The Go-Ahead Group plc 4 Matthew Parker Street, London, SW1H 9NP
Telephone 020 7799 8999

PRESS RELEASE

2 September 2016

THE GO-AHEAD GROUP PLC
(“GO-AHEAD” OR “THE GROUP”)

PRELIMINARY FULL YEAR RESULTS FOR THE YEAR ENDED 2 JULY 2016

ROBUST FINANCIAL PERFORMANCE

Financial highlights

- Overall results slightly ahead of management expectations
- Achieved £100m bus target; 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 of the year
- 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
- Statutory operating profit in bus and rail was £91.2m (2015: £80.7m) and £26.2m (2015: £16.1m) respectively
- Strong cashflow and robust balance sheet
- Proposed full year dividend increased by 6.5% or 5.85p to 95.85p

Strategic and operational progress

- Difficult year in GTR – working closely with the DfT and Network Rail to improve services to customers
- Sector-leading customer satisfaction score of 89% in regional bus operations
- Record passenger numbers in rail division
- Shortlisted to bid for the West Midlands franchise
- Retained high levels of customer satisfaction at London Midland of 86%
- Entry into new overseas markets with contract wins in the Singaporean bus market and German rail market
- Adopted the voluntary ‘Living Wage’ across the Group, ensuring all employees, regardless of age, earn at least £8.25 per hour exceeding the ‘National Living Wage’ requirements

*Adjusted results exclude amortisation, goodwill impairment, exceptional operating costs, and the incremental impact of IAS 19 (revised)

N.B. The financial information presented herein is unaudited. Our audited financial statements will be available on our website www.go-ahead.com from 9 September 2016

Financial summary

Adjusted results*	FY'16 £m	FY'15 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	3,361.3	3,215.2	146.1	4.5
Adjusted operating profit	157.4	134.7	22.7	16.9
Adjusted operating profit margin	4.7%	4.2%		
Adjusted profit before tax	138.5	99.1	39.4	39.8
Adjusted earnings per share (p)	220.5	181.8	38.7	21.3
Proposed dividend per share (p)	95.85	90.0	5.85	6.5

* Adjusted results exclude amortisation, goodwill impairment exceptional operating costs, and the incremental impact of IAS 19 (revised)

Statutory results	FY'16 £m	FY'15 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	3,361.3	3,215.2	146.1	4.5
Operating profit before amortisation and exceptional items	120.4	114.7	5.7	5.0
Operating profit	117.4	96.8	20.6	21.3
Profit before tax	99.8	78.7	21.1	26.8
Basic earnings per share (p)	162.3	121.6	40.7	33.5
Proposed dividend per share (p)	95.85	90.0	5.85	6.5

	FY'16 £m	FY'15 £m	Increase/ (decrease) £m
Cashflow generated from operations	212.4	145.9	66.5
Free cashflow adjusting for restricted cash	68.2	63.4	4.8
Net (cash)/debt	(323.0)	(292.9)	(30.1)
Adjusted net debt*	239.3	244.7	5.4
Adjusted net debt/EBITDA*	1.36x	1.32x	

* Adjusted net debt is net cash less restricted cash

David Brown, Group Chief Executive, commented:

"I am pleased with the Group's financial performance in the year; with overall adjusted operating profit of £157.4m, slightly ahead of our expectations.

"It has been a year of financial progress in all three divisions. Our market positions have been strengthened, with organic growth supported by contract wins and extensions. As part of a targeted programme, we are pleased to have won new business in Singapore and Germany. We continue to explore similar opportunities in these and other selected markets.

"We've had a record year of profits from our bus division, achieving our £100m target as planned. Our regional bus business has sector leading margins and an industry leading customer satisfaction score of 89%. Go-Ahead remains the largest bus operator in London, retaining our 24 percent market share. We continued to invest in our business with £72m spent on over 300 new buses and £13m on new depots.

"The £6.5bn Thameslink Programme is a once in a generation opportunity to respond to the 40 percent passenger growth on Southern over the past five years and address the long term underinvestment in infrastructure. Customers will see gradual improvements over the next two years but the capacity of the network remains restricted until the end of 2018, when the ultimate benefits of this huge investment programme will be delivered.

"A large part of the role of the GTR franchise is to introduce three new train fleets and modernise working practices. During this period of change, Southern services have been disrupted by restricted network capacity, strike action and increased levels of absence. We apologise to the people whose lives have been affected during this time. We continue to work closely with the DfT, Network Rail and other suppliers and partners to operate the best service possible while delivering the long term improvements.

"Our rail division has delivered a robust financial performance, with strong results in Southeastern and London Midland offsetting weakness in GTR.

"Go-Ahead is committed to operating our business in a responsible manner and being a key part of the communities we serve. Over the past year Go-Ahead has made a significant contribution to the UK economy through the 27,500 people we employ, the £222.4m generated by our rail operations for the Government, and £24.8m paid in corporation tax. We are also pleased to have introduced the voluntary Living Wage across the entire Group.

"The Group remains in a good financial position, with strong cash generation and a robust balance sheet, allowing flexibility to pursue value-adding opportunities. This strong position underpins the Board's decision to propose an increased final dividend for the year, supported by increased profits in our bus business. "

ENDS

For further information, please contact:

The Go-Ahead Group

David Brown, Group Chief Executive	020 7799 8971
Patrick Butcher, Group Chief Financial Officer	020 7799 8973
Peter Russell/Holly Gillis, Investor Relations	07966 941 890 / 07837 612 661

Citigate Dewe Rogerson 020 7638 9571

Michael Berkeley/Chris Barrie/Eleni Menikou/Toby Moore

David Brown, Group Chief Executive and Patrick Butcher, Group Chief Financial Officer will be hosting a presentation for analysts at 9.00am today 2 September 2016 at Investec, 2 Gresham Street, London EC2V 7QP.

A live audio webcast of the presentation will be available on Go-Ahead's website – www.go-ahead.com. The presentation slides will be added to Go-Ahead's website www.go-ahead.com at around 7:30am today.

Chairman's statement

Dear Shareholder

We have delivered robust results for the year slightly ahead of our expectations and have achieved high levels of passenger satisfaction in the majority of our businesses. However, we have seen challenges in the year with particular difficulties in the GTR franchise, which has faced operational issues and capacity constraints associated with the Thameslink Programme from the start. This complex franchise, on which more than one million passenger journeys are made every weekday, is being modernised to meet ever-growing demand. Regrettably industrial action has compounded disruption on the network and, as a result, we have not provided the levels of reliability and service our passengers expect. As previously announced our margin on the GTR franchise over the life of the franchise is now expected to be lower than originally forecast.

Your Board is very focused on addressing these issues along with key partners. We are sorry that the introduction of changes, which will be of great benefit in the longer term, is creating inconvenience and hardship for passengers. I appreciate how frustrating and difficult it is when things go wrong.

Your Group has a highly experienced and committed management team with integrity, a clear strategy and a strong focus on improving passenger satisfaction. I believe that, with continued Government support, we are well placed to address the challenges and to bring about the improvements in service to which we aspire.

Contributing to society

At Go-Ahead, the contribution we make to society is important to us. We need to ensure the Group is in a sound financial position and that our investors and lenders make appropriate returns for the capital and debt they provide and the risks involved. This then enables us to focus on our role in society which is to provide reliable and high-quality public transport.

Your Board spends considerable time on shaping our Group's culture, which guides us as we renew and advance the business. Doing the right thing for our customers has always been a core part of who we are, and drives our ongoing improvement.

Your Chief Executive, David Brown, has recently led a review of Go-Ahead's vision, beliefs and attitudes, which underpin our culture. Through talking to a wide cross-section of stakeholders, including employees and industry partners, we are making sure we are clear what we stand for today and what we need to stand for in the future. We believe that the trust our people and our customers place in us must be earned every day and that is why we are committed to taking care of every journey.

Performance

Overall, the Group delivered robust financial performance in the year, demonstrating the effectiveness of our long standing strategy of providing high-quality and locally focused passenger transport services. We achieved good profit growth in our bus business, despite a number of headwinds and, as planned, have met the £100m profit target when adjusting for the impact of IAS 19 (revised). Importantly, customer satisfaction in our regional bus continues to lead the industry. In London we remain the largest bus operator.

In rail, our Southeastern and London Midland franchises recorded strong financial results. London Midland was also successful in securing a direct award contract and achieved a strong customer satisfaction score of 86%. Early in the year Southern and Gatwick Express were integrated into GTR, resulting in the creation of a new business and new leadership team.

During the year we continued to invest in future growth with further disciplined capital investments across the Group to make our existing business more attractive to our customers. We will continue to invest in the talent and skills of our people, through training and development, and by enabling them to network across the Group to learn from each other. We will also continue to invest in long term relationship building. Our future lies in our ability to engage with stakeholders and develop appropriate solutions to their needs.

Go-Ahead is developing an increasingly diverse portfolio of operations that will reduce our dependence on any single market or contract and ensures we have excellent knowledge of, and access to, a range of new opportunities. This year we are pleased to have won business in two overseas markets. In Singapore, Go-Ahead was successful in its bid for a five-year bus services contract, while in Germany the Group was awarded two contracts for rail services.

Dividend

Our underlying business performance and confidence in the medium term outlook have enabled the Board to propose a 2016 final dividend of 67.52p per share, supported by bus division profitability. Combined with the interim dividend of 28.33p per share, the proposed total dividend will be 95.85p per share, an increase of 6.5%. The final dividend will be paid on 25 November 2016 to all shareholders on the register at close of business on 11 November 2016.

Your Board has a clear capital allocation policy for the Group which is continually under review. We consider our policy for capital structure and how surplus cash is to be deployed between ongoing operations, investment in new franchises and new businesses, ongoing dividends to shareholders and possible further returns to shareholders. Our objective is to retain an efficient capital structure, whilst maintaining financial flexibility in the event of downside scenarios or new investment opportunities, and to provide additional returns to shareholders where it is prudent to do so.

Robust corporate governance

It has always been important to me that Go-Ahead's Board functions as a key strategic partner and sounding board for management, challenging us all to be better. We pride ourselves on our reputation for conducting business activities in the highest ethical and professional manner, guided by our corporate governance principles and practices as well as strong Board oversight. The composition of the Board, with its diverse range of skills and experience, is one of our key strengths. The relationships we have fostered, both within and outside the boardroom, have strengthened Board dynamics.

Your Board takes an active role in ensuring best corporate governance practices. During the year, we implemented the recommendations from the independent external Board evaluation conducted in 2015 and also undertook an internal Board evaluation. These reviews help us to continually improve and adapt to the changing needs of the business and ensure we are always operating in accordance with best practice.

Our people

At Go-Ahead we recognise that remuneration should be closely linked to performance. Whilst we have largely achieved the financial and strategic targets set at the beginning of the year it is clear that we have not delivered the required levels of passenger service on our Southern routes. As a result, David Brown, who in my view is an exceptional and committed Group Chief Executive, made it clear he does not wish to be considered for an annual bonus this year and declined a salary increase.

At Go-Ahead we firmly believe in a pay-for-performance culture. In order to improve our focus on improving customer service and demonstrate our commitment to passengers we have made important changes to our remuneration arrangements. Last year we embedded customer service targets within long term incentive awards. In addition, this year we have introduced passenger satisfaction measures in our annual bonus plan.

As a public transport business it is ultimately the quality of the service we provide that will underpin our leadership in the transport sector. To meet these challenges, our employees work hard to meet our customers' needs. I would like to express the Board's appreciation and thanks to all our employees for their contribution to another successful year for the Group.

In March we welcomed Patrick Butcher, who was appointed to the Board as Group Chief Financial Officer. Patrick brings a wealth of industry experience, having joined from Network Rail where he was Group Finance Director since 2009. He has made an excellent start and is already making a valuable contribution to the Group.

I would also like to thank the previous Group Finance Director, Keith Down, for the significant contribution he made in his four years with the Group.

Looking ahead

Whilst the past year was challenging, good progress has been made on many fronts. These developments provide a solid base from which to take advantage of future opportunities. Our strategy of increased marketing, use of technology, the development of partnerships with local authorities and improved customer service is already producing results and will be the key to driving this business forward. A strategy of selective investment in operations outside the UK will increase our resilience and provide us with further growth opportunity.

With oversight from the Board, the GTR management team will continue the modernisation programme and focus on resolving issues locally.

The current fiscal year has started with change in the broader political and economic environment. Go-Ahead will continue to act to meet the needs of a changing world and prudently balance strategic growth with sound risk management practices. It remains crucial to maintain the advantages that well-managed public transport can bring to society, and to provide people with the mobility that is essential to our economic and social needs. However working patterns and the performance of different sectors of the economy may fluctuate, those needs will continue to provide opportunities for the public transport industry to serve its customers to mutual advantage. Go-Ahead is a high-quality operator with leading market positions in the bus and rail sectors. Looking ahead, I am confident we will continue to deliver value for our customers, employees, shareholders and other stakeholders.

Group Chief Executive's review

Partnership and collaboration are key to public transport

It has been a year of financial progress in all three divisions. Our market positions have been strengthened, with organic growth supported by contract wins and extensions. As part of a targeted programme, we are pleased to have won new business in Singapore and Germany. We operate in relatively resilient markets, and have a good balance between contract and passenger revenues.

Focus on partnership

At Go-Ahead we believe that public transport is about partnership. After almost 30 years of building Go-Ahead's presence, the Group has established a valuable network of relationships, and a depth of market understanding and knowledge that cannot easily be replicated. Building relationships with passengers, central and local government, employees, industry partners and other stakeholders has always been core to the Group's strategy and central to everything we do. We strongly believe that today's challenges are best met by working together. While seeking to maximise the benefits of operating together as one large organisation, our companies are locally managed and form an integral part of the communities they serve. Testament to our collaborative approach and understanding of local markets are the high levels of customer satisfaction in our regional bus operations, which remain the best in the sector at 89%.

