Registered no: 7934306

Govia Thameslink Railway Limited

Annual Report and Financial Statements

For the year-ended 2 July 2016

Govia Thameslink Railway Limited
Registered No: **7934306**

DIRECTORS AND PROFESSIONAL ADVISORS

Directors
W M Allan
D A Brown
D Crowther
S P Butcher
A Gordon
C Hodgson
C Horton
B Tabary

Company Secretary
C Ferguson

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

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

Solicitors
Bond Dickinson
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 3UR
United Kingdom

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

Actuary
Willis Towers Watson
1 Wellington Place
Wellington Street
Leeds
LS1 4AP
United Kingdom

Strategic report

For the year-ended 2 July 2016

The directors present their Strategic report for the period ended 2 July 2016.

Review of business

The principal activity of Govia Thameslink Railway Limited ("GTR") is the operation of passenger services on the Great Northern, Thameslink, Southern and Gatwick Express routes.

The operating responsibility for the Southern and Gatwick Express services transferred from Southern Railway Limited ("SN"), and combined with the existing GTR services under a transfer scheme effected by the Department for Transport ("DFT") on 26 July 2015. The combined franchise represents approximately 20% of national passenger journeys. These services are operated under a unique franchise agreement, created to facilitate the transformational Thameslink Programme. The franchise agreement has an initial term ending in 2021.

Much of the change programme required to prepare for the integration of these two large organisations was started in the previous financial year. The revised organisation and necessary management structures were introduced immediately on integration. Govia Limited's (Note 23) philosophy of operating its businesses within a devolved framework enables companies to work closely with the communities they serve. In keeping with this, the customer facing brands of Great Northern, Thameslink, Southern and Gatwick Express are the way in which the organisation relates to its stakeholders.

The franchise term covered by the contract has been structured to facilitate the transformation of passenger services, through the major Thameslink project and the introduction of several new fleets of trains. Following the introduction of the new class 387 trains on Thameslink which started in the last financial year, the renewal programme has continued with the new Gatwick Express trains being introduced in a phased programme with the first unit being introduced on 29 February 2016. Another major milestone for the Thameslink programme was the opening of the new depot at Three Bridges, and whilst slightly later than intended the new Siemens class 700 trains have started to enter service and will be introduced progressively over the next few months. The first passenger service was on 20 June 2016. Customer reaction to all of the new trains has been positive and management looks forward to completing these introductions to provide the modern fleet that passengers expect.

Unfortunately, the introduction of these new trains has been affected by the much publicised industrial action by both the RMT and ASLEF. Both unions have publicly declared their intent to resist the further introduction of driver only operated trains, and are resisting any plans on a national level. Approximately 60% of GTR's services currently operate in this manner and have done so for many years. The new trains allow the driver to have operational control of opening and closing the doors to allow passengers to get on and off the trains. This will allow the conductor to spend more time with our customers. Our customers, primarily on Southern and Gatwick Express, have suffered significant disruption to their services due to this action and in an attempt to provide a more reliable service, focussing on peak service provision, the company introduced a reduced timetable on 11 July 2016.

This prolonged disruption, combined with the pre-existing network infrastructure instability and driver recruitment programmes, has meant that the service we have been able to offer our customers has fallen well short of our expectations, for which the directors apologise.

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

For the year to 2 July 2016 (comparative 9 months to 27 June 2015), the key operating statistics were as follows:

		Year ended 2 July 2016	Period ended 27 June 2015
Turnover		**£1,142m**	£394m
Operating loss		**£(15.6)m**	£(10.8)m
Public performance measure ("PPM")		**81.5%**	83.8%
National Rail Passenger Satisfaction	- Gatwick Express	**79%**	86%
	- Great Northern	**74%**	80%
	- Southern*	**69%**	72%
	- Thameslink**	**74%**	74%

* 2015 Comparison includes Gatwick Express
** 2015 Comparison includes Great Northern

This financial reporting year covers 12 months of operations, compared to the 9 months of operation in the previous report, and crucially encompasses the second franchise transfer of the services previously operated by Southern on 26 July 2015, creating the full franchise area. This is the first step in realising the combination of the services between Brighton and London Bridge. One of the key purposes of the franchise design was to facilitate the optimisation of limited capacity on the Brighton Mainline.

