

# Moving people



**Go-Ahead**

Annual Report and Accounts  
for the year ended 28 June 2014

# Moving people

Each one of the billion journeys taken on our services every year is important to us. Our focus is on helping people move around, getting to where they want to be, by using our bus and rail operations.



Our new corporate video gives a behind-the-scenes overview of a 'day in the life' of Go-Ahead's operating companies, working 24 hours a day to serve our customers and local communities. [www.go-ahead.com/corporate-video-2014](http://www.go-ahead.com/corporate-video-2014)

5:30am

## 5,500 weekday train services

Every day more than two and a half million journeys are made on Go-Ahead's bus and rail services. More commuters travel into London on our trains than on any other transport provider. We operate around a quarter of the capital's buses.

6:20am

## Maintaining our fleets

Using cloud-based collaboration service, Huddle, Go-Ahead engineers have access to the latest maintenance information at their fingertips on tablets and iPhones. Immediate access to information helps to reduce maintenance 'down time' in depots, getting buses and trains back into service and passengers moving.

→ View a short video about Huddle at [www.go-ahead.com/huddle-video](http://www.go-ahead.com/huddle-video)



8:34am

## Staying connected

All new Go-Ahead buses outside London are now fitted with WiFi as standard. We know people want to stay connected while on the move. Our passengers use their time on our services to catch up on emails, engage with friends and browse the internet, all of which cannot be done while driving. The average time customers use our free WiFi is 24 minutes.



11:00am

## A valuable service

Older passengers in the UK can enjoy free bus travel. This is an important aspect of the social and community value bus services offer. Buses provide access to healthcare and can prevent older people from being isolated. Around a third of Go-Ahead's bus passengers outside London are concessionary travellers.



3:28pm

## Reducing carbon emissions

Just 5% of domestic transport carbon emissions in the UK comes from buses, compared to nearly 67% from cars and taxis. Go-Ahead continually seeks to reduce our carbon emissions and we are leading the way in investing in carbon reduction measures on our buses such as using hybrid, gas and electric powered vehicles and introducing flywheel technology to reduce fuel consumption, reducing both costs and emissions.

→ Read more about flywheel technology on page 20

7:03am

### Engaging with our people

We believe committed and contented employees are more likely to go the extra mile for colleagues and customers. Every year we conduct an employee survey to gauge how engaged our people are. By listening and responding to employee concerns we can demonstrate that we value the contribution they make to our business. Strong career opportunities exist within the Group with 65% of senior director appointments made over the past year being internal promotions.

→ Read more about our people on pages 26 to 29



7:42am

### Supporting the economy

Public transport supports the economy, providing people with a convenient way to get to work. The industry also directly employs 280,000 people across the UK. In 2013, the UK rail industry is believed to have contributed up to £7.2bn.

→ Read about Go-Ahead's economic contribution on page 5



8:05am

### Driving passenger growth

Rail passenger numbers in the UK have grown by over 60% since privatisation in 1996. The UK's strong performance is a result of major investment in our railway. Billions of pounds have been invested to improve the railway infrastructure. Britain's railway is the safest in Europe, and newer trains and more services improve customers' experience. Go-Ahead has carried record numbers of passengers on its bus and rail operations in the year.



6:30pm

### Making journey planning easier

Go-Ahead is leading the way in providing real-time information and data to passengers, helping them find the right service at the right price and access up-to-the-minute travel news. Our journey planning rail app, 'On Track', was created in collaboration with passengers. Rail tickets for all UK journeys can be bought quickly and easily. The app was downloaded by around 150,000 people in its first six months.

→ Read more about our 'On Track' app on page 24



10:14pm

### Serving our passengers 24 hours a day

Buses have a key role in supporting the night-time economy, which has an estimated value of £65bn. Strong public transport links support UK towns and city centres and public transport means a more efficient use of road space – with reduced travel delays from congestion. Go-Ahead operates buses and trains through the night, helping passengers get where they want to be at any time of day.



1:45am

### High quality standards

We take our commitment to the environment seriously and are proud to be the first transport company to receive all three Carbon Trust standards for achievements in carbon, water and waste reduction. This is the result of several years' work to 'drive energy further' and reduce our carbon footprint. Water meters have been fitted at key locations and while we won't cut corners when it comes to cleaning our buses and trains we will relentlessly focus on finding ways to maintain our high quality standards as efficiently as possible.

→ Read more about our Carbon Trust triple accreditation on page 7

# Inside this report

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The purpose of this report is to address material matters relating to the Group's performance, progress and prospects. It includes an overview of the Group, what we do and how we do it and gives insight into the Group's performance and future prospects from the Chairman and Group Chief Executive. This report presents and explains performance against key performance indicators and introduces the key risk to our business.

## Governance

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This section of the report details how our Board operates and is structured as well as discussing the Board's key objectives and achievements. In presenting this section the Chairman highlights our commitment to good corporate governance. The remuneration report explains our approach and sets out details of Board remuneration for the year under review. Information relating to regulation and compliance can also be found here.

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This section of the report contains the statutory financial statements for the Group and Parent Company, accompanied by summarised commentary and detailed notes. The independent auditor's reports can also be found in this section.

## Shareholder information

- 154** Shareholder information, financial calendar and cautionary statement

Additional shareholder information can be found in this section including details relating to the Annual General Meeting, dividend payments and managing shares. Our financial calendar is also presented here.

## Connect with us online

For more information about Go-Ahead and our operating companies visit:

[www.go-ahead.com](http://www.go-ahead.com)



Our integrated report aims to present the position and performance of our business in the context of our markets, bringing to life our strategic priorities through case studies that demonstrate how we keep people moving through our role as a responsible operator and business.

## Moving people

Since it was founded almost three decades ago, Go-Ahead has transformed from a small bus operator in north east England to one of the UK's leading providers of passenger transport.

Over the years, many things have changed, but one thing that has remained core to Go-Ahead is our commitment to our customers and our people. We employ around 23,800 people in the UK who are moving with us on our journey to growth.

Over three million journeys are taken on our services each day. Our people work hard to deliver safe, reliable and value for money services for our customers.

Our strategic report for the year ended 28 June 2014, as set out on pages 1 to 49, and the directors' report, on pages 50 to 86, have been reviewed and approved by the Board of directors.



**Andrew Allner,**  
Chairman  
3 September 2014

### Driving integrated reporting

Sustainability and corporate responsibility are integral to our strategy and the way we operate at every level of the business. This is our second integrated annual report which aims to present a comprehensive view of the Group.

While our approach to our strategic priorities and sustainability has always been aligned, we have taken steps to improve the reporting of this. Our former five key sustainability areas of Safety, Environment, Passengers, Employees and Communities have now been aligned with our strategic priorities of Society, Customers, Our People and Finance.



#### Society

To run our companies in a safe, socially and environmentally responsible manner



#### Our people

To be a leading employer in the transport sector



#### Customers

To provide high quality, locally focused passenger transport services



#### Finance

To run our business with strong financial discipline to deliver sustainable shareholder value



Visit [www.go-ahead.com/sustainability](http://www.go-ahead.com/sustainability) to find out more about our approach

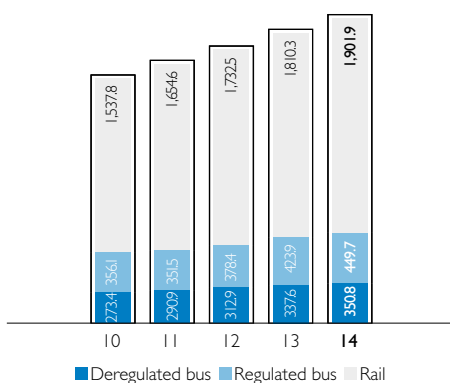
# Our performance and achievements

## A year of progress and strong results.

### Group highlights

Total revenue (£m)

£2,702.4m



Group revenue rose £130.6m, or 5.1%, in the year with good growth in both bus and rail divisions, helped by record levels of passenger journeys on our services.

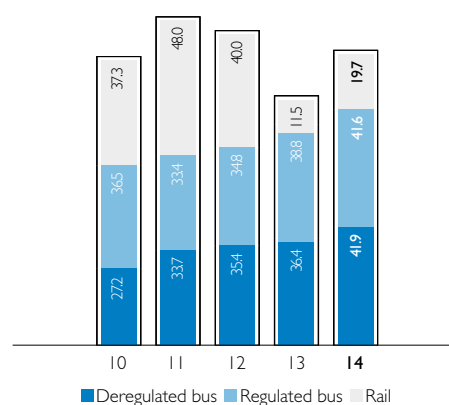
Total operating profit (£m)<sup>1</sup>

£103.2m

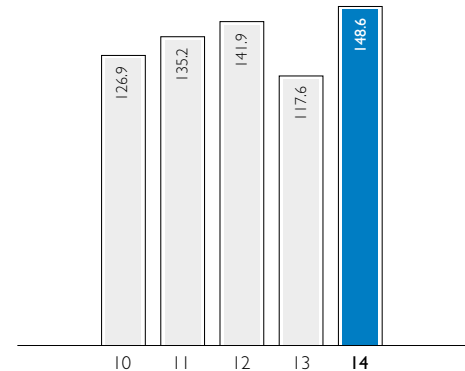


Adjusted earnings per share (p)<sup>1</sup>

148.6p



Overall Group operating profit was significantly ahead of the Board's initial expectations for the year. Operating profit rose £16.5m, or 19.0%, from the previous year.



Adjusted earnings per share rose 31.0p, or 26.4%, as profit increased and the effective tax rate reduced from 20.8% to 14.9%.

➔ Read more about our financial performance on pages 46 to 48

### Key achievements in the year

- Won the UK's largest rail franchise, Thameslink, Southern and Great Northern (TSGN)
- Sector leading customer satisfaction of 92% in deregulated bus
- Record passenger numbers in bus and rail
- Shortlisted for Northern and TransPennine Express rail franchises
- Good progress towards bus operating profit target of £100m by 2015/16
- Profit before tax and exceptional items increased by 25.4% to £79.1m
- Adjusted earnings per share increased by 26.4% to 148.6p
- Strong free cashflow and reduced net debt despite increased investment in the business
- Proposed full year dividend increased by 4.3% to 84.5p per share in line with progressive policy
- Only operator in the sector to achieve Carbon Trust triple standard for carbon, waste and water reduction
- First FTSE 350 company to be awarded the Fair Tax Mark
- Continued improvements in fleet quality and underlying environmental performance

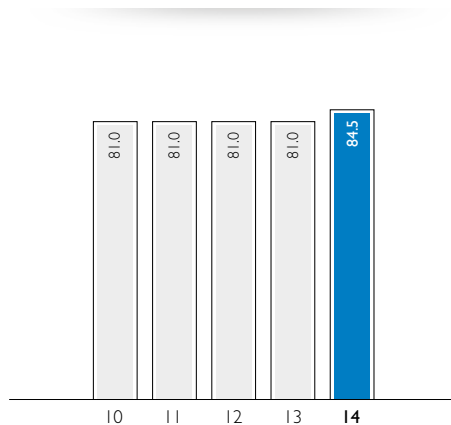
Unless otherwise stated, references made to operating profit throughout this report exclude amortisation and exceptional items.

Bus operating profit target of £100m by 2015/16 (Target 100) is excluding amortisation and exceptional items.

<sup>1</sup> 2012/13 has been restated to adjust for the impact of IAS 19 (revised). All prior years are reported on an unadjusted basis.

## Dividend paid and proposed per share (p)

84.5p

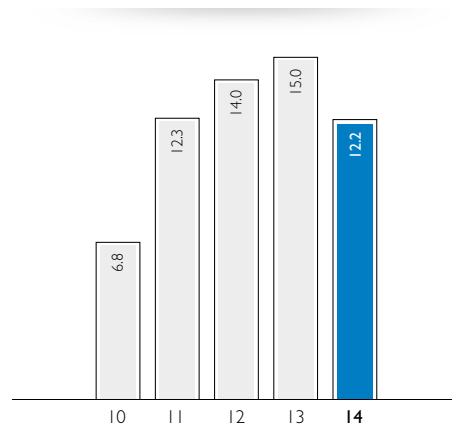


Reflecting the Board's confidence in the Group's performance and prospects, it is proposing a final dividend of 59.0p per share (2013: 55.5p), increasing the total dividend for the year by 4.3% to 84.5p per share (2013: 81.0p).

## Reduction in CO<sub>2</sub> emissions per passenger journey (%)<sup>2</sup>

12.2%

KPI



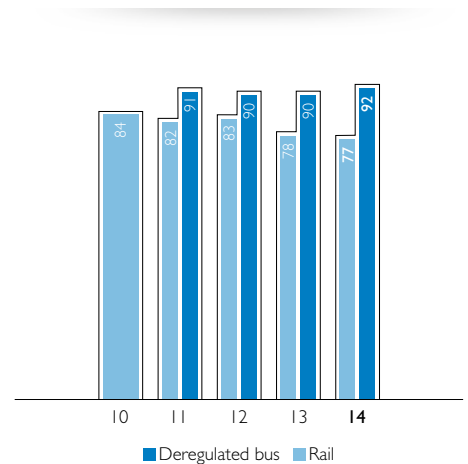
An unexpectedly large increase in the conversion factor<sup>3</sup> applied to electricity has resulted in a decline in reported performance. Had the prior year's conversion factor been applied, the reduction in CO<sub>2</sub> emissions per passenger journey since our 2007/08 baseline would have been 18.7%.

## Customer satisfaction (%)<sup>4</sup>

Deregulated bus 92%

Rail 77%

KPI



Our bus passenger satisfaction scores are industry leading and at record levels for the Group. Rail scores declined slightly in the year, reflecting some factors outside the Group's control, such as flooding and landslips, impacting performance in some areas.

## Directors' remuneration

We report a single remuneration figure for executive directors which includes salary, annual performance-related bonus, long term incentive bonus and other benefits.

	2014 £'000	2013 £'000
<b>Group Chief Executive</b> David Brown	1,960	942
<b>Group Finance Director</b> Keith Down	1,299	646

Half of total remuneration is payable in shares. In addition to any long term incentive awards, half of the annual performance bonus is payable in shares which must be held for a period of three years. All of the annual performance bonus is also subject to clawback provisions.

A substantial part of executive directors' remuneration is performance-related and the remuneration committee's unanimous view was that the Group's performance supported the executive directors' remuneration

this year. This is against a backdrop of overall operating profit being significantly ahead of the Board's initial expectations and a strong share price performance. In the financial year to 28 June 2014 the Group's share price rose 59.7% and over the three year period to the same date, the increase was 49.2%.

The total remuneration for our executive directors has increased compared to last year for two key reasons. Firstly, the executive directors achieved the majority of their challenging annual performance-related objectives set at the start of the financial year. As a result, a higher quantum of bonus was payable. Secondly, the first of the long term incentive awards granted to the executive directors in 2011 vested in part. This rewarded the successful achievement of long term value creation targets set three years ago.

➔ Our directors' remuneration report can be found on page 68

2 Reduction since 2007/08 baseline.

3 Conversion factors, updated annually and provided by the Government, are used to help companies convert energy consumption into the equivalent carbon emissions.

4 Go-Ahead became the first major transport group to conduct an annual independent bus customer satisfaction survey in 2011, therefore no data is available for 2010.

# Chairman's statement



**“It has been a significant and successful year for Go-Ahead. We look forward to building on our success in the coming years.”**

**Andrew Allner,**  
Chairman

## Dear Shareholder

**It has been a significant and successful year for Go-Ahead and our shareholders. I am proud of what we have achieved, including securing the UK's biggest rail franchise, delivering a strong financial performance and making further investment in greener buses, all while providing high standards of service to our bus and rail passengers.**

We have a clear strategy to increase the profitability of our existing business and to grow the Group to deliver sustainable shareholder value. This strategy, which is underpinned by a stable business model, has delivered increased shareholder value in the year. We have an experienced management team in place and I am confident that together we will create further value by continuing to deliver against the Group's strategic priorities.

## Performance

The Group performed well in the year to 28 June 2014. We achieved record profits in our bus business, making steady progress towards our bus operating profit target of £100m by 2015/16, and carried more passengers on our buses and trains than ever before.

➔ [Read about the performance of our bus and rail divisions from pages 38 to 45](#)

## Dividend

Over the last few years, the Board has been committed to maintaining the full year dividend, having recognised its importance to the investment decision of many of our shareholders. Reflecting the Board's confidence in the Group's performance and prospects, we now believe that the time is right to resume our policy of progressive dividend growth whilst maintaining dividend cover of approximately two times adjusted earnings, on a pre IAS19 (revised) basis, through the economic cycle. The Board is therefore proposing a final dividend of 59.0p per share (2013: 55.5p), making the total dividend for the year 84.5p per share (2013: 81.0p), an increase of 4.3%. The final dividend is payable on 14 November 2014 to shareholders registered at the close of business on 31 October 2014.

## Governance

As a Board, we are committed to the principles of good governance. Through our robust internal framework of systems and controls, we strive to maintain the highest standards of corporate governance.

In common with other public companies, this year we are meeting new standards of disclosure. Our annual report has been considered by the Board, which carefully considered the new requirement to present fair, balanced and understandable information.

We have taken seriously the spirit as well as the letter of the new regulations, which are intended to build trust between business and society through improved levels of transparency and disclosure, in which the UK is undoubtedly a world leader.

We have complied with the provisions of the UK Corporate Governance Code throughout the year ended 28 June 2014 as outlined in our corporate governance report on pages 52 to 67.

With the exception of Rupert Pennant-Rea's retirement at last year's Annual General Meeting, the membership of the Board has been consistent throughout the year.

## Board effectiveness and evaluation

My priority as Chairman is to ensure the effectiveness of the Board and I believe our key strength is a positive atmosphere around our Board table with all directors demonstrating mutual trust and confidence, facilitating discussions which are open and frank.

This year the Board made good progress in delivering against its 2013/14 priorities and has clear objectives for the year ahead, which are detailed on page 53.

During the year, an internal evaluation of Board performance was conducted by the Group Company Secretary. The review sought to build upon and enhance the effectiveness of the Board as a whole, and of individual directors. I am pleased to report that no areas of material concern were highlighted, although a number of areas for improvement were identified. The actions we have taken to enhance the Board's stewardship of the business are set out on page 59.

## Our people are the cornerstone of our success

Last year, I set myself an objective to visit all of the Group's operating companies in my first year as Chairman. Having done so, I can say that without exception these businesses have impressed me with their 'can do' culture and



commitment to excellence. The dedication and hard work of our people are the cornerstones of Go-Ahead's success and I would like to thank every one of them for their enduring commitment and professionalism.

During the year, we intensified our focus on the Group's 'people plans' to ensure that we attract, develop and retain the best people. We also made considerable progress in improving the way we manage performance and leadership processes. This has, in turn, strengthened our culture and behaviours across the Group.

We recognise that a strong governance framework alone is not enough to achieve our long term ambitions. These can only be achieved through strong leadership, a diverse and well-balanced Board and the right values and culture of our people. Effective leadership development and succession planning are essential for sustainable success, in the Boardroom and through all levels of the organisation. I firmly believe that diversity in all areas at all levels of the Group enhances our success. We are aligned with the aims and objectives of the Davies Report on women on boards which recommends a minimum of 25% female board membership.

→ [View gender diversity information on page 28](#)

Our Nomination Committee searches for candidates from the widest possible pool, making appointments on the basis of merit against objective criteria, including the diversity of skills, experience, background and gender which are necessary for an effective board.

→ [Read more about our people from pages 26 to 29](#)

## Our role in society

Our aim is to make a positive contribution to the communities in which we operate and wider society. First and foremost, we help people get to the places they want to be; connecting with family and friends, travelling to work or school and accessing retail and leisure facilities. By attracting more people to use our services, we strengthen our business while increasing the role we play in our society. Through the provision of passenger transport we make a fundamental contribution to the economy.

## Commitment to transparent investor communications

We have always been proud of our high standards of reporting. Having adopted an integrated approach last year, which provides a more holistic view of the business, we were keen to make further improvements to the quality of our reporting. Examples of improvements made this year include the introduction of commentary and explanations within the financial statements, the alignment and integration of the reporting of the Group's strategic priorities and sustainability areas, as well as providing clearer links between the Group's remuneration policy and our performance and the significant achievements in the year. Our remuneration policy is set out on pages 68 to 83.

Go-Ahead places great importance on effective, open and transparent reporting. The annual report is one of our key communications with shareholders and other stakeholders, and we consider its content and form with care.

→ [Read more about our relations with shareholders on page 59](#)

I am pleased our commitment to good reporting continued to be recognised during the year. Go-Ahead was recognised at the PwC Building Public Trust Awards, receiving the Excellence in Reporting award for FTSE 250 businesses and we were delighted to top the list of the 4,000 publicly traded companies included in GMI Ratings' review of trustworthy accounting and governance behaviour.

## Looking forward

We are well equipped as a Group to manage the complexity and challenges in our industry, including the significant changes associated with beginning a major new franchise. Our most important resource is our people who work tirelessly to anticipate and meet the needs of our customers, and I have every confidence in our teams across the business. Following an exciting year for Go-Ahead, we look forward to building on our success in the coming years.



**Andrew Allner,**  
Chairman

3 September 2014

## Economic contribution

Not only are we committed to generating shareholder value, we also create wider economic benefits.

→ [Read about how we create value through our business model on pages 10 and 11](#)

During the year, we made a direct contribution to the economy through the £12.4m we pay in UK corporation tax and the £64.0m we returned to the Government in net rail premium payments. Indirectly, we supported economic growth through the employment of 23,800 people; investing £0.9bn in staff costs, and by enabling millions of people to travel to work, shops and other key services and leisure activities every day.

## Total revenue

£2,702.4m

Revenue £2,702.4m



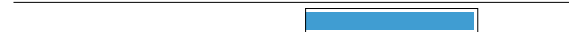
Economic value retained by shareholders £70.3m



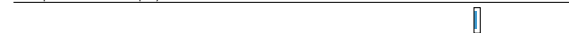
Payment to suppliers £1,538.7m



Staff costs £929.2m



Corporation tax payments to Government £12.4m



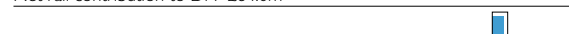
Finance costs £18.3m



Capital expenditure £69.5m



Net rail contribution to DfT £64.0m



## Group Chief Executive's review



**“Go-Ahead ended the year as a stronger Group with enhanced prospects for the future.”**

**David Brown,**  
Group Chief Executive

**This was a particularly busy and exciting year for Go-Ahead. We were awarded the Thameslink, Southern and Great Northern (TSGN) franchise, securing our future in UK rail until at least 2021, and we made good progress towards our bus operating profit target. As a result, Go-Ahead ended the year as a stronger Group with enhanced prospects for the future.**

The Group performed very well in the financial year with our bus and rail divisions both delivering strong results, which were significantly ahead of our initial expectations for the year and slightly ahead of the Board's latest expectations. Overall operating profit was £103.2m, up 19.0% from last year.

Bus operating profit of £83.5m supported our strategic target of £100m of bus operating profit by 2015/16. Rail operating profit of £19.7m exceeded our original expectations in a year when all three of our franchises were in the final stages of their original contract terms.

Since 2008, the Group has shown its resilience through the recession in an environment of challenging economic conditions. The economy is showing good signs of recovery in many parts of the country, particularly in the South East where our operations are focused. We will seek to maximise the opportunities which arise from improving market conditions.

I believe in the fundamental strengths of UK public transport. Since privatisation of the rail industry, the number of journeys made on the UK's railways has increased by 73% and more than five billion journeys are made on the UK's buses each year. As a private operator we are experienced in delivering commercial services, meeting the needs of passengers and running our networks efficiently. Overall, the rail industry makes a net contribution to the Government through net premium payments. This demonstrates the success of the rail franchise model and the benefits it brings to the taxpayer. In the year, Southern alone contributed £173.1m to the Government with a total contribution over the life of the franchise of around £430m since 2009.

The public transport industry plays an integral part in the UK economy.

### Delivering our strategy

Our strategy is to increase the profitability of our existing business and to grow the Group to deliver sustainable shareholder value. This strategy is underpinned by our strategic priorities of being a leading employer that provides high quality, locally focused passenger transport services, running our companies in a responsible manner, with strong financial discipline.

During the year, we delivered against these priorities in a range of areas including achieving the highest bus passenger satisfaction in the sector, increasing the number of hybrid and other alternative fuel vehicles to over 200 and increasing the proposed final dividend.

[→ Read more about our strategy on page 17](#)

### A sustainable business

Sustainability and corporate responsibility are integral to our strategy and the way we operate at every level of the business. This is our second integrated annual report which aims to present a comprehensive view of the Group. I believe this style of reporting is a natural fit for Go-Ahead as it is a true reflection of the way we run our business.

While our approach to our strategic priorities and sustainability has always been aligned, we have taken steps to improve the reporting of this. Our former five key sustainability areas of Safety, Environment, Passengers, Employees and Communities have now been aligned with our strategic priorities of Society, Customers, Our people and Finance.

Following the year end, we were pleased to be the first UK public transport operator awarded the Carbon Trust's triple accreditation for achievements in carbon, water and waste reduction. This recognises our commitment to running environmentally responsible operations.

### A look back over the year

#### Rail

A significant achievement in the year was our successful bid for the seven year Thameslink, Southern and Great Northern (TSGN) franchise which we will operate through our joint venture, Govia, from 14 September 2014, as GTR (Govia Thameslink Railway). From this date we start operating the Great Northern and Thameslink routes which stretch from Brighton to Bedford and London to Kings Lynn. Our existing Southern franchise, under its current contract, will continue until July 2015 when it is integrated into GTR. Not only does this mean we will retain the routes and customer relationships from the Southern franchise, we will also gain a significant revenue stream from the Great Northern and Thameslink services. GTR is not two existing franchises merging into one; it is the start of a single, wholly new franchise with important objectives to deliver:

Our bid scored highly on both price and quality measures. We believe areas of particular strength were our timetable and train plan, targeted investment in quality and reducing cost where appropriate without impacting on service. Our bid was focused on improving services for passengers and we look forward to delivering benefits to our customers over the coming years.

[→ Read more about the GTR franchise on page 43](#)

Go-Ahead will be hosting an investor event on 21 October 2014 at which further detail about GTR will be provided.

A video webcast and all literature presented will be available on our corporate website at [www.go-ahead.com](http://www.go-ahead.com) following the event.

Other rail franchise bidding activity in the year included Transport for London's Crossrail and Docklands Light Railway franchises. Whilst we were not appointed on either, we gained valuable experience through the bidding processes which is beneficial as we develop our plans for future rail franchise competitions.

We are working hard to deliver value from our existing franchises and are pleased with the good financial performance during the year.

Following a challenging period for London Midland in 2012/13, I am pleased to report improved performance during the year. The franchise delivered the most improved punctuality performance in the London and South East network, having run 86.2% of services on time. However, this franchise continues to face challenges. During the year, London Midland began a reorganisation of management and administrative staff to reduce costs, resulting in an exceptional charge of £3.0m. This was against a backdrop of reduced subsidy receipts, higher operational costs and increased competition on the West Coast mainline.

## Bus

### Target 100

The end of the year marked the halfway point of our target period. We continued to make good progress towards our target to grow bus operating profit to £100m by 2015/16 in the year with bus operating profit up 11.0% to £83.5m. Deregulated bus contributed more to bus profit than regulated in the year, in line with our projections towards achieving the target.

Our bus operations continue to perform well, driving revenue through initiatives such as smart and mobile-ticketing (m-ticketing) and delivering cost savings. In the year, efficiencies were made in a range of areas including employee productivity and procurement.

Last year, I set out our key assumptions underpinning the target. We are tracking broadly in line with those assumptions and consider them to remain valid as we go into 2014/15. These assumptions are on an annual basis and may vary from year to year.

#### Target assumptions:

- Average annual deregulated bus revenue growth of 3.5%
- Average annual regulated bus revenue growth of 2.5%
- Average annual cost inflation of 2.5-3.0%
- Cost efficiency savings of £10m by 2015/16
- No significant mileage growth in the regulated and deregulated business

#### 2013/14 performance:

- Like for like deregulated bus revenue growth of 4.3%
- Like for like regulated bus revenue growth of 7.5%, including a reallocation of BSOG representing 3.7%, not included within the target assumptions
- Cost increases broadly in line with inflation. Some costs increased proportionately with mileage growth
- Insurance savings of £4.0m and other cost savings of £1.9m in the year, resulting in cumulative cost savings of £6.9m since 2012/13
- Like for like regulated bus mileage growth of 1.6% and deregulated of 1.8%

Although the target was based on organic growth, we continue to assess acquisition opportunities both in and outside London. With the exception of the purchase of a small number of TfL route contracts in Dagenham, East London, in June 2013, the Group has made no acquisitions since announcing the target.

We remain confident in our ability to deliver our target by 2015/16.

In the year, we invested significantly in our bus operations. We introduced 267 new vehicles to our fleet and upgraded our depot facilities. In February, I was pleased to open a new bus depot in Gateshead. Over 500 Go North East drivers and engineers will operate from our £8.5m facility which will provide a modern working environment for our people and will enable us to improve efficiency by combining two previous sites.

It is only by achieving our profit targets that we are able to reinvest in our networks, improving customer experience, creating opportunities for our people and growing a larger and stronger business which generates superior returns for our shareholders.

### Our operational performance

Delivering excellent levels of customer service is important to us and I am impressed by the standards of service across the Group. Our bus division achieved its highest ever passenger satisfaction score which, at 92%, is industry leading and we maintained our high levels of service punctuality.

In the period I was disappointed that rail passenger satisfaction scores dipped in two of our three franchises. This has been an unusual year in terms of performance with Southeastern, for example, delivering its best ever customer satisfaction score of 84% in the first half of the year, followed by one of its lowest scores of 72% in the second half. This illustrates the extent to which our services can be impacted by factors outside our control, such as flooding and landslips, and infrastructure maintenance. We are committed to improving performance and delivering good quality service for our passengers. Through our joint performance board with Network Rail, we have taken steps to address these issues and I am confident that improvements will be made.

## Carbon Trust triple standard



Go-Ahead has become the first transport group to receive the triple award accreditation from the Carbon Trust for achievements in carbon, water and waste reduction.

We have a well-deserved reputation as a leading organisation when it comes to environmental responsibility and sustainability. We believe that our approach can give us competitive advantage as well as saving costs and reducing our impact on the environment.

This triple accreditation is the direct result of the success of the Group's 'Driving Energy Further' campaign started in 2008 in partnership with the Carbon Trust. A 12.2% reduction has been achieved to date.



Read more about the Carbon Trust triple award online at [www.go-ahead.com/carbon-trust-accreditation](http://www.go-ahead.com/carbon-trust-accreditation)

### Group Chief Executive's Q&A

#### David Brown addresses some topical questions from our shareholders

**Q** Why do you think you won the TSGN franchise?

**A** We are an experienced operator and bidder in UK rail. We understand the market and, in our 17 years in the rail industry, have demonstrated our ability to deliver high quality services on complex networks, working successfully with strategic partners. It isn't possible to compare bidders' submissions. Our bid was focused on improving services for passengers and scored highly on both price and quality measures. We look forward to delivering benefits to our customers over the coming years.

**Q** TSGN is the biggest franchise in the UK – are you approaching your limit or can you win more?

**A** We are shortlisted to bid for the Northern and TransPennine Express (TPE) franchises and there are many others coming up for tender in the next few years. Our permanent bid team is considering upcoming opportunities. We will view all options in the context of our existing portfolio and other Group operations.

**→** See details of upcoming franchise competitions on page 16

**Q** You have increased the dividend this year. What are your plans for it going forward?

**A** We recognise the importance of our dividend to the investment decision of many of our shareholders and I am pleased that, for the first time in six years, we have been able to propose an increase. This reflects the Board's confidence in the Group's performance and prospects as we deliver on our strategic objectives and we are pleased to return to our policy of progressive dividend growth.

**Q** You talked about growth outside your traditional markets, is there something in the pipeline?

**A** This isn't a new stance for the Group. We have always sought growth and consider opportunities in all markets. We aren't interested in 'planting flags' or buying market share; we are looking for real value adding opportunities that will deliver shareholder value. We are considering other opportunities while focusing on strengthening the Group by continuing our progress towards Target 100 in bus, the successful mobilisation and integration of the GTR franchise, and submitting strong bids for the Northern and TPE franchises.

**Q** What are your thoughts about the possibility of a change in government at next year's general election?

**A** The run up to an election always presents the opportunity for people to look at the sector in a different way. In our role as operators we inform the debate, seeking to highlight the benefits of continued investment in public transport, the successes of the industry since privatisation and the integral part UK public transport plays in our economy. This is not just important around the time of elections; we are continually engaging with central and local government stakeholders. Irrespective of which political party is in government, we have and will continue to work in partnership with all forms of government.

**Q** Are you feeling pressure due to local authority cuts?

**A** Local authority budgets continue to be stretched and there has been a reduction in tendered bus services, whilst commercial networks have continued to grow. As the majority of our operations are commercial, we are not overly reliant on public sector funding. In our deregulated bus business we have not seen a material change in levels of concessionary fare reimbursement and the Government has committed to maintaining the Bus Service Operators Grant at current levels until at least 2016.

**Q** What is happening about the proposed local authority contract scheme in the north east?

**A** This time last year I spoke about the Tyne & Wear Integrated Transport Authority's aspirations to introduce a bus contract scheme in north east England. At that time it had launched a consultation into the proposed scheme. Twelve months on, a third consultation is underway and the outcome is expected in the autumn. We continue to believe that passengers and taxpayers would be better served by a partnership arrangement between the local authority and operators, working together to improve services.

#### Working in partnership

Collaboration and partnership working is a particular strength for Go-Ahead. We have always worked closely with our key strategic partners and in the year we further strengthened these relationships. We also place great importance on our relationships with Government, TfL and local authority partners.

The complex nature of the rail industry requires collaborative working between train operating companies, infrastructure companies and suppliers. There are times when we take on activities not traditionally considered part of the operator's role, such as large station management, train procurement and project management of major refurbishments. During the year, the DfT benefited from our expertise in rolling stock procurement to deliver new trains. This is becoming an increasingly valuable partnership.

In bus, I am pleased with the progression of our business-to-business relationships during the year. Two of our bus companies already have schemes in place with local businesses and during 2014/15 all our other deregulated bus companies will launch schemes to provide local companies with travel plans for their employees.

#### Innovation and technology

We continue to lead the way in the industry with our online journey planning and ticketing solutions. We understand that our customers use our services to facilitate their daily lives and our aim is to continue to improve the convenience of choosing public transport. Acknowledging the growing demand for mobile apps and other means of providing up to date information on the move, we are constantly developing our approach in this field, always remaining focused

on customers' needs. Seven in ten people in the UK now have a smartphone and the appetite for mobile technology is demonstrated by UK consumers buying more via smartphones than the rest of Europe.

We have been developing smartcards and m-ticketing solutions for a number of years now and our efforts in this area are going from strength to strength. Since the launch of our first smartcard in 2011 around 550,000 people have switched to 'the key', which is used across all of our large bus operations. In less than two years, over 130,000 people have downloaded our m-ticketing bus app to their mobile phones.

In October 2013, we launched an initiative enabling rail passengers to travel from stations served by Southern into central London, tapping in and out with 'the key'. Working with TfL in this industry first, we will be extending this to allow customers to use our smartcard on London Underground services, with a pilot scheme planned for later this year. This is just the start of our plans to drive integrated transport, enabling passengers to move from bus to train to tube seamlessly, using one Go-Ahead product.

Adding to our suite of digital tools for customers we introduced our rail app, 'On Track', in January 2014, delivering highly personalised real-time information and journey planning at the touch of a button. The locally branded app was designed with the help of passengers and rail user groups. In addition to planning journeys, passengers can buy tickets and even claim compensation if their train is delayed. In the first three months alone 100,000 people downloaded 'On Track' and take up has continued to grow, with close to 150,000 people now using the app.

[→ Read more about 'On Track' on page 24](#)

Ticketing and journey planning solutions are not the only areas where we seek to innovate; we also strive to develop the technology we use on our buses and trains to make them more efficient and reduce the impact they have on the environment. In 2012, we announced our pilot scheme using flywheel technology. This has been a great success and has directly contributed to us securing two London bus contracts. Over the next two to three years we have plans to introduce flywheel systems to 500 additional buses, resulting in over 10% of our fleet being powered by this leading edge technology. This significant investment is part of our longstanding commitment to reduce carbon emissions in the towns and cities we serve, as well as helping to control fuel costs. In the year, we continued to work with local authorities to address their targets around air quality and emissions.

[→ Read more about the flywheel on page 20](#)

## Our people

Our people are the key to our success. I am proud to be Chief Executive of a business with such dedicated individuals and teams working to develop themselves and also the Group and its prospects.

We are committed to developing our people and this year we have placed more focus on this priority than ever before. We have great people in the business today but we need to plan for tomorrow. We have detailed plans in place across our businesses designed to ensure we are attracting, retaining and developing high calibre individuals.

We have succession plans from the Board through all levels of the business, and are using our leadership development programme to identify and develop individuals with potential across the Group.

During the year, I was pleased to launch a Sharesave scheme for our employees, enabling them to share directly in the Group's success, to which we all contribute.

The nature of our industry means that we face challenges at all levels of the business every day and we believe our local teams are best-placed to respond to them. During the year, we continued to build on our organisational capabilities. We have the benefit of being a large organisation at the same time as having autonomous business units making local decisions.

I have great trust in all our local management teams across the business. I am delighted to have appointed such an experienced management team to lead GTR, particularly as many have been internal promotions from existing Group companies.

[→ Read more about our people on pages 26 to 29](#)

## Outlook

The new financial year has started well, with trading in line with the Board's expectations.

We are entering an exciting period for the Group. There is a lot of hard work ahead of us and also a lot to look forward to. It has been a very good year and I am confident we will continue to achieve more success going forward.

We remain confident in our ability to deliver our £100m bus operating profit target by 2015/16. We are already an efficient business and there are no 'easy wins' for us so we are introducing innovative technology, such as the flywheel, and further improvements in our business practices to deliver cost savings. We will continue to invest in our marketing activity, improving customer service, and delivering quality value for money offers to drive passenger numbers and subsequently revenue.

The coming year promises a great deal of activity in our rail division. Following a short mobilisation period, GTR will run its first service on 14 September 2014. In the following months our focus will be on the successful delivery of the franchise commitments, working closely with industry partners such as Network Rail and train manufacturer Siemens, and preparing for the integration of our existing Southern franchise into GTR.

Following the success of the TSGN bid, our experienced bid team continues to work on forthcoming opportunities. These include the Northern and TransPennine Express franchises which we were pleased to be shortlisted for in partnership with Keolis, following the year end. We look forward to submitting our bids in spring 2015.

We hope to agree terms with the DfT shortly for the extension of Southeastern from October 2014 to June 2018 and we continue discussions with the DfT regarding the proposed extension of the London Midland franchise from March 2016 to June 2017.

The Group remains in a good financial position with strong cash generation and a robust balance sheet, supporting our progressive dividend policy and allowing flexibility to pursue value adding opportunities both within and outside our traditional markets. This strong position underpins the Board's decision to propose an increased final dividend for the year, the first such increase since 2007/08.



**David Brown,**  
Group Chief Executive

3 September 2014

# Our business model

We are a leading provider of passenger transport services, carrying millions of people on our bus and rail services every day.

## How we create value

Our business model supports our strategy of providing high quality, locally focused passenger transport services as a leading employer in the transport sector, running our companies in a responsible manner, with strong financial discipline.

In addition to delivering value for our shareholders we create value for our retail and transport authority customers, our people and communities, and wider society.

Our business model is underpinned by a robust governance framework.

### Key relationships

Passengers

Communities

Government

Our people

Strategic partners and suppliers

Shareholders

### Key inputs

Our people

Fuel

Finance

Our buses and trains

Infrastructure

Value created

## We currently have three business units:

### Deregulated bus

Operating commercial bus businesses in the UK, outside London.



Read more about this business unit on page 12

### Regulated bus

Operating bus contracts in London for Transport for London.



Read more about this business unit on page 12

### Rail

Operating net and rail franchises in the UK for the Department for Transport.



Read more about this business unit on page 12

## Our business model is underpinned by our strengths

- Understanding and meeting the needs of the travelling public in our local markets, delivering good quality services and value for money
- Developing strong local brands
- Delivering safe and efficient vehicle operations
- Providing excellent customer service, for both our passengers and our transport authority customers
- Adopting a partnership approach in developing and operating services which create long term value for all parties involved
- Operating on large and complex transport networks
- Marketing our services to passengers
- Maintaining a strong and knowledgeable Board
- Employing experienced management who are committed to supporting and developing our people while delivering high quality services and sustainable shareholder value

## We generate revenue and profit in two main ways:

- 1) through the provision of transport services to fare-paying passengers, whose revenue covers the cost of service and a profit margin.
- 2) through the provision of passenger transport services on behalf of public sector transport authorities, for example, TfL, the DfT and local authorities. We tender for, and run, contracts in two main sub-categories:
  - **Gross cost contracts** where our entire revenue comprises payments made by the transport authority to us with the authority retaining all fare revenue raised.
  - **Net cost contracts** where our revenue is a combination of income from fares and payments from transport authorities. Where our revenue is partly or wholly derived from public sector transport authorities we have lower revenue risk but exposure to cost risk as cost overruns cannot be offset by fare increases. Good cost controls are therefore vital in areas such as staff utilisation, fuel efficiency and negotiating and managing contractual relationships. Part of the Group's core skill set is managing all of these areas without compromising safety or quality.

## Our key relationships

**Passengers** Our passengers make over one billion journeys a year on our services; We want to know how we are performing so we can deliver change and improvements. We understand our local markets and strive to meet our passengers' needs.

**Our people** High levels of employee engagement, commitment and job satisfaction contribute directly to the success of Go-Ahead. The majority of our people are members of trade unions and our local teams foster good relationships with their representatives.

**Communities** Our businesses are part of the local communities in which they operate. Our aim is to play a constructive role in the towns and cities we serve, working closely with local community groups.

**Government** Policy and regulatory changes affect our bus and rail businesses. Working closely with both central and local government enables us to provide input into new policies and ensure we receive regular feedback on our performance. We also support central Government in activities such as rolling stock procurement where our teams have highly valued expertise.

**Strategic partners and suppliers** We work collaboratively in a number of strategic partnerships including with the DfT, TfL, local authorities, Network Rail and rail rolling stock companies. Professional relationships with core suppliers help to ensure and support efficient delivery of our passenger transport services.

**Shareholders** As a publicly listed company we provide open and transparent information which enables informed investment decisions to be made. Feedback from our shareholders forms part of strategic discussions in the Boardroom.

## Our key inputs

**Our people** We directly employ almost all the people involved in providing our services.

**Our buses and trains** We lease all of our trains and own all of our deregulated bus fleet. In our regulated bus business, around half of our fleet is leased and half is owned.

**Infrastructure** We pay for the use of public sector infrastructure such as railway track access or use of local authority bus stations. We own the majority of our bus depots. Rail depots are rented from Network Rail or similar providers.

**Fuel** Our vehicles are mainly powered by a combination of diesel, electricity and gas.

[→ Read about our fuel hedging policy on page 41](#)

**Finance** We are financed partly by investment from our shareholders and partly by bank and other debt. After payments to transport authorities and infrastructure providers, our largest costs are those of employing our people, funding our vehicle fleets and fuel.

[→ See the breakdown of our bus and rail cost bases on pages 40 and 44](#)

## Our risks

The principal risks to our business model are set out on pages 36 to 37 and include the economic climate, political and regulatory framework and severe infrastructure failure.

## Our core business units

We create shared value for our stakeholders through our three operating divisions: deregulated bus, regulated bus, and rail.

### Deregulated bus

We operate commercial bus businesses, predominantly in the south of England

Outside London, we have operations in north east England, Brighton, Oxford, Plymouth, the South Coast and East Anglia. We own 100% of these businesses.



#### Key market features

- Outside London
- Services operated on a largely commercial basis
- Accountable to the traffic commissioner and other industry bodies
- Comprises local markets with unique features
- Mainly private operators, some local authority owned operations
- Operators largely make their own decisions, such as setting bus fares, routes and service frequencies
- Some tendered services are run on behalf of councils, such as school contracts
- Operators have a relatively flexible cost base which can be adapted to mitigate external factors

#### Growth opportunities

Go-Ahead operates around 7% of the deregulated bus market in the UK. It is a stable and mature market with scope for growth through acquisition, network expansion and changing behaviours resulting in increased bus use.

### Regulated bus

We operate tendered contracts for Transport for London (TfL)

In London, we operate around 170 routes from 17 depots in the capital. Around 85% of these depots are freehold. We own 100% of this business.



#### Key market features

- In London
- Services operated for TfL which sets routes and service frequency
- Fares set by the Mayor of London
- Private operators bid for individual route contracts
- Revenue paid to operators by TfL on a revenue per mile basis
- Five to seven year contracts, dependent on performance
- Gross cost contracts require tight control of cost base

#### Growth opportunities

Go-Ahead is the largest bus operator in London with around 24% market share. Growth opportunities exist through additional contract wins, by moving into new areas through acquisition and if the scope of the network increases as London's population grows.

### Rail

We operate rail franchises for the Department for Transport (DfT)

Go-Ahead currently operates three UK rail franchises (Southern, Southeastern and London Midland) through Govia, a 65% owned joint venture with Keolis. Govia will also operate GTR from 14 September 2014.



#### Key market features

- Regulated by the Office of Rail Regulation (ORR) and other industry bodies
- Peak fares, routes and service frequencies set by the Government
- Existing franchises typically had initial contract terms of around eight years
- The infrastructure is largely owned and managed by Network Rail
- Trains are leased from rolling stock operators
- Operators have a relatively fixed cost base, reducing flexibility to adapt to changes in the wider economy

#### Growth opportunities

Govia operates around 27% of the UK rail market\*. There are significant growth opportunities in this market in the coming years, with nine franchises due to be awarded in the next three years.

➔ See details of upcoming franchise competitions on page 16

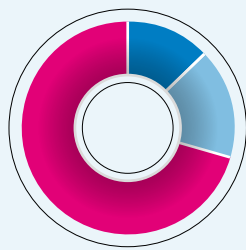
\* Including GTR from 14 September 2014.

➔ Read about our bus and rail performance from page 38 to 45



## Group revenue

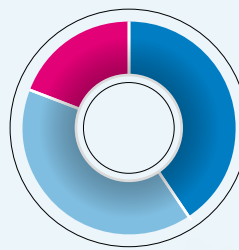
£2,702.4m



Deregulated bus	13.0%
Regulated bus	16.6%
Rail	70.4%

## Group operating profit

£103.2m



Deregulated bus	40.6%
Regulated bus	40.3%
Rail	19.1%

## Divisional revenue

70%

## Fare paying passengers

By offering high quality services and value for money fares we are able to grow passenger numbers. This directly contributes to the success of our business.

20%

## Reimbursement for concessionary travel

Government policy entitles anyone of pensionable age to free travel on local bus services in England. Bus operators are reimbursed a percentage of the full fare for revenue forgone. This is paid by local authorities from a fund allocated by central Government, based on a principle of the operator being 'no better and no worse off'. Our typical reimbursement rates are around 50%.

10%

## Tendered contracts

Services which are not commercially viable, such as rural routes and school buses, are tendered by local authorities. We also operate commercial contracts for universities and other third parties.

95%

## Running bus services in London for TfL

Operating under a regulated system, TfL issues tenders for bus routes in London and private operators enter a competitive bidding process for individual route contracts. Contracts are usually five years in duration with a possible two year performance-based extension. Our revenue comes directly from TfL and is paid on a revenue per mile basis.

5%

## Quality incentive bonuses and other revenue

Performance targets are set by TfL through Quality Incentive Contracts (QIC) to encourage the provision of punctual services. Operators receive bonus payments when targets are met and are penalised for poor performance.

Other sources of revenue include providing rail replacement services, advertising on buses and operating other third party contracts.

95%

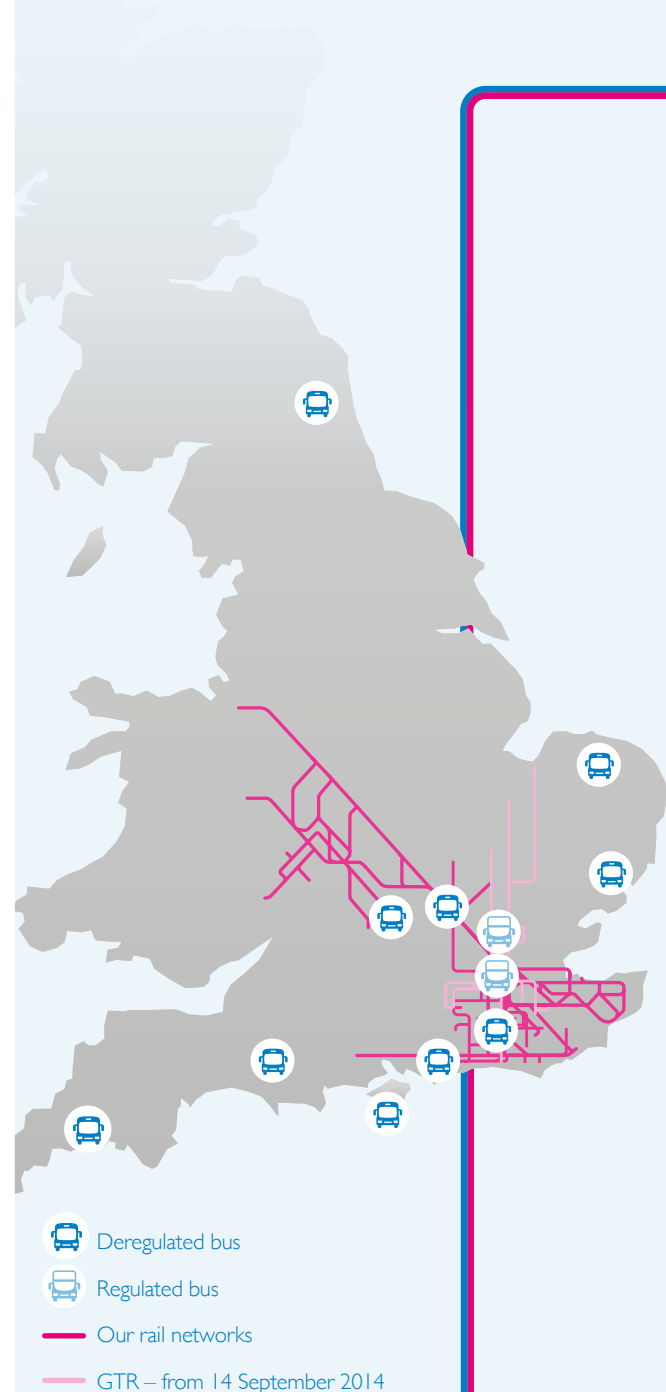
## Passenger revenue and subsidies

Operating under a regulated system, the DfT issues tenders for rail franchises and private operators enter a competitive bidding process for the right to operate them. Typically, operators submit detailed franchise bids that specify the level of premium the operator will pay to the DfT or the level of subsidy it will require from the DfT for operating the franchise, dependent on the level of passenger revenue assumed. The model is designed to maximise the value to the taxpayer by incentivising train companies to operate efficiently and encourage passenger growth.

5%

## Other revenue

A small proportion of revenue is generated through other activities on the rail franchise network such as car parking, station retailing, advertising at stations and on trains and third party engineering work.



# The UK public transport industry is fundamentally strong. Continued innovation and investment in the industry are essential to sustainable economic growth.

For individuals with busy lives, convenience is becoming an increasingly important part of their everyday decisions. In the UK, adults spend the equivalent of two weeks travelling each year on average<sup>1</sup>. People want to minimise the impact of this on their lives by being able to use this time productively, spending less time planning journeys and making the overall journey more convenient.

Go-Ahead is responding to this changing environment, making it easier for people to travel from place to place. By introducing industry leading technology, such as mobile-ticketing (m-ticketing) and journey planning applications, and allowing access to real-time information on the move, we are helping our customers reduce the time spent planning and preparing for their journey. We are also improving facilities on board and at stations, so people can access the internet and go online to work, shop and socialise while travelling.

Integrating transport solutions, enabling people to move from one mode of transport to another using just one smartcard, make end to end journeys simpler for passengers.

As the market is constantly changing, we too are always developing our approach to ensure we maintain competitive advantage in the areas and markets in which we operate.

### Economic environment

Following six years of low economic growth, the economy is now growing at pre-recession levels of 3.2%<sup>2</sup>. Unlike many sectors that experience volatility with economic changes, the bus and rail markets have remained relatively stable. Go-Ahead has been particularly strong, outperforming the wider local bus market and has seen consistent growth across its bus and rail businesses in recent years demonstrating the integrity of our business model and strategy. Our geographical focus in the south east of England has aided our resilience as other areas of the UK have been impacted more significantly by the economic downturn.

### Political and regulatory overview

There is recognition across all major political parties that an efficient public transport system strengthens the economy, creates jobs, reduces traffic congestion and air pollution and helps improve social inclusion. The Government supports public transport and is committed to investing in projects and initiatives to ensure the network's long term future. In a period when Government and local authority budgets have been stretched there have been no significant reductions in funding impacting the bus and rail industry. Particularly of note, the Government's commitment to maintain the Bus Service Operators Grant (BSOG) at current levels until at least 2016 and continued investment in the rail industry, such as the Thameslink Programme, Crossrail and High Speed 2.

The London bus and UK rail markets are regulated by Transport for London (TfL) and the Office of Rail Regulation respectively. Whilst the London bus market is relatively stable, operating under an established and successful model, the rail industry faced disruption in the last two years following the Government's suspension of the franchise bidding process after the failed West Coast franchise competition in 2012. Following the Department for Transport's review of the rail franchise model, the franchise timetable resumed during the year with two franchises successfully let since May 2014. The deregulated bus market, outside London, has been faced with the potential of heavier regulation in certain areas where local authorities have considered the introduction of contract schemes through which operators would run services on behalf of the local authority. Such a scheme is currently under consultation in north east England.

### Employment and population growth

The transport market is largely driven by trends in employment. Many passengers use bus and rail services every day for their journeys to and from work. In the quarter to April 2014, 72.9% of 16-24 year olds were in work, nearing the 73.0% recorded in 2008, before the recession<sup>2</sup>.

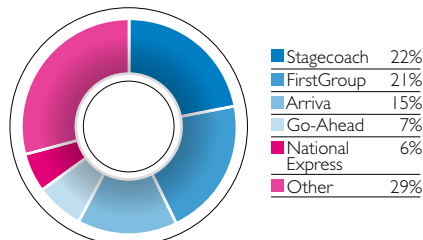
Population growth also plays a part in influencing transport industry performance. In London there is a direct correlation between population growth in the capital and rising passenger numbers on London buses. TfL estimates London's population to be growing by two buses full of people every day with London's population forecast to increase by 13% over the next ten years<sup>2</sup>.

### Competition

The public transport market in the UK is competitive with many established operators. Go-Ahead is able to compete due to its expertise, experience and reputation as a high quality operator of value for money services. We face competition from other bus and train operators as well as other modes of transport, primarily the private car. Competition in the market gives people choices and incentivises providers to constantly improve transport solutions. Since the mid 1990s the proportion of all journeys made in the UK being taken on public transport has increased from 9% to 11%. People making an active choice to travel by public transport and use our services is fundamental to growing our business.

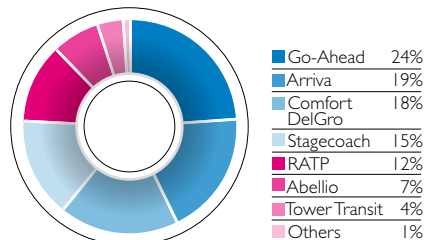
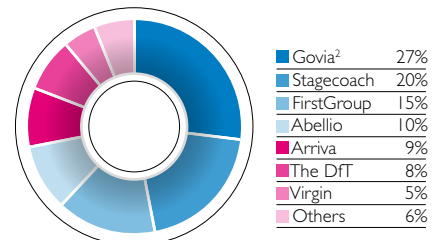
1 DfT Travel Survey 2013.

2 Office for National Statistics.

UK deregulated bus market share<sup>1</sup>

<sup>1</sup> Go-Ahead estimates.

<sup>2</sup> Including GTR from 14 September 2014.

UK regulated bus market share<sup>1</sup>UK rail market share<sup>1</sup>

More people are using our bus and rail services than ever before. We constantly assess the external market and consider how we can turn market changes into opportunities for the Group.

## Value for money

Over the last few years the cost of motoring has continued to increase, albeit at a slower rate than previously. Despite fuel prices dipping to a three year low (in March 2014 petrol price averaged 129.46p per litre) RAC research shows almost half of motorists rank the cost of fuel as their biggest motoring concern<sup>3</sup>. People are aware prices can go up as well as down and that the global economy and world events influence the cost of fuel at the forecourt. On top of fuel costs, the general expense of running a car with insurance costs, car parking charges, road tax, repair and maintenance puts a weekly dent of £44 in the finances of approximately 800,000 UK households<sup>3</sup>.

**Market fact:** The cost of running a car can be more than a quarter of income for some of the UK's poorest households<sup>3</sup>.