Public transport is vital to building a strong and sustainable economy. Our services have continued to ensure that millions of people are able to get to work and access key services. Over the past year Go-Ahead has made a significant contribution to the UK economy through the 27,500 people we employ, the £222.4m generated by our rail operations for the Government, and £24.8m paid in corporation tax. We are also pleased to have introduced the voluntary Living Wage as a minimum, irrespective of age, across the entire Group.

Our vision

Our people are critical to the success of the Group and we believe our new vision, attitudes and beliefs, once fully embedded into our corporate culture, will influence every aspect of our day-to-day activity and how we work. The common purpose of taking care of every journey will create advocacy among our customers, encourage people to use our services and ensure our people feel valued and appreciated.

Performance

Bus

At the core of the Group is our bus division, which delivered another good trading performance. This is the result of strong operations and service quality, as well as investment in new vehicles. Our bus operations have significant flexibility to respond quickly to changing market conditions and to ensure we remain resilient. While this is a mature market, opportunities for organic growth exist, as evidenced by the increased volume in the London market and the gains that have been achieved in other parts of the country as a result of investment and targeted marketing.

We have had a record year of profits from our regional bus division, which delivered adjusted operating profit* of £53.3m. Our sector leading margins, and the achievement of our £100m target, are a reflection of the hard work at our operating companies. The business is maintaining its strong position by focusing on improving the service, stimulating passenger growth and developing relationships with local authorities. We invested £72m in buses in the year, maintaining the average age of our fleet at 7.8 years. We also continued to invest in our services with more Wifi and USB charging points on buses, advertising, promotions and offers, and social media campaigns.

Go-Ahead remains the largest bus operator in London, with its growing population of residents and commuters. Over the past year roadworks and excessive congestion have limited our ability to earn Quality Incentive Contract bonuses. However, the underlying business is strong. We have retained our 24% market share with annual mileage of around 85 million miles. In the second half of the year we opened a new £7m bus depot, strategically located in Barking.

By understanding the varying needs of different customer groups we have shaped our bus networks and services to match demand. Innovative partnership working also continues to bring benefits for customers and stakeholders. Actions taken to maintain our position include: Brighton and Hove bus company championing accessible travel with the provision of wheelchair access on 100% of the fleet and other on-board innovations for disabled passengers; entry into the inter-urban market in Oxford with the launch of a new Birmingham express service; the installation of new 'happy or not' customer feedback machines on Plymouth City bus services; and a creative response to reduced public funding by Go South Coast to provide a unique combination of commercial and social services. These businesses have also taken the initiative to comprehensively examine their services through the eyes of the customer and understand how they can be better.

In the regional bus market the regulatory framework is also evolving with the Bus Services Bill that is passing through Parliament. It is a very different Bill from the one envisaged a year ago as a result of the industry's engagement with the DfT, with the Passenger Transport Executives and other stakeholders in order to protect the ethos of partnership working. It is vital that our bus companies remain embedded in local communities. We continue to work with the DfT on the important secondary legislation that underpins implementation of the Bill. Toward the end of 2015 we welcomed the report and findings of the independent Quality Contracts Scheme Board on Nexus's proposals for Tyne and Wear, which concluded that the scheme failed to meet all the necessary statutory public interest tests. We believe that the overriding lesson of Tyne and Wear is that rigorous and independent scrutiny of major transport schemes is a necessity. Clear accountability must be in place where there is a fundamental change to the provision of bus services to safeguard the interests of customers and taxpayers. With reductions in overall public spending, a continuing flow of private sector capital investment will remain crucial to meet important public policy objectives, as well as keep pace with demographic change and new technology that is rapidly transforming the passenger expectations. Our strength in this sector ensures that we can be agile and are able to pursue other opportunities as and when they arise.

*Adjusted results exclude amortisation, goodwill impairment, exceptional operating costs, and the incremental impact of IAS 19 (revised)

Rail

Our three rail franchises carry about a third of all passengers in the UK and we have more than 19 years' experience of managing complex commuter franchises and delivering industry-leading projects.

The overall financial performance of our rail business was robust and slightly ahead of the Board's expectations. Full year adjusted operating profit* for our rail businesses was £57.0m (2015: £41.7m). We are committed to the long term development of rail travel and are investing to improve services for passengers. In partnership with the DfT, Go-Ahead is at the forefront of some of the largest long term improvements in rail infrastructure in the UK.

The GTR franchise has experienced a difficult year operationally, and we share the frustration of customers who have experienced repeated disruption to their journeys and we apologise for this. The complex nature of the franchise has created significant challenges. The major Thameslink infrastructure programme will ultimately bring vital extra capacity, but it has caused large scale disruption through restricted network capacity, particularly in the phase of major works at London Bridge. Management continues to work closely with industry partners on implementing the complex change programme. This includes the introduction of more spacious trains and the evolution of the customer service role onboard and at stations across the GTR network, in adherence to commitments in the franchise agreement with the DfT. We have instigated one of the largest driver recruitment programmes ever undertaken in the industry, but training a driver takes around 14 months so customers do not see the benefit of this straight away. We are confident that the Thameslink Programme will deliver real benefits for customers and the wider community. The DfT values the experienced management team in place at GTR which is best placed to steer these changes through. We are committed to the delivery of the franchise, enhancing service and building trust. We remain focused on delivering improvements, listening to our customers, and working with stakeholders to ensure the franchise has the resources needed to respond to growing demand.

Southeastern delivered a strong trading performance and continued to operate at maximum profit share, with payments of £39.9m made to the Government in the year. For the remainder of the franchise the focus is to continue to improve the service for customers. The stated desire of the London Mayor and the London Assembly to devolve responsibility for the metro routes to TfL requires Secretary of State approval. If given, Southeastern would work with TfL and the DfT to ensure a smooth transition. From 2017, Go-Ahead's rail development team will be working on a bid to retain the franchise.

London Midland continued its trend of improvement, reflected in strong customer satisfaction scores that have repeatedly increased. The franchise, which Go-Ahead has been operating since 2007, has been successful in terms of both operational and financial performance. Since 1 April 2016 the franchise has been operating under a new direct award contract. Management is focused on ensuring that committed obligations are delivered in a timely manner. In the fourth quarter Go-Ahead was pleased to be shortlisted to bid for the new West Midlands franchise beginning October 2017.

During the year, our joint venture On Track Retail launched its new online ticket sales system 'On Track' in October 2015. The web and mobile platform provides highly personalised, real-time information to help customers find the best value ticket option available. Following introduction on Southern and Thameslink routes, On Track has been rolled out to all of Go-Ahead's rail operations and integrated within its mobile app and 'the key' smartcard.

Whilst we were disappointed that our bids for the new Trans-Pennine Express and Northern Rail franchises were unsuccessful, the Board still believes that the UK rail sector can provide long term growth opportunities for the Group. The UK rail industry clearly has some considerable challenges, both financial and operational. We are an established operator and will be seeking to develop our role in the future of the sector.

Overseas contract wins

As part of a targeted programme, we are pleased to have won new business in Singapore and Germany. With efficient and effective transport remaining a priority for governments, there are further opportunities overseas. We continue to explore similar opportunities in these and other selected markets.

Go-Ahead was awarded a five-year contract to operate bus services in Singapore and is set for a successful launch of the 25-route bus service operation from September 2016. Singapore's bus contracts system is largely modelled on London's and, as London's largest bus operator, Go-Ahead has the right experience and expertise to deliver high-quality services in Singapore. We look forward to competing in the next tender tranche of bus services, to be awarded early next year.

We were also successful this year in our aim to enter the German rail market, having been awarded two contracts to operate rail services in the Baden-Wurttemberg region from June 2019 until 2032. The German passenger rail market generates annual revenue of around €9.6bn and we are well placed to capitalise on future opportunities in this market.

A resilient business

Following the result of the EU referendum vote in June we are entering a period of economic uncertainty. The true impact of the vote is yet unknown, but it will weigh on the economy, and the transport industry is not immune. Nevertheless, the characteristics of our business make it resilient and relatively well positioned for change. Our strength is our portfolio of operations with robust revenues in less economically sensitive bus markets in the UK.

Our London bus business has no direct exposure to passenger revenues, and has an excellent record of contract retention. In the regional bus business, experience of previous slowdowns in the economy suggests that overall demand for bus travel is resilient. The flexible commercial nature of the industry further enables it to match supply to the level of demand. Go-Ahead's position is reinforced by substantial investment in new fleet during the past few years, helping to improve the attractiveness and marketability of our services. In rail, we operate commuter routes in and out of London that are less discretionary in nature. Their unique position in relation to revenue support and profit share mechanisms will considerably mitigate the impact of any change in passenger numbers on our rail revenues.

As the external environment remains uncertain, we will be proactive in ensuring that the business remains robust. Our business offers value-orientated public transport services that are vital to the economy. We will remain focused on the delivery of existing services, while being agile to identify opportunities that this changing landscape brings.

Whilst there are clear links between economic activity and demand for our services, transport also enables growth. Change presents challenges for every part of the economy, transport included. It also provides strong motives for fresh thinking, and opportunities for innovation. In these times of regulatory, economic and social change, our future lies in our ability to engage with stakeholders and customers and develop solutions for their changing needs. With its wealth of knowledge and experience gained, Go-Ahead is well qualified and highly motivated to rise to the challenge.

Outlook

Go-Ahead has made substantial progress over the past year. The outlook and opportunities for the business are positive. Our strategy is clear and our business model robust. Our businesses have a track record of demonstrating the benefits that the private sector can bring to public transport. We will continue to work closely with partners at all levels to deliver value for money for our customers and stakeholders.

The new financial year has begun with similar trends to the second half of 2015/16. We expect continued moderate revenue growth in our bus division. Significantly reduced fuel costs will help offset headwinds such as contract reductions from lower local authority contracting. In London, we expect to see a year on year improvement in QICs payments as roadworks and congestion stabilise, which will help offset higher depreciation. Trading in the Southeastern and London Midland franchises continues to be robust and help offset weakness in GTR. We continue to explore overseas opportunities in selected markets.

Finance review

The Group once again delivered a robust financial performance in the year ended 2 July 2016 and is in a strong financial position.

Where adjusted figures are referred in this report, the statutory figures have been adjusted to remove the incremental impact of IAS 19 (revised). A full disclosure of the adjustments applied is set out in the finance review. Unless otherwise stated, reference made to operating profit throughout this report excludes amortisation, goodwill impairment and exceptional operating costs.

The financial year ended 2 July 2016 was a 53 week year compared with the year ended 27 June 2015 which was 52 weeks.

Overview and highlights

Revenue for the year was £3,361.3m, up £146.1m, or 4.5%, on last year (2015: £3,215.2m), with growth in both bus and rail divisions. The majority of this increase was attributable to rail performance, predominantly due to a full year of operation of the GTR franchise following its introduction on 14 September 2014.

Adjusted profit attributable to shareholders excluding amortisation, goodwill impairment and exceptional operating costs and the incremental impact of IAS 19 (revised) for the year increased by £16.7m, or 21.4%, to £94.7m (2015: £78.0m) and adjusted earnings per share rose 21.3% to 220.5p (2015: 181.8p).

Net cash at the year end of £323.0m (2015: £292.9m) reflects £30.1m of additional cash, the majority of which is restricted. The higher cash balance is largely due to working capital movements relating to timing of franchise payments. The adjusted net debt (net debt plus restricted cash) to EBITDA ratio of 1.36x (2015: 1.32x) is below our target range of 1.5x to 2.5x.

Adjusted Group income statement

Where adjusted figures are referred to, the statutory figures have been adjusted to remove the incremental impact of IAS 19 (revised).

	2016 £m	IAS 19 (revised) adjustment	2016 Adjusted £m	2015 £m	IAS 19 (revised) adjustment	2015 Adjusted £m
Regional bus operating profit	49.7	3.6	53.3	46.7	2.0	48.7
London bus operating profit	43.6	3.5	47.1	42.3	2.0	44.3
Total bus operating profit	93.3	7.1	100.4	89.0	4.0	93.0
Rail operating profit	27.1	29.9	57.0	25.7	16.0	41.7
Operating profit*	120.4	37.0	157.4	114.7	20.0	134.7
Amortisation and goodwill impairment	(3.0)	(0.4)	(3.4)	(9.1)	(1.9)	(11.0)
Exceptional operating costs	-	-	-	(8.8)	-	(8.8)
Operating profit	117.4	36.6	154.0	96.8	18.1	114.9
Net finance costs	(17.6)	2.1	(15.5)	(18.1)	2.3	(15.8)
Profit before tax	99.8	38.7	138.5	78.7	20.4	99.1
Total tax expense	(18.5)	(7.7)	(26.2)	(19.4)	(4.2)	(23.6)
Profit for the period	81.3	31.0	112.3	59.3	16.2	75.5
Non-controlling interests	(11.6)	(8.3)	(19.9)	(7.1)	(3.9)	(11.0)
Profit attributable to shareholders	69.7	22.7	92.4	52.2	12.3	64.5
Adjusted profit attributable to shareholders*			94.7			78.0
Weighted average number of shares (m)			43.0			42.9
Adjusted earnings per share (p)**			220.5			181.8
Proposed dividend per share (p)			95.85			90.0

* Before amortisation, goodwill impairment and exceptional operating costs

** See the notes to the consolidated financial statements for the full calculation of adjusted earnings per share

The 2016 and 2015 statutory results are principally adjusted for the incremental impact of applying IAS 19 (revised) in 2011 and also intangible asset amortisation. IAS 19 (revised) was introduced in 2011 and was first effective for the June 2014 year end. It amended the methodology for recognition of the interest and service costs associated with the present value of assets and liabilities for pension schemes. This includes rail pension schemes where liabilities represent future commitments which are well beyond the period covered by the Group's rail franchises. The standard requires that the cost of providing pension benefits in the future is discounted to a present value using corporate bond yield rates. As corporate bond yields vary over time, this creates inherent volatility in the Group Income Statement and Group Balance Sheet. These two factors make the Group's current non-cash IAS 19 (revised) charge disproportionately higher and more volatile than the cash contributions the Group is required to make in order to fund the future liabilities for which it is responsible. The Group accordingly believes a more relevant and consistent measure of the cost of providing post-employment benefits is the underlying contribution excluding the volatile element of IAS 19 (revised). Accordingly the charge applied in the adjusted results reflects that which would have arisen under IAS 19 (revised) prior to the changes made to the standard in 2011. Intangible asset amortisation represents the non-cash cost of amortising intangible items including acquired contracts and software costs. The charge associated with these previously acquired assets can be significantly different year on year reflecting the amortisation profile and the timing of when the acquired contracts/software developments arose and is therefore removed. In previous periods we have also removed exceptional items such as one-off restructuring costs and intangible asset impairments when they arise. The Board believes that these adjusted key performance indicators give a clearer and more consistent measure of the Group's underlying performance.

