

Registered No: 03949597

Go South Coast Limited

Annual Report and Financial Statements

Year ended 30 June 2018



Directors

David Brown
Steven Hamilton
Andrew Wickham
Ben Murray
Simon Patrick Butcher
David Lee-Kong

Company secretary

Carolyn Ferguson

Auditor

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

Bankers

Royal Bank of Scotland Plc
135 Bishopsgate
London
EC2M 3UR

Solicitors

Womble Bond Dickinson LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Registered office

3rd Floor
41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE

Strategic report

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

Go South Coast Limited (the "Company") is a wholly owned subsidiary of The Go-Ahead Group plc (the "Group").

Business Review

The principal activities of the Company are provision of the following services:

- commercial local bus services throughout Dorset, Wiltshire and South West Hampshire, including the Isle of Wight
- tendered bus services to local authorities, including school transport
- contracted bus and coach services to large organisations, including universities and supermarkets
- repair and refurbishment of public service vehicles, including re-paints and seat re-trimming
- private hire

The profit for the year after taxation amounted to £8,029,000 (2017: £9,853,000).

The Company continues to develop and evolve achieving growth through providing reliable, comfortable and friendly bus services that give customers good value for money.

Key Performance Indicators

The key performance indicators during the year were as follows:

	2018 £000	2017 £000	Change %
Revenue	101,874	98,790	3.1
Operating profit	10,225	11,761	(13.1)
Profit after tax	8,029	9,853	
Investment in Vehicles and Equipment	16,577	24,284	(31.7)
Operating Profit Margin	10%	11.9%	(1.9)

	2018 No.	2017 No.	Change %
Total Passenger Journeys	56,038,566	52,408,912	6.9
Average number of employees	1,805	1,835	(1.6)

During the year, the Company continued to expand its services and deliver operating improvements:

- Investment in 79 new buses including the purchase of 41 vehicles for M1/M2 services in Poole and Bournemouth,
- Service expansion in Bournemouth and Southampton.
- Introduction of contactless ticketing across all of our commercial services which allows customers to use contactless enabled debit and credit cards to purchase travel products on the bus. This both saves time and adds convenience to our customer experience.
- Introduction of a bus app in Swindon and on the Isle of Wight to allow customers to conveniently purchase digital tickets.
- Completed fitment of improved ticketing equipment which provides greater ticketing functionality.
- Successful retention of the Southampton Unilink contract for a further ten years.

Strategic report (continued)

Future developments

The Company plans to achieve future customer growth in existing markets by offering enhanced products and services including: the development of contactless ticketing, mobile ticketing apps, next stop video and audio announcement, and improved reliability through investment in the real time information systems.

Brexit has had an immediate impact on our business with a general trend of EU nationals in the Company's employ moving back to the EU. Recruitment has also become more difficult as there have been a marked decrease in the number of applicants from other EU countries. There has also been significant pressure on parts and materials as many suppliers manufacture in Europe and the weakened pound has generated price inflation.

The networks across the Company's operating area continue to evolve. Customer growth will allow for the expansion of services with new routes and increased frequencies planned during the next financial year. We continue to work in partnership with local authorities to tackle congestion, air pollution, and deliver reliability improvements for services which will benefit customers and reduce travelling times.

The Company's recently developed customer promise training course will be completed by all customer-facing colleagues over the next few years, aimed at improving customer service and customer satisfaction. The course also will enable colleagues to give the best possible service to our more vulnerable customers, such as older and disabled people.

The Company will continue to compete for local authority and other contracts.

The Company continues to assess acquisition opportunities on a regular basis.

Risk management objectives and policies

The Company has procedures in place to assess, prioritise, monitor and mitigate business risks. The principal business risks monitored in this way include the economic, environmental, political and financial instrument risks.

➤ *Economic risks*

Although passenger income continues to achieve growth, the Company remains heavily dependent on macro-economic trends in the Hampshire, Dorset, Isle of Wight and Wiltshire areas where the Company's customers are largely focused.

➤ *Environmental risks*

Mitigating the Environmental impact remains high on the Company agenda. Substantial investments in fleet are planned in future years which will improve the efficiency of the fleet. Further investment is planned to improve the efficiency of the current fleet through the installation of exhaust solutions to allow a larger percentage of our fleet to achieve emissions consistent with the latest Euro 6 engines.

➤ *Political risk*

The Bus Services Act became law in April 2017. The act gives local authorities the ability to form stronger partnerships with bus operators. We intend to utilise these powers, especially to tackle congestion and air quality issues. The act also gives combined authorities with a directly elected mayor powers to impose 'franchising' of bus services. None of the local authorities in our area form part of a combined authority. Although individual councils may apply to the Secretary of State to make a franchising scheme, we believe such arrangements would not be in the public interest. We work very closely with our public sector partners to help them achieve their policies and objectives, such as improving air quality and promoting economic growth, which makes a desire to change the current regulatory structure unlikely.

The Company receives reimbursement from a number of Travel Concessionary Authorities (TCA) in relation to concessionary journeys undertaken as a result of the Government's English National Concessionary Travel Scheme. The level of reimbursement is set by the TCA and can be varied each year. There is an appeal process in place which can be used to challenge the reimbursement, if necessary.