**Go-Ahead fact:** The average Go-Ahead bus fare is just £1.84 for a single urban journey.

## Convenience

Travelling by bus or rail can often be the quickest and most convenient mode of transport.

Unlike travelling in a car, while commuting by bus and rail, passengers are able to use their time productively by reading, watching TV and catching up on emails.

Research shows the UK is fifth in Europe for time wasted in traffic jams<sup>4</sup>. London is Europe's second most congested city with 81 hours wasted by motorists each year. Elsewhere in the UK such as Tyne and Wear it is around 24 hours a year<sup>4</sup>.

**Market fact:** Areas with high levels of public transport accessibility have lower levels of car use<sup>5</sup>.

**Go-Ahead fact:** All new buses used outside London are now being fitted with WiFi as standard. 20% of our buses currently have free WiFi for customers.

## Safety

Investment by operating companies and local and central government in safety measures such as CCTV on buses, trains and stations, coupled with enforcement by the British Transport Police, has significantly improved the safety and the perception of safety on public transport.

**Market fact:** Crime has reduced on Britain's railways for the tenth successive year. This year, there were around 3,000 fewer victims of crime than the year before<sup>6</sup>.

**Go-Ahead fact:** Almost 95% of Go-Ahead's trains have CCTV.

## The 24 hour society

Technological improvements such as smart-ticketing, social media, real time updates and apps have made planning journeys, buying tickets and travelling by public transport easier and more convenient, meeting the demands of the 24 hour society.

**Market fact:** The average smartphone user spends 119 minutes a day on their phone<sup>7</sup>.

**Go-Ahead fact:** Mobile apps are available to around 95% of Go-Ahead's customers.

## Journey experience

Investment by operating companies and Government funding of public transport have resulted in better quality services. Journey times have improved, services are more frequent and reliable, and vehicles are of a higher standard. At the same time, the level of investment in roads has remained low. In 2010, France spent 75% per head more than the UK on maintaining roads<sup>8</sup>. Insufficient road capacity and poor quality maintenance are listed as some of the most common frustrations for motorists.

**Market fact:** 66% of drivers are concerned about the conditions of their local roads<sup>3</sup>.

**Go-Ahead fact:** At 92%, passenger satisfaction with Go-Ahead's bus services outside London is higher than with leading brands such as John Lewis and Amazon.

<sup>3</sup> RAC Report on Motoring 2014.

<sup>4</sup> INRIX Traffic Scorecard 2014.

<sup>5</sup> Chartered Institute of Logistics and Transport.

<sup>6</sup> British Transport Police Annual Report 2013/14.

<sup>7</sup> O2 Survey 2013.

<sup>8</sup> HM Treasury Investing in Britain's Future 2013.

## Effective marketing

In recent years, public transport companies have invested in marketing research and customer databases in order to better understand customers' needs and tailor products accordingly. Go-Ahead is leading the industry in the development of targeted marketing and regularly wins awards for its campaigns and promotions.

**Market fact:** Nearly half of the rail industry's passenger revenue comes from promotional and discounted tickets. This compares to 36% a decade ago<sup>1</sup>.

**Go-Ahead fact:** A single targeted email campaign sent to Go-Ahead rail passengers generated over £1m of revenue.

## Behavioural patterns

In recent years, there has been a notable shift in attitudes towards using public transport, particularly amongst young urban dwellers. There is an increasing focus on living greener and healthier lifestyles, evidenced by the significant rise in cycling. In addition, an increasing number of young people are living in cities, living with their parents, marrying older and having children later. All of these factors make them less likely to drive.

**Market fact:** Over half of 16-19 year olds are regular bus users<sup>2</sup>.

**Go-Ahead fact:** All Go-Ahead companies have discounted special fares for young people.

## A mobile ageing population

The UK population is steadily ageing. From 2010 to 2030, there is expected to be a 50% increase in people aged 65 and over<sup>3</sup>. Many older people are leading highly active and mobile lifestyles, benefiting from increased life expectancy, higher levels of disposable income and improved healthcare. Initiatives such as the national bus pass, which gives older people free off-peak bus travel, and senior rail discounts encourage the use of public transport.

**Market fact:** The over-fifties account for 40% of consumer spending in the UK<sup>3</sup>.

**Go-Ahead fact:** One fifth of Go-Ahead's deregulated bus revenue is generated by carrying concessionary travellers.

1 ATOC, 2013.

2 Institute of Transport Studies, 2013.

3 Age UK Research.

## Rail franchising

In the coming years, the UK rail franchising timetable will continue to gather pace, with nine franchises due to be awarded in the next three years.

Following the award of the Thameslink, Southern and Great Northern franchise to Govia in May 2014, the joint venture was shortlisted to bid for the Northern franchise and Keolis Go-Ahead Ltd, a 65% Keolis/35% Go-Ahead joint venture, was shortlisted for the TransPennine Express franchise.

### Rail franchises expected to be tendered over the next five years

Awarded in 2014:	Contract awarded	Start date	Awarded to
Thameslink Southern and Great Northern	May 2014	September 2014 <sup>4</sup>	Govia
Essex Thameside	May 2014	September 2014	National Express
Docklands Light Railway <sup>6</sup>	July 2014	December 2014	Keolis/Amey
Crossrail <sup>6</sup>	July 2014	May 2015 <sup>5</sup>	MTR
Upcoming competitions:	Invitation to tender issued	Contract awarded	Start date
Scotrail <sup>7</sup>	January 2014	October 2014	April 2015
East Coast	March 2014	November 2014	March 2015
Northern	December 2014	October 2015	February 2016
TransPennine Express	December 2014	October 2015	February 2016
Great Western	March 2015	March 2016	July 2016
Greater Anglia	August 2015	June 2016	October 2016
West Coast	January 2016	November 2016	April 2017
London Midland	April 2016	February 2017	June 2017
East Midlands	August 2016	June 2017	October 2017
Southeastern	April 2017	February 2018	June 2018
Wales & Borders	August 2017	June 2018	October 2018
South Western	February 2018	December 2018	April 2019
Cross Country	September 2018	July 2019	October 2019
Chiltern	October 2020	August 2021	December 2021

4 The existing Southern franchise will be integrated in July 2015.

5 Full route not expected to be in operation until December 2016.

6 Transport for London contract.

7 Transport Scotland contract.

Dates shown are subject to change.

# Our strategy and key performance indicators

## Our vision

Our vision is to be a leading provider of high quality, innovative, customer-focused passenger transport services, delivering the local needs of passengers and communities.

## Our strategy

Our Group strategy is to increase the profitability of our existing business while growing the Group to deliver sustainable shareholder value. This strategy is underpinned by our strategic priorities and is supported by our divisional bus and rail strategies.

→ For details of our bus and rail strategies see pages 38 and 42

## Our strategic priorities



### 1. Society

To run our companies in a safe, socially and environmentally responsible manner.

We believe a sustainable public transport network is essential to the future of any society and as a leading provider of passenger transport services, sustainability is integral to the way we run our business. Ensuring the safety of our passengers and our people is an absolute priority for us. We are also committed to making a contribution to the communities in which we operate and wider society. Reducing the environmental impact of our operations while providing a greener alternative to the private car contributes to the Government's environmental targets. The economic contribution from Go-Ahead helps support economic recovery and longer term prosperity.



### 2. Customers

To provide high quality, locally focused passenger transport services.

Meeting the needs of our customers is vital to the success of the Group. Providing reliable, value for money passenger transport encourages more passengers to use our services and leaves us well placed to tender for contracts with our transport authority customers. Our decentralised structure ensures strong localised expertise, focuses on the needs of the local customer and has the ability to respond quickly to changing conditions in the local markets. Good customer service is at the heart of everything we do and we are committed to delivering high levels of customer satisfaction across the board.



### 3. Our people

To be a leading employer in the transport sector.

Our people are our most valuable and important asset. Without them our buses and trains cannot create value. It is our teams across the Group that keep the business moving and are the face of Go-Ahead. Investing in and developing our people enables them to fulfil their own potential and assists them in carrying out their jobs to the best of their ability, thereby improving the customer experience. Effective leadership development and succession planning are essential to sustainable success for the Group and a diverse workforce further enhances this.



### 4. Finance

To run our business with strong financial discipline to deliver sustainable shareholder value.

Our aim is to deliver shareholder value through a combination of earnings growth, and strong cash generation and balance sheet management, supplemented by value adding growth opportunities. We have a steadfast commitment to operating with strong financial discipline and a conservative view towards risk. The strength of our balance sheet allows us to pursue opportunities, adding value to the Group and making attractive returns to shareholders.

## Measuring our performance

The key performance indicators (KPIs) presented in this report are the measures we use in the business to assess the Group's performance against our strategic objectives. These measures are regularly reviewed to ensure we are focusing on the right areas of performance. This year we have included some additional KPIs to better align performance to strategy.

In 2008, we set strategic targets for a number of our core KPIs. We continue to report on our performance against those targets and have also set new 2020 targets in a number of areas. Our target setting process is both a top down and bottom up approach, considering guidance from industry bodies while allowing for the unique features of our businesses and markets. The 2020 targets will use 2014 performance as a baseline for measurement.

The directors' remuneration policy is designed to reflect the Group's performance, with elements of remuneration linked to each of our strategic priorities.

# Key performance indicators



## I. Society

To run our companies in a safe, socially and environmentally responsible manner

### Remuneration

Directors' remuneration is linked to performance against this strategic priority, particularly relating to health and safety.

→ Read more in the directors' remuneration report on pages 68 to 83

### SPADs per million miles

**What does it mean?** Across the rail industry, train operating companies are legally required to report Signals Passed at Danger (SPADs). Although every SPAD is treated as a serious incident, most SPADs occur at low speed, where braking distance has been misjudged and the train is stopped by automatic warning systems, and therefore the likelihood of an accident is very low.

**Why is it important?** It helps us to measure against our commitment to provide a safe rail passenger service.

**Risks** Poor performance in this metric could impact on operational performance, result in a poor safety record and impact reputation.

**2014 performance** The number of SPADs per million miles increased by 11.1% to 0.80. To date we have achieved an improvement of 35.5% against our 2007/08 baseline.

This result should be viewed in the context of many years of improvement in this metric across the industry. Performance is tracked against a very good baseline performance.

We have very tight controls around safety and high standards of driver training which minimise the likelihood of SPADs occurring. We work closely with Network Rail to try and minimise the risk of SPADs on the network and investigate every SPAD that occurs on our services. We encourage accurate and timely reporting of incidents.

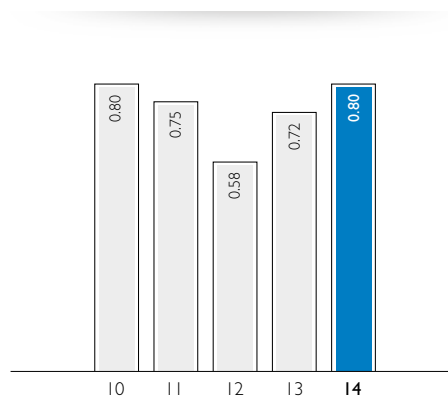
Due to the nature of these occurrences and high sensitivity to data changes, relative performance can fluctuate from one year to the next.

#### Targets

**2020 target** To maintain low levels of SPADs per million miles, delivering continuous improvement.

**2015 target** To achieve a 60% reduction by 2014/15 from the 2007/08 baseline.

### SPADs per million miles



### RIDDOR accidents per 100 employees

**What does it mean?** RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) is a statutory requirement for all companies and relates to a work place incident that results in absence from work for over seven days or a legally reportable incident to the Health and Safety Executive.

**Why is it important?** It helps us to measure against our commitment to providing a safe working environment for our employees.

**Risks** Failing to provide a safe working environment for our people goes against our objective to be the employer of choice in the sector. Poor performance could lead to issues around employee relations, including satisfaction and productivity, and could also increase employer's liability insurance claim costs.

**2014 performance** The number of RIDDOR accidents per 100 employees increased by 4.1% to 0.76. To date we have achieved an improvement of 61.6% against our 2007/08 baseline, exceeding our 2015 target of 60%.

This result should be viewed in the context of many years of improvement in this metric across the industry. Performance is tracked against a very good baseline performance.

We take our responsibility for the safety of our people very seriously and ensure our employees have the necessary equipment and training to do their jobs properly and safely. During the year we continued to invest in staff training and upgrades to our facilities to ensure a safe working environment for our people.

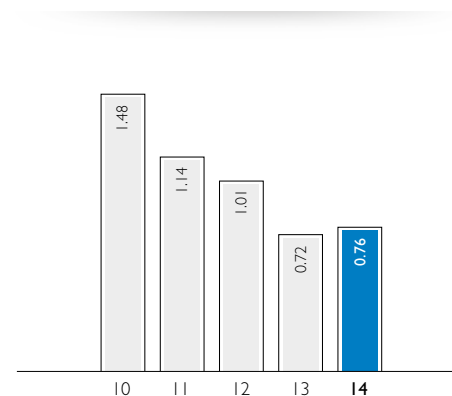
We investigate every accident and encourage accurate and timely reporting of incidents.

#### Targets

**2020 target** To maintain low levels of RIDDOR accidents per 100 employees, delivering continuous improvement.

**2015 target** To achieve a 60% reduction by 2014/15 against the 2007/08 baseline.

### RIDDOR accidents per 100 employees



## Bus accidents per million miles

**What does it mean?** We monitor the number of bus accidents which result in a notification to a claims handler for every million miles we operate, including cases where we are not at fault.

**Why is it important?** It helps us to measure against our commitment to provide a safe and positive travel experience for our bus passengers and minimise risk to the general public. Good performance in this area can also reduce cost through lower insurance claim costs.

**Risks** Our objective to run our companies in a safe manner would be impacted by poor performance against this KPI. Risks associated with this include reputational risk and higher insurance claim costs.

**2014 performance** The number of bus accidents per million miles increased by 9.6% to 29.6. To date we have achieved an improvement of 48.1% against our 2007/08 baseline.

Bus accidents have significantly reduced over the last three years as a result of action we have taken despite an increase in accidents where we are not at fault. We invest heavily in training, monitor driving behaviour and encourage our drivers to improve their standards of driving through a range of initiatives across the division. We have better end to end processes in place from accident prevention to claims management. We investigate every accident and encourage accurate and timely reporting of incidents.

### Targets

**2020 target** To maintain low levels of bus accidents per million miles, delivering continuous improvement.

**2015 target** To reduce bus accidents per million miles by 60% by 2014/15 against the 2007/08 baseline.

## Carbon emissions per passenger journey<sup>1</sup>

**What does it mean?** We monitor the carbon emissions from our operations for every passenger we carry. CO<sub>2</sub> conversion factors<sup>2</sup> are used to measure overall CO<sub>2</sub> emissions which are then measured per passenger journey.

**Why is it important?** It helps us to measure against our commitment to improve energy efficiency while contributing to government and local authority carbon reduction targets and providing a greener way for our passengers to travel. Good performance in this area also reduces cost through fuel efficiency.

**Risks** Our objective to run our companies in an environmentally responsible manner would be impacted by poor performance against this KPI. Poor performance could result in reputational risk for the Group and higher costs.

**2014 performance** Carbon emissions per passenger journey have reduced 12.2% since 2007/08.

Underlying performance has improved as a result of initiatives introduced by the Group. However, a larger than expected increase in the conversion factor<sup>2</sup> applied to electricity, determined by the Department for Food and Rural Affairs and DECC, has resulted in a decline in reported performance. Had the prior year's conversion factor been applied, the reduction in CO<sub>2</sub> emissions per passenger journey since our 2008 baseline would have been 18.7%.

### Targets

**2020 target** To consistently reduce underlying carbon emissions per passenger journey. This is against a challenging baseline as we have already made significant improvements in this area.

**2015 target** To reduce CO<sub>2</sub> emissions per passenger journey by 20% by 2014/15.

## Greenhouse gas emissions

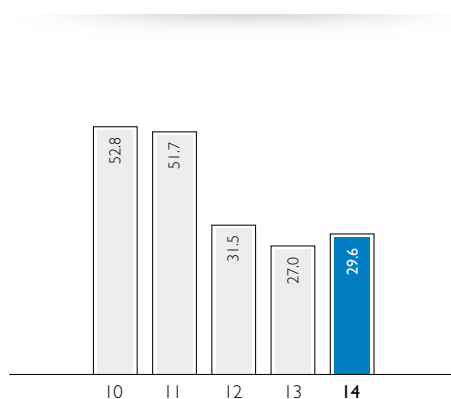
We report on greenhouse gas (GHG) emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard and the UK Government's Environmental Reporting Guidance methodologies together with the emissions conversion factors from DEFRA/DECC GHG conversion factors for Company Reporting 2014. In line with this guidance, we have reported the emissions sources<sup>\*</sup> that are required. These sources fall within businesses included in our consolidated financial statements.

Emissions are expressed in terms of equivalent carbon dioxide (CO<sub>2</sub>e). Our relative performance metric is kilogrammes of CO<sub>2</sub>e emissions per passenger journey. Go-Ahead's baseline year is 2007/08. The reduction in GHG emissions against this baseline is 12.2%.

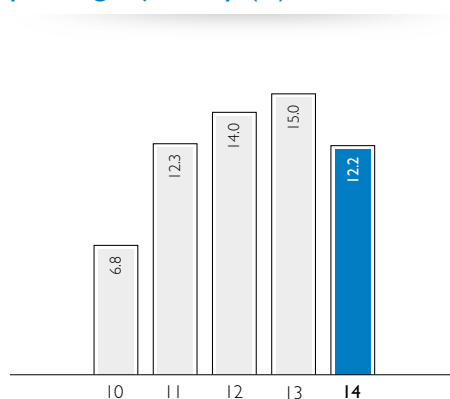
\* Emissions from air conditioning equipment in our premises and vehicles are not included in this analysis due to the difficulty in obtaining this data. These emissions account for less than 0.5% of our total GHG emissions and are therefore not considered material.

→ GHG emissions data is presented on page 21

## Bus accidents per million miles



## Carbon emissions per passenger journey (%)



<sup>1</sup> Reduction since 2007/08 baseline.

<sup>2</sup> Conversion factors, updated annually and provided by the Government, are used to help companies convert energy consumption into the equivalent carbon emissions.



## I. Society continued

### Flywheel technology



Following a successful trial in London, Go-Ahead intends to roll out flywheel technology across more of its bus fleet to reduce fuel consumption. This will reduce energy costs and carbon emissions, improving air quality in our communities.

Over the next two to three years the Group plans to fit electric gyrodrive systems to 500 buses.

The flywheel-fitted buses are planned to be used in several cities we serve across the UK – initially London, Southampton and Oxford.

Go-Ahead Chief Executive, David Brown, explained that working in partnership with the gyrodrive manufacturer, GKN Land Systems plc, to test the technology on two London buses was a positive experience:

“Our collaboration with GKN has been a very constructive one. We have a strong record in continually reducing our carbon emissions. Flywheel technology will help us make buses an even more environmentally responsible choice and encourage more people to travel by public transport. The flywheel technology helps us to reduce our fuel consumption and carbon emissions so improving air quality for all those living, working and visiting the areas in which we operate.”

Philip Swash, CEO GKN Land Systems, added: “We’ve worked in close partnership with Go-Ahead throughout the development of this innovative technology and it’s very exciting to move into the production phase. The fact that we are using the same groundbreaking technology that helped Audi win at Le Mans for the past three years to improve fuel efficiency in the public transport sector also shows what great innovation there is in the UK’s engineering sector.”

### How the gyrodrive flywheel works

The gyrodrive system uses a high speed flywheel made of carbon fibre to store the energy generated by a bus as it slows down to stop.

The flywheel works as a ‘regenerative brake’ absorbing kinetic energy and slowing the vehicle down. When the bus starts up again, the flywheel returns its energy to the transmission, saving much of the braking energy that would otherwise have been wasted. It uses the stored energy to power an electric motor which helps accelerate the bus back up to speed, generating fuel savings of more than 20% at a significantly lower cost than battery hybrid alternatives.

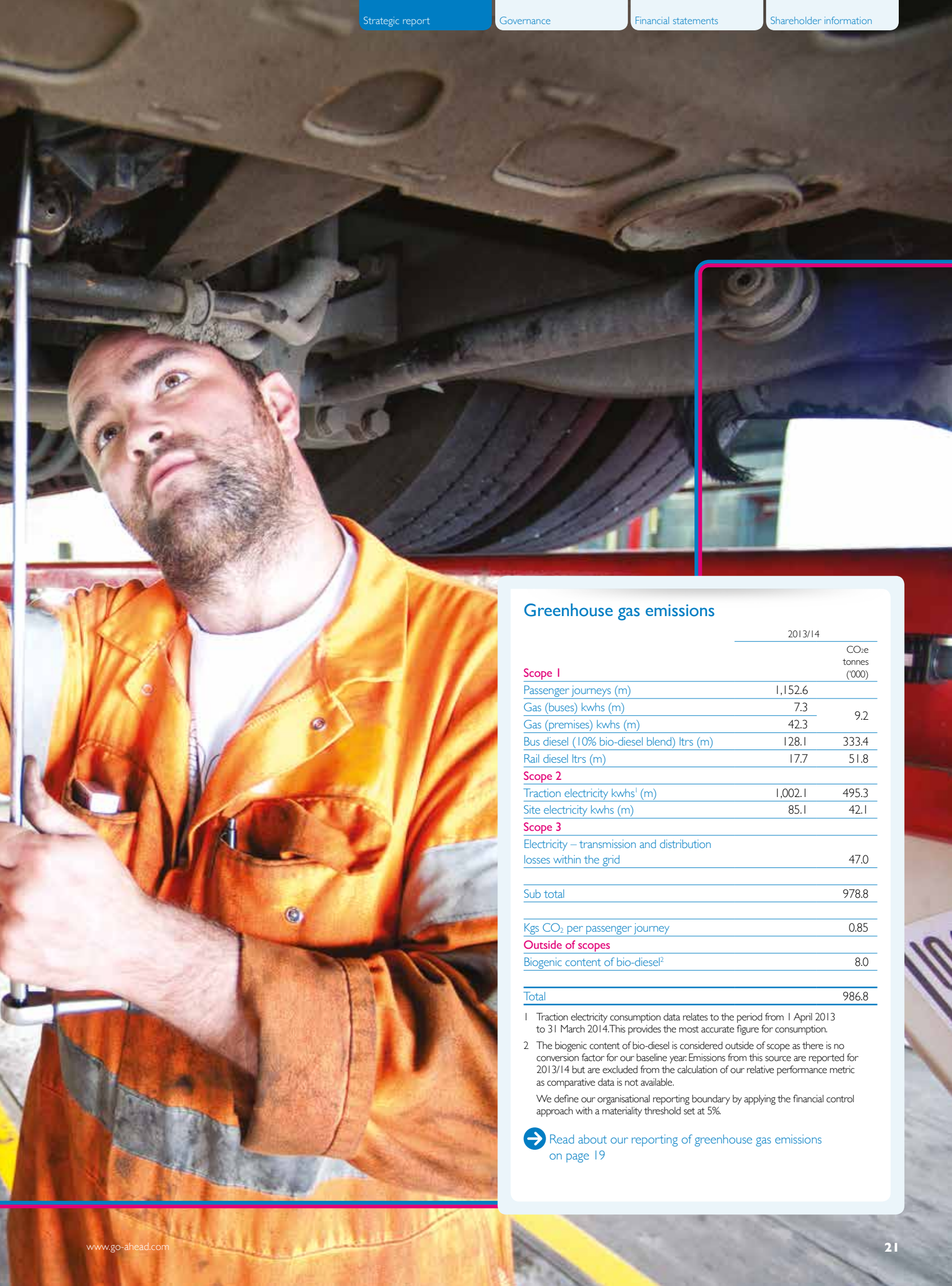
Over the next two to three years the Group plans to fit electric gyrodrive systems to around

# 500 buses

→ View a short video about flywheel technology at [www.go-ahead.com/flywheel-video](http://www.go-ahead.com/flywheel-video)







## Greenhouse gas emissions

	2013/14	
		CO <sub>2</sub> e tonnes ('000)
<b>Scope 1</b>		
Passenger journeys (m)	1,152.6	
Gas (buses) kwhs (m)	7.3	9.2
Gas (premises) kwhs (m)	42.3	
Bus diesel (10% bio-diesel blend) ltrs (m)	128.1	333.4
Rail diesel ltrs (m)	17.7	51.8
<b>Scope 2</b>		
Traction electricity kwhs <sup>1</sup> (m)	1,002.1	495.3
Site electricity kwhs (m)	85.1	42.1
<b>Scope 3</b>		
Electricity – transmission and distribution losses within the grid		47.0
<b>Sub total</b>		<b>978.8</b>
<b>Kgs CO<sub>2</sub> per passenger journey</b>		<b>0.85</b>
<b>Outside of scopes</b>		
Biogenic content of bio-diesel <sup>2</sup>		8.0
<b>Total</b>		<b>986.8</b>

1 Traction electricity consumption data relates to the period from 1 April 2013 to 31 March 2014. This provides the most accurate figure for consumption.

2 The biogenic content of bio-diesel is considered outside of scope as there is no conversion factor for our baseline year. Emissions from this source are reported for 2013/14 but are excluded from the calculation of our relative performance metric as comparative data is not available.

We define our organisational reporting boundary by applying the financial control approach with a materiality threshold set at 5%.

[➔ Read about our reporting of greenhouse gas emissions on page 19](#)

# Key performance indicators

## 2. Customers



To provide high quality, locally focused passenger transport services

### Remuneration

Directors' remuneration is linked to performance against this strategic priority, particularly relating to customer satisfaction.

→ Read more on the directors' remuneration report on pages 68 to 83

### NEW Like for like passenger volume growth

**What does it mean?** We measure the number of passenger journeys taken on our deregulated bus and rail services compared with the previous year. This is measured on a like for like basis.

As we are contracted on the basis of mileage in our regulated bus division we do not measure passenger numbers.

**Why is it important?** We track this metric closely as performance against our rail franchise bid assumptions and progress towards our £100m bus operating profit target are significantly impacted by passenger volumes.

**Risks** Decreasing volumes could be an indication of performance issues within our operations or changes in economic or market conditions, all of which could impact on the Group's overall performance.

**2014 performance** In deregulated bus, like for like growth was 1.9%. We have consistently delivered similar growth rates in recent years, against a backdrop of declining volumes in the UK bus industry, outside London. This growth has been supported by our geographical focus in more economically resilient areas and our approach to marketing our high quality services.

In rail, we continued to deliver consistent growth throughout the challenging economic period from 2008 and this has continued in the year, with like for like growth of 4.8%.

We have made improvements over a period of time including sales channels, off-peak services and marketing.

#### Target

**2020 target** To maintain growth at broadly similar levels to those consistently delivered in recent years.

### Customer satisfaction

**What does it mean?** Customer satisfaction is measured by the independent passenger watchdog, Passenger Focus. Surveys are conducted twice a year for our rail franchises and annually for our bus operations outside London.

Our primary customer in regulated bus is TfL. We measure satisfaction by performance against TfL performance targets, such as excess waiting time.

**Why is it important?** Providing high quality service is a strategic priority for the Group and monitoring customer satisfaction is a key measure of our performance. Identifying potential issues allows us to take action to improve our services.

**Risks** If our customers are not satisfied with the service they receive they may switch to other operators or other modes of transport such as driving, cycling or walking.

**2014 performance** In bus, we achieved the highest overall passenger satisfaction score in the UK bus industry, at 92%. One of our companies scored 98%, the highest recorded score in the UK.

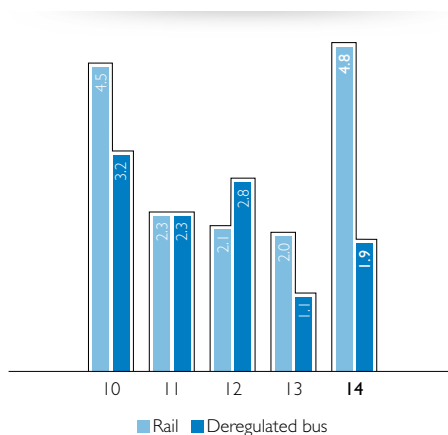
Rail scores declined slightly in the year to 77%, reflecting some factors outside the Group's control, such as flooding and land slips, and infrastructure maintenance, impacting performance in some areas. We continue to work closely with Network Rail to improve performance on the networks on which we operate.

The average score for train operators in London and the South East is 80% and the industry average for bus passenger satisfaction is 88%.

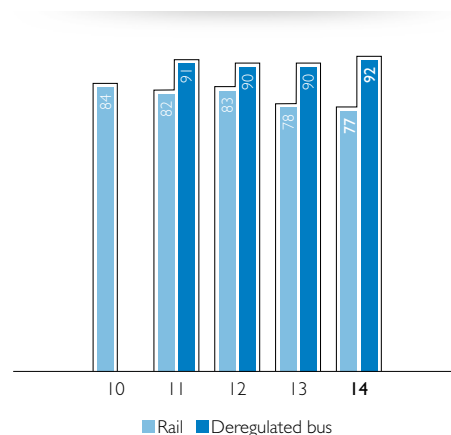
#### Target

**2020 target** To maintain our sector leading bus passenger satisfaction scores and improve on levels of customer satisfaction in the rail division, bringing them in line with the industry average for the London and South East network.

Passenger volume growth (%)



Customer satisfaction (%)\*



\* Go-Ahead became the first major transport group to conduct an annual independent bus customer satisfaction survey in 2011, therefore no data is available for 2010.

## Rail punctuality

**What does it mean?** The punctuality of our rail operations is measured on the basis of the DfT's Public Performance Measure (PPM) on a moving annual average basis. PPM is the percentage of trains that arrive at their final destination within five minutes of their scheduled arrival time.

**Why is it important?** Service punctuality is important to our passengers. Our PPM performance forms part of our franchise agreements with the DfT.

**Risks** Punctuality is a key driver of customer satisfaction. Poor performance could result in customers stopping using our services. Breach of franchise agreement terms could lead to financial penalties or ultimately result in the loss of a franchise.

**2014 performance** Overall PPM for our rail companies was 86.9%. This is a decline of 1.2ppts against the prior year. As detailed in respect of the customer satisfaction KPI, our performance in the year was impacted by infrastructure issues. We continue to work closely with Network Rail to improve performance on the networks on which we operate. Around 60% of delay minutes are as a result of incidents outside our control.

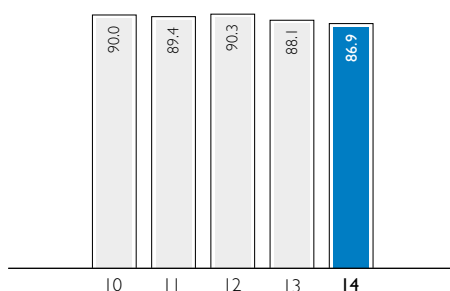
London Midland was the most improved franchise in the London and South East network in the year, with PPM up to 86.3%, as we addressed issues around operational performance in the prior year. Performance in Southern and Southeastern has declined year on year to 85.5% and 88.3% respectively.

Our franchises form part of the London and South East network for which the average PPM is 89.6%. The overall rail industry average is 89.9%.

### Target

**2020 target** Increase levels of punctuality in all our franchises to 92.5% or above, in accordance with the ORR's London and South East operators' 2019 target.

## Rail punctuality (%)



## Regulated bus punctuality

**What does it mean?** The punctuality of regulated bus operations is measured by excess waiting time. This is the time passengers have to wait for a bus above the average scheduled waiting time. The lower the excess waiting time, the better the performance.

**Why is it important?** Service punctuality is important to the passengers we carry on behalf of TfL. We earn extra revenue through Quality Incentive Contract (QIC) bonus payments if we exceed TfL punctuality targets, on a contract route basis. Contract extensions are based on performance.

**Risks** Poor performance could result in lower QIC bonus payments and contracts not being extended.

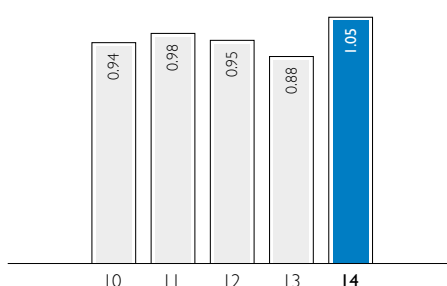
**2014 performance** Average excess waiting time was 1.05 minutes, a decline of 16.1%. The industry average is 1.14 minutes.

Performance in 2011/12 and 2012/13 was particularly good as there were fewer roadworks than usual up to, during and following the Olympic Games period. The number of roadworks has since increased, impacting our performance.

### Target

**2020 target** Achieve low average excess waiting time of below one minute, in line with TfL's targets.

## Regulated bus punctuality (minutes)



## Deregulated bus punctuality

**What does it mean?** The punctuality of our deregulated bus operations is measured as a percentage of buses that arrive at their stop between one minute before and five minutes after their scheduled time. Therefore, the higher the percentage the better.

**Why is it important?** Service punctuality is important to our passengers and is key to helping us grow passenger numbers.

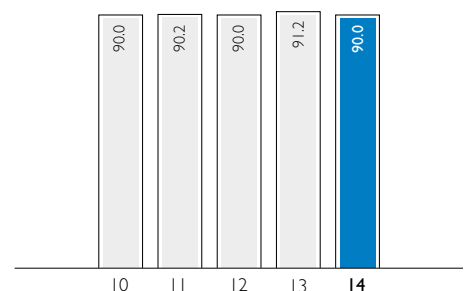
**Risks** Punctuality is a key driver of customer satisfaction. If our customers are not satisfied with the service they receive they may switch to other operators or other modes of transport such as driving, cycling or walking.

**2014 performance** 90.0% of our deregulated bus services ran on time. This is a slight decline on last year's performance but remains consistently high. Over the last five years, punctuality has not dropped below 90.0%.

### Target

**2020 target** Achieve deregulated bus punctuality of over 95% in line with industry targets.

## Deregulated bus punctuality (%)





## 2. Customers continued

### 'On Track' rail app



Go-Ahead's rail app 'On Track' is considered one of the best rail journey-planning apps in the UK, providing customers with the ability to look up train times, buy rail tickets and find out exactly how rail services are running to the minute.

Within just three months of being launched in January 2014 more than 100,000 people downloaded the app. This demonstrates the strong appetite among rail travellers for personalised real-time information and fast journey planning.

'On Track' enables journey planning for all national rail routes. It is incredibly easy to use and is personalised to individuals' travel habits.

Built in collaboration with rail passengers, 'On Track' is designed to be 'intelligent' and personalised for their journeys. It provides rail passengers with all that is needed to plan a journey: identifying nearest stations, buying train and car park tickets, through to real-time train-running information. It also gives one-touch email or phone contact to customer services and allows passengers to claim compensation if their journey is delayed.

For too long it's been 'one size fits all'. We know everyone's travel habits are different. So, we wanted to create a smart, fast, 'assistant' at your fingertips, something tailored to suit regular commuters or occasional travellers. There are several apps out there, but our customers wanted something simpler, faster and better.

Passengers appreciate the personal touches: the ability to nickname stations, add personalised icons, and show a countdown clock to the next train. We tested everything with customers, so we know these things are important to them. Other apps can be complicated. Ours couldn't be simpler. Wherever you're going, 'On Track' helps you along the way.

'On Track' is branded separately for Go-Ahead's three rail companies – Southern, Southeastern and London Midland but covers the whole national UK rail network and uses optimised data sources from Go-Ahead, National Rail Enquiries and Transport for London for up-to-the-second information.

[Download 'On Track' from The App Store or iTunes](#)

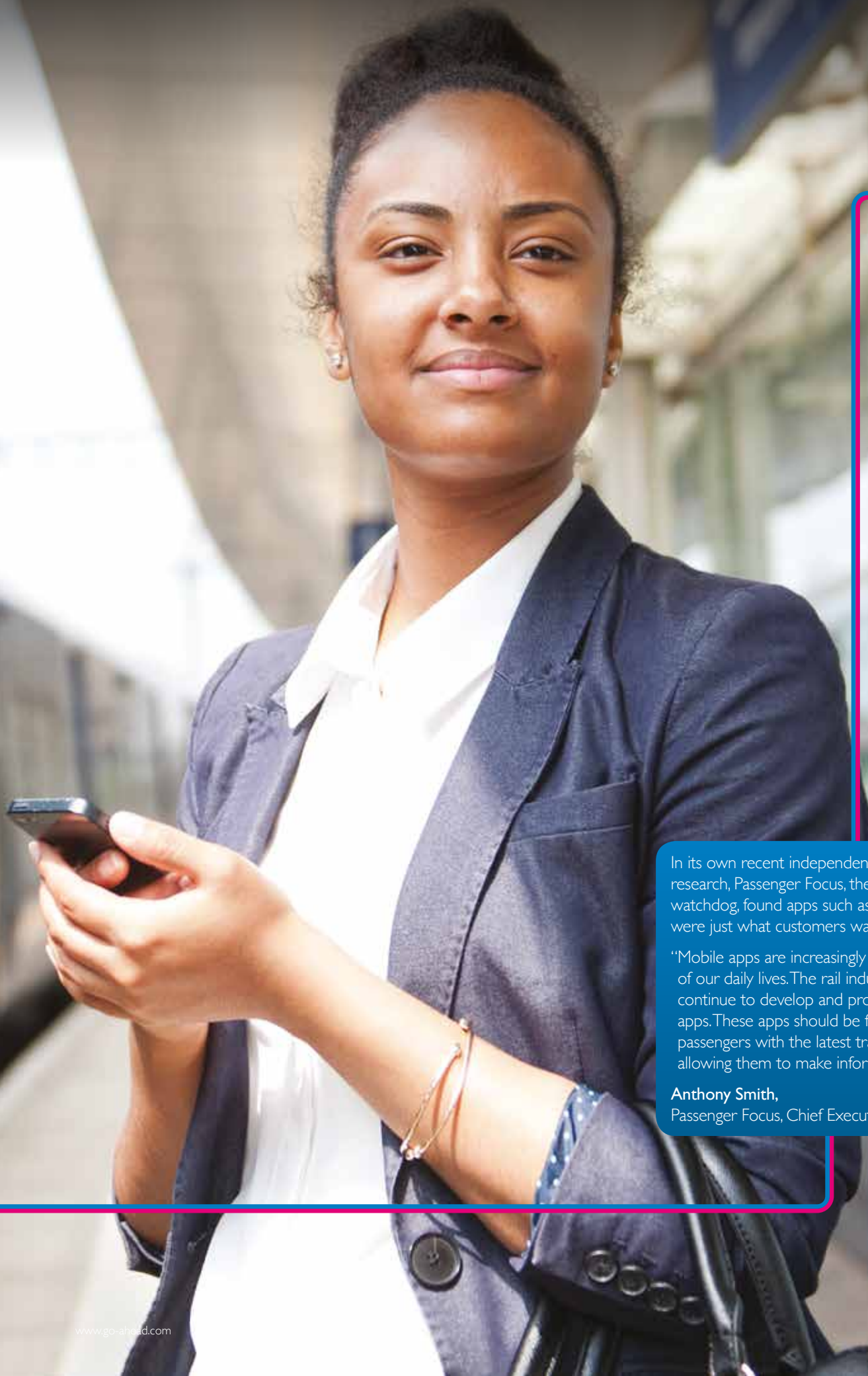
# 150,000

downloads in first six months

[View a short video about 'On Track' at www.go-ahead.com/rail-app-video](http://www.go-ahead.com/rail-app-video)

"Our audit of existing rail apps made the problem – and opportunity – abundantly clear. Without the ability to remember passengers' individual daily habits and requirements, tracking down information became slow and repetitive. Testing with passengers validated this insight. The opportunity for us was to make an app that rail passengers could personalise to meet their specific transport needs faster and more intuitively. 'On Track' delivers just that. Regular journey information is surfaced the moment you open the app and we've removed every single unnecessary step meaning passengers get answers faster."

**Daniel Joseph,**  
Founder and Strategy Director, The App Business



In its own recent independent market research, Passenger Focus, the consumer watchdog, found apps such as 'On Track' were just what customers wanted.

"Mobile apps are increasingly becoming part of our daily lives. The rail industry should continue to develop and promote useful apps. These apps should be free and provide passengers with the latest travel information, allowing them to make informed choices."

**Anthony Smith,**  
Passenger Focus, Chief Executive

# 3. Our people



To be a leading employer in the transport sector

## Remuneration

Directors' remuneration is linked to performance against this strategic priority, including employee engagement.

→ Read more on the directors' remuneration report on pages 68 to 83

\* Go-Ahead began conducting employee engagement surveys across our business in 2012/13. Data for previous years is therefore not available.

## Employee Engagement Index

**What does it mean?** We measure how engaged our people are through annual independent staff surveys, conducted across our businesses.

**Why is it important?** Go-Ahead strives to be an employer of choice in the transport sector and values the insight gained from employee feedback. In addition to making Go-Ahead a great place to work, high levels of employee engagement will contribute to the success of the Group.

**Risks** Low levels of employee engagement could result in reduced productivity and higher levels of absence or staff turnover; all of which would impact on resource planning across the business.

**2014 performance** In the year, our bus division recorded levels of employee engagement of 40%. Rail division employees had levels of engagement of 60%. The national average level of employee engagement, for large companies, across all sectors, is 34.0%.

We have 'people plans' in place across all of our businesses and over the last few years have made significant improvements in areas such as personal development and performance management.

We seek to engage effectively with teams and individuals at a local level, while maintaining a Group identity. We value the experience and opinions of our people.

→ Read more about our 'people plans' on pages 27 to 29

### Target

**2020 target** All of our bus and rail companies set their own challenging targets to increase levels of employee engagement.

Overall, our aim is to improve our levels of engagement each year, remaining above the average for large businesses.

## Absenteeism

**What does it mean?** We measure employee absence by the percentage of scheduled hours not worked due to unplanned absence from work.

**Why is it important?** High levels of absenteeism could be reflective of low levels of staff satisfaction and engagement. By monitoring levels of absence we are able to identify areas of the business with potential employee relations or staff shortage issues. This also helps us with our resource planning and allocation.

**Risks** Staff shortages could impact on our ability to deliver our services at the frequency, level of punctuality and to the standard we aim to achieve.

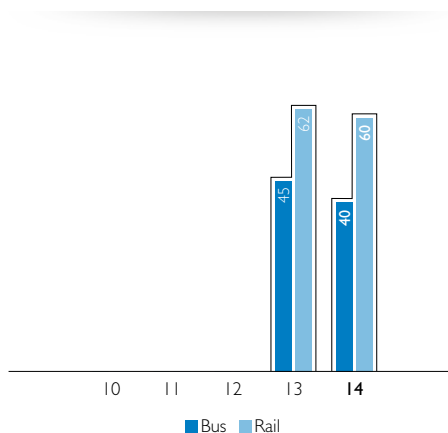
**2014 performance** In the year, the overall rate of Group absence was 3.9% with 4.0% in our bus division and 3.8% in rail. This compares with a national average of 4.4% across all sectors.

Our local management teams aim to foster good relations with employees and seek to identify any issues that may arise resulting in periods of absence.

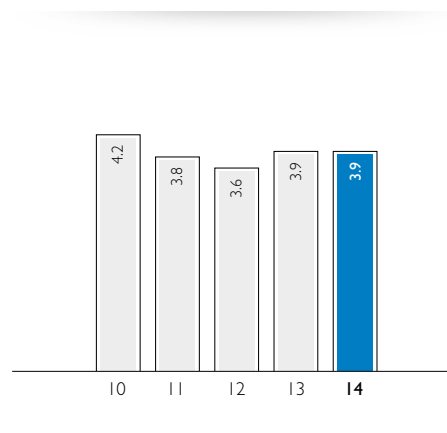
### Target

**2020 target** Maintain low levels of absenteeism, below the national average.

Employee Engagement Index (%)\*



Absenteeism (%)





## Employee turnover

**What does it mean?** Employee turnover is measured by the percentage of total number of employees who leave the business in a defined time period.

**Why is it important?** High levels of employee turnover could be reflective of low levels of staff satisfaction and engagement. By monitoring levels of turnover we are able to identify areas of the business with potential employee relations issues. This also helps to identify issues such as staff shortage and assists us in resource planning and allocation.

**Risks** Staff shortages could impact our ability to deliver our services at the frequency, level of punctuality and to the standard we aim to achieve.

**2014 performance** The overall rate of employee turnover was 9.4% for the Group, with 13.1% in our bus division and 5.6% in rail.

We aim to develop and incentivise our people to encourage low levels of employee turnover.

Levels of turnover are regularly monitored.

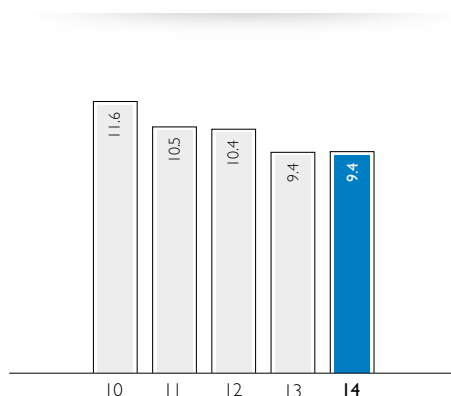
Our local management teams are best placed to respond to changing levels of turnover:

It is important to consider the economic climate in relation to this KPI as the wider job market can impact turnover levels.

### Target

**2020 target** Maintain consistently low levels of employee turnover:

## Employee turnover (%)



## Developing our people

Retaining skilled, professional people with the right attitude is important to us. We spend time and money recruiting, training and developing our people, therefore it makes economic sense to ensure they remain with the Group. We benefit from the value they add, as well as keeping recruitment costs as low as possible. The principle underpinning the Investors in People management framework – believing organisations succeed by realising the potential of their people – is fundamental to our approach.

Investment in developing our people takes place at every level across our companies and in the past year we've spent more than £11.5m on training. Graduate training and apprentice schemes are in place in both our bus and rail divisions. Many of our customer-facing people have achieved National Vocational Qualifications in customer service and senior managers have Institute of Learning Management accreditation. Ensuring all our people have the tools they need to do their job and an understanding of their role and the contribution it makes towards the company's overall goals is fundamental to our learning and development strategy.

A number of our businesses have the Investors in People Status, including Southeastern which has Champion Status – the highest possible accreditation.

### People worth keeping

The cost of replacing an employee earning £25,000 per annum is around £30,600\* – made up of 'cost of lost output' while the new member gets to know the ropes, and the 'logistical cost' of recruiting and absorbing a new worker. Specific roles such as train drivers, cost even more than this, as up to 12 months' training is needed before an individual can be productive in the workplace.

Retaining experienced senior managers also adds a value to an organisation that can sometimes be hard to quantify. We are aware that losing our key people can be a risk to success. Over the past three years we have introduced comprehensive succession plans across the business to consider our current and future capability requirements.

### Grow our own

Our comprehensive succession plans enable us to create an integrated HR management strategy to make sure the business's requirements can be met.

We identify areas which need focus and also where we have the potential to share skill sets from different Group companies.

Over the past year there have been several examples of managers moving into new roles as a direct result of these succession plans. We have also created leadership development schemes and 'talent programmes' aimed at identifying and developing the potential senior managers and directors of the future.

We work hard to ensure there is a supportive and positive culture across our business and an open, fair leadership structure. We recognise there are times when recruiting external expertise is necessary but we are also proud of our strong credentials of 'growing' our own leaders. Of the 23 senior director appointments made by the Group over the past year, 65% were internal promotions.

### Long term benefits

While remuneration is, of course, an important way to motivate and retain employees it is not always feasible for salaries to rise. We aim to create long term benefits for employees. In the past year around 20% of our employees took advantage of a Go-Ahead Sharesave scheme, aimed at encouraging our people to potentially benefit financially and increasing their vested interest in the Group's success.

It has long been known that praise and recognition make a strong contribution in creating engaged and motivated people. Engaged employees are likely to go the extra mile to help colleagues and customers so our Group companies have internal 'reward and recognition' schemes celebrating and promoting our Group values such as teamwork, customer service and collaborating and supporting others.

Our experience is that these longer-term benefits can have a positive impact on employee turnover. Our staff surveys, conducted annually, strongly indicate that most of our people believe they'll be working for the company in a year's time.

\* Oxford Economics, February 2014.

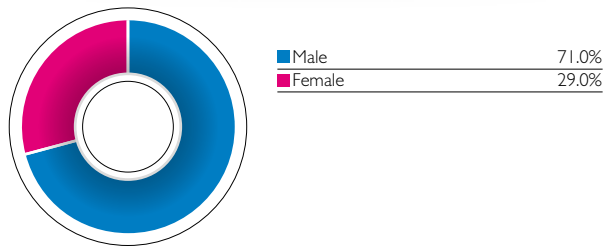


## 3. Our people continued

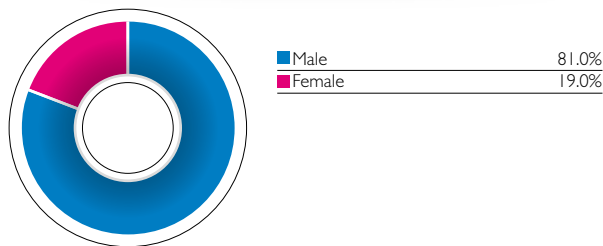
Our aim is to be the employer of choice in the sector. The safety and wellbeing of our people is our priority and we pride ourselves on the health and safety standards we maintain across the Group. Our organisational values and culture encourage an environment through which individuals can thrive and develop.

We seek to provide opportunities for personal and professional development and to recognise and reward excellence. We are committed to protecting the rights of our people and believe in equal opportunities at all levels of the business. During the year, we developed our 'people plans' across the organisation from the Boardroom to front line operational employees.

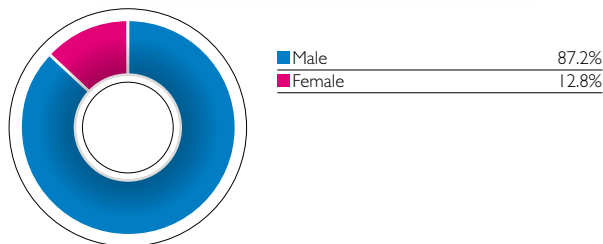
### Board gender diversity



### Senior management gender diversity



### Overall group gender diversity



### Diversity and equal opportunities

Go-Ahead recognises the value of diversity in all areas and at all levels of the business. During the year, a Group diversity forum was established comprising individuals from across the business. An area of particular focus for the forum in the year was gender diversity. We continue to ensure that there is no bias towards either gender and that all appointments and internal promotions are made on the basis of merit.

The Group believes in equal opportunities regardless of gender, age, religion or belief, sexual orientation, race and, where practical, disability. We give full and fair consideration to job applications from people with disabilities, considering their particular aptitudes and abilities. In respect of existing employees who may become disabled, the Group's policy is to provide continuing employment and appropriate training, career development and promotion of disabled people employed by the Group.

### Human rights

We are committed to protecting the rights of our people, customers, suppliers and other stakeholders. This commitment is reflected in our Group policies and procedures.

### Our local approach

Go-Ahead has always operated through a devolved management structure, with local teams entrusted and empowered to run their businesses effectively. Our operating company management teams are best placed to respond to the needs of local customers and communities. This approach allows flexibility and fast action which we believe gives us competitive advantage in the markets we serve. This local focus is complemented by skills, expertise and support at Group level in areas such as marketing, IT and procurement and we work together, sharing experience and expertise around the Group.

### Employee relations

We seek to engage effectively with teams and individuals at a local level, while maintaining a Group identity. We value the experience and opinions of our people and conduct annual employee engagement surveys across the Group. Response rates to these surveys increased compared to the prior year as people are increasingly seeing their feedback being put into practice. Almost all of our workforce is represented by trade unions and we strive to foster good relationships with union representatives, acknowledging the impact of poor employee relations on our success.

[→ Read more about our people focused initiatives on page 27](#)





# £ 4. Finance

To run our business with strong financial discipline to deliver sustainable shareholder value

## Remuneration

Directors' remuneration is linked to performance against this strategic priority, particularly relating to operating profit and cashflow.

➔ Read more on the directors' remuneration report on pages 68 to 83

### NEW Like for like revenue growth

**What does it mean?** For our rail operations we measure revenue generated through the provision of passenger transport services. In our bus division, non-passenger revenue is less material, therefore we measure total revenue.

**Why is it important?** Growing revenue through a combination of growth in passenger numbers and modest fare increases drives operating profit growth.

**Risks** Inadequate levels of revenue growth can impact on profitability, reducing our ability to invest in the business and make returns to shareholders.

**2014 performance** In deregulated bus, like for like revenue growth was 4.3%. Performance was driven by growth in passenger numbers, network expansion and modest fare increases, in line with inflation.

Regulated bus like for like revenue increased by 7.5%. Performance was impacted by mileage growth and a reallocation of BSOG subsidy from costs to revenue accounting for 3.7%.

Like for like growth in rail revenue of 6.1% is the result of growth in passenger numbers and rail fares set by the Government. Rail fare increases are passed back to the Government through the premium or subsidy payment of each franchise.

➔ Read more about our bus and rail performance on pages 38 to 45

#### Target

**2020 target** To maintain growth at broadly similar levels to those consistently delivered over recent years.

### Operating profit

**What does it mean?** We measure operating profit before amortisation and exceptional items to provide more comparable year-on-year information.

**Why is it important?** This helps us measure the underlying performance of our operating companies. Profit growth enables us to reinvest in the business and deliver shareholder value.

**Risks** Inadequate levels of profitability can reduce our ability to invest in the business and make returns to shareholders.

**2014 performance** Total Group operating profit was £103.2m up 19.0%. Good progress was made towards Target 100 as bus operating profit increased by £10.3m to £83.5m ahead of our initial expectations.

Typically, in rail, profitability towards the end of a franchise term tends to be lower than at the start. All three of our existing franchises are approaching their original franchise end dates. Operating profit for the year was £19.7m up £8.2m.

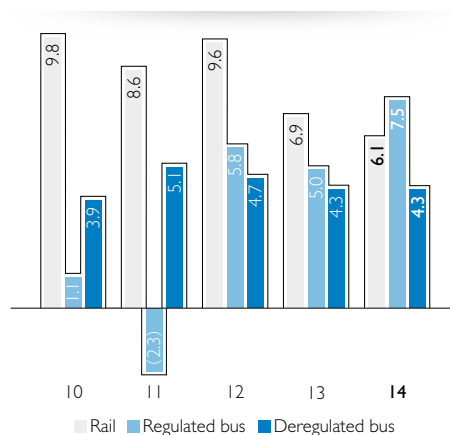
#### Target

**Bus target:** Target 100 £100m of bus operating profit by 2015/16.

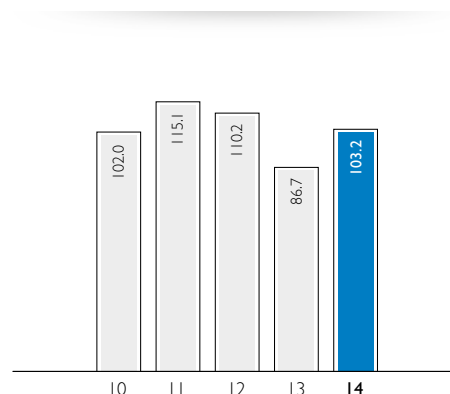
➔ Read more about our progress towards Target 100 on page 7

**Rail target:** Deliver value from existing franchises and achieve margins nearer industry average of 3%.

Like for like revenue growth (£m)



Operating profit (£m)\*



\* 2012/13 is restated for the impact of IAS 19 (revised). Prior years are reported on an unadjusted basis.

## Adjusted net debt/EBITDA

**What does it mean?** This ratio is used to indicate the Group's ability to pay down its debt from earnings. Adjusted net debt, which is total net debt plus restricted cash in our rail division, is measured against earnings before interest, tax, depreciation and amortisation (EBITDA).

**Why is it important?** We have a bank covenant limit of 3.5x and are required to remain below this level. This ratio also helps us measure against our commitment to preserve a strong capital structure and maintain our investment grade credit ratings.

**Risks** Exceeding the bank covenant limit of 3.5x cover.

**2014 performance** In line with management's expectations, adjusted net debt to EBITDA (adjusted for the impact of IAS 19 (revised)) was 1.45x, slightly below our target range.

Adjusted net debt decreased by £39.6m to £260.0m in the year, while EBITDA was up by £19.1m to £163.9m.

### Target

**2020 target** To maintain adjusted net debt/EBITDA within our target range of 1.5x and 2.5x throughout the economic cycle.

## Cashflow/EBITDA

**What does it mean?** This ratio is used to monitor the conversion of operating profit into operating cash.

**Why is it important?** Good performance against this KPI demonstrates strong working capital management and financial discipline. Strong cash generation provides liquidity.

**Risks** Not generating sufficient earnings to reinvest in the business.

**2014 performance** Cashflow generated from operations was 1.12 times EBITDA.

We manage payments and receipts closely to convert operating profit into operating cash.

The nature of our rail business can lead to large working capital movements at certain times of year, which can result in some fluctuations from year to year due to timing of payments and receipts.

Our regulated bus contracts run for five years with a possible two year extension. Capital expenditure requirements in this division are impacted by the timing of contract renewals.