Five year Group operating profit including and excluding the incremental impact of IAS 19 (revised)

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Group operating profit*	120.4	114.7	103.2	86.7	95.6
Incremental impact of IAS 19 (revised)	37.0	20.0	15.6	15.8	14.6
Adjusted Group operating profit*	157.4	134.7	118.8	102.5	110.2

* Before amortisation, goodwill impairment and exceptional operating costs

Five year adjusted earnings per share (EPS) including and excluding the incremental impact of IAS 19 (revised)

	2016	2015	2014	2013	2012
Statutory basic earnings per share	162.3p	121.6p	164.0p	125.3p	129.5p
Adjusted EPS including IAS 19 (revised)	167.2p	150.8p	148.6p	117.6p	123.8p
Incremental impact of IAS 19 (revised)	53.3p	31.0p	24.0p	22.0p	18.1p
Adjusted EPS excluding incremental impact of IAS 19 (revised)	220.5p	181.8p	172.6p	139.6p	141.9p

Revenue and adjusted operating profit by division

	2016 £m	2015 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue				
Regional bus	375.7	359.9	15.8	4.4
London bus	487.6	457.9	29.7	6.5
Total bus	863.3	817.8	45.5	5.6
Rail	2,498.0	2,397.4	100.6	4.2
Total	3,361.3	3,215.2	146.1	4.5
Adjusted operating profit				
Regional bus	53.3	48.7	4.6	9.4
London bus	47.1	44.3	2.8	6.3
Total bus	100.4	93.0	7.4	8.0
Rail	57.0	41.7	15.3	36.7
Total	157.4	134.7	22.7	16.9

The commercial entities in the UK rail industry were created at the time of privatisation and the relationships between them are governed by a number of contracts between the major participants; the DfT, Network Rail and train operating companies. In arriving at the operating profit numbers for the rail division, management have made judgements on the outcome of contractual discussions with Network Rail and the DfT. These principally relate to the allocation of financial responsisbility for train cancellations and delays.

Earnings per share

Adjusted earnings (net profit after tax attributable to members before amortisation, goodwill impairment, exceptional operating costs and the incremental impact of IAS 19 (revised)) were £94.7m (2015: £78.0m), resulting in an increase in adjusted earnings per share from 181.8p to 220.5p.

The weighted average number of shares was 43.0 million (2015: 42.9 million), and the number of shares in issue, net of treasury shares, was 43.0 million (2015: 43.0 million).

Dividend

The Board is proposing a total dividend for the year of 95.85p per share (2015: 90.0p), a rise of 6.5%, following a 6.5% increase in the interim dividend. This includes a proposed final payment of 67.52p per share (2015: 63.4p) payable on 25 November 2016 to shareholders registered at the close of business on 11 November 2016.

Dividends of £39.4m (2015: £36.7m) paid in the period represent the payment of the prior year's final dividend of 63.4p per share (2015: 59.0p) and the interim dividend in respect of this year of 28.33p per share (2015: 26.6p). Dividends paid to non-controlling interests were £17.8m (2015: £12.8m). Excluding the non-cash incremental impact of IAS 19 (revised), dividend cover was 2.30x (2015: 2.02x).

Summary cashflow

	2016 £m	2015 £m	Increase/ (decrease) £m
Adjusted EBITDA*	212.6	205.2	7.4
Working capital/other items (excluding restricted cash movements)	(0.2)	(59.3)	59.1
Cashflow generated from operations	212.4	145.9	66.5
Tax paid	(24.8)	(20.3)	(4.5)
Net interest paid	(13.0)	(14.3)	1.3
Net capital investment	(106.4)	(47.9)	(58.5)
Free cashflow	68.2	63.4	4.8
Net acquisitions	(0.5)	(0.4)	(0.1)
Joint venture repayment	-	1.8	(1.8)
Other	(5.1)	-	(5.1)
Dividends paid	(57.2)	(49.5)	(7.7)
Decrease in adjusted net debt**	5.4	15.3	(9.9)
Opening adjusted net debt**	(244.7)	(260.0)	n/a
Closing net cash/(debt)	(239.3)	(244.7)	n/a

* Operating profit before interest, tax, depreciation, amortisation, goodwill impairment, exceptional operating costs and the incremental impact of IAS 19 (revised)

** Adjusted net debt is net cash less restricted cash

Cashflow

Cash generated from operations before tax and excluding movements in restricted cash was £212.4m (2015: £145.9m). This increase of £66.5m is largely due to movements in working capital, primarily reflecting structural changes in rail franchises. Tax paid of £24.8m (2015: £20.3m) comprised payments on account in respect of the current and prior years' liabilities. Net interest paid of £13.0m (2015: £14.3m) is lower than the charge for the period of £17.6m (2015: £18.1m) after excluding the impact of non-cash interest on pensions and the unwinding of discounting on provisions. Capital expenditure, net of sale proceeds, was £58.5m higher in the year at £106.4m (2015: £47.9m) predominantly due to increased investment in both the regional bus and London fleet. Investment in the bus division is expected to be around £110m in 2016/17 due to the timing of London bus contract renewals and continued investment in our regional bus operations.

During the financial period, as part of a 12 month planned programme of monthly share purchases, the Group repurchased 172,964 ordinary shares for a total consideration of £4.4m (2015: no shares repurchased).

Significant medium term finance is secured through our revolving credit facility (RCF) and £200m sterling bond. The £280m five year RCF had an initial maturity of July 2019 with two one year extension options, the second of which was agreed on 20 June 2016, extending the maturity of the facility to July 2021. The sterling bond is due to expire in September 2017. On 26 August 2016 the Group agreed a bridging facility of £200m to give timing options around the repayment of the sterling bond. The facility is expected to remain undrawn as it is most likely that the bond will be replaced with a similar long term instrument. The bridging facility is available during September 2017 to facilitate repayment of the bond and, if drawn, contains four extension options of six months each.

Capital expenditure

Expenditure on capital during the year can be summarised as:

	2016 £m	2015 £m
Regional bus	57.4	28.0
London bus	38.7	8.1
Total bus	96.1	36.1
Rail	17.8	6.2
Group total	113.9	42.3

Net cash/debt

Net cash of £323.0m (2015: £292.9m) comprised the £200m sterling bond, amounts drawn down against the £280m five year RCF of £113.0m (2015: £111.0m), and hire purchase and lease agreements of £0.3m (2015: £0.3m), offset by cash and short term deposits of £636.3m (2015: £604.2m) including £562.3m of restricted cash in rail (2015: £537.6m). There were no overdrafts in use at the year end (2015: £nil).

Our primary financial covenant under the 2016 RCF was an adjusted net debt to EBITDA ratio of not more than 3.5x. Adjusted net debt (net debt plus restricted cash) to EBITDA of 1.36x (2015: 1.32x) remains under our target range of 1.5x to 2.5x.

Capital structure

	2016 £m	2015 £m
Five year syndicated facility 2019/2021	280.0	280.0
7.5 year £200m 5.375% sterling bond 2017	200.0	200.0
Total core facilities	480.0	480.0
Amount drawn down at 2 July 2016	313.0	311.0
Balance available	167.0	169.0
Restricted cash	562.3	537.6
Net cash	(323.0)	(292.9)
Adjusted net debt	239.3	244.7
EBITDA*	175.6	185.2
Adjusted EBITDA**	212.6	205.2
Adjusted net debt/EBITDA*	1.36x	1.32x
Adjusted net debt/EBITDA**	1.13x	1.19x

* Not adjusted for the incremental impact of IAS 19 (revised), in line with new 2021 RCF

** Adjusted for the incremental impact of IAS 19 (revised)

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

Net finance costs

On a statutory basis, net finance costs for the year were slightly behind the prior year at £17.6m (2015: £18.1m) including finance costs of £20.8m (2015: £20.5m) less finance revenue of £3.2m (2015: £2.4m). The average net interest rate for the period was 4.2% (2015: 4.2%).

Amortisation and goodwill impairment

On a statutory basis, the amortisation and goodwill impairment charge for the year was £3.0m (2015: £9.1m), which relates to the non-cash cost of amortising software costs, franchise bid costs and customer contracts. The prior year charge of £9.1m included a goodwill impairment charge of £4.9m.

Exceptional operating costs

Total exceptional operating costs in the year were £nil (2015: £8.8m).

Prior year exceptional operating costs related to rail restructuring of the GTR franchise bringing Thameslink and Greater Northern together with Southern and Gatwick Express under one management structure.

Taxation

On a statutory basis, net tax for the year was £18.5m (2015: £19.4m), equivalent to an effective rate of 18.5% (2015: 24.7%), below the UK statutory rate for the period of 20% (2015: 20.75%). Excluding the impact of the deferred tax rate reduction of £3.7m, the tax rate would have been 22.2%, as a result of non-deductible items such as German and Singaporean bid costs. In the year ended 27 June 2015, the underlying rate, excluding goodwill impairment of £4.9m, was 23.2%. The statutory rate will reduce to 19% and 17% in 2017 and 2020 respectively. We expect our effective tax rate to be 2% to 3% above the statutory rate in future years.

Non-controlling interest

On a statutory basis, the non-controlling interest in the income statement of £11.6m (2015: £7.1m) 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

Statutory operating profit includes the net cost of the Group's defined benefit pension plans for the year of £90.8m (2015: £68.9m) consisting of bus costs of £1.4m (2015: £2.7m) and rail costs of £89.4m (2015: £66.2m). Group contributions to the schemes totalled £48.3m (2015: £46.2m).

Bus pensions

Under accounting valuations, the net deficit after taxation on the bus defined benefit schemes was £2.2m (2015: £47.6m), consisting of pre-tax liabilities of £2.7m (2015: £59.5m) less a deferred tax asset of £0.5m (2015: £11.9m). The pre-tax deficit consisted of estimated liabilities of £765.8m (2015: £718.7m) less assets of £763.1m (2015: £659.2m). The percentage of assets held in higher risk, return seeking assets was 48% (2015: 51%).

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. At the year end we recorded a pre-tax liability of £nil (2015: £nil).

Business review - Bus

Go-Ahead is a leading bus operator in the UK both in and outside London. Around two million passenger journeys are made on our services every day

Overview

We are pleased that our target to grow adjusted operating profit in bus to £100m by 2015/16 has now been achieved, as planned.

Overall, our bus operations achieved record full year profits, with good revenue growth and cost control.

Regional bus

Our strategy is to grow our share of the regional UK bus market both organically and through value adding acquisitions. We have improved operating profit margins by stimulating revenue growth and through continued cost efficiencies. We remain committed to our long-standing approach of providing high quality and value for money services for our local markets, combined with our innovative approach to marketing, smart-ticketing and other customer solutions. This is key to revenue generation, whilst cost savings will be achieved through benchmarking, sharing best practice and the introduction and development of further efficiency initiatives.

London bus

Our strategy is to maintain our sector leading performance and market position through key relationships with TfL, through strong and effective management, providing high quality and valued operations whilst seeking expansion through additional contract wins and acquisitions. A stable contract base and external factors such as inflationary revenue growth combine with cost efficiencies to contribute toward profit growth.

Bus overview

	2016	2015
Total bus operations		
Revenue (£m)	863.3	817.8
Adjusted operating profit* (£m)	100.4	93.0
Adjusted operating profit margin	11.6%	11.4%
Regional bus		
Revenue (£m)	375.7	359.9
Adjusted operating profit* (£m)	53.3	48.7
Adjusted operating profit margin	14.2%	13.5%
London bus		
Revenue (£m)	487.6	457.9
Adjusted operating profit* (£m)	47.1	44.3
Adjusted operating profit margin	9.7%	9.7%
Like for like revenue growth		
Regional bus	2.4%	2.6%
London bus	4.4%	1.8%
Like for like volume growth		
Regional bus passenger journeys	0.0%	(1.4%)
London bus miles operated	2.3%	(0.9%)

*Adjusted to exclude amortisation, goodwill impairment, exceptional operating costs, and the incremental impact of IAS 19 (revised)

Overall bus performance review

Total bus revenue increased by 5.6%, or £45.5m, to £863.3m (2015: £817.8m). The bus division delivered adjusted operating profit of £100.4m (2015: £93.0m), increasing by £7.4m, or 8.0%, in the year, resulting in a rise in adjusted operating profit margin of 0.2ppts to 11.6%. This performance was in line with the Board's expectations for the year and marks the achievement of our £100m operating profit target, as planned.

Regional bus operations

Regional bus revenue was £375.7m (2015: £359.9m), up £15.8m, or 4.4%, with growth in the second half of the year ahead of that in the first half. Overall, our regional bus operations saw stronger trends in commercial revenue and journey growth in the period, with concessionary revenue and numbers being consistent with the first half of the year. Passenger numbers remained the same year on year and increased 0.5% in the second half despite ongoing weakness in the north east economy, and redevelopment roadworks in and around Oxford.

Adjusted operating profit in the regional bus division was £53.3m (2015: £48.7m), up £4.6m, or 9.4%, and adjusted operating profit margins increased to 14.2% (2015: 13.5%). Insurance claim costs increased slightly in the year. However, the division benefitted from lower bid costs as well as a reduction in fuel costs, as a result of a lower hedge price.

