Registered No: 04860660

London & South Eastern Railway Limited

Annual Report and Financial Statements

Year ended 2 July 2016

London and South Eastern Railway Limited

DIRECTORS AND PROFESSIONAL ADVISORS

Directors
D A Brown
S P Butcher
D I Statham
E Brian
A J F Gordon
B D M Tabary
C A Hodgson

Company Secretary
C Ferguson

Auditor
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London and South Eastern Railway Limited
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Strategic report

The directors present their Strategic Report for the year ended 2 July 2016.

Business Review

The principal activity of London and South Eastern Railway Limited (the "Company") is the operation of passenger railway services in London and across Kent and parts of East Sussex. Our operations include Metro services in Greater London, longer distance Mainline services and domestic Highspeed services into St Pancras. The current franchise agreement runs until 24 June 2018 with a pre-negotiated extension to January 2019 at the discretion of the Department for Transport.

The profit for the year, after taxation, amounted to £30,692,000 (2015: £20,508,000). Particulars of equity dividends paid during the year are detailed in note 10 to the financial statements.

The Company's key financial and other performance indicators during the year were as follows:

	2016 £000	2015 £000	Change £000 / %
Turnover including subsidy (continuing operations)	870,456	803,486	66,970
Operating Profit (after amortisation)	38,401	26,710	11,691
Profit for the financial year	30,692	20,508	10,184
Operating Profit (after amortisation) margin	4.4%	3.3%	1.1%
Passenger income growth	3.3%	8.5%	(5.2)%
Passenger journey (Volume) growth	0.6%	3.1%	(2.5)%
Public Punctuality measure (annual average)	86.3%	89.4%	(3.1)%
National Rail Passenger Satisfaction Survey (Spring)	69%	75%	(6)%
Average number of employees	4,186	4,006	180

The Company had another successful year in 2016, delivering a £30.7m profit under the current franchise terms, ahead of previous years and budget expectations. This was primarily driven by continued passenger income growth albeit this was lower than the prior year at 3.3%. Normalised growth however was 4.9% when taking into account the full year impact of the transfer of Catford Loop services to Govia Thameslink Railway in December 2014. The slowdown in growth was in line with expectations based on economic projections, allocation of London travelcard revenue and lower RPI-based regulated fare increases in January 2016 compared to January 2015. Normalised passenger journey growth was 2.3% when taking into account the transfer of services to Govia Thameslink Railway.

Train performance has been challenging, mostly due to infrastructure issues, and is the main driver behind the drop in passenger satisfaction scores. This is being addressed with Network Rail through a thorough analysis of root causes and the implementation of short and medium term recovery plans. The drop in passenger satisfaction has been mitigated by programmes of investment in station facilities, train refurbishment, improved information provision and retail systems. Oyster was successfully extended to Highspeed and to Dartford and Swanley. Online sales switched in January 2016 to a new platform enabling stronger growth through an improved customer experience.

Major damage discovered on Christmas Eve 2015 in a portion of the seawall between Dover and Folkestone has resulted in a complete line closure while Network Rail are carrying out repairs, leading to the implementation of a revised timetable and bus replacement services. The line reopened on 5 September 2016.

The Thameslink programme continued to progress to plan through major blockades at Christmas, Easter and August. Preparations are well underway for the next phase of works including blockades at Christmas 2016 and in August 2017.

Drivers moved to a four day working week in May 2016 in line with their collective agreement and staffing at ticket gates continues to be compliant with our franchise obligations.

Strategic report (continued)

Business Review (continued)

The Company achieved recertification for the international standard for health and safety management systems (OHSAS 18001) and achieved accreditation against environmental and energy standards ISO 14001 and ISO 50001.

Principal risks and uncertainties

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

- Political Risks

The formation of a new government post Brexit vote has resulted in the appointment of a new Secretary of State for Transport and Rail Minister.

Transport for London and the new Mayor of London retain their ambition to take over the Metro part of the services. The Company will collaborate as required with them and the Department for Transport to shape the potential future franchise.

Relationships with the Trade Unions are stable in a challenging industrial relations environment. An agreement has been reached on the impact of the European working time directive on holiday pay and retrospective payments to employees and settlement for the 2015 calendar year was made in September 2016. Regular employee forums and company council meetings continue to be held in order to maintain constructive relationships.

Advice was received from the Office of Rail and Road (ORR) that the Company is to be prosecuted for alleged health and safety offences in connection with the fatal electrocution of a contract carriage cleaner at St. Leonards West Marina depot on 24 May 2014. The Company has taken legal advice and is currently considering its position in relation to these charges. The Directors consider that any potential fine and associated costs has been adequately provided for in these financial statements. The Company completed independent reviews of safety at train depots and contractor safety management and has been implementing recommended actions to mitigate against health and safety risks.

- Economic Risks

The impact of Brexit on rail demand remains difficult to quantify but it is likely to result in a reduction in revenue growth in the remaining period of the Direct Award Contract and will require agility of response and adaptation to changes in the market in the same way as in many other businesses.