### Target

**2020 target** To match or exceed cashflow generated from operations to EBITDA.

## Dividend cover

**What does it mean?** We measure the level by which our dividend payments can be covered by earnings (adjusted earnings per share divided by dividend per share).

**Why is it important?** We are committed to delivering shareholder value through our dividend policy. We measure our dividend cover to help us assess how much of our profits we can pay to shareholders as a dividend whilst allowing sufficient retained earnings to invest in the business.

**Risks** Insufficient or unsustainable dividend cover could result in the dividend being reduced.

**2014 performance** Dividend cover was in line with our policy at 2.04 times earnings on a pre-IAS 19 basis.

Reflecting the Board's confidence in the Group's performance and prospects, the Board believes it is time to resume the Group's dividend policy of progressive dividend growth whilst maintaining dividend cover of approximately two times adjusted earnings on a pre-IAS 19 (revised) basis through the economic cycle.

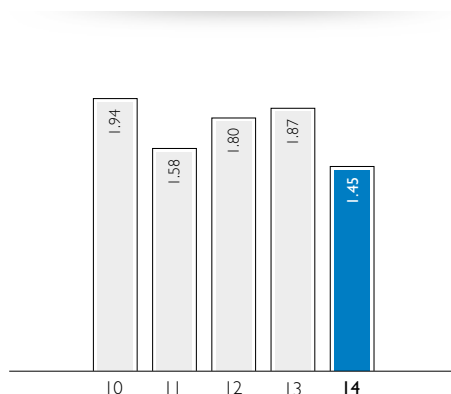
The Board is proposing a final dividend of 59.0p, increasing the full year dividend to 84.5p from 81.0p.

Had the dividend been maintained at 81.0p, cover would have been 2.13 times earnings.

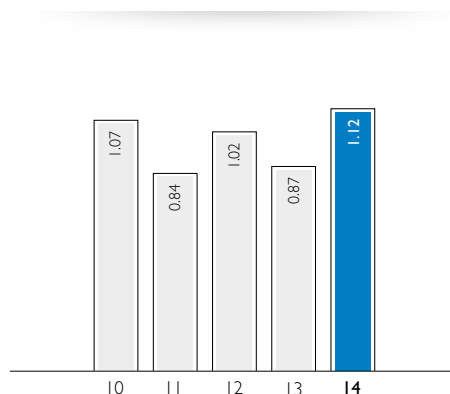
### Target

**2020 target** Maintain adequate dividend cover throughout the economic cycle, in line with our policy of two times cover, excluding the impact at IAS 19 (revised).

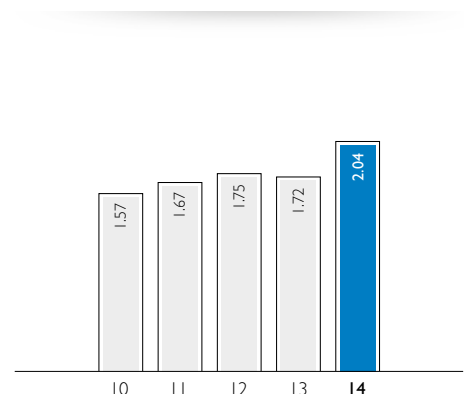
## Adjusted net debt/EBITDA (x)



## Cashflow/EBITDA (x)\*



## Dividend cover (x)



## £ 4. Finance continued

### Fair Tax Mark



As a socially responsible organisation, transparency and openness are important to us. We are pleased to have been recognised as being the first in the FTSE 350 to be awarded the Fair Tax Mark.

The Fair Tax Mark is a label for good taxpayers and companies that are open about tax affairs and seek to pay the right amount of corporation tax at the right time and in the right place. A fair tax system is to the benefit of everyone and crucial to support a vibrant mixed economy.

The Fair Tax Mark was awarded following an independent review of the Group's policies on tax. The assessment criteria were devised in consultation with business representatives, non-government organisations, academics and professionals and takes into consideration several elements such as our desire to be considered low risk by HMRC, our review on the levels of disclosures made on taxation, and that we have a Board enforced policy not to undertake tax planning and not to use tax havens.

Signing up to the Fair Tax Scheme, which launched in February 2014, was voluntary and Go-Ahead has taken a decision to apply for accreditation to achieve maximum transparency.

Tax is an issue that affects everyone and we hope the recognition of our responsible tax policy reassures stakeholders, investors, employees and customers that we are a responsible organisation.

All our businesses, including our rail companies owned in partnership with Keolis, pay UK corporation tax.

→ [Read about the Group's taxation for 2013/14 on page 48](#)



# Managing risk



“Our focus on effective risk management cascades all the way through the organisation.”

Adrian Ewer,  
Chairman of the audit committee

## Dear Shareholder

Risk is always high on the Board's agenda and this focus on effective risk management cascades all the way through the organisation. Go-Ahead takes a conservative view of risk and attempts to limit its exposure to undue risk. This is reflected in the Group's strategy. The culture of the organisation ensures that all activities, from day-to-day operations to high level strategic decisions, are performed in line with this approach.

## How we manage risk

Through our robust risk management and internal control systems, we are able to identify, assess and prioritise risks to our business and seek to minimise, monitor and control their probability and impact whilst maximising the opportunities they present. Risks are monitored on an ongoing basis through our risk management processes and are mitigated through the internal control environment. Residual risks are assessed and it is determined whether they will be accepted as an integral part of the business, or deemed unacceptable and therefore either reduced, transferred to third parties or avoided by no longer pursuing the relevant activities. We are always looking at ways to develop and improve our risk management processes. In addition to reports from the Group's internal auditors and health and safety consultants, external auditors' reports and updates from the executive directors were regularly reviewed by the audit committee during the year.

## Who is involved in risk management

All of our employees are required to manage risks of varying levels in their roles. We empower our people to take responsibility for risks facing themselves or their colleagues, our passengers, the general public and the success of the Group. The diagram on page 35 illustrates the key roles and responsibilities of each of the respective functions within our formalised risk management framework.

Ultimate accountability for risk management lies with the Board, supported by the work of the audit committee, to which the Board has delegated responsibility for reviewing the effectiveness of the Group's risk management and internal control systems. With clear leadership from the Board and audit committee, the executive directors play an integral role in helping the operating companies identify, assess and monitor their respective risks and controls. Through monthly meetings with the senior management of each operating company, the executive directors encourage open bottom-up communication on risk matters within a clearly defined framework and reporting process. Ownership of risk identification and mitigation lies with senior management in the operating companies, where it is an integral part of day-to-day local company operations.

## What are our risks

During the year, the Board improved the top-down process for risk assessment to concentrate on a smaller number of key risks to allow more in-depth consideration. Whilst all risks are closely managed, this report only includes risks considered to be financially or reputationally material and relevant to the year under review. The tables on pages 36 to 37 summarise our assessment of the key risks that could have a material impact on the Group's performance or business model.

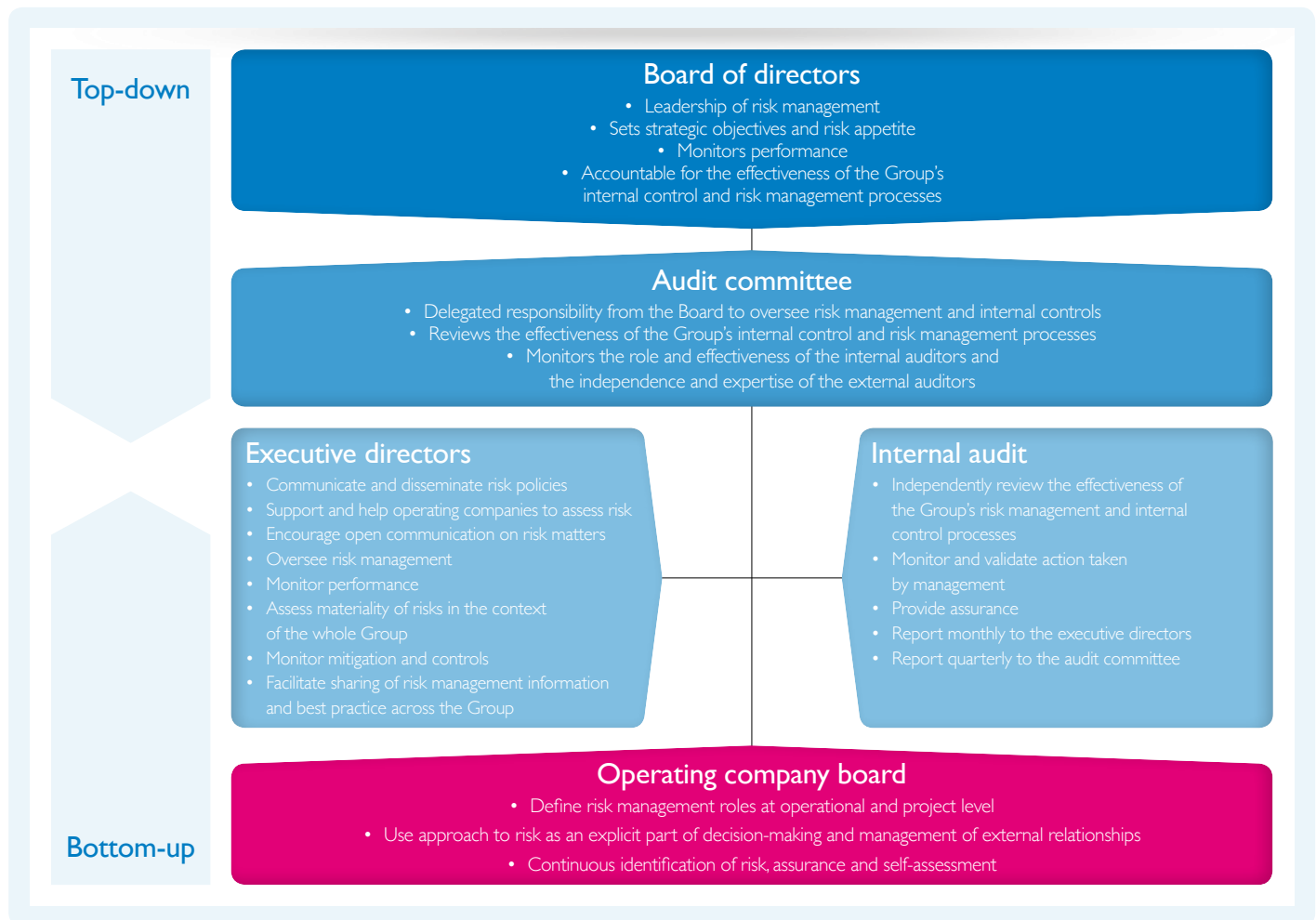
## Where to find out more

The corporate governance report on pages 52 to 67 provides more detail of Go-Ahead's risk management and internal control framework. Our corporate website expands on the information provided within this report.

A handwritten signature in black ink, appearing to read 'Adrian Ewer'.

Adrian Ewer,  
Chairman of the audit committee  
3 September 2014

## Risk management framework



### Website resilience

Our approach to website resilience and business continuity is an example of how we mitigate the risk of information technology failure or interruption.

#### Always available online

With a billion passenger journeys made every year on Go-Ahead services, customers accessing real-time travel information is a vital part of the service we provide. At times when public transport is disrupted, our operating companies' websites can have tens of thousands of people looking for information at the same time. Our reputation is based on being able to provide this information about our bus and rail services in real time.

With more and more people accessing the information on the move, it is critical that our operating company sites are resilient and can withstand large surges of people accessing them at any one time.

In the past we have learnt our websites and servers can be particularly vulnerable when external forces beyond our control, such as the weather, cause major disruption. In 2010, heavy snowfall stopping rail services in the south east of the UK resulted in an unprecedented number of people accessing our rail websites causing servers to 'crash' and resulting in information being unavailable. Since then, we have focused our efforts on mitigating the risk of this happening again and now believe we are leading the industry in our approach to website resilience and business continuity.

#### Light sites

Our IT team worked with web design agencies creating 'light sites' that can be switched-on in times of travel disruption. These sites strip out any extraneous information and load information critical pages within a fraction of a second. We extensively analyse the pages that our customers use most frequently and make sure they are easy to access.

#### Load bearing hosts

For business continuity our sites are now hosted on 'load bearing' servers that can cope with spontaneous large spikes in demand, up to several millions hits per second. We use external companies to conduct site confidence testing every year, to assess whether our systems are able to cope if there is an unprecedented increase in users needing access. Working together with our suppliers and across our operating companies, we monitor and respond to incidents quickly, minimising the risk of information being unavailable.

We also need to continually stay abreast of how use of technology is changing so we can continue to provide our customers with the information they need at a time, and in a way that suits them.

➔ [Read more about our approach to information technology risk on pages 36 and 37](#)



## Managing risk continued

	Potential impact	Mitigating action
External Economic environment	Negative impact on the Group's businesses, largely through a reduction in demand for services. In rail, franchise bids make economic assumptions years into the future. A weaker economy can lead to under performance against bid targets.	<ul style="list-style-type: none"> <li>Continue to focus our operations in more resilient geographical areas</li> <li>Local management constantly assesses the needs of local markets and tailors services and products accordingly</li> <li>Focus on driving volumes through innovative and targeted marketing</li> <li>Generate customer loyalty through initiatives such as smart-ticketing</li> <li>Proactive cost control</li> </ul>
Political and regulatory framework	Changes in Government or to laws, regulations, policies (e.g. concessionary travel), local authority attitudes towards public transport and reductions in the availability of Government financial support could adversely impact the Group's operations and financial position.	<ul style="list-style-type: none"> <li>Limited exposure to local authority funding. Our operations are largely commercial</li> <li>Actively participate in key industry, trade and Government steering groups</li> <li>Maintain close relationships with key industry partners and stakeholders</li> <li>Use internal initiatives across the business to offset the impact of external issues</li> </ul>
Strategic Sustainability of rail profits	The sustainability of rail profits is dependent on a number of factors. The nature of the current rail franchising model leads to high volatility of earnings; failure to retain, win or successfully mobilise new franchises could impact on the overall profitability of the Group; failure to comply with conditions of rail franchise agreements could lead to financial penalties or even the termination of a rail franchise.	<ul style="list-style-type: none"> <li>Flexible and experienced management team which responds quickly and expertly to changing circumstances</li> <li>Shared risk through Govia, which is 65% owned by Go-Ahead and 35% by Keolis</li> <li>Element of protection through revenue support arrangements</li> <li>Significant resource and financial investment in bidding for new franchises</li> <li>Regular Board review of rail performance, and Board approval of overall rail bidding strategy</li> <li>Compliance with franchise conditions closely monitored</li> <li>Clear mobilisation plans and experienced management</li> </ul>
Inappropriate strategy or investment	Inappropriate strategic or investment decisions could adversely impact on the Group's economic and shareholder value.	<ul style="list-style-type: none"> <li>Comprehensive strategic discussions with main Board and advisors</li> <li>Extensive valuation and due diligence, supported by external expertise</li> <li>Maintain strong financial discipline when assessing viability of opportunities</li> <li>Minimum return on capital requirements of all investment opportunities</li> <li>Cautious approach to investment opportunities overseas and outside our core operating areas</li> </ul>
Competition	Loss of business to existing competitors or new entrants to the markets in which we operate could have a significant impact on our business.	<ul style="list-style-type: none"> <li>Work hard to maintain our good reputation with our customers</li> <li>Foster close relationships with stakeholders to ensure we are meeting requirements including service quality and price</li> <li>Work in partnership with local authorities and other operators</li> <li>Promote multi-modal travel, improving the overall door-to-door experience for passengers</li> </ul>
Operational Catastrophic incident or severe infrastructure failure	An incident, such as a major accident, an act of terrorism, a force majeure, a pandemic or severe failure of rail infrastructure, could result in serious injury, disruption to service and loss of earnings.	<ul style="list-style-type: none"> <li>Rigorous, high profile health and safety programme throughout the Group</li> <li>Appropriate and regularly reviewed and tested contingency and disaster recovery plans</li> <li>Thorough and regular staff training</li> <li>Close relationship and proactive alliancing with Network Rail, which maintains the rail infrastructure</li> </ul>
Labour costs, employee relations and resource planning	Poor employee relations or reduced availability of staff could impact on reputation, revenue, staff morale and our ability to fulfil contract obligations. Labour costs are a high proportion of our cost base. Even relatively small percentage increases in wages could have a material impact on profits. For example, an increase of 1% in staff costs would increase costs by £9.3m.	<ul style="list-style-type: none"> <li>Ensuring Go-Ahead is viewed as an employer of choice</li> <li>Robust and regularly reviewed recruitment and retention policies, training schemes, resource planning and working practices</li> <li>Experienced approach to wage negotiations and fostering good relationships with employees and trade unions</li> <li>Employee engagement surveys across all businesses to identify issues</li> </ul>
Information technology (IT) failure or interruption	Prolonged or major failure of the Group's IT systems could pose significant risk to the ability to operate and trade.	<ul style="list-style-type: none"> <li>Process standardisation and continued investment in best practice systems, including 'light sites' and 'load bearing' servers</li> <li>Clear and tested business continuity plans</li> </ul>



## Potential opportunities

- A more challenging economic environment encourages modal shift, as motorists seek value for money alternatives to the private car
- Improvements in the economic environment can lead to increased employment and discretionary spending in shops and leisure facilities which can result in more journeys being taken on public transport

- Changes in law, regulation or funding could positively impact the Group, potentially leading to increased funding or more flexibility for operators. For example, the potential introduction of local authority contract schemes outside London may increase our ability to bid for contracts in new areas
- The political and regulatory framework provides us with the opportunity to influence decisions through close dialogue with the Government, local authorities and other key parties

- Following significant delays, the DfT's rail franchise competition timetable picked up pace during the year with two DfT contracts being let since May 2014. Nine rail franchises are due to be awarded in the next three years presenting growth opportunities for the Group

→ See page 16 for details of upcoming franchise competitions

- For contracts where we take revenue risk, there may be the opportunity for increased earnings if the economic climate is stronger than assumed in a franchise bid
- Continual focus on and review of strategy ensures the Board is well placed to access value adding opportunities as they arise


- Strategic partnerships, such as our joint-operator scheme with Stagecoach and the local authority in Oxford, may provide opportunities and aim to improve the passenger experience and perception of public transport as a whole


- The threat of such an event requires our staff to be well trained and prepared at all times. Continuous review of processes and procedures can identify areas for operational improvement

- Through fostering positive employee relations and offering good employment packages we have a motivated and committed workforce, with low staff turnover and absenteeism rates across all businesses


- Ensuring our systems are efficient and reliable strengthens day-to-day operations across the Group

## Change in risk in the year

- The economic risk reduced in the year as economic growth rates for the quarter ended June 2014 improved to 3.2% for the UK. Some geographical areas are recovering at a slower rate. For example, unemployment in north east England was around 10% compared to close to 7% in the rest of the UK! 


- With the next general election less than a year away, we are mindful of the major political parties' policies. Our engagement with these parties enables us to influence policies impacting on the industry and Go-Ahead 
- The Tyne and Wear Integrated Transport Authority began a third consultation period regarding the possible introduction of a contracts scheme in the north east

→ Read more in the Chief Executive's Q&A on page 8


- The Group's future in the UK rail industry has been secured to at least 2021 through our successful bid for the Thameslink, Southern and Great Northern (TSGN) franchise which we will operate as GTR under a management contract. Mobilisation of this franchise is almost complete 


→ Read more about GTR on page 43

- We hope to agree contract terms with the DfT shortly for the extension of the Southeastern franchise to June 2018
- Discussions continue with the DfT regarding the proposed extension of the London Midland franchise to June 2017


- Good strategic progress made during the year. On course to achieve Target 100 in bus. Future of rail secured to 2021 through winning the TSGN franchise 
- Go-Ahead has a clear strategy, communicated to all levels of the organisation

→ Read more about our strategy on page 17

- We do not believe that the potential of a state owned entity/cooperative into rail franchising would significantly increase competition risk, assuming the process would ensure equality for all bidders 
- London Midland is experiencing increased competition on the West Coast mainline. This is an inherent part of operating in a competitive market which we seek to mitigate

- We have maintained high levels of safety performance, demonstrating our continuing efforts to minimise this risk 

→ See how we are performing against our KPIs on pages 18 to 33

- We have developed our 'people plans' during the year, with particular focus on leadership development, performance management and succession planning 

→ Read about our 'people plans' and performance against our strategic priority 'Our people' on pages 26 to 29

- Continued investment in and maintenance of IT systems across the Group 

→ Read about our approach to mitigating elements of this risk on page 35

## Business review

# Bus

Go-Ahead is a leading bus operator in the UK both in and outside London. Over 730 million passenger journeys are made on our services each year.

### Our strategy

#### Target 100

We have a target to organically grow bus operating profit to £100m by 2015/16, through a combination of revenue growth and cost efficiencies. The aim of this target is to improve overall Group profitability through our 100% owned, stable bus business.

[→ Read about our progress towards Target 100 on page 7](#)

#### Deregulated bus

Our strategy is to grow our share of the deregulated UK bus market organically and through value adding acquisitions. We aim to improve operating profit margins by driving revenue growth and achieving cost efficiencies as we progress towards Target 100. Our longstanding commitment to delivering high quality and value for money services to our local markets, combined with our leading approach to marketing, smart-ticketing and innovative solutions will remain key to revenue generation, whilst cost savings will be achieved through benchmarking, sharing best practice and the introduction and development of cost efficiency initiatives.

#### Regulated bus

Our strategy is to maintain our sector leading performance and market position through strong and effective management, providing high quality and cost efficient operations whilst seeking expansion through additional contract wins and value adding acquisitions. A stable contract base, inflationary revenue growth and cost efficiencies will also contribute towards Target 100.

## Bus overview

	2014*	2014	2013*
<b>Total bus operations</b>			
Revenue (£m)		<b>800.5</b>	761.5
Operating profit (£m)		<b>83.5</b>	75.2
Margin		<b>10.4%</b>	9.9%
<b>Deregulated bus</b>			
Revenue (£m)		<b>350.8</b>	337.6
Operating profit (£m)		<b>41.9</b>	36.4
Margin		<b>11.9%</b>	10.8%
<b>Regulated bus</b>			
Revenue (£m)		<b>449.7</b>	423.9
Operating profit (£m)		<b>41.6</b>	38.8
Margin		<b>9.3%</b>	9.2%
<b>Revenue growth</b>			
Deregulated	4.3%	<b>3.9%</b>	4.3%
Regulated	7.5%	<b>6.1%</b>	5.0%
<b>Volume growth</b>			
Deregulated – passenger journeys	1.9%	<b>1.9%</b>	1.1%
Regulated – miles operated	1.6%	<b>1.1%</b>	1.9%

\* On a like for like basis, adjusting for the impact of the Olympic Games.

Unless otherwise stated, references made to operating profit throughout this report exclude amortisation and exceptional items.

No. of employees

**13,500**

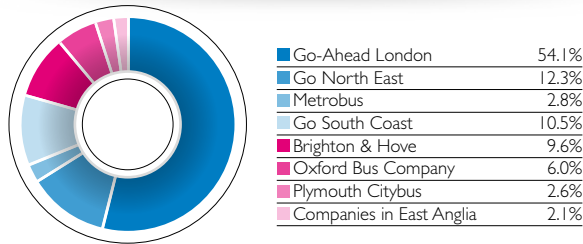
No. of buses

**4,600**

## Our bus financial highlights

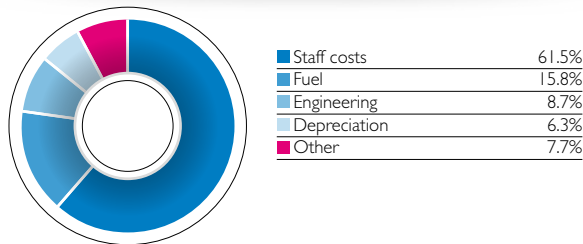
### 2014 bus revenue (£m)

**£800.5m** 2013: £761.5m



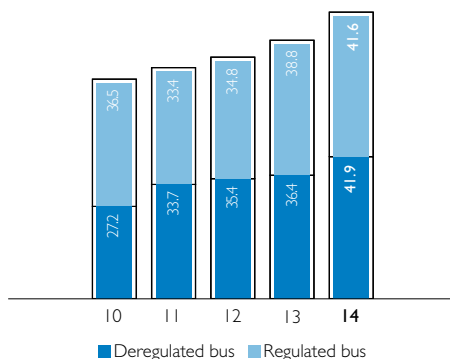
### 2014 bus operating cost base (£m)

**£717.0m** 2013: £686.3m



### 2014 bus operating profit (£m)

**£83.5m** 2013: £75.2m\*



\* 2012/13 figures are restated for the impact of IAS 19 (revised). All prior years are reported on an adjusted basis.

➔ Read more about our bus division on pages 12 and 13

## Overall bus performance review

Overall, the performance of our bus operations was our strongest yet, with increased commercial and concessionary revenue and good cost control, particularly around insurance claims. Total bus revenue increased by 5.1%, or £39.0m, to £800.5m (2013: £761.5m).

The bus division delivered record operating profit of £83.5m (2013: £75.2m), increasing in the year by £8.3m, or 11.0%, resulting in an increase in operating profit margin of 0.5ppt to 10.4%.

### Deregulated bus operations

All our deregulated bus operations saw revenue growth in the period, helped by consistent passenger journey growth and initiatives such as increased purchasing options for passengers, including smart and mobile-ticketing (m-ticketing).

Revenue was £350.8m (2013: £337.6m), up £13.2m, or 3.9%. Excluding the impact of the Olympic Games, revenue growth was 4.3%, underpinned by passenger journey growth of 1.9% and mileage growth of 1.8%. The increase in mileage was due to investment in our services and commercial contract wins. The increase in passenger numbers was driven by growth in both fare paying and concessionary passengers.

Operating profit was £41.9m (2013: £36.4m), up £5.5m, or 15.1%, and operating margins increased to 11.9% (2013: 10.8%). We made good progress towards Target 100 and, despite lower cost savings in the second half of the year compared to the first, overall cost savings of £2.9m since 2012/13 remain on target. Cost of claims improved slightly as we continued to focus on accident prevention and minimising claims. This, combined with underlying growth and lower capital costs, more than offset increased fuel costs, resulting from a higher hedged price, and slightly higher pension costs, relating to the closure of the final salary pension scheme.

➔ Read about the closure of the bus division defined benefit pension scheme on page 48

	£m
2013 operating profit	37.9
IAS 19 (revised) adjustment	(1.5)
2013 operating profit (restated)	36.4
Change in:	
Underlying growth	3.9
Cost savings	1.9
Pension costs	(0.5)
Capital costs	0.9
Fuel costs	(1.2)
Claims costs	0.5
<b>2014 operating profit</b>	<b>41.9</b>

Providing high quality passenger services is one of our strategic priorities. During the year, we maintained our consistently high levels of punctuality at 90.0% (2013: 91.2%), with some operating companies achieving higher than 96%. Our customer satisfaction score of 92% (2013: 90%) is the highest in the sector and surpasses those of many leading companies in other industries including retail and leisure.

In the year, we continued to focus on providing largely commercial services, with only around 10% of our deregulated revenue generated from contracts that could be exposed to changes in local authority policies and budgets. Over time, our geographic focus in the South has helped to protect us from the challenges of the wider economic environment.

## Regulated bus operations

Our regulated bus operations in London delivered a very strong performance. Revenue grew by 6.1%, or £25.8m, to £449.7m in the year (2013: £423.9m). Excluding the impact of the Olympic Games, revenue growth was 7.5%, of which 3.7% related to the reallocation of Bus Service Operators Grant (BSOG) from costs to contract revenue. Mileage was up 1.1%, or 1.6% when excluding the impact of the Olympic Games. This was helped by increased rail replacement work, particularly in the first half of the year.

Operating profit was £41.6m (2013: £38.8m), up £2.8m, or 7.2%. Operating margins increased to 9.3% (2013: 9.2%), up 0.4ppts on prior year margins adjusted for the impact of the Olympic Games of 8.9%. Reduced claims costs and contract growth have more than offset incremental fuel costs and reduced Quality Incentive Contract (QIC) payments, which, although still strong at £9.1m (2013: £9.9m), were lower, as anticipated, than the prior year when performance improved due to restrictions on roadworks around the Olympic Games period.

	£m
2013 operating profit	40.3
IAS 19 (revised) adjustment	(1.5)
2013 operating profit (restated)	38.8
Change in:	
Claims cost	3.5
Underlying growth	2.5
Acquisitions	0.9
QIC bonuses	(0.8)
Olympic Games	(1.6)
Pension costs	(0.5)
Fuel costs	(1.2)
<b>2014 operating profit</b>	<b>41.6</b>

We continue to perform well in the Transport for London (TfL) quality league tables, operating 99.5% (2013: 99.5%) of our target mileage before traffic congestion losses.

## North America

During the year our 50:50 joint venture with Cook-Illinois continued to operate two contracts in St Louis, Missouri, running around 120 buses.

These contracts came to an end following the year end on 25 July 2014. This operation was cash generative during the contract term.

## Capital expenditure and depreciation

Capital expenditure for the division was £61.3m (2013: £51.3m), of which £49.8m related to the purchase of new vehicles, including £5.6m on 18 hybrid buses, which will improve fuel efficiency and reduce carbon emissions.

Investment in our deregulated fleet was higher than in 2013, with expenditure of £43.2m (2013: £27.9m) on 244 new buses (2013: 157 buses).

Contract wins in our regulated business required £6.6m (2013: £17.4m) to be spent on 23 new buses (2013: 94 buses). Investment in our regulated fleet was less than in the prior year as requirements for new vehicles were lower as a result of continued success in gaining automatic two year contract extensions on the basis of performance.

We have a young, green bus fleet with an average age of 7.5 years.

Depreciation for the division was £45.2m (2013: £45.7m).

## Fuel

### Bus fuel hedging prices

We have continued with our bus fuel hedging programme which uses fuel swaps to fix the price of our diesel fuel in advance. Our policy is to be fully hedged for the next financial year before the start of that year, at which point

## Our operating companies



Revenue: **£433.3m**  
 Passenger journeys: **486m**  
 Average no. of employees: **6,485**



Revenue: **£76.7m**  
 Passenger journeys: **61m**  
 Average no. of employees: **1,410**



Revenue: **£22.4m**  
 Passenger journeys: **15m**  
 Average no. of employees: **400**



Revenue: **£84.5m**  
 Passenger journeys: **46m**  
 Average no. of employees: **1,450**



Revenue: **£16.5m**  
 Passenger journeys: **8m**  
 Average no. of employees: **432**

Revenue: **£98.9m**  
 Passenger journeys: **70m**  
 Average no. of employees: **2,020**



Revenue: **£20.5m**  
 Passenger journeys: **16m**  
 Average no. of employees: **484**



Revenue: **£47.7m**  
 Passenger journeys: **24m**  
 Average no. of employees: **761**

we aim to have also fixed at least 50% of the following year and 25% of the year after that. This hedging profile is then maintained on a quarterly basis.

After the year end the Board approved an additional purchase to increase the hedging profile for 2015/16 to 100%, taking advantage of low commodity costs and favourable exchange rates. As a result, we have fixed costs at 45.8pppl for 2015/16.

	2013	2014	2015	2016	2017
% hedged	Fully	<b>Fully</b>	Fully	Fully	25%
Price (pence per litre)	49.2	<b>50.5</b>	48.5	45.8	44.3*

\* Assuming hedging is completed at the latest transaction price.

### Bus fuel costs

In 2013/14 we consumed around 127 million litres of fuel at a net cost of £112.9m. From 1 October 2013, the allocation of part of BSOG was devolved to local authorities and TfL. The amount of BSOG received directly from central Government has reduced to around £20m (2013: £44.0m).

## Overall bus outlook

We continue to make steady progress against Target 100 and are confident in our ability to achieve this by 2015/16. We expect this to be delivered through continuing deregulated revenue growth, a stable performance in our regulated business, keeping costs in line with, or below, inflation and progressing toward £10m of cost savings by 2015/16. The impact of IAS 19 (revised) is included in the target.

In deregulated bus, we will continue to drive revenue growth through our sector leading marketing initiatives and sales channels, using smart and m-ticketing to attract a wider market. We will remain focused on cost efficiency while maintaining the quality and reliability of our services.

In regulated bus, contract mileage is expected to be broadly flat in the year and we anticipate a slight year on year reduction in QIC payments.

In 2014/15, we expect total capital expenditure to be around £40m as we continue to invest in our services. We will continue to look for value adding investment opportunities both in and outside our traditional markets.

# Rail

Go-Ahead's rail operation is the busiest in the UK, responsible for around 30% of all train passenger journeys.

## Our rail strategy

Our strategy is to successfully and responsibly deliver the commitments of our existing franchises while maximising returns for the remainder of the contracts. We are focused on mobilising the GTR franchise (Govia Thameslink Railway), ahead of it commencing on 14 September 2014, and preparing for the integration of the Southern franchise in July 2015. At the same time we are committed to negotiating new and favourable terms for the extension periods proposed for Southeastern and London Midland.

The UK rail market offers significant opportunities over the coming years. We have a strong position and a good track record in the industry and we aim to secure the future of rail profitability by exploring these opportunities.

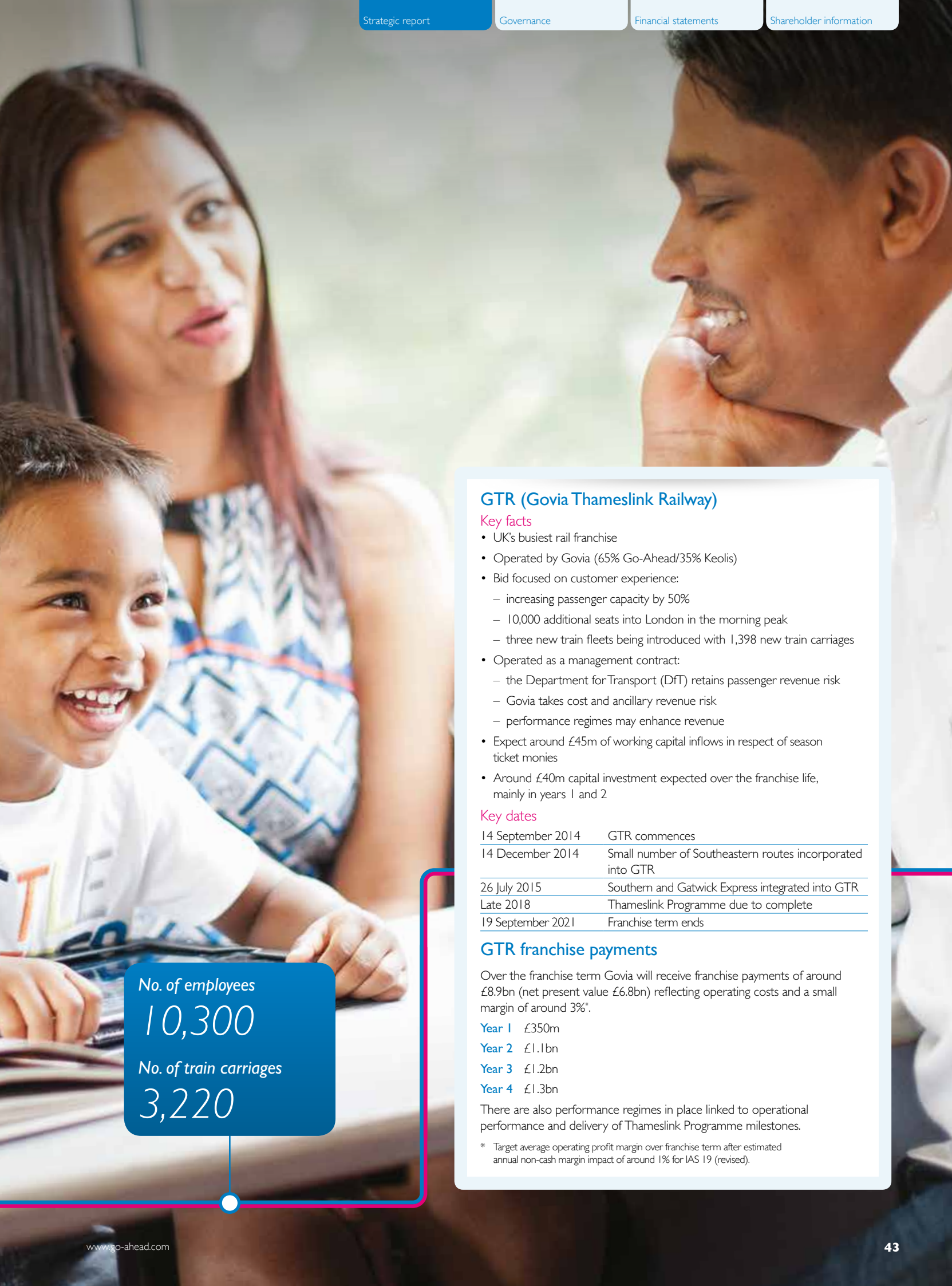
 See page 16 for details of upcoming franchise competitions

## Rail overview

	2014*	2014	2013*
<b>Total rail operations</b>			
Total revenue (£m)		1,901.9	1,810.3
Operating profit (£m)		19.7	11.5
Margin		1.0%	0.6%
<b>Passenger revenue growth</b>			
Southern	6.1%	5.8%	5.4%
Southeastern	5.6%	4.3%	6.7%
London Midland	7.4%	6.8%	11.5%
<b>Volume growth</b>			
Southern	4.1%	3.9%	0.8%
Southeastern	5.3%	3.8%	3.1%
London Midland	4.9%	4.5%	2.1%

\* On a like for like basis, adjusting for the estimated impact of the Olympic Games.

Unless otherwise stated, references made to operating profit throughout this report exclude amortisation and exceptional items.



No. of employees

10,300

No. of train carriages

3,220

## GTR (Govia Thameslink Railway)

### Key facts

- UK's busiest rail franchise
- Operated by Govia (65% Go-Ahead/35% Keolis)
- Bid focused on customer experience:
  - increasing passenger capacity by 50%
  - 10,000 additional seats into London in the morning peak
  - three new train fleets being introduced with 1,398 new train carriages
- Operated as a management contract:
  - the Department for Transport (DfT) retains passenger revenue risk
  - Govia takes cost and ancillary revenue risk
  - performance regimes may enhance revenue
- Expect around £45m of working capital inflows in respect of season ticket monies
- Around £40m capital investment expected over the franchise life, mainly in years 1 and 2

### Key dates

14 September 2014	GTR commences
14 December 2014	Small number of Southeastern routes incorporated into GTR
26 July 2015	Southern and Gatwick Express integrated into GTR
Late 2018	Thameslink Programme due to complete
19 September 2021	Franchise term ends

### GTR franchise payments

Over the franchise term Govia will receive franchise payments of around £8.9bn (net present value £6.8bn) reflecting operating costs and a small margin of around 3%\*.

**Year 1** £350m

**Year 2** £1.1bn

**Year 3** £1.2bn

**Year 4** £1.3bn

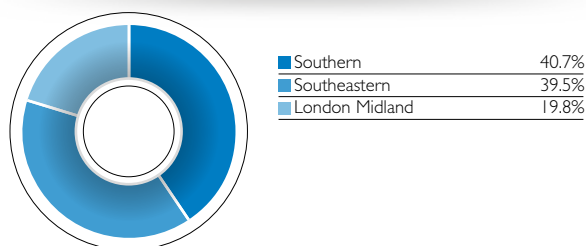
There are also performance regimes in place linked to operational performance and delivery of Thameslink Programme milestones.

\* Target average operating profit margin over franchise term after estimated annual non-cash margin impact of around 1% for IAS 19 (revised).

## Our rail financial highlights

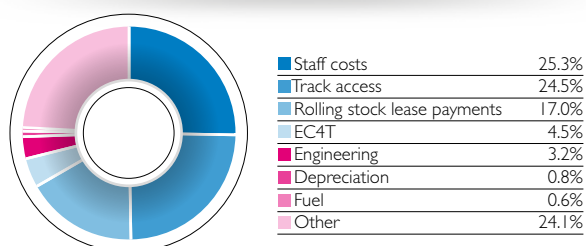
### 2014 rail revenue (£m)

£1,901.9m 2013: £1,810.3m



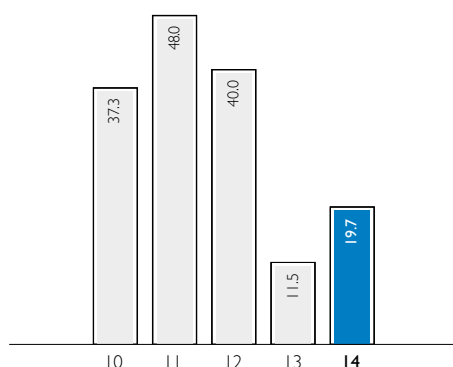
### 2014 rail operating cost base (£m)

£1,882.2m 2013: £1,798.8m



### 2014 rail operating profit (£m)

£19.7m 2013: £11.5m\*



\* 2012/13 is restated for the impact of IAS 19 (revised). All prior years are reported on an unadjusted basis.

→ Read more about our rail division on pages 12 and 13

## Rail performance review

The rail division has delivered a good result in the year, significantly exceeding our initial expectations, despite a challenging premium payment profile.

Overall passenger revenue growth was 5.4% (2013: 7.6%). When adjusted for the impact of the Olympic Games this was 6.1%, slightly lower than last year (2013: 6.9%), due in part to lower fare increases in January 2014 than the prior year. Passenger journey data across all companies was impacted by a change in Travelcard allocations, inflating growth rates as well as an increase in shorter, lower yield journeys. Total passenger journey growth was 4.0% (2013: 2.8%) or 4.8% when adjusting for the impact of the Olympic Games (2013: 2.0%).

The Group's net increase in contributions to the DfT was £51.6m (2013: £85.9m increase) with an overall contribution of £64.0m (2013: £12.4m). Southern's core premium payments to the DfT increased by £29.8m in the year whilst subsidy receipts in Southeastern and London Midland decreased by £44.5m and £2.5m respectively, a total increase in net core premium of £76.8m. Revenue support increased by £15.8m for Southeastern. Southern, which became eligible to receive revenue support during the year, was paid £9.4m in the period.

## Revenue

Total revenue increased by 5.1%, or £91.6m, to £1,901.9m (2013: £1,810.3m) consisting of:

	2014 £m	2013 £m	Net change £m	% change
<b>Passenger revenue</b>	<b>1,636.2</b>	<b>1,552.8</b>	<b>83.4</b>	<b>5.4</b>
Southern	687.7	649.8	37.9	5.8
Southeastern	671.6	643.8	27.8	4.3
London Midland	276.9	259.2	17.7	6.8
<b>Other revenue</b>	<b>147.2</b>	<b>117.2</b>	<b>30.0</b>	<b>25.6</b>
Southern	77.5	54.4	23.1	42.5
Southeastern	26.4	24.0	2.4	10.0
London Midland	43.3	38.8	4.5	11.6
<b>Total subsidy</b>	<b>26.3</b>	<b>73.3</b>	<b>(47.0)</b>	<b>(64.1)</b>
Southeastern	(29.6)	14.9	(44.5)	(298.7)
London Midland	55.9	58.4	(2.5)	(4.3)
<b>Total revenue support</b>	<b>92.2</b>	<b>67.0</b>	<b>25.2</b>	<b>37.6</b>
Southeastern revenue support	82.8	67.0	15.8	23.6
Southern revenue support	9.4	–	9.4	n/a
<b>Total revenue</b>	<b>1,901.9</b>	<b>1,810.3</b>	<b>91.6</b>	<b>5.1</b>

## Premium payments

Southern's core premium payments are included in operating costs.

	2014 £m	2013 £m	Net change £m	% change
Southern core premium	182.5	152.7	29.8	19.5



## Operating profit

Operating profit in the rail division was up £8.2m at £19.7m (2013: £11.5m), with operating margins increasing to 1.0% (2013: 0.6%) but remaining at historically low levels.

Rail bid costs of £8.1m (2013: £3.2m) were higher than in the prior year due to increased bidding activity, including £5.9m for our successful bid for the Thameslink, Southern and Great Northern (TSGN) franchise, which we will operate as GTR (Govia Thameslink Railway). The remaining costs were in respect of our unsuccessful Crossrail bid and the bidding activity associated with our bid for Docklands Light Railway, which was not submitted, due to our partners, Colas UK, withdrawing from the process ahead of the bid submission date.

	£m
2013 operating profit	24.3
IAS 19 (revised) adjustment	(12.8)
2013 operating profit (restated)	11.5
Change in:	
Additional passenger revenue	83.4
Additional like for like costs and other income	(23.6)
Premium payments	(29.8)
Subsidy receipts	(47.0)
Revenue support receipts	25.2
<b>2014 operating profit</b>	<b>£19.7m</b>

## Individual franchise performance

### Southern

Passenger revenue growth was 5.8% (2013: 5.6%) year on year driven by growth in passenger numbers of 3.9% (2013: 1.1%). When adjusting for the impact of the Olympic Games, passenger revenue increased by 6.1% (2013: 5.4%) and journeys were up 4.1% (2013: 0.8%).

Southern is now in receipt of revenue support at the maximum 80% level.

### Southeastern

Overall passenger revenue increased by 4.3% (2013: 8.0%), with passenger numbers up 3.8% (2013: 4.7%). Excluding the impact of the Olympic Games, passenger revenue grew by 5.6% (2013: 6.7%), with an increase of 5.3% (2013: 3.1%) in the number of journeys taken. Southeastern was impacted by a revenue recognition adjustment in the fourth quarter, but otherwise traded in line with our expectations.

In March 2014, Southeastern began a seven month extension period, continuing on the original contract assumptions.

The franchise continues to receive revenue support at the 80% level.

### London Midland

Passenger revenue grew by 6.8% (2013: 12.1%) in the year and passenger numbers increased by 4.5% (2013: 2.4%). Passenger revenue and journeys rose 7.4% (2013: 11.5%) and 4.9% (2013: 2.1%) respectively, when adjusting for the impact of the Olympic Games.





As previously reported, the rate of passenger revenue growth in the London Midland franchise began to slow during the year as a result of increased competition on the West Coast main line.

During the year, London Midland carried out a reorganisation of management and administrative staff to reduce costs. This resulted in an exceptional charge of £3.0m in the year.

The franchise has been awarded a seven month extension which will run to March 2016, continuing on its original contract terms.

London Midland is no longer making revenue share payments to the DfT.

## Our operating companies

 <b>SOUTHERN</b>	 <b>GATWICK EXPRESS</b>	 <b>London midland</b>
Revenue: <b>£774.7m</b>	Revenue: <b>£375.9m</b>	Revenue: <b>£375.9m</b>
Passenger journeys: <b>176m</b>	Passenger journeys: <b>64m</b>	Passenger journeys: <b>64m</b>
Average no. of employees: <b>3,993</b>	Average no. of employees: <b>2,389</b>	Average no. of employees: <b>2,389</b>
 <b>southeastern</b>		
Revenue: <b>£751.3m</b>		
Passenger journeys: <b>179m</b>		
Average no. of employees: <b>3,861</b>		

## Capital expenditure and depreciation

Capital expenditure for the rail division was £8.2m (2013: £7.2m), slightly higher than the prior year. Depreciation for the division was £15.5m (2013: £12.4m).

Capital expenditure for 2014/15 is expected to increase to around £25m reflecting the start of the GTR franchise and assuming the start of Southeastern's planned extension to June 2018 in October 2014.

## Rail outlook

We are entering a transitional year in rail. On 14 September 2014, we will begin operating the Great Northern and Thameslink routes of the GTR franchise. We anticipate a margin of around 3% from the beginning of the franchise.

We continue discussions with the DfT regarding the planned extension of the Southeastern franchise to June 2018 and we hope to agree terms shortly. The seven month extension period, which is expected to run to 12 October 2014, will continue to be loss making.

London Midland is not expected to contribute to Group profit in 2014/15. We look forward to working with the DfT in the coming months to agree contract terms for the planned extension to this franchise to June 2017.

The full benefits of GTR and the planned extension of Southeastern will not be realised until 2015/16. Southern will continue on its original contract terms until July 2015 when it will be incorporated into the GTR franchise and London Midland will also remain on existing terms in 2014/15. We expect the same level of bid costs as in 2013/14. Therefore, we expect rail profits to be broadly similar to 2013/14.

# Finance review



“The Group delivered a strong performance in the year and is in a good financial position.”

Keith Down,  
Group Finance Director

## Overview and highlights

The Group delivered a strong performance in the year ended 28 June 2014 and is in a good financial position. Revenue for the year was £2,702.4m, up £130.6m, or 5.1%, on last year (2013: £2,571.8m), with growth in both bus and rail.

Operating profit was significantly ahead of the Board's initial expectations for the year and slightly ahead of our latest expectations at £103.2m (2013: £86.7m), up £16.5m, or 19.0%. The overall operating margin of 3.8% (2013: 3.4%) was driven by stronger performance in both bus and rail. The bus division delivered record profits in the year, making good progress towards Target 100, our 2015/16 £100m bus operating profit target.

Profit before tax excluding amortisation and exceptional items for the year increased by £15.3m, or 22.0% to £84.9m (2013: £69.6m) and adjusted earnings per share were up 26.4% at 148.6p (2013: 117.6p).

Net debt at the year end reduced significantly to £42.7m (2013: £90.9m) reflecting higher profits, positive working capital inflows and slightly lower than expected capital expenditure. Adjusted net debt (net debt plus restricted cash) to EBITDA (adjusted for the impact of IAS 19 (revised)) of 1.45x (2013: 1.87x) remains close to our target range of 1.5x to 2.5x.

Unless otherwise stated, references made to operating profit throughout this report exclude amortisation and exceptional items.

The accounting standard IAS 19 'Employee Benefits' (revised) was adopted for the first time in the financial statements for the year ended 28 June 2014. All comparative figures have been restated for the impact of IAS 19 (revised). A summary of the impact can be found in note 3 to the financial statements.

## Summary income statement

	2014 £m	Restated 2013 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	2,702.4	2,571.8	130.6	5.1
Operating profit	103.2	86.7	16.5	19.0
Net finance costs	(18.3)	(17.1)	(1.2)	(7.0)
Profit before tax*	84.9	69.6	15.3	22.0
Amortisation	(5.8)	(6.5)	0.7	10.8
Exceptional items	12.1	–	12.1	n/a
Profit before tax	91.2	63.1	28.1	44.5
Total tax expense	(13.6)	(13.1)	(0.5)	(3.8)
Profit for the period	77.6	50.0	27.6	55.2
Non-controlling interests	(7.3)	(3.8)	(3.5)	(92.1)
Profit attributable to shareholders	70.3	46.2	24.1	52.2
Adjusted profit attributable to shareholders*	63.7	50.4	13.3	26.4
Weighted average number of shares (m)	42.9	42.8	0.1	0.2
Adjusted earnings per share (p)	148.6	117.6	31.0	26.4
Proposed full year dividend per share (p)	84.5	81.0	3.5	4.3

\* Excludes amortisation and exceptional items.

➔ Read commentary on the consolidated income statement on page 91

## Revenue and operating profit by division

	2014 £m	Restated 2013 £m	Increase/ (decrease) £m	Increase/ (decrease) %
<b>Revenue</b>				
Deregulated bus	350.8	337.6	13.2	3.9
Regulated bus	449.7	423.9	25.8	6.1
Total bus	800.5	761.5	39.0	5.1
Rail	1,901.9	1,810.3	91.6	5.1
<b>Total</b>	<b>2,702.4</b>	<b>2,571.8</b>	<b>130.6</b>	<b>5.1</b>
<b>Operating profit</b>				
Deregulated bus	41.9	36.4	5.5	15.1
Regulated bus	41.6	38.8	2.8	7.2
Total bus	83.5	75.2	8.3	11.0
Rail	19.7	11.5	8.2	71.3
<b>Total</b>	<b>103.2</b>	<b>86.7</b>	<b>16.5</b>	<b>19.0</b>

## Earnings per share

Adjusted earnings (net profit after tax attributable to members before amortisation and exceptional items) were £63.7m (2013: £50.4m), resulting in an increase in adjusted earnings per share from 117.6p to 148.6p.

The weighted average number of shares was 42.9 million (2013: 42.8 million), and the number of shares in issue, net of treasury shares, was 42.9 million (2013: 42.8 million).

## Dividend

The Board is proposing a total dividend for the year of 84.5p per share (2013: 81.0p), an increase of 4.3%, reflecting the Board's confidence in the Group's performance and prospects. This includes a proposed final payment of 59.0p per share (2013: 55.5p) payable on 14 November 2014 to shareholders registered at the close of business on 31 October 2014.

Dividends of £34.7m (2013: £34.7m) paid in the period represent the payment of the prior year's final dividend of 55.5p per share (2013: 55.5p) and the interim dividend in respect of this year of 25.5p per share (2013: 25.5p). Dividends paid to non-controlling interests were £8.6m (2013: £6.0m). Excluding the non-cash impact of IAS 19 (revised), dividend cover was 2.04x (2013: 1.72x).

## Summary cashflow

	2014 £m	2013 £m	Increase/ (decrease) £m
EBITDA*	163.9	144.8	19.1
Working capital/other items	9.7	(23.2)	32.9
Pensions	10.7	4.4	6.3
Cashflow generated from operations	184.3	126.0	58.3
Tax paid	(12.4)	(11.1)	(1.3)
Net interest paid	(15.0)	(16.9)	1.9
Net capital investment	(67.3)	(56.8)	(10.5)
Free cashflow	89.6	41.2	48.4
Net acquisitions	–	(0.7)	0.7
Joint venture repayment	0.3	0.3	–
Other	1.6	–	1.6
Dividends paid	(43.3)	(40.7)	(2.6)
Decrease/(increase) in net debt	48.2	0.1	48.1
Opening net debt	(90.9)	(91.0)	0.1
Closing net debt	(42.7)	(90.9)	48.2

\* Operating profit before interest, tax, depreciation, amortisation and exceptional items.

[Read commentary on the consolidated cashflow statement on page 97](#)

## Cashflow

Cash generated from operations before tax was £184.3m (2013: £126.0m). This is an increase of £58.3m, largely due to better than expected profits and a favourable movement in working capital, primarily reflecting timing of payments in rail. Tax paid of £12.4m (2013: £11.1m) comprised payments on account in respect of the current year's liabilities. Net interest paid of £15.0m (2013: £16.9m) is lower than the charge for the period of £18.3m (2013: £17.1m) after excluding the impact of non-cash interest on pensions and the unwinding of discounting on provisions. Capital expenditure, net of sale proceeds, was £10.5m higher in the year at £67.3m (2013: £56.8m) predominantly due to

greater investment in the deregulated fleet. Investment in the bus division is expected to reduce to around £40m in 2014/15 due to the timing of regulated bus contract renewals.

The Group did not repurchase any shares (2013: nil) and no shares were issued in the year (2013: nil).

## Capital expenditure

Expenditure on capital during the year can be summarised as:

	2014 £m	2013 £m
Deregulated bus	52.4	42.1
Regulated bus	8.9	9.2
Total bus	61.3	51.3
Rail	8.2	7.2
<b>Group total</b>	<b>69.5</b>	<b>58.5</b>

## Capital structure

	2014 £m	2013 £m
Five year syndicated facility 2016	275.0	275.0
7.5 year £200m 5.375% sterling bond 2017	200.0	200.0
Total core facilities	475.0	475.0
Amount drawn down at 28 June 2014	320.0	333.0
Balance available	155.0	142.0
Restricted cash	217.3	208.7
Net debt	42.7	90.9
Adjusted net debt	260.0	299.6
EBITDA	163.9	144.8
Adjusted net debt/EBITDA <sup>1</sup> (12 month rolling basis)	1.45x	1.87x
Adjusted net debt/EBITDA <sup>2</sup>	1.59x	2.07x

<sup>1</sup> Adjusted for the impact of IAS 19 (revised).

<sup>2</sup> Not adjusted for the impacted of IAS 19 (revised), in line with new 2019 revolving credit facility.

Significant medium term finance is secured through our revolving credit facility (RCF) and £200m sterling bond. On 16 July 2014, our RCF was refinanced as the Group entered into a £280m five year facility, replacing the existing £275m facility which was due to expire in February 2016. The new facility has an initial maturity of July 2019 with two one year extension options. The sterling bond is due to expire in September 2017.

At the year end, \$4.3m, equivalent to £2.5m, of our \$10m dollar facility was utilised. This is expected to be repaid following the sale of our US school bus vehicles following the end of the contracts in July 2014.

Our investment grade ratings from Moody's (Baa3, stable outlook) and Standard & Poor's (BBB-, stable outlook) remain unchanged.

## Net debt

Net debt of £42.7m (2013: £90.9m) comprised the £200m sterling bond; amounts drawn down against the £275m five year RCF of £120.0m (2013: £133.0m); hire purchase and lease agreements of £2.0m (2013: £3.6m); US dollar facility of £2.5m (2013: £3.2m), partly offset by cash and short term deposits of £281.8m (2013: £248.9m) including £217.3m of restricted cash in rail (2013: £208.7m). There were no overdrafts in use at the year end (2013: £nil).

