BUSINESS OVERVIEW

- Half year results in line with management expectations. Full year expectations lowered due to challenges in GTR and a slowdown in passenger journeys in regional bus
- Regional bus operating profit* up 6.2% to £25.7m
- London bus, saw operating profit* up 8.6% to £21.5m
- Rail operating profit* fell 35.0% to £26.9m, owing to losses at GTR and known bid costs
- Lengthy and significant industrial relations issues at GTR
- Awaiting the outcome of bids in UK, German and Swedish rail, and Singaporean bus
- Strong cash generation and robust balance sheet
- Stable bus profits support interim dividend increase of 6.5%

* Before amortisation

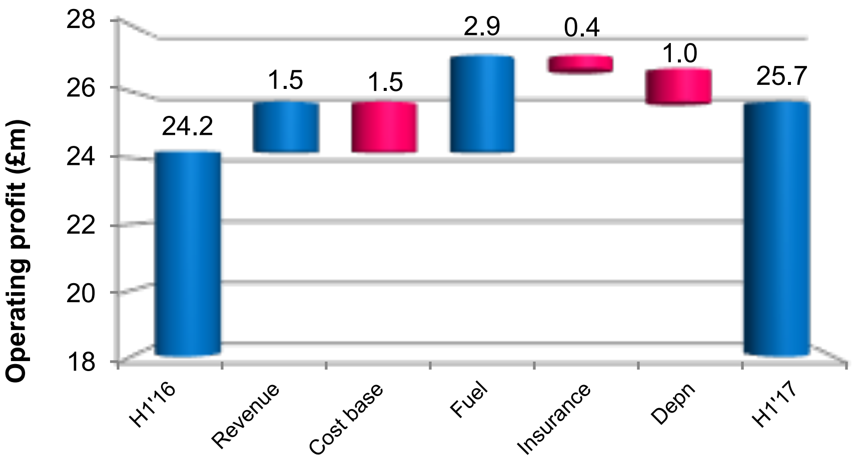
PATRICK BUTCHER
Group Chief Financial Officer

FINANCIAL PERFORMANCE

	Operating profit (before amortisation)			
	H1'17	Year on year change		H1'16 (restated)
	£m	£m	%	£m
Regional bus	25.7	1.5	6.2	24.2
London bus	21.5	1.7	8.6	19.8
Total bus	47.2	3.2	7.3	44.0
Rail	26.9	(14.5)	(35.0)	41.4
Total	74.1	(11.3)	(13.2)	85.4

- Group results in line with management expectations
- Half year results prepared under new accounting policy for rail pension schemes to reflect the Group's cash cost for rail pensions, rather than full service cost as previously included. Prior year numbers have been restated
- Operating profit down 13.2%, driven by the rail division

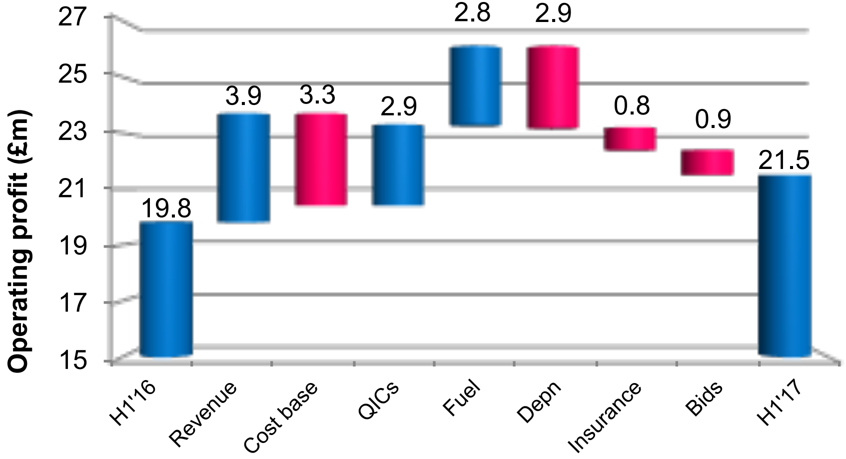
REGIONAL BUS



	H1'17	H1'16	FY'16
Operating margin	13.7%	13.0%	13.2%
Revenue growth (lfl)	0.8%	2.6%	2.4%
Passenger growth (lfl)	(0.7%)	(0.5%)	0.0%

