# THE GO-AHEAD GROUP PLC FULL YEAR RESULTS FOR THE YEAR ENDED 2 JULY 2016

# HIGHLIGHTS

- Overall results slightly ahead of management expectations
- £100m bus profit target met; bus adjusted operating profit up 8.0% to £100.4m
- Regional bus adjusted operating profit up 9.4% to £53.3m. Passenger growth in the second half ahead of the first; steady passenger numbers
- London bus adjusted operating profit up 6.3% to £47.1m despite a significant reduction in QICs income
- Rail adjusted operating profit at £57.0m, with a margin of 2.3%. Contribution to the DfT in the year of £222.4m
- Continued difficulties for GTR but expectations remain the same with regard to profit over life of contract
- Singapore bus contract goes live this weekend, mobilisation costs in line with bid assumptions. Mobilisation of rail contracts in Germany commenced
- Bid team established for the West Midlands franchise
- Strong cashflow and small reduction in adjusted net debt
- Proposed full year dividend up by 6.5% to 95.85p, in line with interim dividend increase

Reconciliation to Statutory figures is shown in appendices

# PATRICK BUTCHER
# GROUP CHIEF FINANCIAL OFFICER

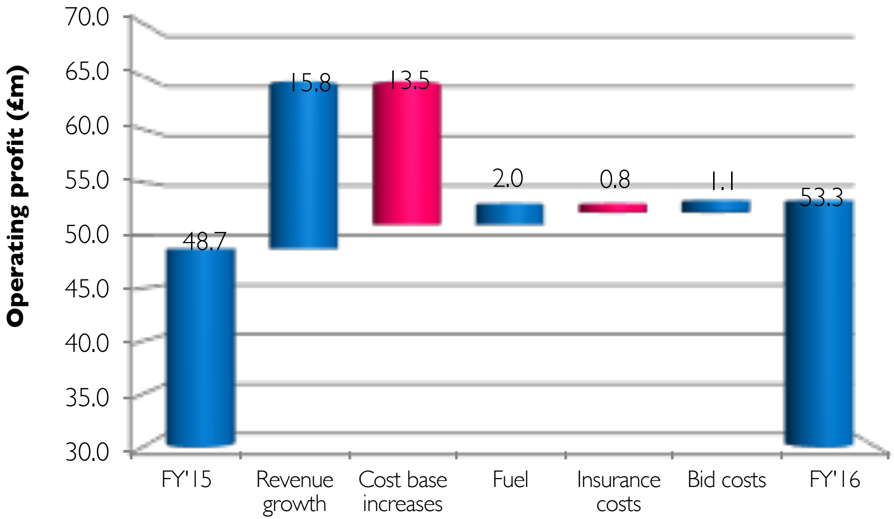
# ROBUST FINANCIAL PERFORMANCE

| | Adjusted operating profit | | |
|---|---|---|---|
| | Operating profit FY'15 £m | Year on year Variance £m | Operating profit FY'16 £'m |
| Regional bus | 48.7 | 4.6 | 53.3 |
| London bus | 44.3 | 2.8 | 47.1 |
| **Total bus** | **93.0** | **7.4** | **100.4** |
| Rail | 41.7 | 15.3 | 57.0 |
| **Total** | **134.7** | **22.7** | **157.4** |

- Overall results for the Group slightly ahead of management expectations
- Adjusted operating profits highlighted to provide clarity on underlying performance excluding the increased non-cash operating profit impact of IAS 19 (revised)
- Full year non-cash impact of IAS 19 (revised) of £37.0m (FY'15: £20.0m). Bus impacted by £7.1m (FY'15: £4.0m) and rail £29.9m (FY'15: £16.0m)
- Full reconciliations to the statutory numbers are included in the Appendices

Unless otherwise stated, operating profit excludes IAS19 (revised), amortisation and exceptional items. IAS19 (revised) is excluded as, for rail, it recognises liabilities for future commitments to pensions far beyond the period covered by our franchises and does not reflect associated cash contributions for the Group.

