s internal processes and controls.

Prior to the COVID-19 pandemic the operational performance was consistently strong. Overall punctuality was 81% contributing to one of the highest customer satisfaction scores achieved by the franchise at 82%. After this score customer satisfaction was not monitored because of COVID-19. During winter 2020 when the second national lockdown was introduced the timetable was stepped down to match the reduced passenger numbers. When the second lockdown was slowly eased, the timetable was stepped up again to approximately 87% of the pre-COVID-19 timetable. The Company has maintained a stable and consistent operational performance throughout these changes. During the COVID-19 pandemic the Company introduced industry leading real time Apps using the Power BI platform to monitor the gateline data and training loading information. This enabled the Company to make minor adjustments to the services to match the passenger demand with the fleet capacity and train service.

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

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

**Business review (continued)**

Govia Limited's (note 25) philosophy of operating its businesses within a devolved framework enables Great Northern, Thameslink, Southern and Gatwick Express to work closely with the communities they serve.

The COVID-19 pandemic has dramatically accelerated flexible working patterns and fundamentally altered working life for many sectors; a new travel landscape is gradually emerging, which requires a timetable better geared to meet changing customer needs. In response to this, in 2020 GTR focused time and efforts on reassuring customers and stakeholders regarding the safety of travelling by train and provided advice on best ways to travel safely by public transport in order to grow trust. 2021 saw everyone at GTR come out of the pandemic and focus on finding a safe way to bring people back to together. Our brand promise "we're with you" carried us through the pandemic and continues to guide everyone at GTR, as we look for ways to adapt to the changing needs of our customers and communities.

Everyone is adapting to a new world, which continues to be in flux. We are seeing changes in travel patterns with everyone's routines being different. We are innovating so we can adapt to what passengers need in their new world. As a result, our timetables have been adapted to meet changing demands, which is an ongoing process. We've worked closely with schools and hospitals to ensure their needs are met as far as possible.

Our services are built on customer feedback, for example the December 2020 timetable was based on insight gained over several months of engagement with 500 hospitals, 600 schools, 300 hundred businesses, 200 local authorities, 100 MPs, 100 Rail User Groups engaged.

With many commuting and leisure travelling habits potentially changed forever, it is more important than ever to provide the best experience for our customers and make sure our services are welcoming and open to as many people as possible for example:

- We worked with community partners to develop a station refamiliarisation programme and produced an Easy Travel Guide, written in plain English to make it accessible for individuals with learning disabilities and autism. This helps them understand the steps we have taken to make our services safe for our passengers, and how they can keep themselves and others safe while on-board our services and at our stations. Both initiatives involved collaborating and seeking expert insights from knowledgeable partners to understand the needs of individuals. Our community rail partners have supported us with these projects to ensure we reach out to as many people as possible.
- We launched our Accessible Travel Policy earlier this year, setting out a series of commitments including better accessibility training for our customer facing colleagues, reducing the time needed to book assistance and improved information provision. 100% of our customer facing colleagues have completed our enhanced accessibility training.
- We have continued to support colleagues and work with partners to raise awareness of issues such as mental health and suicide prevention, while providing signposting to support services and training. By expanding our resources to external partners, we hope to give many people the confidence to make an intervention if needed and potentially help save a life.

The socio-economic fall out of the crisis continues to be felt across our communities, affecting the most vulnerable and particularly affecting people's ability to get into employment and access to skills training.

We have supported several employability schemes to help individuals who are outside mainstream employment to improve their confidence and gain skills for their future careers, including Kickstart, Sector Based Academy Programmes and the Get into Railways programme with The Prince's Trust. Our apprenticeships cover a range of areas including customer service, engineering and train drivers, and we currently have over 160 individuals studying towards an apprenticeship.

One of the key drivers of customer satisfaction is the overall station environment and facilities available for station users. This theme directed how our now completed multi-million station improvement funds should be spent. Over 1,000 station improvement and upgrade projects have been delivered, including decorating, community art and improved waiting areas.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

**Business review (continued)**

This funding also helped us create 90 landscaping projects including wildflower and bee gardens. These are just some initiatives we are implementing to make our stations more sustainable. Rail is already one of the greenest forms of transport and by installing more EV charging points and cycle parking at our stations, we hope to encourage our customers to choose more sustainable and healthy modes of travel to and from our stations. To further reduce our impact on the environment we launched our Mobile Recycling Unit at Brighton over the summer, successfully moving our recycling rate from 30% to 95% during its first month of operation.

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

- National Equality Standard accreditation - following an initial assessment which took place from April to September 2021, we only fell short of achieving the standard by one competency. From the feedback of EY, our external consultants, this is an excellent achievement. A plan to address the recommendations is currently being developed and we have committed to achieve the standard in the NRC by October 2022.
- We have successfully appointed 24 individuals through the Government Kick Start scheme (19% Female, 33% Black Minority Ethnic (BME) 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.
- We exceeded our apprenticeship target of 200 by almost 20 per cent in 2020, providing new career opportunities for 239 people, aged from 16 all the way to over 61. On top of this, we attracted a greater number of female and 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 our drive to attract and recruit more female and BME into train driver roles. Since starting the campaign we have seen an increase of 12 % in female applications and 11.5% uplift in BME applications. Over the last 10 train driver apprenticeship programmes we have seen a 50/50 gender split on all SN/GX courses (x6) and on average a 40/60 split (x4) on TL/GN programmes.
- We won or were shortlisted for a raft of D&I 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.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

**Key Performance Indicators**

For the year to 3 July 2021, the key operating statistics were as follows:

	Year ended 3 July 2021	Year ended 27 June 2020
Revenue	£1,758m	£1,791m
Operating profit	£55m	£32m
Public Performance Measure (PPM)	89.7%	84.9%
On Time Performance Measure	71.4%	60.5%
National Rail Passenger Satisfaction (NRPS)*		
- Gatwick Express	89%	89%
- Great Northern	86%	86%
- Southern	78%	78%
- Thameslink	81%	81%

*\* 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.*

Revenue has decreased by £33m from the previous year. Whilst passenger numbers and in turn passenger revenue has begun to recover from the impact of COVID-19, passenger levels are still below pre-pandemic levels. Subsidy revenue increased as a result of the Company operating under the EMA and ERMA. This increase in subsidy revenue offsets the fall in passenger revenue.

The Company continues to work hard, in collaboration with industry partners, to improve services for customers, and the improvements have been significant. The significant performance improvements included punctuality reaching a Public Performance Measure ("PPM") of 96.5% in April 2021. On Time performance has remained at above historic averages throughout the COVID-19 pandemic, reaching as high as 90.7% during April 2021. This is the highest score achieved during the franchise. Our timetable was stepped down in response to passenger demand in March 2020 but over a period of time has been stepped back up, and by the end of the financial year we were operating 87% of our normal services.

The spring 2020 National Rail Passenger Satisfaction survey is the last published results by Transport Focus. The National Rail Passenger Satisfaction survey has been paused as a result of the COVID-19 pandemic. The latest advice is that the next survey will published be in Spring 2022. The figures presented for the year ended 3 July 2021 are those achieved for the prior year ended 27 June 2020.

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

There was an operating profit of £53m in the year. The operating profit was positively affected by the EMA and ERMA, through achieving strong performance scores across the performance-based fee components of the EMA and ERMA. The key drivers of operating profit were the EMA and ERMA Management and Performance fees, along with pre-EMA releases which have been recognised to the benefit of the Company, in line with the contractual arrangements with the DfT. Operating profit has been impacted positively through the settlement of disallowable costs as defined in the ERMA. Cash generation was strong, and the balance sheet remains robust.

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

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

## Principal risks and uncertainties

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

- **COVID-19 Risks**

COVID-19 has reshaped the way in which people live, work and communicate. There is increased political and societal pressure to run safe services. The Company has increased its train cleaning capacity significantly since the pandemic to enable passenger journeys to recover towards pre-pandemic levels. COVID-19 also has had an impact on staff availability and working patterns. The Company has put robust reporting tools in place to monitor availability impacted by COVID-19 and address any issues related to staff wellbeing. To facilitate staff working from home during lockdowns, the Company has issued the appropriate IT equipment and implemented training to staff enabling them to make a smooth transition. To ensure front line staffs' health and safety, masks gloves and other relevant COVID-19-related consumables has been distributed across all offices, stations and depots.

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

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

- **Environmental Risks**

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

- **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 has been delayed as a result of the COVID-19 pandemic. As an operator of one of the UK's largest rail contracts, we are actively working with the Government to shape the future of the industry.

The Emergency Measures Agreement (EMA) and more recently, the Emergency Recovery Measures Agreement (ERMA) have brought greater state control of the rail industry in the aftermath of COVID-19 to ensure the continuity of services. The Emergency Recovery Measures Agreement (ERMA) contract with the DfT had an initial term until September 2021, which has been extended under the same contractual terms to 31 March 2022.

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

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

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

The considerable majority of the Company's receivables are with public (or quasi-public) bodies (such as the DfT) or sales are paid as they arise and historically the annual cost of bad debts has been immaterial, so limited disclosures are therefore provided. During the year, £7.2m for bad debt on property was recognised, resulting from the impact of the COVID-19 pandemic. The trade receivables from such public bodies are not considered to present a significant credit risk, which is supported by cash payment performance.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

**Principal risks and uncertainties (continued)**

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

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

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

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

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

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

- Infrastructure Performance Risks

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

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

- Economic Risks

Under the Emergency Measures Agreement (EMA) and more recently, the Emergency Recovery Measures Agreement (ERMA) the DfT underwrites 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 EMA, ERMA and the underlying franchise agreement. Fundamentally, for the Company to remain compliant with the EMA and ERMA, management must ensure the Company remains a 'good and efficient' operator in all aspects of its business.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

**Principal risks and uncertainties (continued)**

- Economic Risks (continued)

Failure to comply with the obligations contained in the franchise agreement, EMA and ERMA agreements could lead to financial penalties or, in an extreme situation, termination of the franchise. Compliance with the franchise agreement terms is closely monitored by an experienced franchise compliance team. Refer to the Future Developments section of the Strategic Report 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.