- Margins continue at sector leading levels
- Operating profit up £1.5m to £25.7m
- Revenue growth of 0.8% largely driven by contract revenue
- Fuel cost savings reflect decrease in the hedged price
- Continued focus on accident prevention and minimising claims, has not offset rise in claims costs, as a result of a few large claims
- Outlook: full year expectations lowered due to slowdown in passenger volumes

LONDON BUS



	H1'17	H1'16	FY'16
Operating margin	8.3%	8.3%	8.9%
Revenue growth (lfl)*	2.8%	3.7%	4.4%
Mileage growth (lfl)*	(0.2%)	2.3%	2.3%

- Operating profit up £1.7m to £21.5m
- Revenue growth, ex QICs, outstripping cost base increases due to cost controls
- Significant increase in QICs, up £2.9m
- Fuel cost movements reflect decrease in hedge price
- Insurance claim costs increase owing to a small number of high cost incidents
- Margins held up year on year in competitive market
- Singapore revenues of £15.2m included
- Bid costs reflect further Singapore bid
- Outlook: full year expectations are unchanged

* Excluding Singapore bus

BUS: FUEL HEDGING

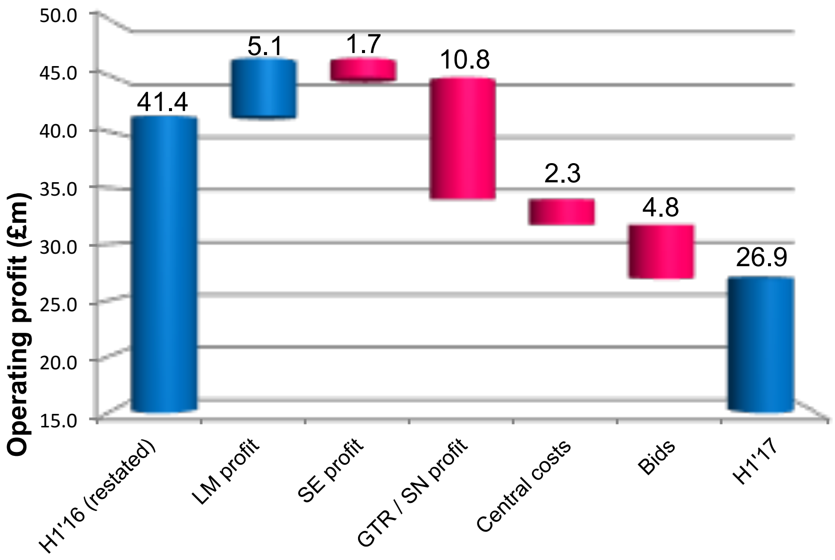
Fuel hedging prices	FY'16	FY'17	FY'18	FY'19*	FY'20*	FY'21*
% hedged	100%	100%	100%	60%	30%	10%
Price (pence per litre)	45.4	36.4	34.7	34.0	35.7	36.9
Usage (m litres pa)	130	125	124	124	124	124
£m commodity cost	59	46	43	42	44	46

- Benefit of low hedge price shows in current year
- FY'17 fully hedged – 19.8% lower than FY'16
- FY'18 fully hedged – 4.7% lower than FY'17
- No expectation of near term change in BSOG

- Fuel hedging is consistent with policy
- Hedge periods have been extended to provide greater certainty to the fixed price contracts in London
- All fuel hedges are in GBP

* Assumes consistent usage and that hedging is completed at the December 2016 market price

RAIL



	H1'17	H1'16*	FY'16*
Operating margin	2.1%	3.3%	2.9%

- Operating profit down £14.5m to £26.9m
- Rail bid costs of £7.1m (H1'16: £2.3m) incurred in relation to West Midlands, German and Nordic bids. FY'17 expected to be c.£13m with ongoing bidding in Germany and Nordic markets
- London Midland continues to trade well
- Southeastern shows the impact of slower revenue growth, shielded by profit share
- GTR/Southern reflects continued challenges due to the ongoing industrial action and impacts on delivery of strategic changes
- Outlook: no change to expectations for Southeastern and London Midland

* Restated for the change in accounting policy regarding rail pensions announced on 29 November 2016

