Go-Ahead full year results

For the year ended 27 June 2015

3 September 2015

#GOGFY15

Highlights

Financial strength

- Overall profits up 11.1%, slightly ahead of our expectations as a result of a stronger performance in rail
- Record bus profits, up 6.6%
- Improvement in rail profits albeit at historically low margins
- Continued strong free cashflow and robust balance sheet
- Proposed full year dividend up 6.5% to 90.0p in line with our progressive policy

Strategic and operational progress

- Continued progress in bus division with sector-leading customer satisfaction in regional bus operations
- Expect to deliver £100m of bus operating profit in 2016/17, a year later than originally anticipated
- Record passenger numbers in rail division
- Group's net increase in contributions to the DfT in the year was £191.9m, up to £255.9m
- Challenging start in GTR – working closely with industry partners to improve performance and manage contract changes
- Submitted bids for Northern and TransPennine Express rail franchises and shortlisted for the London Overground contract
- Continue to explore selective opportunities in overseas markets

Keith Down

Group Finance Director

Good performance overall

	Operating profit FY'14 £'m	Variance £'m	Operating profit FY'15 £'m
Regional bus	41.9	4.8	46.7
London bus	41.6	0.7	42.3
Total bus	**83.5**	**5.5**	**89.0**
Rail	19.7	6.0	25.7
Total	**103.2**	**11.5**	**114.7**

- Overall results for the Group slightly ahead of management latest expectations
- Group revenue up 19.0% - 14.6% of increase from GTR
- Operating profit up 11.1% with growth in all divisions despite operational challenges
- Record bus profits, showing continued progress
- Rail profitability helped by contract management benefits towards the end of the year

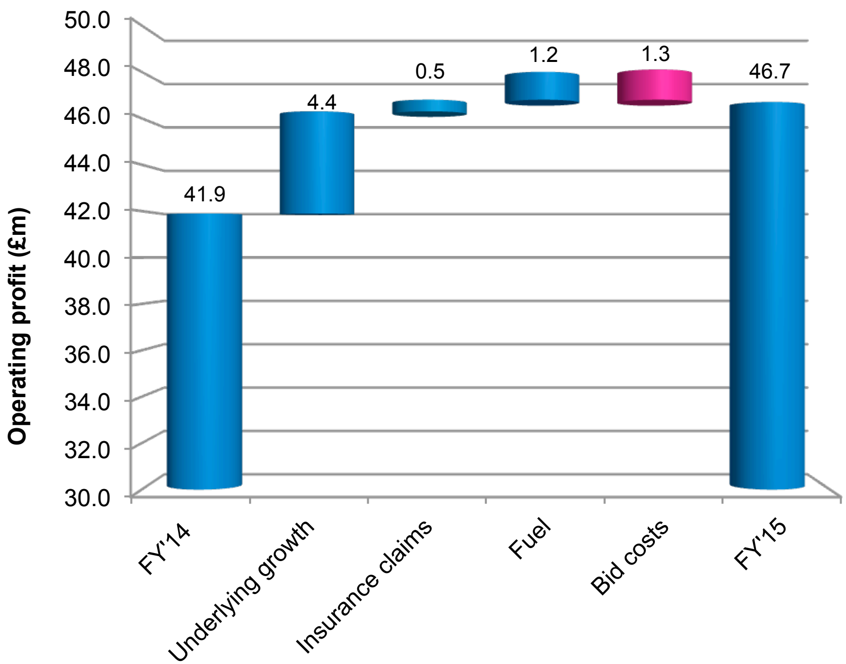
Unless otherwise stated, operating profit excludes amortisation, goodwill impairment and exceptional items

Regional bus: Revenue

Total	**FY'15**	**H1'15**	**H2'15**	**FY'14**
Revenue	**2.6%**	4.1%	1.2%	4.3%
Passengers	**(1.4)%**	(0.5)%	(2.2)%	1.9%

- Revenue up 2.6%, with lower growth in the second half, particularly in the last quarter
- Passenger journeys reduced by 1.4% in the year, down 2.2% in the second half, impacted by continued economic weakness in the north east and roadworks in Oxford and Brighton
- Similar trends in commercial and concessionary revenue and journey growth