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

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

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

Principal risks and uncertainties

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

- *Political Risks*

The heightened industrial relations tensions and the increasing number of ballots for industrial action as well as the actual strike days have increased the political tensions between the company and some if its key stakeholders. The resultant poor operational performance on the Southern and Gatwick Express routes has led to pressure from stakeholders, challenging both the franchising model and ownership of the franchise. This includes a renewed drive for devolution of London services to the control of the London Mayor. The company's senior management continue to work closely with the DFT and have engaged positively with local MPs, stakeholders and the Rail Ministers and the Secretaries of State. It is well understood that the current industrial relations environment is very challenging and is a blocker to the introduction of modern more customer centric services which the company is determined to introduce with the minimum of negative impact on our staff. To this end many commitments on no compulsory redundancies and salary levels have been provided to staff. Management and directors continue to work closely with the DFT to ensure consistency of messaging to try to manage stakeholder expectations.

The existing contract has a seven year initial term, with DFT options to extend for up to two years. It is not anticipated that any significant political change in direction would affect the existing contract. However, the Government's spending constraints following Brexit are expected to impact on the DFT's ability to fund service changes which passengers would like to see.

- *Economic Risks*

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

The cost impacts of the ongoing industrial disputes are mitigated as far as possible, and specialist legal advice has been sought which allowed the successful challenge of ASLEF in the courts in relation to the introduction of the new 12 car trains on the Gatwick Express. However, management continue to seek relief where possible using the contractual mechanisms at its disposal.

The bespoke performance regimes contained in the franchise agreement comprise both annual bonus and penalty mechanisms. Management continually review projections of current and forecast performance against these regimes to ensure appropriate financial treatment.

Industry contracts also contain standard variation mechanisms to cater for occasions where network capability changes necessitate service changes which will be used where appropriate to mitigate incremental costs arising. Failure to comply with the obligations contained in the Franchise Agreement could lead to financial penalties or, in extremis, termination of the franchise. Compliance with the franchise agreement terms is closely monitored by an experienced contract management team.

- *Environmental Risks*

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

- *Infrastructure Performance Risks*

Network Rail has responsibility for infrastructure performance which impacts the company. Both organisations continue to work closely together to understand the underlying causation of delays and agree improvement strategies which will minimise disruption to our customers. In addition to the Alliance Board, established between Network Rail and the Company, Govia and Network Rail have also introduced a joint senior performance board to ensure that this area gets the highest level of attention. However, the well-publicised problems with the Thameslink project and issues with the nature and age of the infrastructure over which the Company's services operate continue to offer significant challenge to punctuality and service provision. This continues to significantly impact GTR and its shareholders' reputations, and is reflected in numerous press articles and recent customer satisfaction surveys. However, due to the nature of the contract the compensation payments from Network Rail flow directly to the DFT. GTR continues to work closely with its key passenger stakeholders to communicate what it is doing to address the issues and has planned customer information system improvements under development.

Network Rail has a large and complex plan for significant major asset improvements. However, the Hendy Review into Network Rail's Control Period 5 projects has also impacted on previously planned infrastructure works, by either delaying or cancelling some of the enabling works required for future service improvements. This has a direct impact on the Company's ability to deliver some of the future service improvements as part of the full Thameslink programme. The Company is working closely with the DFT to develop performance led, operable solutions to meet both the growth and capacity constraints and conflicts to protect the delivery of the key Thameslink target of 24 trains per hour in 2018.

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

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

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

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

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

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

Liquidity risk is mitigated by managing cash generated by the Company's operations in line with Group policies. The Company aims to mitigate liquidity risk by managing the return of bank deposits at defined times in any four week cycle. A cash sweeping facility also exists with the ultimate parent Company (Note 23). Further information regarding the way the Group manages liquidity risk can be found in the Group financial statements. Capital expenditure is approved at a Group level.

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

- *Ongoing review of emerging issues*

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

The commercial entities in the UK rail industry were created at the time of privatisation and the relationships between them are governed by a number of contracts between the major participants; the DFT, Network Rail and train operating companies. In arriving at the operating loss numbers for the Company, management have made judgements on the outcome of contractual discussions with Network Rail and the DFT. These principally relate to the allocation of financial responsibility for train cancellations and delays.

Future developments

Future developments are presented within the Directors' report on page 6.

The strategic report was approved by the Board of Directors on 12 October 2016 and signed on their behalf by:

S P Butcher
Director
12 October 2016

Directors' report

For the year-ended 2 July 2016

The directors present their Annual Report and Financial Statements for the year-ended 2 July 2016.

Dividends

Ordinary dividends of £nil (2015: £nil) were paid during the year.

Future developments

The next twelve months will focus on improving the industrial relations, operational and financial performance of the whole company. Key to delivering this is the resolution of the existing industrial disputes and delivering the customer focussed changes planned as well as the continued introduction of the new rolling stock fleets. However, the underlying reliability of the network infrastructure will continue to be of significant concern in relation to the company's ability to operate at the levels of punctuality that our customers expect.