- Environmental Risks

Mitigating the environmental impact remains high on the Company's agenda - both site and traction energy are closely monitored and the Company achieved accreditation against environmental and energy standards ISO 14001 and ISO 50001 in 2016.

- Infrastructure Performance Risks

Infrastructure performance continues to be disappointing but Network Rail has recently changed the team in charge of the Southeast route and appear committed to a joint improvement plan. Performance improvement remains a key focus of the Company's strategic plan and continues to be closely monitored by the Directors.

- Financial Instrument Risk

The Company's principal financial instrument is cash and short-term deposits, overdrafts are not used. Other financial assets and liabilities, such as trade debtors and trade creditors arise directly from the Company's operating activities. Cashflow requirements are reviewed by senior management on a regular basis to ensure that the Company continues to have sufficient cash resources to meet requirements as they fall due into the foreseeable future.

Strategic report (continued)

Principal risks and uncertainties (continued)

- Exposure to price, credit interest and liquidity risk

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 loans with group companies and therefore financial assets, liabilities, interest income, interest charges and cash flows can be affected by movements in interest rates.

Liquidity risk is mitigated by managing cash generated by the Company's operations in line with The Go-Ahead Group plc ("Group") policies. The Company aims to mitigate liquidity risk by managing the return of bank deposits at defined times in any four week cycle. 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.

Future developments

Future developments are discussed in the Directors' Report.

On behalf of the Board:

S P Butcher
Director
3 October 2016

London and South Eastern Railway Limited
Registered No: 04860660

Directors' report

The directors present their Annual Report, together with the financial statements and auditor's report for the year ended 2 July 2016.

Directors of the Company

The directors who served the Company during the year were as follows:

D A Brown	
K Down	(resigned 6 December 2015)
A J F Gordon	
B D M Tabary	
C S Horton	(resigned 23 September 2015)
D I Statham	
E Brian	
S P Butcher	(appointed 14 March 2016)
CA Hodgson	(appointed 6 December 2015)

Messrs Brown, Butcher and Down were directors of the Ultimate Parent Company, The Go-Ahead Group plc during the year.

Dividends

Total ordinary dividends paid in the year were £37,000,000. The Directors do not recommend a final ordinary dividend for the year.

Future Developments

The Thameslink infrastructure development programme will continue to impact the Company's services. A major timetable change took place in August 2016 and preparations are well underway for the next phase of work including blockades at Christmas 2016 and in August 2017. All blockades are covered by existing compensation arrangements with Network Rail.

Plans are in place to introduce Smart Ticketing on the network from December 2016 to enhance customer experience and efficiency.

The Company is actively negotiating with the Department for Transport to introduce On Train Wi-fi throughout the network.

Discussions are also ongoing with the Department for Transport to fund additional train units to alleviate crowding generated by continued passenger journey growth.

The current franchise agreement ends on 24 June 2018 and the Department for Transport are expected to formally launch the procurement process for the next franchise towards the end of 2016.

Financial Instruments

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

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

Research and development

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

Directors' report (continued)

Employee Involvement

The Company is committed to involving its people in achieving its strategic objectives and people development is at the heart of the delivery of the Strategic Plan. A 'Route to Success' programme was delivered over the course of 2016 to engage all employees with the strategic objectives. Employees are encouraged through regular forums to discuss matters affecting the day to day operations of the Company and discussions take place regularly with Trade Unions on a wide range of issues.

The Company is committed to equality of opportunity in all its employment practices, policies and procedures including recruitment, promotion, opportunities for training, pay and benefits, discipline and selection for redundancy. The Company received Investors in People gold reaccreditation in 2016 and continues to enhance its programmes for flexible working, reward and recognition and recruitment to ensure that the potential for discrimination is minimised and the benefits from employing a diverse workforce are maximised.

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.

Employees are invited to apply for shares in The Go-Ahead Group plc via a Share Incentive Plan. Further information on this plan is provided in note 21 to these financial statements.

Directors' indemnities

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

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 above.

The Company has considerable financial resources together with a Franchise Agreement with the DfT to provide passenger railway services. As a consequence the directors believe that the Company is well placed to manage its business risks successfully given the principal risks and uncertainties identified and discussed in the Strategic Report.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence until the end of the Direct Award Contract. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

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Directors' report (continued)

Directors' statement as to disclosure of information 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 auditors 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 auditors with effect from the 2015 Annual General Meeting of The Go-Ahead Group plc. A resolution to appoint Deloitte LLP was approved by the members at that Annual General Meeting. Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the board

S P Butcher
Director

3 October 2016

Directors' Responsibilities Statement

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 year.

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 London and South Eastern Railway Limited

We have audited the financial statements of London and South Eastern 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 set out on page 8, 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 profit 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.

Independent auditor's report

to the members of London and South Eastern Railway Limited

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.

