

Registered no: 06574965

Southern Railway Limited

Annual Report and Financial Statements

For the year ended 29 June 2019



Southern Railway Limited
Registered No: 06574965

DIRECTORS AND PROFESSIONAL ADVISORS

Directors

D A Brown
A J F Gordon
E Brian

Company Secretary

C Ferguson

Auditor

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

Bankers

The Royal Bank of Scotland plc
250 Bishopsgate
London
EC2M 4AA
United Kingdom

Solicitors

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

Registered office

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

Southern Railway Limited
Strategic report
for the year ended 29 June 2019

The directors present their Strategic report for the year ended 29 June 2019.

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

Results and dividends

The profit for the year, after taxation, amounted to £423,000 (2018: £189,000). Dividends of £1,000,000 were paid and proposed in the year (2018: £2,000,000). The directors do not recommend a final ordinary dividend for the year.

Principal activities and review of the business

The principal activity of Southern Railway Limited was, until 26 July 2015, the operation of passenger railway services on routes to the South of London, with its main markets comprising South London, Surrey and East and West Sussex. It also served parts of Hampshire and Kent.

Operating responsibility for these services transferred from New Southern Railway Limited on 20 September 2009 under a transfer scheme effected by the Department for Transport (“DfT”), following the expiry of New Southern Railway Limited’s franchise to operate the services. KPIs are no longer relevant as the Company has ceased to provide passenger services.

During the Southern franchise the management team made excellent progress in delivering franchise obligations, such as replacement and refurbishment of rolling stock, station enhancements, smartcard ticketing and the installation of new cycle and car parking facilities.

In May 2014 the DfT announced that Govia Limited had been awarded the Thameslink, Southern and Great Northern (TSGN) franchise, which commenced on 14 September 2014. The TSGN franchise is operated by Govia Thameslink Railway Limited, a 100% owned subsidiary of Govia Limited. The operations of the Southern franchise transferred to Govia Thameslink Railway Limited on 26 July 2015. From this date the Company’s principal activity is to settle disputes and remaining liabilities.

Other income in the year was derived from compensation claims exceeding provision estimates (see note 2.2). The Company saw a decrease in net assets due to declared dividends exceeding the profit in the year.

Future Developments

Southern Railway Limited no longer has any operating activity. However the Company will continue to exist for the foreseeable future until all liabilities are cleared.

Principal risks and uncertainties

The Company has procedures in place to assess, prioritise, monitor and mitigate business risks. The principal business risks include political, economic, environmental, infrastructure performance, and financial instrument risks.

Economic, Environmental and Infrastructure Performance risks

As the operations of the Southern franchise transferred to Govia Thameslink Railway Limited on 26 July 2015, the future risks arising from economic, environmental and infrastructure performance issues were transferred. The Company will continue to close outstanding issues that relate to the operation of the Southern franchise, and management will also continue to monitor new issues, if any, that arise from the past operation of the Southern franchise.

Southern Railway Limited
Strategic report (continued)
for the year ended 29 June 2019

Financial risk management objectives and policies

The Company's principal financial instrument is cash. Other financial assets and liabilities, such as trade debtors, trade creditors and trading balances within The Go-Ahead Group plc, 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 companies within the Group, 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.

Interest rate risk

The Company invests surplus cash in a floating rate interest yielding bank deposit account. Interest is charged at a variable rate on group loans. Therefore financial assets, liabilities, interest income, interest charges and cash flows can be affected by movements in interest rates.

Price risk

There is no significant exposure to changes in the carrying value of financial liabilities because all of these bear interest at floating rates.

Credit risk

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

The majority of the Company's receivables are with public (or quasi-public) bodies (such as the DfT). The Company does not consider these counterparties to be a significant credit risk.

In relation to provisions for impairments of trade receivables, the Company applies the IFRS 9 simplified approach and provisions are made based on the expected credit losses at each reporting date. Expected credit losses are assessed based on the number of days past due, the customer type, customer rating and past experience. Provisions for the impairment of trade receivables are recorded within operating costs within the income statement, with any subsequent recoveries being offset against these.