Strategic report (continued)

Risk management objectives and policies (continued)

The Company continues to engage fully with the Trade Unions, through consultation bodies on pay deals and working conditions. It also frequently communicates with all colleagues, through staff briefings, pizza nights and via written and electronic media.

➤ *Financial instrument risk*

The Company's principal financial instruments comprise cash and intercompany loans. Other financial assets and liabilities, such as trade creditors and trading balances with the Go-Ahead Group plc group of companies, arise directly from the Company's operating activities. The main risks associated with the Company's financial assets and liabilities are set out below. Given that the majority of the risks below derive from transactions with other Group companies, the Company does not undertake any hedging activity locally. Significant financial risks from a Group perspective are addressed on a case-by-case basis at Group level.

Commodity price risk is mitigated through the use of floating rate interest arrangements to prevent significant changes in the carrying value of financial liabilities. The Company is exposed to commodity price risk as a result of fuel usage. The Group closely monitors fuel prices and uses fuel derivatives to hedge its exposure to increases in fuel prices, when it deems this to be appropriate.

Credit risk is the risk that one party will cause a financial loss for the other party. The majority of Company debtors are with other Group companies and the Company does not consider these parties to be a significant credit risk. The majority of third party Company debtors are with public bodies. These parties are not considered to represent a significant credit risk.

Interest rate risk is mitigated by the ultimate parent company sweeping all surplus cash and investing the majority of this surplus cash in fixed rate interest yielding bank deposit accounts. Interest is charged at a variable rate on loans with Group companies 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 its operations in line with Group policies. A cash sweeping facility exists with the ultimate parent company and therefore further information regarding the liquidity risk can be found in the Group financial statements. Capital expenditure is approved at Group level.

The strategic report was approved by the Board of directors on 2 November 2018 and signed on their behalf by



S P Butcher

Directors' report

The directors present their annual report together with the financial statements and auditor's report for the year ended 30 June 2018.

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

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

Directors of the Company

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

David Brown
Steven Hamilton
Andrew Wickham
Edward Wills (resigned 17 February 2018)
Ben Murray
Simon Patrick Butcher
David Lee-Kong (appointed 1 May 2018)

Messrs Brown and Butcher were directors of the ultimate parent company, The Go-Ahead Group plc, during the year.

Dividends

Total ordinary dividends paid and proposed in the year were £12,000,000 (2017: £16,000,000). The directors do not recommend a final ordinary dividend for the year.

Financial instruments

The Company finances its activities with cash and short term deposits, overdrafts are not used, along with intercompany loans. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

Financial instruments give rise to interest rate, credit, price and liquidity risk. Information on how these risks arise is set out in the Strategic Report, as are details on how management approach each risk.

Management and employees

The Company is committed to involve all employees in its performance and development. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting day-to-day operations of the Company. Discussions take place regularly with trade unions representing the employees on a wide range of issues.

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

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

Directors' report (continued)

The Company communicates with its employees both formally and informally on a variety of issues affecting them and the business, including:

- Regular colleague magazines with information relating to developments within the Company.
- Colleague forums held at each depot locations throughout the year.
- Negotiating committees which are held regularly with recognised trade union officials, so that views of the employees can be taken into consideration.

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its 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 secretary) may incur to third parties in the course of acting as directors (or secretary) or employees of the Company or of any associated company.

Research and development

The Company does not have any activities in research and development.

Events after the balance sheet date

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

Going Concern

The directors have considered the Company's current and future prospects, risks and uncertainties set out in the risk management objectives and policies, and its availability of financing, and are satisfied that the Company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For this reason, the directors continue to adopt the going concern basis of preparation for these financial statements. We have obtained confirmation from The Go Ahead Group plc that they will continue to provide the financial support for a period of at least 12 months from the date of approval of the balance sheet.

Auditor

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

Directors' statement as to disclosure of information to auditors

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 auditors, 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 auditors in connection with preparing their report) of which the Company's auditors are 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 section 418 of the Companies Act 2006.

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

By order of the Board



S P Butcher
Director
2 November 2018

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 FRS101 "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 Go South Coast Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Go South Coast Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity
- the balance sheet; and
- the related notes 1 to 27.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

to the members of Go South Coast Limited

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

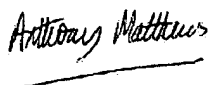
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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



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

2 November 2018

Income statement

for the year ended 30 June 2018

	Notes	2018 £000	2017 £000
Revenue	3	101,874	98,790
Operating costs	4	(91,649)	(87,029)
Operating profit	5	10,225	11,761
Interest receivable and similar income	8	8	6
Interest payable and similar charges	9	(173)	(106)
Profit before taxation		10,060	11,661
Tax on profit	10	(2,031)	(1,808)
Profit for the year from continuing operations		8,029	9,853

Statement of comprehensive income

for the year ended 30 June 2018

	2018 £000	2017 £000
Profit for the year from continuing operations	8,029	9,853
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Unrealised gains/(losses) on cashflow hedges	3,077	(276)
(Gains)/losses on cashflow hedges taken to income statement	(226)	673
Tax relating to items that may be reclassified (note 9)	(525)	(91)
Other comprehensive income for the year, net of tax	2,326	306
Total comprehensive income for the year	10,355	10,159