**Future developments**

In the next twelve months there is still some uncertainty with regards to economic recovery and passenger demand. Services are now running at levels around 90% of that pre-COVID-19 and passenger revenue growth has been encouraging during the summer 2021 after the COVID-19 restrictions were gradually relaxed. The Company is observing increased levels of home working in most businesses, more online medical appointments and fewer international trips during pandemic, all of which could impact demand for our train services. On the other hand the Company may see more domestic holidays, more people moving out of cities and commuting from the countryside and more activity in our local communities, with more home-workers shopping close to home and socialising in their local towns and cities. The Company will adapt to evolving trends and strive to maximise arising opportunities.

To mitigate the uncertainty, the Company will continue to focus on the three strategic pillars of delivering "brilliant basics", particularly the improvement of operational performance and customer experience, "strong partnerships" with industry partners and "shifting perceptions" of our stakeholders. The Company will continue to respond to the changing pressures and requirements of COVID-19. This will be achieved by adherence to Government policies and guidelines, as well as advice from the WHO. Enhanced cleaning regimes will continue to be implemented across all services and there will be increased levels of engagement with staff. This will help to ensure all necessary actions are taken to create a safe and reassuring experience on public transport.

The Company will continue to focus on delivering against the performance metrics of the ERMA. This would allow for a maximum of 1% performance-related incentive if the best outcome were to be achieved. This has contributed to the Company successfully winning a National Rail Contract with the DfT for the period from 1 April 2022.

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

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

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

**Future developments (continued)**

In October 2021, the DfT announced its decision to appoint the Operator of Last Resort to take over the operation of Southeastern services, then operated by London & South Eastern Railway (LSER) a subsidiary of the Company's immediate parent company Govia Limited (note 25). This decision was as a consequence of discussions with the DfT into LSER's performance of its contractual obligations under its franchise agreements.

In addition to an Independent Committee's review into the matters at LSER, a wider business review was conducted which identified a requirement to enhance corporate governance arrangements, particularly relating to the way in which the complex rail operations are overseen. Work is already underway in this area, where measures are being taken to improve the ability of the Board to better safeguard and assure the compliance obligations of its complex contract. These steps include increasing the remit and scope of the internal audit function to include oversight of the compliance arrangements and ensuring deeper understanding and closer scrutiny of contractual obligations and commercial terms. The Audit Committee Chair of the Group will be appointed to the Board of GTR with effect from 1 April 2022.

The NRC was awarded on the 25<sup>th</sup> March 2022. Similar to 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.

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

This report sets out how the Directors comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout the year ended 3 July 2021.

**The role of the Board and how it operates**

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

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

**Board governance**

The Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies for the year ended 3 July 2021. These principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to help to improve standards of corporate governance. They also support directors to meet the requirements of Section 172 of the Companies Act 2006 by providing guidance on the following areas:

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

The corporate governance report, which evidences how the Company applies the principles, follows the strategic report and is also available on the Company's website: [www.gtrainway.com](http://www.gtrainway.com)

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

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

The directors are mindful of their duty to promote the success of the Company for the benefit of its shareholder having regard to the interest of a range of other stakeholders. In doing so, the Board's desire to act fairly for its shareholder, maintain a reputation for high standards of business conduct, and consider the long-term consequences of the decisions they take, have underpinned the way it operates its business. Further details are set out below:

***Section 172(1)(a) and (e) - the likely consequences of any decision in the long term and the desirability of the company maintaining a reputation for high standards of business conduct***

Actively listening to and engaging effectively with our wide variety of stakeholders is key to ensuring responsible decisions are made. We appreciate the need to ensure that the decisions we take create value for all our stakeholders and support creation of long-term sustainable value so that, ultimately, we can continue to be a vital part of the communities we serve. Please refer to Principle 6 of the corporate governance report for details on why and how we engage with our stakeholders and examples of how we responded.

The viability of non-franchise business principal decisions (for example acquisitions, disposals, bids and Board appointments) are considered and approved by the Group Board (under the Company's schedule of matters reserved for the Group Board). The Group's devolved operating management operating model is a key feature of this decision-making process, with the Group executive directors acting as an intermediary and ensuring there is two-way feedback between the Group Board and the Company Board.

Any decisions relating to franchise business such as, for instance, the negotiation of the Emergency Recovery Measures Agreement (ERMA) in September 2020, are first considered and approved by the Company Board. If approved, the Group Chief Executive would then submit a proposal to the Group Board for formal approval before obtaining approval from the Company's sole shareholder, Govia Limited. This is in accordance with the Govia Limited Revised Shareholders Agreement and Side Letter dated 3 August 2005 (the Govia Agreement).

The directors take the reputation of the Company seriously which is not limited to only operational and financial performance. The stakeholder relationships we have developed over many years have continued to be as important as ever. During the year, the Company continued to work closely and collaboratively with key industry partners, such as the DfT and Network Rail to find solutions which ensure a safe and reliable service for our customers.

The directors seek to ensure high standards of ethical conduct, honesty and integrity in our business practices. In addition to a supportive culture where the workforce is able to raise any concerns, the Company's Code of Conduct facilitates the understanding and embodiment of behaviours that align colleagues with the culture as set by the Company Board. Policies are also in place in relation to corruption, fraud and bribery. Additionally, the Company Board keeps under review any conflict or potential conflict of interest situations authorised by the board.

During the year, the Board approved the Company's modern slavery statement (available on [www.gtrainway.com](http://www.gtrainway.com)). With respect to Gender Pay Gap reporting, the Company has been working with the Group to ensure consistency in the collation of the data and reporting and appropriate action plans are being developed to promote gender pay equality.

***Section 172(1)(b) - the interest of the company's employees***

The directors understand the importance of the Company's employees to the long-term success of the business and the Company is certified by Investors in People, an important external validation of the Company's policies and performance in leading, supporting and managing employees well for sustainable results. Both Thameslink and Great Northern and Southern and Gatwick Express are certified to a Silver standard and have been assessed by Investors in People to be making good progress against their plans to achieve Gold.

Safeguarding the health and wellbeing of the Company's employees (and other stakeholders) remains the main priority for the Board. We have continued to build on the precautionary measures introduced in 2020 (and disclosed in our 2020 annual report and financial statements) to meet the challenging demands brought by COVID-19. For example, during the year, we implemented driver training bubbles with regular COVID-19 testing and introduced widespread workplace COVID-19 testing. We also enabled flexible working for those with parental or carer responsibilities. We regularly re-assess workplace risk, to ensure the safety of our employees.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

To ensure our colleagues' voices are heard, the Company regularly communicates to its employees through a range of channels including internal media, management forums, newsletters and business updates. For further details of how the Company regularly engages with its workforce, please refer to Principle 6 in the Corporate Governance Report on page 17.

Being an employer of choice is important to maintaining a high level of employee retention. The Company endeavours to provide market competitive remuneration and comprehensive benefit packages as well as recognising and rewarding colleagues for their contribution and commitment. 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 have suspended payment of performance related bonuses and most discretionary benefits. Please refer to Principle 5 in the Corporate Governance Report on pages 13 and 19 for further details on remuneration.

With the exception of directors and managers, the Company's workforce is represented by trade unions and employee representatives and the Board strive to foster positive working relationships with them. This has continued to be vital as the COVID-19 pandemic has progressed and the Company has continued to work alongside trade unions to keep colleagues informed and up to date on all government changes and safe working practices such as, for instance, driver training bubbles mentioned above.

The Company places a premium on an inclusive and diverse workforce, enabling all colleagues to reach their full potential, to be empowered and engaged with a strong commitment to personal development. Our People Strategy includes the goal 'Making Diversity and Inclusion part of our DNA'. We aim to build a culture where we attract, develop and retain talent that is truly representative of the communities we serve; where all colleagues can thrive and be themselves at work, where everyone intrinsically feels welcome, valued and safe.

The Company supports the cross industry 'Women in Rail' initiative which is a mentoring programme to support and encourage the coaching and development of women. Key focus areas during the year have been Learning and Development and Diversity and Inclusion initiatives, for example the development and implementation of a Learning Hub for all colleagues; two online manager training sessions on unconscious bias in the workplace; and our first Race Equality Network online event chaired by our Group Chief Financial Officer in post at the time.

***Section 172(1)(c) - the need to foster the Company's business relationships with suppliers, customers and others***

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.

The directors understand the importance of the Company's supply chain in delivering the long-term plans of both the Company and the Group. Through our Sustainable Supply Charter, we demonstrate high standards of integrity, responsibility and professional conduct. We endeavour to support our suppliers to improve the sustainability of their business. We support the Group's compliance and endeavour to pay suppliers in line with the Prompt Payment Code and, when the reduction of supplier services has been necessary during the COVID-19 pandemic, we applied a fair and structured process in line with the Company's Sustainable Supply Chain Charter, where possible. Regular supplier engagement is key to maintaining good relations, and we communicate regularly with all suppliers to keep them abreast of key changes e.g., in respect of our franchise agreement, COVID-19 changes and Brexit planning, as well as routine tendering and contract variation discussions. In accordance with DfT policy, the Company also introduced rent payment holidays during the year for station retail tenants.

Customers are at the heart of the business and the Board is dedicated to providing them with safe, convenient and reliable services. During the year, the industry paused the bi-annual Transport Focus customer satisfaction surveys normally conducted. However, the directors continued to monitor customer satisfaction through internal online surveys. For example, our "On Time" measure (trains arriving within 59 seconds of the scheduled stop) was 71.4%. This resulted in a customer satisfaction score of 7.76 out of 10 in March 2021, the highest score since the survey began in May 2020. We build relationships with our customers through our passenger-facing colleagues, customer ambassadors and social media channels. We conduct regular customer satisfaction surveys, which are analysed to gain insight into the drivers of satisfaction and to understand where to focus improvements. We also run meet the manager sessions to gain further insight on our performance. Our customers' needs are constantly evolving, and these interactions enable us to better understand the needs of our passengers and where to focus improvements.