Chris Powell

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

5 October 2016

London and South Eastern Railway Limited

Income statement

for the year ended 2 July 2016

	Notes	2016 £000	2015 £000
Turnover	3	870,456	803,486
Operating costs	4	(831,963)	(776,776)
Operating profit (before amortisation)		38,493	26,710
Intangible asset amortisation	11	(92)	-
Operating profit (after amortisation)		38,401	26,710
Interest receivable and similar income	7	1,222	958
Interest payable and similar charges	8	(1,037)	(825)
Profit on ordinary activities before taxation		38,586	26,843
Tax on profit on ordinary activities	9a	(7,894)	(6,335)
Profit for the year from continuing operations		30,692	20,508

Statement of comprehensive income

for the year ended 2 July 2016

	Notes	*2016 £000*	*2015 £000*
Profit for the year from continuing operations		30,692	20,508
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurement gains on defined benefit pension plan	17	13,600	7,900
Tax relating to items that will not be reclassified	9b	(2,584)	(1,580)
Other comprehensive income for the year, net of tax		11,016	6,320
Total comprehensive income for the year		41,708	26,828

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Statement of changes in equity
for the year ended 2 July 2016

	Notes	*Share capital £000*	*Retained earnings £000*	*Total Equity £000*
At 28 June 2014		20,000	24,163	44,163
Profit for the year		-	20,508	20,508
Re-measurement gains on defined benefit pension plan (net of tax)		-	6,320	6,320
Total comprehensive income		-	26,828	26,828
Share based payment charge	*21*	-	80	80
Equity dividends paid	*10*	-	(25,000)	(25,000)
At 27 June 2015		20,000	26,071	46,071
Profit for the year		-	30,692	30,692
Re-measurement gains on defined benefit pension plan (net of tax)		-	11,016	11,016
Total comprehensive income		-	41,708	41,708
Share based payment charge	*21*	-	146	146
Equity dividends paid	*10*	-	(37,000)	(37,000)
At 2 July 2016		20,000	30,925	50,925

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Balance sheet
at 2 July 2016

	Notes	*2016* *£000*	*2015* *£000*
Fixed assets			
Intangible assets	*11*	592	4
Tangible assets	*12*	7,618	4,345
		8,210	4,349
Current assets			
Stocks		3,490	3,169
Debtors	*13*	73,007	68,790
Cash at bank		242,794	191,883
		319,291	263,842
Creditors: amounts falling due within one year	*14*	(258,752)	(201,745)
Net current assets		60,539	62,097
Total assets less current liabilities		68,749	66,446
Creditors: amounts falling due after more than one year	*15*	(1,760)	(76)
Provisions for liabilities	*16*	(16,064)	(20,299)
Retirement benefit obligations	*17*	-	-
Net assets		50,925	46,071
Capital and reserves			
Share capital	*18*	20,000	20,000
Retained earnings		30,925	26,071
Total equity		50,925	46,071

The financial statements were approved by the Board of directors and authorised for issue on 3 October 2016 and signed on their behalf by

S P Butcher
Director

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

The financial statements of London & South Eastern Railway Limited (the "Company") for the year ended 2 July 2016 were authorised for issue by the board of directors on 3 October 2016 and the balance sheet was signed on the board's behalf by S P Butcher. The Company is incorporated, domiciled and has its registered office in England and Wales.

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

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

2. Accounting policies

2.1 Basis of preparation

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

The Company's ultimate parent undertaking, The Go-Ahead Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of The Go-Ahead Group plc are prepared in accordance with International Financial Reporting Standards 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 modified for pension remeasurement. 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:
    a) paragraph 73(e) of IAS 16 *Property, Plant and Equipment;*
    b) paragraph 118(e) of IAS 38 *Intangible Assets;*
- the requirements of paragraphs 10(d), 111 and 134 of IAS 1 *Presentation of Financial Statements;*
- the requirements of IAS 7 *Statement of Cash Flows;*
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors;* and
- the requirement of paragraph 17 of IAS 24 *Related Party Transactions;*

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

2. Accounting policies (continued)

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 17;
- the measurement of uninsured liabilities is based on an assessment provided by external advisors of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Company, as detailed in note 16; and
- the measurement of franchise commitments, comprising dilapidation provisions on vehicles, properties, depots and stations, is based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors, as set out in note 16.

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 the 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.

Measurement of franchise commitments

The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations is set out in note 19. 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.

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 16. 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.

Retirement benefit obligations

The measurement of defined pension obligations requires the estimation of future changes in salaries, inflation, longevity of current and deferred members and the selection of a suitable discount rate, as set out in note 17. The Go-Ahead Group plc engages Willis Towers Watson, a global professional services company whose specialisms include actuarial advice, to support the process of establishing reasonable bases for all of the estimates, to ensure they are appropriate to the Company's particular circumstances. These assumptions are also benchmarked on a periodic basis with other professional advisers such as PricewaterhouseCoopers.