Statement of changes in equity

for the year ended 30 June 2018

	Note	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 2 July 2016		1,977	(1,154)	10,871	11,694
Profit for the year		-	-	9,853	9,853
Net movement on hedges, net of tax		-	306	-	306
Profit and total comprehensive income		-	306	9,853	10,159
Share-based payment charge	6	-	-	83	83
Dividends paid	11	-	-	(16,000)	(16,000)
At 1 July 2017		1,977	(848)	4,807	5,936
Profit for the year		-	-	8,029	8,029
Net movement on hedges, net of tax		-	2,326	-	2,326
Profit and total comprehensive income		-	2,326	8,029	10,355
Share-based payment charge	6	-	-	61	61
Exercise of share options		-	-	(74)	(74)
Dividends paid	11	-	-	(12,000)	(12,000)
At 30 June 2018		1,977	1,478	823	4,278

Balance sheet
 at 30 June 2018

Registered No: 03949597

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Intangible assets	12	51,138	50,942
Tangible fixed assets	13	72,845	65,930
Investments	14	-	-
Debtors: amounts due after one year	16	810	-
Deferred tax assets	10	-	198
		124,793	117,070
Current assets			
Stocks	15	1,437	1,682
Debtors: amounts due within one year	16	11,666	12,847
Cash at bank		719	2,183
		13,822	16,712
Total assets		138,615	133,782
Liabilities			
Current liabilities			
Creditors: amounts falling due within one year	17	(122,428)	(115,202)
Current tax liabilities	10	(1,849)	(2,351)
		(124,277)	(117,553)
Net current liabilities		(110,455)	(100,841)
Total assets less current liabilities		14,338	16,229
Non-current liabilities			
Creditors: amounts falling due after more than one year	18	(2,015)	(3,013)
Deferred tax liabilities	10	(5,502)	(4,993)
Provisions	20	(2,543)	(2,287)
		(10,060)	(10,293)
Total liabilities		(134,337)	(127,846)
Net assets		4,278	5,936
Capital and reserves			
Share capital	23	1,977	1,977
Hedging reserve	23	1,478	(848)
Retained earnings		823	4,807
Total equity		4,278	5,936

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



S P Butcher
Director

2 November 2018

Notes to the financial statements

for the year ended 30 June 2018

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

The financial statements of Go South Coast Limited (the "Company") for the year ended 30 June 2018 were authorised for issue by the board of directors on 2 November 2018 and the balance sheet was signed on the board's behalf by S P Butcher. The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

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

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with 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 Company has taken advantage of the exemption provided under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of The Go-Ahead Group plc and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 30 June 2018.

The financial statements have been prepared on a historical cost convention, as modified by the fair value of financial instruments. The presentation and functional currency used is sterling and amounts have been presented in round thousands ("£'000").

The Company has taken advantage of the exemption to prepare Group financial statements on the basis that it is a wholly owned subsidiary undertaking of The Go-Ahead Group plc and is included, together with subsidiary undertakings in the Group financial statements of that Company. These financial statements present information about the Company as an individual undertaking and not about its Group.

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

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - a) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - b) paragraph 118(e) of IAS 38 Intangible Assets;
- 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 requirement of paragraph 17 of IAS 24 Related Party Transactions;
- 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 party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payments;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j)-(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66, B67 of IFRS 3 Business Combinations; and
- the requirements of paragraphs 134 (d)-(f) and 135(c)-(e) of IAS 36 Impairment of Assets.

Notes to the financial statements

for the year ended 30 June 2018

2.1 Basis of preparation (continued)

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

Adoption of new and revised standards

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

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

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

New standards and interpretations not applied

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

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

2.2 Critical accounting 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 ongoing 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 (as detailed below), 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:

- **Uninsured liabilities**
The measurement of uninsured liabilities is based on an assessment provided by external advisors of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Group, as detailed in note 20.

Notes to the financial statements

for the year ended 30 June 2018

2.3 Significant accounting policies

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:

- **Impairment review**

Management review for impairment if events or changes in circumstances indicate that carrying values may not be recoverable, as set out in note 12. In addition the measurement and impairment review of indefinite life intangible assets requires estimation of the net present value of future cashflows including:

- Growth in profitability and EBITDA adjusted for risk factors appropriate to each business
- Future growth rates
- Timing of future cash outflows such as capital items required
- The selection of a suitable discount rate adjusted for risk factors appropriate to the Group.

- **Dilapidation provisions**

The measurement of dilapidation provisions on leased offices and bus depots, is based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors, as set out in note 20.

Going Concern concept

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due.

The Company has net assets of £4,278,000 (2017: £5,936,000) and net current liabilities of £110,455,000 (2017: £100,841,000) including amounts owed to other Group undertakings of £113,477,000 (2017: £104,099,000). The Company is dependent on continuing financial support from its ultimate parent undertaking.