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

The next eighteen months will see significant milestones delivered by the company, as it plays a key role in the transformation of services as a result of the Thameslink programme investments. Much of the service area will see newer and improved trains on their services as the class 700 introduction progresses and the resulting cascade of the 387 and 377 fleets continue.

As capacity and crowding are expected to continue to be a challenge the directors and management expect to work with the DFT to try to develop affordable customer focussed solutions where possible.

Financial instruments

Details of financial instruments are provided in the strategic report on page 5.

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.

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

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

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position and financial risk management objectives and policies are described in the Strategic report on pages 2–5.

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

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

Directors' indemnities

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

Directors

W M Allan
D A Brown
D Crowther
K Down (resigned 6 December 2015)
A Gordon
C Hodgson
C Horton
B Tabary
S P Butcher (appointed 14 March 2016)

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

Directors' statement as to disclosure of information to the auditor

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

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

Auditor

Following an audit tendering process Ernst & Young LLP resigned as auditor with effect from The Go-Ahead Group PLC's 2015 Annual General Meeting. A resolution to appoint Deloitte LLP was approved by the members at that Annual General Meeting. Deloitte LLP have expressed their willingness to continue 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
41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE

By order of the board

S P Butcher
Director
12 October 2016

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

Independent auditor's report

to the members of Govia Thameslink Railway Limited

We have audited the financial statements of Govia Thameslink Railway Limited for the year ended 2 July 2016 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 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 2 July 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

Christopher Powell FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
13 October 2016

Govia Thameslink Railway Limited

Income statement

for the year ended 2 July 2016

	Notes	2016 £'000	2015 £'000
Turnover	3	1,141,963	394,423
Operating costs	4(a)	(1,155,982)	(396,450)
Exceptional operating costs	4(b)	(1,580)	(8,784)
Total operating costs		(1,157,562)	(405,234)
Operating loss		(15,599)	(10,811)
Interest receivable and similar income	7	1,406	304
Interest payable and similar charges	8	(1,071)	(644)
Loss on ordinary activities before taxation		(15,264)	(11,151)
Tax on loss on ordinary activities	9	3,875	2,116
Loss for the year from continuing operations		(11,389)	(9,035)

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

Govia Thameslink Railway Limited

Statement of comprehensive income

for the year ended 2 July 2016

	Notes	2016 £'000	2015 £'000
Loss for the year from continuing operations		(11,389)	(9,035)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Re-measurement gains on defined benefit pension plan	16	21,262	3,500
Tax relating to items that will not be reclassified	9	(3,827)	(700)
Other comprehensive income for the year, net of tax		17,435	2,800
Total comprehensive income/(loss) for the year		6,046	(6,235)

Statement of changes in equity

for the year ended 2 July 2016

	Share capital £'000	Retained earnings £'000	Total Equity £'000
At 28 June 2014	–	–	–
Loss for the year	–	(9,035)	(9,035)
Re-measurement gains on defined benefit pension plan net of tax	–	2,800	2,800
Total comprehensive loss for the year	–	(6,235)	(6,235)
Issue of share capital (Note 19)	5,000	–	5,000
Share based payments (Note 20)	–	88	88
At 27 June 2015	5,000	(6,147)	(1,147)
Loss for the year	–	(11,389)	(11,389)
Re-measurement gains on defined benefit pension plan net of tax	–	17,435	17,435
Total comprehensive income for the year	–	6,046	6,046
Share based payments (Note 20)	–	283	283
At 2 July 2016	5,000	182	5,182

Govia Thameslink Railway Limited
Registered No: **7934306**

Balance sheet

at 2 July 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	11	1,367	–
Tangible fixed assets	12	14,449	7,327
Current assets			
Stocks		8,434	3,150
Debtors	13	161,196	60,856
Cash at bank		265,045	183,853
		434,675	247,859
Creditors: amounts falling due within one year	14	(413,019)	(252,813)
Net current assets/(liabilities)		21,656	(4,954)
Total assets less current liabilities		37,472	2,373
Provisions	15	(32,290)	(3,520)
Net assets/(liabilities)		5,182	(1,147)
Called up share capital	19	5,000	5,000
Profit and loss account		182	(6,147)
Total shareholders' funds/(deficit)		5,182	(1,147)

The financial statements were approved by the Board of Directors and authorised for issue on 12 October 2016 and signed on their behalf by:

S P Butcher
Director

12 October 2016

Notes to the financial statements

For the year-ended 2 July 2016

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 2 July 2016 were authorised for issue by the Board of Directors on 12 October 2016 and the balance sheet was signed on the Board's behalf by S P Butcher. Govia Thameslink Railway Limited is incorporated, domiciled and has its registered office in England and Wales.