Govia Thameslink Railway Limited  
**Strategic report (continued)**  
For the year ended 3 July 2021

Last year, weight sensors were fitted to trains to help identify when maximum capacity was reached while allowing space for social distancing, enabling front line colleagues to assist passengers on which train to board. This year, we built upon this further by implementing real time data apps to monitor and understand the passenger numbers through the gatelines and on board. This data driven approach enables more efficient train planning, with hotspots at stations being identified as well as when trains have reached their full capacity.

Please refer to Principle 6 in the Corporate Governance Report on page 17 for further details on how we engage with our suppliers, customers and others.

***Section 172(1)(d) - the impact of the Company's operations on the community and environment***

As a public transport operator, the Company has a far-reaching impact on the Group as well as its customers, employees, regulators and the communities it serves. The Company aims to align its business values, purpose and strategy with the social, economic and environmental needs of its stakeholders, embedding responsible and ethical business policies and practices in everything it does.

With many people using our trains every day to get to work, school or see friends, we understand the importance of rail to passengers, communities, our staff and the economy. Therefore, the Company's commitment is to strengthen our contribution to the economy, increase customer satisfaction, boost local communities through local decision making, and give our employees and communities the opportunity of more jobs and a rewarding career in rail. Highlights for the year ended 3 July 2021 were as follows:

- Additional services in line with the needs of the community, for example the development and introduction of eight-car trains on the Fen Line in December 2020 to support long-term growth for the regions along the route, particularly the Cambridge growth corridor.
- Pre-employment programmes help to upskill unemployed or long-term unemployed people and get them work-ready, which can contribute to improved social mobility:
  - Eight young people completed the Prince's Trust pre-employment programme 'Get into Railways' with 5 GTR role placements pending.
  - 12 people completed our first Sector-based work academy programme, with 2 subsequently employed in GTR.
  - Three young people have commenced their 6-month work placements at Kings Cross through the government's Kickstart scheme.
- Over 550 children educated in railway safety
- 95 station partnerships making local stations more welcoming and vibrant

For further information on the impact of the Company's operations on the community and environment, including engagement, please refer to Principle 6 in the Corporate Governance Report on page 17 and our 2021 Sustainability Report, which is available for download from our website.

***Section 172(1)(f) - the need to act fairly as between members of the company***

The immediate parent company and immediate controlling party of Govia Thameslink Railway Limited is Govia Limited. Govia Limited is a joint venture between Keolis (UK) Limited (35%) and The Go-Ahead Group plc (65%). In the opinion of the directors, the Company's ultimate parent Company and ultimate controlling party is The Go-Ahead Group plc (the Group).

The Group operates a devolved operating model. Whilst day-to-day management of the Group's activities, governance and oversight has been delegated to the Group executive directors, the directors of the Company both individually and collectively support them in this role and the Company is operated as an autonomous business unit. Board meetings are held on a monthly basis with the Group executive directors in attendance who scrutinise and challenge the local management's team execution of strategy. These more formal meetings are supported by several cross-business forums (such as safety, IT, engineering, HR, diversity and inclusion, commercial, operations and finance) that serve to facilitate the sharing of knowledge, ideas and best practice. This approach encourages the right balance between local and Group initiatives and facilitates fair discussion and decision-making. It also ensures that we deliver more operating collectively than we would independently

Govia Thameslink Railway Limited  
**Strategic report (*continued*)**  
For the year ended 3 July 2021

As mentioned above, the Company operates in accordance with the Govia Agreement. This ensures that the Board conducts the business in a manner which is most likely promote the success of the Company for the benefit of its stakeholders collectively.

For details of how the Company engages with the Group, please refer to Principle 6 in the Corporate Governance Report on page 17.

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

A handwritten signature in black ink, appearing to read 'Ian McLaren', written over a horizontal line.

Ian McLaren  
Director  
31 March 2022

# Govia Thameslink Railway Limited

## Corporate governance report

### For the year ended 3 July 2021

For the year ended 3 July 2021, under The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by The Companies (Miscellaneous Reporting) Regulations 2018), the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website.

Information on how the Company has applied the Principles over the past year throughout our work is set out below.

#### Principle 1 – Purpose and Leadership

During the year, work was undertaken to articulate a new 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. During the past year, this has expanded to include those who needed our services the most - from those working in the health service to those pupils and teachers at schools. Within the Company, we are bringing improvements to our services and customer experiences across our network, so that our customers feel we are with them.

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

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

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

The Company is additionally required to produce an Annual Business Plan for the Department for Transport (DfT), aligned to the DfT’s rail sector objectives.

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 is determined that its focus will therefore be on the following:

- *Leadership provides a strong strategic narrative*; repeated and amplified so all colleagues understand who we are, what we are seeking to achieve and where their contribution fits in
- *Get the best from our operating model*; decentralised, agile and responsive, ensuring that we continuously learn and improve our business
- *Fix the basics for our colleagues*; to demonstrate that they are valued and respected
- *Make diversity and inclusion part of our DNA*; ensure that we are representative of the communities we serve and that all colleagues can succeed and thrive in our inclusive culture

## Corporate governance report (*continued*)

For the year ended 3 July 2021

- *Foster a culture of life-long learning*; colleagues are encouraged to take ownership of their own development and access to on-line development resources are available to all
- *Develop capable and engaging managers*; our managers are empowered; we expect them to care, coach, support, resolve problems and develop their people
- *Ensure our colleagues have a voice – and show we are listening*; we seek feedback from our colleagues and check-in regularly to know how they are feeling and hear their ideas for improvement
- *Recognise and celebrate our everyday heroes*; we ensure our colleagues feel valued and recognised for a job well done

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

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

### Principle 2 – Board Composition

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

During the year ended 3 July 2021, the Board comprised the Group Chief Executive and the Group Chief Financial Officer (the Group executive directors), the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, the Group Managing Director of Business Development (together the "Go-Ahead directors") and two Keolis directors.

Following the year end, Elodie Brian resigned as Group Chief Financial Officer and director of the Company with effect from 27 September 2021. She was replaced in this role by Gordon Boyd who was appointed as Interim Group Chief Financial Officer and director of the Company with effect from, and including, 28 September 2021 up to and including 28 March 2022 when he resigned. David Brown retired as Group Chief Executive and director of the Company with effect from 5 November 2021 and was succeeded in these roles by Christian Schreyer with effect from the same date. Stephen White resigned as the Company's Chief Operating Officer with effect from 8 October 2021.

All Go-Ahead directors on the Board during the year were full time employees of either the Group or the Company. The Audit Committee Chair of the Group will be appointed to the Board with effect from 1 April 2022. This composition ensures that the Board has the appropriate balance of skills, knowledge and experience.

The Chairman (the Group Chief Executive) leads the Board and promotes a culture of open and constructive debate. This role is separate to that of the Company's Chief Executive Officer who is empowered to operate the business autonomously with the support of the rest of the Board. Board meetings are held on a four-weekly basis with the Group executive directors in attendance who scrutinise and challenge execution of strategy. Robust independent challenge is also ensured by attendance of the Keolis directors who bring a range of perspectives from different businesses and geographies.

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

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

The Board believes that continuous director training and development supports Board effectiveness. With the ever-evolving regulatory landscape in which the Company operates, it is critical that the Board maintains a good working knowledge of the transport sector and how the Company operates within its sector, as well as being aware of recent and upcoming developments in the wider legal and regulatory environment. To assist the Board in undertaking its responsibilities, regular presentations are provided from senior management. Where required,

Govia Thameslink Railway Limited  
**Corporate governance report (continued)**  
For the year ended 3 July 2021

support is also provided from Group Company Secretariat such as reporting requirements in relation to Section 172(1) and corporate governance arrangements. All directors have completed unconscious bias and accessibility training during the year. Mandatory training on Competition Law, Anti-Bribery and Corruption, Modern Slavery, Data Protection and Information Security is completed on a regular basis.

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

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

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

The Group Board reviews governance processes, including policies and procedures, on at least an annual basis to ensure that these remain fit for purpose and strengthen the governance of the Company. The Company complies with the Group Policies and Procedures Manual and reports its compliance to the Group annually on a self-certification basis. 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 apply fair and equitable employment practices. Our Code of Conduct states that all employees should be treated with respect and that their health, safety and basic human rights should be protected. 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 as well as being reported to the Group twice a year in accordance with full year and half year results reporting. As part of this reporting process, risk reports are completed which outline the key principal and emerging risks facing the Company, provide an explanation of the procedures in place to mitigate and manage such risks and prioritise the most important risks from both an inherent and residual perspective. These reports are then discussed with the Group executive directors at bi-annual risk Board meetings with discussion focused on the most important risk and control areas within the business. Following such meetings, the Group executive directors report to the Group audit

Govia Thameslink Railway Limited  
**Corporate governance report (continued)**  
For the year ended 3 July 2021

committee with final approval being granted by the Group Board for key risks that could have a material impact on the Group performance, strategy or business model.

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

#### **Principle 5 – Remuneration**

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

For the Company's Chief Executive Officer and Chief Finance Officer (the Company directors), remuneration is determined by the Group Board in line with the Group's Senior Management Remuneration Policy as was the case for the former Chief Operating Officer. 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. During the year, the Group executive directors and Group Managing Director of Business Development were remunerated by the Group. The Company directors' remuneration, including the former Chief Operating Officer, is disclosed within note six of the financial statements. For further details of the remuneration policy which applied to the Group executive directors together with details of the remuneration paid to them in the 2021 financial year, please see pages 108 to 142 of the Group's 2021 Annual Report and Accounts.