Regional bus: Profit bridge



Margin performance

	FY'15	H1'15	H2'15	FY'14
Operating profit margin	13.0%	12.9%	13.1%	11.9%

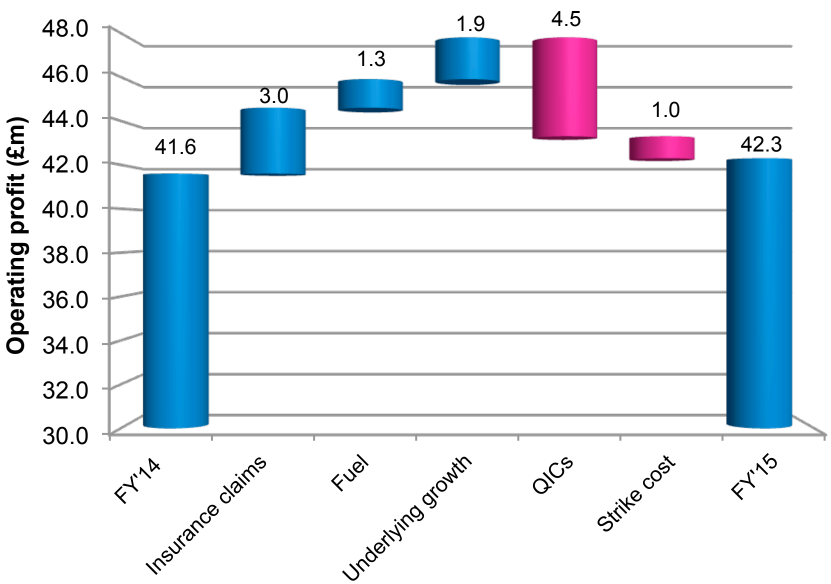
- Operating profit up £4.8m to £46.7m
- Continued focus on accident prevention and managing claims including historic incidents. Some reversal in second half
- Underlying organic growth reflects like for like revenue growth outstripping cost inflation
- Fuel cost movements reflect reduction in hedge price
- Bid costs of £1.3m in respect of Singaporean bus market
- Consistent margin performance across the year showing improvement on last year

London bus: Revenue

Total	**FY'15**	**H1'15**	**H2'15**	**FY'14**
Revenue	**1.8%**	2.8%	0.9%	7.5%
Mileage	**(0.9)%**	(1.6)%	(0.2)%	1.6%
QICs	**£4.6m**	£4.4m	£0.2m	£9.1m

- Revenue up 1.8%
- Reallocation of BSOG from costs to revenue contributed 1.2% of FY'15 revenue growth and 3.7% of FY'14 growth
- Mileage down 0.9% as expected, with stronger performance in the second half due to contract gains
- Expect contract gains to continue into FY'16 with mileage expected to increase by 2-3% in the full year
- QICs reductions of £4.5m in the year, predominantly in the second half, due to congestion and roadworks in London

London bus: Profit bridge



- Operating profit up £0.7m to £42.3m
- Continued focus on accident prevention and managing claims including historic incidents
- Fuel cost movements reflect reduction in hedge price
- Significant fall in QICs in the second half due to roadworks and congestion
- Impact of strike action was £1m, as previously indicated
- Margin remains broadly consistent year on year, weaker in second half due to lower QICs

Margin performance

	FY'15	H1'15	H2'15	FY'14
Operating profit margin	9.2%	9.5%	9.0%	9.3%

Bus: Fuel

Fuel hedging prices	FY'14	FY'15	FY'16	FY'17	FY'18
% hedged	Fully	Fully	Fully	Fully*	Fully*
Price (pence per litre)	50.5	48.5	45.8	37.0	35.0
Usage (m litres pa)	127	128	130	125	124
£'m commodity cost	64	62	60	46	43

- FY'15 - fully hedged at 48.5ppl, 4.0% lower than FY'14
- FY'16 - fully hedged at 45.8ppl, 5.6% lower than FY'15
- FY'17 and FY'18 - following year end additional purchase made to lock in 100% of requirement at lower rates
- FY'17 - fully hedged at 37.0ppl, 19.2% lower than FY'16
- FY'18 - fully hedged at 35.0ppl, 23.6% lower than FY'16
- BSOG c.£20m in regional business