GTR OUTLOOK

- Full year expectations lowered due to additional costs and delays to expected efficiencies as a result of ongoing industrial relations issues at GTR
- Contractual discussions underway with the DfT with a range of reasonably possible outcomes
- Management's judgement of these outcomes is that, relating to events up to 31 December 2016, the impact on rail profitability is likely to be within a range of plus or minus £10m
- Given the continuing uncertainty, our expectation for the full year is that this range will increase to plus or minus £15m
- There are three main drivers of long term profitability once the current issues have been resolved:
  - High levels of train service reliability must be achieved
  - The additional costs of running more and longer trains must be agreed using contractual mechanisms
  - The programme of driving efficiency gains envisaged at the outset of the contract must be delivered
- Working on all three areas. Outlook for the remainder of the contract is kept under constant review

SUMMARY INCOME STATEMENT

£m	H1'17	H1'16 (restated)	Variance	
Revenue	1,715.6	1,665.0	50.6	→ In line with expectations
Operating profit (before amortisation)	74.1	85.4	(11.3)	
Amortisation	(1.1)	(1.6)	0.5	
Share of result of associate	(0.2)	-	(0.2)	
Net finance costs	(5.8)	(7.9)	2.1	→ Reduced pension interest costs
Profit before tax	67.0	75.9	(8.9)	
Tax	(10.8)	(12.7)	1.9	
Profit for the period	56.2	63.2	(7.0)	
Non-controlling interests	(10.1)	(13.7)	3.6	→ 35% Keolis holding in rail
Profit attributable to members	46.1	49.5	(3.4)	

Adjusted earnings per share (p)	107.6	115.2	(7.6)	→ EPS impacted by decreased profits
Dividend per share (p)	30.17	28.33	1.84	→ Up 6.5%. Payable 21 April 2017

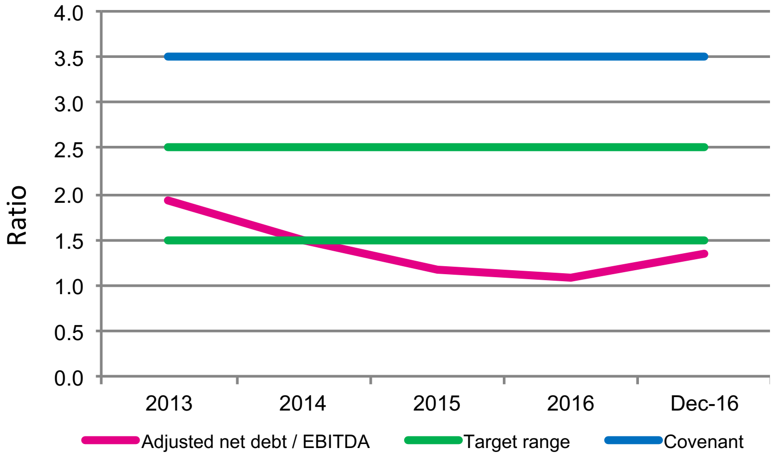
CASHFLOW AND CAPEX

£m	H1'17
EBITDA	104.9
Working capital	10.0
Cashflow from operations	114.9
Tax and net interest	(31.8)
Net capital expenditure	(96.1)
Free cashflow	(13.0)
Dividends paid	(29.3)
Other	(5.1)
Increase in adjusted net debt	(47.4)
Adjusted net debt at 2 July 2016	(239.3)
Adjusted net debt at 31 December 2016	(286.7)

- Capex phased mainly in first half supporting London bus contract renewals
- Full year capex expected to be c.£150m
  - c.£115m in bus
  - c.£35m in rail
- £71.3m invested in 254 new buses

£m	H1'17	FY'16	FY'15	FY'14
Free cash flow exc. restricted cash	(13.0)	68.2	63.4	80.2

DEBT POSITION



- Adjusted net debt / EBITDA 1.35x; below target range* of 1.5x - 2.5x, as expected
- BBB- / Baa3 (stable) rating
- Process for refinancing the September 2017 bond has commenced

As at 31 December 2016	£m
Restricted cash	514.4
Net cash	227.7
Adjusted net debt	286.7
EBITDA (rolling 12 months)	213.1
Adjusted net debt/EBITDA	1.35x

As at 31 December 2016	£m
Five year syndicated facility 2021	280
7½ year £200m sterling bond 2017	200
Total core facilities	480
Amount drawn down	395
Total headroom	85