Remuneration for senior management and administrative roles is reviewed annually and is linked to job performance. Total remuneration for these roles is linked to level, contract of employment and market forces. Remuneration for the wider workforce such as, for instance, drivers and engineers is collectively bargained with trade unions. As 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. DfT approval is required for all pay increases, bonus payments and discretionary benefits with the exception of multi-year pay deal agreed before the company entered into 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 multi-year pay deal agreed before the company entered into EMA.

During the year, the Board considered the data, and narrative, relevant to the Company's Gender Pay Reporting in preparation for external publication, including proposed improvement plans to enhance performance. This included changes made to the Company's recruitment process to attract more 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.

The Group's key stakeholders include the Group, DfT, workforce, customers, government and local authorities, strategic partners and suppliers, the communities we serve and a wide range of regulators, associations and administrative bodies. In addition to our key stakeholder groups, we also engage with politicians and industry partners such as Transport for London, Network Rail, other train operating companies, the Rail Delivery Group, unions and internal and external suppliers.

The board believes that listening and engaging effectively with our key stakeholders is critical to ensuring that the right decisions are made which consider their needs and priorities. An established reporting process is in place, where the Company is required to report formally to the Group Board on what engagement has taken place with our key stakeholders and the outcome of such engagement.

#### ***The Go-Ahead Group plc (the Group)***

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

Govia Thameslink Railway Limited  
**Corporate governance report (continued)**  
For the year ended 3 July 2021

During the year, outcomes of engagement with the Group included approval of the Company's annual three-year corporate plan, approval of the sustainability plan and the future of finance programme.

***DfT***

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

During the year, we worked collaboratively with the DfT in the delivery of the Annual Business Plan 2021/22, starting with a briefing session to the DfT in January 2021 to provide assurance that we understood what was required and our approach to address the cost challenges. We continued with weekly update sessions on the initiatives identified and actions being taken to address the remaining challenges. We recognise the scale of the financial support that government has provided for the rail industry and the scrutiny that the DfT is under on costs so we have developed a framework to ensure we deliver value for money and respond to queries in a timely manner.

***Workforce***

Having an engaged workforce is key to our success. The Company uses a range of engagement channels and approaches in our business and colleagues are kept informed of key messages through internal media, management forums, newsletters and business updates. In August 2020, the Company issued a survey for all staff 'Working Through Lockdown' which gave us valuable insights into what our people needed to feel valued and safe. Regular COVID-19 Manager Briefings and other Forums have given all managers the opportunity to ask questions, raise issues and concerns, and receive responses from our leadership team. We receive daily valuable and honest feedback through our twelve successful Yammer communities which is often picked up and actioned by operational teams. Colleague forums, colleague network groups and area partnership programmes are just some of the other channels that exist to enable colleagues to interact with senior management and have their say on the latest developments as well as share ideas.

The Company works collaboratively with trade unions, our focus being to maintain a trustful relationship and secure a mutual view of colleague engagement. A set of collective bargaining principles have been developed and agreed with a clear framework in place that covers effective joint working at all levels within the business. This is further facilitated by the Joint Company Council which meets three times a year and is attended by the Company's Executive Team, representatives of our managers forum and union representatives. The Company's relations with the Trade Unions have become positive and constructive in recent years.

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

On 31 March 2021, we launched our in-house Learning Centre following several briefing sessions with managers. This is an integrated self-serve system where all our managers can access events, e-learning and e-briefs to expand their knowledge and skills and become the next generation of leaders. Initially showing development for our management and administrative colleagues, the site will be expanded throughout the year giving the opportunity for everyone to take ownership of their development.

***Customers***

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

Govia Thameslink Railway Limited  
**Corporate governance report (continued)**  
For the year ended 3 July 2021

To help customers plan their routes safely, we have developed a technological solution that will give them access through our Internet sites to train loading information. This will give customers more choice and help to reassure them that they can socially distance effectively during their journey.

***Government and local authorities***

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

This year has seen us work closely with the Department for Work and Pensions (DWP) and the DfT regarding skills for young people and the Kickstart programme as well as with working with local authorities on getting people back to rail safely, local travel plans, improvements to stations, sustainability and active and integrated travel.

***Strategic partners and suppliers***

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

During the year, we agreed a joint strategy with Network Rail in relation to sharing data. This included the creation of a Joint Data Sharing Strategy Steering Group with members from across both organisations, as well as referencing the Rail Data Council (RDC) to ensure that data requirements across all business areas have been considered.

***Communities***

Public transport is critical to the functioning of society and has been fundamental in supporting communities through the COVID-19 crisis. The Company has various channels for facilitating effective two-way engagement our communities, one example of which is Stakeholder Forums which take place regularly. These provide stakeholders with an exclusive update on the Company's network developments such as, for instance, capacity, and provide an opportunity for them to ask questions. A virtual forum has taken place during 2021.

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

Updates on our environmental work are provided through our annual Sustainability Forum which is attended by local authorities, Councils, Rail User Groups and Community Rail Partnerships. In 2021, we used the forum as an opportunity to discuss what we can do to encourage more of our customers to use active and sustainable travel modes when travelling to and from our stations. The forum highlighted how the Company can influence the first and last mile of customer's journeys by encouraging transition from car journeys to cycling and walking by providing better facilities and enabling the progression of electric cars.

***Regulators, associations and administrative bodies***

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

We work with the Rail Delivery Group to improve and modernise the Rail Industry and representatives of GTR attend its Boards and Committees. During the year, as part of an industry-wide programme, we successfully completed our programme to update gatelines at our medium and large stations to read QR codes on e-tickets and mobile tickets. We are now seeing a corresponding increase in sales of digital tickets.

Govia Thameslink Railway Limited

## **Corporate governance report (*continued*)**

**For the year ended 3 July 2021**

The corporate governance report was approved by the Board of Directors on 31 March 2022 and signed on their behalf by:

A handwritten signature in black ink, appearing to read 'Ian McLaren', written in a cursive style.

Ian McLaren  
Director

Govia Thameslink Railway Limited

## **Directors' report**

**For the year ended 3 July 2021**

The directors present their Annual Report and Audited Financial Statements for the year ended 3 July 2021.

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 (2020: £nil) were paid and proposed during the year. The directors do not recommend a final ordinary dividend for the year.

### **Management and staff**

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

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

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

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

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

### **Stakeholder interests**

For details on how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, please see the Company's Section 172(1) statement. Further detail is also provided under Principle 6 (Stakeholder Relationships and Engagement) in the Company's Corporate governance report.

Govia Thameslink Railway Limited  
**Directors' report (continued)**  
For the year ended 3 July 2021

**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 a National Rail Contract (NRC) to Govia Thameslink Railway (GTR) to continue operating the Thameslink, Southern and Great Northern rail services, the UK's largest railway network. The new contract commences 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 NRC, like the Emergency Recovery Measures Agreement (ERMA) contract it will replace, is a management contract which has limited exposure to changes in passenger demand. There is cost risk to GTR, but this risk is managed through the Company's internal processes and controls.

The franchise agreement sets out the deliverables required from the Company over the franchise term. Due to the NRC being in place the Company is insulated from the economic impact of COVID-19. The Company earns a fixed management fee, performance-based fee and industry reform fee during the NRC period which gives more certainty on the company financial results.

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 sensitivities and scenarios 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.

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

**Directors' indemnities**

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

Govia Thameslink Railway Limited  
**Directors' report (continued)**  
For the year ended 3 July 2021

**Directors of the company**

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

M R Dean (appointed 20 November 2020)  
G Boyd (appointed 28 September 2021, resigned 28 March 2022)  
C Schreyer (appointed 5 November 2021)  
A J F Gordon  
I McLaren  
B D M Tabary  
H Verwer  
C Hodgson (resigned 20 November 2020)  
D A Brown (resigned 5 November 2021)  
E Brian (resigned 27 September 2021)  
S E White (resigned 8 October 2021)

C Schreyer is a director of the ultimate parent company, The Go-Ahead Group plc.

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

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

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

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

**Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

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

The directors' report was approved by the Board of Directors on 31 March 2022 and signed on their behalf



Ian McLaren  
Director  
31 March 2022

## **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 3<sup>rd</sup> July 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

#### **Basis for opinion**

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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.

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.

#### **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.

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

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

### **Responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](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 about their own identification and assessment of the risks of irregularities.

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.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Accounting treatment for franchise related accruals
  - we obtained an understanding of the Company's relevant controls over franchise-related accruals;
  - we reviewed and challenged management's paper and also reports from management's experts where surveys and valuations were performed;
  - we assessed of the competence, capabilities and objectivity of management's experts;
  - we assessed the inputs, assumptions and methodology used in the determination of dilapidations and claims provisions. This included the use of industry experts to support the audit team, inspection of evidence pertaining to the existence of dilapidations, inquiry of engineers at the group and corroboration of costings to supporting evidence;
  - we challenged management on the range of outcomes for the dilapidation provisions for rolling stock, depots and buildings and their estimate subsequently recognised. This included challenging the nature of expenditure to be incurred to rectify dilapidations by reference to the franchise obligations;

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

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

- we read legal and Department for Transport ("DfT") correspondence to assess the appropriateness of the estimates recognised by management for relevant franchise-related accruals; and
- we evaluated the completeness of the provisions and accruals based on meetings with franchise compliance officers, review of board minutes and other supporting and contradictory evidence, including DFT minutes and legal correspondence
- Accounting treatment for UK government support packages
  - obtained an understanding of the relevant controls over the accounting for transactions within the Emergency Measures Agreement ("EMA") and Emergency Recovery Measures Agreement ("ERMA") contracts in the UK rail businesses, in particular focusing on the controls over the identification of disallowable costs;
  - inspected the EMA and ERMA contracts to challenge the appropriateness of costs included or excluded by management in the income reconciliations. This included:
    - o tested a sample of allowable costs by agreeing to supporting evidence and made further enquires of management to challenge that they are not disallowable;
    - o agreed the disallowable costs reported to the DfT to third party evidence to test the accuracy of the submissions;
  - assessed budget vs actuals for each period to identify any potential costs that may be deemed to not be compliant with the "good & efficient operator" criteria;
  - considered the appropriateness of the disclosures included in the financial statements.