The directors have received confirmation from the Company's ultimate parent undertaking that the necessary financial support will continue to be available to the Company for the foreseeable future and, in particular, for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the directors of the Company believe that it is appropriate to prepare the financial statements on a going concern basis.

Revenue

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

Revenue comprises revenue from bus and coach transport and engineering services in the United Kingdom. Bus revenue principally comprises amounts receivable from ticket sales, concessionary fare schemes and amounts receivable from contracts with local authorities and others recognised as the services are provided. Concessionary amounts are recognised in the period in which the service is provided based on a predetermined formula agreed with the client and the relevant local authority.

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.

Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Leasehold property	-	Life of lease
Plant and equipment	-	3 to 10 years
Rolling stock	-	8 to 15 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements

for the year ended 30 June 2018

2.3 Significant accounting policies (continued)

Inventories

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

Taxation

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

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

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

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

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term.

Provisions

Provisions are recognised when the Company has a present legal 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 cashflows 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.

Insurance

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. An amount is recognised within Provisions for liabilities for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss.

The estimation of this liability is made after taking appropriate professional advice and is based on an assessment of the expected settlement of 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.

Notes to the financial statements

for the year ended 30 June 2018

2.3 Significant accounting policies (continued)

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 assets

Intangible assets are capitalised at cost and amortised on a straight line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate from the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion, are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash-generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Customer contracts

Customer contracts relate to the value attributed to contracts and relationships purchased as part of the Company's acquisitions. The value is based on the unexpired term of the contracts at the date of acquisition. Customer contracts have a residual value of £nil and are amortised on a straight line basis over the unexpired term. The amortisation expense is taken to the income statement as operating costs.

Software

Software, 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 to five years.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount, being the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, and the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the financial statements

for the year ended 30 June 2018

2.3 Significant accounting policies (continued)

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.

Impairment losses (including goodwill impairment) of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Goodwill impairment losses are not reversed. The reinstated amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, on a systematic basis less any residual value, over its remaining useful life.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets and derivatives

The Company uses derivatives to hedge its risks associated with fuel price fluctuations, and interest derivatives to hedge its risks associated with interest rate fluctuations. Such derivatives are initially recognised at fair value by reference to market values for similar instruments, and subsequently re-measured at fair value at each balance sheet date.

Changes in the fair value of financial instruments that are designated and effective as hedges of future cashflows are recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. When the cashflow hedge results in the recognition of a non-financial asset or a liability, then at the time that asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of that non-financial asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the period in which the hedged item affects net profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement as they arise.

Hedge accounting is discontinued when the derivative expires or is sold, terminated or exercised without replacement or rollover, or otherwise no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs, at which point it is taken to the income statement or included in the initial carrying amount of the related non-financial asset as described above. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement.

Loans and receivables

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

Pensions

The Company is a member of The Go-Ahead Group Pension Scheme operated by The Go-Ahead Group plc for the majority of its employees. The scheme is split into two sections, a defined benefit and a defined contributions section. The defined benefit section is closed to future accrual and therefore no contributions are paid by the Company. The assets and liabilities for the defined benefit section are all held by The Go-Ahead Group plc.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Notes to the financial statements

for the year ended 30 June 2018

2.3 Significant accounting policies (continued)

Investments

Investments in subsidiary companies are held at cost.

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 Go-Ahead Group plc or the employee are not met.

No cost is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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

for the year ended 30 June 2018

3. Revenue

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

	2018 £000	2017 £000
Regional bus services outside of London	101,874	98,790

An analysis of revenue by geographical market is given below:

	2018 £000	2017 £000
United Kingdom	101,874	98,790

4. Operating costs

	2018 £000	2017 £000
Materials and external charges	28,699	29,833
Staff costs (note 6)	54,094	49,145
Depreciation and amortisation of fixed assets	8,856	8,051
	91,649	87,029

Notes to the financial statements

for the year ended 30 June 2018

5. Operating profit

This is stated after charging/(crediting):

	2018 £000	2017 £000
Auditor's remuneration - audit fee for the audit of the financial statements	55	52
	55	52
Depreciation of owned fixed assets	8,191	7,609
Depreciation of assets held under finance lease and hire purchase contracts	509	320
	8,700	7,929
Amortisation of software	16	15
Amortisation of customer contracts and leasehold benefit	140	107
Profit on disposal of tangible assets	(256)	(103)
Release of government grants - acquisition of assets	(268)	(142)
Operating leases costs - property	956	1,033

6. Staff costs

	2018 £000	2017 £000
Wages and salaries	48,316	43,889
Social security costs	4,315	3,973
Other pension costs – defined contribution	1,402	1,200
Share based payment charge	61	83
	54,094	49,145

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

	2018 No.	2017 No.
Administration and supervision	27	22
Maintenance and engineering	391	324
Operations	1,387	1,489
	1,805	1,835

Notes to the financial statements

for the year ended 30 June 2018

7. Directors' emoluments

	2018 £000	2017 £000
Aggregate emoluments in respect of qualifying services	582	590
Aggregate Company contributions paid in respect of money purchase schemes	57	40
	2018 No.	2017 No.
Number of directors accruing benefits under defined benefit schemes	-	-
Number of directors accruing benefits under money purchase schemes	4	4

Two of the directors exercised share options in the ultimate parent company (note 28) during the year (2017: 3)

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

	2018 £000	2017 £000
Emoluments	212	206
Contributions paid to defined contribution pension schemes	20	16

During the year, the highest paid director exercised 1,583 (2017: 782) share options in the ultimate parent company and 1,306 (2017: 1,101) shares were granted in respect of a deferred share bonus plan (note 24).