## Finance review continued

Our primary financial covenant under the 2016 RCF was an adjusted net debt to EBITDA ratio of not more than 3.5x. Under this facility we adjusted for the effects of IAS 19 (revised) of £15.6m (2013: £15.8m) giving a restated net debt to EBITDA ratio of 1.45x (2013: 1.87x). Under the 2019 RCF no adjustment is made. Had this been in place at the year end our covenants would have been 1.59x (2013: 2.07x)

### Net finance costs

Net finance costs for the year were slightly ahead of the prior year at £18.3m (2013: £17.1m) including finance costs of £19.8m (2013: £18.7m) less finance revenue of £1.5m (2013: £1.6m). This now includes £2.0m of pension interest, previously allocated under operating profit (2013: £0.8m), with £1.2m in bus and £0.8 in rail.

The average underlying net interest rate for the period was 4.3% (2013: 4.3%).

### Amortisation

The amortisation charge for the year of £5.8m (2013: £6.5m) represents the non-cash cost of amortising software costs, franchise bid costs, customer contracts and rail franchise acquisition assets.

### Exceptional items

Total exceptional items in the year were £12.1m. (2013: £nil).

The pension plan curtailment gain of £15.1m arose on closure of the defined benefit scheme. This reduces the Group's exposure to further increasing benefits; current members' existing benefits are preserved but no further benefits will accrue, resulting in an adjustment to the Group's future liabilities.

Rail restructuring costs were £3.0m. Against a backdrop of reduced subsidy receipts, more challenging trading conditions and higher operational costs, London Midland carried out a reorganisation to reduce the number of management and administrative staff, in order to reduce costs.

### Taxation

Net tax for the year was £13.6m (2013: £13.1m), equivalent to an effective rate of 14.9% (2013: 20.8%), below the UK statutory rate for the period of 22.5% (2013: 23.75%). This primarily reflects a £6.8m credit (2013: £2.1m credit) in respect of the impact on deferred tax due to the change in statutory rate. Without this adjustment to deferred tax, our tax rate would have been around 22.4% (2013: 24.1%). The statutory rate is expected to be 20.75% in 2014/15, reducing to 20% in 2015/16. We expect our effective tax rate to be around 1% above the statutory rate in future years.

### Non-controlling interest

The non-controlling interest in the income statement of £7.3m (2013: £3.8m) arises from our 65% holding in Govia Limited which owns 100% of our current rail operations and therefore represents 35% of the profit after taxation of these operations.

### Pensions

Operating profit includes the net cost of the Group's defined benefit pension plans for the year of £53.8m (2013: £51.3m) consisting of bus costs of £6.7m (2013: £7.8m) and rail costs of £47.1m (2013: £43.5m). Group contributions to the schemes totalled £43.2m (2013: £46.9m).

#### Bus pensions

Under accounting valuations, the net deficit after taxation on the bus defined benefit schemes was £47.8m (2013: £36.7m), consisting of pre-tax liabilities of £59.8m (2013: £47.7m) less a deferred tax asset of £12.0m (2013: £11.0m). The pre-tax deficit consisted of estimated liabilities of £663.3m (2013: £617.3m) less assets of £603.5m (2013: £569.6m). The percentage of assets held in higher risk, return seeking assets was 50% (2013: 49%).

During the year, the Group completed negotiations to close The Go-Ahead Group Pension Plan defined benefit scheme to future accruals which took effect on 31 March 2014. The full year cost for the bus scheme was £8.7m (2013: £8.6m). Without the scheme closure the full year costs would have been over £10.5m. Future cash contributions are expected to be lower.

An asset backed funding arrangement is now in place which gives pension scheme trustees an interest in some Group properties. This combined with the scheme closure is expected to eliminate the actuarial deficit on the scheme. The actuarial valuation applies different assumptions to the valuation of assets and liabilities from those used in the accounting valuations.

#### Rail pensions

As the long term responsibility for the rail pension schemes rests with the DfT the Group only recognises the share of surplus or deficit expected to be realised over the life of each franchise.

In the year we recorded a pre-tax liability of £nil (2013: £nil).

### IAS 19 (revised)

IAS 19 (revised) became effective for the Group in the year under review. The impact of the change on profit before tax was a reduction of £14.2m, £8.6m of which is attributable to equity holders of the parent. This resulted in a reduction in basic earnings per share of 20.1p and a reduction in adjusted earnings per share of 24.0p, of which 9.6p relates to the bus division.

Having applied the revised standard to the financial statements for the year ended 29 June 2013, the effect is a reduction in profit before tax of £12.8m, £7.5m of which is attributable to equity holders of the parent. This has resulted in a reduction in basic earnings per share of 17.5p and a reduction in adjusted earnings per share of 22.0p, of which 6.8p relates to the bus division.

The table below shows the impact of IAS 19 (revised) on the financial results to 28 June 2014, and the impact on the restated results to 29 June 2013.

	2014 £m	2013 £m
Profit adjustment – Bus	(3.3)	(3.0)
Profit adjustment – Rail	(12.3)	(12.8)
Total operating profit effect	(15.6)	(15.8)
Amortisation	3.4	3.8
Net finance costs	(2.0)	(0.8)
Profit before taxation	(14.2)	(12.8)
Taxation (22.5%/23.75%)	3.2	2.9
Profit for the year	(11.0)	(9.9)
Attributable to:		
Equity holders of the parent	(8.6)	(7.5)
Non-controlling interests	(2.4)	(2.4)
	(11.0)	(9.9)
Reduction in basic earnings per share (p)	(20.1)p	(17.5)p
Reduction in adjusted earnings per share (p)	(24.0)p	(22.0)p
Reduction in earnings per share attributable to bus (p)	(9.6)p	(6.8)p

→ The complete restatement of prior period comparatives is set out in note 3 to the financial statements



**Keith Down,**  
Group Finance Director  
3 September 2014

## On-train metering



The majority of electric train operating companies are charged by Network Rail for their estimated use of energy on the basis of modelled consumption rates. At the end of the year when the estimated and actual numbers are reconciled train operating companies either pay additional energy costs or, in some instances, receive a refund.

However, in the past year, Southern has moved to metered electricity billing, by installing on-train meters tracking energy consumption. This means its charges are no longer based on modelled consumption rates, but on actual metered usage.

Southern can now be more certain about the cost of its 322 strong fleet's energy consumption, with the obvious benefits of more accurate budgeting and cost control.

Southern has always led the way in reducing energy consumption and was the first operator, together with Network Rail, to introduce regenerative braking on the direct current network.

Another benefit of the on-train meters is the ability Southern has to realise the benefit of monitoring efficient driving. Train drivers are trained to 'coast' on identified particular parts of the network. This entails permitting the train to use its own momentum, where appropriate, to save energy and reduce electricity consumption. This energy efficient driving is part of Go-Ahead's continual work towards reducing its carbon emissions and reducing cost.



# Board of directors

## Andrew Allner

Chairman



Remuneration committee,  
nomination committee (Chairman)

### Term of office:

Andrew Allner joined the Board in October 2008 and was appointed Chairman of the Group in April 2013.

### Length of service:

5 years, 10 months

### Skills & experience:

- Significant Board experience including Finance Director; Chief Executive Officer; Non-Executive Director and Chair roles.
- Experience across a broad range of UK and multinational companies and sectors.
- Former Partner at PricewaterhouseCoopers and a Fellow of the Institute of Chartered Accountants in England & Wales.
- Graduate of Oxford University.
- Non-Executive Director of AZ Electronic Materials SA from 2010 to 2014, of CSR plc from 2008 to 2013 and of Moss Bros Group plc from 2001 to 2005.

### External appointments:

Non-Executive Chairman of Marshalls plc (Chairman of the nomination committee); Non-Executive Director of Northgate plc (Chairman of the audit & risk committee and member of the nomination and remuneration committees) and Non-Executive Chairman of Fox Marble Holdings plc (member of the remuneration committee).

### Election and re-election to the Board

Andrew Allner, David Brown, Keith Down, Katherine Innes Ker and Nick Horler were last re-elected by shareholders at the 2013 AGM. Adrian Ewer was elected for the first time at the 2013 AGM following his appointment in April 2013. All Directors will be standing for annual re-election at the AGM in October 2014.

## David Brown

Group Chief Executive



Nomination committee

### Term of office:

David Brown was appointed Deputy Chief Executive on 1 April 2011 before his accession to Group Chief Executive on 3 July 2011.

### Length of service:

3 years, 5 months

### Skills & experience:

- Over 31 years' experience in the industry with particular expertise in the London bus market.
- Former Managing Director of Surface Transport at Transport for London.
- Thorough knowledge and understanding of the Group's business, having been Chief Executive of Go-Ahead's London bus business from 2003 to 2006 and as advisor to the main Board.

### External appointments:

Non-Executive Director of the Association of Train Operating Companies Limited (Chairman of the remuneration committee) and Director of Rail Delivery Group Limited.

## Keith Down

Group Finance Director



### Term of office:

Keith Down was appointed to the Board as Group Finance Director on 7 March 2011.

### Length of service:

3 years, 6 months

### Skills & experience:

- Chartered Accountant.
- Former Finance Director of JD Wetherspoon plc.
- Before joining JD Wetherspoon plc in 2007 he served as Commercial Finance Director of Tesco plc.
- Experience in businesses with a strong consumer angle alongside complex logistics is an important contribution to the Board's skill set.

### External appointments:

None.

## Katherine Innes Ker

Senior Independent Director



Audit committee,  
remuneration committee (Chairman),  
nomination committee

### Term of office:

Katherine Innes Ker joined the Board in July 2010 and was appointed as Senior Independent Director in April 2013.

### Length of service:

4 years, 1 month

### Skills & experience:

- Former City financial analyst.
- Extensive executive and non-executive experience in helping to grow successful and dynamic organisations.
- Held many previous non-executive directorships including St Modwen Properties Plc, Victoria Plc, Taylor Wimpey plc, Taylor Woodrow plc, The Television Corporation plc, Fibernet plc, Williams Lea plc, Shed Media plc and Gyrus Group plc.

### External appointments:

Senior Independent Director of Tribal Group plc (Chairman of the remuneration committee and member of the audit and nomination committees); Non-Executive Director of S&U plc (member of the audit, remuneration and nomination committees) and Non-Executive Director of Colt Group S.A (member of audit and remuneration committees).

## Nick Horler

Non-Executive Director



Audit committee, remuneration committee, nomination committee

### Term of office:

Nick Horler joined the Board in November 2011.

### Length of service:

2 year, 9 months

### Skills & experience:

- Former Chief Executive Officer of Scottish Power and Managing Director of E.On Retail.
- Extensive general management experience in UK and USA regulated markets, specialising in Sales and Marketing.
- Brings valuable insights into Go-Ahead's development of social networks and digital marketing to attract new passengers.

### External appointments:

Non-Executive Director of Royal Mail Plc (member of the audit & risk and nomination committees); Chairman of Alderney Renewable Energy Limited; Chairman of Meter Provida Limited; Non-Executive Director of Thames Water Utilities Limited.

## Adrian Ewer

Non-Executive Director



Audit committee (Chairman), remuneration committee, nomination committee

### Term of office:

Adrian Ewer joined the Board in April 2013.

### Length of service:

1 year, 4 months

### Skills & experience:

- Former Chief Executive Director of John Laing plc and associated limited companies.
- Became a Chartered Accountant in 1977 and has sound recent and relevant financial experience.
- Wealth of experience of major long term contracts.
- Strong customer focus and flair for strategy and finance.
- Experience in bidding and operating heavy and light rail franchises as well as rail infrastructure procurement.

### External appointments:

None.

## Carolyn Ferguson

Group Company Secretary



Secretary to audit committee, remuneration committee and nomination committee

### Term of office:

Carolyn Ferguson was appointed Group Company Secretary in July 2006.

### Length of service:

8 years, 2 months

### Skills & experience:

- A Fellow of the Institute of Chartered Secretaries and Administrators.
- Prior to her appointment as Group Company Secretary she was appointed Assistant Company Secretary in 2001 with responsibility for non-rail pensions and a wide range of company secretariat functions including share schemes, legislative compliance, corporate governance and the Group's code of conduct, policies and procedures.
- Before joining Go-Ahead, she spent 12 years working for Northern Electric, predominantly in the field of pensions.

### External appointments:

None.

## Independence

Each non-executive director is independent. The Chairman was independent upon appointment.

Read the biographies of our senior management team:  
[www.go-ahead.com/senior-management](http://www.go-ahead.com/senior-management)

# Corporate governance report



“Our governance framework, values and business model continue to underpin our approach to achieving our strategic objectives”

Andrew Allner,  
Chairman

## Dear Shareholder

On behalf of the Board, I am pleased to present Go-Ahead's corporate governance report for 2014. Our governance framework is built upon robust systems and processes, effective leadership, high standards of behaviour and a culture based on openness and honesty. This report seeks to provide a comprehensive explanation of how we continue to apply our clear and consistent governance framework and how it has operated over the last year.

## Strategy

The Board formally reviews the Group's strategy and delivery plans for achieving our key strategic objectives on an annual basis. In addition, regular debates take place throughout the year to challenge and review progress against the Group's strategy and budget targets.

Our governance framework, values and business model continue to underpin our approach to achieving our strategic objectives. Full details of our key strategic priorities for 2014/15 can be found in the strategic report on pages 1 to 49.

## People

During the year, we intensified our focus on building upon our plans to ensure that the Group is able to attract, develop and retain the best people. I am pleased with the considerable progress that has been made in developing the leadership and development frameworks which started in the previous year. Our employees' engagement with our values, strategy and culture is also vital to the success of our business and we believe that it is this overarching culture that is an essential pre-requisite of sustainable success, starting at the top with the Boardroom and cascading through all levels of the organisation.

## Boardroom diversity

As a Board, we value the aims and objectives of the Davies Report on women on boards and we recognise and embrace the benefits of having a diverse Board. Our nomination committee strives to ensure our Board members have the right balance of skills, industry experience, background, and other qualities attributable to a director. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

We also understand the importance of a diverse workforce and recognise, in line with the transport industry generally, that there are barriers to attracting, retaining and promoting women in the workplace. In recognition of this, a new Diversity Forum was established during the year and, with representatives from operating companies, this forum has been set the objective of achieving target improvements in gender ratios.

## Board evaluation

I see regular and appropriate Board and committee evaluation as an area which is fundamental to achieving and improving Board effectiveness. We undertake Board evaluations annually, with an external evaluation every three years.

During the year under review, an internal evaluation of Board performance was conducted by the Group Company Secretary. The objectives of the evaluation were to build on improvements made since the last year's external evaluation; to address the key characteristics research has shown make for an effective Board; and assess whether we are working in the most efficient way. I was pleased that the Group Company Secretary's report was positive and found only a small number of areas for development. Importantly, all Board members contribute to maintaining and improving their effectiveness and the collective effectiveness of the Board. Full details of the evaluation and its outcomes are set out on pages 58 and 59.

## UK Corporate Governance Code

The Group has adopted the new provisions of the 2012 version of the UK Corporate Governance Code (the Code) and is compliant with all provisions. We disclose details of how we comply with the Code throughout this report.

During the year we received a number of awards. Specifically, we received external recognition for our efforts on our 2012 Annual Report by winning the PwC 2013 Building Public Trust 'Excellence in Reporting in the FTSE 250' award. Additionally, we were delighted to top the list of the 4,000 publicly traded companies included in GMI Ratings' review of trustworthy accounting and governance behaviour.

Go-Ahead places great importance on effective, open and transparent reporting between Go-Ahead and its stakeholders.

Andrew Allner,  
Chairman

3 September 2014

➔ Read more about our people and diversity on pages 26 to 29. Details of the nomination committee report can be found on page 66



## Board highlights 2013/14

- Awarded the Thameslink, Southern and Great Northern (TSGN) franchise which will operate as GTR (Govia Thameslink Railway)
- Good progress towards achieving bus operating profit target of £100m by 2015/16
- Development of new talent management, leadership development, succession planning and staff engagement programmes
- Building upon the improvements implemented from the 2012/13 Board evaluation, identified further opportunities to enhance the Board's stewardship of the business as part of the 2013/14 Board evaluation
- Top-down process for risk assessment improved to focus in more depth on key risks
- Confidence in Group performance and prospects leading to a proposed increase to the full year dividend
- Ending the year in a strong financial position, with low levels of net debt
- The successful development of Andrew Allner and Katherine Innes Ker in their first full financial year as the new Chairman and Senior Independent Director respectively
- The successful integration of Adrian Ewer in his first full financial year as the new Chairman of the audit committee and Board member
- Continued focus on ensuring that core governance processes and values, and the means to monitor them, are embedded throughout our business

## Board priorities 2014/15

- Ensure that health and safety performance is integral to strategy and is maintained at the highest possible level
- Mobilisation and strategic integration of GTR
- Maximise rail profits in existing franchises and secure extensions on the right terms
- Continued progress towards achieving bus operating profit target of £100m by 2015/16
- Consider growth/opportunities both within and outside traditional markets and geographies
- Continue to run our businesses with strong financial discipline, including strong cashflow generation and balance sheet management
- Continue to strengthen our key relationships with shareholders, passengers, central and local government and the communities in which we operate
- Enhance our collaborative working relationships with our strategic partners including DfT, TfL, local authorities and Network Rail
- Provide high quality, locally focused passenger transport services delivering high levels of customer service
- Continue to build upon the new talent management, training and staff engagement programmes and improve succession planning and leadership development strategies across the Group
- Ensure that the Group's core values of trust and transparency and achieving the highest levels of corporate governance are maintained
- Ensure that the Group's sustainability performance is maintained and that our companies continue to operate in a safe, socially and environmentally responsible manner

## Board committees

The Board has delegated specific responsibilities to the audit, remuneration and nomination committees. All non-executive directors sit on each committee. The terms of reference for each committee are reviewed annually and the current versions are available on the Group's website.

→ For terms of reference, visit our website [www.go-ahead.com](http://www.go-ahead.com)

While the Board delegates some of its responsibilities to these committees, it still retains full responsibility for a number of key areas such as health & safety, sustainability and risk management.



→ **Audit committee**  
See the audit committee report on page 61



→ **Remuneration committee**  
See the directors' remuneration report on page 68



→ **Nomination committee**  
See the nomination committee report on page 66

## Compliance with the UK Corporate Governance Code

The Code sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance. In September 2012 the Financial Reporting Council made changes to the Code which focused on reporting. The 2012 version of the Code applies to the Group for the year ended 28 June 2014.

This corporate governance report describes the manner in which the Group has applied the principles set out in the Code during the year. The Board considers that the Group was compliant in all material respects with the Code for the whole of the year ended 28 June 2014.

→ A copy of the Code is available at [www.frc.org.uk](http://www.frc.org.uk)

## How the Board works

Go-Ahead is headed by an effective Board which is collectively responsible for the long term success of the Group.

Day-to-day management of the Group and the implementation of strategies agreed by the Board across Group companies have been delegated to the executive directors. The executive directors meet regularly with senior management in Group and across our businesses, both formally via monthly meetings, and less formally on a regular basis. The Board and management structure is set out below.

### The role of the Board

The Board is responsible for:

- setting the Group's strategy and ensuring that the necessary resources are in place to achieve and monitor progress against the agreed strategic aims and objectives;
- setting the Group's vision, values and culture;
- formulating the Group's sustainability, policies and goals;
- determining the Group's key policies and reviewing management and financial performance;
- directing and monitoring the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively;
- ensuring the Group continues to deliver high quality bus and rail services to its passengers; and
- accountability to shareholders for the creation and delivery of strong, sustainable financial performance and long term shareholder value.

### Conflicts of interest

The Board has established robust procedures for ensuring that its power to authorise conflicts of interest is operated in accordance with the Group's articles of association. The Board considers that the procedures in respect of this power, which have been properly followed, have operated effectively during the year and the conflicts register has been updated accordingly. The Board is aware of its directors' other commitments and any changes to these commitments are advised to and approved by the Board.

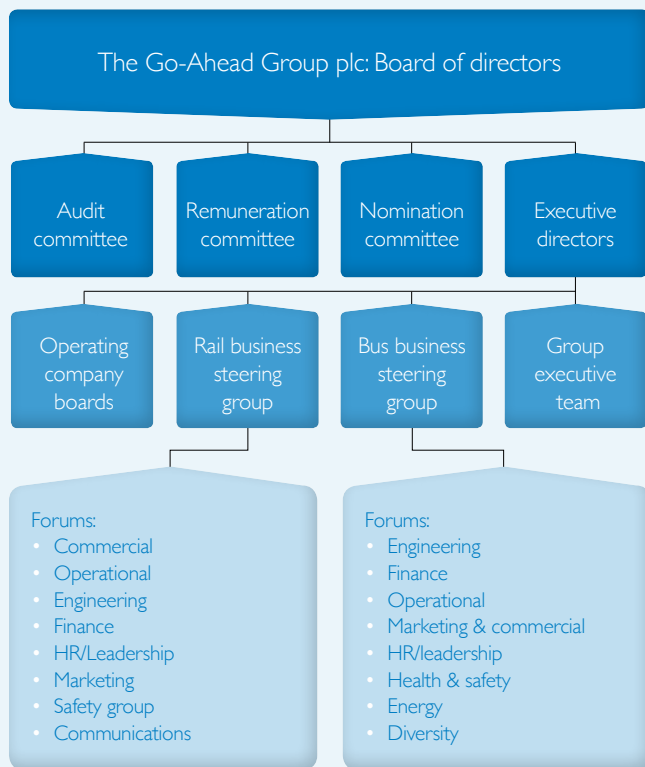
### Our devolved structure

We believe that our devolved management structure, illustrated opposite, enables the Group to be managed in a particularly effective way. Local management teams, who know their markets well, are empowered to operate our companies as autonomous business units. Many aspects of the Group's day-to-day management are reported by operating company senior management directly to the executive directors who in turn feed this into the Board.

Through our regular cross-business forums, we also work together to identify opportunities to share knowledge, experience and best practice across our operations. The senior managers responsible for the key centralised Group functions also regularly meet to look across the businesses to identify, execute and track synergies which can then be cascaded through the cross-business forums. Working collaboratively in this way has proven to be valuable in the context of cost savings, quality improvements and economies of scale.

This structure allows the right balance between local and wider initiatives to deliver Group benefits. It also ensures the Board remains well informed about our businesses, employees, passengers and stakeholders, enabling it to respond pro-actively to the changing dynamics of the businesses.

## Board and management structure



## Board meetings

The full Board typically meets at least seven times a year, with at least one separate meeting dedicated to reviewing the Group's strategy. Additional meetings are held when required. The number of scheduled meetings held during the year and attendance of directors is set out in the table below. There were also two additional Board meetings to discuss rail franchise bidding activity.

The Chairman and the non-executive directors periodically meet without the executive directors being present. During the year, the Chairman met individually with each director.

The agenda for each Board meeting is set by the Chairman in consultation with the Group Chief Executive and Group Company Secretary. Detailed briefing papers in relation to the business to be conducted at each meeting are circulated to the Board electronically at least one week before each meeting. The executive directors and Group Company Secretary are readily available should any Board member wish to receive additional information.

Board meetings are structured to allow open discussion and debate and the Chairman ensures that adequate time is available for discussion of all agenda items, in particular strategic matters.

### Board and committee attendance at meetings in 2013/14

Directors' attendance at scheduled meetings they were eligible to attend:

	Board	Audit committee	Remuneration committee	Nomination committee
Andrew Allner	7/7	3/3 <sup>1</sup>	5/5	2/2
David Brown	7/7	3/3 <sup>1</sup>	3/3 <sup>1</sup>	2/2
Keith Down	7/7	3/3 <sup>1</sup>	3/3 <sup>1</sup>	1/1 <sup>1</sup>
Katherine Innes Ker	7/7	3/3	5/5	2/2
Nick Horler	7/7	3/3	5/5	2/2
Adrian Ewer	7/7	3/3	5/5	2/2
Rupert Pennant-Rea <sup>2</sup>	3/3	1/1 <sup>1</sup>	3/3 <sup>1</sup>	1/1 <sup>1</sup>

<sup>1</sup> Meetings attended by invitation only.

<sup>2</sup> Rupert Pennant-Rea retired as a non-executive director of the Board on 24 October 2013.

## Matters reserved

In addition to the responsibilities set out on page 54, the Board has a formal schedule of matters reserved for its decision. This schedule is reviewed by the Board each year. The key matters reserved are the consideration and approval of:

- Group strategy and long term plans;
- Group objectives, values and overall governance framework;
- annual budget and operating plan;
- risk management and internal controls;
- Board appointments;
- Group financial structure, including taxation and treasury management policies;
- material capital projects, investments, acquisitions, franchises and disposals; and
- annual and half year financial results and shareholder communications.

The full schedule of matters reserved for the Board and terms of reference for the committees can be found on the Group's corporate website ([www.go-ahead.com](http://www.go-ahead.com)).

Matters considered at all Board meetings include:

- key issues and strategic matters;
- the Group Chief Executive's report on safety, strategic and business developments;
- the Group Finance Director's report which includes the latest available management accounts;
- performance against financial and non-financial KPIs;
- investor relations report;
- sustainability report; and
- where applicable, reports from the audit, remuneration and nomination committees.

## Division of responsibilities

The offices of the Chairman and Group Chief Executive are held separately and the division of responsibility between these roles is clearly established as shown on page 56. The Board has adopted a written Statement of Division of Responsibilities between the Chairman and the Group Chief Executive. The Chairman leads the Board, ensuring its effectiveness by promoting challenge and debate and managing a regular evaluation process. The Group Chief Executive is responsible for the performance, management and supervision of the Group in accordance with the strategies and values set by the Board. The Chairman and Group Chief Executive have an effective and co-operative working relationship and are supported by the Senior Independent Director. The Senior Independent Director provides a sounding board to the Chairman and is an alternative point of contact for directors and shareholders, where contact with the Chairman, Group Chief Executive or Group Finance Director is inappropriate.

The Chairman holds regular informal meetings with the Board members to encourage a culture of openness. Integrity is considered of utmost importance in the Boardroom and our non-executive directors challenge the executive directors to encourage constructive debate and facilitate effective decision making.

### Individual roles of the Board

#### Chairman

- Operation, leadership and governance of the Board
- Board effectiveness
- Sets Board agenda, style and tone of Board discussions
- Ensures the directors receive accurate, timely and clear information
- In conjunction with the Group Company Secretary, ensures that new directors receive a comprehensive induction programme
- Effective communication with shareholders
- Sets the tone of the Group's culture and values and ensures that these continue to be strengthened and embedded across the Group

#### Group Chief Executive

- Overall responsibility and leadership for Group performance
- Communicates the culture, vision and values of the Group
- Stewardship of Group assets
- Plans and executes objectives and strategies
- Maintains a close working relationship with the Chairman, ensuring effective dialogue with investors and stakeholders
- Manages the senior management team
- Has overall responsibility for the Group's sustainability performance
- Ensures that leadership and development frameworks are developed to generate a positive pipeline of future opportunities for the Group

#### Group Finance Director

- Maintains strong financial management and implements effective financial controls
- Develops the Group's policies and strategies
- Ensures a commercial focus across all business activities
- Ensures the appropriateness of risk management
- Supports and advises the senior management team
- Maintains effective communications with shareholders and investors

#### Senior Independent Director

- Acts as a sounding board for the Chairman
- Serves as an intermediary for the other directors
- Is available to shareholders if they have concerns which they have not been able to resolve through the normal channels of the Chairman, Group Chief Executive or Group Finance Director or for which such contact is inappropriate
- Conducts an annual review of the performance of the Chairman and convenes a meeting of the non-executive directors to discuss the same

#### Non-Executive Directors

- Provide constructive challenge
- Help develop strategy
- Scrutinise performance of management
- Monitor reporting of performance
- Ensure integrity of financial information
- Ensure financial controls and systems of risk management are robust and defensible
- Determine appropriate levels of remuneration for the executive directors
- Are available to meet with major shareholders

#### Group Company Secretary

- Secretary to the Board and its committees
- Ensures efficient information flows within the Board and its committees and between senior management and non-executive directors
- Facilitates induction of new directors and assists with training and development needs as required
- Ensures compliance with Board procedures
- Regularly updates the Board on corporate governance matters, legislative changes and regulatory regimes affecting the Group
- Facilitates Board evaluation

➔ For full biographies of our directors see pages 50 and 51 or visit our website [www.go-ahead.com](http://www.go-ahead.com)

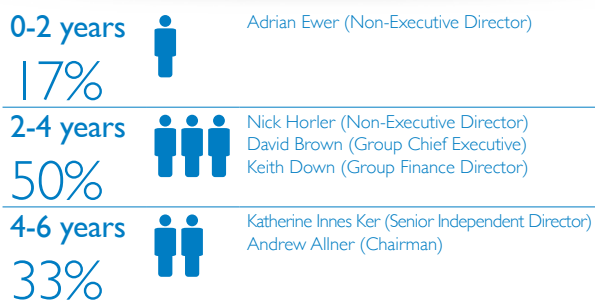
## Board effectiveness

### Board composition

At 28 June 2014, the Board comprised the Chairman, three non-executive directors and two executive directors. The biographies of all members of the Board, outlining the experience they bring to their roles, are set out on pages 50 and 51.

The composition of the Board did not change during the year except for the retirement of Rupert Pennant-Rea as a non-executive director at the Group's AGM on 24 October 2013.

### Directors' tenure




### Election & re-election to the Board

All directors are required by the Group's articles of association to be elected by shareholders at the first AGM following their appointment by the Board. Subsequently, all directors are subject to annual re-election by shareholders as recommended by the Code.

The performance of all directors is objectively and rigorously reviewed on an annual basis and this is used as the basis for recommending re-election of directors to shareholders.

The performance evaluation undertaken during the year confirmed that members of the Board and its committees have the appropriate balance of skills, experience and diversity of background to enable them to discharge their duties and responsibilities effectively, which includes their views carrying significant weight in the Board's decision making. The Board works well together to bring independent and balanced judgement to their deliberations and no individual or group of individuals dominates decision making. The non-executive directors are independent in both character and judgement and the Chairman was considered independent on his appointment.

As such, and in accordance with the Group's articles of association and the Code, all directors will be offering themselves for annual re-election at the 2014 AGM.

 Full details of the performance evaluation process can be found on page 58

### Time commitments

The nomination committee regularly assesses the other commitments of all directors. This year, the committee is again satisfied that there are no conflicts of interest and that all directors, particularly those who also chair committees, have sufficient time to fulfil their responsibilities. Prior to any new commitments being made by directors, agreement is sought from the Chairman.

### Indemnification of directors

The Group maintains a directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Group has also granted indemnities to each of its directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 234 of the Companies Act 2006) were in force during the year ended 28 June 2014 and remain in force, in relation to certain losses and liabilities that the directors may incur to third parties in the course of acting as directors or employees of the Group or of any associated company. Neither the Group's indemnity nor its insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently.

### Induction

All new directors undertake a full induction programme either shortly before or upon joining the Board. This covers amongst other things:

- the business of the Group;
- the legal and regulatory responsibilities of directors;
- meetings and briefings from members of the Board;
- opportunities to meet with local senior management at operating companies; and
- opportunities to meet with key advisors.

This is a personalised induction programme, tailored to the director's previous experience and background, and is geared to particular areas of focus. It is designed to enhance the new director's understanding of their roles and responsibilities and develop their knowledge in relation to the transport industry generally, and, specifically, the Group's structure and operations. The Group Company Secretary, working closely with the Chairman, agrees the personalised induction plan with each new director.

While no new directors were appointed during the year under review, the above process was followed when Adrian Ewer was appointed as a Non-Executive Director and Chairman of the audit committee in April 2013.

### Continuing professional development

The Chairman regularly encourages the non-executive directors to continually update their skills, knowledge and ongoing familiarity with the Group in order to competently carry out their responsibilities. This is achieved as follows:

- regular presentations at Board meetings from senior management on matters of significance. Examples during the year included presentations from the Managing Director of Rail Development updating the Board on the TSGN bid, the Group Engineering Director presenting on the Group's health and safety ethos and the Group HR Director talking about the development of the Group's leadership and succession planning programmes;
- the non-executive directors periodically visit operating companies and attend the Group's Senior Management Conference each year. During the year, the Chairman, Katherine Innes Ker and Nick Horler visited all major operating companies. Separately, as part of his formal induction, Adrian Ewer continued his site visits, meeting with senior managers and employees across the businesses;
- the directors are regularly provided with updates on the Group's businesses as well as updates on corporate governance and legislative/regulatory issues. Updates are by way of written briefings from the Group Company Secretary, presentations from management and presentations from external advisors. During the year under review updates focused on the changing corporate landscape which included the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the FRC's 2012 UK Corporate Governance Code, particularly the new fair, balanced and understandable requirements and the reforms to directors' remuneration reporting; and
- the directors are regularly provided with updates on political and market related issues as well as compliance training. An example during the year was the requirement for all Board directors to participate in an online training course covering the areas of anti-bribery, corruption and competition law. Each course followed the same format: the applicable law in each area was explained and practical scenarios were used to illustrate how that law was relevant to the bus and rail industries. At the end of each course the directors had to answer a set of questions correctly in order to pass an exam.

As part of their annual performance evaluation, directors are given the opportunity to discuss their own training and development needs. Directors are expected to take responsibility for identifying their training needs and to take steps to ensure that each is adequately informed about the Group and their responsibilities as a director. The Board is confident that all of its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

### Performance evaluation

A formal evaluation of the Board, its committees and individual directors is carried out on an annual basis.

#### 2013/14 evaluation of the Board and its committees



- The Group Company Secretary met with each Board member on a one-to-one basis to discuss:
  - the areas of improvement identified as part of the previous year's external evaluation;
  - the key characteristics research has shown make an effective Board; and
  - whether the Board is doing the things they should be and whether there are better ways of working.
- The Group Company Secretary shared findings with the Chairman on an anonymous basis.
- A full Board discussion took place following which an action plan was agreed and implemented.

#### Evaluation of individual directors



- Each non-executive director completed a self-assessment questionnaire and a cross-assessment questionnaire on each other:
  - the questionnaires were designed to gain insight into the directors' perceptions and views of what the relationship between the Board members was like and whether the Board processes and support, and interactions with its committees, were appropriate. Views were also sought on the administrative support for the Board and whether sufficient information and time were devoted to key issues and strategic matters; and
  - executive directors were not required to complete self-assessment questionnaires or have cross-assessment questionnaires completed on them given that this process had taken place through their one-to-one appraisals.
- The Group Company Secretary compiled information from the questionnaires into a report to ensure feedback from each director remained anonymous.
- The Chairman met with each director to discuss findings from the questionnaires.
- As in previous years, the Senior Independent Director led the process of evaluating the performance of the Chairman, in consultation with the non-executive directors and with input from the executive directors.

#### Summary of findings

In summary, the review this year again found a well-run Board. There was a general feeling of satisfaction about the way the Board was performing, its culture and effectiveness. The Board operated within a robust corporate governance structure and was well organised, with the information received being comprehensive and timely. The review indicated that the atmosphere around the board table was a positive one and discussions were open and frank with all directors demonstrating good trust and confidence in each other. In particular, there was a genuine desire from the non-executive directors to engage more actively and work better collectively with the executive directors to further increase Board effectiveness, while recognising their respective roles and duties.

Although no areas of material concern were highlighted, the Board concluded that the following matters should be considered to ensure improved Board stewardship in the future:

2013/14 evaluation recommendations	2013/14 actions taken
Capitalise more on non-executive directors' expertise earlier in the process for strategy formulation	Timetable revised to facilitate earlier discussion and debate on strategy. More regular updates on how progress is being made against strategy, with a focus on those areas not performing to plan, the consequent remedies and whether plans are being achieved in a timely manner.
Create more time in Board meetings for thorough debate on key issues	More focus and discussion given to the new agenda item 'Key Issues and Strategic Matters' introduced following the last Board evaluation. More time spent actually debating and discussing, rather than listening.
Improve succession planning and leadership management processes to support the delivery of strategy	More information provided to the Board on a regular basis including specific information on key individuals, pipelines and succession plans and career development plans.
Improve engagement with senior managers	More regular updates from senior managers on key strategic and topical matters to allow non-executive directors to hear and question first hand those individuals responsible for current matters and issues of importance.
More formalised individual director review and development	More focused individual director reviews now undertaken at least on an annual basis, involving individual and self-assessments.
Improve top-down process for risk assessment	More time given at each meeting to review and discuss in detail the critical and key risks that could impact delivery of strategy, and the mitigating actions and controls in place.

## Information and support

### Board procedures manual

The Board is supplied with high quality information, presented in a form appropriate to enhance Board effectiveness. A comprehensive Board procedures manual is maintained which includes formal procedures for the working of the Board and its committees, delegated authorities, the timely provision of appropriate information and the duties and responsibilities of directors, including standards of conduct and compliance. This manual is regularly updated to ensure it is consistent with current best practice.

### Group Company Secretary

The Group Company Secretary is available to all directors to provide advice and is responsible for ensuring that all Board procedures are complied with and that Board and committee papers are circulated to all directors on iPads ensuring fast, timely and secure provision of information.

The Group Company Secretary reports to the Chairman in her role as secretary to the Board and its committees. She reports to the Group Finance Director on all other company secretariat matters, including the management of the Group's bus pension arrangements. Her biography can be found on page 51.

### Independent advice

All directors may take independent professional advice, at the Group's expense, if they believe it to be necessary for the proper discharge of their duties as directors.

### Relations with shareholders

Go-Ahead's Board has always been committed to reporting in a fair, balanced and understandable manner and places great importance on transparent, relevant and timely communication with shareholders. Throughout the year, we maintained open and frequent dialogue with investors, providing updates on strategy, objectives and governance.

The Group's investor relations (IR) programme, managed by the Group's IR team, includes regular dialogue between the executive directors and current and potential shareholders through group and one to one meetings, presentations and conferences. The executive team are also in regular contact with sell-side analysts and meet with broker sales teams to communicate the Group's key message to the people dealing with investors every day. We also communicate with the investment community through regular news releases and trading updates. Financial results and other material news releases are issued via the London Stock Exchange as well as being published on our corporate website [www.go-ahead.com](http://www.go-ahead.com).

The investor relations section of our website provides a wealth of information including a dedicated results centre, latest news, access to reports, presentations and other useful documents, as well as share price, market capital and other shareholder information. Investors and other interested parties can subscribe to receive news through email updates by registering their details on our website. To enable shareholders to access information on the move we also have a dedicated investor relations iPad app.

We continue to use other channels to engage with a wider audience through our Facebook and Twitter accounts. We also have a range of award-winning social media activities in place across our bus and rail companies, updating passengers with real time service information. Combined, Go-Ahead and its companies are reaching 250,000 people on Twitter and 140,000 on Facebook. Our investor base is largely UK focused and as such we focus our IR programme in the UK. Following our full and half year results we hold investor roadshows in London and Edinburgh for institutional investors. We also attend the annual conferences held by our corporate brokers. In addition to these programmed events, we respond to meeting requests from institutional and private holders throughout the year. While key shareholder engagement activities are undertaken by the executive directors, overall responsibility for ensuring that there is regular and effective dialogue with investors rests with the Chairman, who is available and appreciates the opportunity to meet investors for this purpose. The Senior Independent Director and the chairmen of the Board's committees are also available to meet key investors on request and the Group Corporate Communications Director and Head of IR are available to provide updates on the Group's sustainability and broader governance strategies to socially responsible investors.

We will be holding an investor event in London in the autumn, details of which will be released following the year end results.

The IR team provides the Board with regular reports and updates, including analysts' reviews, analysis of the shareholder register and shareholder feedback. Understanding our shareholders' views is important to us. Following our full and half year roadshows our corporate advisors gather detailed feedback from institutional shareholders which is presented to the Board. This forms an important part of the Board's strategic discussions and also assists the IR team in improving the quality of communications. Feedback is also sought by the Board's committee chairmen; for example, the Chairman of the remuneration committee consults with major shareholders before any significant changes in executive remuneration.

### Annual General Meeting (AGM)

In addition to individual meetings, the principal communication with all shareholders is through the Annual Report and the AGM. The AGM is attended by all directors and all shareholders are invited and encouraged to attend as it provides an opportunity to develop their understanding of the Group and ask questions. There is also the opportunity to meet informally with the directors before and after the meeting. Any questions shareholders wish to register in advance of the AGM can be sent to the Group Company Secretary at [agm@go-ahead.com](mailto:agm@go-ahead.com) or The Go-Ahead Group plc, 3rd Floor, 41-51 Grey Street, Newcastle upon Tyne, NE1 6EE.

Full details of the business to be discussed at the AGM can be found in the Notice of Meeting sent to registered shareholders in advance of the meeting and is also available on our corporate website at [www.go-ahead.com](http://www.go-ahead.com).

Ordinary business raised for consideration at the AGM each year includes receiving the financial statements for the year; together with the directors' and auditor's reports, the directors' remuneration report and the final dividend; electing and re-electing members of the Board; and re-appointing the Group's auditor. Other matters included on the agenda for the AGM may vary from year to year in accordance with the requirements of the Group.



➔ For further information visit our website at [www.go-ahead.com/ir](http://www.go-ahead.com/ir) or contact the IR team via [enquiries@go-ahead.com](mailto:enquiries@go-ahead.com)



## Audit committee report



*"The committee provides assurance that the financial statements are fair, balanced and understandable"*

**Adrian Ewer,**  
Audit Committee Chairman

### Audit committee membership

Adrian Ewer	Committee Chairman
Katherine Innes Ker	Senior Independent Director
Nick Horler	Independent Non-Executive Director
<i>Composition compliant with Provision C.3.1 of the Code</i>	
<i>Committee Secretary</i>	
Carolyn Ferguson	Group Company Secretary
<i>Meetings also regularly attended, by invitation, by:</i>	
Andrew Allner	Chairman
David Brown	Group Chief Executive
Keith Down	Group Finance Director
External auditor representative(s)	
Internal auditor representative(s)	

### 2013/14 audit committee highlights

- Approval of half-year and full-year financial statements
- Provided assurance to the Board on whether the 2013/14 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable
- Focus on the key significant risks that could impact the Group achieving its strategic objectives
- Review of the effectiveness of the external auditor process
- Ongoing control and assessment of the internal audit process
- Health check of cyber security and implementation of processes to review annually
- Tendering brief and timetable agreed in readiness for the external audit tender process which will commence in 2014/15

### 2014/15 audit committee priorities

In addition to its usual items of business, the audit committee's priorities for 2014/15 are to:

- Monitor changes in the external regulatory environment to make sure that we continue to have appropriate financial, compliance and internal controls in place
- Tender the Group's statutory audit work ahead of the 2015/16 audit cycle
- Ensure the committee is exercising its assurance oversight role in the best possible way

## Dear Shareholder

### On the following pages we set out the audit committee's report for the year ended 28 June 2014.

The past year has seen significant developments in the regulatory backdrop underpinning the committee's important role which is to provide assurance and surety of the Group's processes and procedures in relation to internal control, risk management and corporate reporting.

Following publication of the revised version of the Code in September 2012, the Board requested the committee to advise them on whether it believes that the Annual Report and Accounts (the Report), taken as a whole, are fair, balanced and understandable such that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

In order for the audit committee and the Board to be satisfied with the overall fairness, balance and clarity of the Report, a collaborative approach is taken to creating the Report which involves direct input from key report contributors and the Board throughout the process. Additionally the following steps are taken:

- early planning and implementation of timetables;
- project managers for each section established from outset;
- review, consideration and feedback on regulatory changes and best practice;
- validation of data and information included in the Report both internally and by the external auditor;
- a series of key proof dates for comprehensive review across all sections that aim to ensure consistency and accuracy;
- audit committee review and recommendation to the Board; and
- Board sign-off.

As a result of this work, the committee concluded that the processes and controls were appropriate and we were able to provide positive assurance to the Board that the Report, taken as a whole, is fair, balanced and understandable.

In addition to the audit committee's main responsibilities detailed on page 62, we set out opposite our key highlights for 2013/14 and priorities for 2014/15.

**Adrian Ewer,**  
Audit Committee Chairman

3 September 2014

**How the committee works**

The committee normally meets at least four times per year excluding meetings held to review its effectiveness as part of the annual performance evaluation. This year, due to timings of meetings around the year end date, the committee met three times in 2013/14. Members' individual attendance at committee meetings for the year under review can be found on page 55.

Meetings of the committee generally take place just prior to Board meetings in order to maximise the effectiveness of collaborating with the Board. Meetings are attended by the independent non-executive directors and, by invitation, the Chairman, Group Chief Executive, Group Finance Director and internal and external auditors. Other individuals from the business are also invited to attend certain meetings in order to provide an increased understanding of certain key issues and developments. In order to ensure momentum is sustained and matters progressed, the Committee Chairman holds pre-audit committee meetings with key advisors between main committee meetings.

At least once a year, the non-executive directors hold separate meetings with the external and internal auditors, without the executive directors being present.

The committee members have between them a wide range of business and financial experience which enables the committee to fulfil its responsibilities in a robust and independent manner. The committee considers Adrian Ewer, the Committee Chairman, to have recent and relevant financial experience for the purposes of compliance with the Code.

**Audit committee responsibilities**

The terms of reference of the audit committee are reviewed regularly and approved by the Board. These are in line with best practice and reflect the recent changes to the Code and the FRC's Guidance on Audit Committees. The audit committee's terms of reference can be accessed via the corporate website ([www.go-ahead.com](http://www.go-ahead.com)) or upon request from the Group Company Secretary.

The audit committee is responsible for:

- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgements contained in them before their submission to the Board for approval;
- reviewing and challenging, where necessary, the consistency of significant accounting policies, and whether appropriate accounting standards have been used;
- reviewing the content of the Report and advising the Board on whether it is fair, balanced and understandable;
- reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;
- reviewing reports from the internal health and safety auditor on health and safety audit standards;

Key financial matters for 2013/14	How the committee addressed these key financial matters
Compliance with franchise terms and conditions relating to the rail components of the Group, specifically relating to the accounting for related income and costs arising from franchise agreements	The committee regularly reviews the levels of income and cost arising from franchise agreements. At interim and year end reviews, a full schedule of material income statement and balance sheet movements is assessed against the committee's expectations and discussed with the Group Chief Executive and the Group Finance Director
Ongoing review of provisions for liabilities and charges, specifically relating to third-party claims and lease return and dilapidation provisions for rolling stock, stations, depots, other properties and measurement of uninsured liabilities	At interim and year end, the levels of provision for third-party claims, lease return and dilapidation provisions are reviewed with the Group Chief Executive and the Group Finance Director. Management's review is supported by reports from appropriate third-party experts who independently assess the required provision based on their industry knowledge and an understanding of the Group's specific circumstances. Increases in provisions, utilisation and release of provisions are all reviewed for reasonableness in light of these reports and the Group's specific circumstances
Impairment testing in respect of the carrying value of goodwill on the Group's investments	The ongoing review of goodwill and carrying value of investments, as presented by management, is challenged by the committee. This is done by assessing the expected performance of the individual cash generating units and ensuring that relevant risk factors are imputed to the rate of return used to assess net present value of future cashflows. The committee also reviews historic performance against expectations set in previous years
Assumptions underpinning the calculation of the Group's defined benefit pension liabilities	Pension scheme liabilities are assessed on behalf of the Group by independent actuaries. Additionally, the committee assesses the underlying assumptions with other professional advisors to ensure that the actuaries' own assumptions are appropriate for the Group. The committee also discusses the appropriateness of the assumptions with the Group's external auditor
Re-presentation and restatement of the financial statements to reflect the impact of IAS 19 (revised)	Group management implemented reporting under IAS 19 (revised) during the year. Amounts derived under the new standard and the old standard were compiled by the Group actuaries and discussed with management. The revised disclosures were agreed with the committee and the Group's auditors
Ongoing review of changing issues such as the impact of European working time directive on holiday pay	The audit committee's review of risks and uncertainties in the wider economy encompasses emerging risks and considers each when appropriate to the Group's circumstances. The committee will seek specific legal or other professional advice to support its assessment of areas that could affect the Group
Understanding and treatment of exceptional items in the year end accounts	The committee will consider separate disclosure of exceptional income or costs in light of the FRC recommendations of a balanced and consistent approach. The committee is mindful of the need to understand the underlying trends of each division within the business with the impact of large and unusual items segregated out as necessary to avoid distortions from such non-recurring aspects

- providing assurance to the remuneration committee on quality of earnings and budget for performance-related bonus purposes;
- reviewing the adequacy of the whistle blowing system, the Group's procedures for detecting fraud and the systems and controls for the prevention of bribery, and receiving reports on non-compliance;
- reviewing and assessing the annual internal audit plan and receiving reports from the internal auditors at each meeting;
- overseeing the Group's relationship with the external auditor; including monitoring and reviewing their performance, assessing their continuing independence, making recommendations as to their reappointment (or, where appropriate, making recommendations for change), and approving their terms of engagement and the level of audit fees payable to them;
- assessing the qualifications, expertise and resources of the auditor and the effectiveness of the audit process; and
- ensuring that at least once every ten years the audit services contract is put out to tender.

## Financial reporting

The primary role of the committee in relation to financial reporting is to review, with both management and the external auditor, the appropriateness of the interim and year end financial statements. The committee focuses on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor;

- whether the Report, taken as a whole is fair, balanced and understandable; and
- any correspondence from regulators in relation to our financial reporting.

As part of the interim and year end financial statements approval process, the committee met with the external auditor. During this exercise the committee considered the key audit risks identified as being significant to the 2013/14 accounts and the most appropriate treatment and disclosure of any new or judgemental matters identified during the audit and half yearly review as well as any recommendations or observations made by the external auditor. The primary areas of judgement considered by the committee in relation to the key financial matters for 2013/14 and how these were addressed are set out on page 62.

## How we manage the Group's risk management and internal control system

### The Board's responsibilities

For the financial year ended 28 June 2014 and up to the date of approval of this report, the Board confirms that it has complied with provision C.2.1 of the Code and has established procedures that implement in full the guidance given in "Internal Control : Revised Guidance for Directors on the Combined Code" (the Turnbull Guidance).

The Board recognises its responsibility for the Group's risk management and internal control system and is committed to ensuring its adequacy and effectiveness in every respect. Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Board's objective is to ensure that the Group has appropriate systems in place for the identification and management of risks.

## Key features of the Group's risk management and internal control system

Group structure	The Group's decentralised organisation structure supports an effective top-down/bottom-up approach to risk management and control
Leadership	Clear leadership from the Board with the executive directors plays an integral role working with operating companies
Board-level reporting	Regular review of reports received from the Group's internal auditor, health and safety consultants, external auditor and the executive directors
Health and safety reporting	Health and safety standards established across all operating companies and key performance indicators monitored on a monthly basis at operating company and Board level
Strategy and financial reporting	A comprehensive Group-wide system of financial reporting, budgeting and cash forecasting and control through which financial accounts are prepared and submitted to the Board monthly
Compliance management	Annual certification by each operating company that they have adhered to the Group's policies and procedures manual which reinforces the Group's corporate governance, internal control processes and management of risk

**Internal control and risk management**

The key roles and responsibilities of each of the respective functions within the Group's system of risk management are detailed on page 35. Through the processes outlined in this framework:

- key risk areas are identified, assessed and prioritised;
- areas for improvement of internal controls and risk management are identified;
- action plans are agreed and implemented to achieve such improvements; and
- progress against actions is monitored by senior management, the executive directors and the audit committee.

The other key features of the Group's internal control and risk management system are set out in the table on page 63. The Board has confirmed that, through its audit committee, it has reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, and considers that this system of internal controls operated effectively throughout the financial year and up to the date on which the financial statements were signed.

**Whistle blowing & anti-bribery procedures**

The Group is committed to the highest standards of quality, honesty, openness and accountability and a whistle blowing policy has been issued to all operating companies to ensure a consistent approach across the organisation. Employees are encouraged to raise genuine concerns under the policy and any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken. Any matters of significance are reported to the audit committee. During the year, no issues of significance were raised.

The Board supports the objectives of the Bribery Act 2010 (the Bribery Act) and procedures have been established to ensure that compliance is achieved. Any issues arising under the Bribery Act are dealt with promptly and appropriately by the Group Compliance Officer. Training has been provided to the Board and senior management (who are in turn responsible for ensuring the staff reporting to them comply). Training is refreshed on a regular basis. Any breach of the Bribery Act will be regarded as serious misconduct, potentially justifying immediate dismissal.

A Group anti-bribery policy has been established and is set out in the Group's compliance manual. This sets out what is expected from employees to ensure that they protect themselves as well as the Group's reputation and assets.

**Internal auditor**

The Group's internal audit function has been outsourced to PricewaterhouseCoopers on a rolling 12 month contract, with overall responsibility and direction being retained by the audit committee. The internal audit function provides assurance over the effectiveness of key internal controls as identified as part of the risk assessment process. In addition to meetings with local management, the internal auditor reports to the executive directors at least six times a year and to the audit committee, normally, at least four times a year. This year, due to timings of meetings around the year end date, the committee met three times in 2013/14.

The committee keeps under review the internal audit relationship with PricewaterhouseCoopers and maintains the procedures to ensure appropriate independence of the internal audit function.

At the start of the year the committee considered and approved the internal audit plan for the two years ending 27 June 2015, which covered a number of focused audits in key business areas across the operating companies and Group functions. During the year, the committee reviewed findings from the internal audit reports scheduled in the year ended 28 June 2014, the actions taken to implement the recommendations made in these reports and the status of progress against previously agreed actions.

**External auditor effectiveness**

During the year, the Chairman of the audit committee led the process to assess the effectiveness of the audit process. The primary purpose of this assessment was to gain assurance that the external auditor had conducted a comprehensive, appropriate and effective audit. Through a constructive and honest dialogue with the external auditor about its performance the objectives of the process were to:

- assess each phase of the audit process against a quality framework, as shown in the table below;
- discuss with the external auditor what areas went well and what could be improved;
- result in optimised assurance being derived from the audit; and
- help inform future audit tender processes that the audit committee will undertake.

**The audit committee reviewed an audit quality framework which assessed the following key audit phases:**

Phase	Areas covered
Audit planning and design	<ul style="list-style-type: none"> <li>• Team structure and leadership demonstrated by the audit partner</li> <li>• Integrated audit approach</li> <li>• Audit tailored to the business</li> <li>• Leveraging sources of assurance</li> <li>• Use of innovation and technology</li> </ul>
Audit execution	<ul style="list-style-type: none"> <li>• Behavioural factors including professional challenge</li> <li>• Technical excellence</li> <li>• Communication and audit reporting</li> <li>• Audit efficiency and project management</li> </ul>
Independence and quality control	<ul style="list-style-type: none"> <li>• Review of external auditor's internal quality control procedures</li> <li>• Consideration of audit firm transparency report in line with the Code, paying specific attention to the sections on independence and quality assurance and training</li> </ul>
Role of management	<ul style="list-style-type: none"> <li>• Detailed questioning of the role of management at both operating company and Group level</li> </ul>

The assessment was carried out in conjunction with each key phase of the audit and so was discussed at each subsequent committee meeting.

The observations from this assessment for the 2013/14 financial year were presented and discussed at the August 2014 meeting and it was concluded by the audit committee that our audit process had been effective.

### Independence, objectivity and fees

The Board recognises the importance of auditor independence and is aware of the situations that may give rise to the impairment of auditor independence. The audit committee carefully considers the objectivity of the auditors on an annual basis, in relation to both the audit process and the relationship with the Group.

In order to safeguard auditor objectivity and independence, the committee has, as part of its terms of reference, the following policy for the provision of non-audit services by the external auditor:

- the auditors will only be used for the provision of non-audit work if it can be demonstrated that the engagement will not impair independence, is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake the work;
- the auditors will not provide certain categories of non-audit services to the Group, such as internal audit, and litigation support; the full list of which can be found in the committee's terms of reference;
- the provision of certain non-audit services (including accounting and tax services if the fees exceed a cumulative £50,000) is subject to approval by the audit committee. In 2014, this was reduced from a previous cumulative of £250,000; and
- the ratio of the external auditor's audit to non-audit fees during the year, as a proportion of the annual external audit fee, is kept under review by the committee.

During the financial year, the principal external auditor's fees were £0.5m (2013: £0.5m); in addition, non-audit fees of £0.1m (2013: £0.2m) were payable to the principal auditor. In comparison, non-audit fees paid to other providers during the financial year were £1.8m (2013: £0.7m). Approval was given for the provision of taxation services where the committee was satisfied that the external auditor was able to provide better value for money without compromise to their independence.

Several operating companies use Grant Thornton as their auditor. Total fees to Grant Thornton during the financial year were £0.1m (2013: £0.1m). Grant Thornton received non-audit fees of £0.1m (2013: £nil) relating to litigation support for Group companies with whom they have no audit relationship.

### External audit appointment

The committee reviews and makes recommendations with regard to the reappointment of external auditors. In making these recommendations, the committee considers auditor independence and objectivity, partner rotation, the ratio of audit to non-audit fees, the effectiveness of the audit process and any other factors which may impact the external auditor's reappointment.

The external auditor is required to rotate its audit partner every five years. The most recent change for Go-Ahead occurred in the year ended 2 July 2011 and, therefore, partner rotation is due before the 2015/16 audit.