	£m
2015 operating profit	46.7
IAS 19 (revised) adjustment (see finance review)	2.0
2015 adjusted operating profit	48.7
Change in:	
Revenue growth	15.8
Cost base increases	(13.5)
Fuel costs	2.0
Insurance claims	(0.8)
Bid costs	1.1
2016 adjusted operating profit	53.3
IAS 19 (revised) adjustment (see finance review)	3.6
2016 operating profit	49.7

London bus operations

London bus revenue grew by 6.5%, or £29.7m, to £487.6m in the year (2015: £457.9m) despite a significant reduction in QICs income, impacted by roadworks and congestion in the capital, which eased in the latter part of the second half of the year as roadwork schemes began to conclude. QICs bonuses of £1.1m were received (2015: £4.6m) in the last quarter of the year. Like for like mileage increased by 2.3% following contract gains and increased volume created by additional buses contracted by TfL to reduce waiting times during extended periods of roadworks. In addition there was a higher volume of rail replacement work undertaken. Adjusted operating profit in the London bus division was £47.1m (2015: £44.3m), up £2.8m, or 6.3%. Adjusted operating profit margins remained at 9.7% (2015: 9.7%). As with regional bus, our London operations saw an increase in insurance claim costs and a reduction in fuel costs, reflecting the lower hedge price.

	£m
2015 operating profit	42.3
IAS 19 revised adjustment (see finance review)	2.0
2015 adjusted operating profit	44.3
Change in:	
Revenue growth – volume	30.5
Revenue growth – price	2.6
Cost – volume increases	(22.3)
Cost – price increases	(4.1)
QICs bonuses	(3.4)
Fuel cost	2.0
Insurance claims	(2.5)
2016 adjusted operating profit	47.1
IAS 19 revised adjustment (see finance review)	3.5
2016 operating profit	43.6

Our performance in the Transport for London (TfL) quality league tables has been adversely impacted by London congestion with roadworks concentrated in some of the areas where we are the larger operator. Our performance has improved during the last quarter of the year. We operated 99.4% (2015: 99.5%) of our target mileage before traffic congestion losses.

Capital expenditure and depreciation

Net capital expenditure for the bus division was £92.3m (2015: £36.1m), of which £71.8m related to the purchase of new vehicles and a further £12.9m on new depots.

Investment of £38.6m (2015: £19.9m) was made in introducing 198 new buses (2015: 122 buses) into our regional bus fleet. Contract wins in our London bus business led to a spend of £33.2m (2015: £5.3m) on 118 new buses (2015: 29 buses).

We have a young green bus fleet with an average age of 7.8 years. Depreciation for the division was £47.8m (2015: £45.7m).

Fuel

In the year, the bus division consumed around 130 million litres of fuel at a net cost of £116.8m.

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 core policy is to be fully hedged for the next financial year before the start of that year, at which point 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 monthly basis.

With Board approval additional purchases can be made to lock future period's costs in order to create certainty around one of our largest costs. The table below reflects the year end position, no significant purchases have been made subsequent to the year end.

	2016	2017	2018	2019	2020	2021
% hedged	Fully	Fully	Fully	60%	30%	10%
Price (pence per litre)	45.4	36.4	34.7	32.3	33.4	35.1

At each period end the fuel hedges are marked to market price. The increase in the fuel hedge liability during the year represents the increase in the mark to market value of the fuel hedges during the year.

Overall bus outlook

Our bus division delivered its strongest ever financial performance and achieved one of the Board's critical business strategies, to achieve an adjusted operating profit in excess of £100m. The new financial year has begun with similar trends to the second half of 2015/16. We expect continued moderate revenue growth, driven by regional bus performance and improving QICs payments in London.

Significantly reduced fuel costs will help offset any contract reductions from lower local authority contracting.

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

In London bus, growth in contract mileage is expected to be moderate in the full year, mileage overall will reduce with lower levels of additional work from TfL to compensate for roadwork congestion. Ongoing roadworks and congestion in London have eased and we expect an increase in year on year QICs income.

In 2016/17, we expect total capital expenditure to be over £100m due to the timing of London contract renewals and continued investment in our regional bus services.

Business review - Rail

Go-Ahead's rail operation is the busiest in the UK, responsible for around 35% of all train passenger journeys

Overview

Our strategy is to deliver the commitments of our existing franchises, provide good customer service and secure future franchises through competitive bidding processes, whilst maintaining the moderate returns generated from this sector.

We remain committed and focused on the GTR franchise which began as a fully merged operation in July 2015 and delivering the commitments of the directly awarded contracts in Southeastern and London Midland.

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

UK rail franchises are governed by contracts between train operators, Network Rail and DfT. These contracts contain detailed performance regimes allocating financial responsibility and material provisions are made in these results reflecting management's significant experience on the most probable outcomes of settling these amounts.

Rail overview

	2016	2015
Total rail operations		
Total revenue (£m)	2,498.0	2,397.4
Adjusted operating profit* (£m)	57.0	41.7
Adjusted operating profit margin	2.3%	1.7%
Like for like passenger revenue growth		
Southeastern	4.9%	8.5%
London Midland	9.3%	5.4%
GTR	3.4%	8.8%
Like for like volume growth		
Southeastern	2.3%	3.1%
London Midland	5.9%	2.1%
GTR	2.9%	6.4%

*Adjusted to exclude amortisation, goodwill impairment, exceptional operating costs, and the incremental impact of IAS 19 (revised)

The rail division profitability was marginally ahead of the Board's expectations through better than expected resolutions of contract negotiations, this was despite the operational challenges faced during the year and the fact that GTR did not contribute to profitability. Trading performance in both Southeastern and London Midland remained strong.

Rail performance review

The rail division has delivered a robust financial result in the year, slightly ahead of the Board's expectations, helped by contract management benefits in the second half. Overall margins remained at historically low levels.

Overall passenger revenue growth was 4.6% (2015: 7.6%) on a like for like basis, with like for like passenger journey growth of 3.1% (2015: 3.9%).

Revenue

Total revenue increased by 4.2%, or £100.6m, to £2,498.0m (2015: £2,397.4m) consisting of:

	2016 £m	2015 £m	Net change £m	% change
Passenger revenue				
Southern	61.5	735.7	(674.2)	(91.6)
Southeastern	753.0	728.6	24.4	3.3
London Midland	330.0	291.8	38.2	13.1
GTR*	1,352.6	484.0	868.6	179.5
Gross passenger revenue	2,497.1	2,240.1	257.0	11.5
GTR revenue adjustment**	(276.0)	(120.9)	(155.1)	(128.3)
Total passenger revenue	2,221.1	2,119.2	101.9	4.8
Other revenue				
Southern	7.2	55.8	(48.6)	(87.4)
Southeastern	47.2	23.8	23.4	98.3
London Midland	44.3	50.3	(6.0)	(11.9)
GTR	62.2	30.8	31.4	101.9
Total other revenue	160.9	160.7	0.2	0.1
Subsidy and revenue support				
Southeastern subsidy	61.1	19.8	41.3	208.6
London Midland subsidy	52.0	56.6	(4.6)	(8.1)
Southeastern revenue support	-	23.0	(23.0)	(100.0)
Southern revenue support	2.9	18.1	(15.2)	(84.0)
Total subsidy and revenue support	116.0	117.5	(1.5)	(1.3)
Total revenue	2,498.0	2,397.4	100.6	4.2

* Passenger revenue collected by GTR on behalf of the DfT

** Represents passenger revenue generated and payable to the DfT in excess of the management fee payable to Go-Ahead for operating the franchise, which is remitted to the DfT

Group's overall net contribution to the DfT:

	2016 £m	2015 £m	Net change £m	% change %
GTR revenue adjustment	276.0	120.9	155.1	128.3
Southern's core premium payments	18.8	228.6	(209.8)	(91.8)
Subsidy receipts - Southeastern	(61.1)	(19.8)	(41.3)	(208.6)
Subsidy receipts - London Midland	(52.0)	(56.6)	4.6	8.1
Revenue support - Southeastern	-	(23.0)	23.0	100.0
Revenue support - Southern	(2.9)	(18.1)	15.2	84.0
Profit share - Southeastern	39.9	23.9	16.0	66.9
Profit share - London Midland	0.6	-	0.6	n/a
Revenue share - London Midland	3.1	-	3.1	n/a
Group's overall net contribution to the DfT	222.4	255.9	(33.5)	(13.1)

The GTR revenue adjustment of £276.0m reflects the difference between passenger revenue and the franchise payment from the DfT, as set out in the bid model. The GTR revenue adjustment was a payment to the DfT and increased by £155.1m in the year.

Premium payments, profit share payments and revenue share payments

Core premium payments, profit share payments and revenue share payments are included in operating costs.

	2016 £m	2015 £m	Net change £m	% change
Southern core premium	18.8	228.6	(209.8)	(91.8)
Southeastern profit share	39.9	23.9	16.0	66.9
London Midland profit share	0.6	-	0.6	n/a
London Midland revenue share	3.1	-	3.1	n/a

Adjusted operating profit

Adjusted operating profit in the rail division was up £15.3m at £57.0m (2015: £41.7m), with adjusted operating profit margins increasing to 2.3% (2015: 1.7%). The commercial entities in the UK rail industry were created at the time of privatisation and the relationships between them are governed by a number of contracts between the major participants; the DfT, Network Rail and train operating companies. In arriving at the operating profit numbers for the rail division, management have made judgements on the outcome of contractual discussions with Network Rail and the DfT. These principally relate to the allocation of financial responsisbility for train cancellations and delays.

Rail bid costs of £5.4m (2015: £9.4m), including around £2.0m on rail franchise activity in Germany.

	£m
2015 operating profit	25.7
IAS 19 revised adjustment (see finance review)	16.0
2015 adjusted operating profit	41.7
Change in:	
Southeastern profit improvement	14.9
London Midland profit improvement	7.6
GTR/Southern profit reduction	(13.6)
Lower bid costs	4.0
Lower central costs	2.4
2016 adjusted operating profit	57.0
IAS 19 revised adjustment (see finance review)	29.9
2016 operating profit	27.1

Individual franchise performance

GTR

GTR completed the integration of Southern, Gatwick Express, Thameslink and Great Northern to consolidate in one franchise from 26 July 2015. During this first period the franchise has been through significant changes, including training new drivers, revising the timetable, introduction of new fleet and the implementation of driver controlled operation. Customer satisfaction has been low during this transition as revised timetables have been introduced to create greater certainty for customers during a period of industrial action and unprecedented levels of absence. The management team and the executive directors are focused on delivering franchise obligations in accordance with the agreement with the DfT and are endeavouring to restore customer experience to expected levels. During this transitional phase the franchise has incurred significant costs and has not contributed to rail division profitability.

Southeastern

Southeastern recorded a strong trading performance. Overall passenger revenue increased by 4.9% (2015: 8.5%) on a like for like basis and like for like passenger numbers rose 2.3% (2015: 3.1%).

The franchise continued operating under its direct award contract terms, and whilst it is no longer eligible for revenue support, passenger journeys and revenue levels have exceeded bid expectations. Under the new contract, Southeastern made a contribution of £39.9m to the government during the year through a profit sharing mechanism.

London Midland

Passenger revenue grew by 9.3% (2015: 5.4%) in the year and passenger numbers increased by 5.9% (2015: 2.1%) on a like for like basis. London Midland's trading performance improved in the second half of the year.

The franchise entered into a directly awarded contract on 1 April 2016 and in the period to the year end passenger journeys and revenues exceeded bid expectations. We have been shortlisted to rebid for the West Midland franchise and look forward to submitting a strong bid.

Capital expenditure and depreciation

Capital expenditure for the rail division was £17.8m (2015: £6.2m) and depreciation was £7.4m (2015: £24.8m).

In 2016/17, capital expenditure is expected to be around £15m reflecting investment in GTR and Southeastern.

Rail outlook

This year has seen a continuation of the transition started last year in rail, with the industrial relations issues in that franchise being the primary area where a resolution is needed. We continue to focus our local management teams on delivering benefits for passengers while working with industry partners, such as Network Rail, to minimise the disruption caused by major infrastructure work associated with the Thameslink Programme. Our vision of every journey being taken care of is being cascaded across the franchises with programmes underway to enhance the customer experience and make our vision a reality.

Trading in the Southeastern and London Midland franchises continues to be robust and help offset underperformance in GTR.

Consolidated income statement

for the year ended 2 July 2016

	2016 £m	2015 £m
Group revenue	3,361.3	3,215.2
Operating costs (excluding amortisation, goodwill impairment and exceptional operating costs)	(3,240.9)	(3,100.5)
Intangible asset amortisation and goodwill impairment	(3.0)	(9.1)
Exceptional operating costs	–	(8.8)
Total operating costs	(3,243.9)	(3,118.4)
Group operating profit	117.4	96.8
Group operating profit (before amortisation, goodwill impairment and exceptional operating costs)	120.4	114.7
Finance revenue	3.2	2.4
Finance costs	(20.8)	(20.5)
Profit on ordinary activities before taxation	99.8	78.7
Tax expense	(18.5)	(19.4)
Profit for the year from continuing operations	81.3	59.3
Attributable to:		
Equity holders of the parent	69.7	52.2
Non-controlling interests	11.6	7.1
	81.3	59.3
Earnings per share		
– basic	162.3p	121.6p
– diluted	161.4p	119.5p
– adjusted basic*	220.5p	181.8p
– adjusted diluted*	219.3p	178.6p
Dividends paid (pence per share)	91.73p	85.60p
Final dividend proposed (pence per share)	67.52p	63.40p

* Adjusted earnings per share is calculated after adjusting for amortisation, goodwill impairment, exceptional operating costs and the incremental impact of IAS 19 (revised) to the extent that they impact earnings attributable to equity shareholders.

The year ended 2 July 2016 was a 53 week year compared with the year ended 27 June 2015 which was a 52 week year.