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 27.

8. Interest receivable and similar income

	2018 £000	2017 £000
Interest receivable	8	6

9. Interest payable and similar charges

	2018 £000	2017 £000
Finance charges payable under hire purchase contracts	167	93
Unwinding of discounting on provisions	6	13
Interest payable and similar charges	173	106

Notes to the financial statements

for the year ended 30 June 2018

10. Taxation

(a) Tax recognised in the income statement

The tax charge is made up as follows:

	2018 £000	2017 £000
<i>Current tax:</i>		
UK corporation tax	1,849	2,351
Total current tax	1,849	2,351
<i>Deferred tax:</i>		
Origination and reversal of timing differences	65	(2)
Adjustments in respect of deferred tax of previous years	117	-
Effect of rate change on opening deferred tax balance	-	(541)
Total deferred tax (note 10(e))	182	(543)
Tax reported in the income statement (note 10(c))	2,031	1,808

(b) Income tax recognised in other comprehensive income

	2018 £000	2017 £000
Tax relating to items that may be reclassified	525	91
Total tax recognised in comprehensive income	525	91

(c) Reconciliation

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% (2017: 19.75%)

The differences are reconciled below:

	2018 £000	2017 £000
Profit before tax	10,060	11,661
At United Kingdom tax rate of 19% (2017: 19.75%)	1,912	2,303
Expenses not deductible for tax purposes	-	23
Share scheme costs not allowable for tax purposes	4	16
Non qualifying depreciation	6	6
Difference between deferred and corporation tax rates	(8)	1
Adjustment in respect of deferred tax of previous periods	117	-
Effect of rate change on opening deferred tax balance	-	(541)
Tax reported in the income statement (note 10(a))	2,031	1,808

(d) Current tax liabilities

	2018 £000	2017 £000
Current tax liability at start of year	2,351	2,165
Corporation tax reported in income statement	1,849	2,351
Paid in the year	(2,351)	(2,165)
Current tax liability at end of year	1,849	2,351

Notes to the financial statements

for the year ended 30 June 2018

10. Taxation (continued)

(e) Deferred tax assets and liabilities

The deferred tax included in the balance sheet is as follows:

Deferred tax liability		
	2018 £000	2017 £000
Accelerated capital allowances	5,022	4,840
Short term timing differences	153	153
On cashflow hedges	327	-
Provision for deferred taxation	5,502	4,993
Deferred tax asset		
	2018 £000	2017 £000
On cashflow hedges	-	198
Deferred tax asset	-	198

The movement in deferred tax in the income statement and in equity are as follows:

	2 July 2016 £000	Recognised in income £000	Recognised in equity £000	Acquisitions £000	1 July 2017 £000
Accelerated capital allowances	(5,333)	544		(51)	(4,840)
Short term timing differences	1	(1)		(153)	(153)
On cashflow hedges	288		(90)	-	198
	(5,044)	543	(90)	(204)	(4,795)

	1 July 2017 £000	Recognised in income £000	Recognised in equity £000	30 June 2018 £000
Accelerated capital allowances	(4,840)	(182)	-	(5,022)
Short term timing differences	(153)	-	-	(153)
On cashflow hedges	198	-	(525)	(327)
	(4,795)	(182)	(525)	(5,502)

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

(f) Factors affecting future tax charges

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

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

11. Dividends

	2018 £000	2017 £000
Paid during the year:		
Equity dividends on ordinary shares		
Final dividend for 2018: 60.7p per share (2017: 80.9p per share)	12,000	16,000

There were no dividends proposed as at 30 June 2018.

Notes to the financial statements

for the year ended 30 June 2018

12. Intangible assets

	Goodwill £000	Software £000	Customer contracts £000	Total £000
Cost:				
At 1 July 2017	49,575	579	1,464	51,618
Acquisitions	312	40	-	352
At 30 June 2018	49,887	619	1,464	51,970
Amortisation:				
At 1 July 2017	-	535	141	676
Charge for the year	-	16	140	156
At 30 June 2018	-	551	281	832
Net book value:				
At 30 June 2018	49,887	67	1,183	51,138
At 1 July 2017	49,575	44	1,323	50,942

Amortisation is included within operating costs in the income statement.

Goodwill

Goodwill has been allocated to individual cash-generating units for impairment testing on the basis of the Company's business operations. The carrying value of goodwill is tested annually for impairment by cash-generating unit.

The recoverable amount of goodwill has been determined based on a value in use calculation, using cashflow projections based on financial budgets and forecasts approved by senior management covering a three year period which have then been accepted over an appropriate period. The directors feel that the extended period is justified because of the long term stability of the relevant income streams. Growth has been extrapolated forward from the end of the three year forecasts a total period of ten years plus a terminal value using a growth rate of 2% which reflects the directors' view of long term growth rates in the business, and the long term recurrent nature of the business.