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, and reviewing internal audit reports, and reviewing correspondence with the Department for Transport.

#### **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.

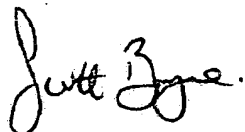
We have nothing to report in respect of these matters.

## **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 2022

Govia Thameslink Railway Limited  
**Income statement**  
for the year ended 3 July 2021

	<i>Notes</i>	<i>2021</i> <i>£'000</i>	<i>2020</i> <i>£'000</i>
<b>Revenue</b>	3	1,758,149	1,790,768
Operating costs	4	(1,703,616)	(1,758,294)
<b>Operating profit</b>		<u>54,533</u>	<u>32,474</u>
Interest receivable and similar income	7	488	2,149
Interest payable and similar expenses	8	(5,196)	(12,389)
<b>Profit before taxation</b>		<u>49,825</u>	<u>22,234</u>
Tax on profit	9	(9,829)	(4,473)
<b>Profit for the year from continuing operations</b>		<u><u>39,996</u></u>	<u><u>17,761</u></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 year ended 3 July 2021

	2021 £'000	2020 £'000
<i>Profit for the year from continuing operations</i>	39,996	17,761
<i>Total comprehensive income for the year</i>	<u>39,996</u>	<u>17,761</u>

**Statement of changes in equity**

for the year ended 3 July 2021

	<i>Share capital</i> £'000	<i>Retained earnings</i> £'000	<i>Total Equity</i> £'000
<b>At 30 June 2019</b>	5,000	6,234	11,234
Profit and total comprehensive income for the year	—	17,761	17,761
Share based payments (note 23)	—	27	27
<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>	<u>5,000</u>	<u>64,104</u>	<u>69,104</u>

Govia Thameslink Railway Limited  
Registered No: **07934306**  
**Balance sheet**  
at 3 July 2021

	Notes	2021 £'000	2020* £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	1	86
Plant, property and equipment	12	7,688	19,342
Right of use assets	13	230,234	383,644
Finance lease receivables	14	2,794	14,456
Deferred tax assets	9	3,446	2,853
		<u>244,163</u>	<u>420,381</u>
<b>Current assets</b>			
Inventories	15	7,705	8,248
Trade and other receivables	16	146,785	87,756
Cash and cash equivalents	28	379,602	275,522
		<u>534,092</u>	<u>371,526</u>
<b>Total assets</b>		<u><b>778,255</b></u>	<u><b>791,907</b></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(426,867)	(301,830)
Lease liabilities	13	(209,988)	(354,509)
Current tax liabilities	9	(3,046)	(717)
Provisions	18	(3,000)	—
		<u>(642,901)</u>	<u>(657,056)</u>
<b>Non-current liabilities</b>			
Lease liabilities	13	—	(44,001)
Provisions	18	(66,250)	(61,828)
		<u>(66,250)</u>	<u>(105,829)</u>
<b>Total liabilities</b>		<u><b>(709,151)</b></u>	<u><b>(762,885)</b></u>
<b>Net current liabilities</b>		<u><b>(108,809)</b></u>	<u><b>(285,530)</b></u>
<b>Total assets less current liabilities</b>		<u><b>135,354</b></u>	<u><b>134,851</b></u>
<b>Net assets</b>		<u><b>69,104</b></u>	<u><b>29,022</b></u>
<b>Capital and reserves</b>			
Share capital	22	5,000	5,000
Retained earnings		64,104	24,022
		<u>69,104</u>	<u>29,022</u>
<b>Total equity</b>		<u><b>69,104</b></u>	<u><b>29,022</b></u>

The financial statements were approved by the Board of Directors and authorised for issue on 31 March 2022 and signed on their behalf by:



Ian McLaren, Director

\* Restated – see note 27

Govia Thameslink Railway Limited  
**Notes to the financial statements**  
For the year ended 3 July 2021

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

These financial statements of Govia Thameslink Railway Limited (the “Company”) for the year ended 3 July 2021 were authorised for issue by the Board of Directors on 31 March 2022 and the balance sheet was signed on the Board’s behalf by Ian McLaren. The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company’s registered office is shown on page 1.

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

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

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

**2. Accounting policies**

**2.1 Basis of preparation**

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

The Company’s ultimate parent undertaking, The Go-Ahead Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of The Go-Ahead Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Companies House, Cardiff and The Go-Ahead Group plc website.

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

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

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

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

**2.1 Basis of preparation (*continued*)**

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

**Going Concern**

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, Southern and Great Northern rail services, the UK's largest railway network. The new contract commences 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 NRC, like the Emergency Recovery Measures Agreement (ERMA) contract it will replace, is a management contract which has limited exposure to changes in passenger demand. There is cost risk to GTR, but this risk is managed through the Company's internal processes and controls.

The franchise agreement sets out the deliverables required from the Company over the franchise term. Due to the NRC being in place the Company is insulated from the economic impact of COVID-19. The Company earns a fixed management fee, performance-based fee and industry reform fee during the NRC period which gives more certainty on the company financial results.

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 sensitivities and scenarios 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.

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

**New standards**

The following new standards or interpretations are mandatory for the first time for the financial year ended 3 July 2021:

- Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7
- Impact of the initial application of COVID-19 Related Rent Concessions amendment to IFRS 16
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Definition of a business
- Amendments to IAS 1 and IAS 8 Definition of material

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 year ended 3 July 2021

**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 differ from these estimates.

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

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

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

*Accounting for the rail pension schemes*

The Company participates in the 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 year ended 3 July 2021 the impact of this alternative treatment, on a post tax basis, would be an increase in costs of £136.7m (2020: £28.7m) to the income statement and a credit to other comprehensive income of £46.7m (2020: debit of £110.0m). 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.

*COVID-19: Rail – Emergency Measures Agreements (EMAs) and Emergency Recovery Measures Agreements (ERMAs)*

The COVID-19 pandemic continues to have a major impact on the global economy and has had an impact on the Company's operational performance during the current year. The Company has received government support. From 1 March 2020, all the revenue and cost risk being transferred to the Government by way of Emergency Measures Agreements (EMAs) and later Emergency Recovery Measures Agreements (ERMAs).

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

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

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

*Accounting for the rail pension schemes (*continued*)*

For GTR, the EMA term ended on 19 September 2020 at which point GTR transferred to an ERMA which has its term end on 31 March 2022. As part of these agreements, signed by the DfT, GTR in the prior year, there are two income streams; a management fee to run business as usual and a performance based fee payable on achieving various target operational performance benchmarks. The management fee is recognised within franchise subsidy revenue, in line with the revenue recognition policy for subsidy receipts received from the DfT.

For EMAs and ERMAs, the performance payment is assessed by the DfT 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.

GTR's EMA performance payment was confirmed by the DfT in December 2020 to be £3.8m and this was recognised in the first half of this financial year. The ERMA is similar in nature to that of the EMA with GTR continuing to receive a base management fee for the remainder of its franchise; however, the performance payment is assessed with a score of 1, 2 or 3 against the four criteria of operational performance, customer experience, financial performance and collaborative behaviours. The Company scored a 3 for Operational Performance, Customer Experience and Collaborative Behaviours and a 2 for Financial Performance. The directors' consider that they now have a sufficient knowledge and experience to recognise revenue in respect of the performance payment bonus for the period from 1 April 2021 to 3 July 2021.

The scores are assessed six monthly and the performance payment awarded and recognised for the period to 31 March 2021 was £8.3m. The cumulative ERMA performance payment for GTR can range up to £18.3m over the ERMA term. Using the fact that after year end, GTR's performance scores in 3 of the 4 ERMA categories were confirmed and also using the EMA performance outcome and the ERMA assessment completed to date as guides, a performance payment of £3.3m was accrued as at the financial year end, covering the period from April 2021 to year end, in addition to the £8.3m recognised for the period to 31 March 2021. The final scores received in February 2022 were within £0.07m of the accrued position and under IFRS15 have not been amended.

**Key sources of estimation uncertainty**

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

*Contract and franchise accounting*

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

The useful economic lives of assets within the 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.

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

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

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

*Contract and franchise accounting (continued)*

Please refer to note 26 for details of contingent liabilities relating to these judgements and estimations.

As a result of the COVID-19 pandemic, on 23 March 2020 the UK Government suspended all rail franchise agreements and introduced an industry-wide Emergency Measures Agreement (EMA) scheme to support train operating companies. The GTR EMA was in place for an initial period to 19 September 2020. Since this date, GTR is operating under an Emergency Recovery Measures Agreement (ERMA) now extended until the end of March 2022. The ERMA is similar in nature to that of the EMA with GTR continuing to receive a management fee for the remainder of its franchise.

*Measurement of franchise commitments*

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

*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. 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.

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

**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 subsidy as well as other miscellaneous revenue streams. Revenue is recognised on satisfaction of performance obligations which are generally clear. Revenue is measured at the fair value of the consideration received or receivable, (excluding discounts, rebates, VAT and other sales taxes or duty) to which the Company expects to be entitled to and excludes amounts collected on behalf of third parties. An explanation of the main revenue streams is set out below:

***Passenger revenue***

Passenger revenue mainly relates to revenue from ticket sales.

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

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

***Other revenue***

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

***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 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.

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**2. Accounting policies (continued)**

**2.3 Significant accounting policies (continued)**

**Revenue Recognition (continued)**

*Profit and revenue sharing/support agreements*

The Company has certain revenue and profit sharing agreements with the DfT. An accrual is made within amounts payable to central government for the estimated cost to the Company of the relevant amounts accrued at the balance sheet date. Costs are charged to operating costs. The profit share agreements were terminated when the EMAs and ERMAs were put in place from 1 March 2020.