Liquidity risk

The Company aims to mitigate liquidity risk by managing cash generated by its operations in line with Group policies. A cash sweeping facility exists with the ultimate parent company (Note 15) and further information regarding the way the Group mitigates liquidity risk can be found in the Group financial statements.

Foreign currency risk

The Company has no foreign currency risk. All of the transactions, assets and liabilities are in sterling.

No risks from the impact of Brexit have been identified for this non-trading company.

The Strategic report was approved by the Board of Directors on 9th October 2019 and signed on their behalf by:



E Brian
Director

Southern Railway Limited
Directors' report
for the year ended 29 June 2019

The directors present their annual report together with the audited financial statements and auditor's report for the year ended 29 June 2019.

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

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

Going Concern

The franchise operated by the Company ended on 26 July 2015 and the new franchise was awarded by DfT to Govia Thameslink Railway Limited. From this date, the Company ceased trading and remains in existence as debts are recovered and liabilities are settled. Accordingly the financial statements have been prepared on a basis other than going concern.

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

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

| | |
|--------------|-----------------------------|
| S P Butcher | (resigned 30 November 2018) |
| D A Brown | |
| A J F Gordon | |
| E Brian | (appointed 5 June 2019) |

D A Brown, S P Butcher and E Brian were directors of the ultimate parent company, The Go-Ahead Group plc, during the period.

Events after the balance sheet date

On 19 September 2019 Transport for London ("TfL") and the Rail Delivery Group, acting on behalf of the Train Operating Companies, reached a full and final settlement on the impact of a daily Fare Cap which was introduced by TfL on 2 January 2015. The outcome of the settlement in respect of the period from the introduction of the Fare Cap to the end of the franchise on the 26 July 2015 has been included within these Financial Statements.

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

Southern Railway Limited
Directors' report
for the year ended 29 June 2019

Directors' statement as to disclosure of information to auditor

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

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

This statement is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

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

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

By order of the board



E Brian
Director

9th October 2019

Southern Railway Limited

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; 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 Southern Railway Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Southern Railway Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 29 June 2019 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 15.

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.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

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 Southern Railway Limited

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

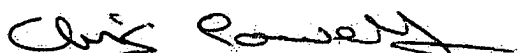
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Christopher Powell, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP,
Statutory Auditor,
London, United Kingdom
9 October 2019

Southern Railway Limited
Income statement
for the year ended 29 June 2019

| | <i>Notes</i> | <i>2019</i> £'000 | <i>2018</i> £'000 |
|---|--------------|----------------------|----------------------|
| Revenue | 3 | – | 1,180 |
| Operating income/(costs) | 4 | 731 | (994) |
| Operating profit | | <u>731</u> | <u>186</u> |
| Interest receivable and similar income | 6 | 109 | 51 |
| Interest payable and similar charges | 7 | (6) | (4) |
| Profit before taxation | | <u>834</u> | <u>233</u> |
| Tax on profit | 8 | (159) | (44) |
| Profit for the year from discontinued operations | | <u><u>675</u></u> | <u><u>189</u></u> |

All operating activities transferred to Govia Thameslink Railway Limited on 26 July 2015. From this date the Company discontinued trading, and the Company's principal activity became the settlement of disputes and remaining liabilities.

In 2018 income was received for staffing at Gatwick Airport in relation to the franchise term subsequent to an agreement reached with Network Rail.

Statement of comprehensive income
for the year ended 29 June 2019

| | <i>2019</i> £'000 | <i>2018</i> £'000 |
|---|----------------------|----------------------|
| Profit for the year from discontinued operations | <u>675</u> | <u>189</u> |
| Total comprehensive income for the year | <u><u>675</u></u> | <u><u>189</u></u> |