2. Accounting policies (continued)

2.2 Judgements and key sources of estimation uncertainty (continued)

Accounting for rail pension schemes
The Company participates in the Rail Pension Scheme ("RPS"), a defined benefit pension scheme which covers the whole of the UK rail industry. The RPS is partitioned into sections and the Company is responsible for the funding of its scheme 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
Revenue is recognised to the extent that it is probable that the income will flow to the Company and the value can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Rendering of services
Rail revenue comprises amounts based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts and other related services such as rolling stock maintenance and commission on tickets sold.

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

Rental income
Rental income is generated from rental of surplus properties. It is accounted for on a straight-line basis over the lease term.

Franchise subsidy receipts and revenue support
Franchise subsidy receipts from the Department for Transport (the "DfT") are treated as revenue.

From 1 April 2010 until 11 October 2014, in accordance with the Franchise Agreement dated 29 November 2005, the Company was eligible to receive Revenue Support from the DfT. Revenue Support is triggered when actual revenue is below the agreed Target Revenue which is set for each franchise year beginning 1 April 2010. When passenger revenue levels fall 2% below the Target Revenue level set within the Franchise Agreement the Company enters into Revenue Support.

Revenue Support was recognised in the income statement within revenue on a seasonally adjusted basis, however, Revenue Support was claimed, and cash was received, from the DfT on a straight line basis.

2. Accounting policies (continued)

2.3 Significant accounting policies (continued)

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

Exceptional items
The Company presents as exceptional items on the face of the profit and loss account those material items of revenue and 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.

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

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

Franchise bid costs
During the 2015 financial year the Company successfully concluded a bid for a franchise extension. All franchise bid costs incurred prior to securing the extension were treated as an expense in the income statement.

Profit sharing agreements
The Company has a profit sharing agreement with the DfT. From the 12 October 2014, in accordance with the franchise agreement dated 10 September 2014, the Company is required to share profits with the DfT that are in excess of thresholds set for each franchise year.

Profit share is recognised in the income statement within operating costs in line with current and expected retained profits for each franchise year and is payable to the DfT following the end of the franchise year.

Intangible assets
Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised. The carrying value of Goodwill is reviewed for impairment at the end of the first financial year following the award of the franchise and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill acquired at the commencement of the Integrated Kent franchise was amortised through the income statement on a straight line basis over the period of that franchise which expired on the 12 October 2014.

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.

2. Accounting policies (continued)

2.3 Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is charged to the income statement based on cost, less estimated residual value of each asset, evenly over its expected useful life as follows:

Short leasehold property	-	Life of the lease
Plant & equipment	-	1 to 7 years

The carrying values of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, the assets are written down to their recoverable amount.

Stocks

Stocks of engineering spares are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost comprises direct materials and costs incurred in bringing the items to their present location and condition. Net realisable value represents the estimated selling price less costs of sale.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, expected future cashflows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Leasing commitments

Operating lease commitments

Leases where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payables under operating leases, and the amortisation of lease incentives and initial direct costs in securing leases, are charged to the income statement on a straight-line basis over the lease term.

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.

At the end of certain leases the Company has an obligation to return the assets to the lessor in an appropriate condition. The anticipated costs of meeting these return conditions are included within the financial statements as at 2 July 2016.

Operating lease income

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

2. Accounting policies (continued)

2.3 *Significant accounting policies (continued)*

Retirement benefits
The Company operates a defined benefit pension scheme. The cost of this is recognised in the income statement. 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 17 for additional clarification.

The Company is responsible for funding the London & South Eastern Railway Limited 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 financial performance and position in respect of its obligations for the RPS.

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.

2. Accounting policies (continued)

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); performance conditions (a vesting condition); and service conditions (a vesting condition).

The cost of options in The Go-Ahead Group plc are recognised in the income statement of the Company. The cost is recognised 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 and/or service conditions are satisfied. Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately

3. Turnover

Turnover recognised in the income statement is analysed as follows:

	2016	*2015*
	£000	*£000*
Rendering of services	805,585	757,916
Rental income	3,807	2,751
Franchise subsidy receipts and revenue support	61,064	42,819
	870,456	803,486

London and South Eastern Railway Limited

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for the year ended 2 July 2016

4. Operating costs (excluding amortisation)

	2016 *£000*	*2015* *£000*
Staff costs *(see note 5)*	209,458	185,809
Operating lease payments		
- property	41,402	41,439
- rail rolling stock	160,047	155,062
- access charges	289,857	284,644
Total lease and sublease payments recognised as an expense	491,306	481,145
Other operating income	(9,058)	(4,785)
Profit share payable to the Department for Transport	39,926	23,980
Auditor's remuneration		
- fees payable to the Company's auditor for the audit of the Company's financial statements	110	87
- assurance related services	12	15
- tax compliance services	-	6
Total auditor's remuneration	122	108
Government grants	(1,095)	(45)
Costs relating to franchise extension activities	-	379
Other operating costs	98,292	88,904
Total operating costs	831,963	776,776

The other operating income constitutes property income, advertising, facilities third-party recharges and funding for engineering transition costs. During the year £0.049m (2015: £0.123m) was also paid to other 'Big 4' accounting firms for a variety of services.