The Group's weighted average cost of capital has been initially calculated as 5.2% (2017: 4.6%). Given the current low weighted average cost of capital the calculation of value in use has been initially derived based on the internal rate of return that the Group uses to appraise investments, currently 8.0%

The calculation of value in use is most sensitive to the forecast operating cashflows, the discount rate and the growth rate used to extrapolate cashflows beyond the budget period. These assumptions are influenced by several internal and external factors. The directors consider the assumptions used to be consistent with the historical performance and to be realistically achievable in light of economic and industry measures and forecasts.

The Company has conducted sensitivity analysis on the impairment tests. A 0.5% increase in weighted average cost of capital or revenue growth falling by 1.0% are considered the most likely sensitivities that could impact the recoverable amount. These sensitivities would not cause the carrying value to exceed the recoverable amount.

No amortisation is provided where the directors are of the opinion that to do so would not show a true and fair view of the profit for the year of the financial position of the Company at the end of the year. This overrides the requirement of the Companies Act 2006 to amortise goodwill but is in compliance with IFRS 3.

Customer contracts

The customer contracts relate to the value of contracts arising on the acquisition of Excelsior Coaches Limited and Excelsior Transport Limited. The intangible assets are being amortised over the life of the leasehold (11 years).

Software

Software is being amortised over its expected useful life of three to five years.

Details on capital commitments are disclosed in note 25.

Notes to the financial statements

for the year ended 30 June 2018

13. Tangible fixed assets

	Long Leasehold Property £000	Plant & Equipment £000	Rolling Stock £000	Total £000
Cost:				
At 1 July 2017	437	7,807	108,490	116,734
Additions	47	1,933	14,595	16,575
Acquisitions	-	-	-	-
Transfer from Group undertakings	-	86	-	86
Disposals	-	(1,487)	(13,152)	(14,639)
At 30 June 2018	484	8,339	109,933	118,756
Depreciation:				
At 1 July 2017	297	5,085	45,422	50,804
Provided during the year	37	793	7,870	8,700
Transfer from Group undertakings	-	80	-	80
Disposals	-	(1,199)	(12,474)	(13,673)
At 30 June 2018	334	4,759	40,818	45,911
Net book value:				
At 30 June 2018	150	3,580	69,115	72,845
At 1 July 2017	140	2,722	63,068	65,930

The net book value of rolling stock assets above includes an amount of £2,754,000 (2017: £3,555,000) in respect of assets held under finance lease and hire purchase contracts.

Details on capital commitments are disclosed in note 25.

14. Investments

The Company owns 100% of the issued share capital of the companies listed below:

Company	Shares held	Shareholding	Principal Activity
The Southern Vectis Omnibus Company Limited	Ordinary	100%	Dormant *
Solent Blue Line Limited	Ordinary	100%	Dormant *
Marchwood Motorways (Southampton) Limited	Ordinary	100%	Dormant
Marchwood Motorways (Services) Limited	Ordinary	100%	Dormant
Wilts & Dorset Investments Limited	Ordinary	100%	Dormant *
Wilts & Dorset (Holdings) Limited	Ordinary	100%	Dormant
Wilts & Dorset Bus Company Limited	Ordinary	100%	Dormant *
Hants & Dorset Trim Limited	Ordinary	100%	Dormant *
Tourist Coaches Limited	Ordinary	100%	Dormant *
Hants & Dorset Motor Services Limited	Ordinary	100%	Dormant *
Southern Vectis Commercials Limited	Ordinary	100%	Dormant *
Southern Vectis Coaches Limited	Ordinary	100%	Dormant *
Excelsior Coaches Limited	Ordinary	100%	Dormant *
Excelsior Transport Limited	Ordinary	100%	Dormant *
Excelsior Travel Limited	Ordinary	100%	Dormant *
Thamesdown transport Limited	Ordinary	100%	Dormant *

* Held directly by Go South Coast Limited.

All subsidiaries are incorporated in the United Kingdom. The registered office for all subsidiaries is 3rd Floor, 41-51 Grey Street, Newcastle-upon-Tyne, NE1 6EE. All dormant companies listed above have taken advantage of the UK Companies Act 2006, S480 exemption from audit.

Notes to the financial statements

for the year ended 30 June 2018

15. Stocks

	2018 £000	2017 £000
Raw materials and consumables	1,437	1,682

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

16. Debtors

	2018 £000	2017 £000
<i>Amounts due within one year</i>		
Trade debtors	5,320	4,517
Other debtors	434	1,504
Prepayments and accrued income	4,917	6,826
Other financial assets (note 26)	995	-
	11,666	12,847
<i>Amounts due after one year</i>		
Other financial assets (note 26)	810	-

Amounts due from Group undertakings are repayable on demand and non-interest bearing.

17. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	3,174	2,849
Accruals and deferred income	2,444	3,811
Amounts owed to Group undertakings	113,477	104,099
Obligations under finance lease and hire purchase contracts (note 19)	578	824
Other taxation and social security	1,366	1,361
Other creditors	1,389	1,511
Other financial liabilities (note 26)	-	747
	122,428	115,202

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

18. Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Deferred government grants	428	554
Obligations under finance lease and hire purchase contracts (note 19)	1,587	2,161
Other financial liabilities (note 26)	-	298
	2,015	3,013

Amounts which fall due for payment > 5 years after 30 June 2018 was £nil (2017: £95,000).

Notes to the financial statements

for the year ended 30 June 2018

19. Obligations under finance lease and hire purchase contracts

The maturity of these amounts is as follows:

	2018 £000	2017 £000
Amounts payable under finance leases:		
Within one year	663	948
In the second to fifth years inclusive	1,699	2,202
After five years	-	155
	2,362	3,305
Less: future finance charges	(197)	(320)
Present value of lease obligations	2,165	2,985

It is the Company's policy to lease certain of its vehicles under finance leases. The average lease term is 6 years. For the year ended 30 June 2018, the average effective borrowing rate was 5.9 per cent (2017: 5.9 per cent). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Company's lease obligations is approximately equal to their carrying amount.

20. Provisions

	Uninsured claim £000	Dilapidation Provision £000	Total £000
At 1 July 2017	2,021	266	2,287
Provided in the year	2,004	32	2,036
Utilised in year	(1,177)	-	(1,177)
Released in the year	(571)	-	(571)
Effect of discounting	(32)	-	(32)
At 30 June 2018	2,245	298	2,543

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.

Dilapidation provisions

Provisions for dilapidation comprise dilapidation costs on leased offices and bus depots and are expected to be settled within the next eleven years.

21. Pension commitment

The Company participates in both a defined contribution scheme and a defined benefit scheme:

Defined contribution:

During the year 30 June 2018, the Company participated in a scheme which is part of The Go-Ahead Group Pension Plan

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21. Pension commitment (continued)

The defined contribution sections of the Go-Ahead Plan are not contracted-out of the State Second Pension Scheme. The Money Purchase Section is now closed to new entrants, except by invitation from the Company, and has been replaced by the Workplace Saving Section, which is also defined contribution. The expense recognised for the Money Purchase Sections of the Go-Ahead Plan is £1,004,000 (2017: £990,000), being the contributions paid and payable. The expense recognised for the Workplace Saving Scheme is £398,000 (2017: £210,000), being the contributions paid and payable.

Defined benefit:

During the year 30 June 2018, the Company participated in a scheme which is part of The Go-Ahead Group Pension Plan.

The defined benefit sections of the Go-Ahead Plan are contracted-out of the State Second Pension Scheme and provide benefits based on a member's final pensionable salary. The assets of the defined benefit sections are held in a separate trustee-administered fund. Contributions to these sections are assessed in accordance with the advice of an independent qualified actuary. The defined benefit sections of the Go-Ahead Plan have been closed to new entrants and closed to future accrual from 31 March 2014.

The Go-Ahead Plan is governed by a Trustee Company in accordance with a Trust Deed and Rules. It is also subject to regulation from the Pensions Regulator and relevant UK legislation. This regulatory framework requires the Trustees of the Go-Ahead Plan and the Group to agree upon the assumptions underlying the funding target, and the necessary contributions as part of each triennial valuation. The last actuarial valuation of the Go-Ahead Plan had an effective date of 31 March 2015, and the next will have an effective date of 31 March 2018.

The investment strategy of the Go-Ahead Plan, which aims to meet liabilities as they fall due, is to invest plan assets in a mix of equities, other return seeking assets and liability driven investments to maximise the return on plan assets and minimise risks associated with lower than expected returns on plan assets. Trustees are required to regularly review investment strategy.

The Go-Ahead Plan is a plan for related companies within the Group where risks are shared. As the scheme is closed for future accrual, no contributions have been made by the Company (2017: £nil). As it is not possible to identify the Company's share of the net assets and liabilities of the scheme on a consistent and reasonable basis due to the high volume of members/pensioners and the historic interaction between Group companies, and there is no contractual agreement or stated policy for charging to individual Group entities, the assets and liabilities are fully accounted for within the financial statements of The Go-Ahead Group plc. Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of the ultimate parent company, which are available as disclosed in note 27 below.

22. Related party transactions

The Company is a 100% subsidiary of The Go-Ahead Group plc. Advantage has been taken of the exemption in paragraph 8 (k) of Financial Reporting Standard 101 and transactions entered into between two or more members of the Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member, have not been disclosed.

The following shows the amounts due to/from related parties as at the year-end:

	2018	2017
	Group	Group
	subsidiaries	subsidiaries
	£000	£000
Amounts due to related parties	113,477	104,099
Amounts due from related parties	-	-

23. Share capital

(a) Share capital

	No.	2018 £000	Allotted, called up and fully paid No.	2017 £000
Ordinary shares of £0.10 each	19,770,000	1,977	19,770,020	1,977

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for the year ended 30 June 2018

23. Share capital (continued)

(b) Hedging reserve

The hedging reserve records the movement in value of fuel derivatives, offset by any movements recognised directly in equity.