* Targets and covenant refer to adjusted net debt to EBITDA on a statutory basis as required by bank covenants

BUS PENSIONS

NET PENSION SCHEME LIABILITIES:

£m	H1'17	H1'16	FY'16
Assets	784.6	659.1	763.1
Liabilities	(817.5)	(718.2)	(765.8)
Less tax	5.6	10.6	0.5
Post tax deficit	(27.3)	(48.5)	(2.2)

£m	H1'17	H1'16	FY'16
Operating profit charge	0.9	1.1	1.4
Cash contribution	3.2	2.5	4.8

- Scheme closed to future accrual with effect from 1 April 2014
- Different assumptions applied on actuarial valuation compared to accounting valuation
- The post tax deficit has increased following the reduction in discount rates by 0.1% and increase in RPI assumptions by 0.5%

DAVID BROWN

Group Chief Executive

REGIONAL BUS

HIGHLIGHTS

- Operating profit up 6.2%
- Margins remain stable and sector leading

- Growth in revenue and passenger volumes is subdued but continues to outperform the industry trends
- Highest customer satisfaction score in the sector at 89%
- Investment in technology to improve customer experience
- Two bus company acquisitions made, one following half year end
- Industry engagement continues around Bus Services Bill

LONDON BUS

HIGHLIGHTS

- Maintained operating margins and market share
- Results include bus operations in Singapore

- Revenue and mileage growth in line with expectations
- Largest London bus operator running 24% of services
- High quality and cost efficient operator with consistent contract retention rate
- Largest operator of electric buses in the UK
- Strong QICs performance in first quarter
- Congestion remains a pervasive issue – high on Mayor's agenda
- Began operating buses in Singapore in September 2016 –pleased with performance

RAIL

HIGHLIGHTS

- West Midlands bid submitted
- DfT indicated Southeastern will be extended

- Good results from Southeastern and London Midland
- GTR made losses in the period
- Contributed £42.9m to the DfT
- Focused on delivering the commitments of our existing franchises and improving service for customers
- Challenging period in UK rail, but believe market remains attractive over the long term

RAIL – SOUTHEASTERN

- DfT indicated it will extend the franchise to December 2018
- Profit share expected to reduce in second half of the year
- Continue to work closely with industry partners to support the Thameslink Programme
- Customer satisfaction improved year on year at 77%

RAIL – LONDON MIDLAND

- Expected to remain in profit share for the life of the franchise – to October 2017
- Reliable service with punctuality scores of 88%
- High customer satisfaction at 85%
- Recently named 'most improved organisation' in latest UK Customer Satisfaction Index
- Awaiting outcome of West Midlands franchise competition

RAIL – GTR

- We are playing a key role in the Thameslink Programme which will transform the travelling experience of millions of people
- Since franchise began 428 new carriages introduced – more than the rest of the UK rail network combined – 970 more to be delivered by end of 2018
- Invested in the UK's largest ever driver recruitment and training programme
- 100 additional On Board Supervisors recruited
- Driver controlled trains now provide three-quarters of service
- Striving for full resolution of industrial relations issues so we can deliver a reliable service for customers

INTERNATIONAL DEVELOPMENTS

- Submitted bid for another bus contract in Singapore – expect result during second half
- Established a Nordic bid team in Sweden – shortlisted in Sweden and pre-qualified in Norway for rail contracts
- German rail bids due for submission in the spring
- Mobilisation of German rail contract well underway
- Bus and rail development teams exploring other opportunities in targeted markets

SUMMARY AND OUTLOOK

- Stable financial performance in bus, although regional bus growth impacted by industry-wide slowdown in passenger journeys, lowering full year expectations
- Full year rail division profitability impacted by GTR; where additional costs have been incurred and cost efficiencies have been delayed due to ongoing issues
- Contractual discussions are ongoing with the DfT regarding GTR, with a range of reasonably possible outcomes. Management's judgement of these outcomes is that the impact on rail profitability will be within a range of +/-£15m for the full year
- International development progressing well – good growth opportunities in targeted markets
- Despite challenges, our bus and rail businesses remain fundamentally strong and we are committed to protecting our core business and delivering value
- Stable bus profits support interim dividend increase of 6.5%, reflecting Board's confidence
- The Group is in a good financial position, with strong cash generation and a robust balance sheet

Q AND A