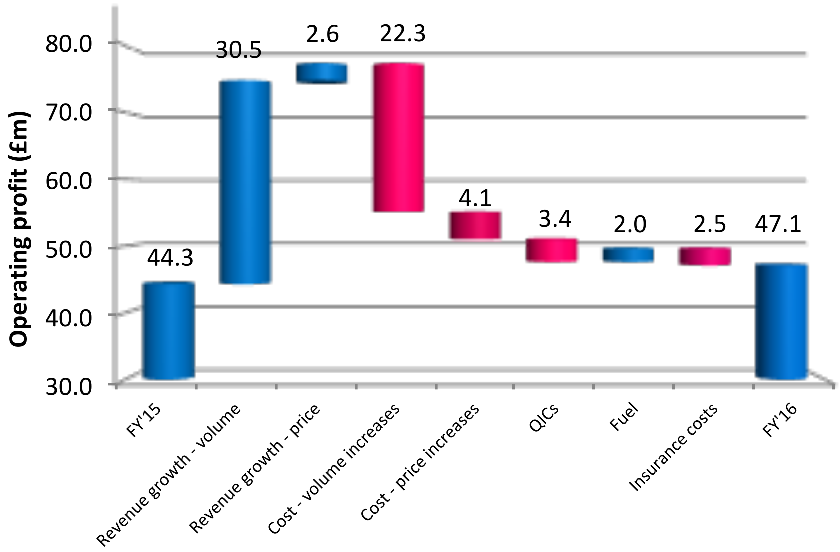
# REGIONAL BUS




| Performance | FY'16 | FY'15 | FY'14 | FY'13 | FY'12 |
|---|---|---|---|---|---|
| Adjusted operating profit margin | 14.2% | 13.5% | 12.4% | 11.2% | 11.3% |
| Revenue growth | 2.4% | 2.6% | 4.3% | 4.3% | 4.7% |
| Passenger growth | 0.0% | (1.4%) | 1.9% | 1.1% | 2.8% |

- Margins now at sector leading levels
- Adjusted operating profit up £4.6m to £53.3m
- Revenue growth of 2.4% driven by additional mileage operated, contract wins and fare increases at or below inflation
- Good cost controls maintained
- Fuel cost movements reflect decrease in the hedged price
- Continued focus on accident prevention and minimising claims, has not offset small rise in claims costs
- Bid costs have decreased as the majority of Singapore bid costs were incurred in FY'15

# LONDON BUS




MARGIN PERFORMANCE

| | FY'16 | FY'15 | FY'14 | FY'13 | FY'12 |
|---|---|---|---|---|---|
| Adjusted operating profit margin | 9.7% | 9.7% | 9.6% | 9.5% | 9.2% |

- Margins held flat, despite loss of QICs
- Adjusted operating profit up £2.8m to £47.1m
- Revenue growth, from additional mileage, contract gains and commercial activities
- Net cost inflation (incl. fuel) marginally below contractual indexation, reflecting continued tight cost control
- Significant reduction in QICs down £3.4m, but £1.1m received in Q4 after some roadwork completions
- Fuel cost movements reflect decrease in the hedged price
- Insurance costs reflect increases from a small number of high cost incidents

# BUS: FUEL

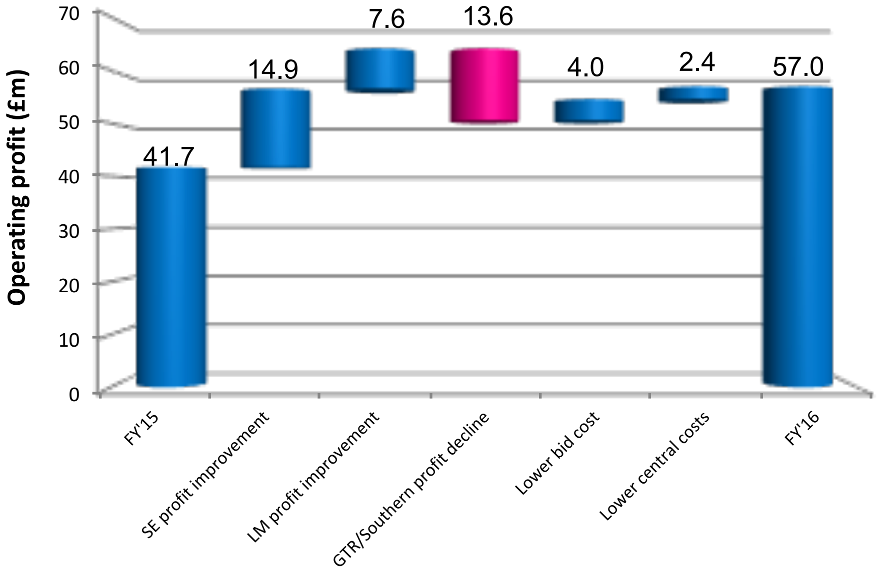
| Fuel hedging prices | FY'15 | FY'16 | FY'17 | FY'18 | FY'19* | FY'20* | FY'21* |
|---|---|---|---|---|---|---|---|
| % hedged | **100%** | 100% | 100% | 100% | 60% | 30% | 10% |
| Price (pence per litre) | **48.5** | 45.4 | 36.4 | 34.7 | 32.3 | 33.4 | 35.1 |
| Usage (m litres pa) | **128** | 130 | 125 | 126 | 126 | 126 | 126 |
| £'m commodity cost | **62** | 59 | 46 | 44 | 41 | 42 | 44 |