24. Share-based payments

(a) Share Incentive Plan:

The Group operates an HM Revenue & Customs (HMRC) approved share incentive plan, known as The Go-Ahead Group plc Share Incentive Plan (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 Group 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.

(b) Sharesave scheme:

Shareholder approval was obtained at the 2013 AGM for the introduction of a new HM Revenue & Customs approved Savings-Related Share Option scheme, known as The Go-Ahead Group plc 2013 Savings-Related Share Option Scheme (the Sharesave scheme) for employees of the Group and its operating companies.

The Sharesave scheme is open to all full time and part-time employees (including executive directors) who have completed at least six months of continuous service with a Go-Ahead Group company at the date they are invited to participate in a scheme launch. To take part, qualifying employees have to enter into a savings contract for a period of three years under which they agree to save a monthly amount, from a minimum of £5 to a maximum (not exceeding £500) specified by the Group at the time of invitation. For the February 2016 launch (Sharesave 2016), the maximum monthly savings limit set by the Group was £50. At the end of the savings period, employees can buy shares at a 20% discount of the market price set at the date of invitation or take their full savings back. Sharesave 2016 will mature on 1 May 2019.

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.

(b) Sharesave scheme (continued):

There are savings-related options at 30 June 2018 as follows:

Scheme maturity	1 May 2017	1 May 2019
Option price (£)	17.34	19.11
No. of options unexercised at 30 June 2018	-	9,152
No. of options exercised during the year	1,442	-
No. of options exercisable at 30 June 2018	-	-

The expense recognised for the scheme during the year to 30 June 2018 was £21,000 (2017: £28,000).

The following table illustrates the number and weighted average exercise price (WAEP) of share options for the Sharesave scheme:

	2018 No.	2018 WAEP £	2017 No.	2017 WAEP £
Outstanding at the beginning of the year	19,574	18.32	25,926	18.19
Granted during the year	-	-	-	-
Forfeited during the year	(8,980)	17.67	(3,129)	18.29
Exercised during the year	(1,442)	17.34	(3,223)	17.34
Outstanding at the end of the year	9,152	19.11	19,574	18.32

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for the year ended 30 June 2018

24. Share-based payments (continued)

The options outstanding at the end of the year have a weighted average remaining contracted life of 0.83 years (2017: 1.01 years).

These options are exercisable at a weighted average exercise price of £19.11 (2017: £17.34). This represents an exercise price of £19.11 (2017: a range of exercise prices between £17.34 to £19.11).

(a) Deferred Share Bonus Plan:

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

The expense recognised for the DSBP during the year to 30 June 2018 was £40,000 (2017: £55,000).

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

The weighted average fair value of options granted during the year was £16.30 (2017: £20.08).

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

	2018 No.	2017 No.
Outstanding at the beginning of the year	6,650	4,926
Granted during the year	2,471	1,724
Forfeited during the year	-	-
Exercised during the year	(2,164)	-
Outstanding at the end of the year	6,957	6,650

The weighted average exercise price of options exercised during the year was £17.40 (2017: £nil). This represents a range of exercise prices between £nil (2017: £nil).

At the year-end, 581 options related to DSBP awards which vested before the year-end but which have not yet been exercised by participants. 2,181 options, relating to the DSBP award granted in November 2015, will be eligible to vest from November 2018 following the end of a three year deferral period. The year-end weighted average share price of the options was £15.88 (2017: £17.77).

The weighted average remaining contractual life of the options was 0.96 years (2017: 0.85 years).

25. Capital commitments

	2018 £000	2017 £000
<i>Intangible fixed assets</i>		
Contracted but not provided	-	-
<i>Tangible fixed assets</i>		
Contracted but not provided	7,000	2,595

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for the year ended 30 June 2018

26. Derivatives and financial instruments

A derivative is a security whose price is dependent upon or derived from an underlying asset. The Company uses energy derivatives to hedge its risks associated with fuel price fluctuations.

(a) Fair values

The fair values of the Company's financial instruments carried in the financial statements have been reviewed as at 30 June 2018 and 1 July 2017 and are as follows:

	2018 £000	2017 £000
Current assets	995	-
Non-current assets	810	-
Current liabilities	-	(747)
Non-current liabilities	-	(298)
Total asset/(liabilities)	1,805	(1,045)

The fair values shown above have been calculated by discounting cashflows at prevailing interest rates.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 30 June 2018, the Company has used a level 2 valuation technique to determine the fair value of all financial instruments.

During the year ended 30 June 2018, there were no transfers between valuation levels.

(b) Hedging activities

The Company is exposed to commodity price risk as a result of fuel usage. The Company closely monitors fuel prices and uses fuel derivatives to hedge its exposure to increases in fuel prices, when it deems this to be appropriate.

As at 30 June 2018 the Company had derivatives against bus fuel for the three years ending June 2021. The fair value of the asset or liability has been recognised on the balance sheet. The value has been generated since the date of the acquisition of the instruments due to the movement in market fuel prices.

As at 30 June 2018 the projected litres of bus fuel hedged are as follows:

	2019	2020	2021
Actual percentage hedged	100%	55%	30%

27. Ultimate parent company and controlling party

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

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