Southern Railway Limited
Statement of changes in equity
for the year ended 29 June 2019

| | <i>Notes</i> | <i>Share capital</i> £'000 | <i>Retained earnings</i> £'000 | <i>Total equity</i> £'000 |
|------------------------|--------------|-------------------------------|-----------------------------------|------------------------------|
| At 1 July 2017 | | 10,000 | 4,129 | 14,129 |
| Profit for the year | | – | 189 | 189 |
| Equity dividends paid | 9 | – | (2,000) | (2,000) |
| At 30 June 2018 | | 10,000 | 2,318 | 12,318 |
| Profit for the year | | – | 675 | 675 |
| Equity dividends paid | 9 | – | (1,000) | (1,000) |
| At 29 June 2019 | | <u>10,000</u> | <u>1,993</u> | <u>11,993</u> |

Southern Railway Limited
Registered No: 06574965
Balance sheet
at 29 June 2019

| | <i>Notes</i> | <i>2019</i> £000 | <i>2018</i> £000 |
|--|--------------|-----------------------|-----------------------|
| Assets | | | |
| <i>Current assets</i> | | | |
| Debtors: amounts due within one year | 10 | 2,249 | 969 |
| Cash at bank | | 17,713 | 18,722 |
| | | <u>19,962</u> | <u>19,691</u> |
| Total assets | | <u>19,962</u> | <u>19,691</u> |
| Liabilities | | | |
| <i>Current liabilities</i> | | | |
| Creditors: amounts falling due within one year | 11 | (7,460) | (6,762) |
| Current tax liabilities | 8 | (132) | (17) |
| | | <u>(7,592)</u> | <u>(6,779)</u> |
| <i>Net current assets</i> | | <u>12,370</u> | <u>12,912</u> |
| <i>Total assets less current liabilities</i> | | <u>12,370</u> | <u>12,912</u> |
| <i>Non-current liabilities</i> | | | |
| Provisions | 12 | (377) | (594) |
| | | <u>(377)</u> | <u>(594)</u> |
| Total liabilities | | <u>(7,969)</u> | <u>(7,373)</u> |
| Net assets | | <u>11,993</u> | <u>12,318</u> |
| Capital and reserves | | | |
| Share capital | 14 | 10,000 | 10,000 |
| Retained earnings | | 1,993 | 2,318 |
| Total equity | | <u>11,993</u> | <u>12,318</u> |

The financial statements were approved by the Board of Directors and authorised for issue on 9th October 2019 and signed on their behalf by:



E Brian
Director

Southern Railway Limited
Notes to the financial statements
for the year ended 29 June 2019

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

These financial statements of Southern Railway Limited (the “Company”) for the year ended 29 June 2019 were authorised for issue by the Board of Directors on 9th October 2019 and the balance sheet was signed on the Board’s behalf by E Brian. 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”).

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

2. Accounting policies

2.1 Basis of preparation

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

The franchise operated by the Company ended on 26 July 2015 and the new franchise was awarded by DfT to Govia Thameslink Railway Limited. From this date, the Company ceased trading and remains in existence as debts are recovered and liabilities are settled. Accordingly the financial statements have been prepared on a basis other than going concern as described in the Strategic Report.

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 and functional currency used is sterling and amounts have been presented in round thousands (“£’000”).

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

- the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- the requirements 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 requirements in IAS 24 *Related Party Transactions* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based payments*;
- the requirements of paragraphs 134(d)-(f) and 135(c)-(e) of IAS 36 *Impairment of Assets*;
- the requirements of paragraphs 110 (2nd sentence), 113(a), 114, 115, 118, 119(a)-119(c), 120-127 and 129 of IFRS 15 *Revenue from Contracts with Customers*; and
- the requirements of paragraph 52, 89 (2nd sentence), 90, 91 and 93 of IFRS 16 *Leases* and the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Southern Railway Limited
Notes to the financial statements (continued)
for the year ended 29 June 2019

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

New standards

The following new standards or interpretations are mandatory for the first time for the financial year ended 29 June 2019:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- IAS 40 (amendments) Transfers of Investment Property; and
- IFRIC 22 Foreign Currency and Advance Consideration.

As at 29 June 2019 the company did not hold any balances nor have any transactions relating to the above standards. Therefore the impact of adopting these new standards upon the company during the current year, is nil.