The current external auditor, Ernst & Young, was first appointed to the Group in 1987. While the Group has not formally tendered the audit since then, as part of the committee's review of the activities outlined above, the committee remains confident that the effectiveness and independence of the external auditor is not impaired in any way. Having considered the need to tender the position for the current year, the committee has provided the Board with its recommendation to the shareholders on the reappointment of Ernst & Young as external auditor for the year ending 27 June 2015. Accordingly a resolution proposing the re-appointment of Ernst & Young will be put to shareholders at the 2014 AGM. There are no contractual restrictions on the Group with regard to its appointment and we do not indemnify our external auditor.

The committee will continue to assess the effectiveness and independence of the external auditor and is very supportive of provision C.3.7 of the Code which recommends FTSE 350 companies should put their audit contract out to tender at least every ten years. We will comply with the Competition Commission Order relating to the statutory audit market for FTSE 350 companies, which is expected to come into effect from 1 October 2014. Under the transitional arrangements, the committee intends that a formal tender process be held during the course of next year which coincides with the timing of the rotation of the current Senior Statutory Auditor who will be retiring after the 2014/15 audit having completed a five year term. The purpose of the audit tendering exercise will be to market test the quality and effectiveness of the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit.

## Nomination committee report



"The recent transitional Board period has completed successfully"

**Andrew Allner,**  
Nomination  
Committee Chairman

### Nomination committee membership

Andrew Allner	Committee Chairman/Chairman
Katherine Innes Ker	Senior Independent Director
Nick Horler	Independent Non-Executive Director
Adrian Ewer	Independent Non-Executive Director
David Brown	Group Chief Executive

#### Composition compliant with Provision B.2.1 of the Code

#### Committee Secretary

Carolyn Ferguson	Group Company Secretary
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#### Meetings also regularly attended, by invitation, by:

Keith Down	Group Finance Director
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In addition to the nomination committee's main responsibilities as detailed on page 67, our key highlights for 2013/14 are as follows:

#### 2013/14 nomination committee highlights

- Understanding our leadership and succession pipelines and supporting the identification and development of participants
- Reviewing succession plans for the executive directors and key senior management positions and ensuring appropriate development and retention plans are in place
- Developing a Boardroom diversity policy, the principles of which can be cascaded through the business
- As part of the performance evaluation process, undertaking a review of the skills of the Board

#### 2014/15 nomination committee priorities

- Our priorities for 2014/15 will be to continue to build upon the good work already completed from our leadership and succession planning to date. We recognise that our success will come from our people and we want to ensure we have the right framework in place to identify, develop, motivate and retain employees who have the right skills and capability to support the Board in the delivery of the Group's strategic objectives
- In the year ahead, the committee will also continue to monitor developments in corporate governance to ensure the Group remains at the forefront of good governance practices

## Dear Shareholder

### On the following pages we set out the nomination committee's report for the year ended 28 June 2014.

The Board of Go-Ahead consists of the Chairman, three non-executive and two executive directors, who together bring a diverse and complementary range of backgrounds, personal attributes and experience. Biographies of all the members of the Board can be found on pages 50 to 51 of this report.

The primary objective of the nomination committee is to review the structure, size and composition of the Board, including the Board's succession planning requirements. It also oversees the identification and assessment of potential Board candidates and makes nominations to the Board for its approval as appropriate.

The recent transitional Board period has now completed smoothly and successfully. Katherine Innes Ker, Adrian Ewer and myself completed our first full financial years as Senior Independent Director, Audit Committee Chairman and Chairman respectively. Additionally, October 2013 saw the retirement of Rupert Pennant-Rea as a non-executive director after more than ten years with the Group. Nick Horler was appointed as Rupert's replacement in November 2011 and is an Independent Non-Executive Director. I am pleased that our succession planning processes have been efficient and effective and we look forward to providing a continuation of leadership necessary to promote the success of the Group for the long term value of shareholders in the future.

The committee also keeps under review the leadership needs of, and succession planning for, the operating company directors and other key senior management appointments. Its remit also includes making recommendations for the appointment or removal of the Chairman or any executive director, and the terms associated with such recommendations.

A key focus for the committee and Board as a whole this year has continued to be addressing succession risks and ensuring that we are building a diverse management pipeline capable of stepping up to fill the most senior positions in the Group in the coming years. To this end, we have continued to refine a number of our initiatives such as a Group Leadership Programme and a Bus Graduate Scheme. Additionally, we have developed internal retention strategies including career planning conversations and tailored personal development programmes. For further information, please see the 'People' section on pages 26 to 29.

**Andrew Allner,**  
Committee Chairman  
3 September 2014

## Meetings

The committee meets as needed to deal with necessary assignments and its responsibilities as listed below, in accordance with the needs of the Group and best practice in corporate governance. The committee met twice during the year excluding meetings held to review its effectiveness as part of the annual performance evaluation. Members' individual attendance can be found on page 55.

## Committee purpose and responsibilities

The purpose of the nomination committee is to keep the Board's governance, composition, skills, experience, knowledge, independence and succession arrangements under review and to make appropriate recommendations to the Board to ensure the Group's arrangements are consistent with the highest corporate governance standards. The key responsibilities of the committee are set out in the table below. A full list of responsibilities is detailed in the committee's terms of reference which are reviewed regularly, approved by the Board, and are available on the Group's corporate website ([www.go-ahead.com](http://www.go-ahead.com)) or upon request from the Group Company Secretary.

## Succession planning and leadership management

While succession planning is the responsibility of the Board as a whole, the nomination committee oversees the Board's arrangements for the longer term succession of Board and committee members and ensures that an established formal process for succession is followed that recognises the challenges of working as a small Board. During the year under review, no new appointments were made to the Board. However, with oversight from the committee and the Board, the leadership review introduced last year to address succession risks for the key roles beneath the executive director level was further developed. This review consisted of two key elements:

- succession planning to identify succession risks at operating company and Group level; and
- a leadership programme to identify and develop potential successors for critical roles.

In addition, internal retention strategies were built upon to include career planning, tailored personal development, external appointments and improved incentive arrangements.

The Board recognises that significant advantage is to be gained by identifying and developing our own people as well as bringing in skills from outside the organisation.

Training, personal development and career planning are an integral part of how the Group equips people to do their job and encourages employees to build a long term career with the Group. The objective is to drive high performance, develop the next generation of leaders, reward excellent performance and behaviour and create an engaging culture where individuals and teams can be successful in achieving the Group's strategic objectives.

For further information on succession planning and our people plans, see pages 26 to 29.

## Boardroom diversity policy

Go-Ahead recognises the importance, and values the benefits, of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. Our non-executive directors come from a broad range of industry and professional backgrounds, with varied experience and expertise aligned to the needs of the business. The combination of personalities on the Board provides a good range of perspectives and challenge and improves the quality of decision making. During the year, the Board continued to focus on improving diversity and formally introduced the Boardroom diversity policy. The percentage of female representation on the Board is currently 17% and, including our Group Company Secretary, 29% female representation.

The Board aspires to maintain the current levels of gender diversity going forward and, in considering appointments to the Board and to senior executive positions, we will consider diversity across a wider range of areas including gender, background, skill set, experience and expertise. Our foremost priority remains to ensure that Go-Ahead continues to have the strongest possible leadership and we will appoint only the most appropriate candidates.

➔ Further information, including the proportions of women in senior management and within the Group overall, is shown in the 'People' section on pages 26 to 29

We also understand the importance of a diverse workforce and recognise, in line with the transport industry generally, there are barriers to attracting, retaining and promoting women in the workplace. In recognition of this, a new Diversity Forum was established during the year and with representatives from operating companies. This forum has been set the objective of achieving target improvements in gender ratios.

## Responsibilities of nomination committee

### Nomination committee terms of reference

#### Composition, skills and independence

Identifies and reviews the balance of skills, knowledge, diversity and experience on the Board and nominates candidates to fill Board vacancies.

Reviews the time commitment required from non-executive directors.

Reviews the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the market place.

#### Succession planning

Leads the Board selection and appointment process for new directors.

Considers succession planning, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board.

Provides oversight of succession planning and talent management for the key roles beneath the executive director level.

#### Corporate governance

Oversees the Board's governance arrangements to ensure that they pay due regard to best practice principles and remain appropriate.

Monitors Board governance issues including the establishment of appropriate policies and practices to enable the Board to operate effectively and efficiently.

# Directors' remuneration report



“Our remuneration policy incentivises to deliver long term value for our shareholders”

Katherine Innes Ker,  
Remuneration Committee Chairman

## Dear Shareholder

### It is my pleasure to present the directors' remuneration report for the year ended 28 June 2014.

In line with the new reporting regulations which came into effect in 2013, a number of which we adopted early last year; the report that follows my annual statement has been split into two parts:

- the **directors' remuneration policy** which sets out the Group's remuneration policy for directors for the next three years. This policy is subject to a binding shareholder vote at the 2014 AGM and after that at least every third year; and
- the **annual report on remuneration** which sets out (i) payments and awards made to the directors and details the link between Group performance and remuneration for the year ended 28 June 2014 and (ii) how the remuneration policy will be implemented for the year ending 27 June 2015. This report together with my annual statement is subject to an advisory vote at the 2014 AGM.

The total single remuneration figure for our executive directors for the year ended 28 June 2014 is shown below:

	2014 £'000	2013 £'000
<b>Group Chief Executive</b> David Brown	<b>1,960</b>	942
<b>Group Finance Director</b> Keith Down	<b>1,299</b>	646

The remuneration committee's unanimous view was that the Group's performance supported the executive directors remuneration this year. Our executive directors have delivered a strong set of results aligned with our strategy. The Group remains in a good financial position with strong cash generation and a robust balance sheet. Over the year, the Group's market capitalisation has increased by 59.7% to £1.0bn and over the three year period by 49.2%.

The total remuneration for our executive directors has increased when compared to last year for two key reasons. Firstly, the quantum of annual performance-related bonus was higher with a total of 146.25% payable out of a potential maximum of 150% of salary (2013: 83%). The annual bonus this year rewarded the achievement of the majority of the business objectives set at the start of the year. These included challenging Group profit, cashflow and non-financial targets, the full details of which can be found on pages 75 and 76.

Secondly, the Long Term Incentive Plan awards granted to the executive directors shortly after they joined the Group in 2011 will also vest, with 80% out of a maximum 100% of salary being payable in shares (2013: 0%). It is important to highlight that this is the first of the long term incentive awards to be eligible for vesting, both executive directors now having served on the Board of Go-Ahead for over three years. This long term incentive award rewarded the successful implementation of long term value creation targets set three years ago and which included stretching total shareholder return, earnings per share and strategic target measures. Full details of the performance against targets supporting these awards can be found on page 76.

Our remuneration policy seeks to attract and retain high quality executive directors who are fully incentivised to deliver outstanding performance. In setting the remuneration policy, we have sought to provide a strong and transparent link between incentives and the Group's performance. During the year, our executive directors delivered a strong financial and strategic performance in both bus and rail, with overall results significantly ahead of initial expectations at the beginning of the year. The highlights of the year included:

- won the UK's largest rail franchise, Thameslink, Southern and Great Northern (TSGN);
- good progress towards bus operating profit target of £100m by 2015/16;
- rail division operating profit significantly ahead of initial expectations;
- good underlying growth in revenue and passenger journeys;
- record passenger numbers in bus and rail;
- profit before tax and exceptional items increased by 25.4% to £79.1m;
- adjusted, continuing earnings per share increased by 26.2% to 148.6p;
- share price increased by 59.7% to £23.67 and, over the three year period to 28 June 2014, the increase was 49.2%;
- proposed full year dividend increased to 84.5p per share in line with progressive policy;
- strong cash management allowing increased investment and reduced net debt;
- re-financing the Group's bank debt on more favourable terms; and
- achievement of all key financial targets against a challenging operational and political climate.



A large proportion of the executive directors' remuneration is payable in shares. Half of the total annual performance-related bonus is awarded as deferred shares, to be held for a period of three years and subject to clawback provisions. The long term incentive bonus will also be payable in shares and the net of tax effect of this will be to considerably increase the shareholdings of our executive directors such that they are closer to the Board's policy which is to build up and maintain a holding of shares with a value equivalent to at least base salary. This of course further aligns the interests of our executive directors with those of our shareholders.

During the year, our executive directors were awarded base salary increases of no more than the average inflationary increase awarded to all employees across the Group for the third consecutive year.

We consulted with our major shareholders and shareholder representative bodies regarding changes to our remuneration policy for the 2013/14 financial year and were pleased with the 93.56% approval for our directors' remuneration report last year.

Our remuneration policy for the forthcoming year will be operated on a similar basis with only minor changes as outlined on page 71.

We look to shareholders to approve the report at the forthcoming AGM.



**Katherine Innes Ker,**  
Remuneration Committee Chairman  
3 September 2014

### About this report

This report has been prepared in accordance with the requirements of the Companies Act 2006, the Large and Medium-Sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013, which came into force on 1 October 2013 and which set out the new reporting requirements in respect of directors' remuneration and the Listing Rules. The legislation requires the external auditor to state whether, in their opinion, the parts of the report that are subject to audit have been properly prepared in accordance with the relevant legislation and these parts have been highlighted.

## Directors' remuneration policy

In this section of the report, we set out the remuneration policy for the Group operating from 29 June 2014 and which will become formally effective following approval from shareholders through a binding vote at the 2014 AGM. We do not envisage making any changes to our policy over the next three years; however, we will review our policy each year to ensure that it remains appropriate. If we feel it necessary to make a change to our policy within the next three years, we will seek shareholder approval.

### Policy overview

The remuneration committee's remuneration principles are to ensure that remuneration incentivises our executive directors to deliver long term value for our shareholders. Remuneration levels must therefore be at a level that promotes the attraction, motivation and retention of high calibre individuals to deliver performance that will meet the strategic objectives of the Group.

### Considerations when determining remuneration policy

The remuneration committee considers shareholder feedback received and guidance from shareholder representative bodies more generally when reviewing remuneration policy.

A substantial proportion of the executive directors' pay is performance-related, with half of the annual bonus also being subject to deferral into the Group's shares. A broad range of financial and non-financial targets are included in our incentive structure and clawback provisions apply to all of the bonus.

When setting the remuneration of the executive directors, the committee ensures that the incentive structure does not raise risks by inadvertently encouraging irresponsible behaviour. Working with the audit committee, the remuneration committee ensures that risk is properly considered in setting the overall remuneration policy. The executive directors are also incentivised to take environmental, social and governance matters seriously and to consider the long term implications of their decision making. Accordingly, in line with the ABI's guidelines on responsible investment disclosure, the committee has linked a proportion of the annual bonus to the achievement of safety and good governance objectives.

In setting the remuneration policy the committee considers the remuneration packages offered to employees across the Group. As a point of principle, salaries, benefits, pensions and other elements of remuneration are benchmarked regularly to ensure they remain competitive in the markets in which we operate.

As would be expected, we have differences in pay and benefits across the businesses which reflect individual responsibility, market and geographical location. When considering annual salary increases, the committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration policy being considered.

The Group did not formally consult with employees when drawing up the directors' remuneration policy. However, the Group considers any informal feedback received through employee staff surveys or other channels.

### Summary of remuneration policy operated from 29 June 2014 onwards

The table below summarises the main components of Go-Ahead's proposed remuneration policy for the executive directors for 2014/15. Executive directors are not involved in any discussions or decisions about their own remuneration.

Element & maximum	Purpose and link to strategy	Operation
Base salary	<ul style="list-style-type: none"> <li>Salary is the core reward for the role and enables the Group to recruit and retain individuals of the calibre required to deliver its strategic objectives and lead its management team, without paying more than is necessary. Base salary also reflects the individual's skills, expertise, experience and role within the Group</li> </ul>	<ul style="list-style-type: none"> <li>Paid monthly in cash</li> <li>In determining base salaries, the committee considers:                             <ul style="list-style-type: none"> <li>pay levels at companies of a similar size and complexity in the FTSE 250</li> <li>external market conditions</li> <li>pay and conditions elsewhere in the Group</li> <li>individual performance, skills, experience in post and potential</li> </ul> </li> <li>Salaries are reviewed annually with changes taking effect from 1 April each year</li> <li>The remuneration committee may also review salaries on an ad hoc basis if an individual is promoted and/or there is an increase in their responsibilities</li> </ul>
Performance-related bonus (PRB)	<ul style="list-style-type: none"> <li>Focuses on the key priorities for the coming year</li> <li>Measured against key financial, non-financial, personal and short term strategic objectives</li> <li>Deferral of half of bonus into Group shares aligns executive directors' interests with those of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Annual, non-pensionable payments made after the AGM</li> <li>Half of any bonus is paid as cash and half is paid as deferred shares held in the Deferred Share Bonus Plan (DSBP) for a period of three years</li> <li>Based on the achievement of specific financial and non-financial objectives</li> <li>Clawback provisions apply to the full bonus</li> <li>Any deferred shares awarded will have been purchased in the market</li> </ul>
Long term incentive plan (LTIP)	<ul style="list-style-type: none"> <li>Aligned to the strategic objectives of the Group to deliver long term returns to shareholders</li> <li>The earnings per share (EPS) target was chosen as it is an important growth measure and a driver of shareholder value</li> <li>The total shareholder return (TSR) target was chosen as it improves shareholder alignment and is consistent with providing long term returns to shareholders</li> <li>The Group operating profit target was chosen to link challenging financial performance with long term value creation</li> </ul>	<ul style="list-style-type: none"> <li>Annual grant of nil-cost options to acquire shares (subject to the satisfaction of performance conditions)</li> <li>No re-setting of performance conditions</li> </ul>
Pension allowance (Group Finance Director only)	<ul style="list-style-type: none"> <li>Provides a cash alternative to pension contributions in line with market practice</li> </ul>	<ul style="list-style-type: none"> <li>Paid monthly in cash</li> <li>Non-pensionable cash alternative to pension contributions</li> </ul>
Other benefits	<ul style="list-style-type: none"> <li>Ensures package is competitive with market practice</li> </ul>	<ul style="list-style-type: none"> <li>Family private health care, death in service and life assurance cover (4x base salary), free travel on the Group's services and professional membership subscriptions</li> </ul>
All-employee share plans	<ul style="list-style-type: none"> <li>Executive directors are eligible to participate in HMRC approved all-employee schemes which encourage share ownership</li> </ul>	<ul style="list-style-type: none"> <li>Executive directors may participate in these plans in line with HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees</li> </ul>
Share ownership	<ul style="list-style-type: none"> <li>To align the financial interests of the executive directors with those of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Executive directors are required to retain 50% of the post-tax gain on vested LTIP and deferred share awards until such time as they have achieved a holding of 100% of salary</li> </ul>

## Maximum

## Performance targets

<ul style="list-style-type: none"> <li>Details of the salaries for each of the executive directors, effective from 1 April 2014, are shown on page 75</li> <li>Annual salary increases for the executive directors will not normally exceed the average increase awarded to other UK-based employees. However, larger increases may be awarded in certain circumstances including but not limited to:               <ul style="list-style-type: none"> <li>increase in scope of responsibilities of the role</li> <li>to apply salary progression for a newly appointed director</li> <li>where a director's salary has fallen significantly below market position</li> </ul> </li> <li>Maximum of 150% of salary</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> <li>65% of bonus based on Group financial performance</li> <li>10% of bonus determined by cash targets</li> <li>25% of bonus based on individual strategic goals</li> <li>A quality of earnings review, and health and safety target thresholds, apply to the full bonus</li> </ul>
<ul style="list-style-type: none"> <li>Maximum of 100% of salary</li> </ul>	<ul style="list-style-type: none"> <li>Performance measured over three years</li> <li>Compound annual growth in EPS (30% of total award)</li> <li>Relative TSR (30% of total award)</li> <li>Group operating profit target (40% of total award)</li> </ul>
<ul style="list-style-type: none"> <li>The Group Finance Director receives a non-pensionable cash alternative of 13% of salary</li> <li>The Group Chief Executive does not receive any pension allowance</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>
<ul style="list-style-type: none"> <li>n/a</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>
<ul style="list-style-type: none"> <li>Participation levels operate in accordance with HMRC limits as amended from time to time</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>
<ul style="list-style-type: none"> <li>100% of salary holding for executive directors</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>

## Changes to remuneration policy

The remuneration policy for the 2014/15 year will be operated on a similar basis to that which was operated in 2013/14. In choosing the performance metrics and targets we have sought to provide a strong and demonstrable link between management incentives and the Group's strategic objectives. We have also sought to set a performance-based framework for remuneration which is consistent with the Group's scale and unique circumstances. This enables the executive directors and senior managers to share in the long term success of the Group without delivering excessive benefits or encouraging short term measures or excessive risk taking. It also aligns their interests with those of our shareholders.

The choice of performance measures for the PRB and LTIP this year is based on a mixture of financial, non-financial, personal and strategic targets, with a clear alignment to the Group's short term and long term strategic objectives.

For the LTIP we have changed the allocation of the constituent parts such that:

- the compound growth in EPS and relative TSR targets will each now account for 30% of the award (previously 25%); and
- instead of separate bus and rail division profit targets of 25% each, an overall Group operating profit target will now apply to 40% of the award.

Details of the specific metrics chosen for each of the PRB and LTIP for the coming year are set out on pages 81 and 82.

## Consistency with remuneration for the wider Group

Remuneration arrangements are determined throughout the Group based on the same principles: that reward should be sufficient to attract and retain high calibre talent and that reward should support the delivery of business strategy.

Through our devolved structure, local management are empowered to create remuneration packages on an individual business-by-business basis. Therefore the components and levels of remuneration for different employees will differ from the policy for executive directors as set out above. All employees are entitled to base salary and benefits and may also receive bonus, pension and share awards which vary according to local business and market practice. The maximum provision and incentive opportunity available are determined by the seniority and responsibility of the role.

Participation in the LTIP is currently limited to executive directors only while participation in the DSBP is limited to executive directors and senior management.

It is an important part of Go-Ahead's values that all colleagues, not just management, have the opportunity to become shareholders in the Group. All employees, with at least six months of continuous service, therefore have the opportunity to participate in our Share Incentive Plan. During the year, a new Sharesave scheme was also offered to all employees with at least six months' service.

## Recruitment remuneration

On appointing a new executive director, the committee would seek to align the remuneration package for the relevant individual with the Group's remuneration policy and would take into account the package as a whole. It would not pay more than necessary to secure the right candidate and the package would take into account the experience and calibre of the individual concerned.

Where a newly appointed executive director is required to relocate, the Group may pay the costs of relocation if appropriate.

Any executive director promoted internally may remain eligible for payments under incentive plans joined and/or contractual arrangements entered into before joining the Board. However, the committee will have regard to best practice in reviewing the treatment of any such entitlements.

The committee assesses on an individual basis whether it is necessary to compensate executive directors for incentives lost from their previous employers. In some circumstances the level and timing of such compensation will normally seek to reflect or take account of the term and performance conditions of the payments or awards forgone on a like-for-like basis.

Compensation will normally take the form of conditional awards of options over Group shares but cash and/or time-vested payments may be made where the committee believes these would offer better value for money for shareholders. The committee is sensitive to investor concerns about such arrangements and will endeavour to take cost-effective approaches.

No such compensation was paid to the incumbent Group Chief Executive or Group Finance Director upon appointment.

## Service contracts of executive directors

The Group Chief Executive and the Group Finance Director entered into a service agreement with The Go-Ahead Group plc on 1 April 2011 and 7 March 2011 respectively. The term of each service contract is undefined and is terminable by either the Group on one year's notice or by the executive director on six month's notice.

## External appointments

In accordance with their service contracts, the executive directors are able to accept external appointments and are permitted to retain any fees paid for such services, provided that approval is given by the Board. The Group Finance Director does not hold any external appointments. The Group Chief Executive is a non-executive director of the Association of Train Operating Companies Limited and Rail Delivery Group Limited; however, he does not receive any fees in these roles.

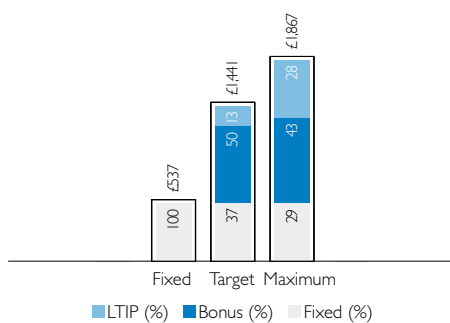
## Departure of executive directors

Executive directors' service contracts contain a provision, exercisable at the discretion of the Group, to pay an amount in lieu of notice on early termination of the contract. Such payments are limited to base salary plus certain benefits but would not automatically include entitlement to bonus or share awards. There are no provisions for special pension benefits, such as beneficial early retirement terms. Other than the notice periods specified above, the executive directors are not due any contractual compensation payments in the event of early termination of a service contract. The remuneration committee believes that the contracts provide as much scope as is feasible to protect the interests of shareholders when negotiating a termination, at which time the committee would take into account the departing director's duty to mitigate his/her loss when determining the amount of any compensation.

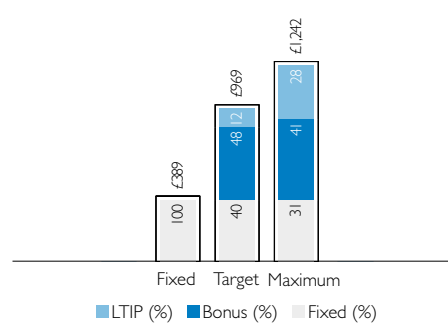
## Estimates of total future potential remuneration from 2014/15 pay packages

A significant proportion of executive directors' potential remuneration is performance-related. This comprises annual bonuses under the performance-related bonus and long term incentives under the LTIP. The charts below provide estimates of the potential future reward opportunity for the executive directors split between fixed, target and maximum remuneration scenarios. The scenarios do not take into account share price appreciation or dividends.

### Group Chief Executive



### Group Finance Director



The assumptions underlying each scenario are described below.

For fixed remuneration, this includes base salary as at 1 April 2014, benefits, and for the Group Finance Director only, the value of his pension allowance.

For target remuneration, the annual performance-related bonus and long term incentives are based on the performance targets in the directors' remuneration policy operated from 29 June 2014 onwards, applied to base salary as at 1 April 2014.

For the annual bonus, the target remuneration for the Group operating profit and cashflow metrics are in line with the maximum bonus opportunity; this is because the maximum bonus opportunity requires performance to be in line with the Group's budget for 2014/15. The committee believes that to achieve budget, which is considered to be very stretching, would be a significant performance and deserve payment of maximum bonus. No annual bonus would be payable until Group operating profit exceeds that achieved in 2013/14, which was considered to be a very good result and significantly ahead of expectations. Vesting will be on a straight line basis between these two points. Any bonus payable would be satisfied 50% in cash and 50% in deferred shares and all bonus is subject to clawback provisions.

For the long term incentives, which do not normally vest until the third anniversary of the date of grant, target remuneration is in line with vesting at threshold performance which is 25% for EPS and TSR metrics and 50% for the Group operating profit metric.

For maximum remuneration, this is the maximum annual performance-related bonus payable and full vesting of long term incentives awards.

The treatment of remuneration for executive directors whose service with Go-Ahead terminates will be considered on a case-by-case basis. However, the table below sets out the treatment of elements of remuneration that would normally apply:

Reason for termination	Retirement, redundancy, ill-health or disability, death or change of ownership	Other leavers (e.g. resignation/ misconduct)
Salary and contractual benefits	Payment equal to the aggregate of the base salary and the value of any contractual benefits for the notice period including any accrued or untaken holiday	Paid to date of termination, including pay for any accrued but untaken holiday
Performance-related bonus (cash)	Bonus awarded (subject to satisfaction of performance targets) for the relevant financial year, pro-rated accordingly for the period of employment to the date of cessation of employment	No award for year of termination
Performance-related bonus (deferred shares)	Awards vest on the date of cessation of employment	Awards lapse in full on cessation of employment
Unvested LTIP awards	Awards vest on the date of cessation of employment, unless the remuneration committee determines the award should vest at normal vesting date The amount of award vesting will be subject to the satisfaction of performance conditions at the date the award is deemed to vest Awards will normally be reduced pro-rata to reflect time elapsed between grant and cessation of employment	Awards lapse in full on cessation of employment

## Non-executive directors

### Remuneration policy

The remuneration policy for non-executive directors is set out in the table below. Non-executive directors are not involved in any discussions or decisions about their own remuneration.

Element	Purpose and link to strategy	Operation
Fees	The basic fee for the Chairman and non-executive directors is a fixed annual fee commensurate with the time each director is expected to spend on the Group's affairs and with the responsibility assumed as a director of a listed company. Fees are set at a level to attract and retain individuals with appropriate expertise to complement the Group's strategy.	The remuneration of the non-executive directors takes the form solely of fees, which are set annually by the Board. The level of fees set is subject to the current limits as set out in the Group's articles of association (aggregate fees of £500,000 for all non-executive directors). Fees are reviewed on 1 April each year with reference to comparable listed companies in the FTSE 250.
Additional fees payable for duties	The additional fee payable to a non-executive director who is Chairman of a Board committee reflects the additional responsibility and time commitment required.	Non-executive directors are not eligible to receive performance-related remuneration or pension entitlements or to participate in share option schemes. Reimbursement of reasonable travel and accommodation expenses are applicable.

### New appointments

The same principles (as described above) will be applied in setting the remuneration of a new non-executive director. Remuneration will comprise fees only, to be paid at the prevailing rates for the Group's existing non-executive directors. No variable remuneration will be paid and there will be no compensation for any loss of remuneration arrangements in previous employment. The remuneration committee reserves the right to assess the level of fee payable to a new non-executive chairman. This will take into account the skills, experience and time required to undertake the role, as well as fee levels at companies of a similar size and complexity in the FTSE 250 and external market conditions.

### Letters of appointment

Each non-executive director has a letter of appointment which provides for a notice period of six months. The terms of appointment contain no entitlement to compensation for early termination. The letters of appointment are available for inspection at the Group's registered office during normal business hours and will also be available for inspection prior to and during the AGM.

The contract dates and notice periods for the non-executive directors are shown in the table below.

Director	Date of service contract	Notice period from the Group	Notice period from the Director
Andrew Allner	October 2008	6 months	6 months
Katherine Innes Ker	July 2010	6 months	6 months
Nick Horler	November 2011	6 months	6 months
Adrian Ewer	April 2013	6 months	6 months

### Retirement and re-election of directors

In accordance with the Group's articles of association and the provisions of the Code, all directors are required to submit themselves for re-election at each AGM. Accordingly all directors will be offering themselves for annual re-election at the Group's AGM on 24 October 2014.

## Remuneration committee overview

### Remuneration committee membership

Katherine Innes Ker	Committee Chairman
Andrew Allner	Chairman
Nick Horler	Independent Non-Executive Director
Adrian Ewer	Independent Non-Executive Director
Composition compliant with Provision D2.1 of the Code	
Committee Secretary	
Carolyn Ferguson	Group Company Secretary
Meetings also regularly attended, by invitation, by:	
David Brown	Group Chief Executive
Keith Down	Group Finance Director

### 2013/14 remuneration committee highlights

In addition to the remuneration committee's principle responsibilities detailed under 'Role of the committee', we set out below our key highlights during the year ended 28 June 2014, which can be broadly divided into four areas:

#### Setting targets

- Setting the business and personal performance targets for 2013/14 annual bonuses aligned with the corporate plan for the year
- Setting the performance targets that would apply to the 2013/14 LTIP awards
- Review of 2014/15 annual bonus framework

#### Reviewing outcomes

- Reviewing the performance-related bonus outcomes and award levels for 2012/13 and indicative 2013/14 outcomes ahead of final approval in 2014
- Testing of performance conditions and approval of LTIP awards granted to the former Group Chief Executive

#### Reward framework

- Agreeing the base salaries for the executive directors and senior management with effect from 1 April 2014 using the same process as applied to the wider employee population

#### Governance

- Considering the final Department for Business, Innovation & Skills regulations on executive pay and how these will be integrated into future remuneration strategy
- Agreeing the remuneration report for 2012/13 and preliminary discussion of revised disclosures in the 2013/14 remuneration report

### 2014/15 remuneration committee priorities

In addition to setting targets and reviewing outcomes, the committee will also focus on the following priorities:

- Continue to monitor the ongoing balance between long term and short term incentives and to ensure that they remain appropriately aligned to the Group's growth strategy
- Ensure the 2014/15 directors' remuneration report is consistent with regulatory and industry best practice
- Provide ongoing remuneration advice, training and support for committee members

## Annual report on remuneration

### Introduction

This section details the remuneration of the executive and non-executive directors (including the Chairman) during the financial year ended 28 June 2014. Together with the Chairman of the remuneration committee's annual statement on pages 68 and 69, it will be proposed for an advisory vote by shareholders at the 2014 AGM.

### Remuneration committee meetings

The committee met five times during the year, excluding meetings held to review its effectiveness as part of the annual performance evaluation. Details of members' attendance at committee meetings can be found on page 55.

### Role of the committee

The committee's principal responsibilities are to:

- review the ongoing appropriateness and effectiveness of the Group's remuneration policy;
- determine and approve the remuneration policy for the executive directors and senior management, including bonuses and share awards and the balance between the fixed and performance-related elements of pay;
- regularly review the design and targets for performance-related pay arrangements and approve the total annual payments made under the same;
- determine the policy for executive directors' service agreements, including recruitment and termination payment policies;
- oversee the salary and bonus arrangements for the senior management within the Group; and
- determine the fees of the Chairman.

The members of the committee have no personal interests in the matters to be decided by the committee other than as shareholders, and have no conflicts of interest arising from cross-directorships. Committee members did not attend meetings where matters associated with their own remuneration were considered.

During the year, the committee's recommendations were all accepted unanimously by the Board and implemented without amendment.

### Terms of reference

The committee's terms of reference are reviewed at least annually and approved by the Board, and are available on our corporate website at ([www.go-ahead.com](http://www.go-ahead.com)) or upon request from the Group Company Secretary.

### External advisors to the committee

New Bridge Street (a trading name of Aon Hewitt Limited, part of Aon plc) act as independent remuneration advisors to the committee. The advisor was selected through a thorough process led by the Chairman of the remuneration committee and was appointed by the committee. Neither Aon Hewitt Limited nor the wider Aon plc provided any other services to the Group during the year and therefore the committee was satisfied that it provided objective and independent advice. New Bridge Street is a member of the Remuneration Consultants Group and complies with its Code of Conduct. The fees payable to New Bridge Street for advice throughout the year were £19,079 (2013: £21,366).

### Shareholder voting at the last AGM

At last year's AGM (24 October 2013) the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	23,271,224	93.56%
Against	1,465,475	5.89%
Discretionary	135,988	0.55%
Total votes cast (excluding withheld)	24,872,687	100%
Votes withheld	2,036,138	—
Total votes cast (including withheld votes)	26,908,825	—

## Implementation of remuneration policy for the year ended 28 June 2014

### Executive director base salaries

Base salaries levels for executive directors are shown below and will remain in place until April 2015 when they will be reviewed again:

Executive directors	From 1 April 2014	From 1 April 2013	% Increase
David Brown	£532,200	£520,200	2.3%
Keith Down	£341,251	£332,928	2.5%

### Executive directors' remuneration (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 28 June 2014. Comparative figures for 2013 have also been provided.

		Salary and fees £'000	Taxable benefits <sup>1</sup> £'000	Cash bonus <sup>2</sup> £'000	Deferred share bonus <sup>2</sup> £'000	LTIP <sup>3</sup> £'000	Pension Allowance <sup>4</sup> £'000	Single total remuneration figure £'000
<b>Executive directors</b>								
David Brown	2014	523	5	383	383	666	–	1,960
	2013	513	7	347	75	–	–	942
Keith Down	2014	335	4	245	245	426	44	1,299
	2013	328	5	222	48	–	43	646

Notes (for notes 1 & 2, please see below. For notes 3 & 4, please see page 76)

#### 1. Taxable benefits

The taxable benefit for the Group Chief Executive and the Group Finance Director comprises family healthcare membership.

#### 2. Cash bonus and deferred share bonus (performance-related bonus)

The table below illustrates the components of the annual performance-related bonus award at maximum and actual payouts for business objectives set at the start of the year. The executive directors were awarded an overall bonus of 146.25% of salary out of a potential maximum bonus of 150%. As shown above, half of this bonus is payable in cash and half is awarded as deferred shares to be held for a period of three years. The full bonus is subject to clawback provisions.

Metric	Performance measure	Payout of maximum performance	Actual payout
Group profit	Actual 2013/14 profit before tax (post IAS 19 (revised))	65%	65%
Group cashflow	Net debt after adding back restricted cash	10%	10%
Strategic KPIs	See below	25%	22.5%
Total		100%	97.5%

#### Group operating profit

The Group operating profit target for the 2013/14 financial year was as follows:

Measure	Target	Payout (% of salary)
Actual 2013/14 Group operating profit	100% of budget	5%
	105% of budget	32.5%
	121% of budget	65%

Actual Group operating profit for the year ended 28 June 2014 was £103.2m resulting in the maximum payout of 65%.

#### Cashflow

For Group cashflow, the target for the 2013/14 financial year was £326m, which was net debt after adding back restricted cash. Actual net debt after adding back restricted cash was £260m (2013:£299.6m) resulting in the maximum payout of 10%.

#### Strategic KPIs

For the 25% of performance-related bonus attributable to strategic KPIs, the following objectives were set for both the Group Chief Executive and the Group Finance Director:

- to progress towards the £100m bus target for 2015/16, evidenced by revenue growth of 4% on budget performance for 2013/14 and progress on cost efficiency plans leading to £9m cost reduction target by 2015/16;
- to address under-performance in recent acquisitions evidenced by clear actions taken and results;
- to ensure operational performance of existing franchises does not jeopardise franchise bidding, including ensuring that London Midland is not in breach;
- to win the TSGN franchise on acceptable terms and negotiate successful franchise extensions of Southeastern and Southern; and
- to address the recommendations in the McDonald Report to strengthen internal processes to identify risks to train operating company performance and improve the effectiveness of working in partnership with Network Rail.

The Group Chief Executive was also given additional individual objectives:

- to ensure that the organisational capability exists, create a leadership and talent pipeline to meet future needs and engage with the staff to ensure that Go-Ahead and its operating companies are an attractive place to work; and
- to ensure customers are satisfied with the Group's services. For rail measured through overall passenger satisfaction (NPS) target of an average of 80%. For bus, as measured by passenger satisfaction levels from Passenger Focus.

### Implementation of remuneration policy for the year ended 28 June 2014 continued

The Group Finance Director was also given additional individual targets:

- to provide strong leadership of the finance function including talent management and succession planning; and
- to manage market expectations to ensure a good understanding of the profit profile of the business, particularly ensuring the impact of IAS 19 (revised) is understood. Also to ensure management uncertainties regarding rail provisions and accruals are well communicated and understood.

The committee reviewed in detail all objectives which had been set at the start of the financial year. Each objective, which had been individually weighted, was measured before the committee concluded that 22.5% of the 25% overall award had been achieved.

#### Health and safety target threshold

There is a health and safety target threshold that applies to the full bonus, with the committee having discretion to reduce bonus payments potentially to zero should it be considered appropriate. The target threshold in the 2013/14 financial year was to ensure that companies were run in a safe manner, in line with our strategic priority – Society. In bus, this is measured by any breaches of health and safety legislation and performance against employee RIDDOR accident targets. In rail, performance against our targets for SPADs and employee RIDDOR accidents was used as a measure. For the year ended 28 June 2014, against a difficult operational backdrop, there was a slight decline in performance on safety KPIs compared to last year's strong results. Despite this, health and safety standards across the Group remained high and, as such, the remuneration committee agreed that bonus payments should not be reduced as measures were in place to improve performance in line with the Group's 2015 targets, set in 2008.

#### 3. Vesting of 2011/12 LTIP award

The table below illustrates the components of the LTIP award at maximum and actual payouts. The executive directors were awarded shares equating to 80% of salary out of a maximum potential share award of 100%. This is the first long term incentive award to be eligible for vesting for the incumbent executive directors and was granted in October 2011, shortly after they joined the Board of Go-Ahead. This award was measured based on performance conditions over the three year performance period commencing with the start of the 2011/12 financial period and ending with the end of the 2013/14 financial period.

Of the 50% of award attributable to annual compound growth in adjusted EPS, the maximum 50% of award was eligible to vest. Of the 40% of award attributable to TSR ranking against the FTSE 250 peer group, 20% was eligible to vest. Of the 10% of award based on long term strategic targets, the maximum 10% was eligible to vest. To achieve this target, objectives included developing the revenue and profit of both the bus and rail businesses. Specifically in rail, this included winning another franchise and retaining the existing franchises. Specifically in bus, this included increasing operating profit and organic additions.

	Percentage of EPS and TSR elements vesting	Compound annual growth in EPS	Relative TSR vs FTSE 250 (excluding certain sectors)	Long term strategic targets
Weighting (% of award)	–	50%	40%	10%
Below threshold	0%	Less than RPI + 2% p.a.	Below median	–
Threshold	25%	Less than RPI + 2% p.a.	Median	–
Between threshold and maximum	25% to 100%	RPI + 2% p.a. to RPI + 6% p.a.	Between median and upper quartile	–
Maximum	100%	RPI + 6% p.a. or more	Upper quartile	–
Actual % vesting	–	50%	20%	10%

The values of the LTIP awards are as shown in the executive directors' remuneration table on page 75. These include the share value of the long term incentives and a cash value equivalent to the gross cumulative dividend payment which would have been payable between the date of award and the date the shares are acquired. For the Group Chief Executive and the Group Finance Director the share values amount to £596,344 and £381,634 respectively based on the average market share price in the last quarter of 2013/14 of £20.80. These share options will not actually vest until shortly after the 2014 AGM. The cash equivalent value of the gross cumulative dividend payment equates to £69,669 for the Group Chief Executive and £44,585 for the Group Finance Director.

#### 4. Pension Allowance

The Group Finance Director only receives a non-pensionable cash supplement of 13% of his base salary.



## 2013/14 LTIP awards granted during the year ended 28 June 2014 (audited)

As reported in the Annual Report 2013, LTIP awards were granted to the executive directors during the year ended 28 June 2014. These were structured as nil-cost options, which are exercisable at the end of a three year performance period commencing with the start of the 2013/14 financial period and ending with the 2015/16 financial period, subject to the satisfaction of performance conditions. The 2013/14 grant policy was to grant awards with a face value of 100% of salary as follows:

Executive director	Basis of award granted	Share price at grant date	Number of shares over which award was granted	Face value of award (£'000)	Vesting determined by performance over
David Brown	100% of salary	£16.84	30,462	513	Three financial years ending on 26 June 2016
Keith Down	100% of salary	£16.84	19,496	328	

The performance conditions attaching to the 2013/14 LTIP awards were as follows:

	Payout (% of each element)	Compound annual growth in EPS	Relative TSR vs FTSE 250 (excluding certain sectors)	Bus division profit in 2015/16	Rail division profit in 2015/16
Weighting (% of total award)	–	25%	25%	25%	25%
Below threshold	0%	Less than RPI + 2% p.a.	Below median	Achievement of long term strategic targets, as assessed by the committee, is described below	
Threshold	25%	RPI + 2% p.a.	Median		
Between threshold and maximum	Between 25% and 100%	Between RPI + 2% p.a. and RPI + 8% p.a.	Between median and upper quartile		
Maximum	100%	RPI + 8% p.a.	Upper quartile		

For the bus division, the performance criteria for the 2013/14 award were to continue to organically grow bus division profits to £100m by 2015/16. This recognised the three year strategy to grow bus operating profit to £100m. This target excluded any acquisitions made in the period and represented a significant improvement in bus operating efficiency, which was important when, at the time, the rail division faced both challenging conditions for the existing franchises and uncertainty over the undisclosed contract terms for the new franchises, and whether the Group's bids would succeed. This was particularly important in terms of ensuring a firm underpin for the Group's dividend which we recognised as very important to shareholders.

For the rail division, the performance criteria for the 2013/14 award were to manage the existing franchises to maintain profits; to renegotiate extensions to existing franchises on terms that enhanced shareholder value over the period of the extension; and to win franchises(s) on terms and with a balance of risk that would deliver superior growth in shareholder value over the term of the contract(s). If cumulative rail profits for the three years to 2015/16 were negative, this element of the LTIP would not vest. A framework for a qualitative assessment of performance was determined at the outset.

The above targets were based on current accounting policies and will be adjusted should there be any changes to these accounting policies. Awards will continue to vest three years after grant, subject to the performance conditions being met over broadly the same period.

## Payments to former directors (audited)

As set out under 'Vesting of 2010 LTIP award' on page 83, 37.13% of the September 2010 LTIP award granted to the former Group Chief Executive, Keith Ludeman, vested and, as such, £208,524 was paid during the year. This was the last outstanding award for the former Group Chief Executive. No other payments were made to former executive directors during the year ended 28 June 2014.

## Share Incentive Plan (SIP)

During the year, executive directors participated in The Go-Ahead Group plc SIP on the same terms as other employees. The SIP is an HMRC approved plan open to all staff permanently employed by a participating company and who have completed at least six months' continuous service at the date of application. Participants may contribute up to a maximum of £150 per month (or 10% of pre-tax salary if less) which the Trustee of the SIP uses to buy partnership shares on their behalf. Deductions are made from an employee's gross income so no income tax or National Insurance will be payable provided the shares are held in trust for up to five years.

## Sharesave scheme

Further to shareholder approval sought at the 2013 AGM, a new HMRC Sharesave scheme known as The Go-Ahead Group Plc 2013 Savings-Related Share Option Scheme ("Sharesave") was launched in February 2014.

Under Sharesave, all permanent employees who have completed at least six months' continuous service with a participating company were invited to make monthly savings of between £5 and £50 for three years. At the end of the savings term, participants have the choice of their money back, or Go-Ahead Group shares at a 20% discount of the market price set at the date of invitation.

During the year, both executive directors participated in Sharesave. For further information, see the executive directors' shareholdings table on page 79 and note 7 to the financial statements.

## Directors' remuneration report continued

### Sourcing of shares and dilution

Awards under all the Group's share schemes are satisfied by market purchases of shares. Further details can be found in shareholder information on pages 154 to 155.

### Pension and other benefits

From 1 April 2012, in accordance with opting for fixed protection in relation to potential liabilities to the lifetime allowance charges, both executive directors ceased making all contributions into the money purchase section (MPS) of the Group's pension plan. The Group Chief Executive had no specific pension entitlement on top of his salary but, until 31 March 2012, had elected to sacrifice some of his salary to pay into the MPS. Until 31 March 2012, the Group Finance Director had been entitled to receive an employer contribution of 13% of his salary into the MPS and so, from 1 April 2012, he has received a non-pensionable cash alternative of 13% of his salary.

### Chairman and non-executive director fees

The current non-executive fees are as follows:

Fees	From 1 April 2014 £'000 pa	From 1 April 2013 £'000 pa
Andrew Allner	169	165
Katherine Innes Ker <sup>1</sup>	51	50
Nick Horler	46	45
Adrian Ewer <sup>1</sup>	51	50
Rupert Pennant-Rea <sup>2</sup>	–	45

1 Additional fees of £5,000 payable to Katherine Innes Ker and Adrian Ewer for chairing the remuneration and audit committees respectively.

2 Rupert Pennant-Rea retired as a non-executive director on 24 October 2013.

### Non-executive directors' remuneration (audited)

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 28 June 2014 and the prior year:

		Single total remuneration figure £'000 pa
Andrew Allner	2014	166
	2013	71
Katherine Innes Ker	2014	50
	2013	50
Nick Horler	2014	45
	2013	45
Adrian Ewer	2014	50
	2013	9
Rupert Pennant-Rea*	2014	15
	2013	45

\* Rupert Pennant-Rea retired as a non-executive director on 24 October 2013. He was paid pro-rata for the proportion of the financial year he was still in office.

## Statement of directors' shareholdings and share interests

### Shareholding requirements

The remuneration committee believes that the interests of the executive directors should be closely aligned with those of shareholders over the long term. To support this, the committee introduced new shareholding requirements during 2012/13, whereby executive directors are required to retain 50% of the post-tax gain on vested LTIP and deferred share awards until such time as they had achieved a holding of 100% of salary. Shares that count towards this requirement are beneficially owned shares.

### Executive directors' shareholdings (audited)

Details of the interests of the executive directors in shares and long term incentive interests are set out in the table below together with the extent to which each of the executive directors has complied with the guidelines as at 28 June 2014. At this date, the Group Chief Executive beneficially held 6,586 shares. Based on the closing share price on 28 June 2014, this equates to 29.3% of base salary. The Group Finance Director beneficially held 3,639 shares, equating to 25.2% of base salary. Subject to approval being granted at the AGM 2014, the vesting of the 2011/2012 LTIP awards would result in indicative holdings of the Group Chief Executive and the Group Finance Director increasing to 89% and 85% respectively.

Executive director	Legally owned		Shareholder requirement	Shareholding as a % of salary <sup>1</sup>	Shareholder requirement met	Deferred shares subject to deferral conditions				LTIP awards subject to performance conditions				Sharesave options (without performance conditions)
	28.06.14	29.06.13				28.06.14	Unvested <sup>2</sup>	Vested	Lapsed	Vested but not exercised	Unvested <sup>2</sup>	Vested	Vested but not exercised <sup>3</sup>	
David Brown	6,586	6,505	100%	29.3%	No	13,093	0	0	0	68,120	0	28,670	7,168	103
Keith Down	3,639	3,558	100%	25.2%	No	8,379	0	0	0	43,597	0	18,348	4,588	103

- Shareholding as a % of salary includes only shares held beneficially by the director, their spouse or children. Unvested deferred shares or LTIP awards have not been included. Shareholding is based on the closing share price on 28 June 2014.
- Excludes deferred shares and LTIP awards which will be granted in October 2014 for the year ended 28 June 2014. The value of deferred share awards granted in respect of the year ended 28 June 2014 is shown in the executive directors' remuneration table on page 75.
- Relates to the 2011/12 LTIP awards which have vested in respect of performance for the year ended 28 June 2014 and which will be exercised shortly after the 2014 AGM, the value of which is shown in the executive directors' remuneration table on page 75.

### Non-executive directors' shareholdings (audited)

Non-executive directors are not subject to a shareholding requirement.

	As at 28 June 2014	As at 29 June 2013
Andrew Allner	742	742
Katherine Innes Ker	–	–
Nick Horler	–	–
Adrian Ewer	140	–
Rupert Pennant-Rea*	n/a	2,000

\* Rupert Pennant-Rea retired as a non-executive director on 24 October 2013.

### Group Chief Executive remuneration – five year comparison

The table below summarise the Group Chief Executive's single total figure of remuneration, annual and long term variable performance-related remuneration (and the percentage of the maximum opportunity that these represent) in relation to the past five years.

Year	Group Chief Executive	Group Chief Executive single figure of total remuneration £000	Group Chief Executive annual bonus		Group Chief Executive LTIP vesting	
			Actual bonus (% of maximum opportunity)	Maximum opportunity (% of salary)	Actual LTIP (% of maximum opportunity)	Maximum opportunity (% of salary)
2013/14	David Brown	1,960 <sup>1</sup>	97.5	150	80	100
2012/13	David Brown	942	55.3	150	–	–
2011/12	David Brown	1,022	68	150	–	–
2010/11	David Brown	251 <sup>2</sup>	100	100	–	–
2010/11	Keith Ludeman	1,564	100	100	–	–
2009/10	Keith Ludeman	1,349	100	115	21.7	100

- The single figure of total remuneration for 2013/14 includes the vesting of the 2011/12 LTIP award. David Brown was granted LTIP awards for the first time in October 2011 following his appointment in April 2011 and hence this is the first opportunity that LTIP awards have been eligible to vest.
- Following his appointment in April 2011, David Brown was paid a pro-rata performance-related bonus for the financial year 2010/11.

## Directors' remuneration report continued

### Percentage change in Group Chief Executive's remuneration

The table below shows the percentage change in the Group Chief Executive's total remuneration between the financial years to 29 June 2013 and 28 June 2014, compared to the average change for all employees of the Group.

	% change from 2013 to 2014		
	Salary	Benefits	Bonus
Group Chief Executive	2.31	(28.6)	81.5
Average employees	2.69	–	18.3

### The relative importance of spend on pay

The following chart sets out the percentage change in dividends and overall spend on pay in the financial year being reported on, compared to that of the previous year:

	2013/14 £m	2012/13 £m	Percentage change
Dividends	34.7	£34.7	–
Overall expenditure on pay*	929.2	£895.9	3.7

\* Restated 2012/13.

The Group has not made any other significant distributions and payments or other uses of profit or cashflow deemed by the directors to assist in understanding the relative importance of spend on pay.

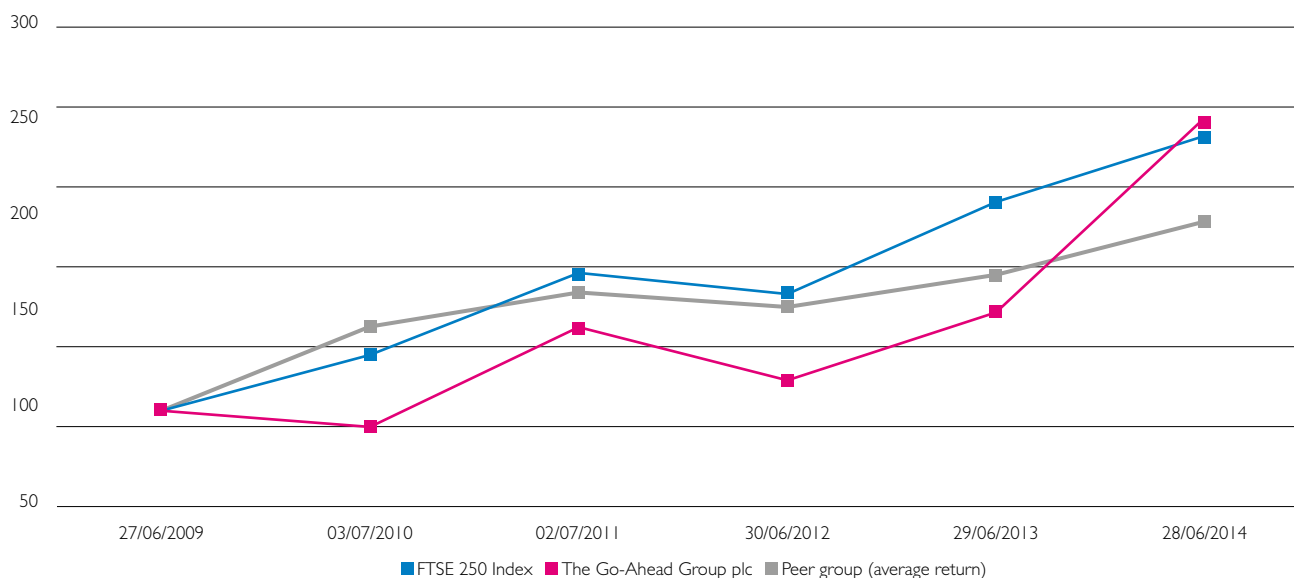
### Material contracts

There have been no other contracts or arrangements during the financial year in which a director of the Group was materially interested and/or which were significant in relation to the Group's business.

### Total shareholder return (TSR) performance graph

The graph below shows a comparison of The Go-Ahead Group plc cumulative TSR against that achieved by the FTSE 250 Index for the last five financial years to 28 June 2014. In assessing the performance of the Group's TSR the Board believes the FTSE 250 Index comparator group it has chosen represents an appropriate and fair benchmark upon which to measure the Group's performance for this purpose.

#### Total shareholder return (rebased to 100)



This graph shows the value by 28 June 2014 of £100 invested in The Go-Ahead Group plc on 28 June 2009 compared with the value of £100 invested in the FTSE 250 index and our peer group over the same period. The other points plotted are the same values at intervening financial year ends.

## Implementation of remuneration policy for the year ending 27 June 2015

This policy will apply to any remuneration paid on or after the Group's AGM on 24 October 2014.

### Executive directors' base salaries

The base salary for the Group Chief Executive of £532,200 per annum and the base salary for the Group Finance Director of £341,251 remain unchanged until the annual salary review is undertaken on 1 April 2015.

### Benefits

The benefits for both the Group Chief Executive and the Group Finance Director will remain consistent with those detailed in the remuneration policy section on page 70.

### Pension

The current pension arrangements described on page 78 will remain in place for the forthcoming financial year.

### Performance-related bonus

The performance-related bonus for 2014/15 will operate on a similar basis as in 2013/14 and will be consistent with the policy detailed in the remuneration policy section of this report in terms of the maximum bonus opportunity and performance conditions.

In the table below, we disclose the executive directors' performance-related targets for year ending 27 June 2015:

Metric	Weighting (% of maximum bonus)
Group operating profit	65% see below
Group cashflow	10% see below
Strategic KPIs	25% see below

### Group operating profit

The Group operating profit target for the 2014/15 financial year will be the 2014/15 Corporate Plan operating profit budget, with payout on a sliding scale from the final 2013/14 operating profit:

Measure	Target	Payout (% of salary)
Actual 2014/15 Group operating profit	Group operating profit in 2013/14	0%
	Group operating profit budget in 2014/15	65%

### Cashflow

For Group cashflow, the target for the 2014/15 financial year will be adjusted net debt after adding back restricted cash in accordance with the Corporate Plan.

For Group operating profit and cashflow metrics, the maximum bonus opportunity requires performance to be in line with the Group's budget for 2014/15.