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. On that basis, the Company has departed from the requirements of IAS 19 *Employee Benefits (revised)* and has accounted for its contractual but not legal obligations for the Railways Pension Scheme (RPS) under the terms of its UK rail franchise agreements. Details of the background and rationale for this departure are provided in note 16.

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

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

2. Accounting policies

2.1 Basis of preparation

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

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

The financial statements have been prepared on a historical cost basis. The presentation currency used is sterling and amounts have been presented in round thousands ("£'000").

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

- the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- the requirements in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- the requirements of paragraphs 10(d), 111 and 134 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*.

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

2.2 *Judgements and key sources of estimation uncertainty*

The preparation of the financial statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

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:

- the measurement of defined benefit pension obligations requires the estimation of future changes in salaries, inflation and the selection of a suitable discount rate, as set out in note 16;
- the measurement of uninsured liabilities is based on an assessment of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Company, as detailed in note 15; and
- the measurement of franchise commitments, comprising lease obligations on vehicles, depots and stations, is based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisers, as set out in note 15.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

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

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

Accordingly judgements in these and other areas are made on a continuing basis with regard to amounts due and the recoverable carrying value of related assets and liabilities arising from the Franchise Agreement with the DFT 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.

Measurement of franchise commitments
The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations is set out in note 15. 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.

Accounting for the rail pension schemes
The company participates in the RPS, a defined benefit pension scheme which covers the whole of the UK rail industry. This is partitioned into sections and the Company is responsible for the funding of these schemes whilst it operates the franchise. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer 40% employee. The total surplus or deficit recorded is adjusted by way of a 'franchise adjustment', which includes an assessment of surpluses or deficits from future contributions, which is that portion of the deficit or surplus projected to exist at the end of the franchise which the Company will not be required to fund or benefit from.

2.3 *Significant accounting policies*

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

Turnover comprises the following:

Franchise management charges & Rendering of services
Turnover comprises passenger revenue collected and remitted to the DFT net of franchise management charges payable by the DFT.

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

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

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

Franchise handover
The award of rail franchises does not meet the definition of a business, as defined in IFRS 3 (revised in 2007) and therefore has not been accounted for as a business combination; nor does it fall to be accounted for as a service concession using either the financial asset or intangible asset models in IFRIC 12, due to the various parties involved within the franchise. Details of the assets and liabilities transferred on franchise handover, assessed on an individual basis, are within note 22.

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.

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

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

Depreciation is calculated so as to write off the cost of an asset, less estimated residual value, over the shorter of the remaining life of the franchise and the below lives on a straight line basis:
Plant & equipment - 1 to 7 years

Stocks
Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Significant accounting policies (continued)

Taxation

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

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

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

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

Operating lease agreements

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

Operating lease incentives

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

Operating lease income

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

Retirement benefits

The Company operates a defined benefit pension scheme. The cost of this is recognised in the income statement or statement of comprehensive income, as appropriate. As discussed below, the Company has invoked the provisions of IAS 1 Presentation of Financial Statements and has departed from the requirements of IAS 19 (revised) in respect of the Rail Pension Schemes (RPS). See note 16 for additional clarification.

The Company is responsible for funding its own section of the RPS whilst it operates the franchise. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. A liability or asset is recognised in line with IAS 19 (revised), although this is offset by a franchise adjustment so that the net liability or asset (including as appropriate the impact of any minimum funding requirements) represents the deficit or surplus that the Company expects to fund or benefit from during the franchise term. This represents a departure from IAS 19 (revised) so as to present fairly the Company's contractual financial performance and position in respect of its obligations for the RPS.

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.

2.3 Significant accounting policies (continued)

Share based payment transactions
The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In granting equity-settled options, conditions are linked to some or all of the following: the price of the shares of The Go-Ahead Group plc (market conditions); conditions not related to performance or service (non-vesting conditions); and performance conditions. The cost of options is recognised in the income statement over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in equity. The cumulative expense recognised at each reporting date reflects the extent to which the period to vesting has expired and the directors' best estimate of the number of options that will ultimately vest or, in the case of an instrument subject to a market or non-vesting condition, be treated as vesting as described above. This includes any award where non-vesting conditions within the control of the Group or the employee are not met. No cost is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

3. Turnover

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

	2016 *£'000*	*2015* *£'000*
Franchise management charges	1,076,634	363,032
Rendering of services	48,887	24,494
Rental income	16,442	6,897
	1,141,963	394,423