Consolidated statement of comprehensive income

for the year ended 2 July 2016

	2016 £m	2015 £m
Profit for the year	81.3	59.3
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains on defined benefit pension plans	100.8	24.6
Tax relating to items that will not be reclassified	(19.7)	(4.9)
	81.1	19.7
Items that may subsequently be reclassified to profit or loss		
Unrealised losses on cashflow hedges	(17.4)	(36.0)
Losses on cashflow hedges taken to income statement – operating costs	28.7	16.2
Tax relating to items that may be reclassified	(2.1)	4.0
	9.2	(15.8)
Foreign exchange gain	0.4	–
Other comprehensive gains for the year, net of tax	90.7	3.9
Total comprehensive income for the year	172.0	63.2
Attributable to:		
Equity holders of the parent	147.6	49.4
Non-controlling interests	24.4	13.8
	172.0	63.2

Consolidated statement of changes in equity

for the year ended 2 July 2016

	Share capital £m	Reserve for own shares £m	Hedging reserve £m	Share premium reserve £m	Capital redemption reserve £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 28 June 2014	72.1	(69.9)	(4.2)	1.6	0.7	50.4	50.7	16.4	67.1
Profit for the year	–	–	–	–	–	52.2	52.2	7.1	59.3
Net movement on hedges (net of tax)	–	–	(15.8)	–	–	–	(15.8)	–	(15.8)
Remeasurement on defined benefit retirement plans (net of tax)	–	–	–	–	–	13.0	13.0	6.7	19.7
Total comprehensive income	–	–	(15.8)	–	–	65.2	49.4	13.8	63.2
Exercise of share options	–	1.1	–	–	–	(1.1)	–	–	–
Share based payment charge (and associated tax)	–	–	–	–	–	1.9	1.9	–	1.9
Dividends	–	–	–	–	–	(36.7)	(36.7)	(12.8)	(49.5)
At 27 June 2015	72.1	(68.8)	(20.0)	1.6	0.7	79.7	65.3	17.4	82.7
Profit for the year	–	–	–	–	–	69.7	69.7	11.6	81.3
Net movement on hedges (net of tax)	–	–	9.2	–	–	–	9.2	–	9.2
Remeasurement on defined benefit retirement plans (net of tax)	–	–	–	–	–	68.3	68.3	12.8	81.1
Foreign exchange gain	–	–	–	–	–	0.4	0.4	–	0.4
Total comprehensive income	–	–	9.2	–	–	138.4	147.6	24.4	172.0
Exercise of share options	–	2.3	–	–	–	(2.3)	–	–	–
Share based payment charge (and associated tax)	–	–	–	–	–	2.0	2.0	–	2.0
Acquisition of own shares	–	(4.4)	–	–	–	–	(4.4)	–	(4.4)
Dividends	–	–	–	–	–	(39.4)	(39.4)	(17.8)	(57.2)
At 2 July 2016	72.1	(70.9)	(10.8)	1.6	0.7	178.4	171.1	24.0	195.1

Consolidated balance sheet

as at 2 July 2016

	2016 £m	2015 £m
Assets		
Non-current assets		
Property, plant and equipment	494.3	437.4
Intangible assets	82.8	84.7
Trade and other receivables	1.6	0.8
Other financial assets	0.2	–
Deferred tax assets	4.2	11.9
	583.1	534.8
Current assets		
Inventories	18.3	17.9
Trade and other receivables	337.0	260.1
Other financial assets	0.6	–
Cash and cash equivalents	636.3	604.2
	992.2	882.2
Assets classified as held for sale	0.8	6.0
Total assets	1,576.1	1,423.0
Liabilities		
Current liabilities		
Trade and other payables	(872.5)	(772.9)
Other financial liabilities	(10.3)	(19.1)
Interest-bearing loans and borrowings	–	0.7
Current tax liabilities	(18.9)	(14.9)
Provisions	(32.0)	(75.4)
	(933.7)	(881.6)
Non-current liabilities		
Interest-bearing loans and borrowings	(312.4)	(310.2)
Retirement benefit obligations	(2.7)	(59.5)
Other financial liabilities	(4.1)	(5.5)
Deferred tax liabilities	(50.1)	(46.1)
Other liabilities	(4.3)	(5.2)
Provisions	(73.7)	(32.2)
	(447.3)	(458.7)
Total liabilities	(1,381.0)	(1,340.3)
Net assets	195.1	82.7
Capital & reserves		
Share capital	72.1	72.1
Reserve for own shares	(70.9)	(68.8)
Hedging reserve	(10.8)	(20.0)
Share premium reserve	1.6	1.6
Capital redemption reserve	0.7	0.7
Retained earnings	178.4	79.7
Total shareholders' equity	171.1	65.3
Non-controlling interests	24.0	17.4
Total equity	195.1	82.7

Consolidated cashflow statement

for the year ended 2 July 2016

	2016 £m	2015 £m
Profit after tax for the year	81.3	59.3
Net finance costs	17.6	18.1
Tax expense	18.5	19.4
Depreciation of property, plant and equipment	55.2	70.5
Amortisation of intangible assets	3.0	4.2
Impairment of goodwill	–	4.9
Profit on sale of assets held for sale	(0.7)	(0.4)
Loss on sale of property, plant and equipment	0.7	–
Share based payment charges	2.2	1.6
Difference between pension contributions paid and amounts recognised in the income statement	41.8	22.0
Sale of assets held for disposal	–	1.5
(Increase)/decrease in inventories	(0.4)	3.0
Increase in trade and other receivables	(76.8)	(3.3)
Increase in trade and other payables	99.0	232.1
Movement in provisions	(4.3)	(1.5)
Cashflow generated from operations	237.1	431.4
Taxation paid	(24.8)	(20.3)
Net cashflows from operating activities	212.3	411.1
Cashflows from investing activities		
Interest received	3.2	2.3
Proceeds from sale of property, plant and equipment	2.3	0.5
Proceeds from sale of assets held for disposal	5.9	–
Purchase of property, plant and equipment	(113.9)	(42.3)
Purchase of intangible assets	(0.7)	(6.1)
Net cash transfer on handover of rail franchise	–	34.8
Purchase of businesses	(0.5)	(0.4)
Repayment of funding for rolling stock procurement	–	(68.6)
Sale of rolling stock	–	68.6
Repayments from US joint venture	–	1.8
Net cashflows used in investing activities	(103.7)	(9.4)
Cashflows from financing activities		
Interest paid	(16.2)	(16.6)
Dividends paid to members of the parent	(39.4)	(36.7)
Dividends paid to non-controlling interests	(17.8)	(12.8)
Payment to acquire own shares	(4.4)	–
Foreign exchange gain	0.4	–
Repayment of borrowings	–	(122.5)
Proceeds from borrowings	2.0	111.0
Payment of finance lease and hire purchase liabilities	(1.1)	(1.7)
Net cash outflows on financing activities	(76.5)	(79.3)
Net increase in cash and cash equivalents	32.1	322.4
Cash and cash equivalents at 27 June 2015	604.2	281.8
Cash and cash equivalents at 2 July 2016	636.3	604.2

Notes to the consolidated financial statements

1. Basis of preparation and Directors' Responsibility Statement

Basis of preparation

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 2 July 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered in due course. The auditors' reports on the 2015 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The 2016 Annual Report has not been authorised for issue and signed by the Board of Directors at the time of this announcement. This is scheduled for later in September 2016.

Directors' Responsibility Statement

The responsibility statement has been prepared in connection with the preparation of the company's full annual report for the 53 week period ended 2 July 2016. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. 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 Company and the undertakings included in the consolidation taken as a whole; and
2. the Chairman's Statement, Group Chief Executive's Review, and the Finance Review will form part of the Strategic Report and will be incorporated into the Directors' Report. They include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole.

The preliminary announcement was approved by the Board of Directors on 1 September 2016 and is signed on its behalf by:

David Brown, Group Chief Executive

Patrick Butcher, Group Financial Officer

2. 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:

Contract and franchise accounting

The commercial entities in the UK rail industry were created at the time of privatisation and the relationships between then is governed by a number of contracts between the major participants, the DfT, Network Rail and train operating companies. These contracts include detailed performance regimes which determine the allocation of financial responsibility relating to the attribution of delays. The processes for attribution, whilst well understood, require detailed assessment and can take significant time to resolve, particularly in unusual circumstances.

The Group makes provision for income and costs relating to performance regimes and contractual obligations relating to operating delays caused by Network Rail, or caused by our own operating companies. This process can be based primarily on previous experience of settling such claims, or, in certain circumstances based on management's view of the most likely outcome of individual claims. The Group has significant internal expertise to assess and manage these aspects of the agreements and the issues relating to delay attribution to enable management to assess the most probable outcomes, nonetheless significant judgements are required, which can have material impacts on the financial statements.

Accordingly judgements in these and other areas are made on a continuing basis with regard to amounts due and the recoverable carrying value of related assets and liabilities arising from franchises and other contracts. Regular reviews are performed on the expected outcome of these arrangements, which require assessments and judgements relating to the expected level of revenues and costs

Measurement of franchise commitments

The measurement of franchise commitments, comprising dilapidation provisions on rolling stock, depots and stations and also income claims from other rail franchise operators is set out in the notes to the accounts. 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 support provision levels.

Uninsured claims

The measurement of uninsured liabilities is based on an assessment of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Group, as detailed in the notes to the accounts. In order to assess the appropriate level of provisions the Group engages with its brokers and claims handlers to ensure external expertise is adequately factored in to the provision for known claims.

Retirement benefit obligations

The measurement of defined 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 the notes to the accounts. The Group engages Willis Towers Watson, a global professional services company whose specialisms include actuarial advice, to support the process of establishing reasonable bases for all of these estimates, to ensure they are appropriate to our particular circumstances. Management also benchmark these assumptions on a periodic basis with other professional advisors such as PricewaterhouseCoopers.

Impairment testing

IFRS require management to review for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable. In addition the measurement and impairment reviews of indefinite life intangible assets requires estimation of the net present value of future cashflows including:

- Growth in profitability and EBITDA adjusted for risk factors appropriate to each business
- Future growth rates
- Timing of future cash outflows such as capital items required
- The selection of a suitable discount rate adjusted for risk factors appropriate to the Group

No significant impairments arose in the current year. The considerations applied in the review for impairment of goodwill balances are detailed in the notes to the accounts.

The following are the critical judgements, apart from those involving estimations (as detailed above), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Exceptional operating costs

In certain years the Group presents as exceptional operating costs on the face of the income statement, 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. The determination of whether items merit treatment as exceptional in a particular year is therefore a matter of judgement.

Accounting for the rail pension schemes

The train operating companies participate in the RPS, a defined benefit pension 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 40% employee. The total surplus or deficit recorded is adjusted by way of a 'franchise adjustment', which includes an assessment of surpluses or deficits from future contributions, which is that portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from.

3. Segmental analysis

The Group's businesses are managed on a divisional basis. Selected financial data is presented on this basis below.

For management purposes, the Group is now organised into three reportable segments: regional bus, London bus and rail. 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 regional bus division comprises bus operations outside London.

The London bus division comprises bus operations in London under control of TfL and also rail replacement and other contracted services in London.

The rail operation through an intermediate holding company, Govia Limited, is 65% owned by Go-Ahead and 35% by Keolis and comprises four rail franchises: Southern, Southeastern, London Midland and GTR. The division is aggregated for the purpose of segmental reporting under IFRS 8 as each operating company has similar objectives, to provide passenger rail services and achieve a modest profit margin through its franchise arrangements with DfT. Each company targets similar margins, has similar economic risks and is viewed and reacted to as one segment by the chief operating decision maker, considered to be the Group Chief Executive. The registered office of Keolis (UK) Limited is in England and Wales.

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 intangible assets, goodwill impairment and exceptional operating costs.

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 2 July 2016 and the year ended 27 June 2015.

Year ended 2 July 2016

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	403.3	507.2	910.5	2,511.1	3,421.6
Inter-segment revenue	(27.6)	(19.6)	(47.2)	(13.1)	(60.3)
Group revenue	375.7	487.6	863.3	2,498.0	3,361.3
Operating costs (excluding amortisation, goodwill impairment and exceptional operating costs)	(326.0)	(444.0)	(770.0)	(2,470.9)	(3,240.9)
Segment profit – Group operating profit (before amortisation, goodwill impairment and exceptional operating costs)	49.7	43.6	93.3	27.1	120.4
Intangible amortisation	(1.2)	(0.9)	(2.1)	(0.9)	(3.0)
Group operating profit	48.5	42.7	91.2	26.2	117.4
Net finance costs					(17.6)
Profit before tax and non-controlling interests					99.8
Tax expense					(18.5)
Profit for the year					81.3

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Other segment information					
Capital expenditure:					
– Additions	57.4	38.7	96.1	17.8	113.9
– Acquisitions	1.2	–	1.2	–	1.2
– Intangible assets	1.0	0.1	1.1	–	1.1
Depreciation	29.0	18.8	47.8	7.4	55.2

At 2 July 2016, there were non-current assets included within London bus of £1.2m (2015: £nil) relating to operations in Singapore. The operations in Singapore will commence trading in September 2016 and the revenue generated during the year to 2 July 2016 was £nil (2015: £nil). For the year ending 1 July 2017 onwards, operations in Singapore will be disclosed as a separate reportable segment.

We have two major customers which individually contribute more than 10% of the Group revenue, one of which contributes £1,076.6m (2015: £363.0m) and the other contributes £481.5m (2015: £456.5m).