The committee believes that to achieve budget, which is considered to be very stretching, would be a significant performance and deserve payment of maximum bonus. No annual bonus would be payable until Group operating profit exceeds that achieved in 2013/14, which was considered to be a very good result and significantly ahead of expectations. Vesting will be on a straight line basis between these two points. Any bonus payable would be satisfied 50% in cash and 50% in deferred shares and all bonus is subject to clawback provisions.

### Strategic KPIs

For Strategic KPIs, the target for the 2014/15 financial year includes a number of non-financial strategic and personal objectives over the course of the year.

These objectives reflect the individual roles of the executive directors in achieving the Group's strategy and cover both bus and rail divisions and the Group as a whole. The individual targets include short term strategy, people, customers and investors, in addition to personal objectives.

Targets will be stretching, and more information on the specific targets and performance against them will be provided retrospectively in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

A health and safety target threshold will continue to apply to the full bonus, with the remuneration committee having discretion to reduce bonus payments potentially to zero should it be considered appropriate.

Clawback provisions will apply to the entire bonus and the audit committee will undertake a formal end-of-year quality of profit and budget review in conjunction with the auditor.

## Directors' remuneration report continued

### LTIP awards

LTIP awards granted in the 2014/15 financial year will continue to operate under the same EPS and TSR structure principles subject to the following changes:

- the EPS and TSR elements of the award will account for 30% each (previously 25% each); and
- instead of separate bus and rail strategic targets (previously 25% each), an overall Group operating profit target of 40% will apply.

For the year commencing 29 June 2014, LTIP awards will continue to have a face value of 100% of salary. The performance measures and targets for awards to be made in 2014/15 are detailed below:

	Payout (% of each element)	Compound annual growth in EPS	Relative TSR vs FTSE 250 (excluding certain sectors)	Group operating company profit
Weighting (% of total award)	–	30%	30%	40%
Below threshold	0%	Less than RPI + 2% p.a.	Below median	See above
Threshold	25%	RPI + 2% p.a.	Median	
Between threshold and maximum	Between 25% and 100%	Between RPI + 2% p.a. and RPI + 8%p.a.	Between median and upper quartile	
Maximum	100%	RPI + 8% p.a.	Upper quartile	

The Group operating profit target applying to 40% of the LTIP award will be payable on a sliding scale between the threshold and maximum targets. No element of award will vest unless Group operating profit has increased from the Group's operating profit for the year ended 28 June 2014. At threshold, 20% will vest if the Group has achieved 25% growth in 2013/14 operating profit. At maximum, 40% will vest if the Group has achieved 50% growth in 2013/14 operating profit.

The above targets are based on current accounting policies and will be adjusted should there be any changes to these accounting policies. Awards will continue to vest three years after grant, subject to the performance conditions being met over broadly the same period.

### Non-executive directors' fees

The non-executive directors' fees as stated in the table on page 78 remain unchanged until the annual fee review is undertaken on 1 April 2015.

## Appendices

### Outstanding LTIP awards (audited)

Award date	Share price at the date of award	At	Granted	Exercised	Lapsed	Balance at 28 June 2014	Awards that vested in 2013/14 and exercise in 2014/15		Balance post	
		29 June 2013	during the year	during the year	during the year		Vested No	Lapsed No	exercise in 2014/15	
		No	No	No	No	No			Lapsed No.	
David Brown	30-Oct-13	£16.84	–	30,462	–	–	30,462	–	–	30,462
	05-Nov-12	£13.06	37,658	–	–	–	37,658	–	–	37,658
	31-Oct-11	£13.90	35,838	–	–	–	35,838	28,670	7,168	–
			<b>73,496</b>	<b>30,462</b>	<b>–</b>	<b>–</b>	<b>103,958</b>	<b>28,670</b>	<b>7,168</b>	<b>68,120</b>
Keith Down	30-Oct-13	£16.84	–	19,496	–	–	19,496	–	–	19,496
	05-Nov-12	£13.06	24,101	–	–	–	24,101	–	–	24,101
	31-Oct-11	£13.90	22,936	–	–	–	22,936	18,348	4,588	–
			<b>47,037</b>	<b>19,496</b>	<b>–</b>	<b>–</b>	<b>66,533</b>	<b>18,348</b>	<b>4,588</b>	<b>43,597</b>

#### November 2012 and October 2013 awards

The performance conditions attaching to the November 2012 and October 2013 awards are measured over the three financial years ending with the 2014/15 and 2015/16 financial periods respectively. Details of the performance conditions relating to the November 2012 and October 2013 awards can be found on pages 73 and 71 respectively of the 2013 Annual Report.

#### October 2011 awards

Details of the performance targets to which the 2011 LTIP award relates together with actual vesting against those targets are set out on page 76.

#### Vesting of 2010 LTIP award (retired Group Chief Executive only)

In September 2013, the third anniversary of grant for this award, the remuneration committee considered the extent to which the awards granted to Keith Ludeman (former Group Chief Executive) in September 2010 should vest based on the three year performance period ended on 29 June 2013. The awards eligible to vest at this time had been reduced accordingly to reflect the period over which Keith Ludeman was employed. The performance condition applicable to one half of the award was based on a comparison of Go-Ahead's TSR with the TSR of the companies (excluding investment trusts) in the FTSE 250 index of companies. The performance condition applicable to the other half of the award was based on a comparison of Go-Ahead's TSR with the TSR of our transport sector peer group. Of the 50% of award attributable to TSR ranking against the FTSE 250 peer group, 0% was eligible to vest. Of the 50% of award attributable to the transport sector peer group, 37.13% of the award was eligible to vest. The award details for Keith Ludeman are therefore as follows:

	Number of shares granted	Number of shares vested	Number of shares lapsed	Dividend equivalent on shares vested £ <sup>1</sup>	Actual value £ <sup>2</sup>
Keith Ludeman	23,091	8,573	14,518	23,404.32	208,523.68

<sup>1</sup> Final amounts relating to dividend equivalents payable on LTIP awards over the three year period ended 29 June 2013.

<sup>2</sup> The value of the vested shares is based on the share price at the date of exercise (£21.59).

For and on behalf of the Board



**Katherine Innes Ker,**

Chairman of Remuneration Committee

3 September 2014

# Directors' report

The directors present their report and audited financial statements for the year ended 28 June 2014. This report has been prepared in accordance with requirements outlined within The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and forms part of the management report as required under DTR4. Certain information that fulfils the requirements of this report can be found elsewhere in this document and is referred to below. This information is incorporated into this directors' report by reference.

## Directors

A full list of the individuals who were directors of the Group during the financial year ended 28 June 2014 is set out below:

Andrew Allner; David Brown, Keith Down, Katherine Innes Ker; Rupert Pennant-Rea (retired on 24 October 2013); Nick Horler and Adrian Ewer.

## Directors' conflicts of interest

Established within the Group is a procedure for managing and monitoring conflicts of interest for directors. Full details of this procedure are set out in the corporate governance report on page 54.

## Directors' indemnities

Details of qualifying third-party indemnity provisions for the benefit of the Group's directors can be found in the corporate governance report on page 57.

## Corporate governance report

Under Disclosure and Transparency Rule 7, a requirement exists for certain parts of the corporate governance report to be outlined in this directors' report. This information is laid out in the corporate governance report, on pages 50 to 83.

## Capital structure and rights attaching to shares

All information relating to the Group's capital structure, rights attaching to shares, dividends, the policy to repurchase the Group's own shares and other shareholder information is shown on pages 154 to 156 and incorporated into this directors' report by reference.

## Dividends

Our dividend policy is for progressive dividend growth whilst maintaining dividend cover of approximately two times adjusted earnings, on a pre IAS19 (revised) basis, through the economic cycle. Details of the proposed final dividend payment for the year ended 28 June 2014 are shown on the consolidated income statement on page 90 of the report.

## Political donations and expenditure

It is the Group's policy not to make political donations and accordingly no such payments were made in the year (2013: £nil). Additionally, the Group did not incur any political expenditure as defined in the Companies Act 2006 (2013: £nil).

## Post balance sheet events

There are no other post balance sheet events.

## Material included in the strategic report

The Strategic report on pages 2 to 49 includes information on the following matters that would otherwise be required to be presented in the directors' report:

- future developments in the business; and
- greenhouse gas emissions.

## Employee disclosures

Our disclosures relating to the employment of disabled persons, the number of women in senior management roles, employee engagement and policies are included in the 'People' section on pages 26 to 29.

## Pension

After a formal 60 day consultation process with existing members and their representatives, the Group took the decision to close the Final Salary Section of the Group's pension plan to future accrual with effect from 1 April 2014. Existing members were offered the opportunity to join the Money Purchase Section instead.

A new 'Workplace Savings Section' was established with effect from 1 April 2013 for the purposes of auto-enrolment. This provides a default investment option and receives at least the minimum level of contributions as required under Government regulations.

## Share schemes

### Executive share schemes

At the date of this report, Computershare Trustees (Jersey) Limited, as Trustee of The Go-Ahead Group plc Employee Trust, holds 0.3% of the issued share capital of the Group, less treasury shares, in trust for the benefit of the executive directors of the Group under the LTIP and DSBP. The voting rights in relation to these shares are exercised by the Trustee and dividends are waived while the shares are held by the Trustee.

Vesting of awards under the LTIP and DSBP for the executive directors is satisfied by market purchases of shares which are held in trust.

### Share Incentive Plan

The Group operated a Share Incentive Plan (SIP) during the year under review, enabling employees of the Group to acquire shares in the Group. In order to preserve certain tax benefits these shares are held in a trust by EES Corporate Trustees Limited for participating employees. Whilst these shares are held in trust, the voting rights attached to them will not be exercised by the Trustee or the employees for whom they are held. As at the date of this report, 0.9% of the issued share capital of the Group, less treasury shares, was held by EES Corporate Trustees Limited. In the event of an offer being made to acquire these shares the employees are entitled to direct EES Corporate Trustees Limited to accept an offer in respect of the shares held on their behalf.

### Sharesave scheme

Further to shareholder approval sought at the 2013 AGM, a new HMRC approved Sharesave scheme known as The Go-Ahead Group plc 2013 Savings-Related Share Option Scheme ("Sharesave") was launched in February 2014. Under Sharesave, all permanent employees who have completed at least six months' continuous service with a participating company are invited to make monthly savings of between £5 and £50 for three years. At the end of the savings term, participants have the choice of their money back, or to purchase Go-Ahead Group shares at a 20% discount of the market price set at the date of invitation.



## Auditor

A resolution to re-appoint Ernst & Young as auditor of the Group will be proposed at the next AGM. A resolution will also be proposed that the Directors be authorised to fix the remuneration of the auditor.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the financial review on pages 46 to 49. In addition note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Cash generation from the Group's bus and rail operations was excellent and the balance sheet remains strong. Core financing is provided by a £200m sterling bond securing financing to September 2017 and committed bank facilities of £280m to July 2019. This facility replaced the £275m February 2016 facility, of which £155m was undrawn and available at the year end. The directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook.

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The directors confirm they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis in preparing the Annual Report and Accounts.

### Directors' statement of responsibility

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements under IFRS as adopted by the European Union. Detailed below are statements made by the directors in relation to their responsibilities, disclosure of information to the Group's auditors, going concern and management's report on internal control over financial reporting.

#### Financial statements and accounting records

Under company law the directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group at the end of the financial year and of the profit or loss of the Group for that period.

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

- present fairly the financial position, financial performance and cashflows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRS as adopted by the European Union.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for the system of internal control, for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for preparing the strategic report, directors' report, including the directors' remuneration report and the corporate governance report, in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's corporate website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Directors' responsibility statement under the Disclosure and Transparency Rules

The Board confirms that to the best of its knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

#### Directors' statement under the UK Corporate Governance Code

- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

#### Disclosure of information to the auditor

Having made the requisite enquiries, so far as the directors are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Group's auditor is unaware and the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

By Order of the Board



Carolyn Ferguson,  
Group Company Secretary  
3 September 2014



The Board is committed to the principles of good governance. Our aim has been to present a report that provides a fair, balanced and understandable view of the position and performance of the business.

For additional information about our business, other literature relating to our results and for updates through the year, please visit our Group website at [www.go-ahead.com](http://www.go-ahead.com)

# Independent auditor's report to the members of The Go-Ahead Group plc

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 28 June 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## What we have audited

We have audited the Group financial statements of The Go-Ahead Group plc for the year ended 28 June 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cashflow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Group'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 Group'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 Group, and the Group'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 86, the directors are responsible for the preparation of the Group 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 Group 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 Group'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 have read all the financial and non-financial information in the annual report and accounts 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.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £3.95 million (2013: £4.03 million), which is approximately 5 per cent of profit before exceptional items and tax. This provided the basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality for the Group should be 50 per cent of planning materiality, namely £1.98 million.

We agreed with the Audit committee that we would report to the committee all adjusted and unadjusted audit differences in excess of £0.2million. We also agreed to report differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

## Our assessment of risks of material misstatement and our audit response

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. For each risk identified, we have documented our response and audit procedure below.

- 1) Non compliance with franchise terms and conditions relating to the rail components of the Group, specifically relating to accounting for related costs arising from franchise agreements.
  - We tested the Group's process for identifying and monitoring compliance with the requirements of the franchise agreements and related bid models, which have a financial consequence. This included discussion with the compliance team at each of the train operating companies and reviewing correspondence with the Department for Transport for evidence of additional liabilities requiring recognition, or the resolution of issues for which a liability had previously been recognised.
  - We tested for evidence of breaches of franchise conditions or changes in franchise terms and conditions occurring in the year and considered whether related expenditure had been appropriately recognised.
  - We re-assessed matters brought forward from prior years to consider the appropriateness of related accruals, provisions and disclosures.
  - We challenged the estimates used in determining the valuation and timing of costs recognition, considering whether the conditions for recognition of liabilities had been met under IFRS.

## Our assessment of risks of material misstatement and our audit response continued

2) Estimation of provisions for liabilities and charges, specifically relating to third party claims and lease return and dilapidations provisions for rolling stock, stations, depots and other properties.

- We understood the level of internal and external expert involvement used in estimating liabilities. External experts are utilised to assess dilapidation provisions for the train operating companies and to assess notified uninsured claims. Our testing included understanding the terms of reference of those external experts, their competence and objectivity.
- For dilapidations liabilities, we obtained the contract documentation for maintenance of rolling stock, stations and depots, to assess the relevant terms and conditions and consider whether these contracts gave rise to a liability. Where previously provided amounts were re-estimated we obtained evidence for changes including details of contract amendments. Where no movement occurred, we challenged whether the assumptions used previously to estimate the liability remain reasonable.
- We obtained information on settlements made in the year of previously provided liabilities, to understand how these compared with the quantification previously recorded and to assess the quality of estimates made by management and their independent experts.
- With respect to uninsured claims, we challenged management's assessment of the liability for claims incurred but not yet notified to claims handlers and for the development in settlement costs for prior claims. We considered evidence of claims over the past seven years to assess trends in claims in terms of growth from original assessed liability and value of settlement.
- We met with in-house legal counsel to obtain up to date information on claims or disputes. We reviewed board and subcommittee minutes for evidence of the existence of further liabilities and external legal correspondence for the existence of any further contractual issues.
- We assessed whether each of the liabilities were appropriately classified between accruals, provisions and contingent liabilities against the recognition and measurement criteria of IFRS.

3) Assumptions underpinning the calculation of the Group's defined benefit pension liabilities.

- We utilised our own actuarial experts to benchmark and consider an appropriate range for the key assumptions underpinning the calculation of the pension liabilities being discount rate, price inflation, expected rate of investment returns and mortality in retirement.
- We also utilised our own actuarial experts to challenge the appropriateness of the methodology used by management's actuaries to calculate the liabilities for the pension schemes.
- We reviewed the adequacy of pension disclosures provided in the financial statements and compliance with the requirements of IAS 19 (revised).
- We obtained legal documentation setting out the decision to close the non-rail pension scheme to future accrual and tested whether this had been appropriately accounted for as a curtailment.

4) Revenue recognition across the Group's operations, specifically in relation to manual adjustments to defer or accrue revenue and the risk of management override.

- We challenged management's underlying assumptions and methodology used to calculate manual adjustments to revenue relating to accrued and deferred income, particularly with respect to accounting for advance purchase tickets, season tickets and railcards.
- For material items we re-performed the calculation to confirm the accuracy of the accrued and deferred income recorded by management.
- We understood the different income streams of the Group in order to challenge the completeness of manual adjustments to reflect the accrual or deferral of revenue.
- We assessed whether the revenue recognition policies adopted complied with IFRSs.
- We performed analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.

## An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected eleven components which represent the principal business units within the Group's reportable segments and account for 98.5 per cent of the Group's revenue and 99 per cent of the Group's profit before tax. Eight of these components were subject to a full audit and three were subject to audits of specific account balances based on our judgement of risk and materiality. For the remaining components, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The audit work for the components in scope and the statutory audits were executed at levels of materiality applicable to each individual entity which were much lower than Group materiality.

The Senior Statutory Auditor or a senior member of the Group audit team participates in the execution of the audits of all of the full scope and specific scope components.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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 and the part of the directors' remuneration report to be audited 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.

Under the Listing Rules we are required to review:

- the directors' report, set out on page 85, in relation to going concern; and
- the part of the corporate governance statement relating to the Group's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

## Other matter

We have reported separately on the parent company financial statements of The Go-Ahead Group plc for the year ended 28 June 2014 and on the information in the directors' remuneration report that is described as having been audited.



Kathryn Barrow (Senior Statutory Auditor),

for and on behalf of Ernst & Young LLP, Statutory Auditor, London

3 September 2014

Notes:

- 1 The maintenance and integrity of The Go-Ahead Group plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated income statement

for the year ended 28 June 2014

	Notes	2014 £m	Restated* 2013 £m
<b>Group revenue</b>	5	<b>2,702.4</b>	2,571.8
Operating costs (excluding amortisation and exceptional items)	6	<b>(2,599.2)</b>	(2,485.1)
<b>Group operating profit (before amortisation and exceptional items)</b>		<b>103.2</b>	86.7
Intangible asset amortisation	14	<b>(5.8)</b>	(6.5)
Exceptional items (before taxation)	8	<b>12.1</b>	–
<b>Group operating profit (after amortisation and exceptional items)</b>		<b>109.5</b>	80.2
Finance revenue	9	<b>1.5</b>	1.6
Finance costs	9	<b>(19.8)</b>	(18.7)
<b>Profit on ordinary activities before taxation</b>		<b>91.2</b>	63.1
Tax expense	10	<b>(13.6)</b>	(13.1)
<b>Profit for the year from continuing operations</b>		<b>77.6</b>	50.0
Attributable to:			
Equity holders of the parent		<b>70.3</b>	46.2
Non-controlling interests		<b>7.3</b>	3.8
		<b>77.6</b>	50.0
<b>Earnings per share</b>			
– basic	11	<b>164.0p</b>	107.8p
– diluted	11	<b>162.4p</b>	106.6p
– adjusted	11	<b>148.6p</b>	117.6p
Dividends paid (pence per share)	12	<b>81.0p</b>	81.0p
Final dividend proposed (pence per share)	12	<b>59.0p</b>	55.5p

\* Restated for adoption of IAS19 (revised) as explained in note 3.

## The consolidated income statement includes the majority of our income and expenses for the year with the remainder recorded in the consolidated statement of comprehensive income

Highlights of the movements in the year are set out below:

### Revenue

Revenue increased by 5.1% to £2,702.4m (2013: £2,571.8m). Our rail operations comprise 70.4% of our total turnover and grew by 5.1% during the year to £1,901.9m. Deregulated bus comprised 13.0% of revenue, growing by 3.9% to £350.8m and regulated bus comprised the remaining 16.6%, growing by 6.1% to £449.7m. Divisional performance is shown in note 4.

### Operating profit

Overall our operating profit increased from £86.7m to £103.2m with improved profitability across all three divisions. Our rail business improved margins from 0.6% to 1.0%, our deregulated business margins improved from 10.8% to 11.9% and regulated moved more marginally from 9.2% to 9.3%. Rail profitability is underpinned by cost controls and contract management. Cost control is also a focus of the bus divisions.

### Exceptional items

During the year the Group closed the bus defined benefit scheme to future accruals. Members' existing rights are preserved but no further benefits will accrue, resulting in a reduction in the Group's future liabilities of £15.1m. The Group incurred restructuring costs in its London Midland franchise in order to adapt to increasing competition on the West Coast mainline resulting in a cost of £3.0m.

### Finance costs

Overall net finance costs are consistent year on year, the main increase in the year being the higher pension interest costs and unwinding of discounting provision movements.

### Tax expense

Our tax expense increased to £13.6m from £13.1m in 2013; the 2014 expense is after crediting £6.8m of deferred tax benefit that resulted from an enacted reduction in UK tax rates as outlined in note 10. Our effective rate of tax for the year was 14.9%. Excluding the effect of the deferred tax adjustment our effective rate would have been 22.4%, higher than the statutory rate because of non-tax deductible costs such as depreciation on industrial buildings.

### Adjusted earnings per share

Our adjusted earnings per share is calculated after adjusting for amortisation and exceptional items to the extent that they impact earnings attributable to equity shareholders. Our adjusted earnings per share are as shown in note 11 and have increased to 148.6p from 117.6p, an increase of 26.4% largely reflecting increased operating profits and reduced taxation rates.

# Consolidated statement of comprehensive income

for the year ended 28 June 2014

	Notes	2014 £m	Restated* 2013 £m
<b>Profit for the year</b>		<b>77.6</b>	<b>50.0</b>
<b>Other comprehensive (losses)/income</b>			
Items that will not be reclassified to profit or loss			
Remeasurement losses on defined benefit pension plans	28	(14.5)	(19.7)
Tax relating to items that will not be reclassified	10	1.5	4.1
		(13.0)	(15.6)
Items that may subsequently be reclassified to profit or loss			
Unrealised (losses)/gains on cashflow hedges		(5.2)	4.0
Losses/(gains) on cashflow hedges taken to income statement – operating costs		2.1	(3.4)
Tax relating to items that may be reclassified	10	0.5	(0.2)
		(2.6)	0.4
Other comprehensive losses for the year, net of tax		(15.6)	(15.2)
<b>Total comprehensive income for the year</b>		<b>62.0</b>	<b>34.8</b>
Attributable to:			
Equity holders of the parent		51.0	28.1
Non-controlling interests		11.0	6.7
		62.0	34.8

\* Restated for adoption of IAS19 (revised) as explained in note 3.

## The consolidated statement of comprehensive income records all of the income and losses generated for the year

Highlights of the movements in the year are set out below:

### Profit for the year

The profit for the year after taxation is £77.6m and includes amounts attributable to equity shareholders and non-controlling interests.

### Remeasurement of defined benefit pension plans

As disclosed in note 28 the remeasurement losses on defined benefit pension plans were £14.5m, which consisted of rail pension plans showing a remeasurement gain of £13.2m and bus pension plans showing a remeasurement loss of £27.7m.

### Unrealised losses on cashflow hedges

The Group manages its exposure to the future cost of diesel through a programme of hedging. At each period end the derivatives used are marked to a market price and the amounts attributable to future periods are revalued through the comprehensive income statement.



# Consolidated statement of changes in equity

for the year ended 28 June 2014

	Share capital £m	Reserve for own shares £m	Hedging reserve £m	Other reserve £m	Capital redemption reserve £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 30 June 2012	72.1	(70.2)	(1.9)	1.6	0.7	36.9	39.2	13.8	53.0
Prior year adjustment	–	–	–	–	–	(0.9)	(0.9)	(0.5)	(1.4)
<b>At 30 June 2012 restated*</b>	72.1	(70.2)	(1.9)	1.6	0.7	36.0	38.3	13.3	51.6
Profit for the year	–	–	–	–	–	46.2	46.2	3.8	50.0
Net movement on hedges (net of tax)	–	–	0.3	–	–	–	0.3	0.1	0.4
Remeasurement (losses)/gains on defined benefit pension plans (net of tax)	–	–	–	–	–	(18.4)	(18.4)	2.8	(15.6)
Total comprehensive income	–	–	0.3	–	–	27.8	28.1	6.7	34.8
Dividends	–	–	–	–	–	(34.7)	(34.7)	(6.0)	(40.7)
<b>At 29 June 2013 restated*</b>	72.1	(70.2)	(1.6)	1.6	0.7	29.1	31.7	14.0	45.7
Profit for the year	–	–	–	–	–	70.3	70.3	7.3	77.6
Net movement on hedges (net of tax)	–	–	(2.6)	–	–	–	(2.6)	–	(2.6)
Remeasurement (losses)/gains on defined benefit pension plans (net of tax)	–	–	–	–	–	(16.7)	(16.7)	3.7	(13.0)
Total comprehensive income	–	–	(2.6)	–	–	53.6	51.0	11.0	62.0
Reserves transfer	–	0.3	–	–	–	(0.3)	–	–	–
Share based payment charge (and associated tax)	–	–	–	–	–	2.7	2.7	–	2.7
Dividends	–	–	–	–	–	(34.7)	(34.7)	(8.6)	(43.3)
<b>At 28 June 2014</b>	<b>72.1</b>	<b>(69.9)</b>	<b>(4.2)</b>	<b>1.6</b>	<b>0.7</b>	<b>50.4</b>	<b>50.7</b>	<b>16.4</b>	<b>67.1</b>

\* Restated for adoption of IAS19 (revised) as explained in note 3.

## The consolidated statement of changes in equity shows the movements in equity shareholders' funds and non-controlling interests

Equity shareholders' funds increased £19.0m to £50.7m as a result of retained profit for the year exceeding dividend payments.

Non-controlling interests have increased from £14.0m to £16.4m and consist of the appropriate share of rail profits, plus a relevant proportion of remeasurement gains on rail pension schemes, less dividends paid during the year.

# Consolidated balance sheet

as at 28 June 2014

	Notes	2014 £m	Restated* 2013 £m	Restated* 2012 £m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	13	458.6	457.6	459.4
Intangible assets	14	87.7	91.8	99.1
Trade and other receivables	18	1.2	1.1	1.4
Investment in joint venture	4	–	2.3	3.4
Other financial assets	24	0.1	1.7	1.6
Deferred tax assets	10	12.0	11.0	5.5
		559.6	565.5	570.4
<b>Current assets</b>				
Inventories	17	15.6	14.2	15.2
Trade and other receivables	18	254.8	237.8	194.5
Cash and cash equivalents	19	281.8	248.9	253.7
Other financial assets	24	–	0.6	2.3
		552.2	501.5	465.7
<b>Assets classified as held for sale</b>	16	72.4	2.8	75.6
<b>Total assets</b>		1,184.2	1,069.8	1,111.7
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	20	(557.7)	(465.2)	(519.6)
Other financial liabilities	24	(3.5)	(1.7)	(5.2)
Interest-bearing loans and borrowings	21	(2.9)	(0.6)	(2.4)
Current tax liabilities	10	(10.6)	(10.5)	(8.8)
Provisions	25	(66.3)	(45.6)	(18.9)
		(641.0)	(523.6)	(554.9)
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	21	(320.0)	(336.7)	(338.8)
Retirement benefit obligations	28	(59.8)	(47.7)	(22.8)
Other financial liabilities	24	(1.4)	(1.1)	(2.8)
Deferred tax liabilities	10	(50.8)	(51.2)	(49.4)
Other liabilities	20	(2.4)	(5.3)	(4.6)
Provisions	25	(41.7)	(58.5)	(86.8)
		(476.1)	(500.5)	(505.2)
<b>Total liabilities</b>		(1,117.1)	(1,024.1)	(1,060.1)
<b>Net assets</b>		67.1	45.7	51.6
<b>Capital &amp; reserves</b>				
Share capital		72.1	72.1	72.1
Reserve for own shares		(69.9)	(70.2)	(70.2)
Hedging reserve		(4.2)	(1.6)	(1.9)
Other reserve		1.6	1.6	1.6
Capital redemption reserve		0.7	0.7	0.7
Retained earnings		50.4	29.1	36.0
<b>Total shareholders' equity</b>		50.7	31.7	38.3
Non-controlling interests		16.4	14.0	13.3
<b>Total equity</b>		67.1	45.7	51.6

\* Restated for adoption of IAS19 (revised) as explained in note 3.



**Andrew Allner,**  
Chairman  
3 September 2014



**Keith Down,**  
Group Finance Director  
3 September 2014

## The consolidated balance sheet shows all of our assets and liabilities at the year end

Further details of the major movements of our assets and liabilities in the year are set out below:

### Assets

#### Property plant and equipment

Overall our property plant and equipment totalled £458.6m, consistent with prior years with the vast majority held in our bus division in freehold land and buildings and bus vehicles. During the year we spent £69.5m on assets, £61.3m in the bus division and £8.2m in the rail division, offsetting this were depreciation charges of £60.7m, £45.2m in bus and £15.5m in rail. A very small proportion of our assets are now held on finance leases, as shown in note 13, as a number of secondary lease periods were terminated during the year.

#### Intangible assets

Of the total intangible balance of £87.7m, goodwill on the acquisition of bus businesses represents £80.8m, with no additions or impairments during the year. Additions during the year included £1.2m of software costs and £0.5m of franchise bid costs. Amortisation during the year totalled £5.8m.

#### Deferred tax asset

The deferred tax asset of £12.0m reflects the expected tax rate of 20% applied to the pension deficit.

#### Other current assets

The Group's current assets totalled £552.2m, up £50.7m on the prior year. Of this increase, £32.9m was in cash and cash equivalents, mainly held in the rail business, with the remainder attributable to an increase in trade receivables.

#### Assets held for resale

The principal balance held within the assets held for resale of £72.4m is £68.6m of rolling stock that will be sold on to rolling stock leasing companies on delivery of the assets. The amounts invested have been offset with loan monies from DfT shown in trade and other payables.

### Liabilities

#### Trade and other payables

Trade and other payables have increased by £92.5m to £557.7m. Of this increase, £68.6m represents DfT funding of assets held for resale.

#### Other financial liabilities

Included in both current liabilities, £3.5m, and non-current liabilities, £1.4m, these balances represent the mark to market value of our fuel hedges, split between those due within one year and those due in more than one year.

#### Non-current interest bearing loans and borrowings

Non-current interest bearing loans and borrowings totalled £320.0m, down from £336.7m in 2013. Principal balances within this amount are a corporate bond of £200.0m and amounts drawn on our revolving credit facility of £120.0m. Interest rates and movements on these balances are shown in full in note 21.

#### Retirement benefit obligations

Further details of our retirement benefit obligations in both bus and rail are shown in note 28. The deficit on our bus schemes totals £59.8m and represents the excess of future liabilities compared to current assets in the pension fund. This deficit is being addressed using an asset backed off balance sheet funding arrangement agreed with the Scheme Trustees. The rail deficit is £nil as the ongoing responsibility for the deficit remains with DfT beyond each franchise term.

#### Provisions

As shown in note 25 the Group provides for both uninsured claims and for franchise commitments including property and rolling stock dilapidations. The total provision for uninsured claims of £48.6m is marginally lower than in 2013. Franchise commitments are marginally higher at £54.2m. The Group engages with external third party professionals to assist in the calculation of these provisions.

### Total equity

Movements in equity and reserves are described in the commentary on the consolidated statement of changes in equity.

# Consolidated cashflow statement

for the year ended 28 June 2014

	Notes	2014 £m	Restated* 2013 £m
<b>Profit after tax for the year</b>		<b>77.6</b>	<b>50.0</b>
Net finance costs	9	18.3	17.1
Tax expense	10	13.6	13.1
Depreciation of property, plant and equipment	13	60.7	58.1
Amortisation of goodwill and intangible assets	14	5.8	6.5
Pension plan curtailment		(15.1)	–
Ineffective interest swap hedge	9	–	(0.1)
Release of fuel hedge		(0.5)	(3.0)
Loss/(profit) on sale of property, plant and equipment		1.2	(0.5)
Share based payment charges	7	2.2	–
Difference between pension contributions paid and amounts recognised in the income statement		10.7	4.4
Impairment of joint venture		0.3	0.7
Sale of assets held for disposal		0.4	–
(Increase)/decrease in inventories		(1.4)	1.0
Increase in trade and other receivables		(13.1)	(42.0)
Increase in trade and other payables		21.0	22.3
Movement in provisions		2.6	(1.6)
<b>Cashflow generated from operations</b>		<b>184.3</b>	<b>126.0</b>
Taxation paid	10	(12.4)	(11.1)
<b>Net cashflows from operating activities</b>		<b>171.9</b>	<b>114.9</b>
<b>Cashflows from investing activities</b>			
Interest received		1.5	1.6
Proceeds from sale of property, plant and equipment		3.9	2.8
Purchase of property, plant and equipment		(69.5)	(58.5)
Purchase of intangible assets		(1.7)	(1.1)
Purchase of subsidiaries	15	–	(0.7)
Receipt/(repayment) of funding for rolling stock procurement		68.6	(75.5)
Deposit paid on rolling stock		(68.6)	–
Sale of rolling stock		–	75.5
Repayments from joint venture		0.3	0.3
Sale of current investments		1.6	–
<b>Net cashflows used in investing activities</b>		<b>(63.9)</b>	<b>(55.6)</b>
<b>Cashflows from financing activities</b>			
Interest paid		(16.5)	(18.5)
Dividends paid to members of the parent	12	(34.7)	(34.7)
Dividends paid to non-controlling interests		(8.6)	(6.0)
Repayment of borrowings		(13.7)	(2.3)
Payment of finance lease and hire purchase liabilities		(1.6)	(2.6)
<b>Net cash outflows on financing activities</b>		<b>(75.1)</b>	<b>(64.1)</b>
Net increase/(decrease) in cash and cash equivalents		32.9	(4.8)
<b>Cash and cash equivalents at 29 June 2013</b>	19	<b>248.9</b>	<b>253.7</b>
<b>Cash and cash equivalents at 28 June 2014</b>	19	<b>281.8</b>	<b>248.9</b>

\* Restated for adoption of IAS19 (revised) as explained in note 3.

## The consolidated cashflow statement shows the cashflows from operating, investing and financing activities for the year

### Net debt

Closing net debt has reduced to £42.7m from £90.9m. The reduction has been achieved as the result of both increased profitability and positive inflows in working capital.

### Cashflow reconciliation

A reconciliation of cash generated by operations to free cashflow and net debt, two non-GAAP measures used by management, is shown below.

Summary cashflow	2014 £m	2013 £m	Increase/(decrease) £m
EBITDA	163.9	144.8	19.1
Working capital/other items	9.7	(23.2)	32.9
Pensions	10.7	4.4	6.3
Cashflow generated from operations	184.3	126.0	58.3
Tax paid	(12.4)	(11.1)	(1.3)
Net interest paid	(15.0)	(16.9)	1.9
Net capital investment	(67.3)	(56.8)	(10.5)
Free cashflow	89.6	41.2	48.4
Net acquisitions	–	(0.7)	0.7
Joint venture repayment	0.3	0.3	–
Other	1.6	–	1.6
Dividends paid	(43.3)	(40.7)	(2.6)
Decrease in net debt	48.2	0.1	48.1
Opening net debt	(90.9)	(91.0)	0.1
Closing net debt	(42.7)	(90.9)	48.2

EBITDA increased by £19.1m or 13.2% to £163.9m through increased profitability across all three divisions. Cash generated by operations increased by £58.3m or 46.3% to £184.3m primarily driven by working capital improvements, mainly in the rail division.

Capital expenditure, net of sale proceeds, was £10.5m higher in the year at £67.3m (2013: £56.8m) predominantly due to higher levels of new bus vehicle purchases in the deregulated business.

Free cashflow of £89.6m was £48.4m higher, an increase of 117.5% on 2013.

# Critical accounting 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:

## Impairment testing

IFRS requires management to perform impairment testing if events or changes in circumstances indicate that the carrying values may not be recoverable. The measurement and impairment testing of indefinite life intangible assets requires estimation of the net present value of future cashflows that an investment might make which requires estimations of:

- Growth in profitability and EBITDA;
- Future growth rates;
- Timing of future cash outflows such as capital items required; and
- The selection of a suitable discount rate.

Our assessment of impairment and the associated sensitivities are as detailed in note 14.

## Retirement benefit obligations

The measurement of defined benefit 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 28. The Group engages with Towers Watson, a global professional services company whose specialisms include actuarial advice, to support the process of establishing reasonable bases for all of these estimates, to ensure they are appropriate to our particular circumstances.

## 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 Group, as detailed in note 25. In order to assess the appropriate level of provisions the Group engages with its brokers and claims handlers to ensure external expertise of our claims development history is adequately built in to the provision.

## Measurement of franchise commitments

The measurement of franchise commitments, comprising dilapidation provisions on vehicles, depots and stations and also income claims from other rail franchise operators as set out in note 25. Significant elements of the provisions required are subject to interpretation of franchise agreements and rolling stock agreements. The Group 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 ensure corroboration of provision levels.

## Contract and franchise accounting

Judgements are made on an ongoing basis with regard to recoverability of amounts due and the carrying value of related assets and liabilities arising from contracts and franchises. Regular forecasts are compiled on the outcome of these contracts and franchise arrangements, which require assessments and judgements relating to the expected level of revenues and costs and, in cases where options exist, the life of the contract or franchise.

## Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be fully determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is possible that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

# Notes to the consolidated financial statements

for the year ended 28 June 2014

## 1. Authorisation of financial statements and statement of compliance with IFRSs

The consolidated financial statements of The Go-Ahead Group plc (the 'Group') for the year ended 28 June 2014 were authorised for issue by the Board of directors on 3 September 2014 and the balance sheet was signed on the Board's behalf by Andrew Allner and Keith Down. The Go-Ahead Group plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) as they apply to the consolidated financial statements of the Group for the year ended 28 June 2014, and applied in accordance with the provisions of the Companies Act 2006. The Group is required to comply with international accounting requirements under IAS 1 Presentation of Financial Statements, except in extremely rare circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to 'present fairly' its financial statements. On that basis, the Group has departed from the requirements of IAS 19 Employee Benefits (revised) and has accounted for its constructive but not legal obligations for the Railways Pension Scheme (RPS) under the terms of its UK rail franchise agreements. Details of the background and rationale for this departure are provided in note 28.

## 2. Summary of significant accounting policies

### Basis of preparation

This note details the accounting policies which have been applied in the Group's consolidated financial statements. New accounting standards and interpretations, which require adoption in future years have also been listed and our current view of the impact they will have on financial reporting.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand (£0.1m) except when otherwise indicated.

As noted above, the Group has taken the decision to depart from the requirements of IAS 19 (revised) so as to present fairly its financial performance, position and cashflows in respect of its obligation for the RPS.

### New standards

The following new standards or interpretations are mandatory for the first time for the financial year ending 28 June 2014:

- IFRS 7 Amendment to IFRS 7 Disclosures – Offsetting financial assets and liabilities
- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits (revised)
- IAS 1 Presentation of Financial Statements – Classification of requirements for comparative information
- IAS 16 Property, Plant and Equipment – Classification of servicing equipment
- IAS 32 Financial Instruments: Presentation – Tax effects of distributions to holders of equity instruments

With the exception of IAS 19 Employee Benefits (revised) ("IAS 19 (revised)"), adoption of the new standards did not have a material impact on the financial performance or position of the Group. The key impact of IAS 19 (revised) has been to remove the separate assumptions for expected return on plan assets and discounting of scheme liabilities and replace them with one single discount rate for the net deficit. As discount rates are typically lower than returns on assets this has reduced the credit in the income statement for returns on scheme assets and therefore increased the net pension charge. The actual benefits and the cash contributions for the

plan have not been impacted by IAS 19 (revised). Subsequent to the introduction of IAS 19 (revised) in the interim statements to 28 December 2014, the Group has reviewed annual reports of peer groups and other FTSE 350 companies and has restated defined benefit pension scheme net interest expense from operating costs into finance costs. The impact of the implementation of IAS 19 (revised) is detailed in note 3, and incorporates the restatement of the net interest expense from finance costs to operating costs.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of The Go-Ahead Group plc and its subsidiaries as at 28 June 2014.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The financial statements of subsidiaries for use in the consolidation are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Non-controlling interests represent the equity interests not held by the Group in Govia Limited, a 65% owned subsidiary, and are presented within equity in the consolidated balance sheet, separately from shareholders' equity.

### Interest in joint ventures

The Group has a contractual arrangement with another party which represents a joint venture. This takes the form of an agreement to share control over another entity, through an interest in a company (a jointly controlled entity). The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of the investment. The Group income statement reflects the share of the jointly controlled entity's results after tax. Where there has been a change recognised in other comprehensive income of the jointly controlled entity, the Group recognises its share of any such changes in the consolidated statement of comprehensive income.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the income will flow to the Group 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

The revenue of the Group comprises income from road passenger transport and rail passenger transport.

Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities.

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. In addition, franchise subsidy receipts from the DfT and local Passenger Transport Executives (PTEs) are treated as revenue, whereas franchise premium payments to the DfT are recognised in operating costs.

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.

## 2. Summary of significant accounting policies continued

### Rental income

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

### Finance revenue

Interest on deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### 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.

### Uninsured liabilities

The Group 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 Group 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 Group by the insurer.

### Franchise bid costs

A key part of the Group's activities is the process of bidding for and securing franchises to operate rail services in the UK. All franchise bid costs incurred prior to achieving preferred bidder status are treated as an expense in the income statement irrespective of the ultimate outcome of the bid. Directly attributable, incremental costs incurred after achieving preferred bidder status or entering into a franchise extension are capitalised as an intangible asset and amortised over the life of the franchise/franchise extension.

### Profit and revenue sharing/support agreements

The rail companies have certain revenue and, historically, profit sharing agreements with the DfT. An accrual is made within amounts payable to central Government for the estimated cost to the Group of the relevant amounts accrued at the balance sheet date. Payments are charged to operating costs.

Revenue support is provided by the DfT typically in the last two years of a franchise. Receipts are shown in revenue.

### Exceptional items

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

### Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost on transition to IFRSs less accumulated depreciation and any impairment in value.

Freehold land is not depreciated.

Assets held under finance leases are depreciated over the shorter of their expected useful lives and the lease terms.

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

Short leasehold land and buildings	The life of the lease
Freehold buildings and long leasehold land and buildings	Over 10 to 100 years
Bus vehicles	Over 8 to 15 years
Plant and equipment	Over 3 to 15 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.

### Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### Business combinations and goodwill

Business combinations are accounted for under IFRS 3 Business Combinations (revised) using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit and loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally within equity.

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



recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

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

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

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

#### Impairment of assets

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

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reinstated amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Franchise assets

Where the conditions relating to the award of a franchise require the Group to assume legal responsibility for any pension liability that exists at that point in time, the Group recognises a liability representing the fair value of the related net pension deficit that the Group expects to fund during the franchise term. When a pension deficit exists at the start of the franchise, a corresponding intangible asset is recognised, reflecting a cost in acquiring the right to operate the franchise. If a pension surplus exists at the start of the franchise, then a corresponding deferred income balance is recognised, representing a government grant. The intangible asset or deferred income balance is amortised through the income statement on a straight-line basis over the period of the franchise.

The carrying value of franchise assets 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.

#### Software

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

#### Inventories

Stocks of fuel and engineering spares, that are not expected to be used during more than one period, are valued at the lower of cost and net realisable value. 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.

#### Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand, and short term deposits with an original maturity of three months or less. For the purpose of the consolidated cashflow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### Financial assets and derivatives

Financial assets are accounted for in accordance with IAS 39. Financial assets are initially recognised at fair value, being the transaction price plus, in the case of financial assets not recorded at fair value through profit or loss, directly attributable transaction costs.

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

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

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

### 2. Summary of significant accounting policies continued

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

#### Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

When required the Group presents the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Interest-bearing loans and borrowings

Debt is initially stated at the amount of the net proceeds, being the fair value of the consideration received after deduction of issue costs. Following initial recognition the carrying amount is measured at amortised cost using the effective interest method. Amortisation of liabilities and any gains and losses arising on the repurchase, settlement or other de-recognition of debt, are recognised directly in the income statement.

Assets held under finance leases, which are leases where substantially all of the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet, with a corresponding liability being recognised, and are depreciated over the shorter of their useful lives and the lease terms.

The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged to the income statement over the periods of the leases and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding.

Leases where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable 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.

#### Provisions

Provisions are recognised when the Group 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 Group 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.

#### Treasury shares

Re-acquired shares in the Group, which remain uncanceled, are deducted from equity. Consideration paid and the associated costs are also recognised in shareholders' funds as a separate reserve for own shares. Any gain or loss on the purchase, sale, issue or cancellation of the Group's shares is transferred from the reserve for own shares to revenue reserves.

### Retirement benefits

The Group operates a number of pension schemes, both defined benefit and defined contribution. The costs of these are recognised in the income statement. As discussed below, the Group 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).

#### Bus schemes

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest) are recognised in the statement of comprehensive income in the period in which they occur.

The current service cost, is recognised in the income statement within operating costs. The net interest expense or income is recognised in the income statement within finance costs.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Past service costs are recognised in the income statement on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss is recognised in the income statement during the period in which the settlement or curtailment occurs.

Contributions payable under defined contribution schemes are charged to operating costs in the income statement as they fall due.

#### Rail schemes

Our train operating companies participate in the RPS, a defined benefit scheme which covers the whole of the UK rail industry. This is partitioned into sections and the Group is responsible for the funding of these schemes whilst it operates the relevant 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 and 40% employee. A liability or asset is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability or asset represents the deficit or surplus that the Group expects to fund or benefit from during the franchise term. This represents a departure from IAS 19 (revised) so as to present fairly the Group's financial performance, position and cashflow in respect of its obligations for the RPS.

### Share based payment transactions

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

The cost of options is recognised in the income statement over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in equity. The cumulative expense recognised at each reporting date reflects the extent to which the period to vesting has expired and the directors' best estimate of the number of options that will ultimately vest or, in the case of an instrument subject to a market or non-vesting condition, be treated as vesting as described above. This includes any award where non-vesting conditions within the control of the Group or the employee are not met.

No cost is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

#### Taxation

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

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

- on the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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. Summary of significant accounting policies continued

### New standards and interpretations not applied

The International Accounting Standards Board ('IASB') 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 10 Consolidated Financial Statements	1 January 2014
IFRS 11 Joint Arrangements	1 January 2014
IFRS 12 Disclosure of Involvement with Other Entities	1 January 2014
IAS 28 Investments in Associates and Joint Ventures	1 January 2014
IAS 27 Separate Financial Statements (amendment)	1 January 2014
IAS 32 Offsetting Financial Assets and Financial Liabilities (amendment)	1 January 2014
IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (amendment)	1 January 2014
IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (amendment)	1 January 2014
IFRIC 21 Levies	1 January 2014
IAS 19 Defined Benefit Plans: Employee Contributions (amendment)	1 July 2014
Annual Improvements to IFRSs 2010 – 2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011 – 2013 Cycle	1 July 2014
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Bearer plants	1 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 11 Joint Arrangements – Accounting for acquisitions of interests in joint operations	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 9 Financial Instruments	1 January 2018

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

## 3. Restatement of prior period comparatives

The following tables show restated prior period comparative figures for the reportable divisions and for the Group for the financial year ended 29 June 2013. The restatement reflects the retrospective adjustment from the adoption of the changes in IAS 19 'Employee Benefits' (revised) which applies to financial years beginning on or after 1 January 2013. The key impact on the Group from the revised standard removes the assumptions for expected return on plan assets and discounting of scheme liabilities and replaces them with one single discount rate for the net deficit, as discount rates are typically lower than returns on assets this reduces the credit in the income statement for returns on scheme assets and therefore increases the net pension charge. The actual benefit and the cash contributions for these plans are not impacted by the revised standard.

The adoption of IAS 19 (revised) has also resulted in the derecognition of the rail pension intangible asset, which was created to offset the pension deficit recognised at the outset of the franchise. The effect of the increased IAS 19 (revised) pension costs is to increase the estimate of the deficit at the end of the franchise and thereby reduce the post franchise adjustment liability to £nil.

Subsequent to the introduction of IAS 19 (revised) in the interim statements to 28 December 2014, the Group has reviewed annual reports of peer groups and other FTSE 350 companies and restated defined benefit pension scheme net interest expense from operating costs into finance costs.

## Consolidated income statement

	Year to 29 June 2013		
	Reported £m	Impact of IAS19(revised) £m	Restated £m
Deregulated bus	37.9	(1.5)	36.4
Regulated bus	40.3	(1.5)	38.8
Total bus	78.2	(3.0)	75.2
Rail	24.3	(12.8)	11.5
<b>Group operating profit (before amortisation)</b>	<b>102.5</b>	<b>(15.8)</b>	<b>86.7</b>
Intangible asset amortisation	(10.3)	3.8	(6.5)
Deregulated bus (after amortisation)	36.5	(1.5)	35.0
Regulated bus (after amortisation)	38.2	(1.5)	36.7
Total bus (after amortisation)	74.7	(3.0)	71.7
Rail (after amortisation)	17.5	(9.0)	8.5
<b>Group operating profit (after amortisation)</b>	<b>92.2</b>	<b>(12.0)</b>	<b>80.2</b>
Net finance costs	(16.3)	(0.8)	(17.1)
<b>Profit before taxation</b>	<b>75.9</b>	<b>(12.8)</b>	<b>63.1</b>
Tax expense	(16.0)	2.9	(13.1)
<b>Profit for the year</b>	<b>59.9</b>	<b>(9.9)</b>	<b>50.0</b>
Attributable to:			
Equity holders of the parent	53.7	(7.5)	46.2
Non-controlling interests	6.2	(2.4)	3.8
	59.9	(9.9)	50.0
<b>Earnings per share</b>			
– basic	125.3p	(17.5)p	107.8p
– diluted	124.6p	(17.4)p	107.2p
– adjusted	139.6p	(22.0)p	117.6p

## Consolidated statement of comprehensive income

	Reported £m	Impact of IAS19(revised) £m	Restated £m
<b>Profit for the year</b>	<b>59.9</b>	<b>(9.9)</b>	<b>50.0</b>
<b>Other comprehensive (losses)/income</b>			
Items that will not be reclassified to profit or loss			
Remeasurement losses on defined benefit pension plans	(28.6)	8.9	(19.7)
Tax relating to items that will not be reclassified	6.1	(2.0)	4.1
	(22.5)	6.9	(15.6)
Items that may subsequently be reclassified to profit or loss			
Unrealised gains on cashflow hedges	4.0	–	4.0
Gains on cashflow hedges taken to income statement – operating costs	(3.4)	–	(3.4)
Tax relating to items that may be reclassified	(0.2)	–	(0.2)
	0.4	–	0.4
Other comprehensive losses for the year, net of tax	(22.1)	6.9	(15.2)
<b>Total comprehensive income for the year</b>	<b>37.8</b>	<b>(3.0)</b>	<b>34.8</b>
Attributable to:			
Equity holders of the parent	30.1	(2.0)	28.1
Non-controlling interests	7.7	(1.0)	6.7
	37.8	(3.0)	34.8

### 3. Restatement of prior period comparatives continued

#### Consolidated balance sheet

	2013 £m	2012 £m
<b>Intangible asset (note 14)</b>		
As previously reported	97.5	108.6
Prior year adjustment	(5.7)	(9.5)
Restated	91.8	99.1
<b>Retirement benefit obligations (note 28)</b>		
As previously reported	(47.7)	(30.5)
Prior year adjustment*	–	7.7
Restated	(47.7)	(22.8)
<b>Net deferred tax liabilities (note 10)</b>		
As previously reported	(41.5)	(44.3)
Prior year adjustment	1.3	0.4
Restated	(40.2)	(43.9)

\* To remove the rail pension liability of £7.7m previously recognised at the year ended 30 June 2012.

### 4. Segmental analysis

The Group's businesses are managed on a divisional basis. Selected financial data is presented on this basis below. For accounting policies see 'Interest in joint ventures' in note 2.

For management purposes, the Group is organised into four reportable segments: Deregulated bus, Regulated bus, Rail and Go-Ahead North America. Operating segments within those reportable divisions are combined on the basis of their long term characteristics and similar nature of their products and services, as follows:

The Deregulated bus division comprises bus operations outside London.

The Regulated bus division comprises bus operations in London under control of Transport for London (TfL).

The Rail operation, Govia, is 65% owned by Go-Ahead and 35% by Keolis and comprises three rail franchises: Southern, Southeastern and London Midland. The registered office of Keolis (UK) Limited is in England and Wales.

The Go-Ahead North America division comprises a 50% investment in a US school bus operation. The Group's share of the profit of this division is currently £nil (2013: £nil), and it is therefore not shown separately within the tables below but aggregated within Deregulated bus.

The information reported to the Group Chief Executive in his capacity as chief operating decision maker does not include an analysis of assets and liabilities and accordingly IFRS 8 does not require this information to be presented. Segment performance is evaluated based on operating profit or loss excluding amortisation of goodwill and intangible assets and exceptional items.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties.

The following tables present information regarding the Group's reportable segments for the year ended 28 June 2014 and the year ended 29 June 2013.

## Year ended 28 June 2014

	Deregulated bus £m	Regulated bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	372.3	459.7	832.0	1,907.2	2,739.2
Inter-segment revenue	(21.5)	(10.0)	(31.5)	(5.3)	(36.8)
<b>Group revenue</b>	<b>350.8</b>	<b>449.7</b>	<b>800.5</b>	<b>1,901.9</b>	<b>2,702.4</b>
Operating costs (excluding amortisation and exceptional items)	(308.9)	(408.1)	(717.0)	(1,882.2)	(2,599.2)
<b>Segment profit – Group operating profit (before amortisation and exceptional items)</b>	<b>41.9</b>	<b>41.6</b>	<b>83.5</b>	<b>19.7</b>	<b>103.2</b>
Intangible amortisation	(1.4)	(2.0)	(3.4)	(2.4)	(5.8)
Exceptional items	6.6	8.5	15.1	(3.0)	12.1
<b>Group operating profit (after amortisation and exceptional items)</b>	<b>47.1</b>	<b>48.1</b>	<b>95.2</b>	<b>14.3</b>	<b>109.5</b>
Net finance costs					(18.3)
<b>Profit before tax and non-controlling interests</b>					<b>91.2</b>
Tax expense					(13.6)
<b>Profit for the year</b>					<b>77.6</b>

	Deregulated bus £m	Regulated bus £m	Total bus £m	Rail £m	Total operations £m
<b>Other segment information</b>					
Capital expenditure:					
Additions	52.4	8.9	61.3	8.2	69.5
Intangible fixed assets	1.1	0.1	1.2	0.5	1.7
Depreciation	28.9	16.3	45.2	15.5	60.7

At 28 June 2014, there were non-current assets of £nil (2013: £2.3m) and current assets of £1.8m (2013: £0.4m) relating to US operations, being made up of equity accounted investments of £nil (2013: £nil) and loans of £1.8m (2013: £2.7m) in Go-Ahead North America, a 50:50 joint venture with Cook-Illinois which commenced trading in August 2010. For the year ended 28 June 2014, segment revenue for this venture was £1.7m (2013: £2.2m) and segment profit was £nil (2013: £nil).

During the year ended 28 June 2014, segment revenue from external customers outside the United Kingdom was £1.7m (2013: £2.2m), which related entirely to the Go-Ahead North America joint venture.

## Notes to the consolidated financial statements continued

### 4. Segmental analysis continued

Year ended 29 June 2013 restated

	Deregulated bus £m	Regulated bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	356.3	430.9	787.2	1,815.2	2,602.4
Inter-segment revenue	(18.7)	(7.0)	(25.7)	(4.9)	(30.6)
<b>Group revenue</b>	<b>337.6</b>	<b>423.9</b>	<b>761.5</b>	<b>1,810.3</b>	<b>2,571.8</b>
Operating costs (excluding amortisation)	(301.2)	(385.1)	(686.3)	(1,798.8)	(2,485.1)
<b>Segment profit – Group operating profit (before amortisation)</b>	<b>36.4</b>	<b>38.8</b>	<b>75.2</b>	<b>11.5</b>	<b>86.7</b>
Intangible amortisation	(1.4)	(2.1)	(3.5)	(3.0)	(6.5)
<b>Group operating profit (after amortisation)</b>	<b>35.0</b>	<b>36.7</b>	<b>71.7</b>	<b>8.5</b>	<b>80.2</b>
Net finance costs					(17.1)
<b>Profit before tax and non-controlling interests</b>					<b>63.1</b>
Tax expense					(13.1)
<b>Profit for the year</b>					<b>50.0</b>

	Deregulated bus £m	Regulated bus £m	Total bus £m	Rail £m	Total operations £m
<b>Other segment information</b>					
Capital expenditure:					
Additions	42.1	9.2	51.3	7.2	58.5
Acquisitions	–	0.3	0.3	–	0.3
Intangible fixed assets	0.5	0.7	1.2	0.5	1.7
Depreciation	29.5	16.2	45.7	12.4	58.1

### 5. Group revenue

This note provides an analysis of Group revenue. For accounting policies see 'Revenue recognition', 'Rendering of services', 'Rental income' and 'Profit and revenue sharing/support agreements' in note 2.