Government grant income recognised is attributable to non-current assets.

Included within Other operating costs are net receipts that the Company received from Network Rail during the year of £40.8m (2015: £24.8m).

London and South Eastern Railway Limited

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for the year ended 2 July 2016

5. Staff costs

	2016	*2015*
	£000	*£000*
Wages and salaries	168,541	153,271
Social security costs	14,271	11,958
Expenses related to defined benefit plan *(see note 17)*	26,500	20,500
Share based payment charge	146	80
	209,458	185,809

The monthly average number of employees during the year was:

	2016	*2015*
	No.	*No.*
Administration and Supervision	654	611
Maintenance and Engineering	310	306
Operations	3,222	3,089
	4,186	4,006

6. Directors' remuneration

	2016	*2015*
	£000	*£000*
Aggregate emoluments in respect of qualifying services	431	510
Number of directors accruing benefits under defined benefit schemes	2	2
Number of directors who exercised share options during the year	0	0

In respect of the highest paid director:

Aggregate emoluments in respect of qualifying services	287	242
Accrued pension at the end of the year	6	1
Accrued lump sum at the end of the year	3	2

Other Directors' that served the Company during the year were remunerated through the Ultimate Parent Company and minority shareholder.

7. Interest receivable and similar income

	2016	*2015*
	£000	*£000*
Bank interest receivable	1,222	884
Interest receivable from group undertakings	-	74
	1,222	958

8. Interest payable and similar charges

	2016	*2015*
	£000	*£000*
Interest payable to group undertakings	-	9
Other interest payable	585	728
Discounting of provisions *(see note 16)*	452	88
	1,037	825

9. Taxation

(a) *Tax recognised in the income statement*

	2016	*2015*
	£000	*£000*
Current tax:		
UK corporation tax	10,323	7,654
Corporation tax in respect of previous periods	(82)	19
Total current tax	10,241	7,673
Deferred tax:		
Origination and reversal of temporary differences	(2,529)	(1,456)
Deferred tax of a prior period	182	118
Total deferred tax	(2,347)	(1,338)
***Total reported in the income statement** (note 9c)*	7,894	6,335

(b) *Tax relating to items charged or credited outside of income statement*

	2016	*2015*
	£000	*£000*
Tax on re-measurement gains on defined benefit pension plans	(2,584)	(1,580)
Tax reported outside of the income statement	(2,584)	(1,580)

(c) *Reconciliation*

A reconciliation of taxation applicable to accounting profit 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 profit 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%).

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for the year ended 2 July 2016

9. Taxation (continued)

(c) *Reconciliation (continued)*

The differences are reconciled below:

	2016 *£000*	*2015* *£000*
Accounting profit on ordinary activities before taxation	38,586	26,843
At United Kingdom tax rate of 20% (2015: 20.75%)	7,717	5,570
Expenditure not allowable for tax purposes	(108)	573
Deferred tax movement due to rate change	55	-
Deferred tax of a prior period	182	118
Difference between deferred and corporation tax rates	130	55
Prior year adjustments	(82)	19
Tax reported in the income statement	7,894	6,335
Effective tax rate	20.5%	23.6%

(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 (note 13), are as follows:

	Accelerated capital allowances *£000*	*Retirement benefit obligations* *£000*	*Total* *£000*
Deferred tax asset at 28 June 2014	1,334	-	1,334
Recognised in Income Statement	(242)	1,580	1,338
Recognised in equity	-	(1,580)	(1,580)
	(242)	-	(242)
Deferred tax asset at 27 June 2015	1,092	-	1,092
Recognised in Income Statement	(237)	2,584	2,347
Recognised in equity	-	(2,584)	(2,584)
	(237)	-	(237)
Deferred tax asset at 2 July 2016	855	-	855

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. A deferred tax rate of 19% has been applied at the balance sheet date based upon management's expectation that the deferred tax asset will crystallise at the end of the current franchise in June 2018

9. Taxation (continued)

(d) *Deferred tax (continued)*

In addition, the Finance Bill 2016 was substantively enacted on 6 September 2016 which introduced a further reduction in the main rate of Corporation Tax to 17% from 1 April 2020. Had this rate been enacted at the balance sheet date, the Company's deferred tax asset would have been reduced by £0.090m to £0.765m.