4(a) Operating costs

	2016 *£'000*	*2015* *£'000*
Staff costs (note 5)	352,256	105,635
Operating lease and rental charges – rail access	314,042	110,090
Operating lease and rental charges – vehicle and rolling stock	202,622	77,400
Auditor's remuneration – audit services	163	94
Auditor's remuneration – other non-audit services	1	11
Amortisation of intangible assets	338	–
Depreciation of tangible fixed assets	2,009	1,611
Other operating costs	284,551	101,609
	1,155,982	396,450

4(b) Exceptional operating costs

	2016 *£'000*	*2015* *£'000*
Costs of restructuring	1,580	8,784

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

5. Staff costs and numbers

	2016 £'000	2015 £'000
Wages and salaries	285,208	87,850
Social security costs	24,578	7,185
Other pension costs (note 16)	42,470	10,600
	352,256	105,635

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

	2016 No.	2015 No.
Administration and supervision	1,089	392
Maintenance and engineering	588	396
Operations	4,874	1,263
	6,551	2,051

6. Directors' emoluments

	2016 £'000	2015 Restated £'000
Aggregate emoluments in respect of qualifying services	1,248	653

	2016 No.	2015 No.
Number of directors accruing benefits under defined benefit schemes	2	2
Number of directors who exercised share options	1	–

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

	2016 £'000	2015 Restated £'000
Emoluments	478	263

Included within Emoluments, the Company contributed £40,000 (2015: £28,000) to the defined benefit pension scheme of the highest paid director. During the year the highest paid director also exercised share options over 8,248 (2015: nil) shares. The 2015 comparative has been amended to include pension and National Insurance contributions.

7. Interest receivable and similar income

	2016 £'000	2015 £'000
Bank interest receivable	1,406	304

8. Interest payable and similar charges

	2016 £'000	2015 £'000
Other finance charges	742	608
Discounting of provisions	300	–
Interest payable to group undertakings	29	36
	1,071	644

9. Taxation

(a) Tax recognised in the income statement

The tax credit is made up as follows:

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax	1,509	(1,349)
Total current tax	1,509	(1,349)
Deferred tax:		
Transferred on franchise handover	(1,455)	–
Origination and reversal of temporary differences	(3,951)	(767)
Adjustments in respect of deferred tax of previous periods	19	–
Impact of opening deferred tax rate reduction	3	–
Total deferred tax (note 9(d))	(5,384)	(767)
Total reported in the income statement (note 9(c))	(3,875)	(2,116)

(b) Tax relating to items recognised outside of the income statement

	2016 £'000	2015 £'000
Tax on re-measurement gains on defined benefit pension plan	3,827	700

(c) Factors affecting current tax charge

A reconciliation of taxation applicable to accounting loss before tax at the statutory tax rates for the years ended 2 July 2016 and 27 June 2015 is shown below.

The tax assessed on the loss on ordinary activities for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 2 July 2016 was 20% (2015: On 1 April 2015 the standard rate of corporation tax changed from 21% to 20%).

The differences are reconciled below:

	2016 £'000	2015 £'000
Accounting loss on ordinary activities before tax	(15,264)	(11,151)
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.75%)	(3,053)	(2,314)
Expenses not deductible for tax purposes	169	169
Depreciation on non-qualifying assets	10	–
Adjustment in respect of deferred tax of previous periods	19	–
Effect of the difference between current year corporation tax and deferred tax rates	432	29
Impact of opening deferred tax rate reduction	3	–
Deferred tax transferred on franchise handover	(1,455)	–
Tax reported in the income statement	(3,875)	(2,116)
Effective tax rate	25.4%	19.0%

9. Taxation (continued)

(d) Deferred tax

The movements in deferred tax in the income statement and in equity, and constituents of the deferred tax asset shown within debtors, are as follows:

	2016 *£'000*	*2015* *£'000*
Deferred tax asset		
Decelerated capital allowances (included in debtors note 13)	1,624	67

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

	27 June 2015 *£'000*	*Recognised in income statement* *£'000*	*Recognised in equity* *£'000*	*2 July 2016* *£'000*
Decelerated capital allowances	67	1,557	–	1,624
Retirement benefit obligations	–	3,827	(3,827)	–
	67	5,384	(3,827)	1,624

The standard rate of UK corporation tax reduced from 21% to 20% from 1 April 2015. A rate of 20% therefore applies to the current tax charge arising during the year ended 2 July 2016.

In addition to the change in rate of Corporation Tax identified above, further reductions in the rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted prior to the balance sheet date and have been applied to the company's deferred tax balance at the balance sheet date.

An announcement in the 2016 Budget also noted the intention to amend the rate from 1 April 2020 to 17%. Had this rate been enacted at the balance sheet date the effect on the provision for deferred taxation would not have been material.