**Prior year restatements - Presentational corrections (IAS 32 Balance Sheet Classifications)**

During the year, it was identified that some items had been presented as net within the balance sheet and associated notes rather than presenting as gross receivables and payables in accordance with IAS 32. As a result, the 2020 balance sheet has been restated. These items relate to the presentation of balances with the DfT and Network Rail. The impact of these reclassifications is to increase both current trade and other receivables and current trade and other payables by £22.0m in the 2020 balance sheet.

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

**Plant, property and equipment**

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

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

Plant & equipment                      -     1 to 7 years

**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).

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

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

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

**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.

**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 year ended 3 July 2021

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

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

***Leases (*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 2013, 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 year 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.

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

**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.

***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.

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.

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

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

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

***Financial instruments (*continued*)***

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 plc and charges recognised are recharged to the Company.

***Share based payment transactions***

The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In granting equity-settled options, conditions are linked to some or all of the following: the price of the shares of The Go-Ahead Group plc (market conditions); conditions not related to performance or service (non-vesting conditions); 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 The Go-Ahead Group plc 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.

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

For the year ended 3 July 2021

**3. Revenue**

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

	2021 £'000	2020 £'000
Passenger Revenue	412,239	1,242,617
Subsidy Revenue	1,234,245	375,635
Other Revenue	111,665	172,516
	<u>1,758,149</u>	<u>1,790,768</u>

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

All revenue is generated within the United Kingdom.

**4. Operating costs**

	2021 £'000	2020 £'000
Staff costs (note 5)	477,108	454,426
Rail operating charges <sup>1</sup>		
- rail access	492,793	475,256
- vehicle and rolling stock	29,526	27,120
Total lease payments recognised as an expense	<u>522,319</u>	<u>502,376</u>
Auditor's remuneration		
- audit fee for the audit of the financial statements	466	305
- non-audit services	52	13
Total auditor's remuneration	<u>518</u>	<u>318</u>
Amortisation of intangible assets	85	181
Depreciation of plant, property and equipment	11,728	13,458
Depreciation of right of use assets	316,157	319,446
Franchise payment/(receipt)	–	91,119
Impairment of ROU assets	3,212	–
Other operating costs	<u>372,489</u>	<u>376,970</u>
<b>Total operating costs</b>	<u><b>1,703,616</b></u>	<u><b>1,758,294</b></u>

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 year ended 3 July 2021

**5. Staff costs and numbers**

	2021 £'000	2020 £'000
Wages and salaries	407,773	389,778
Social security costs	42,922	40,823
Pension costs (note 19)	26,200	23,661
Share based payments (note 23)	213	164
	<u>477,108</u>	<u>454,426</u>

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

	2021 No.	2020 No.
Administration and supervision	1,378	1,338
Maintenance and engineering	711	681
Operations	5,452	5,354
	<u>7,541</u>	<u>7,373</u>

**6. Directors' remuneration**

	2021 £'000	2020 £'000
Aggregate emoluments in respect of qualifying services	<u>1,034</u>	<u>1,195</u>

	2021 No.	2020 No.
Number of directors accruing benefits under defined benefit schemes	<u>—</u>	<u>—</u>
Number of directors who exercised share options	<u>1</u>	<u>2</u>

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

	2021 £'000	2020 £'000
Emoluments	<u>420</u>	<u>497</u>

Included within Emoluments, the Company contributed £nil (2020: £nil) to the defined benefit pension scheme of the highest paid director. During the year the highest paid director also exercised share options of 2,612 (2020: 2,608) shares and 7,395 (2020: 3,484) shares were granted in respect of a deferred share bonus plan (DSBP). See note 23.

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

**7. Interest receivable and similar income**

	2021 £'000	2020 £'000
Bank interest receivable	301	2,070
Interest receivable on net investment	187	79
	<u>488</u>	<u>2,149</u>

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**8. Interest payable and similar expenses**

	2021 £'000	2020 £'000
Other finance charges	507	664
Discounting of provisions	–	408
Interest payable to group undertakings	–	8
Interest payable on lease liabilities	4,689	11,309
	<u>5,196</u>	<u>12,389</u>

**9. Taxation**

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

The tax charge is made up as follows:

	2021 £'000	2020 £'000
<i>Current tax:</i>		
UK corporation tax	10,422	5,782
Corporation tax in respect of previous periods	–	(128)
Total current tax	<u>10,422</u>	<u>5,654</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(549)	(1,142)
Adjustments in respect of deferred tax of previous periods	(44)	158
Effect of rate change on opening deferred tax balance	–	(197)
Total deferred tax (note 9(d))	<u>(593)</u>	<u>(1,181)</u>
Total reported in the income statement (note 9(b))	<u>9,829</u>	<u>4,473</u>

**(b) Factors affecting current tax charge**

A reconciliation of taxation applicable to accounting profit before tax at the statutory tax rates for the years ended 3 July 2021 and 27 June 2020 is shown below.

The tax assessed on the profit before taxation for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 3 July 2021 was 19% (2020: 19%).

The differences are reconciled below:

	2021 £'000	2020 £'000
Profit before taxation	<u>49,825</u>	<u>22,234</u>
Tax at the UK corporation tax rate of 19% (2020: 19%)	9,467	4,224
Expenses not deductible for tax purposes	65	74
Depreciation on non-qualifying assets	341	342
Adjustment in respect of deferred tax of previous periods	(44)	158
Effect of the difference between current year corporation tax and deferred tax rates	–	(197)
Adjustment in respect of corporation tax of previous periods	–	(128)
Tax reported in the income statement	<u>9,829</u>	<u>4,473</u>
Effective tax rate	19.7%	20.1%

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**9. Taxation (continued)**

**(c) Current tax liabilities**

	2021 £'000	2020 £'000
Current tax liabilities at start of year	(717)	(2,350)
Corporation tax reported in income statement (note 9(a))	(10,422)	(5,654)
Paid in the year	8,093	7,287
Current tax liabilities at end of year	<u>(3,046)</u>	<u>(717)</u>

**(d) Deferred tax**

Constituents of the deferred tax asset are as follows:

	2021 £'000	2020 £'000
<b>Deferred tax asset</b>		
Decelerated capital allowances	3,409	2,314
Other temporary differences	37	539
	<u>3,446</u>	<u>2,853</u>

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

	27 June 2020 £'000	Recognised in income statement £'000	3 July 2021 £'000
Accelerated capital allowances	2,314	1,095	3,409
Other temporary differences	539	(502)	37
	<u>2,853</u>	<u>593</u>	<u>3,446</u>

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

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

The standard rate of UK corporation tax is 19% and therefore 19% applies to the current tax charge arising during the year ended 3 July 2021.

In the March 2021 Budget, it was announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023.

**10. Dividends**

	2021 £'000	2020 £'000
<b>Paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2021: £nil per share (2020: £nil per share)	<u>-</u>	<u>-</u>

No dividends are proposed as at 3 July 2021.

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**11. Intangible assets**

	<i>Software &amp; Licence Costs £'000</i>
<i>Cost:</i>	
At 27 June 2020 and 3 July 2021	2,250
<i>Amortisation:</i>	
At 27 June 2020	2,164
Provided during the year	85
At 3 July 2021	2,249
<i>Net book value:</i>	
At 3 July 2021	1
At 27 June 2020	86

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 27 June 2020	60,002
Additions	73
At 3 July 2021	60,075
<i>Depreciation:</i>	
At 27 June 2020	40,660
Provided during the year	11,727
At 3 July 2021	52,387
<i>Net book value:</i>	
At 3 July 2021	7,688
At 27 June 2020	19,342

# Notes to the financial statements (continued)

For the year ended 3 July 2021

## 13. Leases

### Right of use assets

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

	<i>Land &amp; Buildings £'000</i>	<i>Plant &amp; Equipment £'000</i>	<i>Rolling Stock £'000</i>	<i>Total £'000</i>
<b>Cost:</b>				
At 27 June 2020	2,558	270	692,202	695,030
Additions	678	66	165,216	165,960
Disposal	–	–	(15,128)	(15,128)
	<hr/>	<hr/>	<hr/>	<hr/>
At 3 July 2021	3,236	336	842,290	845,862
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation:</b>				
At 27 June 2020	(1,200)	(68)	(310,118)	(311,386)
Provided during the year	(1,174)	(124)	(314,860)	(316,158)
Disposal	–	–	15,128	15,128
Impairment	–	–	(3,212)	(3,212)
	<hr/>	<hr/>	<hr/>	<hr/>
At 3 July 2021	(2,374)	(192)	(613,062)	(615,628)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>				
At 3 July 2021	862	144	229,228	230,234
	<hr/>	<hr/>	<hr/>	<hr/>
At 27 June 2020	1,358	202	382,084	383,644
	<hr/>	<hr/>	<hr/>	<hr/>

The Company sublease rolling stock to a related company, London & South Eastern Railway Limited (LSER). As a result of the transfer of the right of use assets to LSER, the Company now holds a finance lease receivable in respect of the subleased rolling stock.

### Lease liabilities

The balance sheet includes the following amounts:

	<i>2021 £'000</i>	<i>2020 £'000</i>
Current	(209,988)	(354,509)
Non-current	–	(44,001)
	<hr/>	<hr/>
Lease liabilities	(209,988)	(398,510)
	<hr/>	<hr/>

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

	<i>2021 £'000</i>	<i>2020 £'000</i>
Less than one year	(211,634)	(359,118)
One to two years	–	(44,039)
	<hr/>	<hr/>
Total undiscounted lease liabilities	(211,634)	(403,157)
	<hr/>	<hr/>

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

For the year ended 3 July 2021

**13. Leases (continued)****Amounts recognised in the Group income statement**

	2021	2020
	£'000	£'000
Interest payable on lease liabilities	(4,689)	(11,309)
Depreciation on right of use assets	(316,158)	(319,446)
Expenses relating to low value assets	(85)	(84)
Impairment of right of use asset	(3,212)	-
	<u>(324,144)</u>	<u>(330,839)</u>

**14. Finance lease receivables****Amounts receivable under finance leases:**

	2021	2021
	£'000	£'000
Undiscounted lease payments analysed as:		
Recoverable within one year	2,803	12,746
Recoverable within one to two years	-	1,905
Undiscounted lease payments	<u>2,803</u>	<u>14,651</u>
Less: unearned finance income	(9)	(195)
Net investment in the lease	<u>2,794</u>	<u>14,456</u>

During the financial year £186,930 (2020: £79,483) was recognised within interest receivable and similar income.