* Board approved additional purchase in July 2015

Rail: Revenue

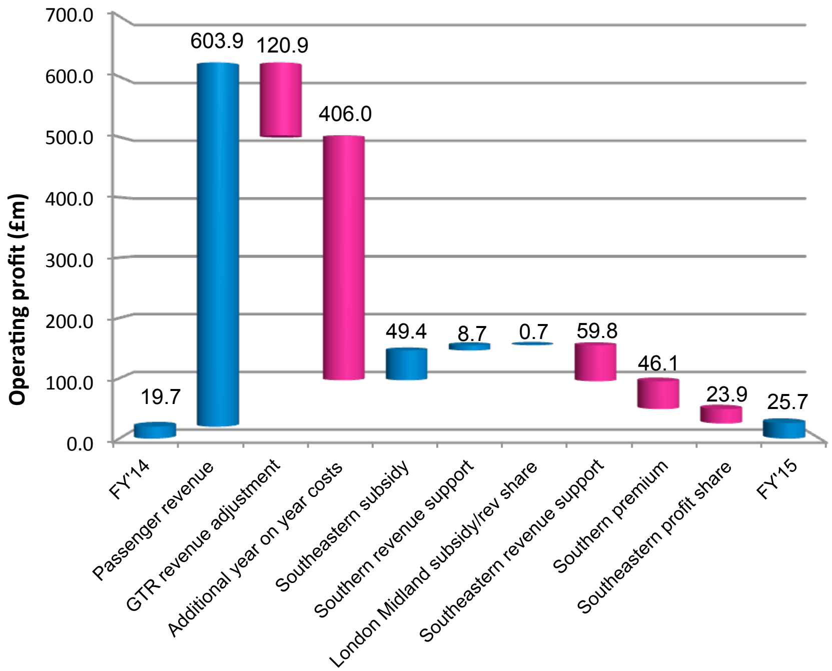
Passenger revenue	FY'15	H1'15	H2'15	FY'14
Southern	7.0%	6.2%	7.8%	6.1%
Southeastern	8.5%	10.7%	6.4%	5.6%
London Midland	5.4%	4.0%	6.8%	7.4%
GTR*	8.8%	9.3%	8.5%	n/a

Passenger journeys	FY'15	H1'15	H2'15	FY'14
Southern	4.1%	5.0%	3.1%	4.1%
Southeastern	3.1%	7.9%	(1.5)%	5.3%
London Midland	2.1%	1.6%	2.6%	4.9%
GTR*	6.4%	8.8%	5.1%	n/a

- Southern: stronger than expected profit performance due to contract management benefits before the franchise was integrated into GTR in July 2015
- Southeastern: strong trading performance, operating under new contract terms since October 2014. Significant profit share contributions made in the year
- London Midland: continues to operate within its original contract terms, including seven month extension to March 2016
- GTR: continues to trade well however: operational issues and network changes contributed to the franchise making a small loss in the year
- Weakness in GTR offset by stronger performance in Southeastern

* Growth figures for GTR compare the period of operation in the half year to the same period of last year whilst trading as First Capital Connect

Rail: Operating profit bridge



Margin performance

	FY'15	H1'15	H2'15	FY'14
Operating profit margin	1.1%	0.9%	1.2%	1.0%

- Operating profit up £6.0m to £25.7m
- Total passenger revenue increased by 36.9%, including £484.0m for GTR
- Net payments to DfT up £191.9m
- Overall a net contributor to DfT of £255.9m
- Margins remain at historically low levels
- Bid costs of £9.4m incurred including c. £2m in Germany
- Capitalised GTR mobilisation costs of £2.8m included in intangible assets, as expected