Year ended 27 June 2015

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	384.8	469.7	854.5	2,414.0	3,268.5
Inter-segment revenue	(24.9)	(11.8)	(36.7)	(16.6)	(53.3)
Group revenue	359.9	457.9	817.8	2,397.4	3,215.2
Operating costs (excluding amortisation, goodwill impairment and exceptional operating costs)	(313.2)	(415.6)	(728.8)	(2,371.7)	(3,100.5)
Segment profit – Group operating profit (before amortisation, goodwill impairment and exceptional operating costs)	46.7	42.3	89.0	25.7	114.7
Intangible amortisation	(1.6)	(1.8)	(3.4)	(0.8)	(4.2)
Goodwill impairment	(4.9)	–	(4.9)	–	(4.9)
Exceptional operating costs	–	–	–	(8.8)	(8.8)
Group operating profit	40.2	40.5	80.7	16.1	96.8
Net finance costs					(18.1)
Profit before tax and non-controlling interests					78.7
Tax expense					(19.4)
Profit for the year					59.3

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Other segment information					
Capital expenditure:					
– Additions	28.0	8.1	36.1	6.2	42.3
– Acquisitions and new rail franchises	0.4	–	0.4	6.9	7.3
– Intangible assets	1.1	0.1	1.2	4.9	6.1
Depreciation	27.5	18.2	45.7	24.8	70.5

4. 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 the notes to the accounts.

	2016 £m	2015 £m
Rendering of services	3,498.5	3,208.6
Rental income	22.8	10.0
GTR franchise revenue adjustment	(276.0)	(120.9)
Franchise subsidy receipts and revenue support	116.0	117.5
Group revenue	3,361.3	3,215.2
Finance revenue	3.2	2.4
Total Group revenue	3,364.5	3,217.6

5. Operating costs (excluding amortisation, Goodwill Impairment and exceptional Operating Costs)

Detailed below are the key amounts recognised in arriving at our operating costs. For accounting policies see 'Profit and revenue sharing/support agreements', 'Property, plant and equipment', 'Government grants' and 'Franchise bid costs' in the notes to the accounts.

	2016 £m	2015 £m
Employee costs	1,215.5	1,079.6
Operating lease payments		
– bus vehicles	15.4	16.6
– non-rail properties	3.3	2.6
– other non-rail	–	0.1
– rail rolling stock	427.7	410.9
– other rail	112.2	88.0
Total lease and sublease payments recognised as an expense (excluding rail access charges)[1]	558.6	518.2
– rail access charges	519.2	489.9
Total lease and sublease payments recognised as an expense[2]	1,077.8	1,008.1
DfT Franchise agreement payments	38.2	228.6
Other operating income	(17.5)	(24.8)
Depreciation of property, plant and equipment		
– owned assets	54.9	69.4
– leased assets	0.3	1.1
Total depreciation expense	55.2	70.5
Auditors' remuneration		
– audit of parent financial statements (Deloitte/EY)	0.1	0.1
– audit of subsidiary financial statements (Deloitte/EY)	0.5	0.4
– audit of subsidiary financial statements (Grant Thornton)	–	–
Total audit fees	0.6	0.5
– taxation compliance services	0.1	0.1
– taxation advisory services	–	–
– other non-audit	0.1	0.1
Total non-audit fees	0.2	0.2
Total auditors' remuneration	0.8	0.7
Trade receivables not recovered	0.8	0.3
Energy costs		
– bus fuel	116.8	118.4
– rail diesel fuel	9.8	9.6
– rail electricity (EC4T)	122.3	109.5
– cost of site energy	15.3	15.2
Total energy costs	264.2	252.7
Government grants	(4.1)	(8.0)
Loss/(profit) on disposal of property, plant and equipment	0.7	(0.4)
Profit on sale of assets held for sale	(0.7)	–
Costs expensed relating to franchise bidding activities	5.7	10.7
DfT profit share	43.7	24.0
Other operating costs	560.6	458.5
Total operating costs (excluding amortisation, goodwill impairment and exceptional operating costs)	3,240.9	3,100.5

1 The total lease and sublease payments recognised as an expense (excluding rail access charges) are made up of minimum lease payments of £574.2m (2015: £531.7m), net of sublease payments of £15.6m (2015: £13.5m) relating to other rail leases.

2 The total lease and sublease payments recognised as an expense are made up of minimum lease payments of £1,093.4m (2015: £1,021.6m), net of sublease payments of £15.6m (2015: £13.5m) relating to other rail leases.

During the year, £1.4m (2015: £1.5m) was also paid to other 'Big 4' accounting firms for a variety of services.

The Group received net receipts from Network Rail during the year of £38.1m (2015: £88.0m).

6. Employee 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 the notes to the accounts.

	2016 £m	2015 £m
Wages and salaries	1,017.6	915.4
Social security costs	92.2	80.5
Other pension costs	103.5	82.1
Share based payments charge	2.2	1.6
	1,215.5	1,079.6

The average monthly number of employees during the year, including directors, was:

	2016	2015
Administration and supervision	3,007	2,964
Maintenance and engineering	2,597	2,651
Operations	21,962	20,545
	27,566	26,160

The information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 is provided in the directors' remuneration report.

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 2016 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 2 July 2016 as follows:

Scheme maturity	**1 May 2019**	**1 May 2017**
Option price (£)	19.11	17.34
No. of options unexercised at 2 July 2016	367,593	397,311
No. of options exercised during the year	–	1,667
No. of options exercisable at 2 July 2016	–	–

The expense recognised for the scheme during the year to 2 July 2016 was £0.4m (2015: £0.3m).

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

	2016 No.	**2016 WAEP £**	2015 No.	2015 WAEP £
Outstanding at the beginning of the year	436,322	17.34	461,575	17.34
Granted during the year	370,251	19.11	–	–
Forfeited during the year	(40,002)	17.46	(25,089)	17.34
Exercised during the year	(1,667)	17.36	(164)	17.34
Outstanding at the end of the year	764,904	18.19	436,322	17.34

The weighted average exercise price at the date of exercise for the options exercised in the period was £17.34 (2015: £17.34).

At the year end, no options were exercisable and the weighted average exercise price of the options was £18.19 (2015: £17.34).

The options outstanding at the end of the year have a weighted average remaining contracted life of 1.79 years (2015: 1.83 years).

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 2 July 2016 was £0.5m (2015: £0.4m).

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 2 July 2016 and 27 June 2015 were:

	2016 % per annum	2015 % per annum
The Go-Ahead Group plc		
Future share price volatility	21.0	22.0
FTSE Mid-250 index comparator		
Future share price volatility	20.0	20.0
Correlation between companies	30.0	30.0

The weighted average fair value of options granted during the year was £20.82 (2015: £23.49).

The following table shows the number of share options for the LTIP:

	2016	2015
Outstanding at the beginning of the year	181,302	259,145
Granted during the year	32,618	34,996
Forfeited during the year	(33,157)	(36,350)
Exercised during the year	(96,348)	(76,489)
Outstanding at the end of the year	84,415	181,302

At the year end, 30,462 options were exercisable and the weighted average exercise price of the options was £19.78 (2015: £26.98).

The weighted average remaining contractual life of the options was 1.03 years (2015: 0.66 years). The weighted average share price of options exercised was £25.44 (2015: £24.11).

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 2 July 2016 was £1.3m (2015: £0.9m).

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 £25.97 (2015: £25.71).

The following table shows the number of share options for the DSBP:

	2016	2015
Outstanding at the beginning of the year	136,144	56,086
Granted during the year	62,047	87,320
Forfeited during the year	(18,341)	(5,270)
Exercised during the year	(14,204)	(1,992)
Outstanding at the end of the year	165,646	136,144

At the year end, 28,329 options were exercisable and the weighted average exercise price of the options was £19.78 (2015: £26.98).

The weighted average remaining contractual life of the options was 1.18 years (2015: 1.54 years). The weighted average share price of options exercised was £25.57 (2015: £23.96).

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.

7. Exceptional operating costs

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 operating costs' in the notes to the accounts.

	2016 £m	2015 £m
Rail restructuring costs	–	(8.8)
Total exceptional operating costs	–	(8.8)

Year ended 2 July 2016

There were no exceptional operating costs during the year ended 2 July 2016.

Year ended 27 June 2015

Total exceptional operating costs in the year of £8.8m related to rail restructuring costs of the GTR franchise which brings Thameslink and Great Northern together with Southern and Gatwick Express under one management structure.

8. Finance revenue and costs

Finance revenue comprises interest received from bank deposits. Finance costs mainly arise from interest due on the bond and bank loans. For accounting policies see 'Finance revenue' and 'Interest-bearings loans and borrowings' in the notes to the accounts.

	2016 £m	2015 £m
Bank interest receivable on bank deposits	3.2	2.4
Finance revenue	3.2	2.4
Interest payable on bank loans and overdrafts	(2.0)	(2.5)
Interest payable on £200m sterling 7.5 year bond	(11.3)	(11.2)
Other interest payable	(2.2)	(2.8)
Unwinding of discounting on provisions	(2.4)	(1.4)
Interest payable under finance leases and hire purchase contracts	(0.8)	(0.2)
Interest on net pension liability	(2.1)	(2.4)
Finance costs	(20.8)	(20.5)

9. Taxation

This note explains how our Group tax charge arises. The deferred tax section of the note sets out the deferred tax assets and liabilities held across the Group. For accounting policies see 'Taxation' in the notes to the accounts.

The Group tax policy can be found at www.go-ahead.com.

a. Tax recognised in the income statement and in equity

	2016 £m	2015 £m
Current tax charge	28.5	25.0
Adjustments in respect of current tax of previous years	0.6	(0.4)
	29.1	24.6
Deferred tax relating to origination and reversal of temporary differences at 20% (2015: 20%)	(7.1)	(4.8)
Adjustments in respect of deferred tax of previous years	0.2	(0.4)
Impact of opening deferred tax rate reduction	(3.7)	–
Tax reported in consolidated income statement	18.5	19.4

Tax relating to items charged or credited outside of profit or loss

	2016 £m	2015 £m
Tax on remeasurement gains on defined benefit pension plans	18.5	4.9
Deferred tax on cashflow hedges	2.1	(4.0)
Deferred tax on share based payments (taken directly to equity)	0.5	(0.3)
Corporation tax on share based payments (taken directly to equity)	(0.3)	–
Impact of opening deferred tax rate reduction	1.2	–
Tax reported outside of profit or loss	22.0	0.6

b. Reconciliation

A reconciliation of income tax applicable to accounting profit on ordinary activities before taxation, at the statutory tax rate, to tax at the Group's effective tax rate for the years ended 2 July 2016 and 27 June 2015 is as follows:

	2016 £m	2015 £m
Accounting profit on ordinary activities before taxation	99.8	78.7
At United Kingdom tax rate of 20% (2015: 20.75%)	20.0	16.3
Adjustments in respect of current tax of previous years	0.6	(0.4)
Expenditure not allowable for tax purposes	0.8	3.7
Adjustments in respect of deferred tax of previous years	0.2	(0.4)
Effect of the difference between current year corporation tax and deferred tax rates	0.6	0.2
Impact of opening deferred tax rate reduction	(3.7)	–
Tax reported in consolidated income statement	18.5	19.4
Effective tax rate	18.5%	24.7%

The underlying tax rate is the same as the effective tax rate for the year ended 2 July 2016 at 18.5%.

The underlying tax rate for the year ended 27 June 2015 is 23.2%, as it excludes the impact of the goodwill impairment of £4.9m.

The Group had subsidiary companies in Germany and Singapore during the year but neither generated any operating income. Costs incurred by these companies were either expensed in the UK without tax relief being claimed or were carried forward as prepayments without tax relief being claimed during the year. As such the Group was entirely taxable in the UK during the course of the financial year.

c. Reconciliation of current tax liabilities

A reconciliation of the current tax liability is provided below:

	2016 £m	2015 £m
Current tax liability at start of year	14.9	10.6
Corporation tax reported in consolidated income statement	29.1	24.6
Corporation tax (taken directly to equity)	(0.3)	–
Paid in the year	(24.8)	(20.3)
Current tax liability at end of year	18.9	14.9

d. Deferred tax

The deferred tax included in the balance sheet is as follows:

	2016 £m	2015 £m
Deferred tax liability		
Accelerated capital allowances	(28.4)	(29.6)
Other temporary differences	(8.4)	(1.1)
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(13.3)	(15.4)
Deferred tax liability included in balance sheet	(50.1)	(46.1)
Deferred tax asset		
Retirement benefit obligations	0.5	11.9
Cashflow hedges	2.8	–
Share based payments	0.9	–
Deferred tax asset included in balance sheet	4.2	11.9

The deferred tax asset is recognised as it is considered probable that there will be future taxable profits available.

The deferred tax liabilities and assets included in the balance sheet have been calculated using applicable enacted rates.

Of the deferred tax liability, £1.6m (2015: £1.7m) is classed as current and £48.5m (2015: £44.4m) is classed as non-current. Of the deferred tax asset, £2.0m (2015: £nil) is classed as current and £2.2m (2015: £11.9m) as non-current.

The movements in deferred tax in the income statement and other comprehensive income for the years ending 2 July 2016 and 27 June 2015 are as follows:

Year ended 2 July 2016

	At 27 June 2015 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised directly in equity £m	Transfer categories £m	At 2 July 2016 £m
Accelerated capital allowances	(29.6)	1.2	–	–	–	(28.4)
Other temporary differences	(1.1)	(1.0)	–	–	(6.3)	(8.4)
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(15.4)	2.1	–	–	–	(13.3)
Retirement benefit obligations	11.9	8.3	(19.7)	–	–	0.5
Cashflow hedges	–	–	(2.1)	–	4.9	2.8
Share based payments	–	–	–	(0.5)	1.4	0.9
	(34.2)	10.6	(21.8)	(0.5)	–	(45.9)

Year ended 27 June 2015

	At 28 June 2014 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised directly in equity £m	Transfer categories £m	At 27 June 2015 £m
Accelerated capital allowances	(30.6)	1.0	–	–	–	(29.6)
Other temporary differences	(2.8)	(2.6)	4.0	0.3	–	(1.1)
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(17.3)	1.9	–	–	–	(15.4)
Retirement benefit obligations	11.9	4.9	(4.9)	–	–	11.9
	(38.8)	5.2	(0.9)	0.3	–	(34.2)

The deferred tax included in the Group income statement is as follows:

	2016 £m	2015 £m
Accelerated capital allowances	0.2	(1.5)
Revaluation	(0.6)	(0.9)
Retirement benefit obligations	(8.3)	(4.9)
Temporary differences arising on pension spreading	2.4	2.9
Other temporary differences	(0.8)	(0.4)
	(7.1)	(4.8)
Adjustments in respect of prior years	0.2	(0.4)
Adjustments in respect of opening deferred tax rate reduction	(3.7)	–
Deferred tax expense	(10.6)	(5.2)

The standard rate of UK corporation tax reduced from 21% to 20% from 1 April 2015. A rate of 20% therefore applies to the current tax charge arising during the year ended 2 July 2016.