- Benefit of current low oil price to show in FY'17
- FY'17 fully hedged – 19.8% lower than FY'16
- FY'18 fully hedged – 4.7% lower than FY'17
- FY'19 60% hedged – 6.9% lower than FY'18
- FY'20 and FY'21 – 30% and 10% hedged respectively
- No near term expectation of change in BSOG c. £20m in Regional bus

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

*Assuming consistent usage and that hedging is completed at June 2016 market price

# RAIL




- Adjusted operating profit up £15.3m to £57.0m
- Southeastern and London Midland reflect good trading performance and lower depreciation under new Directly Awarded Contracts
- GTR/Southern reflects continued investment of resources to manage performance
- Rail bid costs of £5.3m incurred, including c.£2.0m in Germany, lower than prior year
- Significant ongoing contribution to DfT of £222.4m (FY'15: £255.9m)

## MARGIN PERFORMANCE

| | FY'16 | FY'15 | FY'14 | FY'13 | FY'12 |
|---|---|---|---|---|---|
| Adjusted operating profit margin | 2.3% | 1.7% | 1.7% | 1.3% | 2.3% |

# SUMMARY ADJUSTED INCOME STATEMENT

| £m | FY'16 | FY'15 |
|---|---|---|
| Revenue | 3,361.5 | 3,215.2 |
| Operating profit | 157.4 | 134.7 |
| Net finance costs | (15.5) | (15.8) |
| Profit before tax and amortisation | 141.9 | 118.9 |
| Amortisation | (3.4) | (11.0) |
| Exceptional item | 0.0 | (8.8) |
| Profit before tax | 138.5 | 99.1 |
| Tax | (26.2) | (23.6) |
| Profit for the year | 112.3 | 75.5 |
| Non-controlling interests | (19.9) | ( 11.0) |
| Profit attributable to members | 92.4 | 64.5 |

| | | |
|---|---|---|
| **Adjusted earnings per share (p)** | **220.5** | **181.8** |
| **Proposed dividend per share (p)** | **95.85** | **90.00** |