Summary income statement

£'m	**FY'15**	**Exceptional items**	**FY'15 exc exceptional items**	**FY'14**	**Exceptional items**	**FY'14 exc exceptional items**	***Variance***	
Revenue	3,215.2	-	3,215.2	2,702.4	-	2,702.4	*512.8*	
Operating profit	**114.7**	**-**	**114.7**	**103.2**	**-**	**103.2**	***11.5***	Slightly ahead of expectations
Net finance costs	(18.1)	-	(18.1)	(18.3)	-	(18.3)	*0.2*	*See slide 13*
Profit before tax*	**96.6**	**-**	**96.6**	**84.9**	**-**	**84.9**	***11.7***	
Amortisation	(9.1)	-	(9.1)	(5.8)	-	(5.8)	*(3.3)*	Including £4.9m goodwill impairment relating to Go East Anglia
Exceptional items	(8.8)	8.8	-	12.1	(12.1)	-	-	*See slide 15*
Profit before tax	**78.7**	**8.8**	**87.5**	**91.2**	**(12.1)**	**79.1**	***8.4***	
Tax	(19.4)	(1.8)	(21.2)	(13.6)	2.4	(11.2)	*(10.0)*	Effective tax rate 24.7% (FY'14: 14.9%) *See slide 14*
Profit for the year	**59.3**	**7.0**	**66.3**	**77.6**	**(9.7)**	**67.9**	***(1.6)***	
Non-controlling interests	(7.1)	(2.5)	(9.6)	(7.3)	(0.8)	(8.1)	*(1.5)*	35% Keolis rail holding
Profit attributable to members	**52.2**	**4.5**	**56.7**	**70.3**	**(10.5)**	**59.8**	***(3.1)***	

Adjusted, EPS* (p)	**150.8p**		**148.6p**	***2.2p***	EPS up 1.5% impacted by tax rate in both years
Dividend per share	**90.0p**		**84.5p**	***5.5p***	Dividend increased by 6.5%. Payable 13 Nov

* Excludes amortisation, goodwill impairment and exceptional items

Finance costs

£m	FY'15	FY'14
Finance revenue	**2.4**	**1.5**
Interest payable on £200m bond	(11.2)	(11.2)
Interest payable on loans and overdrafts	(2.5)	(3.2)
IAS 19 (revised) interest	(2.4)	(2.0)
Other interest payable	(3.0)	(2.3)
Unwinding of discount on provisions	(1.4)	(1.1)
Finance costs	**(20.5)**	**(19.8)**
Net finance costs	**(18.1)**	**(18.3)**

- £200m 7.5 year 5.375% sterling bond issued in March 2010
- Average gross debt interest rate 4.2% (FY'14: 4.3%)
- Excluding non-cash interest charges of £0.7m relating to IAS 19 (revised) and discounts on provisions, underlying cash interest reduced by approximately £0.9m
- July 2014 RCF refinancing extended 1 year, maturity now July 2020

Tax

£m	FY'15	FY'14
Operating profit	114.7	103.2
Net finance costs	(18.1)	(18.3)
Amortisation and goodwill impairment	(9.1)	(5.8)
Exceptional items	(8.8)	12.1
Profit before tax	78.7	91.2
Tax	(19.4)	(13.6)
Effective rate	24.7%	14.9%