10. Dividends

	2016	*2015*
	£000	*£000*
Equity dividends on ordinary shares:		
First interim 2016: 30.0p (2015: 40.0p)	6,000	8,000
Second interim 2016: 75.0p (2015: 10.0p)	15,000	2,000
Third interim 2016: 80.0p (2015: 60.0p)	16,000	12,000
Declared and paid during the year:	37,000	25,000

11. Intangible fixed assets

	Goodwill	*Software & Licence Costs*	*Total*
	£000	*£000*	*£000*
		£000	
Cost:			
At 27 June 2015	16,686	2,160	18,846
Additions	-	680	680
At 2 July 2016	16,686	2,840	19,526
Amortisation:			
At 27 June 2015	16,686	2,156	18,842
Provided during the period	-	92	92
At 2 July 2016	16,686	2,248	18,934
Net book value:			
At 2 July 2016	-	592	592
At 27 June 2015	-	4	4

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12. Tangible fixed assets

	Short leasehold Property	*Plant & Equipment*	*Total*
	£000	*£000*	*£000*
Cost:			
At 27 June 2015	8,377	34,393	42,770
Additions	440	5,845	6,285
At 2 July 2016	8,817	40,238	49,055
Depreciation:			
At 27 June 2015	5,739	32,686	38,425
Provided during the period	967	2,045	3,012
At 2 July 2016	6,706	34,731	41,437
Net book value:			
At 2 July 2016	2,111	5,507	7,618
At 27 June 2015	2,638	1,707	4,345

13. Debtors

	2016	*2015*
	£000	*£000*
Trade debtors	45,188	38,108
Amounts owed from group undertakings	475	3,185
Other debtors	9,516	16,808
Prepayments and accrued income	16,973	9,597
Deferred taxation *(note 9d)*	855	1,092
	73,007	68,790

14. Creditors: amounts falling due within one year

	2016	*2015*
	£000	*£000*
Trade creditors	98,422	70,854
Amounts owed to group undertakings	2,307	1,379
Corporation tax	5,741	5,522
Other taxation and social security	4,295	3,538
Other creditors	16,967	15,307
Deferred season ticket income	76,567	73,662
Accruals and deferred income	54,453	31,483
	258,752	201,745

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

	2016 *£000*	*2015* *£000*
Deferred grant income	1,760	76
	1,760	76

16. Provisions for liabilities

	Uninsured claims *£000*	*Franchise commitments* *£000*	*Total* *£000*
At 27 June 2015			
Current	2,769	9,572	12,341
Non-current	-	7,958	7,958
	2,769	17,530	20,299
Provided in year (after discounting)	1,569	4,918	6,487
Utilised	(549)	(7,834)	(8,383)
Released	(1,233)	(1,558)	(2,791)
Unwinding of discounting	111	341	452
At 2 July 2016	2,667	13,397	16,064
Analysed as:			
Current	773	6,194	6,967
Non-current	1,894	7,203	9,097
	2,667	13,397	16,064

Uninsured claims

Uninsured claims represent the cost to settle claims for incidents occurring prior to the balance sheet date based on an assessment of the expected settlement, together with an estimate of settlements that will be made in respect of incidents that have not yet been reported by the insurer, subject to the overall stop loss. It is estimated that the majority of uninsured claims will be settled within the next six years.

Franchise commitments

Franchise commitments comprise £11.0m (2015: £14.4m) dilapidation provisions on vehicles, properties, depots and stations, and £2.4m (2015: £3.1m) provisions relating to other franchise commitments. Of the dilapidations provisions, £3.8m (2015: £9.5m) are classified as current. All of the £2.4m (2015 : £3.1m) provision relating to other franchise commitments is classified as current. The dilapidations will be incurred as part of a rolling maintenance contract over the next three years. The provisions are based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors.

17. Retirement benefit obligations

The majority of employees are members of the RPS, a funded defined benefit scheme. The RPS is a shared costs scheme, with assets and liabilities split 60%/40% between the franchise holder/employee respectively. The RPS section is open to new entrants and the assets and liabilities of the Company's section are separately identifiable and segregated for funding purposes.

Changes in the financial assumptions includes the effect of changes to the salary cap agreed to offset additional National Insurance costs as a result of the scheme no longer 'opting out' from April 2016.

British Railways Additional Superannuation Scheme (BRASS) matching additional voluntary contributions of £0.2m (2015: £0.2m) were paid during the year.

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. The total surplus or deficit is adjusted by way of a "franchise adjustment". 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 contract.

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

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 in respect of the Company in the year were £12.8m (2015: £12.4m).

The valuation used for IAS 19 (revised) disclosures has been based on the latest completed actuarial valuation of the RPS 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.

17. Retirement benefit obligations (continued)

Summary of year end assumptions:

	2016	*2015*	*2014*
	%	*%*	*%*
Rate of increase in salaries*	4.3	4.3	4.3
Rate of increase in pensions in payment	2.3	2.3	2.0
Rate of increase in deferred pensions	2.3	2.3	2.0
Discount rate	3.8	3.8	4.3
Inflation assumptions:			
RPI	3.3	3.3	3.3
CPI	2.3	2.3	2.0

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

The discount rate is based on the anticipated return of AA-rated corporate bonds with a term matching the maturity of the scheme liabilities.

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.

	At 2 July 2016	*At 27 June 2015*
Pensioner	22 years	22 years
Non-pensioner	24 years	24 years

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

Sensitivity analysis
Due to the nature of the franchise adjustment, the balance sheet position is not sensitive to small movements in any of the assumptions and therefore a quantitative sensitivity analysis has not been included.