	2014 £m	2013 £m
Rendering of services	<b>2,574.6</b>	2,422.7
Rental income	<b>9.3</b>	8.9
Franchise subsidy receipts and revenue support	<b>118.5</b>	140.2
<b>Group revenue</b>	<b>2,702.4</b>	2,571.8



## 6. Operating costs (excluding amortisation and exceptional items)

Detailed below are the key amounts recognised in arriving at our operating costs. For accounting policies see 'Profit and revenue sharing/support agreements', 'Franchise bid costs' and 'Government grants' in note 2.

	2014 £m	Restated 2013 £m
Staff costs (note 7)	929.2	895.9
Operating lease payments		
– bus vehicles	18.4	18.9
– non-rail properties	2.8	2.5
– other non-rail	0.1	0.1
– rail rolling stock	320.2	307.7
– other rail	65.8	65.7
Total lease and sublease payments recognised as an expense (excluding rail access charges) <sup>1</sup>	407.3	394.9
– rail access charges	461.1	439.4
Total lease and sublease payments recognised as an expense <sup>2</sup>	868.4	834.3
DfT Franchise agreement payments	182.5	152.7
Other operating income	(25.5)	(23.7)
Depreciation of property, plant and equipment		
– owned assets	51.9	46.4
– leased assets	8.8	11.7
Total depreciation expense	60.7	58.1
Auditors' remuneration		
– audit of the financial statements (EY)	0.5	0.5
– audit of the financial statements (Grant Thornton)	0.1	0.1
– taxation services	0.1	0.1
– other services	–	0.1
Total auditors' remuneration	0.7	0.8
Trade receivables not recovered	0.1	0.6
Energy costs		
– bus fuel	112.9	93.6
– rail diesel fuel	10.6	7.9
– rail electricity (EC4T)	84.6	82.8
– cost of site energy	11.7	12.2
Total energy costs	219.8	196.5
Government grants	(2.8)	(2.9)
Loss/(profit) on disposal of property, plant and equipment	1.2	(0.5)
Costs expensed relating to franchise bidding activities	8.1	3.2
Other operating costs	356.8	370.1
Total operating costs	2,599.2	2,485.1

<sup>1</sup> The total lease and sublease payments recognised as an expense (excluding rail access charges) are made up of minimum lease payments of £423.9m (2013: £408.2m), net of sublease payments of £16.6m (2013: £13.3m) relating to other rail leases.

<sup>2</sup> The total lease and sublease payments recognised as an expense are made up of minimum lease payments of £885.0m (2013: £847.6m), net of sublease payments of £16.6m (2013: £13.3m) relating to other rail leases.

The fee relating to the audit of the financial statements can be analysed between audit of the Group's consolidated financial statements of £0.2m (2013: £0.2m) and audit of subsidiaries' financial statements of £0.4m (2013: £0.4m).

During the year, £1.8m (2013: £0.7m) was also paid to other 'Big 4' accounting firms for a variety of services.

## Notes to the consolidated financial statements continued

### 7. Staff costs

This note shows total employment costs, inclusive of share based payment charges. We have a number of share plans used to award shares to directors and employees. A charge is recognised over the vesting period in the consolidated income statement, based on the fair value of the award at the date of grant. The note also shows the average number of people employed by the Group during the year. For accounting policies see 'Share based payment transactions' in note 2.

	2014 £m	Restated 2013 £m
Wages and salaries	793.5	769.7
Social security costs	69.8	68.0
Other pension costs	63.7	58.2
Share based payments charge	2.2	–
	<b>929.2</b>	<b>895.9</b>

The average monthly number of employees during the year, including directors, was:

	2014	2013
Administration and supervision	2,452	2,375
Maintenance and engineering	2,302	2,350
Operations	19,038	18,838
	<b>23,792</b>	<b>23,563</b>

The information required by Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is provided in the directors' remuneration report. In addition, total directors' emoluments are shown in the table below:

	2014 £m	2013 £m
Group Chief Executive	1,960	942
Group Finance Director	1,299	646
Non-executive Directors	326	355
	<b>3,585</b>	<b>1,943</b>

#### Sharesave scheme

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

The Sharesave scheme is open to all full time and part-time employees (including executive directors) who have completed at least six months of continuous service with a Go-Ahead Group company at the date they are invited to participate in a scheme launch. To take part, qualifying employees have to enter into a savings contract for a period of three years under which they agree to save a monthly amount, from a minimum of £5 to a maximum (not exceeding £500) specified by the Group at the time of invitation. For the February 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 of 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 28 June 2014 as follows:

Scheme maturity	1 May 2017
Option price (£)	17.34
No. of options unexercised at 28 June 2014	461,575
No. of options exercised during the year	–
No. of options exercisable at 28 June 2014	–

The expense recognised for the scheme during the year to 28 June 2014 was £0.1m (2013: n/a).

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

	2014 No.	2014 WAEP £	2013 No.	2013 WAEP £
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	464,407	17.34	–	–
Forfeited during the year	(2,832)	17.34	–	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	461,575	17.34	–	–

The weighted average share price at the date of exercise for the options exercised in the period was n/a (2013: n/a).

The options outstanding at the end of the year have a weighted average remaining contracted life of 2.83 years (2013: n/a). These options are exercisable at £17.34 (2013: n/a).

### Long Term Incentive Plans

The executive directors participate in The Go-Ahead Group Long Term Incentive Plan 2005 (LTIP). The LTIP provides for executive directors and certain other senior employees to be awarded nil cost shares in the Group conditional on specified performance conditions being met over a period of three years. Refer to the directors' remuneration report for further details of the LTIP.

The expense recognised for the LTIP during the year to 28 June 2014 was £1.8m (2013: £0.1m).

The fair value of LTIP options granted is estimated as at the date of grant using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the options granted in the year to 28 June 2014 and 29 June 2013 were:

	2014 % per annum	2013 % per annum
<b>The Go-Ahead Group plc</b>		
Future share price volatility	24.0	27.0
<b>FTSE Mid-250 index comparator</b>		
Future share price volatility	25.0	30.0
Correlation between companies	30.0	30.0

The weighted average fair value of options granted during the year was £15.63 (2013: £10.96).

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

	2014	2013
Outstanding at the beginning of the year	293,863	258,206
Granted during the year	49,958	113,380
Forfeited during the year	(58,798)	(77,723)
Exercised during the year	(25,878)	–
Outstanding at the end of the year	259,145	293,863

At the year end, 76,489 options were exercisable and the weighted average exercise price of the options is £23.67 (2013: £nil).

The weighted average remaining contractual life of the options is 0.79 years (2013: 1.53 years). The weighted average share price of options exercised was £21.32 (2013: n/a).

### Deferred Share Bonus Plan

The Deferred Share Bonus Plan (DSBP) provides for executive 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. Refer to the directors' remuneration report for further details of the DSBP.

The expense recognised for the DSBP during the year to 28 June 2014 was £0.3m (2013: less than £0.1m).

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

The weighted average fair value of options granted during the year was £16.39 (2013: £12.32).

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

	2014	2013
Outstanding at the beginning of the year	14,204	–
Granted during the year	46,624	14,204
Forfeited during the year	(2,789)	–
Exercised during the year	(1,953)	–
Outstanding at the end of the year	56,086	14,204

## Notes to the consolidated financial statements continued

### 7. Staff costs continued

#### Deferred Share Bonus Plan continued

At the year end, 866 options were exercisable and the weighted average exercise price of the options is £23.67 (2013: nil).

The weighted average remaining contractual life of the options is 1.75 years. The weighted average share price of options exercised was £20.19 (2013: £nil).

#### Share incentive plans

The Group operates an HM Revenue & Customs ('HMRC') approved share incentive plan, known as The Go-Ahead Group plc Share Incentive Plan (SIP). The SIP is open to all Group employees (including executive directors) who have completed at least six months' service with a Group company at the date they are invited to participate in the plan.

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

### 8. Exceptional items

This note identifies items of an exceptional nature that have a significant impact on the results of the Group in the period. For accounting policies see 'Exceptional items' in note 2.

	2014 £m	2013 £m
Pension plan curtailment gain	15.1	–
Rail restructuring costs	(3.0)	–
<b>Total exceptional items</b>	<b>12.1</b>	<b>–</b>

#### Year ended 28 June 2014

Total exceptional items in the year were £12.1m.

The pension plan curtailment gain of £15.1m arose on closure of the defined benefit scheme. This reduces the Group's exposure to further increasing benefits; current members' existing benefits are preserved but no further benefits will accrue, resulting in an adjustment to the Group's future liabilities. This is non-recurring and non-cash.

Rail restructuring costs were £3.0m. In order to adapt effectively to increasing competitive pressures on the West Coast line, London Midland are restructuring front line and head office personnel.

#### Year ended 29 June 2013

There were no exceptional items in the year ended 29 June 2013.

### 9. Finance revenue and costs

Finance revenue comprise interest received from bank deposits. Finance costs mainly arise from interest due on the bond and bank loans. For accounting policies see 'Finance revenue' in note 2.

	2014 £m	Restated 2013 £m
Bank interest receivable on bank deposits	1.4	1.5
Other interest receivable	0.1	0.1
Finance revenue	1.5	1.6
Interest payable on bank loans and overdrafts	(3.2)	(3.9)
Interest payable on £200m sterling 7.5 year bond	(11.1)	(11.1)
Other interest payable	(2.0)	(1.9)
Hedging ineffectiveness	–	0.1
Unwinding of discounting on provisions	(1.1)	(0.7)
Interest payable under finance leases and hire purchase contracts	(0.4)	(0.4)
Interest on net pension liability	(2.0)	(0.8)
Finance costs	(19.8)	(18.7)

## 10. Taxation

This note explains how our Group tax charge arises. The deferred tax section of the note also sets out the tax liabilities held across the Group. For accounting policies see 'Taxation' in note 2.

### a. Tax recognised in the income statement and in equity

	2014 £m	Restated 2013 £m
Current tax charge	13.5	14.7
Adjustments in respect of current tax of previous years	(0.9)	(1.3)
	12.6	13.4
Deferred tax relating to origination and reversal of temporary differences at 20% (2013: 23%)	7.6	1.5
Adjustments in respect of deferred tax of previous years	0.2	0.3
Impact of opening deferred tax rate reduction	(6.8)	(2.1)
<b>Tax reported in consolidated income statement</b>	<b>13.6</b>	<b>13.1</b>

### *Tax relating to items charged or credited outside of profit or loss*

	2014 £m	Restated 2013 £m
Tax on remeasurement losses on defined benefit pension plans	(2.9)	(4.5)
Corporation tax on cashflow hedges	(0.1)	(0.6)
Deferred tax on cashflow hedges	(0.4)	0.8
Deferred tax on LTIP	(0.5)	–
Impact of opening deferred tax rate reduction	1.4	0.4
<b>Tax reported outside of profit or loss</b>	<b>(2.5)</b>	<b>(3.9)</b>

### b. Reconciliation

A reconciliation of income tax applicable to accounting profit before tax and exceptional items at the statutory tax rate to tax at the Group's effective tax rate for the years ended 28 June 2014 and 29 June 2013 is as follows:

	2014 £m	Restated 2013 £m
Accounting profit on ordinary activities before taxation	91.2	63.1
At United Kingdom tax rate of 22.5% (2013: 23.75%)	20.5	15.0
Adjustments in respect of current tax of previous years	(0.9)	(1.3)
Expenditure not allowable for tax purposes	1.6	1.3
Adjustments in respect of deferred tax of previous years	0.2	0.3
Effect of changes in tax rates	(1.0)	(0.1)
Impact of opening deferred tax rate reduction	(6.8)	(2.1)
Tax reported in consolidated income statement	13.6	13.1
Effective tax rate	14.9%	20.8%

### c. Reconciliation of current tax liabilities

A reconciliation of the current tax liability is provided below:

	2014 £m	2013 £m
Current tax liability at start of year	10.5	8.8
Corporation tax reported in consolidated income statement	12.6	13.4
Corporation tax on cashflow hedges	(0.1)	(0.6)
Paid in the year	(12.4)	(11.1)
Current tax liability at end of year	10.6	10.5

## 10. Taxation continued

### d. Deferred tax

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

	2014 £m	Restated 2013 £m	Restated 2012 £m
<b>Deferred tax liability</b>			
Accelerated capital allowances	(30.6)	(31.8)	(31.2)
Other temporary differences	(2.8)	0.5	2.7
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(17.4)	(19.9)	(20.9)
<b>Deferred tax liability included in balance sheet</b>	<b>(50.8)</b>	<b>(51.2)</b>	<b>(49.4)</b>
<b>Deferred tax asset</b>			
Retirement benefit obligations	12.0	11.0	5.5
<b>Deferred tax asset included in balance sheet</b>	<b>12.0</b>	<b>11.0</b>	<b>5.5</b>

The deferred tax included in the Group income statement is as follows:

	2014 £m	Restated 2013 £m
Accelerated capital allowances	2.6	2.5
Retirement benefit obligations	0.5	(1.3)
Temporary differences arising on pension spreading	3.6	–
Temporary differences arising on unwinding of leasing arrangements	1.6	–
Other temporary differences	(0.7)	0.3
	7.6	1.5
Adjustments in respect of prior years	0.2	0.3
Adjustments in respect of opening deferred tax rate reduction	(6.8)	(2.1)
Deferred tax expense	1.0	(0.3)

The UK Government has announced its intention to reduce the UK corporation tax rate to 20% by 1 April 2015.

A reduction in the UK corporation tax rate from 23% to 21% came into effect on 1 April 2014. Finance Bill 2013 was substantively enacted on 2 July 2013 and given Royal Assent on 17 July 2013, giving effect to a 20% rate effective from 1 April 2015.

## 11. Earnings per share

Basic earnings per share is the amount of profit generated for the financial year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. This note also includes adjusted earnings per share, which shows a 'normalised' earnings per share following elimination of the impact of amortisation and exceptional items.

### Basic and diluted earnings per share

	2014 £m	Restated 2013 £m
Net profit attributable to equity holders of the parent	70.3	46.2
Consisting of:		
Adjusted earnings attributable to equity holders of the parent	63.7	50.4
Amortisation after taxation and non-controlling interests	(3.9)	(4.2)
Exceptional items after taxation and non-controlling interests	10.5	–
Basic and diluted earnings attributable to equity holders of the parent	70.3	46.2

	2014	Restated 2013
Basic weighted average number of shares in issue ('000)	42,854	42,845
Dilutive potential share options ('000)	448	510
Diluted weighted average number of shares in issue ('000)	43,302	43,355
Earnings per share:		
Adjusted earnings per share (pence per share)	148.6	117.6
Basic earnings per share	164.0	107.8
Diluted earnings per share	162.4	106.6

The weighted average number of shares in issue excludes treasury shares held by the Group, and shares held in trust for the LTIP and DSBP arrangements.

No shares were bought back and cancelled by the Group in the period from 28 June 2014 to 3 September 2014.

The effect of taxation and non-controlling interests on exceptional items and amortisation is shown below for each of the periods.

### Adjusted earnings per share

Adjusted earnings per share is also presented to eliminate the impact of goodwill and intangible amortisation and exceptional items in order to show a 'normalised' earnings per share. This is analysed as follows:

#### Year ended 28 June 2014

	Profit for the year £m	Amortisation £m	Exceptional items £m	2014 Total £m
Profit before taxation	91.2	5.8	(12.1)	84.9
Less: Taxation	(13.6)	(1.3)	2.4	(12.5)
Less: Non-controlling interests	(7.3)	(0.6)	(0.8)	(8.7)
<b>Adjusted profit attributable to equity holders of the parent</b>	<b>70.3</b>	<b>3.9</b>	<b>(10.5)</b>	<b>63.7</b>
<b>Adjusted earnings per share (pence per share)</b>				<b>148.6</b>

#### Year ended 29 June 2013

	Profit for the year £m	Amortisation £m	Exceptional items £m	Restated 2013 Total £m
Profit before taxation	63.1	6.5	—	69.6
Less: Taxation	(13.1)	(1.5)	—	(14.6)
Less: Non-controlling interests	(3.8)	(0.8)	—	(4.6)
<b>Adjusted profit attributable to equity holders of the parent</b>	<b>46.2</b>	<b>4.2</b>	<b>—</b>	<b>50.4</b>
<b>Adjusted earnings per share (pence per share)</b>				<b>117.6</b>

## 12. Dividends paid and proposed

Dividends are one type of shareholder return, historically paid to our shareholders in April and November.

	2014 £m	2013 £m
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2013: 55.5p per share (2012: 55.5p)	23.8	23.8
Interim dividend for 2014: 25.5p per share (2013: 25.5p)	10.9	10.9
	<b>34.7</b>	<b>34.7</b>
	2014 £m	2013 £m
<b>Proposed for approval at the AGM (not recognised as a liability as at 28 June 2014)</b>		
Equity dividends on ordinary shares:		
Final dividend for 2014: 59.0p per share (2013: 55.5p)	25.3	23.8

## Notes to the consolidated financial statements continued

### 13. Property, plant and equipment

The Group holds significant investments in land and buildings, bus vehicles and plant and equipment, which form our tangible assets. All assets are depreciated over their useful economic lives. For accounting policies see 'Property, plant and equipment' in note 2.

	Freehold land and buildings £m	Leasehold land and properties £m	Bus vehicles £m	Plant and equipment £m	Total £m
<b>Cost:</b>					
At 30 June 2012	166.5	18.9	470.7	168.0	824.1
Additions	9.2	0.5	40.2	8.6	58.5
Acquisitions	–	–	0.3	–	0.3
Disposals	(0.2)	–	(17.3)	(1.3)	(18.8)
Transfer categories	3.9	(3.9)	(0.6)	3.1	2.5
Transfer of assets held for resale	(2.7)	–	–	–	(2.7)
At 29 June 2013	176.7	15.5	493.3	178.4	863.9
Additions	10.6	0.9	52.5	5.5	69.5
Disposals	(1.8)	(1.8)	(25.6)	(3.4)	(32.6)
Transfer categories	–	–	0.3	(0.3)	–
Transfer of assets held for resale	(1.8)	–	–	–	(1.8)
<b>At 28 June 2014</b>	<b>183.7</b>	<b>14.6</b>	<b>520.5</b>	<b>180.2</b>	<b>899.0</b>
<b>Depreciation and impairment:</b>					
At 30 June 2012	9.9	5.4	229.1	120.3	364.7
Charge for the year	4.2	0.5	38.8	14.6	58.1
Disposals	–	–	(15.3)	(1.2)	(16.5)
Transfer categories	0.3	(0.3)	(0.3)	0.3	–
At 29 June 2013	14.4	5.6	252.3	134.0	406.3
Charge for the year	5.6	1.1	39.2	14.8	60.7
Disposals	–	(0.7)	(23.8)	(1.7)	(26.2)
Transfer of assets held for resale	(0.4)	–	–	–	(0.4)
<b>At 28 June 2014</b>	<b>19.6</b>	<b>6.0</b>	<b>267.7</b>	<b>147.1</b>	<b>440.4</b>
<b>Net book value:</b>					
<b>At 28 June 2014</b>	<b>164.1</b>	<b>8.6</b>	<b>252.8</b>	<b>33.1</b>	<b>458.6</b>
At 29 June 2013	162.3	9.9	241.0	44.4	457.6
At 30 June 2012	156.6	13.5	241.6	47.7	459.4

The net book value of leased assets and assets acquired under hire purchase contracts is:

	2014 £m	2013 £m
Bus vehicles	1.9	46.1
Plant and equipment	0.1	0.3
	<b>2.0</b>	<b>46.4</b>

Additions and acquisitions during the year included £nil (2013: £nil) of rolling stock and £nil (2013: £nil) of plant and equipment under finance leases and hire purchase contracts.



## 14. Intangible assets

Our consolidated balance sheet contains significant intangible assets mainly in relation to goodwill, customer contracts and software costs. Goodwill, which arises when we acquire a business and pay a higher amount than the fair value of the net assets primarily due to the synergies we expect to create, is not amortised but is subject to annual impairment reviews. Customer contracts are amortised over the life of the contract. Software is amortised over its expected useful life. For further details see 'Impairment of assets', 'Franchise bid costs', 'Franchise assets', 'Software' and 'Business combinations and goodwill' in note 2.

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Customer contracts £m	Total £m
<b>Cost:</b>						
At 30 June 2012 restated	80.8	18.0	8.7	16.7	12.6	136.8
Additions	–	1.1	–	–	–	1.1
Acquisitions	–	–	–	–	0.6	0.6
Transfer categories	–	(2.5)	–	–	–	(2.5)
At 29 June 2013 restated	80.8	16.6	8.7	16.7	13.2	136.0
Additions	–	1.2	0.5	–	–	1.7
Disposals	–	(0.3)	–	–	–	(0.3)
<b>At 28 June 2014</b>	<b>80.8</b>	<b>17.5</b>	<b>9.2</b>	<b>16.7</b>	<b>13.2</b>	<b>137.4</b>
<b>Amortisation and impairment:</b>						
At 30 June 2012 restated	–	12.0	6.3	13.1	6.3	37.7
Charge for the year	–	1.6	0.8	2.1	2.0	6.5
At 29 June 2013 restated	–	13.6	7.1	15.2	8.3	44.2
Charge for the year	–	1.5	0.8	1.5	2.0	5.8
Disposals	–	(0.3)	–	–	–	(0.3)
<b>At 28 June 2014</b>	<b>–</b>	<b>14.8</b>	<b>7.9</b>	<b>16.7</b>	<b>10.3</b>	<b>49.7</b>
<b>Net book value:</b>						
<b>At 28 June 2014</b>	<b>80.8</b>	<b>2.7</b>	<b>1.3</b>	<b>–</b>	<b>2.9</b>	<b>87.7</b>
At 29 June 2013 restated	80.8	3.0	1.6	1.5	4.9	91.8
At 30 June 2012 restated	80.8	6.0	2.4	3.6	6.3	99.1

### Software costs

Software costs capitalised exclude software that is integral to the related hardware.

### Franchise bid costs

A part of the Group's activities is the process of bidding for and securing franchises to operate rail services in the UK. Directly attributable, incremental costs incurred after achieving preferred bidder status or entering into a franchise extension are capitalised as an intangible asset and amortised over the life of the franchise/franchise extension.

### Rail franchise asset

This reflects the cost of the right to operate a rail franchise, and relates to the cost of the intangible asset acquired on the handover of the franchise assets relating to the Southeastern rail franchise. The intangible asset is being amortised on a straight-line basis over the original life of the franchise.

### Customer contracts

This relates to the value attributed to customer contracts and relationships purchased as part of the Group's acquisitions. The value is calculated based on the unexpired term of the contracts at the date of acquisition and is amortised over that period.

## 14. Intangible assets continued

### Goodwill

Goodwill acquired through acquisitions has been allocated to individual cash-generating units for impairment testing on the basis of the Group's business operations. The carrying value of goodwill is tested annually for impairment by cash-generating unit and is as follows:

	2014 £m	2013 £m
Metrobus	10.6	10.6
Go South Coast	28.6	28.6
Brighton & Hove	2.1	2.1
Plymouth Citybus	13.0	13.0
Go-Ahead London	10.5	10.5
Go North East	2.7	2.7
Konectbus	3.6	3.6
Thames Travel	2.7	2.7
Carousel	2.1	2.1
Anglian	3.3	3.3
Chambers	1.6	1.6
	<b>80.8</b>	<b>80.8</b>

The recoverable amount of goodwill has been determined based on a value in use calculation for each cash-generating unit, using cashflow projections based on financial budgets and forecasts approved by senior management covering a three year period which have then been extended over an appropriate period. The directors feel that the extended period is justified because of the long term stability of the relevant income streams. Growth has been extrapolated forward from the end of the three year forecasts over a total period of ten years plus a terminal value using a growth rate of 2.25%-3.0% which reflects the directors' view of long term growth rates in each business, and the long term recurrent nature of the businesses.

The pre-tax cashflows for all cash-generating units have been discounted using a pre-tax discount rate of 8.3% (2013: 9.3%), based on the Group's weighted average cost of capital, plus an appropriate risk premium for the business of 0.0-2.0% (2013: 0.0-2.0%).

The calculation of value in use for each cash-generating unit is most sensitive to the forecast operating cashflows, the discount rate and the growth rate used to extrapolate cashflows beyond the budget period. The operating cashflows are based on assumptions of revenue, staff costs and general overheads. These assumptions are influenced by several internal and external factors.

The directors consider the assumptions used to be consistent with the historical performance of each unit and to be realistically achievable in light of economic and industry measures and forecasts. We have conducted sensitivity analysis on our calculations and except for Anglian, no reasonable change in key assumptions would cause the unit carrying amount to exceed its recoverable amount. Using a 8.3% pre-tax discount rate, Anglian has headroom of £1.2m. An increase in discount rate of 0.7% or a reduction of cashflows of 14% would be required to reduce the headroom in this business to £nil.

## 15. Business combinations

This note details acquisition transactions carried out in the current and prior periods. For accounting policies see 'Business combinations and goodwill' in note 2.

### Year ended 28 June 2014

There were no acquisitions during the year ended 28 June 2014.

### Year ended 29 June 2013

On 22 June 2013, London General Transport Services Limited, a wholly owned subsidiary of the Group, acquired 11 residual TfL Route contracts, including 45 buses, from First Capital East Limited's operation in Dagenham for a cash consideration of £0.7m.

### Net assets at date of acquisition:

	Total acquisitions – Fair value to Group 2013 £m
Tangible fixed assets	0.3
Intangibles – Customer contracts	0.6
Payables falling due within one year	(0.2)
	0.7
Cash	0.7
Total consideration	0.7

Acquisition costs of £nil have been expensed through other operating costs.

## 16. Assets classified as held for sale

This note identifies any non-current assets or disposal groups that are held for sale. The carrying amounts of these assets will be recovered principally through a sale rather than through continuing use. For accounting policies see 'Non-current assets held for sale' in note 2.

At 28 June 2014, assets held for sale, had a carrying value of £72.4m, of which £68.6m (2013: £nil) represents a payment on account for new rolling stock in Southern Railway Limited and in respect of which it is expected that a sale and operating leaseback will be completed before 27 June 2015. The remaining £3.8m (2013: £2.8m) relates to property, plant and equipment available for sale.

## 17. Inventories

Our inventory primarily consists of vehicle spares and fuel and is presented net of our allowance for obsolete products. For accounting policies see 'Inventories' in note 2.

	2014 £m	2013 £m
Raw materials and consumables	15.6	14.2

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

## 18. Trade and other receivables

Our trade and other receivables mainly consist of amounts owed to us by principal contracting authorities and other customers, amounts paid to suppliers in advance, amounts receivable from central Government and taxes receivable. Trade receivables are shown net of an allowance for bad or doubtful debts.

	2014 £m	2013 £m
<b>Current</b>		
Trade receivables	124.7	103.4
Less: Provision for impairment of receivables	(1.0)	(1.2)
Trade receivables – net	123.7	102.2
Other receivables	30.6	43.5
Prepayments and accrued income	56.8	50.5
Receivable from central Government	41.9	41.2
Amounts due from joint venture	1.8	0.4
	254.8	237.8

	2014 £m	2013 £m
<b>Non-current</b>		
Other receivables	1.2	1.1

Trade receivables at nominal value of £1.0m (2013: £1.2m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Total £m
At 29 June 2013	1.2
Charge for the year	0.4
Utilised	(0.3)
Unused amounts reversed	(0.3)
<b>At 28 June 2014</b>	<b>1.0</b>

As at 28 June 2014, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Less than 30 days £m	30-60 days £m	60-90 days £m	90-120 days £m	Past due but not impaired – more than 120 days £m
<b>2014</b>	<b>123.7</b>	<b>114.3</b>	<b>4.6</b>	<b>1.9</b>	<b>1.8</b>	<b>1.1</b>	<b>–</b>
2013	102.2	97.0	4.5	0.3	0.1	–	0.3

## 19. Cash and cash equivalents

The majority of the Group's cash is held in bank deposits which have a maturity of three months or less to enable us to meet our short term liquidity requirements. For accounting policies see 'Cash and cash equivalents' in note 2.

	2014 £m	2013 £m
Cash at bank and in hand	47.5	51.0
Cash and cash equivalents	234.3	197.9
	<b>281.8</b>	<b>248.9</b>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The fair value of cash and cash equivalents is not materially different from book value.

Amounts held by rail companies included in cash at bank and on short term deposit can be distributed only with the agreement of the DfT, normally up to the value of revenue reserves or based on a working capital formula. As at 28 June 2014, balances amounting to £217.3m (2013: £208.7m) were restricted. Part of this amount is to cover deferred income for season tickets which was £123.4m at 28 June 2014 (2013: £118.2m).

## 20. Trade and other payables

Our trade and other payables mainly consist of amounts we owe to suppliers that have been invoiced or accrued, deferred income and deferred season ticket income. They also include taxes and social security amounts due in relation to our role as an employer and amounts owed to central Government.

	2014 £m	2013 £m
<b>Current</b>		
Trade payables	115.4	131.6
Other taxes and social security costs	22.8	22.9
Other payables	45.6	41.5
Deferred season ticket income	123.4	118.2
Accruals and deferred income	124.6	109.6
Payable to central Government	116.0	38.8
Government grants	9.9	2.6
	<b>557.7</b>	<b>465.2</b>

	2014 £m	2013 £m
<b>Non-current</b>		
Government grants	2.4	3.5
Other liabilities	–	1.8
	<b>2.4</b>	<b>5.3</b>

Terms and conditions of the above financial liabilities are as follows:

- Trade payables are non-interest-bearing and are normally settled on 30 day terms; and
- Other payables are non-interest-bearing and have varying terms of up to 12 months.

## 21. Interest-bearing loans and borrowings

The Group's sources of borrowing for funding and liquidity requirements come from a range of committed bank facilities and a capital market bond. The Group holds a dollar loan facility to mitigate the impact of exchange rate movements on joint venture transactions. For accounting policies see 'Interest bearing loans and borrowings' and 'Cash and cash equivalents' in note 2.

### Net debt and interest-bearing loans and borrowings

Our net debt position comprises cash, short term deposits, interest-bearing loans and borrowings, and can be summarised as:

#### Year ended 28 June 2014

	Effective interest rate %	Maturity	Current		Non-current		Total £m
			Within one year £m	After one year but not more than five years £m	After five years £m		
Syndicated loans (see below)	1.64	0-2 years	–	120.0	–	120.0	
Debt issue costs on syndicated loans			(0.4)	–	–	(0.4)	
Dollar loans (see below)	1.90	0-1 years	2.5	–	–	2.5	
£200m sterling 7.5 year bond (see below)	5.38	0-4 years	–	200.0	–	200.0	
Debt issue costs			(0.4)	(0.8)	–	(1.2)	
Finance leases and HP commitments (see below)	7.87	0-3 years	1.2	0.8	–	2.0	
<b>Total interest-bearing loans and borrowings</b>			<b>2.9</b>	<b>320.0</b>	<b>–</b>	<b>322.9</b>	
Debt issue costs			0.8	0.8	–	1.6	
Total interest-bearing loans and borrowings (gross of debt issue costs)			3.7	320.8	–	324.5	
Cash and short term deposits (note 19)			(281.8)	–	–	(281.8)	
<b>Net debt</b>			<b>(278.1)</b>	<b>320.8</b>	<b>–</b>	<b>42.7</b>	
Restricted cash						217.3	
Adjusted net debt						260.0	

#### Year ended 29 June 2013

	Effective interest rate %	Maturity	Current		Non-current		Total £m
			Within one year £m	After one year but not more than five years £m	After five years £m		
Syndicated loans (see below)	1.82	0-3 years	–	133.0	–	133.0	
Debt issue costs on syndicated loans			(0.6)	(0.3)	–	(0.9)	
Dollar loans (see below)	2.04	0-3 years	–	3.2	–	3.2	
£200m sterling 7.5 year bond (see below)	5.38	0-5 years	–	200.0	–	200.0	
Debt issue costs			(0.4)	(1.2)	–	(1.6)	
Finance leases and HP commitments (see below)	8.36	0-4 years	1.6	2.0	–	3.6	
<b>Total interest-bearing loans and borrowings</b>			<b>0.6</b>	<b>336.7</b>	<b>–</b>	<b>337.3</b>	
Debt issue costs			1.0	1.5	–	2.5	
Total interest-bearing loans and borrowings (gross of debt issue costs)			1.6	338.2	–	339.8	
Cash and short term deposits (note 19)			(248.9)	–	–	(248.9)	
<b>Net debt</b>			<b>(247.3)</b>	<b>338.2</b>	<b>–</b>	<b>90.9</b>	
Restricted cash						208.7	
Adjusted net debt						299.6	

## 21. Interest-bearing loans and borrowings continued

### Analysis of Group net debt

	Cash and cash equivalents £m	Syndicated loan facility £m	Dollar loan £m	Hire purchase/ finance leases £m	£200m sterling bond £m	Total £m
30 June 2012	253.7	(135.0)	(3.5)	(6.2)	(200.0)	(91.0)
Cashflow	(4.8)	2.0	0.3	2.6	–	0.1
29 June 2013	248.9	(133.0)	(3.2)	(3.6)	(200.0)	(90.9)
Cashflow	32.9	13.0	0.7	1.6	–	48.2
<b>28 June 2014</b>	<b>281.8</b>	<b>(120.0)</b>	<b>(2.5)</b>	<b>(2.0)</b>	<b>(200.0)</b>	<b>(42.7)</b>

#### Syndicated loan facility

On 3 February 2011 the Group entered into a £275.0m five year syndicated loan facility. The loan facility is unsecured and interest is charged at LIBOR + Margin, where the margin is dependent upon the gearing of the Group.

As at 28 June 2014, £120.0m (2013: £133.0m) of the facility was drawn down.

On 16 July 2014, the Group re-financed and entered into a £280.0m five year syndicated loan facility, replacing the £275.0m five year syndicated loan facility. The new loan facility is unsecured and interest is charged at LIBOR + Margin, where the margin is dependent upon the gearing of the Group.

#### £200m sterling 7.5 year bond

On 24 March 2010, the Group raised a £200m bond of 7.5 years maturing on 29 September 2017 with a coupon rate of 5.375%.

#### Dollar loan

On 26 July 2010, a \$10.0m five year facility was entered into for the purposes of financing our Go-Ahead North America joint venture. As at 28 June 2014, \$4.3m (2013: \$4.8m) or £2.5m (2013: £3.2m) of this facility was drawn down.

The dollar loan is unsecured and interest is charged at US\$ LIBOR + Margin.

#### Debt issue costs

There are debt issue costs of £0.4m (2013: £0.9m) on the syndicated loan facility.

The £200m sterling 7.5 year bond has debt issue costs of £1.2m (2013: £1.6m).

The Group is subject to two covenants in relation to its borrowing facilities. The covenants specify a maximum adjusted net debt to EBITDA and a minimum net interest cover. At the year end and throughout the year, the Group has not been in breach of any bank covenants.

## 22. Finance lease and hire purchase commitments

This note details finance lease and hire purchase commitments. For accounting policies see 'Interest bearing loans and borrowings' in note 2.

The Group has finance leases and hire purchase contracts for bus vehicles and various items of plant and equipment. These contracts have no terms of renewal or purchase option escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments, are as follows:

	2014		2013	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	1.3	1.2	1.8	1.6
After one year but not more than five years	0.9	0.8	2.2	2.0
Total minimum lease payments	2.2	2.0	4.0	3.6
Less amounts representing finance charges	(0.2)	–	(0.4)	–
Present value of minimum lease payments	2.0	2.0	3.6	3.6

## 23. Financial risk management objectives and policies

This note details our treasury management and financial risk management objectives and policies, as well as the exposure and sensitivity of the Group to interest rate, liquidity, foreign exchange and credit risk, and the policies in place to monitor and manage these risks.

### Financial risk factors and management

The Group's principal financial instruments comprise bank loans, a sterling bond, hire purchase and finance lease contracts, and cash and short term deposits. The main purpose of these financial instruments is to provide an appropriate level of net debt to fund the Group's activities, namely working capital, fixed asset expenditure, acquisitions and dividends. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily interest rate swaps and fuel swaps. The purpose of these is to manage the interest rate and fuel price risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2013/14 and 2012/13, the Group's policy that no trading in derivatives shall be undertaken and derivatives are only purchased for internal benefit.

The main financial risks arising from the Group's activities are interest rate risk, liquidity risk and credit risk. Risks arising from fuel derivatives are explained in note 24.

### Interest rate risk

The Group borrows and deposits funds and is exposed to changes in interest rates. The Board's policy toward cash deposits is to deposit cash short term on UK money markets. Interest payable on senior bank borrowings can be based on re-fixing the rate of interest over short periods of time of up to 36 months. During the year ended 29 June 2013 the Group partially managed interest rate risk by hedging. During the year ended 28 June 2014 the Group had no interest rate hedges in place. Excluding fixed rate debt, the Group has net borrowings and hence the present adverse risk is an increase in interest rates.

The maturity and interest rate profile of the financial assets and liabilities of the Group (excluding unamortised issue costs) as at 28 June 2014 and 29 June 2013 and is as follows:

	Average rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>Year ended 28 June 2014</b>								
<b>Floating rate (assets)/liabilities</b>								
Variable rate loans	1.70	2.5	120.0	–	–	–	–	122.5
Gross floating rate liabilities		2.5	120.0	–	–	–	–	122.5
Cash assets	0.53	(281.8)	–	–	–	–	–	(281.8)
Long term deposits	n/a	–	–	–	–	–	–	–
Net floating rate (assets)/liabilities		(279.3)	120.0	–	–	–	–	(159.3)
<b>Fixed rate liabilities</b>								
£200m sterling 7.5 year bond	5.38	–	–	–	200.0	–	–	200.0
Obligations under finance lease and hire purchase contracts	7.87	1.2	0.6	0.2	–	–	–	2.0
Net fixed rate liabilities		1.2	0.6	0.2	200.0	–	–	202.0
<b>Year ended 29 June 2013</b>								
<b>Floating rate (assets)/liabilities</b>								
Variable rate loans	1.82	–	–	136.2	–	–	–	136.2
Gross floating rate liabilities		–	–	136.2	–	–	–	136.2
Cash assets	0.59	(248.9)	–	–	–	–	–	(248.9)
Long term deposits	3.60	–	(1.6)	–	–	–	–	(1.6)
Net floating rate (assets)/liabilities		(248.9)	(1.6)	136.2	–	–	–	(114.3)
<b>Fixed rate liabilities</b>								
£200m sterling 7.5 year bond	5.38	–	–	–	–	200.0	–	200.0
Obligations under finance lease and hire purchase contracts	8.36	1.6	1.1	0.5	0.4	–	–	3.6
Net fixed rate liabilities		1.6	1.1	0.5	0.4	200.0	–	203.6

Interest on financial instruments classified as floating rate are re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the tables above are non-interest bearing and are therefore not subject to interest rate risk.

At 28 June 2014, the Group had no interest rate swaps (2013: no interest rate swaps as all interest rate swaps expired during the year ended 29 June 2013). During the year ended 29 June 2013, the interest swaps resulted in a realised loss of £0.5m. The net fixed rate liability at 28 June 2014 was £nil (2013: £nil).

## 23. Financial risk management objectives and policies continued

### Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
<b>2014</b>			
<b>GBP</b>	50.0	(0.6)	(0.6)
<b>GBP</b>	(50.0)	0.6	0.6
<b>2013</b>			
GBP	50.0	(0.5)	(0.5)
GBP	(50.0)	0.5	0.5

### Liquidity risk

The Group has in place a £275.0m syndicated loan facility which allows the Group to maintain liquidity within the desired gearing range.

On 16 July 2014, the Group re-financed and entered into a £280.0m five year syndicated loan facility, replacing the £275.0m five year syndicated loan facility.

On 24 March 2010, the Group raised a £200m bond of 7.5 years maturing on 29 September 2017. The level of drawdown and prevailing interest rates are detailed in note 21.

Available liquidity as at 28 June 2014 and 29 June 2013 was as follows:

	2014 £m	2013 £m
<b>Five year syndicated facility 2016</b>	<b>275.0</b>	275.0
<b>£200m 7.5 year 5.375% sterling bond 2017</b>	<b>200.0</b>	200.0
<b>Total core facilities</b>	<b>475.0</b>	475.0
<b>Amount drawn down at 28 June 2014</b>	<b>320.0</b>	333.0
<b>Headroom</b>	<b>155.0</b>	142.0

The Group's road passenger vehicles can be financed by hire purchase or finance lease arrangements, or term loans at fixed rates of interest over two to five year primary borrowing periods. This provides a regular inflow of funding to cover expenditure as it arises.

### Foreign currency risk

On 26 July 2010, a \$10.0m five year facility was agreed with RBS to ensure dollar investment in our US joint venture is funded by dollar borrowings to provide an effective foreign currency hedge.

The amount drawn on the facility reflects the investment in and the working capital requirements of the Group's share in its US joint venture. As the investment and borrowings are both denominated in US \$ this provides a natural hedge over the Group's foreign currency exposure.

### Credit risk

The Group's credit risk is primarily attributable to its trade receivables (see note 18) and cash deposits (see note 19). The maximum credit risk exposure of the Group comprises the amounts presented in the balance sheet, which are stated net of provisions for doubtful debt. A provision is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of future cashflows.

The majority of the Group's receivables are with public (or quasi-public) bodies (such as the DfT). The Group does not consider these counterparties to be a significant credit risk. Risk of exposure to non-return of cash on deposit is managed through a treasury policy of holding deposits with banks rated A- or A3 or above by at least one of the credit rating agencies. Our treasury policy outlines the maximum level of deposit that can be placed with any one given financial institution.



### Contractual payments

The tables below summarise the maturity profile of the Group's financial liabilities at 28 June 2014 and 29 June 2013 based on contractual undiscounted payments.

#### Year ended 28 June 2014

	On demand £m	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings	–	3.2	2.2	122.0	–	127.4
£200m sterling 7.5 year bond	–	10.4	–	223.3	–	233.7
Other financial liabilities	–	0.9	2.6	1.3	–	4.8
Trade and other payables	73.2	166.9	109.7	–	–	349.8
	73.2	181.4	114.5	346.6	–	715.7

#### Year ended 29 June 2013

	On demand £m	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings	–	0.9	3.0	142.7	–	146.6
£200m sterling 7.5 year bond	–	10.4	–	233.7	–	244.1
Other financial liabilities	–	0.4	1.3	1.1	–	2.8
Trade and other payables	36.6	219.4	33.0	1.0	–	290.0
	36.6	231.1	37.3	378.5	–	683.5

### Managing capital

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 28 June 2014 and 29 June 2013.

The Group applies the primary objective by managing its capital structure such that net debt (adjusted to exclude restricted cash) to EBITDA (before exceptionals) is within a range which retains an investment grade debt rating of at least BBB-.

In the year ended 2 July 2011, the Group obtained investment grade long term credit ratings from Standard & Poor's and Moody's as follows:

Standard & Poor's   BBB- (Stable outlook)

Moody's               Baa3 (Stable outlook)

Those ratings have been maintained in the year ended 28 June 2014.

The Group's policy is to maintain an adjusted net debt to EBITDA ratio of 1.5x to 2.5x through the cycle. The Group's calculation of adjusted net debt is set out in note 21 and includes cash and short term deposits, interest-bearing loans and borrowings, and excludes restricted cash. During the year no specific actions were required to be taken by the Group to maintain this ratio and ensure the investment grade debt rating.

Our primary financial covenant under the 2016 syndicated loan facility was an adjusted net debt to EBITDA ratio of not more than 3.5x. Under this facility we adjusted for the effect of IAS 19 (revised) of £15.6m (2013: £15.8m) resulting in a restated net debt to EBITDA ratio of 1.45x (2013: 1.87x). Under the 2019 syndicated loan facility no adjustment is required and our covenants would have been 1.59x (2013: 2.07x).

### Operating leases

The Group uses operating leases for bus and coach purchases across the Group primarily where the vehicles service specific contracts to mitigate the risk of ownership at the end of the contract. This results in £1.9m (2013: £2.6m) of cost within operating charges which would otherwise have been charged to interest. The Group holds operating leases for its bus fleet with an asset capital value of £27.0m (2013: £44.2m).

The majority of assets in the rail division are financed by operating leases, in particular rolling stock. Leases are entered into by the respective operating companies and are not the subject of parent company guarantees.

## Notes to the consolidated financial statements continued

### 24. Derivatives and financial instruments

A derivative is a security whose price is dependent upon or derived from an underlying asset. The Group uses energy derivatives to hedge its risks associated with fuel price fluctuations. Financial instruments held by the Group include fuel hedge derivatives, long term cash deposits and finance lease/hire purchase contracts. For accounting policies see 'Financial assets and derivatives', 'Fair value measurement' and 'Interest bearing loans and borrowings' in note 2.

#### a. Fair values

The fair values of the Group's financial instruments carried in the financial statements have been reviewed as at 28 June 2014 and 29 June 2013 and are as follows:

	2014 £m	2013 £m
Non-current assets	0.1	1.7
Current assets	–	0.6
	<b>0.1</b>	<b>2.3</b>
Current liabilities	(3.5)	(1.7)
Non-current liabilities	(1.4)	(1.1)
	<b>(4.9)</b>	<b>(2.8)</b>
Net financial liabilities	<b>(4.8)</b>	<b>(0.5)</b>

#### Year ended 28 June 2014

	Amortised cost £m	Held to maturity £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	–	(4.8)	(4.8)	(4.8)
Long term deposits	–	–	–	–	–
Net financial liabilities	–	–	(4.8)	(4.8)	(4.8)
Obligations under finance lease and hire purchase contracts	(2.0)	–	–	(2.0)	(2.0)
	<b>(2.0)</b>	<b>–</b>	<b>(4.8)</b>	<b>(6.8)</b>	<b>(6.8)</b>

#### Year ended 29 June 2013

	Amortised cost £m	Held to maturity £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	–	(2.1)	(2.1)	(2.1)
Long term deposits	–	1.6	–	1.6	1.6
Net financial assets/(liabilities)	–	1.6	(2.1)	(0.5)	(0.5)
Obligations under finance lease and hire purchase contracts	(3.6)	–	–	(3.6)	(3.6)
	<b>(3.6)</b>	<b>1.6</b>	<b>(2.1)</b>	<b>(4.1)</b>	<b>(4.1)</b>

The fair value of all other assets and liabilities in notes 18, 20 and 21 is not significantly different from their carrying amount, with the exception of the £200m sterling 7.5 year bond which has a fair value of £217.2m (2013: £216.6m) but is carried at its amortised cost of £198.8m. The fair value of the £200m sterling 7.5 year bond has been determined by reference to the price available from the market on which the bond is traded. The fuel price derivatives were valued externally by the respective banks by comparison with the market fuel price for the relevant date.

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

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

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

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

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

As at 28 June 2014, the Group has used a level 2 valuation technique to determine the fair value of all financial instruments.

During the year ended 28 June 2014, there were no transfers between valuation levels.

## b. Hedging activities

### Fuel derivatives

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

At the year end, the Group had various fuel price swaps in place. For the 2015, 2016 and 2017 financial years cashflow hedges were placed over 130, 63 and 31 million litres of fuel respectively. The fair value of the asset or liability has been recognised on the balance sheet. The value has been generated since the date of the acquisition of the instruments due to the movement in market fuel prices.

As at 28 June 2014 the Group had derivatives against bus fuel of 126 million litres for the year ending 27 June 2015, representing approximately 100% of the anticipated fuel usage in our bus division. As at 28 June 2014 the Group also had derivatives against bus fuel for the 2016 and 2017 financial years of 63 and 31 million litres respectively.

As at 28 June 2014 the Group had derivatives against rail fuel of 4 million litres for the year ending 27 June 2015, representing the anticipated fuel usage in Southern. As at 28 June 2014 the Group had no further derivatives for the 2016 or 2017 financial year against rail fuel.

The Group's hedging policy for the target percentage of anticipated bus fuel usage hedged for the next year and subsequent two years as at 28 June 2014 is as follows:

	2015	2016	2017
Percentage to hedge as per Group policy	100.0%	50.0%	25.0%
Actual percentage hedged	100.0%	50.0%	25.0%

After the year end the Board approved an additional purchase to increase the hedging profile for 2015/16 to 100%, taking advantage of low commodity costs and favourable exchange rates.

## 25. Provisions

A provision is a liability recorded in the consolidated balance sheet, where there is uncertainty over the timing or amount that will be paid, and is therefore often estimated. The main provisions we hold are in relation to uninsured claims and dilapidation provisions relating to franchise commitments. For accounting policies see 'Provisions' and 'Uninsured liabilities' in note 2.

	Depots £m	Franchise commitments £m	Uninsured claims £m	Restructuring provision £m	Other £m	Total £m
At 29 June 2013	0.2	51.4	49.6	–	2.9	104.1
Provided (after discounting)	–	17.3	17.7	3.0	0.4	38.4
Utilised	(0.1)	(9.6)	(17.5)	(0.6)	(1.1)	(28.9)
Released	(0.1)	(6.6)	(2.0)	–	(0.1)	(8.8)
Transferred from creditors	–	1.4	–	–	0.7	2.1
Unwinding of discounting	–	0.3	0.8	–	–	1.1
<b>At 28 June 2014</b>	<b>–</b>	<b>54.2</b>	<b>48.6</b>	<b>2.4</b>	<b>2.8</b>	<b>108.0</b>

	2014 £m	2013 £m
Current	66.3	45.6
Non-current	41.7	58.5
	<b>108.0</b>	<b>104.1</b>

Franchise commitments comprise £54.2m dilapidation provisions on vehicles, properties, depots and stations across our three active rail franchises. Of the dilapidation provisions, £45.4m are classified as current. The provisions are based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors. During the year £6.6m has been released following the successful renegotiation of certain contract conditions. The dilapidations will be incurred in order to meet the hand back requirements over the remaining period of the franchise, which at the balance sheet date is anticipated as within one to two years, subject to contract extension negotiations.

Uninsured claims represent the cost to the Group 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 to the Group by the insurer, subject to the overall stop loss. Of the uninsured claims, £17.5m are classified as current and £31.1m are classified as non-current based on past experience of uninsured claims paid out annually. It is estimated that the majority of uninsured claims will be settled within the next six years.

The restructuring provision of £2.4m relates to the London Midland franchise and has been created to cover the cost of restructuring front line and head office personnel, in order for the franchise to adapt effectively to increasing competitive pressures on the West Coast line. The restructuring provision is all current.

Within other provisions, £2.4m relates to dilapidations of which £0.6m are classified as current, and £1.8m are classified as non-current. These provisions relate to the bus division. It is expected that the dilapidations will be incurred within two to five years. The remaining other current provision of £0.4m relates to completion claims regarding the sale of our aviation business.

## 26. Issued capital and reserves

Called up share capital is the number of shares in issue at their par value. For accounting policies see 'Treasury shares' in note 2.

	Allotted, called up and fully paid			2013 £m
	Millions	2014 £m	Millions	
As at 28 June 2014 and 29 June 2013	46.9	4.7	46.9	4.7

The Group has one class of ordinary shares which carry no right to fixed income.

### Share capital

Share capital represents proceeds on issue of the Group's equity, both nominal value and share premium.

### Reserve for own shares

The reserve for own shares is in respect of 4,033,481 ordinary shares (8.6% of share capital), of which 131,251 are held for LTIP and DSBP arrangements. The remaining shares were purchased in order to enhance shareholders' returns and are being held as treasury shares for future issue in appropriate circumstances. During the year ended 28 June 2014 the Group has not purchased any shares (2013: no shares purchased). The Group has not cancelled any shares during the year (2013: no shares).

### Other reserve

The other reserve represents the premium on shares that have been issued to fund or part fund acquisitions made by the Group. This treatment is in line with Section 612 of the Companies Act 2006.

### Hedging reserve

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

### Capital redemption reserve

The redemption reserve reflects the nominal value of cancelled shares.

## 27. Commitments and contingencies

A commitment is a contractual obligation to make a payment in the future, mainly in relation to operating leases and agreements to procure assets. These amounts are not recorded in the consolidated financial statements as we have not yet received the goods or services from the supplier.

### Capital commitments

	2014 £m	2013 £m
Contracted for but not provided	16.2	27.6

In addition, the Group has contractual commitments regarding procurement of rolling stock of £103.0m (2013: £nil), to be funded by central Government. The Group will continue to be involved in rolling stock procurement as part of the Thameslink rolling stock investment programme, in respect of which a contract for the procurement of 116 new rail vehicles was signed on 30 July 2013. This contract will facilitate the procurement of the new rolling stock, which will in due course be financed by a rolling stock leasing company. Interim funding has been provided by the DfT, and the Group will not ultimately bear any liability for the new rolling stock.

### Contractual commitments

The Group also has contractual commitments of £213.8m (2013: £179.5m) payable within one year, and £18.7m (2013: £222.1m) payable within two to five years, regarding franchise agreement payments to the DfT in respect of the Southern franchise.

### Operating lease commitments – Group as lessee

The Group 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 28 June 2014 and 29 June 2013 were as follows:

#### As at 28 June 2014

	Bus vehicles £m	Bus property £m	Other non rail £m	Rail rolling stock £m	Rail access charges £m	Rail other £m
Within one year	14.7	1.0	–	243.9	263.9	76.0
In the second to fifth years inclusive	14.2	1.6	–	62.3	87.9	17.1
Over five years	0.3	3.7	–	–	–	–
	<b>29.2</b>	<b>6.3</b>	<b>–</b>	<b>306.2</b>	<b>351.8</b>	<b>93.1</b>

#### As at 29 June 2013

	Bus vehicles £m	Bus property £m	Other non rail £m	Rail rolling stock £m	Rail access charges £m	Rail other £m
Within one year	18.7	0.8	–	327.8	441.2	118.2
In the second to fifth years inclusive	26.8	1.6	0.1	289.6	408.5	84.9
Over five years	0.1	3.2	–	–	–	–
	<b>45.6</b>	<b>5.6</b>	<b>0.1</b>	<b>617.4</b>	<b>849.7</b>	<b>203.1</b>

Details of the lease cost for the year are shown in note 6.

### Operating lease commitments – Group as lessor

The Group's train operating companies hold agreements under which they sub-lease rolling stock, and agreements with Network Rail for access to the railway infrastructure (track, stations and depots).

Future minimum rentals payable under non-cancellable operating leases as at 28 June 2014 and 29 June 2013 were as follows:

	2014		2013	
	Land and buildings £m	Other rail agreements £m	Land and buildings £m	Other rail agreements £m
Within one year	2.1	21.4	3.1	23.8
In the second to fifth years inclusive	1.3	1.6	3.0	25.9
Over five years	–	–	–	–
	<b>3.4</b>	<b>23.0</b>	<b>6.1</b>	<b>49.7</b>

### Performance bonds

The Group has provided bank guaranteed performance bonds of £121.7m (2013: £100.1m), a loan guarantee bond of £36.3m (2013: £nil), and season ticket bonds of £162.9m (2013: £157.4m) to the DfT in support of the Group's rail franchise operations.

These bonds are supported by a 65% several guarantee from The Go-Ahead Group plc and a 35% several guarantee from Keolis (UK) Limited.

To support subsidiary companies in their normal course of business, the Group has indemnified certain banks and insurance companies who have issued certain performance bonds and a letter of credit. The letter of credit at 28 June 2014 is £45.0m (2013: £43.0m).

## 28. Retirement benefit obligations

The Group operates a defined contribution pension scheme and a Workplace Saving Scheme for our employees. We also administer a defined benefit pension scheme, which is closed to new entrants and future accruals. For accounting policies see 'Retirement benefits' in note 2.

Retirement benefit obligations consist of the following:

	2014			Restated 2013			Restated 2012		
	Bus £m	Rail £m	Total £m	Bus £m	Rail £m	Total £m	Bus £m	Rail £m	Total £m
Pre-tax pension liabilities	(59.8)	–	(59.8)	(47.7)	–	(47.7)	(22.8)	–	(22.8)
Deferred tax asset	12.0	–	12.0	11.0	–	11.0	5.5	–	5.5
Post-tax pension scheme liabilities	(47.8)	–	(47.8)	(36.7)	–	(36.7)	(17.3)	–	(17.3)
Remeasurement (losses)/gains on defined benefit pension plans	(27.7)	13.2	(14.5)	(30.1)	10.4	(19.7)			

### Bus schemes

#### The Go-Ahead Group Pension Plan

For the majority of bus employees, the Group operates one main pension scheme, The Go-Ahead Group Pension Plan (the Go-Ahead Plan), which consists of a funded defined benefit scheme and a defined contribution section as follows.

The defined contribution section of the Go-Ahead plan is not contracted-out of the State Second Pension Scheme. It was closed to new entrants during the year ended 28 June 2014 and replaced by a Workplace Saving Scheme, which is also a defined contribution pension scheme. The expense recognised for the defined contribution section of the Go-Ahead plan is £9.0m (2013: £6.9m), being the contributions paid and payable. The expense recognised for the Workplace Saving Scheme is £0.9m (2013: n/a) being the contributions paid and payable.

The defined benefit section of the Go-Ahead plan is contracted-out of the State Second Pension Scheme and provides benefits based on a member's final salary. The assets of the scheme are held in a separate trustee-administered fund. Contributions to this section are assessed in accordance with the advice of an independent qualified actuary. Previously, the section had been effectively closed to new entrants, however existing members continued to build up further Final Salary benefits. However, during the year ended 28 June 2014, the Group commenced a formal consultation process with existing members and their representatives to close the defined benefit section to future accrual and to offer members the opportunity to join the defined contribution section instead. On 31 March 2014, the defined benefit section of the Go-Ahead plan was closed to future accrual for all members.