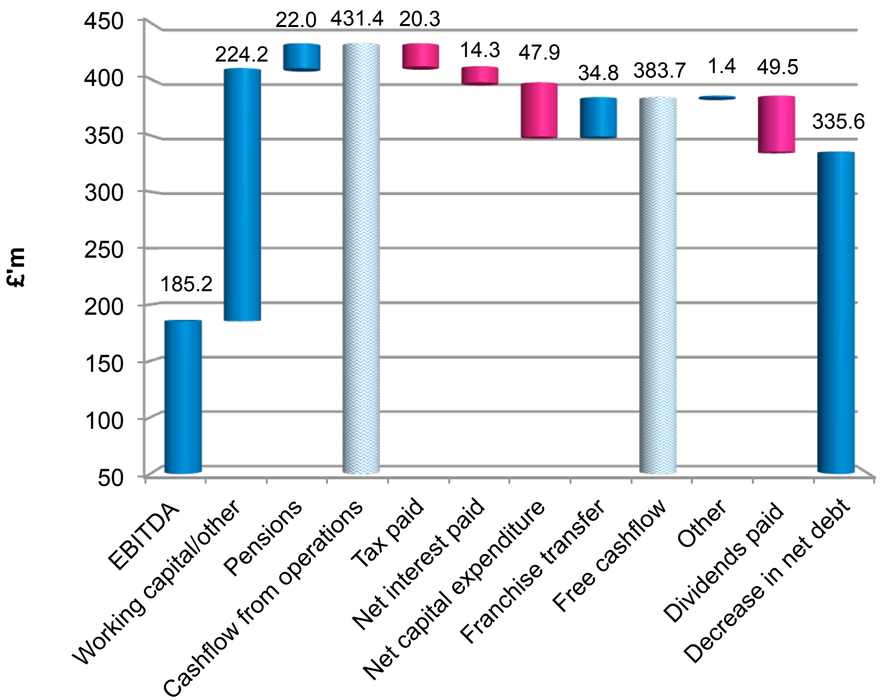
- Effective rate of 24.7%, higher than expected due to increased non-deductible items such as goodwill impairment and German rail bid costs
- Statutory rate of 20% expected in 2015/16
- Effective tax rate expected to be 1% to 2% above the statutory rate in future years

Exceptional items

£m	FY'15	FY'14
GTR restructuring costs	(8.8)	-
Credit arising from pension scheme closure	-	15.1
London Midland restructuring costs	-	(3.0)
Total exceptional items	(8.8)	12.1

- FY'15 restructuring costs reflect reorganisation of the combined GTR franchise which brings Thameslink and Great Northern together with Southern and Gatwick Express under one management structure

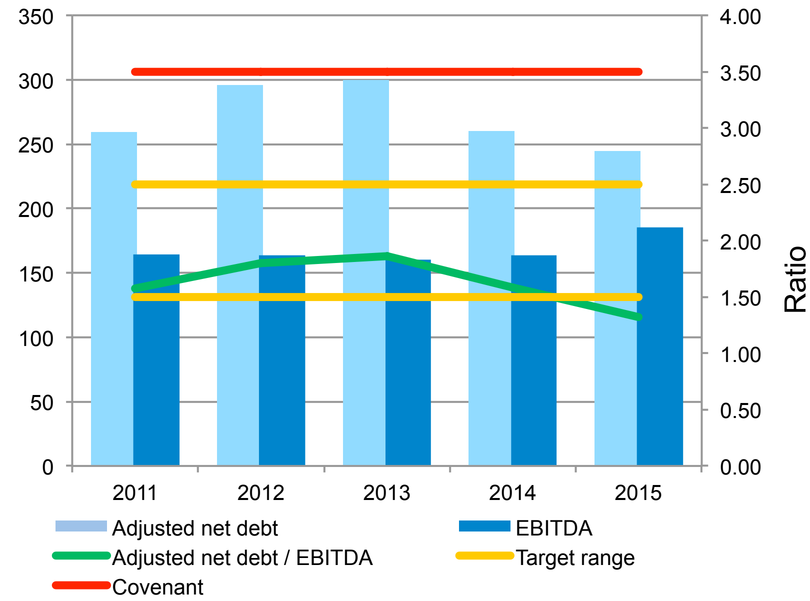
Cashflow analysis



- All positive working capital movement in rail is included within restricted cash, as will any future reversal
- Positive working capital movement in year of £224.4m, better than expectations
  - c.£70m due to cash inflow from start of GTR franchise not expected to reverse until end of franchise
  - c.£107m due to timing of GTR franchise payments expected to reverse in 15/16
  - Balance due to increase in season ticket cash and timing of contractual payments
- Pensions reflects add back of non-cash element of IAS 19 (revised)

Balance sheet

- Full year net cash of £292.9m better than anticipated due to working capital
- Adjusted net debt / EBITDA of 1.32x below target range of 1.5x - 2.5x.
- BBB- / Baa3 (stable) rating
- £280m bank facility extended to July 2020



As at 27 June 2015	£'m
Five year syndicated facility 2020	280
7.5 year £200m sterling bond 2017	200
Total core facilities	**480**
Amount drawn down	311
Total headroom	**169**