**15. Inventories**

	2021	2020
	£'000	£'000
Raw materials and consumables	<u>7,705</u>	<u>8,248</u>

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

During the financial year £33,516,056 (2020: £30,797,109) of inventories was recognised as an expense.

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

For the year ended 3 July 2021

**16. Trade and other receivables**

	2021 £'000	2020* £'000
Trade receivables	67,582	30,569
Prepayments	14,493	13,232
Accrued income	4,931	10,195
Central government debtors	59,779	33,760
	<u>146,785</u>	<u>87,756</u>

	2021 £'000	2020 £'000 (as previously reported)	£'000 (Restatements)**	2020 £'000	2019 £'000
Contract assets	40,652	35,703	(17,256)	18,447	39,604

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

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 £7.2m (2020: £2.3m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2021 £'000	2020 £'000
At 27 June 2020	2,306	479
Charge for the year	5,486	2,020
Utilised	(114)	(193)
Unused amounts reversed	(444)	-
At 3 July 2021	<u>7,234</u>	<u>2,306</u>

During the financial year £5,485,941 (2020: £1,433,054) was recognised in respect of impairment losses arising from contracts with customers.

\* Restated – see note 27

\*\* Included within amounts receivable from central government is VAT of £24.1m (2020: £25.5m and 2019: £18.3m). Contract assets are the sum of the accrued income and amounts receivable from central government shown net of VAT. The 2020 and 2019 contract asset balances contract asset balances shown in the table above have been restated as VAT balances were incorrectly included in contract assets in those years.

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

For the year ended 3 July 2021

**17. Trade and other payables**

	2021 £'000	2020 £'000
Amounts owed to group undertakings	2,254	330
Trade payables	33,552	49,813
Other taxation and social security	13,622	12,524
Other payables	28,674	23,290
Central government creditors	106,094	45,749
Deferred season ticket income	7,817	9,537
Accruals	175,821	128,925
Deferred income	59,033	31,662
	<u>426,867</u>	<u>301,830</u>

	2021 £'000	2020 £'000	2019 £'000
Contract liabilities	<u>55,797</u>	<u>47,034</u>	<u>204,362</u>

Contract liabilities at each balance sheet date are expected to be recognised as revenue within the next financial year. The balance as at 3 July 2021 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 £1,784,920 (2020: £1,186,000).

Central government creditors include a £81,019 profit share payable under the terms of the agreement with the DfT for the year ended 3 July 2021. For the year ended 27 June 2020 central government creditors includes £1,568,000 profit share under the terms of the agreement with the DfT.

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 year ended 3 July 2021

**18. Provisions**

	<i>Uninsured claims £'000</i>	<i>Franchise commitments £'000</i>	<i>Total £'000</i>
At 30 June 2019	2,461	54,368	56,829
Provided in year (after discounting)	1,433	7,571	9,004
Utilised in year	(731)	(2,393)	(3,124)
Released in year	(617)	(699)	(1,316)
Unwinding of discounting	30	405	435
At 27 June 2020	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
		<i>2021 £'000</i>	<i>2020 £'000</i>
Current		3,000	-
Non-current		66,250	61,828
		<u>69,250</u>	<u>61,828</u>

*Uninsured claims*

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

*Franchise commitments*

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

Estimation uncertainties arise with respect to dilapidation provisions, due to the complex nature of the assets. Estimated dilapidations can range significantly depending on the specific asset been considered. The range of outcomes are assessed on an asset by asset basis and the range can vary between a plus or minus 5%-25% dependant on procurement, production or maintenance efficiencies as well as potential economies of scale. Based on the individual assessments, the provision at the year end could fall between an estimated range of £51,216,000 and £85,476,000.

At the time of signing the financial statements, discussions with the rolling stock companies ("ROSCOS") remain ongoing as to the valuation of the dilapidation liabilities as required for transition into the new NRC contract at 1 April 2022. These valuations will then need to be agreed with the DfT by the end of April 2022 in order to reach final settlement of liabilities with the ROSCOS and the DfT. Initial estimates remain under discussion with ROSCOS and any future adjustments to the dilapidation liabilities that have been recognised at 3 July 2021 continues to remain uncertain.

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

**18. Provisions (*continued*)**

The resolution of this uncertainty could result in additional amounts being shown payable to or from the DfT or a release or charge to the income statement, following the final agreement with ROSCOS and agreement with the DfT, who are yet to evaluate the dilapidation positions. The DfT have been informed of ongoing discussions with the ROSCOS. Consequently, in the absence of advanced negotiations with ROSCOS and evidence from the DfT as to the likely outcome, the directors consider that the total liability recognised at 3 July 2021 represents their best estimate of the provision required to settle the franchise obligations as the estimate at 3 July 2021 is based on experience of similar transactions and reports from independent experts.

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

**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 £137,000 (2020: £161,000) were paid in the year.

The contributions made by the company in the year were £26,000,000 (2020: £23,500,000).

*Summary of year end assumptions:*

	2021	2020
	%	%
Rate of increase in salaries	3.4	3.1
Rate of increase in pensions in payment	2.7	2.1
Rate of increase in deferred pensions	2.7	2.1
Discount rate	1.9	1.6
Inflation assumptions:		
RPI	3.1	2.8
CPI	2.7	2.1

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

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

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.

	2021 Years	2020 Years
Pensioner	21	21
Non-pensioner	22	23

The mortality assumptions adopted as at 3 July 2021 are based on the initial results of the funding valuation as at 31 December 2019, which has not yet been completed and 27 June 2020 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 year end:*

	2021 Value £'000 %		2020 Value £'000 %	
Equities	1,517,500	99.2	1,265,200	98.3
Properties	5,000	0.3	12,700	1.0
Others	6,900	0.5	9,200	0.7
Total market value of assets	<u>1,529,400</u>		<u>1,287,100</u>	

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

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

	2021 £'000	2020 £'000
Employer's 60% share of pension scheme:		
Liabilities at the end of the year	(2,198,300)	(1,938,300)
Assets at fair value	1,529,400	1,287,100
Gross deficit	<u>(668,900)</u>	<u>(651,200)</u>
Franchise adjustment	668,900	651,200
Pension scheme liability	<u>—</u>	<u>—</u>

*Pension cost for the financial year:*

	2021 £'000	2020 £'000
Service cost	86,000	64,800
Franchise adjustment to current period costs	(64,800)	(43,600)
Administration costs	5,000	2,500
Interest cost on net liabilities	10,600	11,400
Interest on franchise adjustments	<u>(10,600)</u>	<u>(11,400)</u>
Pension cost	<u>26,200</u>	<u>23,700</u>

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

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

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

	2021 £'000	2020 £'000
Employer's 60% share of pension scheme liabilities at start of year	1,938,300	1,669,700
Franchise adjustment (100%)	(651,200)	(460,400)
	<u>1,287,100</u>	<u>1,209,300</u>
Liability movement for members' share of assets (40%)	112,700	44,600
Service cost (60%)	86,000	64,800
Franchise adjustment to current period costs	(64,800)	(43,600)
Interest cost (60%)	22,600	28,900
Interest on franchise adjustment (100%)	(10,600)	(11,400)
Re-measurement loss due to experience (60%)	54,800	(28,900)
Re-measurement gain/(loss) due to financial assumptions (60%)	77,900	193,400
Re-measurement gain due to demographic assumptions (60%)	(53,700)	—
Benefits paid (100%)	(40,300)	(34,200)
Franchise adjustment movement (100%)	57,700	(135,800)
	<u>1,529,400</u>	<u>1,287,100</u>
Franchise adjustment (100%)	668,900	651,200
	<u>2,198,300</u>	<u>1,938,300</u>

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

	2021 £'000	2020 £'000
Fair value of assets at start of year (100%)	1,287,100	1,209,300
Interest income of plan assets (60%)	12,000	17,500
Re-measurement gain on assets (60%)	136,700	28,700
Company contributions (100%)	26,000	23,500
Benefits paid (100%)	(40,300)	(34,200)
Administrative expenses incurred (100%)	(8,300)	(4,100)
Members share of movement of assets (40%)	116,200	46,400
	<u>1,529,400</u>	<u>1,287,100</u>

*Estimated contributions for future:*

Company contributions expected to be paid in financial year 2022 are considered to be the principal risk to which membership of the RPS exposes the Company.