10. Dividends

	2016 *£'000*	*2015* *£'000*
Equity dividends on ordinary shares paid in the year	–	–

11. Intangible assets

	Software & Licence Costs £'000
Cost:	
At 27 June 2015	–
Additions	1,705
At 2 July 2016	1,705
Amortisation:	
At 27 June 2015	–
Provided during the year	338
At 2 July 2016	338
Net book value:	
At 2 July 2016	1,367
At 27 June 2015	–

12. Tangible fixed assets

	Plant & Equipment £'000
Cost:	
At 27 June 2015	8,938
Additions	9,131
At 2 July 2016	18,069
Depreciation:	
At 27 June 2015	1,611
Provided during the year	2,009
At 2 July 2016	3,620
Net book value:	
At 2 July 2016	14,449
At 27 June 2015	7,327

13. Debtors

	2016 £'000	*2015 £'000*
Trade debtors	98,093	41,460
Prepayments and accrued income	46,536	6,279
Deferred taxation (note 9(d))	1,624	67
Corporation tax	92	1,849
Central government debtors	14,851	11,201
	161,196	60,856

14. Creditors: amounts falling due within one year

	2016	*2015*
	£'000	*£'000*
Amounts owed to group companies	7,122	17,456
Trade creditors	182,836	14,142
Other taxation and social security	9,473	2,592
Other creditors	25,450	40,061
Central government creditors	69,637	5,545
Deferred season ticket income	85,900	46,193
Accruals and deferred income	32,601	126,824
	413,019	252,813

Other creditors include pension contributions payable amounting to £907,000 (2015: £151,000).

15. Provisions

	Uninsured claims	*Franchise commitments*	*Total*
	£'000	*£'000*	*£'000*
At 28 June 2014	–	–	–
Provisions transferred on franchise handover	–	214	214
Provided in year (after discounting)	83	3,223	3,306
At 27 June 2015	83	3,437	3,520
Provisions transferred on franchise handover	–	27,656	27,656
Provided in year (after discounting)	687	4,956	5,643
Utilised in year	(28)	(4,062)	(4,090)
Released in year	(44)	(95)	(139)
Unwinding of discounting	–	(300)	(300)
At 2 July 2016	698	31,592	32,290

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.

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.

16. Retirement benefit obligations

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

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

It is our experience that all pension obligations to the RPS cease on expiry of the franchises without cash or other settlement, and therefore the obligations recognised on the balance sheet under IAS 19 (revised) are only those that are expected to be funded during the franchise term. Participation in the RPS is therefore considered to only expose the Company to a short-term cashflow risk. The total surplus or deficit is adjusted by way of a "franchise adjustment" which includes an assessment of surpluses or deficits from future cash contributions. However, in spite of our past experience and that of other train operating companies proving otherwise, our legal obligations are not restricted. On entering into a franchise, the operator becomes the designated employer for the term of the contract and under the RPS scheme rules is obliged to meet the schedule of contributions agreed with the scheme trustees and actuaries, in respect of which no funding cap is set out in the franchise agreement.

IAS 19 (revised) would require the Company to account for its legal obligation under the formal terms of the RPS and its constructive obligation under the terms of each franchise agreement. Following industry practice, the Company has concluded that the appropriate accounting policy for the RPS to ensure that the financial statements present fairly the Company's financial position, financial performance and cash flows, is to recognise its constructive but not its legal RPS defined benefit obligations. In all other respects the Company's accounting policy is consistent with IAS 19 (revised). In doing so, the Company has applied paragraph 17 of IAS 1 and departed from the requirements of IAS 19 (revised) in order to achieve a fair presentation of the Company's obligations regarding its rail schemes and prevent gains arising on transfer of the existing RPS deficits to a new franchise owner at exit.

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

The contributions made by the company in the year were £20.9m (2015: £7.0m).

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

Main assumptions:

	2016	*2015*
	%	*%*
Rate of increase in salaries	3.1	
Rate of increase in pensions in payment	1.9	2.3
Rate of increase in deferred pensions	1.9	2.3
Discount rate	2.8	3.8
Inflation assumptions:		
RPI	2.9	3.3
CPI	1.9	2.3

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

16. 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.

	2016 *Years*	*2015* *Years*
Pensioner	22	22
Non-pensioner	24	24

The mortality assumptions adopted as at 2 July 2016 and 27 June 2015 are based on the results of the latest funding valuation as at 31 December 2013.