The Go-Ahead Plan is a Group plan for related companies where risks are shared. The overall costs of the Go-Ahead plan have been recognised in the Group's financial statements according to IAS 19 (revised). Each of the participating companies accounts on the basis of contributions paid by that company. The Group accounts for the difference between the aggregate IAS 19 (revised) cost of the scheme and the aggregate contributions paid.

The Go-Ahead Plan is governed by a Trustee Company and is subject to regulation from the Pensions Regulator and relevant UK legislation. This regulatory framework requires the trustees of the plan and the Group to agree upon the assumptions underlying the funding target, and the necessary contributions as part of each triennial valuation. The last actuarial valuation of The Go-Ahead Group Pension Plan had an effective date of 31 March 2012.

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

#### Other pension plans

Some employees of Plymouth Citybus have entitlement to a Devon County Council defined benefit plan. This scheme is externally funded and is now closed to new entrants. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary.

#### Summary of year end assumptions

	2014 %	2013 %
Retail price index inflation	3.3	3.3
Consumer price index inflation	2.0	2.0
Discount rate	4.3	4.7
Rate of increase in salaries	n/a	4.3
Rate of increase of pensions in payment and deferred pension*	2.0	2.0

\* In excess of any Guaranteed Minimum Pension (GMP) element.

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.

	2014 Years	2013 Years
Pensioner	20	20
Non-pensioner	21	21

### Sensitivity analysis

In making the valuation, the above assumptions have been used. For bus pension schemes, the following is an approximate sensitivity analysis of the impact of the change in the key assumptions. In isolation, the following adjustments would adjust the pension deficit as shown.

	2014 Pension deficit %
Discount rate – increase of 0.1%	(1.7)
Price inflation – increase of 0.1%	1.5
Rate of increase in salaries – increase of 0.1%	n/a
Rate of increase of pensions in payment – increase of 0.1%	0.9
Increase in life expectancy of pensioners or non-pensioners by 1 year	3.6

### Maturity profile of defined benefit obligation

The following table shows the expected future benefit payments of the plan.

	£m
June 2015	20.5
June 2016	21.2
June 2017	21.9
June 2018	22.6
June 2019	23.3
June 2020 to June 2024	128.6

### Category of assets at the year end

	2014		2013	
	£m	%	£m	%
Equities	206.4	34.2	212.5	37.3
Bonds	34.4	5.7	31.3	5.5
Property	33.8	5.6	30.8	5.4
Liability driven investing portfolio	315.0	52.2	282.5	49.6
Cash/other	13.9	2.3	12.5	2.2
	603.5	100.0	569.6	100.0

All of the asset categories above are held within pooled funds and are therefore quoted in active markets.

### Funding position of the Group's pension arrangements

	2014 £m	2013 £m
<b>Employer's share of pension scheme:</b>		
Liabilities at the end of the year	(663.3)	(617.3)
Assets at fair value	603.5	569.6
<b>Pension scheme liability</b>	<b>(59.8)</b>	<b>(47.7)</b>

### Pension cost for the financial year

	2014 £m	Restated 2013 £m
Service cost	4.8	6.1
Administration costs	1.9	1.7
Interest cost on net liabilities	2.0	0.8
<b>Total pension costs</b>	<b>8.7</b>	<b>8.6</b>

## 28. Retirement benefit obligations continued

Analysis of the change in the pension scheme liabilities over the financial year

	2014 £m	Restated 2013 £m
Employer's share of pension scheme liabilities – at start of year	617.3	558.7
Service cost	6.9	9.3
Interest cost	28.2	27.3
Remeasurement losses/(gains) due to:		
Experience on benefit obligations	2.8	(18.1)
Changes in demographic assumptions	0.2	12.0
Changes in financial assumptions	44.1	46.4
Curtailements	(15.1)	–
Benefits paid	(21.1)	(18.3)
Employer's share of pension scheme liabilities – at end of year	663.3	617.3

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

	2014 £m	Restated 2013 £m
Fair value of assets – at start of year	569.6	535.9
Interest income of plan assets	26.2	26.5
Remeasurement gains due to return on assets greater than discount rate	19.4	10.2
Administration costs	(1.9)	(1.7)
Group contributions	9.2	13.8
Employee contributions (including age related rebates)	2.1	3.2
Benefits paid	(21.1)	(18.3)
Fair value of plan assets – at end of year	603.5	569.6

Estimated contributions for future

	£m
Estimated Group contributions in financial year 2015	4.7
Estimated employee contributions in financial year 2015	–
Estimated total contributions in financial year 2015	4.7

### Rail schemes

#### *The Railways Pension Scheme (the RPS)*

The majority of employees in our train operating companies are members of sections 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 sections are all open to new entrants and the assets and liabilities of each company's section are separately identifiable and segregated for funding purposes.

BRASS matching AVC Group contributions of £0.9m (2013: £0.8m) were paid in 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. 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 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 Railways Pension Trustee Company Limited and is subject to regulation from the Pensions Regulator and relevant UK legislation.



## Summary of year end assumptions

	2014 %	2013 %
Retail price index inflation	3.3	3.3
Consumer price index inflation	2.0	2.0
Discount rate	4.3	4.7
Rate of increase in salaries	4.3	4.3
Rate of increase of pensions in payment and deferred pension*	2.0	2.0

\* In excess of any Guaranteed Minimum Pension (GMP) element.

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 life expectancy of a male member at age 65, is 22 years and 24 years for a pensioner and non-pensioner respectively. The mortality assumptions adopted as at 28 June 2014 are based on the initial results of the latest funding valuation as at 31 December 2013. The mortality assumptions adopted as at 29 June 2013 are based on the funding valuation as at December 2010. This includes different assumptions for different subsections of each Scheme's membership. Factors used to differentiate between members include level of pension in payment, pensionable pay and member postcodes. These factors were used as they have been shown to impact upon life expectancy. The mortality tables used were the S1 SAPS tables, published by the CMI on 31 October 2008. As such, different members will have different life expectancies, dependent on their characteristics, and it is not possible to quote a single life expectancy figure.

### Sensitivity analysis

In making the valuation, the above assumptions have been used. For rail pension schemes, the following is an approximate sensitivity analysis of the impact of the change in the key assumptions. In isolation, the following adjustments would adjust the pension deficit as shown.

	2014 Pension deficit %
Discount rate – increase of 0.1%	(2.0)
Price inflation – increase of 0.1%	2.0
Rate of increase in salaries – increase of 0.1%	0.5
Rate of increase of pensions in payment – increase of 0.1%	1.1
Increase in life expectancy of pensioners or non-pensioners by 1 year	3.1

### Category of assets at the year end

	2014		2013	
	£m	%	£m	%
Equities	1,131.5	89.5	1,040.2	89.7
Bonds	64.5	5.1	58.0	5.0
Property	60.7	4.8	54.5	4.7
Cash	7.6	0.6	6.9	0.6
	1,264.3	100.0	1,159.6	100.0

All of the asset categories above are held within pooled funds and therefore quoted in active markets.

### Funding position of the Group's pension arrangements

	2014 £m	Restated 2013 £m
<b>Employer's share of pension scheme:</b>		
Liabilities at the end of the year	(1,601.6)	(1,427.4)
Assets at fair value	1,264.3	1,159.6
Gross deficit	(337.3)	(267.8)
Franchise adjustment	337.3	267.8
<b>Pension scheme liability</b>	–	–

## Notes to the consolidated financial statements continued

### 28. Retirement benefit obligations continued

#### Pension cost for the financial year

	2014 £m	Restated 2013 £m
Service cost	45.2	40.4
Administration costs	1.9	3.1
Interest cost on net liabilities	12.7	11.3
Interest on franchise adjustments	(12.7)	(11.3)
<b>Pension cost</b>	<b>47.1</b>	<b>43.5</b>

#### Analysis of the change in the pension scheme liabilities over the financial year

	2014 £m	Restated 2013 £m
Employer's share of pension scheme liabilities – at start of year	1,427.4	1,264.6
Franchise adjustment	(267.8)	(224.9)
	1,159.6	1,039.7
Liability movement for members' share of assets	56.6	60.9
Service cost	45.2	40.4
Interest cost	44.0	42.2
Interest on franchise adjustment	(12.7)	(11.3)
Remeasurement losses/(gains) due to:		
Experience on benefit obligations	15.8	(20.7)
Changes in demographic assumptions	52.6	87.3
Changes in financial assumptions	(1.5)	(13.5)
Benefits paid	(38.5)	(33.4)
Franchise adjustment movement	(56.8)	(32.0)
	1,264.3	1,159.6
Franchise adjustment	337.3	267.8
Employer's share of pension scheme liabilities – at end of year	1,601.6	1,427.4

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

	2014 £m	Restated 2013 £m
Fair value of assets – at start of year	1,159.6	1,039.7
Interest income of plan assets	31.6	31.3
Remeasurement gains due to return on assets greater than discount rate	23.2	31.5
Administration costs	(3.2)	(5.1)
Group contributions	34.0	33.1
Benefits paid	(38.5)	(33.4)
Members' share of movement of assets	57.6	62.5
Fair value of plan assets – at end of year	1,264.3	1,159.6

#### Estimated contributions for future

	£m
Estimated Group contributions in financial year 2015	25.5
Estimated employee contributions in financial year 2015	16.9
Estimated total contributions in financial year 2015	42.4

IAS 19 (revised) would require the Group 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 Group has concluded that the appropriate accounting policy for the RPS to ensure that the financial statements present fairly the Group's financial position, financial performance and cashflows, is to recognise its constructive but not its legal RPS defined benefit obligations. In all other respects the Group's accounting policy is consistent with IAS 19 (revised) and the treatment adopted for non-rail defined benefit schemes. In doing so, the Group has applied the provisions of paragraph 17 of IAS 1 and departed from the requirements of IAS 19 (revised) in order to achieve a fair presentation of the Group'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 total surplus or deficit recorded is adjusted by way of a 'franchise adjustment', which is that portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from.

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

	2014 £m	Restated 2013 £m
<b>Balance sheet</b>		
Defined benefit pension plan	(337.3)	(267.8)
Deferred tax asset	67.5	61.6
	<b>(269.8)</b>	<b>(206.2)</b>
<b>Other comprehensive income</b>		
Remeasurement gains	56.8	32.0
Tax on remeasurement gains	(11.4)	(7.4)
	<b>45.4</b>	<b>24.6</b>
<b>Income statement</b>		
Operating costs – franchise adjustment	(12.7)	(11.3)
Deferred tax charge	2.5	2.6
	<b>(10.2)</b>	<b>(8.7)</b>

## Risks associated with defined benefit plans

### Bus schemes

The number of employees in defined benefit plans is reducing, as these plans are closed to new entrants, and in the case of The Go-Ahead Group Pension Plan, closed to future accrual. Consequently, the number of defined contribution members is increasing.

### Rail schemes

Despite remaining open to new entrants and future accrual, the risks posed by the Railways Pension Scheme 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 cashflow risk within this business.

The key risks relating to the defined benefit pension arrangements and the steps taken by the Group to mitigate them are as follows:

Risk	Description	Mitigation
<b>Asset volatility</b>	The liabilities are calculated using a discount rate set with reference to bond yields with maturity profiles matching pension maturity; if assets underperform this yield, this will create a deficit. Most of the defined benefit arrangements hold a proportion of return-seeking assets (equities, diversified growth funds and global absolute return funds), and to offset the additional risk, hold a proportion in liability driven investments, which should reduce volatility.	Asset liability modelling has been undertaken recently in all significant plans to ensure that any risks taken are rewarded and that we have a balance of risk seeking and liability driven investments.
<b>Inflation risk</b>	A significant proportion of the UK benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.	The business has some inflation linking in its revenue streams, which helps to offset this risk.
<b>Life expectancy</b>	The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	The Group final salary scheme has closed to future accrual reducing exposure to increases in life expectancy risk.
<b>Legislative risk</b>	Future legislative changes are uncertain. In the past these have led to increases in obligations, introducing pension increases, and vesting of deferred pensions, or reduced investment return through the ability to reclaim Advance Corporation Tax. The UK Government has legislated to end contracting out in 2016. Further legislation could result in an increase in the value of Guaranteed Minimum Pension. If this legislation is implemented, this would increase the defined benefit obligation of the arrangements.	The Group final salary scheme has closed to future accrual reducing risk to legislative change. The Group takes professional advice to keep abreast of legislative changes.

## 29. Related party disclosures and Group undertakings

Our subsidiaries are located across the country and each contributes to the profits, assets and cashflow of the Group. The Group has a number of related parties including joint ventures, pension schemes and directors.

The consolidated financial statements include the financial statements of The Go-Ahead Group plc and the following material Group undertakings:

Name	Country of incorporation	% equity interest	
		2014	2013
<b>Principal subsidiaries</b>			
Go-Ahead Holding Limited	United Kingdom <sup>1</sup>	100	100
Go North East Limited	United Kingdom	100	100
Go Northern Limited	United Kingdom	100	100
London General Transport Services Limited	United Kingdom	100	100
London Central Bus Company Limited	United Kingdom	100	100
Dockland Buses Limited	United Kingdom	100	100
Blue Triangle Buses Limited	United Kingdom	100	100
Metrobus Limited	United Kingdom	100	100
Brighton & Hove Bus and Coach Company Limited	United Kingdom	100	100
The City of Oxford Motor Services Limited	United Kingdom	100	100
Go South Coast Limited	United Kingdom	100	100
Plymouth Citybus Limited	United Kingdom	100	100
Konectbus Limited	United Kingdom	100	100
Thames Travel (Wallingford) Limited	United Kingdom	100	100
Carousel Buses Limited	United Kingdom	100	100
Heddingham and District Omnibuses Limited	United Kingdom	100	100
Anglian Bus Limited	United Kingdom	100	100
HC Chambers and Son Limited	United Kingdom	100	100
New Southern Railway Limited	United Kingdom <sup>2</sup>	65	65
London and South Eastern Railway Limited	United Kingdom <sup>2</sup>	65	65
London and Birmingham Railway Limited	United Kingdom <sup>2</sup>	65	65
Southern Railway Limited	United Kingdom <sup>2</sup>	65	65
Govia Limited	United Kingdom <sup>2</sup>	65	65
Go-Ahead Leasing Limited	United Kingdom	100	100
Go-Ahead Scotland Limited	United Kingdom	100	100
Go-Ahead Holding LLC	United States of America	100	100
<b>Jointly controlled entities</b>			
Go-Ahead North America LLC	United States of America	50	50

<sup>1</sup> Held by The Go-Ahead Group plc. All other companies are held through subsidiary undertakings.

<sup>2</sup> The rail companies are 65% owned by The Go-Ahead Group plc and 35% owned by Keolis (UK) Limited and held through Govia Limited.

### Transactions with other related parties

The Group meets certain costs of administering the Group's retirement benefit plans, including the provision of meeting space and office support functions to the trustees. Costs borne on behalf of the retirement benefit plans amounted to £0.2m (2013: £0.2m).

The Group owns 50% of the ordinary shares in Go-Ahead North America, a 50:50 joint venture with Cook-Illinois. Details of transactions and balances are included in note 4. In addition, £0.3m (2013: £0.3m) of loans was repaid to the Group by Go-Ahead North America during the year.

### Compensation of key management personnel of the Group

The key management are considered to be the directors of the Group.

	2014 £m	2013 £m
Short term employee benefits	2.0	1.4
Long term employee benefits	2.0	0.8
Post employment benefits	0.1	0.1
	4.1	2.3

# Independent auditor's report to the members of The Go-Ahead Group plc

We have audited the Parent Company financial statements of The Go-Ahead Group plc for the year ended 28 June 2014 which comprise the Parent Company statement of comprehensive income, the Parent Company statement of changes in equity, the Parent Company balance sheet and the related notes 1 to 18. 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 86, the directors are responsible for the preparation of the Parent Company 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 Parent Company 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 Parent 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 accounts 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 Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 June 2014;
- 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 Parent Company financial statements.

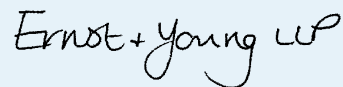
## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the directors' remuneration report to be audited 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.

## Other matter

We have reported separately on the Group financial statements of The Go-Ahead Group plc for the year ended 28 June 2014.



## Kathryn Barrow (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor, London

3 September 2014

## Notes:

- 1 The maintenance and integrity of The Go-Ahead Group plc website is the responsibility of the directors; the work carried out by the auditor's does not involve consideration of these matters and, accordingly, the auditor's accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Parent Company statement of comprehensive income

for the year ended 28 June 2014

	2014 £m	2013 £m
Profit for the year	65.5	59.6
Other comprehensive income/(losses):		
Items that will not be reclassified to profit or loss		
Remeasurement losses on defined benefit pension plans	(12.2)	(25.1)
Tax relating to items that will not be reclassified	1.1	5.5
	(11.1)	(19.6)
Items that may subsequently be reclassified to profit or loss		
Unrealised losses on cashflow hedges	(0.4)	(2.7)
Tax relating to items that may be reclassified	0.1	0.6
	(0.3)	(2.1)
Other comprehensive losses for the year, net of tax	(11.4)	(21.7)
Total comprehensive income for the year	54.1	37.9

# Parent Company statement of changes in equity

for the year ended 28 June 2014

	Note	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserve £m	Capital redemption reserve £m	Reserve for own shares £m	Retained earnings £m	Total equity £m
At 30 June 2012		4.7	67.4	10.3	8.8	0.7	(70.2)	454.3	476.0
Prior year adjustment		–	–	74.9	–	–	–	(42.4)	32.5
At 30 June 2012 (restated)*		4.7	67.4	85.2	8.8	0.7	(70.2)	411.9	508.5
Profit for the year		–	–	–	–	–	–	59.6	59.6
Other comprehensive losses (net of tax)		–	–	–	–	–	–	(21.7)	(21.7)
Total comprehensive income		–	–	–	–	–	–	37.9	37.9
Dividends	2	–	–	–	–	–	–	(34.7)	(34.7)
Movement on revaluation reserve		–	–	(0.2)	–	–	–	0.2	–
<b>At 29 June 2013 (restated)*</b>		<b>4.7</b>	<b>67.4</b>	<b>85.0</b>	<b>8.8</b>	<b>0.7</b>	<b>(70.2)</b>	<b>415.3</b>	<b>511.7</b>
Profit for the year		–	–	–	–	–	–	65.5	65.5
Other comprehensive losses (net of tax)		–	–	–	–	–	–	(11.4)	(11.4)
Total comprehensive income		–	–	–	–	–	–	54.1	54.1
Dividends	2	–	–	–	–	–	–	(34.7)	(34.7)
Movement on revaluation reserve		–	–	(3.0)	–	–	–	3.0	–
Share based payment charge (and associated tax)		–	–	–	–	–	–	2.7	2.7
Reserves transfer		–	–	–	–	–	0.3	(0.3)	–
<b>At 28 June 2014</b>		<b>4.7</b>	<b>67.4</b>	<b>82.0</b>	<b>8.8</b>	<b>0.7</b>	<b>(69.9)</b>	<b>440.1</b>	<b>533.8</b>

\* Restated for adoption of FRS101 as explained in note 18.

# Parent Company balance sheet

as at 28 June 2014

Registered No: 02100855

	Notes	2014 £m	Restated* 2013 £m	Restated* 2012 £m
<b>Fixed assets</b>				
Intangible assets	3	2.2	2.3	2.5
Tangible assets	4	165.6	162.3	155.5
Investments	5	215.1	151.9	151.9
Debtors: amounts falling due after more than one year	6	10.8	–	–
		<b>393.7</b>	316.5	309.9
<b>Current assets</b>				
Debtors: amounts falling due within one year	6	597.0	579.7	561.2
Cash on deposit		7.4	0.7	4.7
Financial assets		–	–	0.8
		<b>604.4</b>	580.4	566.7
Creditors: amounts falling due within one year	7	(111.1)	(115.1)	(116.3)
<b>Net current assets</b>		<b>493.3</b>	465.3	450.4
Total assets less current liabilities		<b>887.0</b>	781.8	760.3
Creditors: amounts falling due after more than one year	7	(273.0)	(200.7)	(200.1)
Retirement benefit obligations	11	(57.1)	(44.9)	(19.8)
Provisions	9	(23.1)	(24.5)	(31.9)
<b>Net assets</b>		<b>533.8</b>	511.7	508.5
<b>Capital and reserves</b>				
Share capital	12	4.7	4.7	4.7
Share premium		67.4	67.4	67.4
Revaluation reserve		82.0	85.0	85.2
Other reserve		8.8	8.8	8.8
Capital redemption reserve		0.7	0.7	0.7
Reserve for own shares		(69.9)	(70.2)	(70.2)
Retained earnings		440.1	415.3	411.9
<b>Total equity</b>		<b>533.8</b>	511.7	508.5

\* Restated for adoption of FRS101 as explained in note 18.



**Keith Down,**  
Group Finance Director  
3 September 2014



## Directors' responsibilities in relation to the Parent Company financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable UK 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). 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 of 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;
- state whether applicable United Kingdom 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Notes to the Parent Company financial statements

## I. Parent Company accounting policies

### Critical accounting 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:

#### Retirement benefit obligations

The measurement of defined benefit 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 11. The Company engages with Towers Watson, a global professional services company whose specialisms include actuarial advice, to support the process of establishing reasonable bases for all of these estimates, to ensure they are appropriate to our particular circumstances.

#### 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 9. In order to assess the appropriate level of provisions the Company engages with its brokers and claims handlers to ensure external expertise of our claims development history is adequately built in to the provision.

#### Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be fully determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is possible that a liability will arise. The Company reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

### Authorisation of financial statements and statement of compliance with FRS101

The parent company financial statements of The Go-Ahead Group plc for the year ended 28 June 2014 were authorised for issue by the Board of directors on 3 September 2014 and the balance sheet was signed on the Board's behalf by Keith Down. The Go-Ahead Group plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101).

No profit or loss is presented by the company as permitted by Section 408 of the Companies Act 2006.

#### Basis of preparation

The company has transitioned to FRS101 from the UK Generally Accepted Accounting Practice for all periods presented. The company has adopted FRS101 early which is permitted under the standard. Transition tables showing all material adjustments are disclosed in note 18.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 28 June 2014.

The financial statements are prepared in pounds sterling and are rounded to the nearest one hundred thousand (£0.1m).

In these financial statements, the company has applied the exemptions available under FRS101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS2 Share Based Payment;
- the requirements of paragraphs 62, B64(b), B64(e), B64(g), B64(h), B64(j) to B64(m), b64(n)(ii), B64(o)(ii), B64(p), B64(Q)(ii), B66 and B67 of IFRS3 Business Combinations;
- the requirement of IFRS7 Financial Instruments: Disclosures;
- the requirement of paragraphs 91-99 of IFRS13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS1;
  - paragraph 73(e) of IAS16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS38 Intangible Assets
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134-136 of IAS1 Presentation of Financial Statements;
- the requirements of IAS7 Statement of Cashflows;
- the requirements of paragraphs 30 and 31 of IAS8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS24 Related Party Disclosures;
- the requirements in IAS24 Related Party Disclosures 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; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS36 Impairment of Assets.

#### Tangible fixed assets

Property, plant and equipment is stated at cost or deemed cost on transition to IFRSs less accumulated depreciation and any impairment in value. Freehold land is not depreciated.

Assets held under finance leases are depreciated over the shorter of their expected useful lives and the lease terms.

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

Short leasehold land and buildings	The life of the lease
Freehold buildings and long leasehold land and buildings	Over 10 to 100 years
Plant and equipment	Over 3 to 15 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.

#### Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

### Pension benefits

The defined benefit pension asset or liability in the balance sheet comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which obligations are to be settled directly for The Go-Ahead Group Pension Plan. Fair value is based on market price information and in the case of quoted securities is the published bid price.

The total net assets and liabilities of The Go-Ahead Group Pension Plan have been brought onto the Parent Company balance sheet on transition to FRS101.

The Company has accounted for its contributions to the scheme as if it were a defined contribution scheme.

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

### Share based payments

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 performances or service (non-vesting condition); and performance conditions.

The cost of options is recognised in the income statement over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in equity. The cumulative expense recognised, at each reporting date, reflects the extent to which the period to vesting has expired and the directors' best estimate of the number of options that will ultimately vest or, in the case of an instrument subject to a market or non-vesting condition, be treated as vesting as described above. This includes any award where non-vesting conditions within the control of the Group or the employee are not met.

No cost is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

### Taxation

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

### 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.

### Treasury shares

Re-acquired shares in the Company, which remain uncanceled, are deducted from equity. Consideration paid and the associated costs are also recognised in shareholders' funds as a separate reserve for own shares. Any gain or loss on the purchase, sale, issue or cancellation of the Company's shares is transferred from the reserve for own shares to revenue reserves.

### Leasing commitments

Leases where a significant portion of all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable 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.

### Interest bearing loans and borrowings

Debt is initially stated at the amount of the net proceeds, being the fair value of the consideration received after deduction of issue costs. Following initial recognition, the carrying amount is measured at amortised cost using the effective interest method. Amortisation of liabilities and any gains and losses arising on the repurchase, settlement or other derecognition of debt are recognised directly in the income statement.

Assets held under finance leases, which are leases where substantially all of the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet, with a corresponding liability being recognised, and are depreciated over the shorter of their useful lives and the lease terms.

The capital elements of future obligations under leases are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged to the income statement over the periods of the leases and represents a constant proportion of the balance of capital repayments outstanding.

Leases where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable 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.

## 1. Parent Company accounting policies continued

### Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefit will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material provisions are discounted. 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.

### Financial assets and derivatives

Financial assets are accounted for in accordance with IAS 39. Financial assets are initially recognised at fair value, being the transaction price plus, in the case of financial assets not recorded at fair value through profit or loss, directly attributable transaction costs.

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

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

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

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

## 2. Dividends

Dividends are one type of shareholder return, historically paid to our shareholders in April and November.

	2014 £m	2013 £m
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2013: 55.5p per share (2012: 55.5p)	23.8	23.8
Interim dividend for 2014: 25.5p per share (2013: 25.5p)	10.9	10.9
	<b>34.7</b>	<b>34.7</b>
	2014 £m	2013 £m
<b>Proposed for approval at the AGM (not recognised as a liability as at 28 June 2014)</b>		
Equity dividends on ordinary shares:		
Final dividend for 2014: 59.0p per share (2013: 55.5p)	25.3	23.8

### 3. Intangible assets

	Software £m
<b>Cost or valuation:</b>	
At 29 June 2013 (restated)	8.2
Additions	1.1
<b>At 28 June 2014</b>	<b>9.3</b>
<b>Amortisation:</b>	
At 29 June 2013 (restated)	5.9
Charge for the year	1.2
<b>At 28 June 2014</b>	<b>7.1</b>
<b>Net book value:</b>	
<b>At 28 June 2014</b>	<b>2.2</b>
At 29 June 2013 (restated)	2.3

### 4. Tangible fixed assets

	Freehold land and buildings £m	Leasehold properties £m	Plant and equipment £m	Total £m
<b>Cost or valuation:</b>				
At 29 June 2013 (restated)	164.7	6.3	8.7	179.7
Additions	4.4	0.7	0.6	5.7
Disposals	(2.2)	(1.8)	–	(4.0)
Transfers from Group companies	3.3	–	–	3.3
<b>At 28 June 2014</b>	<b>170.2</b>	<b>5.2</b>	<b>9.3</b>	<b>184.7</b>
<b>Depreciation:</b>				
At 29 June 2013 (restated)	10.5	1.3	5.6	17.4
Charge for the year	0.6	0.3	1.4	2.3
Disposals	–	(0.6)	–	(0.6)
<b>At 28 June 2014</b>	<b>11.1</b>	<b>1.0</b>	<b>7.0</b>	<b>19.1</b>
<b>Net book value:</b>				
<b>At 28 June 2014</b>	<b>159.1</b>	<b>4.2</b>	<b>2.3</b>	<b>165.6</b>
At 29 June 2013 (restated)	154.2	5.0	3.1	162.3

Freehold land and buildings include non-depreciable land amounting to £111.9m (2013: £112.3m).

The net book value of leasehold properties comprises:

	2014 £m	2013 £m
Leases with 50 or more years unexpired	1.1	1.2

## 5. Fixed asset investments

	Shares in Group companies £m
<b>Cost:</b>	
At 29 June 2013	151.9
Additions	63.2
<b>At 28 June 2014</b>	<b>215.1</b>
<b>Provisions:</b>	
<b>At 28 June 2014 and 29 June 2013</b>	—
<b>Net carrying amount:</b>	
<b>At 28 June 2014</b>	<b>215.1</b>
At 29 June 2013	151.9

During the year, The Go-Ahead Group plc undertook a sale and leaseback of certain properties used by the Group. This has been accounted for as a sale and leaseback and results in a long term investment in an intermediate group company.

For details of the principal operating subsidiary undertakings as at 28 June 2014, refer to note 29 of the Group financial statements. As permitted under Section 410 (1) and (2) of the Companies Act 2006, the information is given only for the undertakings whose results or financial position, in the opinion of the directors, principally affect the figures shown in the financial statements.

## 6. Debtors

### Amounts falling due within one year

	2014 £m	2013 £m
Amounts owed by Group companies	579.2	567.8
Corporation tax	10.5	4.6
Other debtors	7.3	7.3
	<b>597.0</b>	<b>579.7</b>

### Amounts falling due after more than one year

	2014 £m	2013 £m
Amounts owed by Group companies	10.8	—
	<b>10.8</b>	—

## 7. Creditors

### Amounts falling due within one year

	2014 £m	2013 £m
Amounts owed to Group undertakings	95.2	99.5
Other creditors	15.4	15.6
Finance leases (note 8)	0.5	—
	<b>111.1</b>	<b>115.1</b>

### Amounts falling due after more than one year

	2014 £m	2013 £m
Interest-bearing loans and borrowings repayable:		
In more than one year but not more than five years	200.9	200.7
In more than five years	—	—
Finance leases (note 8)	72.1	—
	<b>273.0</b>	<b>200.7</b>

The Company has no security over its liabilities.

## 8. Finance leases

During the year, The Go-Ahead Group plc undertook a sale and leaseback of certain properties used by the Group. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	2014		2013	
	Minimum value of payments £m	Present value of payments £m	Minimum value of payments £m	Present value of payments £m
Within one year	4.0	0.5	–	–
After one year but not more than five years	17.3	4.3	–	–
After five years	86.6	67.8	–	–
Total minimum lease payments	107.9	72.6	–	–
Less amounts representing finance charges	(35.3)	–	–	–
Present value of minimum lease payments	72.6	72.6	–	–

## 9. Provisions

	Deferred taxation (note 10) £m	Uninsured claims £m	Other £m	Total £m
	As at 29 June 2013 (restated)	15.4	8.8	0.3
Provided (after discounting)	–	2.6	–	2.6
Released	–	(2.0)	–	(2.0)
Utilised	–	(0.2)	–	(0.2)
Deferred tax credited to profit and loss	(0.2)	–	–	(0.2)
Deferred tax on LTIP credited outside of profit and loss	(0.5)	–	–	(0.5)
Deferred tax on defined benefit pension plans credited outside of profit and loss	(1.1)	–	–	(1.1)
<b>As at 28 June 2014</b>	<b>13.6</b>	<b>9.2</b>	<b>0.3</b>	<b>23.1</b>

Uninsured claims represent the cost to the Group 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 to the Group by the insurer, subject to the overall stop loss. It is estimated that the majority of uninsured claims will be settled within six years.

The other provision relates to dilapidation costs. This provision is in respect of the bus division. It is expected that the dilapidations will be incurred within two to three years.

## 10. Deferred taxation

Deferred taxation provided at the enacted rate is as follows:

	2014 £m	Restated 2013 £m	Restated 2012 £m
Capital allowances in advance of depreciation	4.0	4.9	5.4
Other timing differences	3.6	0.9	0.9
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	17.4	19.9	20.9
Retirement benefit obligations	(11.4)	(10.3)	(4.8)
Deferred taxation (note 9)	13.6	15.4	22.4

## Notes to the Parent Company financial statements continued

### 11. Pension commitments

#### Defined contribution

During the year ended 28 June 2014, the Company participated in the defined contribution scheme of The Go-Ahead Group Pension Plan. This scheme is not contracted-out of the State Second Pension Scheme. It was closed to new entrants during the year ended 28 June 2014 and replaced by a Workplace Saving Scheme. The expense recognised in these accounts for the year is £0.1m (2013: £0.2m), being the contributions paid and payable. The expense recognised for the Workplace Saving Scheme is less than £0.1m (2013: n/a), being the contributions paid and payable.

#### Defined benefit

During the year ended 28 June 2014, the Company participated in a scheme which is part of The Go-Ahead Group Pension Plan. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Previously, the section had been effectively closed to new entrants, however existing members continued to build up further Final Salary benefits. However, during the year ended 28 June 2014, the Group commenced a formal consultation process with existing members and their representatives to close the defined benefit section to future accrual and to offer members the opportunity to join the defined contribution section instead. On 31 March 2014, the defined benefit section of the Go-Ahead plan was closed to future accrual for all members.

The most recent actuarial valuation of the scheme was at 31 March 2012 and was updated by Towers Watson Limited to take account of the requirements of IAS 19 (revised) in order to assess the liabilities of the scheme at 28 June 2014, 29 June 2013 and 30 June 2012. Up until the closure of the scheme to future accruals on 31 March 2014, the contributions paid to the scheme were paid in line with the schedule of contributions.

The total net assets and liabilities of the scheme have been brought onto the Parent Company balance sheet on transition to FRS101. The Company has accounted for its contributions to the scheme as if it were a defined contribution scheme.

The following disclosures provide details of the entire defined benefit scheme.

The main assumptions are:

	2014 %	2013 %	2012 %
Rate of increase in salaries	n/a	4.3	3.9
Rate of increase of pensions in payment and deferred pensions	2.0	2.0	1.9
Discount rate	4.3	4.7	5.0
Retail price index inflation	3.3	3.3	2.9
Consumer price index inflation	2.0	2.0	1.9

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.

	2014 Years	2013 Years	2012 Years
Pensioner	20	20	19
Non-pensioner	21	21	20

#### Sensitivity analysis

In making the valuation, the above assumptions have been used. For The Go-Ahead Group Pension Plan, the following is an approximate sensitivity analysis of the impact of the change in the key assumptions. In isolation, the following adjustments would adjust the pension deficit as shown.

	2014 Pension deficit %
Discount rate – increase of 0.1%	(1.7)
Price inflation – increase of 0.1%	1.5
Rate of increase in salaries – increase of 0.1%	n/a
Rate of increase of pensions in payment – increase of 0.1%	0.9
Increase in life expectancy of pensioners or non-pensioners by 1 year	3.6



### Maturity profile of defined benefit obligation

The following table shows the expected future benefit payments of the plan.

	£m
June 2015	20.5
June 2016	21.2
June 2017	21.9
June 2018	22.6
June 2019	23.3
June 2020 to June 2024	128.6

### Category of assets at the year end

	2014		2013		2012	
	£m	%	£m	%	£m	%
Equities	202.4	34.2	208.6	37.3	171.0	32.5
Bonds	33.7	5.7	30.8	5.5	28.4	5.4
Property	33.1	5.6	30.2	5.4	30.5	5.8
Liability driven investing portfolio	308.9	52.2	277.3	49.6	284.0	54.0
Cash/other	13.6	2.3	12.3	2.2	12.1	2.3
	<b>591.7</b>	<b>100.0</b>	559.2	100.0	526.0	100.0

All of the asset categories above are held within pooled funds and are therefore quoted in active markets.

### Funding position of the Group's pension arrangements

	2014 £m	2013 £m	2012 £m
<b>Employer's share of pension scheme:</b>			
Liabilities at the end of the year	<b>(648.8)</b>	(604.1)	(545.8)
Assets at fair value	<b>591.7</b>	559.2	526.0
<b>Pension scheme liabilities</b>	<b>(57.1)</b>	(44.9)	(19.8)
Deferred tax asset	<b>11.4</b>	10.3	4.8
<b>Post-tax pension scheme liabilities</b>	<b>(45.7)</b>	(34.6)	(15.0)

### Analysis of the change in the pension scheme liabilities over the financial year

	2014 £m	Restated 2013 £m	Restated 2012 £m
Employer's share of pension scheme liabilities – at start of year	<b>604.1</b>	545.8	529.7
Service cost	<b>7.0</b>	9.2	9.9
Interest cost	<b>27.6</b>	26.8	29.6
Remeasurement losses/(gains) due to:			
Experience on benefit obligations	<b>2.5</b>	(18.1)	(1.5)
Changes in demographic assumptions	<b>–</b>	12.0	–
Changes in financial assumptions	<b>43.2</b>	46.0	(5.3)
Curtailments	<b>(15.1)</b>	–	–
Benefits paid	<b>(20.5)</b>	(17.6)	(16.6)
Employer's share of pension scheme liabilities – at end of year	<b>648.8</b>	604.1	545.8

## Notes to the Parent Company financial statements continued

### 11. Pension commitments continued

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

	2014 £m	Restated 2013 £m	Restated 2012 £m
Fair value of assets – at start of year	559.2	526.0	469.8
Interest income on plan assets	25.8	26.0	26.4
Remeasurement gains due to return on assets greater than discount rate	17.9	9.6	25.3
Administration costs	(1.9)	(1.7)	(1.3)
Group contributions	9.1	13.7	17.9
Employee contributions (including age related rebates)	2.1	3.2	4.5
Benefits paid	(20.5)	(17.6)	(16.6)
Fair value of plan assets – at end of year	591.7	559.2	526.0

#### Estimated contributions for future

	£m
Estimated Group contributions in financial year 2015	4.7
Estimated employee contributions in financial year 2015	–
Estimated total contributions in financial year 2015	4.7

#### Risks associated with defined benefit plans

The number of employees in defined benefit plans is reducing as The Go-Ahead Group Pension Plan is closed to new entrants and further accrual. Consequently, the number of defined contribution members is increasing.

### 12. Issued capital and reserves

	Allotted, called up and fully paid			
	Millions	2014 £m	Millions	2013 £m
As 28 June 2014 and 29 June 2013	46.9	4.7	46.9	4.7

The Company has one class of ordinary shares which carry no right to fixed income.

The cumulative amount of goodwill written off to the profit and loss reserve of the Company at 28 June 2014 is £0.2m (2013: £0.2m).

The reserve for own shares is in respect of 4,033,481 ordinary shares (8.6% of total share capital), of which 131,251 are held for LTIP and DSBP arrangements. The remaining shares were purchased in order to enhance shareholders' returns and are being held as treasury shares for re-issue in appropriate circumstances. During the year ended 28 June 2014 the Company has not repurchased any shares (2013: no shares purchased). The Company has not cancelled any shares during the year (2013: no shares).

The information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is provided in the directors' report.

The audit fee payable in respect of the Company was £0.2m (2013: £0.2m). Other fees payable to the auditor in respect of the Company were less than £0.1m (2013: £0.1m).

### 13. Operating lease commitments

The Company's future minimum rentals payable under non-cancellable operating leases are as follows:

	Property	
	2014 £m	2013 £m
Within one year	0.6	0.7
In second to fifth years	0.4	1.1
After five years	–	–
	1.0	1.8

## 14. Capital commitments

There were capital commitments of £0.1m at 28 June 2014 (2013: £5.0m).

## 15. Contingent liabilities

The Company provides guarantees in respect of bank and equipment finance borrowings of the subsidiaries of The Go-Ahead Group plc.

The Company has issued guarantees dated 30 March 2006 to participating subsidiaries of The Go-Ahead Group Pension Plan in respect of scheme liabilities arising. Total liabilities in respect of this guaranteed scheme were £45.7m as at 28 June 2014 (2013: £34.6m).

At 28 June 2014 letters of credit amounting to £45.0m (2013: £43.0m) were provided by a Company banker, guaranteed by the Company, in favour of one of the Group's insurers, to cover liabilities of the Company and its subsidiaries.

## 16. Share based payments

Full disclosures of the Group's Sharesave scheme, SIP, LTIP and DSBP are given in note 7 to the Group financial statements.

## 17. Related party transactions

The Company has taken advantage of the exemption under FRS101, and transactions with 100% subsidiaries of The Go-Ahead Group plc have not been disclosed.

The Company owns 65% of the ordinary shares in Govia Limited, Thameslink Rail Limited, New Southern Railway Limited ('New Southern'), London and Southeastern Railway Limited ('Southeastern'), London and Birmingham Railway Limited ('London Midland') and Southern Railway Limited ('Southern') are 100% owned by Govia Limited and hence the Company owns a 65% interest.

	Govia		Southeastern		London Midland		Thameslink		New Southern		Southern	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Interest paid to related party	0.2	0.3	–	–	–	–	–	–	–	–	–	–
Interest received from related party	–	–	–	–	–	–	–	–	–	–	–	–
Loans to related party	(39.0)	(50.5)	–	–	–	–	–	–	–	–	–	–
Repayment of loan from related party	53.0	39.4	–	–	–	–	–	–	–	–	–	–
Management charges	–	–	1.6	1.1	1.3	1.0	–	–	–	–	1.6	1.2
Amounts owed from related party	47.6	43.4	–	–	11.8	21.1	–	–	–	–	0.8	2.0
Amounts owed to related party	–	–	54.2	55.2	–	–	0.6	0.6	11.9	13.0	–	–

During the year Southern, Southeastern and London Midland have traded with wholly owned subsidiaries of the Company; £5.3m (2013: £4.9m) of costs were incurred by Southern, Southeastern and London Midland on an arm's length basis.

## Notes to the Parent Company financial statements continued

### 18. Transition to FRS101

For all periods up to and including the year ended 29 June 2013, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 28 June 2014 are the first the Company has prepared in accordance with FRS101.

The table below show the restated prior year comparative figures for the Parent Company balance sheet as at 29 June 2013 and 30 June 2012. The restatement reflects the retrospective adjustment required on first time adoption of FRS101.

#### Parent Company balance sheet

	Notes	2013			2012		
		Reported £m	Impact of FRS101 £m	Restated £m	Reported £m	Impact of FRS101 £m	Restated £m
<b>Fixed assets</b>							
Intangible assets	1	–	2.3	2.3	–	2.5	2.5
Tangible assets	2	89.9	72.4	162.3	83.1	72.4	155.5
Investments		151.9	–	151.9	151.9	–	151.9
Deferred tax asset	4	0.5	(0.5)	–	0.2	(0.2)	–
		242.3	74.2	316.5	235.2	74.7	309.9
<b>Current assets</b>							
Debtors: amounts falling due within one year		579.7	–	579.7	561.2	–	561.2
Cash on deposit		0.7	–	0.7	4.7	–	4.7
Financial assets		–	–	–	0.8	–	0.8
		580.4	–	580.4	566.7	–	566.7
Creditors: amounts falling due within one year		(115.1)	–	(115.1)	(116.3)	–	(116.3)
<b>Net current assets</b>		465.3	–	465.3	450.4	–	450.4
<b>Total assets less current liabilities</b>		707.6	74.2	781.8	685.6	74.7	760.3
Creditors: amounts falling due after more than one year		(200.7)	–	(200.7)	(200.1)	–	(200.1)
Retirement benefit obligations	3	–	(44.9)	(44.9)	–	(19.8)	(19.8)
Provisions for liabilities: other	4	(9.1)	(15.4)	(24.5)	(9.5)	(22.4)	(31.9)
<b>Net assets</b>		497.8	13.9	511.7	476.0	32.5	508.5
<b>Capital and reserves</b>							
Share capital		4.7	–	4.7	4.7	–	4.7
Share premium		67.4	–	67.4	67.4	–	67.4
Revaluation reserve	2	10.3	74.7	85.0	10.3	74.9	85.2
Other reserve		8.8	–	8.8	8.8	–	8.8
Capital redemption reserve		0.7	–	0.7	0.7	–	0.7
Reserve for own shares		(70.2)	–	(70.2)	(70.2)	–	(70.2)
Retained earnings		476.1	(60.8)	415.3	454.3	(42.4)	411.9
<b>Total equity</b>		497.8	13.9	511.7	476.0	32.5	508.5

Restatement from UK GAAP to FRS101:

#### 1. Intangible assets

This reflects the reallocation of software from tangible assets to intangible assets under FRS101.

#### 2. Tangible assets and revaluation reserve

This reflects the restatement of tangible fixed assets to deemed cost on transition to FRS101 in order to recognise these assets at fair value.

#### 3. Retirement benefit obligations

The Go-Ahead Group Pension Plan liability has been brought onto the Parent Company balance sheet on transition to FRS101.

#### 4. Deferred tax asset and provisions for liabilities

Deferred tax has been restated to take into account 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, rather than timing differences. On restatement, temporary differences have been recognised in respect of:

- Property revaluation surpluses;
- Gains on sale of assets where those gains have been rolled over into replacement assets where they had not been previously recognised; and
- Retirement benefit obligations.

# Shareholder information

## Financial calendar

Ex-dividend date for final dividend	30 October 2014
Final dividend record date	31 October 2014
Interim management statement	21 October 2014
AGM	11 am, 24 October 2014
Final dividend payment date	14 November 2014
Half year end	27 December 2014
Half year results announcement	February 2015
Half year dividend payment	April 2015
Next financial year end	27 June 2015
Full year results announcement	September 2015

## Annual General Meeting (AGM)

The 27th AGM of the Group will be held at the Hilton Newcastle Gateshead, Bottle Bank, Gateshead, NE8 2AR on Friday 24 October 2014 at 11.00 hours. Details of the business to be considered can be found in the Notice of Meeting which will be available on the Group's corporate website ([www.go-ahead.com](http://www.go-ahead.com)) from 23 September 2014.

## Dividend payments

The dividend dates are available on our corporate website in the financial calendar. Following each dividend payment date we will send a tax voucher to your home address. Please therefore ensure that Equiniti have your correct address and bank details.

We recommend that you arrange for your dividends to be paid directly into your bank account:

- to avoid the risk of losing a cheque in the post and thereby incurring a replacement fee; and
- for faster receipt of your dividend which is paid into your account on the payment date, rather than waiting for a cheque to be delivered, deposited and cleared.

To select this method of dividend payment, please contact Equiniti directly using the details on page 156.

## Managing your shares

The Group's Registrar, Equiniti, is responsible for maintaining our register of members. Shareholders with queries relating to their shareholding should contact Equiniti directly.

Shareholders can sign up for a [Shareview](#) portfolio which enables you to:

- view information regarding your holding;
- change your address and bank details online; and
- sell or purchase shares in the Group online.

Go to [www.shareview.co.uk](http://www.shareview.co.uk) and click on 'Register' in the top left corner to sign up for these services. When completing your details you will need your shareholder reference number which is the eleven digit number found on your latest tax voucher or share certificate.

## Duplicate documents

If you have more than one registered shareholder account, you will receive duplicate documentation and split dividend payments. To request that your accounts be combined, please contact Equiniti.

## Electronic communications

As far as possible, the Group provides shareholder documents via the corporate website. If you wish to receive future shareholder communications electronically, please sign up via [Shareview](#) (details above). By electing to receive shareholder communications electronically you will be allowing us to communicate with you securely in a more environmentally friendly and cost effective way.

## Warning to shareholders ("boiler room" scams)

Shareholders are advised to be extremely cautious of any unsolicited advice from third parties; offers to buy shares at a discount; or offers of free reports about the Group. By law, the Group's register of members is open to public inspection however; we do not endorse any specific share dealing facilities; will not pass on shareholder information to any third party; and any requests for access to the register are subject to 'proper purpose' requirements which ensure that personal data is not used unlawfully.

## Shareholder profile by size of holding as at 28 June 2014

	No. of holdings	%	Shares held	%
1 – 10,000	3,128	93.32	2,164,734	4.62
10,001 – 100,000	159	4.74	5,542,251	11.82
100,001 – 500,000	44	1.31	9,692,164	20.66
500,001 – 1,000,000	11	0.33	7,797,438	16.62
Over 1,000,001	10	0.30	21,709,391	46.28
<b>Total</b>	<b>3,352</b>	<b>100</b>	<b>46,905,978</b>	<b>100</b>

## Shareholder profile by category as at 28 June 2014

	No. of holdings	%	Shares held	%
Treasury shares	1	0.03	3,902,230	8.32
Directors	3	0.09	10,773	0.02
Other individuals	2,661	79.39	4,574,170	9.75
Institutional investors	687	20.49	38,418,805	81.91
<b>Total</b>	<b>3,352</b>	<b>100</b>	<b>46,905,978</b>	<b>100</b>

It should be noted that many private investors hold their shares through nominee companies, therefore, the percentage of shares held by private holders is likely to be higher than that shown.

## Major shareholders

As at 28 June 2014 and 3 September 2014 (being the latest practical date prior to the date of this report), the Group had been notified, in accordance with Rule 5.1.2 of the UK Listing Authority's Disclosure and Transparency Rules, of the following significant holdings in the Group's ordinary share capital:

	Direct/indirect	28 June 2014 No.	%	3 September 2014 No.	%
Ameriprise					
Financial, Inc. and its group	Direct	19,830	0.05	19,830	0.05
	Indirect	3,118,554	7.25	3,118,554	7.25
UBS Private Banking Nominees Limited	Indirect	2,694,221	6.27	2,694,221	6.27
The Bank of New York (Nominees) Limited	Direct	2,076,144	4.83	2,076,144	4.83
Ms Diana Susan Ballinger	Direct	2,061,663	4.79	2,061,663	4.79
Investec Asset Management Limited	Indirect	1,742,012	4.05	1,742,012	4.05

These holdings include, where applicable, the aggregate of investment management clients' interests within the respective asset management companies. No further notifications have been received; however, the above holdings may have changed without triggering a further notification.

## Articles of Association (Articles)

The Group's Articles can only be amended by a special resolution at a general meeting of shareholders. The Group last adopted Articles at the 2010 AGM in accordance with the provisions of the Companies Act 2006 and UK Corporate Governance Code. Shareholders of the Group can request a copy of the Articles by contacting the Group Company Secretary at the registered office.

## Directors

The appointment and replacement of directors are governed by the Articles, the Code, the Companies Act 2006 and related legislation. The directors are appointed by ordinary resolution at a general meeting of shareholders. The directors have the power to appoint a director during the year but any person so appointed must be subject to election at the first AGM following their appointment. The current Articles require that all directors are subject to re-election on an annual basis.

The business of the Group is managed by the directors, who may exercise all powers of the Group that are not required to be exercised by the Group in general meeting, subject to the Group's Articles, relevant statutory law and any direction given by the Group in general meeting by special resolution.

All directors will be submitting themselves for re-election at the AGM in accordance with the Code. The Board is satisfied that each director is qualified for re-election by virtue of their skills, experience and contribution to the Board.

There are no agreements between the Group and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

## Shareholder and control structure

At 28 June 2014, the Group's issued share capital comprised a single class of shares referred to as ordinary shares, with a nominal value of ten pence each. At this date there were 46,905,978 ordinary shares in issue, of which 3,902,230 were held in treasury. The Group did not purchase any of its own shares during the year for either cancellation or to hold as treasury shares, and no such shares were purchased between the year end and the date of this report. During the year ended 28 June 2014, the Group has not re-purchased any shares for potential LTIP and DSBP awards that may vest in the future (2013: nil).

There are no restrictions on the transfer of ordinary shares in the Group other than:

- certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- restrictions pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Group require the approval of the Group to deal in the Group's securities.

All shareholders have the same voting rights for each share, regardless of the total number of shares held. On a show of hands at a general meeting of the Group every holder of shares present in person or by proxy and entitled to vote shall have one vote (except in the circumstance where a proxy has been appointed by more than one member; in which case he or she will have one vote for and one vote against if he or she has been instructed by one or more members to vote for the resolution and by one or more members to vote against). On a poll, every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. The Notice of Meeting specifies deadlines for exercising voting rights either in person or by proxy in relation to resolutions to be passed at the 2014 AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM itself and published on the Group's corporate website ([www.go-ahead.com](http://www.go-ahead.com)) after the meeting.

The Group is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

The authorities for the Group to allot relevant securities (up to an aggregate nominal amount of £1,433,458) and for the disapplication of pre-emption rights on the allotment of equity securities (for cash up to an aggregate nominal amount of £215,019), as passed by ordinary and special resolutions at the 2013 AGM, were not utilised in the financial year or up to the date of this report.

These authorities will expire at the 2014 AGM and approval for new authorities will be sought. In the last three years no shares have been issued on a non-pre-emptive basis, other than those issued under all-employee share schemes which are not included for the purposes of this authority.

The authority for the Group to make market purchases of its own ordinary shares, as passed by special resolution at the 2013 AGM, was still in effect at the end of the financial year and will expire at the 2014 AGM where approval for a new authority will be sought.

Under the existing authority the maximum aggregate number of shares that can be purchased is 4,300,375. The authority also limits the maximum number of shares held in treasury to 10% of the issued share capital of the Group and states minimum and maximum prices payable for shares purchased under the authority. During the financial year this authority was not utilised. The Group has not re-purchased any shares for potential LTIP and DSBP awards that may vest in the future during the year (2013: nil).

Each of the Group's rail franchise agreements is subject to change of control criteria that would mean, on a change of control, there would be deemed to be an 'event of default' that could potentially terminate the rail franchise. This is, however, subject to the discretion of the Secretary of State. Additionally, the Group's sterling bond issue dated 24 March 2010 and Revolving Credit Facility dated 16 July 2014 are subject to change of control clauses that contain certain specified conditions which could lead to a compulsory prepayment of the bond and loan respectively. Transport for London also has powers to prevent the operation of London Bus contracts by an existing operator which is the subject of a change of control.

## Corporate website

Our corporate website [www.go-ahead.com](http://www.go-ahead.com) provides a wealth of information on the Group and its activities. Information available on the site includes half year results and interim management statements, which are not sent to shareholders, as well as share price data, dividend information and the financial calendar. You can register to receive email alerts when the website has been updated with announcements, press releases and other publications.

# Corporate information

[www.go-ahead.com](http://www.go-ahead.com)

[enquiries@go-ahead.com](mailto:enquiries@go-ahead.com)

## Secretary and Registered Office

Carolyn Ferguson  
The Go-Ahead Group plc  
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Newcastle upon Tyne, NE1 6EE  
Tel: 0191 232 3123

## Head Office

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4 Matthew Parker Street,  
London, SW1H 9NP  
Tel: 020 7799 8999

## Registrar

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Aspect House, Spencer Road  
Lancing  
West Sussex, BN99 6DA  
Tel: 0871 384 2193\*  
+44(0)121 415 7047 (overseas)

## Auditor

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1 More London Place  
London, SE1 2AF

## Joint Corporate Broker

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2 Gresham Street  
London, EC2V 7QP

## Joint Corporate Broker

Jefferies Hoare Govett Ltd  
Vintners Place  
Upper Thames Street  
London, EC4V 3BJ

## Principal Banker

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London, EC2M 3UR

## Financial PR Advisors

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3 London Wall Buildings  
London Wall  
London, EC2M 5SY

\* Calls to this number are charged at 8p per minute plus network extras. Lines are open 8:30am to 5:30pm Monday to Friday.



## Want to find out more?

Our website has been shortlisted for or won the Investor Relations Society Best Practice FTSE 250 corporate website award for five years running.

### Up to date information

Within our website you can find a wealth of up to date information including:

- an overview of who we are, what we do and the markets in which we operate;
- profiles of our operational directors, the Board of directors and our corporate governance framework;
- a timeline of the Group's history and development;
- an interactive map showing the areas in which we operate and information about our bus and rail companies; and
- the latest Group news and our financial calendar.

### Sustainability

Our sustainability section provides detailed information about our approach to sustainability, our targets and performance, including:

- progress against KPIs for our strategic priorities – Society, Customers, Our People and Finance, including our economic impacts;
- datasheets showing detailed sustainability performance for the Group and our operating companies;
- the Group's awards and achievements;
- Go-Learn – our free downloadable education programme for teachers; and
- Our approach and how we engage with and work with our key stakeholders.

### Investor relations

You can access a wide range of information in our investor relations centre including:

- a five year history of Group and divisional key financials;
- a record of all trading updates, half year and full year announcements in the results centre;
- share price information, including download function;
- our dividend policy, dividend history and dividend calculator;
- detailed information about our rail franchises; and
- our bus fuel hedging policy and profile of the Group's hedging prices.



Download our dedicated investor relations iPad app

### Social media

Follow us on Twitter and Facebook



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[twitter.com/GoAheadGroup](https://twitter.com/GoAheadGroup)



Visit us at:  
[www.go-ahead.com](http://www.go-ahead.com)

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**BUREAU  
VERITAS**

Summary verification statement from Bureau Veritas UK Ltd

For the sixth year, Bureau Veritas UK Ltd has worked with The Go-Ahead Group plc. to verify selected sustainability Key Performance Indicator (KPI) data contained within the Group's Annual Report.

The information and data reviewed for this verification process relates to the period from 29 June 2013 to the 28 June 2014.

Read the statement in full on  
[www.go-ahead.com/data-verification-statement](http://www.go-ahead.com/data-verification-statement)

# Go-Ahead