→ In line with expectations

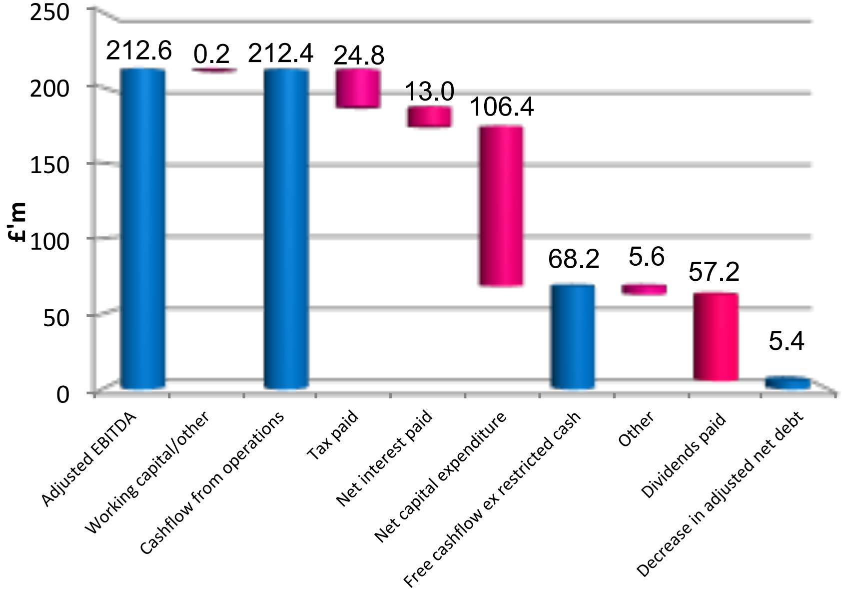
→ Lower rail intangibles in new DACs

→ 35% Keolis holding in rail

→ EPS reflects increased profits

→ Dividend increased 6.5%. Final dividend of 67.52p payable 25 November 2016

# CASHFLOW ANALYSIS

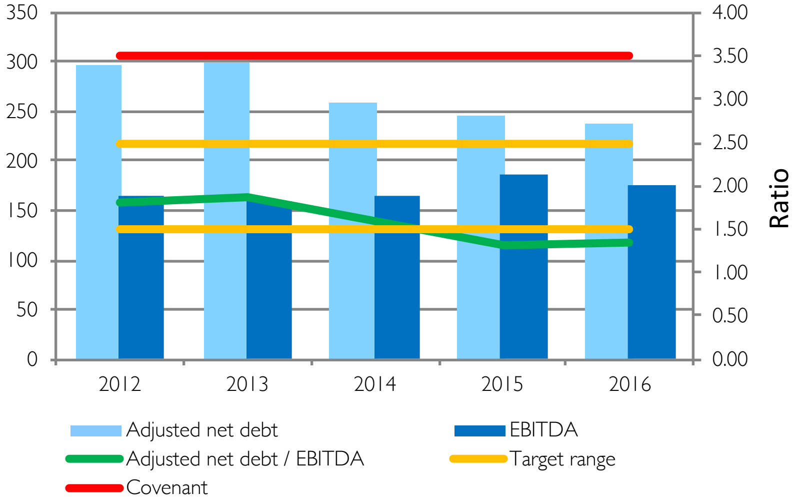



| £'m | FY'16 | FY'15 | FY'14 | FY'13 | FY'12 |
|---|---|---|---|---|---|
| Free cash flow excluding restricted cash | 68.2 | 63.4 | 80.2 | 37.5 | 41.1 |

- Working capital movement excludes £24.7m increase in restricted cash
- Bus capital expenditure: £88.6m (FY'15: £41.7m) – continued investment in London and regional fleet and depots
- Rail capital expenditure: £17.8m (FY'15: £6.2m)
- Free cashflow excluding restricted cash movement, higher at £68.2m (FY'15: £63.4m)

# BALANCE SHEET

- Adjusted net debt / EBITDA 1.36x; below target range* of 1.5x - 2.5x, as expected
- BBB- / Baa3 (stable) ratings maintained
- Restricted cash increased to £562.3m (FY'15: £537.6m)
- Capital Expenditure to increase in Bus FY'17; (£110m) and Rail (£10m)
- Capital Allocation being kept under review




| As at 2 July 2016 | £m |
|---|---|
| Five year syndicated facility 2019 | 280 |
| 7½ year £200m sterling bond 2017 | 200 |
| Total core facilities | 480 |
| Amount drawn down | 313 |
| Total headroom | 167 |

| £m as at year end | 2016 | 2015 |
|---|---|---|
| Restricted cash | 562.3 | 537.6 |
| Net cash | 323.0 | 292.9 |
| Adjusted net debt | 239.3 | 244.7 |
| EBITDA (12 month rolling basis) | 175.6 | 185.2 |
| Adjusted net debt/EBITDA | 1.36x | 1.32x |

*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 | FY'16 | FY'15 |
|---|---|---|
| Assets | 763.1 | 659.2 |
| Liabilities | (765.8) | (718.7) |
| Net deficit | (2.7) | (59.5) |
| Less tax | 0.5 | 11.9 |
| Post tax deficit | (2.2) | (47.6) |

- Scheme closed to future accrual with effect from 1 April 2014
- Different assumptions applied on actuarial valuation compared to accounting valuation
- March 2015 valuation agreed with the trustees in June 2016, additional contributions agreed at £1.5m pa
- Liability driven investment portfolio has outperformed compared to the discount rate applied to liabilities which has helped reduce the net deficit

Go-Ahead

DAVID BROWN
GROUP CHIEF EXECUTIVE

# REGIONAL BUS

## HIGHLIGHTS

- Adjusted operating profit up 9.4%
- Margins improving, up to 14.2%
- Steady passenger volumes

| | 2016 | 2015 |
|---|---|---|
| Adjusted operating margin | 14.2% | 13.5% |
| Revenue growth (lfl) | 2.4% | 2.6% |
| Passenger growth (lfl) | 0.0% | (1.4%) |