As at 27 June 2015	£'m
Restricted cash	537.6
Net (cash) / debt	(292.9)
Adjusted net debt	244.7
EBITDA	185.2
Adjusted net debt/EBITDA[1]	1.32x

Targets and covenant refer to adjusted net debt to EBITDA
[1] Adjusted net debt to EBITDA does not adjust for the impact of IAS 19 (revised)

Pensions

Net bus pension scheme liabilities:

£m	FY'15	FY'14
Assets	659.2	603.5
Liabilities	718.7	663.3
Net deficit	(59.5)	(59.8)
Less tax	11.9	12.0
Post tax deficit	(47.6)	(47.8)

Rail pensions:

- Net operating cost of £66.2m (FY'14 restated: £47.1m)
- Net deficit £nil (FY'14: £nil). DfT guarantee any deficit at franchise end

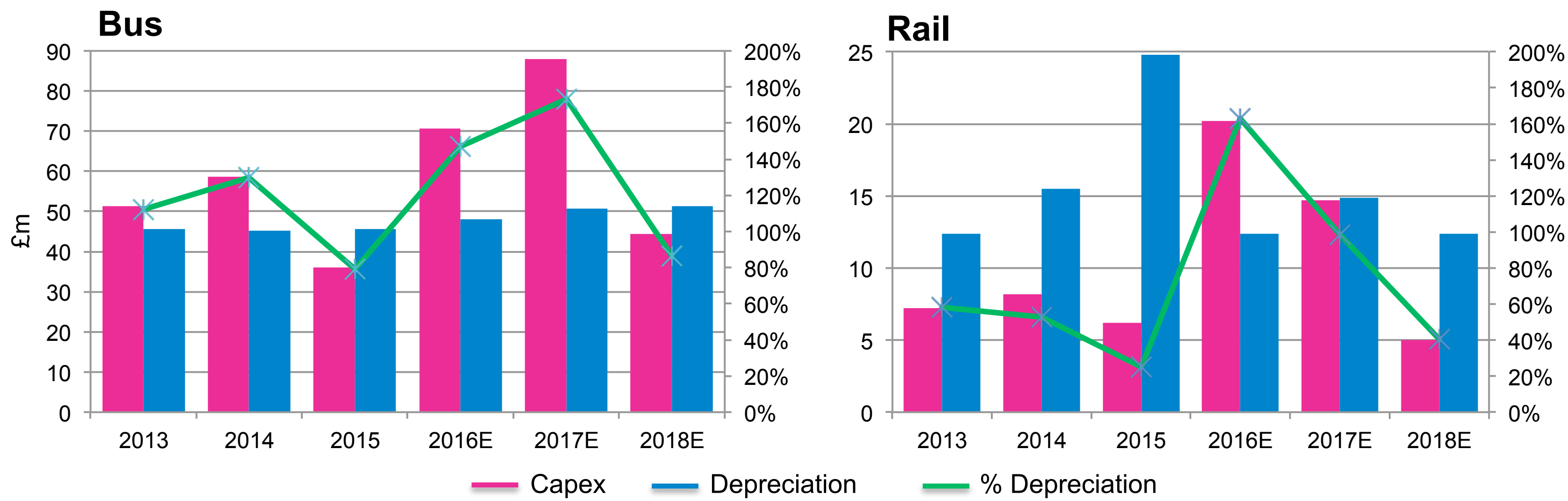
Bus final salary pensions:

- Net operating cost £2.7m (FY'14: £6.7m)
- Discount rate: 3.8% (FY'14 : 4.3%)
- +/- 0.1% discount rate = -/+ c.£12.2m
- Different assumptions applied on actuarial valuation compared to accounting valuation above
- Next actuarial valuation date is March 2015 with results due in early 2016

IAS 19 (revised):

- A summary of the impact of IAS 19 (revised) is included in the appendix

Capital expenditure



- Bus capex of £36.1m slightly lower than expected due to timing of bus purchases
- Rail capex of £6.2m also lower than expected
- Expect FY'16 bus capital spend of c£70m, dependent on London contract renewals, and rail capital spend of c£20m
- Expect similar level of bus spend in FY'17 of c.£80m, decreasing to c.£40m in FY'18, driven by timing of London contracts