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

The fair value of the scheme assets are:

	2016 *Value* *£'000*	*%*	*2015* *Value* *£'000*	*%*
Equities	867,400	94.4	298,342	95.5
Properties	31,500	3.4	12,808	4.1
Others	20,400	2.2	1,250	0.4
Total market value of assets	919,300		312,400	

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:

	2016 *£'000*	*2015* *£'000*
Employer's 60% share of pension scheme:		
Liabilities at the end of the year	1,235,800	411,000
Assets at fair value	919,300	312,400
Gross deficit	(316,500)	(98,600)
Franchise adjustment	316,500	98,600
Pension scheme liability	–	–

An analysis of the defined benefit cost is as follows:

	2016 *£'000*	*2015* *£'000*
Service cost	39,920	10,300
Administration costs	2,550	300
Interest cost on net liabilities	9,809	2,200
Interest on franchise adjustments	(9,809)	(2,200)
Pension cost	42,470	10,600

16. Retirement benefit obligations (continued)

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

	2016 *£'000*	*2015* *£'000*
Employer's 60% share of pension scheme liabilities at start of year	411,000	–
Franchise adjustment (100%)	(98,600)	–
	312,400	–
Liability movement for members' share of assets (40%)	14,143	11,500
Service cost (60%)	39,920	10,300
Interest cost (60%)	27,264	8,100
Interest on franchise adjustment (100%)	(9,809)	(2,200)
Re-measurement loss/(gain) due to experience (60%)	334	(5,900)
Re-measurement loss due to financial assumptions (60%)	84,842	40,600
Re-measurement gain due to salary cap (60%)	(22,530)	–
Benefits paid (100%)	(30,019)	(8,400)
GTR franchise award – employer's share of liabilities (60%)	500,968	354,800
GTR franchise award – franchise adjustment (100%)	14,649	(63,000)
Franchise adjustment movement (100%)	1,787	(33,400)
	933,949	312,400
Franchise adjustment (100%)	301,851	98,600
Employer's 60% share of pension scheme liabilities at end of year	1,235,800	411,000

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

	2016 *£'000*	*2015* *£'000*
Fair value of assets at start of year (100%)	312,400	–
Interest income of plan assets (60%)	17,455	5,900
Re-measurement gain on assets (60%)	45,696	4,800
Company contributions (100%)	20,900	7,000
Benefits paid (100%)	(30,019)	(8,400)
Administrative expenses incurred (100%)	(4,217)	(600)
GTR franchise award (100%)	500,979	291,800
Members share of movement of assets (40%)	56,106	11,900
Fair value of assets at end of year (100%)	919,300	312,400

Company contributions expected to be paid in the year to June 2017 are considered to be the principal risk to which membership of the RPS exposes the Company. Estimated contributions in the financial year:

	£'000
Estimated company contributions in financial year 2017	18.8
Estimated employee contributions in financial year 2017	12.0
Estimated total contributions in financial year 2017	30.8

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

16. Retirement benefit obligations (continued)

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

	2016 *£'000*	*2015* *£'000*
Balance sheet		
Defined benefit pension plan	(316,500)	(98,600)
Deferred tax asset	56,970	19,720
	(259,530)	(78,880)
Other comprehensive income		
Re-measurement gains	(1,787)	33,400
Tax on re-measurement gains	322	(6,680)
	(1,465)	(26,720)
Income statement		
Operating costs – franchise adjustment	(9,809)	(2,200)
Deferred tax charge	1,766	440
	(8,043)	(1,760)

Experience recognised in other comprehensive income:

	2016 *£'000*	*2015* *£'000*
Loss on pension scheme liabilities	(62,646)	(34,700)
Experience gains on assets	45,695	4,800
Franchise adjustment movement	38,213	33,400
Total gain recognised in other comprehensive income during the year	21,262	3,500

Risks associated with defined benefit plans

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited, as under the franchise arrangements, the train operating companies are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

17. Commitments

Operating lease commitments – company as lessee
The Company has entered into commercial leases on certain properties and other items. Renewals are at the option of the lessee. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 2 July 2016 and 27 June 2015 were as follows:

	Rail contracts 2016 £'000	*Rail contracts 2015 Restated £'000*
Within one year	386,251	96,853
In the second to fifth years inclusive	1,995,804	1,083,977
Over five years	110,018	328,536
	2,492,073	1,509,366

The 2015 comparative has been amended to exclude the Southern leases included last year prior to handover.

Operating lease commitments – company as lessor
The Company holds agreements under which it leases rolling stock, and agreements with Network Rail for access to the railway infrastructure (track, stations and depots).