- Revenue growth driven by higher contract income and additional operated mileage, fare increases in line with inflation
- Highest customer satisfaction score in the UK bus sector at 89%
- Passenger volumes remain steady, although economic weakness continues in the north east
- Continued investment in our fleet – average bus fleet age of 7.8 years
- PayPal providing easier payment through our apps
- Google Transit Trip Planner on 85% of services plus real time information on our own apps
- Contactless ticketing trials in Oxford and Newcastle
- New inter-urban market initiatives in Oxford with the launch of a new Birmingham express service
- Government's Spending Review confirmed BSOG protected until at least 2020/21

# REGIONAL BUS: THE BUS SERVICES BILL

- The Bill will not impose any particular arrangement on local authorities or on bus operators
- The decision to take up new powers will be for local areas to make. Clear arrangements will be needed for ensuring the powers are used accountably and that they are in the best interests of both customers and taxpayers
- Any structural reform needs to be economically sustainable and embrace private sector innovation
- We are working with the DfT on the important secondary legislation that underpins implementation of the Bill
- Partnership working is how we have always conducted our business. Our devolved management structure positions us well for greater local accountability in political structures
- There is opportunity – we operate about 7% of the UK regional bus market

# LONDON BUS

## HIGHLIGHTS

- Maintained market share
- Margin steady, despite QICs reduction

| | 2016 | 2015 |
|---|---|---|
| Adjusted operating margin | 9.7% | 9.7% |
| Revenue growth (lfl) | 6.5% | 1.8% |
| Mileage growth (lfl) | 2.3% | (0.9%) |

- Largest London bus operator running 24% of services
- High quality and cost efficient operator with a high contract retention rate
- Roadworks and congestion in London stabilising – £1.1m of QICs received in the last quarter of the year
- New £7m strategically located bus depot opened in Barking, plus expansion of an existing depot
- Launch of largest electric fleet in UK at our Waterloo depot during September
- Population growth – increases demand forecast for buses but TfL under funding pressure

# RAIL

## HIGHLIGHTS

- London Midland Direct Award Contract
- GTR operating as an integrated franchise

| | 2016 | 2015 |
|---|---|---|
| Adjusted operating margin | 2.3% | 1.7% |
| Passenger revenue growth (lfl) | 4.6% | 7.6% |
| Passenger journey growth (lfl) | 3.1% | 3.9% |

- Overall a good financial result in the year, despite no contribution from GTR
- DfT awarded Direct Award Contract to London Midland until October 2017
- Net contributions to the DfT of £222.4m
- Core focus on delivering the commitments of our existing franchises
- Working with the DfT and Network Rail to minimise disruption for passengers as a result of the Thameslink Programme and London Bridge rebuild
- Shortlisted to bid for the new West Midlands franchise
- UK rail market continues to offer opportunities

# RAIL

## SOUTHEASTERN

- Under its new Direct Award Contract, delivered a strong trading performance
- Contributed £39.9m to DfT through profit share mechanism
- Close working relationship with Network Rail aiding improvements in operational performance

## LONDON MIDLAND

- Awarded an extension of the franchise under a Direct Award Contract until October 2017
- Performance continued to improve throughout the year, with a steady increase in both passenger journeys and passenger revenue
- 86% customer satisfaction score
- Some of the best punctuality scores in the sector

# RAIL

GTR

- The £6.5bn Thameslink Programme is a once-in-a-generation opportunity
- We welcome the DfT's new project board
- Franchise established to implement modernisation plans and transform services for customers
- Extensive commitments including new train carriages and modernisation of working practices
- More than 200 other committed obligations have been delivered
- At the centre of the programme is the re-build of London Bridge
- Southern customers have experienced disruption during this change
- Management's focus is on resolving trade union dispute while continuing with modernisation programme
- Estimate of 1.5% margin over life of the franchise is unchanged

# OVERSEAS CONTRACT WINS

- Awarded a five year contract to operate bus services in Singapore from 4 September 2016
  - Similar features to London bus market, with revenue risk taken by the Government
  - Expected revenues of Singapore $500m
    25 bus routes and up to 400 buses
  - Submitting second contract bid for a Singaporean bus contract
- Awarded two contracts to operate rail services in the German state of Baden-Wurttemberg from June 2019
  until 2032
  - Expected total revenues of around €1.6bn
  - Gross cost contracts with incentive regimes linked to revenue growth and operational performance