David Brown

Group Chief Executive

Regional bus

HIGHLIGHTS

- Operating profit up 11.5%
- Margins improving, up to 13.0%

	FY'15	FY'14
Operating margin	**13.0%**	11.9%
Revenue growth (lfl)	**2.6%**	4.3%
Passenger growth (lfl)	**(1.4%)**	1.9%

- Highest customer satisfaction score in the UK bus sector at 90%
- Significant roadworks in Oxford resulted in long delays due to congestion deterring travel
- Ongoing economic weakness in the north east impacting passenger volumes
- New bus app providing easier payment – Pingit and PayPal, and improved real time information. Plus more WiFi on buses
- Introduced a multi-operator smart ticketing scheme in the north east and Brighton – giving passengers more choice and flexibility
- Continued investment in our fleet

Regional bus: political outlook

- The Bus Bill process is at a very early stage – the implications of the proposed Devolution Bill and Bus Bill are as yet unclear
- Partnership working is how we have always conducted our business. We continually engage with the DfT, MPs and other stakeholders to help inform the debate
- Go-Ahead is part of the solution – we are an integral part of the UK public transport industry
- Invested over £180m in our regional bus services over past five years
- Our devolved management structure positions us well for greater local accountability in political structures
- There is opportunity - we operate only about 7% of the UK regional bus market
- Tyne and Wear looking to introduce a Quality Contract Scheme. Voluntary partnership would provide a better outcome for both passengers and taxpayers

London bus

HIGHLIGHTS

- Maintained market share
- Margin remains broadly consistent

	FY'15	FY'14
Operating margin	**9.2%**	9.3%
Revenue growth (lfl)	**1.8%**	7.5%
Mileage growth (lfl)	**(0.9%)**	1.6%

- Largest London bus operator running 24% of services
- High levels of roadworks and congestion impacted Quality Incentive Contract revenue
- TfL committed to improving Excess Wait Time (EWT) and working with them to mitigate congestion
- High quality and cost efficient operator
- Experienced management team
- High contract retention rate
- Population growth – increasing demand forecast. TfL still growing the network

Rail

HIGHLIGHTS

- Better than expected profitability
- Significant changes in the division
- Submitted bids for Northern and TPE; shortlisted for London Overground

	FY'15	FY'14
Operating margin	**1.1%**	1.0%
Passenger revenue growth (lfl)	**7.6%**	6.1%
Passenger journey growth (lfl)	**3.9%**	4.8%

- A good result in the year, despite operational challenges
- Busiest rail operation in the UK - operate 35% of UK rail passenger journeys
- Net increase in contributions to the DfT of £191.9m, up to £255.9m
- Core focus on delivering the commitments of our existing franchises
- UK rail market offers signficant opportunities over the coming years

Rail continued

Southeastern

- Under its new direct award contract, delivered a good trading performance
- Contributed to DfT through profit share mechanism
- Close working relationship with Network Rail aiding improvements in operational performance

Southern

- Performed in line with financial expectations
- Continued roll out of ‘the key’ across Southern network – around 50,000 cards in issue
- Following year end, Southern successfully integrated into GTR

London Midland

- Performance continued to improve throughout the year, making a modest contribution to profit
- Working with DfT regarding planned extension to October 2017

Rail continued

GTR

- Commenced trading in September 2014
- Creation of a new business, new leadership team, a new culture and a programme of works for customer improvements
- Disruption throughout the year due to infrastructure issues and operational challenges
- Introduced an improvement plan with Network Rail to address issues
- Increased infrastructure investment is essential to improve services; will deliver significant benefit in the long term
- Southern and Gatwick Express successfully integrated into GTR in July 2015
- Margins to be impacted in the near term; expectations for the life of the franchise remain unchanged, but heavily reliant on third parties
- Largest number of trainee drivers in the UK, currently c.300