Categories of assets at the year end:

	2016		*2015*		*2014*	
	Value		*Value*		*Value*	
	£000	*%*	*£000*	*%*	*£000*	*%*
Employer's 60% share of pension scheme:						
Equities	618,900	94.3	553,518	95.5	461,300	90.0
Bonds	-	0.0	-	0.0	25,600	5.0
Properties	24,100	3.7	23,764	4.1	23,300	4.5
Others	13,300	2.0	2,318	0.4	2,400	0.5
Total market value of assets	656,300	100	579,600	100	512,600	100

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

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17. Retirement benefit obligations (continued)

Funding position of the Company's pension arrangements:

	2016 £000	2015 £000	2014 £000
Employer's 60% share of pension scheme:			
Liabilities at the end of the year	(853,200)	(743,800)	(626,100)
Assets at fair value	656,300	579,600	512,600
Gross deficit	(196,900)	(164,200)	(113,500)
Franchise adjustment	196,900	164,200	113,500
Pension fund liability	-	-	-

Pension cost for the financial year

	2016 £000	2015 £000
Service cost	25,700	19,900
Administration costs	800	600
Interest cost on net liabilities	6,400	5,000
Interest on franchise adjustments	(6,400)	(5,000)
Pension costs	26,500	20,500

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

	2016 £000	2015 £000	2014 £000
Pension scheme liabilities less members share (40%) of the deficit – at start of year	743,800	626,100	562,600
Franchise adjustment (100%)	(164,200)	(113,500)	(89,400)
	579,600	512,600	473,200
Liability movement for members' share of assets (40%)	39,300	33,800	22,000
Service cost (60%)	25,700	19,900	17,100
Interest cost (60%)	19,400	18,100	17,400
Interest on franchise adjustment (100%)	(6,400)	(5,000)	(4,300)
Re-measurement losses / (gains) due to:			
Experience on benefit obligations (60%)	4,000	(6,700)	7,400
Changes in financial assumptions (60%)	59,200	70,800	20,100
Salary Cap introduction (60%)	(16,400)	-	-
Demographic assumptions (60%)	-	-	(4,300)
Benefits paid (100%)	(21,800)	(18,100)	(16,300)
Franchise adjustment movement (100%)	(26,300)	(45,800)	(19,700)
	656,300	579,600	512,600
Franchise adjustment (100%)	196,900	164,200	113,500
Pension scheme liabilities less members share (40%) of the deficit – at end of year	853,200	743,800	626,100

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17. Retirement benefit obligations (continued)

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

	2016 *£000*	*2015* *£000*	*2014* *£000*
Fair value of assets - at start of year (100%)	579,600	512,600	473,200
Interest income of plan assets (60%)	13,000	13,100	13,100
Re-measurement gains on assets (60%)	34,100	26,200	8,978
Company contributions (100%)	12,800	12,400	12,222
Benefits paid (100%)	(21,800)	(18,100)	(16,300)
Administrative expenses incurred (100%)	(1,400)	(1,000)	(1,000)
Members' share of movement of assets (40%)	40,000	34,400	22,400
Fair value of assets - at end of year (100%)	656,300	579,600	512,600

Estimated contributions for the future:

	£'000
Estimated company contributions in financial year 2017	10,600
Estimated employee contributions in financial year 2017	7,100
Estimated total contributions in financial year 2017	17,700

Management consider the Company contributions expected to be paid in the year to June 2017 to be the principal risk to which membership of the RPS exposes the Company.

Departure from the requirement 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.

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*	*2014* *£000*
Balance sheet			
Defined benefit pension plan	(196,900)	(164,200)	(113,500)
Deferred tax asset	37,411	32,840	22,700
	(159,489)	(131,360)	(90,800)
Other comprehensive income			
Re-measurement loss	(26,300)	(45,800)	(19,700)
Tax on re-measurement loss	4,997	9,160	3,940
	(21,303)	(36,640)	(15,760)
Income statement			
Operating costs – franchise adjustment	(6,400)	(5,000)	(4,300)
Deferred tax charge	1,216	1,000	860
	(5,184)	(4,000)	(3,440)

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17. Retirement benefit obligations (continued)

Experience recognised in other comprehensive income:

	2016 £000	2015 £000
Re-measurement loss on pension scheme liabilities	(46,800)	(64,100)
Re-measurement gains on assets	34,100	26,200
Franchise adjustment movement	26,300	45,800
Total gain recognised in other comprehensive income during the year	13,600	7,900

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.