	£'000
Estimated company contributions in financial year 2022	19,500
Estimated employee contributions in financial year 2022	12,900
Estimated total contributions in financial year 2022	<u>32,400</u>

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

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

*Franchise adjustment:*

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

	2021 £'000	2020 £'000
<b>Balance sheet</b>		
Defined benefit pension plan	(668,900)	(651,200)
Deferred tax asset	127,091	123,728
	<u>(541,809)</u>	<u>(527,472)</u>
<b>Other comprehensive income</b>		
Re-measurement gains	(57,700)	135,800
Tax on re-measurement gains	10,963	(25,802)
	<u>(46,737)</u>	<u>109,998</u>
<b>Income statement</b>		
Operating costs – franchise adjustment	(10,600)	(11,400)
Deferred tax charge	2,014	2,166
	<u>(8,586)</u>	<u>(9,234)</u>

Experience recognised in other comprehensive income:

	2021 £'000	2020 £'000
Loss on pension scheme liabilities	(79,000)	(164,500)
Experience gains on assets	136,700	28,700
Franchise adjustment movement	(57,700)	135,800
Total gain recognised in other comprehensive income during the year	<u>—</u>	<u>—</u>

*Risks associated with defined benefit plans:*

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

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**20. Commitments**

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

At 3 July 2021, 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 3 July 2021, 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 the risk and reward. 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 3 July 2021 and 27 June 2020 were as follows:

	2021 £'000	2020 £'000
Within one year	327,773	452,764
In the second to fifth years inclusive	–	103,539
Over five years	–	–
	<u>327,773</u>	<u>556,303</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 3 July 2021 and 27 June 2020 were as follows:

	2021 £'000	2020 £'000
Within one year	4,487	27,319
In the second to fifth years inclusive	–	5,914
Over five years	–	–
	<u>4,487</u>	<u>33,233</u>

***Performance bonds and other guarantees***

The Company has provided bank guaranteed performance bonds of £22,521,000 (2020: £22,521,000), season ticket bonds of £51,857,791 (2020: £90,395,190) and loan guarantee bond of £36,250,000 (2020: £36,250,000) to the DfT in support of the Company's rail franchise operations.

In addition, the Go-Ahead Group plc, together with Keolis, has a joint parental company commitment to provide funds of £136,000,000 (2020: £136,000,000) to the DfT in respect of the Company. At the year-end £nil (2020: £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 3 July 2021, amounts contracted for but not provided in the financial statements for plant and equipment amounted to £nil (2020: £nil).

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**21. Related party transactions**

	<i>The Go-Ahead Group plc &amp; Subsidiary Companies</i>	
	<i>2021</i>	<i>2020</i>
	<i>£'000</i>	<i>£'000</i>
Purchases from related party	46,184	55,157
Sales to related party	26,003	23,443
Interest payable to related party	–	8
Amounts owed to related party	2,254	330

The Go-Ahead Group plc 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. Part of the amounts owed to related parties includes a loan amount of £nil (2020: £nil) from Govia Limited.

	<i>2021</i>	<i>2020</i>
	<i>£'000</i>	<i>£'000</i>
<b>Purchases from related party</b>		
Brighton & Hove	(606)	(1,253)
Go South Coast (Hants & Dorset Trim)	(3)	(112)
London General	(15,723)	(20,565)
London Midland	–	(11)
LSER	(10,727)	(12,878)
On Track Retail	(1,139)	(1,886)
The Go-Ahead Group	(17,986)	(18,452)
	<u>(46,184)</u>	<u>(55,157)</u>

	<i>2021</i>	<i>2020</i>
	<i>£'000</i>	<i>£'000</i>
<b>Sales to related party</b>		
Brighton & Hove	47	41
Go-Ahead Australia	102	–
Go-Ahead Retail Services	117	–
London Midland	9	54
LSER	25,259	22,783
The Go-Ahead Group	469	565
	<u>26,003</u>	<u>23,443</u>

	<i>2021</i>	<i>2020</i>
	<i>£'000</i>	<i>£'000</i>
<b>Amounts owed to related party</b>		
Brighton & Hove	64	25
London General	1,167	74
Go-Ahead Australia	(8)	–
Go-Ahead Retail Services	(10)	–
Govia	(28)	(46)
London Midland	1	–
LSER	(969)	(346)
On Track Retail	234	326
The Go-Ahead Group	1,803	297
	<u>2,254</u>	<u>330</u>

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

For the year ended 3 July 2021

**22. Called up share capital**

		<i>Allotted, called up and fully paid</i>	
		<i>2021</i>	<i>2020</i>
	<i>No.</i>	<i>£'000</i>	<i>No.</i>
		<i>£'000</i>	<i>£'000</i>
Ordinary shares of £1 each	5,000,000	<u>5,000</u>	<u>5,000,000</u>
			<u>5,000</u>

There are no rights attached to the share capital.

**23. Share based payments****Share Incentive Plan**

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

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

**Sharesave Scheme**

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

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

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

There are no savings-related options at 3 July 2021.

The expense recognised for the scheme during the year to 3 July 2021 was £nil (2020: £nil).

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

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

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

	2021 No.	2021 WAEP £	2020 No.	2020 WAEP £
Outstanding at the beginning of the year	—	—	40,109	19.11
Forfeited during the year	—	—	(31,349)	19.11
Exercised during the year	—	—	(8,760)	19.11
Outstanding at the end of the year	—	—	—	—

The options outstanding at the end of the year have a weighted average remaining contracted life of nil years (2020: nil years). These options are exercisable at a weighted average exercise price of £nil (2020: £nil). This represents an exercise price of £nil (2020: £nil).

**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 year to 3 July 2021 was £187,000 (2020: £111,000).

The weighted average fair value of options granted during the year was £8.32 (2020: £21.12).

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

	2021 No.	2020 No.
Outstanding at the beginning of the year	24,681	19,484
Granted during the year	38,260	10,653
Forfeited during the year	—	(370)
Exercised during the year	(5,658)	(5,086)
Outstanding at the end of the year	57,283	24,681

The weighted average exercise price of options exercised during the year was £7.33 (2020: £21.41).

At the year-end, 4,082 options related to DSBP awards which vested before the year end, but which have not yet been exercised by participants. Of these 294 options related to the award granted in November 2016. 3,788 options, relating to the DSBP award granted in November 2017, will be eligible to vest from November 2020 following the end of a three-year deferral period. The year-end weighted average share price of the options was £11.40 (2020: £9.06).

The weighted average remaining contractual life of the options was 1.99 years (2020: 1.04 years).

Govia Thameslink Railway Limited  
**Notes to the financial statements (*continued*)**  
For the year ended 3 July 2021

**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. As part of this agreement all cash and cash equivalents are restricted. An additional restriction exists for year ended 2 July 2022 in that no distribution can be made during the year without DfT providing formal confirmation.

Included within cash at bank is an amount of £379,602,000 (2020: £275,522,000) held, which cannot be distributed by means of a dividend.

**25. Ultimate parent company**

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

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

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

**26. Contingent Liabilities**

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

On 10 June 2021 a 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 plc and Keolis (UK) Limited (together, the Proposed Defendants). The proposed collective proceedings would combine claims against the Proposed 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.

Proceedings are at an early stage (and at an earlier stage than the collective proceedings against LSER in respect of Boundary Zone Fares, see above). Before the claim can proceed to a full trial the CPA must be heard to decide whether this is a claim that meets the legislative criteria for this type of claim. That hearing has been listed for July 2022.

At the initial Case Management Conference held in December 2021 it was determined that GTR's response to the CPA and any accompanying witness evidence be filed in February 2022. The CPA is not expected to be heard before April 2022. Should the CPA be granted the DfT has permission to intervene.

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 legal costs) 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.

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**26. Contingent Liabilities (continued)**

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

On 24 November 2021 a Collective Proceedings Application 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 plc and Keolis (UK) Limited. The claim alleges, similarly to the allegations made against LSER in relation to Boundary Zone Fares, that the company 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 15th December 2021 the CAT stayed proceedings pending the determination of any appeals in the Boundary Zone Fare proceedings against LSER. Following this stay, and before the claim can proceed to a full trial, the Collective Proceedings Application must be heard to decide whether this is a claim that meets the legislative criteria for this type of claim to proceed to a full trial. That hearing has not yet been scheduled. 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).

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 GTR.

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.

**27. Prior year restatements (IAS 32 Balance sheet Classification)**

During the year, it was identified that some items had been presented as net within the balance sheet and associated notes rather than presenting as gross receivables and payables in accordance with IAS 32. As a result, the 2020 balance sheets have been restated. These items relate to the presentation of balances with the DfT and Network Rail. The impact of these reclassifications is to increase both current trade and other receivables and current trade and other payables by £22.0m in the 2020 balance sheet.

The classification has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Balance sheet (extract)	22 June 2020 £'000	Increase / (decrease) £'000	22 June 2020 £'000 (Restated)
<b>Current Assets</b>			
Trade and other receivables	65,816	21,940	87,756
<b>Total Assets</b>	<b>769,967</b>	<b>21,940</b>	<b>791,907</b>
<b>Current Liabilities</b>			
Trade and other payables	(279,890)	(21,940)	(301,830)
<b>Total Liabilities</b>	<b>(740,945)</b>	<b>(21,940)</b>	<b>(762,885)</b>

Govia Thameslink Railway Limited  
**Notes to the financial statements (continued)**  
For the year ended 3 July 2021

**28. 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.

	2021	2020
	£'000	£'000
Cash at bank and in hand	230,682	62,920
Cash equivalents	148,920	212,602
	<hr/>	<hr/>
Cash and cash equivalents	379,602	275,522
	<hr/>	<hr/>

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 Agreements (EMAs) and then the Emergency Recovery Measures Agreements (ERMAs) 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 Emergency Recovery Measures Agreement (ERMA). As at year end, under the terms of the ERMA, all of the Company's cash continues to be restricted.

**29. Post balance sheet events**

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, Southern and Great Northern rail services, the UK's largest railway network.

The new contract commences 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 NRC, like the Emergency Recovery Measures Agreement (ERMA) contract it will replace, is a management contract which has limited exposure to changes in passenger demand. There is cost risk to GTR, but this risk is managed through the Company's internal processes and controls.

GTR will earn a fixed management fee of £8.8m per annum (equivalent to a margin of 0.5% of GTR's cost base) to deliver the contract, with an additional performance fee of up to £22.9m per annum (equivalent to an additional 1.35% margin). Subject to the achievement of performance targets set by the DfT, the maximum fee receivable by GTR would therefore be £31.7m per annum (equivalent to a margin of around 1.85%). All figures are on a pre-IFRS 16 basis. The contract also allows for individual project fees to be earned by GTR on the delivery of additional initiatives as directed by the DfT.

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 recent 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.