# SUMMARY AND OUTLOOK

- The new financial year has begun with similar trends to the second half of 2015/16
- In bus we have a resilient business model equipped for economic uncertainty; operating high quality services in good bus markets. We continue to work to innovate our customer proposition (eg contactless cards) to help drive revenues, while future fuel cost reductions will help manage the cost base
- In rail, we expect continued strong performance in Southeastern and London Midland. The GTR network will benefit from new trains and more drivers, enabling improvements in the customer experience
- Singapore bus operations are set for a successful launch this week. We continue to explore other opportunities both in Singapore and Germany, and also in similar international markets
- The Group remains in a strong financial position with good cash generation and a robust balance sheet, supporting our dividend policy and allowing flexibility to pursue value-adding opportunities

# APPENDICES

# ADJUSTED AND STATUTORY INCOME STATEMENT

| £m | Adjusted FY'16 | Adjusted FY'15 | Adjusted Variance | Statutory FY'16 | Statutory FY'15 | Statutory Variance |
|---|---|---|---|---|---|---|
| Revenue | 3,361.5 | 3,215.2 | 146.3 | 3,361.5 | 3,215.2 | 146.3 |
| Operating profit | 157.4 | 134.7 | 23.7 | 120.4 | 114.7 | 5.7 |
| Net finance costs | (15.5) | (15.8) | 0.3 | (17.6) | (18.1) | 0.5 |
| Profit before tax and amortisation | 141.9 | 118.9 | 23.0 | 102.8 | 96.6 | 6.2 |
| Amortisation | (3.4) | (11.0) | 7.6 | (3.0) | (9.1) | 6.1 |
| Exceptional item | 0.0 | (8.8) | 8.8 | 0.0 | (8.8) | 8.8 |
| Profit before tax | 138.5 | 99.1 | 39.4 | 99.8 | 78.7 | 21.1 |
| Tax | (26.2) | (23.6) | (2.6) | (18.5) | (19.4) | (0.9) |
| Profit for the year | 112.3 | 75.5 | 36.8 | 81.3 | 59.3 | 22.0 |
| Non-controlling interests | (19.9) | (11.0) | (8.9) | (11.6) | (7.1) | (4.5) |
| Profit attributable to members | 92.4 | 64.5 | 27.9 | 69.7 | 52.2 | 17.5 |
| **Earnings per share (p)** | 220.5p | 181.8p | 38.7p | 167.2p | 150.8p | 16.4p |
| **Proposed dividend per share (p)** | 95.85p | 90.00p | 5.85p | 95.85p | 90.00p | 5.85p |

# IAS 19 (REVISED)

- IAS19 (revised) became effective for the Group in the 2014 financial year
- The table shows the impact on the financial results for FY'16 and comparative periods
- The impact of the revised standard is a reduction in profit before tax for the year of £38.7m (FY'15: £20.4m), £22.7m of which is attributable to equity holders of the parent (FY'15: £12.3m)
- This results in a reduction in basic earnings per share of 52.9p (FY'15: 28.5p) and a reduction to adjusted earnings per share of 53.3p (FY'15: 31.0p), of which 17.2p (FY'14: 11.6p) relates to the bus division
- Applying the revised standard has no effect on cash or credit rating

| | **FY'16 £m** | FY'15 £m |
|---|---|---|
| Profit adjustment – bus | (7.1) | (4.0) |
| Profit adjustment – rail | (29.9) | (16.0) |
| Total operating profit effect | (37.0) | (20.0) |
| Amortisation | 0.4 | 1.9 |
| Net finance costs | (2.1) | (2.3) |
| Profit before tax | (38.7) | (20.4) |
| Tax | 7.7 | 4.2 |
| Profit for the period | (31.0) | (16.2) |
| Attributable to: | | |
| Equity holders of the parent | (22.7) | (12.3) |
| Non controlling interests | (8.3) | (3.9) |
| | (31.0) | (16.2) |
| Reduction in basic eps | (52.9)p | (28.5)p |
| Reduction in adjusted eps | (53.3)p | (31.0)p |
| Reduction in eps attributable to bus | (17.2)p | (11.6)p |