18. Share capital

Authorised, allotted, called up and fully paid

	No.	2016 £000	No.	2015 £000
Ordinary shares of £1 each	20,000,000	20,000	20,000,000	20,000

19. 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:

	2016 £000	2015 £000
Within one year	8,870	7,444
In the second to fifth years inclusive	7,950	15,785
Over 5 years	-	-
	16,820	23,229

At 2 July 2016 the Company holds agreements under which it leases rolling stock, and secure access to railway infrastructure (track, stations and depots). Future minimum rentals payable under non-cancellable operating leases as at 2 July 2016 and 27 June 2015 were as follows:

	2016 £000	2015 £000
Within one year	510,497	514,086
In the second to fifth years inclusive	534,413	1,053,911
Over 5 years	-	-
	1,044,910	1,567,997

19. Commitments (continued)

Operating lease commitments – company as lessor
The Company holds agreements under which it sub-leases retail units and rolling stock on the railway infrastructure. Future minimum rentals receivable under non-cancellable operating leases as at 2 July 2016 and 27 June 2015 were as follows:

	2016	*2015*
	£000	*£000*
Within one year	5,030	1,428
In the second to fifth years inclusive	4,794	2,783
Over 5 years	-	-
	9,824	4,211

Performance bonds
The Company has provided a bank guaranteed performance bond of £46,211,769 (2015: £46,211,769), and a season ticket bond of £62,896,235 (2015: £63,671,317) to the DfT in support of the Company's rail franchise operations.

Capital commitments
At 2 July 2016, amounts contracted for but not provided in the financial statements for plant and equipment amounted to £2,225,000 (2015: £4,016,360).

20. Related party transactions

	2016		*2015*	
	Keolis (UK) Ltd £'000	*Go Ahead Group plc & Subsidiary Co's £'000*	*Keolis (UK) Ltd £'000*	*Go Ahead Group plc & Subsidiary Co's £'000*
Purchases from related party	456	22,417	450	13,753
Sales to related party	-	11,694	-	9,609
Interest receivable	-	-	-	74
Interest payable	-	-	-	9
Amounts owed from related party	-	475	-	3,185
Amounts owed to related party	790	2,307	334	1,379

The Company enters into arms-length transactions with various Go-Ahead Group plc companies for the provision of certain services including management charges, train cleaning, train berthing and rail replacement bus services.

The Go-Ahead Group plc owns 65% and VIA GTI UK Limited owns 35% of the ordinary shares in GOVIA Limited. London and South Eastern Railway Limited is 100% owned by GOVIA Limited.

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21. 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 month's 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 £125 per month in acquiring shares in the group at the prevailing market price. Under the terms of the scheme, certain tax advantages are available to the group and employees.

Sharesave scheme

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

The Sharesave scheme is open to all full time and part-time employees (including executive directors) who have completed at least six months of continuous service with a Go-Ahead Group plc company at the date they are invited to participate in a scheme launch. To take part, qualifying employees have to enter into a savings contract for a period of three years under which they agree to save a monthly amount, from a minimum of £5 to a maximum (not exceeding £500) specified by the Group at the time of invitation. For the February 2014 launch, the maximum monthly savings limit set by the Group was £50. At the end of the savings period, employees can buy shares at a 20% discount on the market price set at the date of invitation or take their full savings back.

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

There are savings-related options at 2 July 2016 as follows:

Scheme maturity	1 May 2019	1 May 2017
Option price (£)	19.11	17.34
No. of options unexercised at 2 July 2016	49,058	56,617
No. of options exercised during the year	-	(118)
No. of options exercisable at 2 July 2016	-	-

The expense recognised for the scheme during the year to 2 July 2016 was £59,000 (2015: £44,000).

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for the year ended 2 July 2016

21. Share Based Payments (continued)

Sharesave scheme (continued)

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

	2016 No £	2016 WAEP £	2015 No £	2015 WAEP £
Outstanding at the beginning of the year	61,051	17.34	63,826	17.34
Granted during the year	49,340	19.11	–	–
Forfeited during the year	(4,598)	17.45	(2,775)	17.34
Exercised during the year	(118)	17.34	–	–
Outstanding at the end of the year	105,675	18.16	61,051	17.34

The options outstanding at the end of the year have a weighted average remaining contracted life of 1.76 years (2015: 1.83 years). These options are exercisable at a weighted average exercise price of £18.16 (2015: £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 £87,000 (2015: £36,000).

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	2015
Outstanding at the beginning of the year	4,295	–
Granted during the year	5,898	4,295
Outstanding at the end of the year	10,193	4,295

At the year end, no options were exercisable.

The weighted average remaining contractual life of the options was 1.58 years (2015: 2.0 years).

22. Restricted cash

Amounts held included within cash at bank can be distributed only with the agreement of the DfT, based upon a working capital formula. As at 2 July 2016, cash balances of £221.5m (2015: £171.5m) were restricted and required to be held for liquidity purposes.

23. Ultimate parent company

The immediate parent company of London and South Eastern Railway Limited is GOVIA Limited.

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 Great Britain. The parent undertaking of the largest and smallest group, which includes the Company and for which group accounts are prepared, is The Go-Ahead Group plc. Copies of the group financial statements of The Go-Ahead Group plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ and The Go-Ahead Group plc website. The Company's immediate controlling party is Govia Limited, a Company incorporated in Great Britain.