Exploring opportunities

- Consider growth prospects both within and outside of traditional markets
- Look for value adding opportunities in line with our measured approach to risk
- Submitted bids for Northern and TransPennine Express. Contracts expected to be awarded in November 2015
- Shortlisted for TfL's London Overground contract
- Will consider a number of other UK rail franchise opportunities over next 2 years
- Bidding for contracts in the German regional rail market
  - Largest European rail market and amongst most liberalised
  - Regional passenger revenue €9.6 billion per annum; 50 billion annual passenger kilometres operated
- Submitting second contract bid in Singaporean bus market
  - Similar features to London bus market
  - Over a billion passenger journeys annually

Summary and Outlook

- FY'15 has begun with similar trends flowing through from the second half of 2014/15
- In bus, we anticipate steady progress towards £100m of operating profit, expected to be achieved in 2016/17. Headwinds experienced in the past year should reverse over time, and this along with reduced fuel costs, gives us continued confidence in the prospects for the bus division
- In rail, we expect stronger performance in Southeastern to continue to offset underperformance in GTR. Focus will remain on delivering operational improvements, delivering benefits to passengers and managing contractual changes
- Continuing discussions with the DfT on the extension of London Midland from March 2016 to October 2017, and hope to agree terms shortly
- Look forward to hearing result of Northern and TransPennine Express rail franchise competitions, and TfL's London Overground contract
- Overseas, we await outcome of bid in the Singapore bus market and continue to explore other opportunities, particularly in the German rail market
- The Group remains in a strong financial position with good cash generation and a robust balance sheet, supporting our progressive dividend policy and allowing flexibility to pursue value-adding opportunities

Q&A

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Appendix

IAS 19 (revised)

- IAS19 (revised) became effective for the Group in the previous financial year
- The table shows the impact on the financial results for FY'15, FY'14 and on the restated results for FY'13.
- The effect of applying the revised standard is a reduction in profit before tax for the year of £20.4m (FY'14: £14.2m), £12.2m of which is attributable to equity holders of the parent (FY'14: £8.6m)
- This results in a reduction in basic earnings per share of 28.4p (FY'14: 20.1p) and a reduction in adjusted earnings per share of 30.8p (FY'14: 24.0p), of which 11.7p (FY'14: 9.6p) relates to the bus division
- Applying the revised standard has no effect on cash, credit rating or bank covenants

	FY'15 £m	**FY'14 £m**	**FY'13 £m**
Profit adjustment – bus	**(4.0)**	(3.3)	(3.0)
Profit adjustment – rail	**(16.0)**	(12.3)	(12.8)
Total operating profit effect	**(20.0)**	(15.6)	(15.8)
Amortisation	**1.9**	3.4	3.8
Net finance costs	**(2.3)**	(2.0)	(0.8)
Profit before tax	**(20.4)**	(14.2)	(12.8)
Tax	**4.2**	3.2	2.9
Profit for the period	**(16.2)**	(11.0)	(9.9)
Attributable to:			
Equity holders of the parent	**(12.2)**	(8.6)	(7.5)
Non controlling interests	**(4.0)**	(2.4)	(2.4)
	(16.2)	(11.0)	(9.9)
Reduction in basic EPS	**(28.4)p**	(20.1)p	(17.5)p
Reduction in adjusted EPS	**(30.8)p**	(24.0)p	(22.0)p
Reduction in EPS attributable to bus	**(11.7)p**	(9.6)p	(6.8)p

Dividend

Dividend policy: progressive dividend growth whilst maintaining dividend cover of approximately two times adjusted earnings, on a pre IAS 19 (revised) basis through economic cycle.

£m	Proposed dividend per share	FY'14 dividend per share
Earnings per share	150.8p	148.6p
IAS 19 (revised) adjustment	30.8p	24.0p
Revised earnings per share	181.6p	172.6p
Dividend (6.5% increase)	90.0p	84.5p
Dividend cover	2.02x	2.04x

- Earnings continue to be impacted by non cash IAS 19 (revised) adjustment
- Dividend cover should therefore be calculated on a pre-IAS 19 (revised) basis
- Proposed dividend increased to 90.0p, up 5.5p, or 6.5%