In addition to the change in rate of corporation tax identified above, further reductions in the rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted prior to the balance sheet date and have been applied to the Group's deferred tax balance at the balance sheet date.

An announcement in the 2016 Budget also noted the intention to amend the rate from 1 April 2020 to 17%. If the reduction to 17% had been enacted at the balance sheet date, the Group's deferred tax liability would have reduced by £2.4m to £47.7m, and the deferred tax asset would have remained the same at £4.2m.

10. 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 intangible asset amortisation, goodwill impairment, exceptional operating costs, and the incremental effect of IAS 19 (revised).

Basic and diluted earnings per share

	2016 £m	2015 £m
Net profit attributable to equity holders of the parent	69.7	52.2
Consisting of:		
Adjusted earnings on continuing operations attributable to equity holders of the parent	94.7	78.0
Amortisation and goodwill impairment after taxation and non-controlling interests	(2.1)	(8.0)
Exceptional operating costs after taxation and non-controlling interests	–	(4.5)
IAS 19 (revised) after taxation and non-controlling interests	(22.9)	(13.3)
Basic and diluted earnings attributable to equity holders of the parent	69.7	52.2

	2016	2015
Basic weighted average number of shares in issue ('000)	42,951	42,916
Dilutive potential share options ('000)	247	754
Diluted weighted average number of shares in issue ('000)	43,198	43,670

Earnings per share:		
Basic earnings per share (pence per share)	162.3	121.6
Diluted earnings per share	161.4	119.5
Adjusted basic earnings per share	220.5	181.8
Adjusted diluted earnings per share	219.3	178.6

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 2 July 2016 to 7 September 2016.

The effect of taxation and non-controlling interests on intangible asset amortisation, goodwill impairment, exceptional operating costs and the incremental effect of IAS 19 (revised) is shown below for each of the periods.

Adjusted earnings per share

Adjusted earnings per share is also presented to eliminate the impact of intangible asset amortisation, goodwill impairment, exceptional operating costs and the incremental effect of IAS 19 (revised) in order to show a 'normalised' earnings per share, reflecting the underlying performance of the business.

Adjusted earnings were £94.7m in the period (2015: £78.0m) resulting in adjusted earnings per share of 220.5p (2015: 181.8p).

This is analysed as follows:

Year ended 2 July 2016

	Profit for the year £m	Amortisation and goodwill impairment £m	Exceptional operating costs £m	IAS 19 (revised) £m	Adjusted profit for the year £m
Profit before taxation	99.8	3.0	–	39.1	141.9
Less: Taxation	(18.5)	(0.6)	–	(7.8)	(26.9)
Less: Non-controlling interests	(11.6)	(0.3)	–	(8.4)	(20.3)
Adjusted profit attributable to equity holders of the parent	69.7	2.1	–	22.9	94.7
Adjusted basic earnings per share (pence per share)					220.5
Adjusted diluted earnings per share (pence per share)					219.3

Year ended 27 June 2015

	Profit for the year £m	Amortisation and goodwill impairment £m	Exceptional operating costs £m	IAS 19 (revised) £m	Adjusted profit for the year £m
Profit before taxation	78.7	9.1	8.8	22.3	118.9
Less: Taxation	(19.4)	(0.9)	(1.8)	(4.6)	(26.7)
Less: Non-controlling interests	(7.1)	(0.2)	(2.5)	(4.4)	(14.2)
Adjusted profit attributable to equity holders of the parent	52.2	8.0	4.5	13.3	78.0
Adjusted basic earnings per share (pence per share)					181.8
Adjusted diluted earnings per share (pence per share)					178.6

11. Dividends paid and proposed

Dividends are one type of shareholder return, historically paid to our shareholders in April and November.

	2016 £m	2015 £m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2015: 63.4p per share (2014: 59.0p)	27.2	25.3
Interim dividend for 2016: 28.33p per share (2015: 26.6p)	12.2	11.4
	39.4	36.7

	2016 £m	2015 £m
Proposed for approval at the AGM (not recognised as a liability as at 2 July 2016)		
Equity dividends on ordinary shares:		
Final dividend for 2016: 67.52p per share (2015: 63.4p)	29.0	27.2

12. 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 (excluding freehold land) are depreciated over their useful economic lives. For accounting policies see 'Property, plant and equipment' in the notes to the accounts.

	Freehold land and buildings £m	Long term leasehold land and properties £m	Short term leasehold land and properties £m	Bus vehicles £m	Plant and equipment £m	Total £m
Cost:						
At 28 June 2014	183.7	0.4	14.2	520.5	180.2	899.0
Additions	1.8	–	–	31.2	9.3	42.3
Acquisitions and new rail franchises	–	–	–	0.4	6.9	7.3
Disposals	–	–	–	(10.9)	(6.8)	(17.7)
Transfer of assets held for resale	0.2	–	–	–	–	0.2
At 27 June 2015	185.7	0.4	14.2	541.2	189.6	931.1
Additions	13.4	–	0.5	78.4	21.6	113.9
Acquisitions	–	–	–	1.2	–	1.2
Disposals	(0.2)	–	–	(45.9)	(2.0)	(48.1)
Transfer categories	–	–	–	(2.1)	2.1	–
At 2 July 2016	198.9	0.4	14.7	572.8	211.3	998.1
Depreciation and impairment:						
At 28 June 2014	19.6	–	6.0	267.7	147.1	440.4
Charge for the year	9.2	–	1.4	39.9	20.0	70.5
Disposals	–	–	–	(10.6)	(6.6)	(17.2)
At 27 June 2015	28.8	–	7.4	297.0	160.5	493.7
Charge for the year	3.3	–	1.4	42.3	8.2	55.2
Disposals	–	–	–	(43.5)	(1.6)	(45.1)
Transfer categories	–	–	–	(0.8)	0.8	–
At 2 July 2016	32.1	–	8.8	295.0	167.9	503.8
Net book value:						
At 2 July 2016	166.8	0.4	5.9	277.8	43.4	494.3
At 27 June 2015	156.9	0.4	6.8	244.2	29.1	437.4
At 28 June 2014	164.1	0.4	8.2	252.8	33.1	458.6

The net book value of leased assets and assets acquired under hire purchase contracts is:

	2016 £m	2015 £m
Bus vehicles	2.7	1.3
Plant and equipment	–	0.1
	2.7	1.4

13. Intangible assets

The consolidated balance sheet contains significant intangible assets mainly in relation to goodwill, software, franchise bid costs and customer contracts. Goodwill, which arises when the Group acquire a business and pay a higher amount than the fair value of the net assets primarily due to the synergies the Group expect to create, is not amortised but is subject to annual impairment reviews. Software is amortised over its expected useful life. Franchise bid costs are amortised over the life of the franchise/franchise extension. Customer contracts are amortised over the life of the contract. For further details see 'Software', 'Franchise bid costs', 'Franchise assets', 'Business combinations and goodwill', 'Impairment of assets' and 'Customer contracts' in the notes to the accounts.

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Customer contracts £m	Total £m
Cost:						
At 28 June 2014	80.8	17.5	9.2	16.7	13.2	137.4
Additions	–	3.8	2.3	–	–	6.1
Disposals	–	(0.7)	–	–	(1.3)	(2.0)
At 27 June 2015	80.8	20.6	11.5	16.7	11.9	141.5
Additions	–	0.7	–	–	–	0.7
Acquisitions	–	–	–	–	0.4	0.4
At 2 July 2016	80.8	21.3	11.5	16.7	12.3	142.6
Amortisation and impairment:						
At 28 June 2014	–	14.8	7.9	16.7	10.3	49.7
Charge for the year	–	1.7	0.8	–	1.7	4.2
Impairment	4.9	–	–	–	–	4.9
Disposals	–	(0.7)	–	–	(1.3)	(2.0)
At 27 June 2015	4.9	15.8	8.7	16.7	10.7	56.8
Charge for the year	–	1.5	0.6	–	0.9	3.0
At 2 July 2016	4.9	17.3	9.3	16.7	11.6	59.8
Net book value:						
At 2 July 2016	75.9	4.0	2.2	–	0.7	82.8
At 27 June 2015	75.9	4.8	2.8	–	1.2	84.7
At 28 June 2014	80.8	2.7	1.3	–	2.9	87.7

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 was 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.

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:

	2016 £m	2015 £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
	75.9	75.9

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 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 5.4% (2015: 8.8%), based on the Group's weighted average cost of capital. The economic conditions that the cash-generating units operate in are considered similar enough, primarily being UK based, to use the same discount rate.

Given a low weighted average cost of capital, the calculation of value in use has been based on the internal rate of return that the Group uses to appraise investments, currently 8.0%. 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, employee 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. The intangible assets have been reviewed, having considered the value in use of the assets at the internal rate of return of 8.0%. A 0.5% increase in discount rate or revenue growth falling by 1.0% are considered the most likely sensitivities that could impact recoverable amounts. The change in discount rate or revenue growth falling by 1.0% would not cause the carrying value of any of the businesses to exceed their recoverable amount.

14. Business combinations

This note details acquisition transactions carried out in the current and prior periods. For accounting policies see 'Business combinations and goodwill' and 'Customer contracts' in the notes to the accounts.

Year ended 2 July 2016

On 13 October 2015, Go South Coast Limited, a wholly owned subsidiary of the Group, acquired certain tendered contracts, commercial operations and 13 buses from Excelsior Coaches Limited and Excelsior Transport Limited for a cash consideration of £0.5m.

Net assets at date of acquisition:

	Total acquisitions – Fair value to Group £m
Property, plant and equipment	1.2
Intangible assets – customer contracts	0.4
Interest-bearing loans and borrowings	(1.1)
Net assets	0.5
Cash	0.5
Total consideration	0.5

Interest-bearing loans and borrowings comprise finance leases and hire purchase commitments.

Acquisition costs of less than £0.1m have been expensed through operating costs.

From the date of acquisition in the period, the acquisition recorded an operating profit of £0.1m and revenue of £2.1m. Had the acquisition been completed on the first day of the financial period, the impact on the Group's operating profit would have been £0.2m and the impact on revenue would have been £2.9m.

Year ended 27 June 2015

On 8 December 2014, Plymouth Citybus Limited, a wholly owned subsidiary of the Group, acquired certain tendered contracts, commercial operations and nine buses from Western Greyhound Limited for a cash consideration of £0.4m.

Net assets at date of acquisition:

	Total acquisitions – Fair value to Group £m
Property, plant and equipment	0.4
Intangible assets – customer contracts	–
	0.4
Cash	0.4
Total consideration	0.4

Acquisition costs of less than £0.1m have been expensed through operating costs.

From the date of acquisition in the year ended 27 June 2015, the acquisition recorded an operating profit of £nil and revenue of £0.9m. Had the acquisition been completed on the first day of the financial period, the impact on the Group's operating profit would have been £nil and the impact on revenue would have been £1.5m.

15. 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 the notes to the accounts.

At 2 July 2016, assets held for sale, with a carrying value of £0.8m, related to property, plant and equipment available for sale, and are included in the regional bus segment.

During the year ended 2 July 2016, assets held for sale were sold for a profit of £0.7m, which is included within operating costs in the income statement.

At 27 June 2015, assets held for sale had a carrying value of £6.0m, consisting of £2.5m of property, plant and equipment available for sale and £3.5m of bus vehicles awaiting refinancing onto operating leases.

16. Inventories

Inventory primarily consists of vehicle spares and fuel and is presented net of allowances for obsolete products. For accounting policies see 'Inventories' in the notes to the accounts.

	2016 £m	2015 £m
Raw materials and consumables	18.3	17.9

The amount of any write down of inventories recognised as an expense during the year is immaterial.

17. Trade and other receivables

Trade and other receivables mainly consist of amounts owed 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.

	2016 £m	2015 £m
Current		
Trade receivables	178.1	102.0
Less: Provision for impairment of receivables	(1.7)	(1.1)
Trade receivables – net	176.4	100.9
Other receivables	32.7	66.5
Prepayments	48.5	18.8
Accrued income	45.4	23.0
Receivable from central government	34.0	50.9
	337.0	260.1

	2016 £m	2015 £m
Non-current		
Other receivables	1.6	0.8

As at 2 July 2016, 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
2016	176.4	166.5	3.0	3.4	2.2	0.5	0.8
2015	100.9	88.0	11.2	0.8	0.6	0.3	–

Trade receivables at nominal value of £1.7m (2015: £1.1m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Total £m
At 27 June 2015	1.1
Charge for the year	1.1
Utilised	(0.2)
Unused amounts reversed	(0.3)
At 2 July 2016	1.7

As at 2 July 2016, the ageing analysis of impaired and fully provided for trade receivables is as follows:

	2016 £m	2015 £m
60-90 days	–	–
90-120 days	–	–
More than 120 days	1.7	1.1
	1.7	1.1

18. 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 comply with the DfT short term liquidity requirements. For accounting policies see 'Cash and cash equivalents' in the notes to the accounts.

	2016 £m	2015 £m
Cash at bank and in hand	82.1	145.5
Cash and cash equivalents	554.2	458.7
	636.3	604.2

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 2 July 2016, balances amounting to £562.3m (2015: £537.6m) were restricted. Part of this amount is to cover deferred income for rail season tickets, which was £181.3m at 2 July 2016 (2015: £172.8m).