Other new standards

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

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:

| International Accounting Standards (IAS/IFRSs) | Effective date (periods beginning on or after) |
|--|---|
| IFRS 16 Leases | 1 January 2019 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to IFRS 9 Prepayment features with negative compensation | 1 January 2019 |
| Amendment to IAS 28 Long term interests in associates and joint ventures | 1 January 2019 |
| Amendments to IAS 19 Plan amendment, curtailment or settlement | 1 January 2019 |
| Amendments to references to conceptual framework in IFRS standards | 1 January 2020 |
| IFRS 17 Insurance contracts | 1 January 2021 |

The directors do not anticipate adoption of these standards and interpretations will have a material impact on the Company's financial statements.

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

2.2 Critical judgements and key sources of estimation uncertainty

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

Uninsured claims

The measurement of uninsured liabilities is based on an assessment of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Company, as detailed in note 12. In order to assess the appropriate level of provisions The Go-Ahead Group plc engages with its brokers and claims handlers to ensure external expertise is adequately factored in to the provision for known claims.

Key sources of estimation uncertainty

There are no 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.

Southern Railway Limited
Notes to the financial statements (continued)
for the year ended 29 June 2019

2. Accounting policies (continued)

2.3 Significant accounting policies

Revenue

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

Franchise subsidy

Franchise subsidy comprises receipts from the DfT and local Passenger Transport Executives (PTEs) which are receivable under the terms of the franchise agreements. The franchise agreements include minimum specifications of passenger services to be provided, which is the key performance obligation. Franchise premium payments to the DfT, for amounts due under the terms of the franchise, are recognised in operating costs. The subsidy is recognised in the period to which it relates.

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.

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.

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.

Notes to the financial statements *(continued)*

for the year ended 29 June 2019

2. Accounting policies *(continued)*

2.3 Significant accounting policies *(continued)*

Uninsured liabilities

The Company limits its exposure to the cost of motor, employer and public liability claims through third party insurance policies. 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 included within provisions for liabilities for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date. The estimation of the balance sheet insurance provision is made after taking appropriate professional advice and is based on an assessment of the expected settlement on known claims, together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but, which have not yet been reported to the Company.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Amortisation of liabilities and any gains and losses arising on the repurchase settlement or other de-recognition of debt are recognised directly in the income statement. Interest income is recognised by applying the effective interest rate.

Southern Railway Limited
Notes to the financial statements (continued)
for the year ended 29 June 2019

3. Revenue

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

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Rendering of services | – | 564 |
| Franchise subsidy receipts and revenue support | – | 616 |
| | <u>–</u> | <u>1,180</u> |

An analysis of revenue by geographical market is given below:

| | 2019 £'000 | 2018 £'000 |
|----------------|---------------|---------------|
| United Kingdom | <u>–</u> | <u>1,180</u> |

4. Operating (income)/costs

| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
|--|--------------|--------------|--------------|--------------|
| Other operating (income)/costs | | | | |
| – cost of sales | (731) | | 998 | |
| – administrative expenses | – | | (4) | |
| | <u>–</u> | | <u>994</u> | |
| Other operating (income)/costs | | (731) | | 994 |
| Total operating (income)/ costs | | <u>(731)</u> | | <u>994</u> |

The other operating income constitutes compensation claims exceeding provision estimates.

The audit fees for the audit of the financial statements of £250,000 (2018: £256,000) borne by Govia Thameslink Railway Limited, include the fee of £10,000 (2018: £10,000) for the Company.

The Company had net receipts from Network Rail during the year of £829,000 (2018: £670,000 payment).

Notes to the financial statements (continued)

for the year ended 29 June 2019

5. Directors' emoluments

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 15.

6. Interest receivable and similar income

| | <i>2019</i> | <i>2018</i> |
|--------------------------|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Bank interest receivable | <u>109</u> | <u>51</u> |

7. Interest payable and similar charges

| | <i>2019</i> | <i>2018</i> |
|--------------------------|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Unwinding of discounting | <u>6</u> | <u>4</u> |
| | <u>6</u> | <u>4</u> |

Southern Railway Limited
Notes to the financial statements (continued)
for the year ended 29 June 2019

8. Taxation

(a) Tax recognised in the income statement

The tax charge is made up as follows:

| | <i>2019</i> | <i>2018</i> |
|---|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| <i>Current tax:</i> | | |
| UK corporation tax | 158 | 44 |
| Adjustments in respect of current tax of previous years | 1 | – |
| Total current tax (note 8(b)) | <u>159</u> | <u>44</u> |

(b) Reconciliation

A reconciliation of income taxation applicable to accounting profit before tax at the statutory tax rates for the years ended 29 June 2019 and 1 July 2018 is shown below.