Future minimum rentals receivable under non-cancellable operating leases as at 2 July 2016 and 27 June 2015 were as follows:

	Rail contracts 2016 £'000	*Rail contracts 2015 Restated £'000*
Within one year	12,043	6,976
In the second to fifth years inclusive	48,174	27,904
Over five years	2,607	8,486
	62,824	43,366

The 2015 comparative has been amended to exclude the Southern leases included last year prior to handover.

Performance bonds
The Company has provided bank guaranteed performance bonds of £20,000,000 (2015: £20,000,000), season ticket bonds of £114,393,118 (2015: £61,611,230) and loan guarantee bond of £36,250,000 (2015: £36,250,000) to the DfT in support of the Company's rail franchise operations.

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

18. Related party transactions

	The Go-Ahead Group plc & Subsidiary Companies 2016 £'000	2015 £'000
Purchases from related party	39,101	46,450
Sales to related party	6,384	4,604
Interest payable to related party	29	36
Amounts owed to related party	7,122	17,456
Amounts owed from related party	–	514

The Go-Ahead Group plc owns 65% and Keolis (UK) Limited owns 35% of the ordinary shares in Govia Limited. Govia Thameslink Railway is 100% owned by Govia Limited.

The Company enters into arms' length transactions with various Go-Ahead Group companies for the provision of certain services including hire of staff, train maintenance and rail replacement bus services. Part of the amounts owed to related parties includes a loan amount of £5m (2015: £5m) from Govia Limited.

Included in the operating costs of the period are share option costs relating to directors of the business totalling £206,000 (2015: £88,000).

19. Called up share capital

	Authorised, allotted, called up and fully paid			
		2016		*2015*
	No.	*£'000*	*No.*	*£'000*
Ordinary shares of £1 each	5,000,000	5,000	5,000,000	5,000

On 20 August 2014, the share capital of Govia Thameslink Railway Limited was increased by 4,999,999 ordinary shares to 5,000,000 ordinary shares of £1 each.

20. Share based payments

Share Incentive Plan

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

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

Sharesave Plan

These options are exercisable at a weighted average exercise price of £18.17 (2014: £17.34).

Scheme maturity	*01-May-19*	*01-May-17*
Option price (£)	19.11	17.34
No. options unexercised at end of year	65,668	74,261
No. options exercised during the year	–	(497)
No. options exercisable at end of year	–	–

20. Share based payments (continued)

The expense recognised for the Sharesave Plan during the year to 2 July 2016 was £77,000 (2015: £nil).

The weighted average fair value of options granted during the year was £17.34 (2015: n/a).

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

	2016 No.	*2016 WAEP £*
Outstanding at the beginning of the year	550	17.34
Granted during the year	66,044	19.11
Forfeited during the year	(7,148)	17.43
Exercised during the year	(497)	17.34
Transferred during the year	80,980	17.34
Outstanding at the end of the year	139,929	18.17

The weighted average remaining contractual life of the options was 1.77 years (2015: n/a).

During the year 80,980 options were transferred from Southern Railway Limited, a fellow subsidiary undertaking of Govia Limited. The weighted average exercise price of the options transferred is £17.34.

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 2 July 2016 was £206,000 (2015: £88,000).

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 £26.38 (2015: £25.99).

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

	2016 No.	*2015 No.*
Outstanding at the beginning of the year	10,705	–
Granted during the year	14,402	10,705
Forfeited during the year	(2,443)	–
Transferred during the year	1,967	–
Outstanding at the end of the year	24,631	10,705

The weighted average remaining contractual life of the options was 1.55 years (2015: 2.0 years).

At the year end, no options were exercisable. During the year 1,967 options were transferred from Southern Railway Limited, a fellow subsidiary undertaking of Govia Limited.

21. Restricted cash

Included within cash at bank is an amount of £265,045,000 (2015: £183,853,000) held, which cannot be distributed by means of a dividend.

22. Cash flow movement

During the years ended 27 June 2015 and 2 July 2016, certain assets and liabilities were transferred to Govia Thameslink Railway Limited on Franchise handover. Cash received by Govia Thameslink Railway as a result of the rail franchise handovers is detailed below:

	2016 *£'000*	*2015* *£'000*
Tangible fixed assets	–	6,900
Inventories	5,385	5,250
Trade and other receivables	662	7,124
Trade and other payables	(69,920)	(53,900)
Provisions	(27,658)	(214)
Cash and cash equivalents	91,531	34,840
	–	–

23. Ultimate parent company

The immediate parent company of Govia Thameslink Railway Limited is Govia Limited.

In the directors' opinion the Company's ultimate parent company and controlling party is The Go-Ahead Group plc, which is the largest and smallest group for which group accounts are prepared.

The Go-Ahead Group plc is registered in England and Wales and copies of its financial statements can be obtained from Companies House, Cardiff or its website.