The tax assessed on the profit for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 29 June 2019 was 19% (2018: 19%).

The differences are reconciled below:

| | <i>2019</i> | <i>2018</i> |
|---|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Profit before tax | 834 | 233 |
| Tax at the UK corporation tax rate of 19% (2018: 19%) | 158 | 44 |
| Adjustments in respect of current tax of previous years | 1 | – |
| Tax reported in the income statement | <u>159</u> | <u>44</u> |
| Effective tax rate | 19% | 19% |

(c) Reconciliation of current tax liabilities

| | <i>2019</i> | <i>2018</i> |
|--|--------------|-------------|
| | <i>£000</i> | <i>£000</i> |
| Current tax liability at start of year | (17) | (468) |
| Corporation tax reported in income statement (note 8(a)) | (159) | (44) |
| Paid in the year | 44 | 495 |
| Current tax liability at end of year | <u>(132)</u> | <u>(17)</u> |

(d) 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 29 June 2019.

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.

Notes to the financial statements (continued)

for the year ended 29 June 2019

9. Dividends

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Paid during the year | | |
| Equity dividends on ordinary shares 2019: 10.0p per share (2018: 20.0p per share) | <u>1,000</u> | <u>2,000</u> |

10. Debtors

| | 2019 £'000 | 2018 £'000 |
|--------------------------------|---------------|---------------|
| Trade debtors | 2,243 | 671 |
| Prepayments and accrued income | 6 | 3 |
| Central government debtors | – | 295 |
| | <u>2,249</u> | <u>969</u> |

The credit risk associated with the Company's trade and other receivables and the impact of the adoption of IFRS 9 is explained in the Strategic Report.

11. Creditors: amounts falling due within one year

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | 5 | 4 |
| Trade creditors | 6,664 | 6,701 |
| Other creditors | 756 | 57 |
| Central government creditor | 35 | – |
| | <u>7,460</u> | <u>6,762</u> |

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

No amounts fall due for payment greater than 1 year after the balance sheet date.

Southern Railway Limited
Notes to the financial statements (continued)
for the year ended 29 June 2019

12. Provisions

| | <i>Uninsured claims £'000</i> |
|--------------------------------------|---------------------------------------|
| At 1 July 2017 | 589 |
| Provided in year (after discounting) | 382 |
| Utilised in year | (237) |
| Released in year | (146) |
| Unwinding of discounting | 6 |
| | <hr/> |
| At 30 June 2018 | 594 |
| Provided in year (after discounting) | 33 |
| Utilised in year | (259) |
| Released in year | (3) |
| Unwinding of discounting | 12 |
| | <hr/> |
| At 29 June 2019 | <u>377</u> |

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 two 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.

13. Related party transactions

| | <i>The Go-Ahead Group plc & Subsidiary Companies</i> | |
|-------------------------------|--|-------------|
| | <i>2019</i> | <i>2018</i> |
| | <i>£000</i> | <i>£000</i> |
| Purchases from related party | 327 | 293 |
| Amounts owed to related party | 5 | 4 |
| | <hr/> | <hr/> |

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

Notes to the financial statements (continued)

for the year ended 29 June 2019

14. Called up share capital

| | No. | <i>Allotted, called up and fully paid</i> | | |
|----------------------------|------------|---|-------------|---------------|
| | | <i>2019</i> | <i>2018</i> | |
| | | <i>£'000</i> | <i>No.</i> | <i>£'000</i> |
| Ordinary shares of £1 each | 10,000,000 | <u>10,000</u> | 10,000,000 | <u>10,000</u> |

15. Ultimate parent company

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

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

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.