Non cashflow movements

During the year ended 27 June 2015 the Group transferred in certain assets and liabilities relating to the handover of the GTR franchise. Initial cash received by the Group as a result of the rail franchise handover is detailed below:

	GTR £m
Property, plant and equipment	6.9
Inventories	5.3
Trade and other receivables	7.1
Trade and other payables	(53.9)
Provisions	(0.2)
Cash and cash equivalents	34.8
	–

19. Trade and other payables

Trade and other payables mainly consist of amounts owed 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.

	2016 £m	2015 £m
Current		
Trade payables	262.0	148.9
Other taxes and social security costs	30.6	22.8
Other payables	67.9	106.6
Deferred season ticket income	181.3	175.4
Accruals	122.1	106.0
Deferred income	56.0	148.2
Payable to central government	149.9	60.5
Government grants	2.7	4.5
	872.5	772.9

	2016 £m	2015 £m
Non-current		
Government grants	4.3	5.2
	4.3	5.2

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
- Other payables are non-interest-bearing and have varying terms of up to 12 months

20. 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 held 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 the notes to the accounts.

Net cash/debt and interest-bearing loans and borrowings

The net cash/debt position comprises cash, short term deposits, interest-bearing loans and borrowings, and can be summarised as:

Year ended 2 July 2016

			Current	Non-current		
	Effective interest rate %	Maturity	Within one year £m	After one year but not more than five years £m	After more than five years £m	Total £m
Syndicated loans (see below)	1.00	0-5 years	–	113.0	–	113.0
Debt issue costs on syndicated loans			(0.3)	(0.6)	–	(0.9)
£200m sterling 7.5 year bond (see below)	5.38	0-2 years	–	200.0	–	200.0
Debt issue costs			–	–	–	–
Finance leases and HP commitments	8.89	0-1 years	0.3	–	–	0.3
Total interest-bearing loans and borrowings			–	312.4	–	312.4
Debt issue costs			0.3	0.6	–	0.9
Total interest-bearing loans and borrowings (gross of debt issue costs)			0.3	313.0	–	313.3
Cash and short term deposits			(636.3)	–	–	(636.3)
Net cash			(636.0)	313.0	–	(323.0)
Restricted cash*						562.3
Adjusted net debt						239.3

Year ended 27 June 2015

			Current	Non-current		
	Effective interest rate %	Maturity	Within one year £m	After one year but not more than five years £m	After more than five years £m	Total £m
Syndicated loans (see below)	1.01	0-5 years	–	111.0	–	111.0
Debt issue costs on syndicated loans			(0.4)	(0.8)	–	(1.2)
£200m sterling 7.5 year bond (see below)	5.38	0-3 years	–	200.0	–	200.0
Debt issue costs			(0.5)	(0.1)	–	(0.6)
Finance leases and HP commitments	9.55	0-3 years	0.2	0.1	–	0.3
Total interest-bearing loans and borrowings			(0.7)	310.2	–	309.5
Debt issue costs			0.9	0.9	–	1.8
Total interest-bearing loans and borrowings (gross of debt issue costs)			0.2	311.1	–	311.3
Cash and short term deposits			(604.2)	–	–	(604.2)
Net cash			(604.0)	311.1	–	(292.9)
Restricted cash*						537.6
Adjusted net debt						244.7

* Restricted cash balances are amounts held by rail companies which are included in cash and short term deposits. The restricted cash can only be distributed with the agreement of the DfT, normally up to the value of revenue reserves or based on a working capital formula.

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
28 June 2014	281.8	(120.0)	(2.5)	(2.0)	(200.0)	(42.7)
Cashflow	287.6	9.0	2.5	1.7	–	300.8
On handover of rail franchise	34.8	–	–	–	–	34.8
27 June 2015	604.2	(111.0)	–	(0.3)	(200.0)	292.9
Cashflow	32.1	(2.0)	–	1.1	–	31.2
On acquisition	–	–	–	(1.1)	–	(1.1)
2 July 2016	636.3	(113.0)	–	(0.3)	(200.0)	323.0

Syndicated loan facility

On 16 July 2014, the Group re-financed and entered into a £280.0m 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. The facility had an initial maturity of July 2019, with two one-year extensions, the second of which was agreed on 20 June 2016, extending the maturity of the facility to July 2021 from that date.

As at 2 July 2016, £113.0m (2015: £111.0m) of the facility was drawn down.

£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%.

£200m term loan

On 26 August 2016, the Group entered into a £200m term loan to provide flexibility on refinancing the £200m sterling 7.5 year bond. The facility is available to draw down between 4 September 2017 and 29 September 2017. Once drawn down, the facility is available to the Group with extensions for up to a further 24 months.

Dollar loan

On 26 July 2010, a $10.0m five year facility was entered into for the purposes of financing our Go-Ahead North America joint venture. The joint venture ceased trading on 25 July 2014, and on termination of the joint venture all outstanding loans were repaid and the facility subsequently cancelled. The dollar loan was unsecured and interest was charged at US$ LIBOR + Margin.

Debt issue costs

There are debt issue costs of £0.9m (2015: £1.2m) on the syndicated loan facility.

The £200m sterling 7.5 year bond has debt issue costs of £nil (2015: £0.6m).

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.

21. 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 the notes to the accounts.

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:

	2016		2015	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	0.3	0.3	0.2	0.2
After one year but not more than five years	–	–	0.1	0.1
Total minimum lease payments	0.3	0.3	0.3	0.3
Less amounts representing finance charges	–	–	–	–
Present value of minimum lease payments	0.3	0.3	0.3	0.3

22. 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.

It is Group policy to enter into derivative transactions, primarily fuel swaps and interest rate swaps. The purpose of these is to manage the fuel price and interest rate risks arising from the Group's operations and its sources of finance. At the year end, the Group did not hold any interest rate swaps.

It is, and has been throughout 2015/16 and 2014/15, 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. Commodity price risk is managed via fuel derviatives. Risks arising from these are explained in the notes to the accounts.

Interest rate risk

The Group borrows and deposits funds and is exposed to changes in interest rates. The Group'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.

The Group manages interest rate risk through a combination of fixed rate instruments and/or interest rate derivatives. During the years ended 2 July 2016 and 27 June 2015 the Group had no interest rate swaps in place. The Group has net cash and hence the present adverse risk is a decrease in interest rates.

The maturity and interest rate profile of the financial assets and liabilities of the Group (excluding unamortised issue costs) as at 2 July 2016 and 27 June 2015 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
Year ended 2 July 2016								
Floating rate (assets)/liabilities								
Variable rate loans	1.00	–	–	–	–	113.0	–	113.0
Gross floating rate liabilities		–	–	–	–	113.0	–	113.0
Cash assets	0.55	(636.3)	–	–	–	–	–	(636.3)
Net floating rate (assets)/liabilities		(636.3)	–	–	–	113.0	–	(523.3)
Fixed rate liabilities								
£200m sterling 7.5 year bond	5.38	–	200.0	–	–	–	–	200.0
Obligations under finance lease and hire purchase contracts	8.89	0.3	–	–	–	–	–	0.3
Net fixed rate liabilities		0.3	200.0	–	–	–	–	200.3
Year ended 27 June 2015								
Floating rate (assets)/liabilities								
Variable rate loans	1.10	–	–	–	–	111.0	–	111.0
Gross floating rate liabilities		–	–	–	–	111.0	–	111.0
Cash assets	0.54	(604.2)	–	–	–	–	–	(604.2)
Net floating rate (assets)/liabilities		(604.2)	–	–	–	111.0	–	(493.2)
Fixed rate liabilities								
£200m sterling 7.5 year bond	5.38	–	–	200.0	–	–	–	200.0
Obligations under finance lease and hire purchase contracts	9.55	0.2	0.1	–	–	–	–	0.3
Net fixed rate liabilities		0.2	0.1	200.0	–	–	–	200.3

The expected maturity of the financial assets and liablities in the table above is the same as the contractual maturity of the financial assets and liabilities.

Interest on financial instruments classified as floating rate is 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.

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) based on recent historic changes.

	Increase/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
2016			
GBP	50.0	(0.5)	(0.5)
GBP	(50.0)	0.5	0.5
2015			
GBP	50.0	(0.5)	(0.5)
GBP	(50.0)	0.5	0.5

Liquidity risk

The Group has in place a £280.0m 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, with two one-year extensions replacing the previous £275.0m five year syndicated loan facility. The second of the one-year extensions was agreed on 20 June 2016, extending the maturity of the current facility to July 2021.

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 the notes to the accounts.

On 26 August 2016, the Group entered into a £200m term loan to provide flexibility on refinancing the £200m sterling 7.5 year bond. The facility is available to draw down between 4 September 2017 and 29 September 2017. Once drawn down, the facility is available to the Group with extensions for up to a further 24 months.

Available liquidity as at 2 July 2016 and 27 June 2015 was as follows:

	2016 £m	2015 £m
Five year syndicated facility 2019/2021	280.0	280.0
£200m 7.5 year 5.375% sterling bond 2017	200.0	200.0
Total core facilities	480.0	480.0
Amount drawn down at 2 July 2016	313.0	311.0
Headroom	167.0	169.0

The Group's bus 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

The Group has foreign exchange exposure in respect of cashflow commitments to both its operations in Germany and in Singapore, of which neither are currently material to the Group.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables and cash deposits. 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. The 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 2 July 2016 and 27 June 2015 based on contractual undiscounted payments.

Year ended 2 July 2016

	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	–	0.2	0.9	116.9	–	118.0
£200m sterling 7.5 year bond	–	10.7	–	202.7	–	213.4
Other financial liabilities	–	2.4	7.9	4.1	–	14.4
Trade and other payables	24.0	483.4	86.7	–	–	594.1
	24.0	496.7	95.5	323.7	–	939.9

Year ended 27 June 2015

	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	–	0.2	0.7	113.8	–	114.7
£200m sterling 7.5 year bond	–	10.6	–	212.9	–	223.5
Other financial liabilities	–	4.8	14.3	5.5	–	24.6
Trade and other payables	20.0	321.5	80.4	–	–	421.9
	20.0	337.1	95.4	332.2	–	784.7

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. Details of the issued capital and reserves are shown in the notes to the accounts. Details of interest-bearing loans and borrowings are shown in the notes to the accounts.

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 2 July 2016 and 27 June 2015.

The Group applies the primary objective by managing its capital structure such that net debt (adjusted to exclude restricted cash) to EBITDA* 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 2 July 2016.

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 the notes to the accounts 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 with regard to this ratio or to ensure the investment grade debt rating.

Our primary financial covenant under the 2019 syndicated loan facility is an adjusted net debt to EBITDA ratio of not more than 3.5x. Under the 2019 syndicated loan facility our covenants are 1.36x (2015: 1.32x). Under the previous 2016 syndicated loan facility we adjusted for the effect of IAS 19 (revised) of £37.0m (2015: £20.0m) resulting in a restated adjusted net debt to EBITDA ratio of 1.12x (2015: 1.19x).

* Operating profit before interest, tax, depreciation, amortisation, goodwill impairment and exceptional operating costs.

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 £1.1m (2015: £1.1m) 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 £24.6m (2015: £20.1m).

The majority of assets in the rail division are financed by operating leases, in particular rolling stock.

23. 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 and finance lease/hire purchase contracts. For accounting policies see 'Financial assets and derivatives', 'Fair value measurement' and 'Interest bearing loans and borrowings' in the notes to the accounts.

a. Fair values

The fair values of the Group's financial instruments carried in the financial statements have been reviewed as at 2 July 2016 and 27 June 2015 and are as follows:

	2016 £m	2015 £m
Non-current assets	0.2	–
Current assets	0.6	–
	0.8	–
Current liabilities	(10.3)	(19.1)
Non-current liabilities	(4.1)	(5.5)
	(14.4)	(24.6)
Net financial derivatives	(13.6)	(24.6)

Year ended 2 July 2016

	Amortised cost £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	(13.8)	(13.8)	(13.8)
Net financial derviatives	–	(13.8)	(13.8)	(13.8)
Obligations under finance lease and hire purchase contracts	(0.3)	–	(0.3)	(0.3)
	(0.3)	(13.8)	(14.1)	(14.1)

Year ended 27 June 2015

	Amortised cost £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	(24.6)	(24.6)	(24.6)
Net financial derivatives	–	(24.6)	(24.6)	(24.6)
Obligations under finance lease and hire purchase contracts	(0.3)	–	(0.3)	(0.3)
	(0.3)	(24.6)	(24.9)	(24.9)

The fair value of all other assets and liabilities in notes 17, 19 and 20 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 £209.5m (2015: £213.7m) but is carried at its amortised cost of £200.0m (2015: £199.4m). 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

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 2 July 2016, the Group has used a level 2 valuation technique to determine the fair value of all financial instruments.

During the year ended 2 July 2016, 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.

Bus

As at 2 July 2016 the Group had derivatives against bus fuel of 370 million litres for the five years ending June 2021. 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 2 July 2016 the amounts hedged are as follows:

	2017	2018	2019*	2020*	2021*
Actual percentage hedged	100%	100%	60%	30%	10%
Litres hedged (million)	125	124	73	36	12
Price (pence per litre)	36.4	34.7	32.3	33.4	35.1

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

Rail

As at 2 July 2016 the Group had derivatives against rail fuel of 12 million litres for the year ended 1 July 2017 and 4 million litres for the 2018 financial year, representing the anticipated fuel usage in London Midland Railway. 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.

The movement during the year on the hedging reserve was £9.2m credit (net of tax) (2015: £15.8m debit (net of tax)) taken through other comprehensive income.

24. 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 the notes to the accounts.

	Franchise commitments £m	Uninsured claims £m	Other £m	Total £m
At 27 June 2015	63.2	41.3	3.1	107.6
Provided (after discounting)	12.4	20.8	0.9	34.1
Utilised	(12.9)	(16.0)	–	(28.9)
Released	(3.4)	(5.6)	(0.5)	(9.5)
Unwinding of discounting	0.8	1.6	–	2.4
At 2 July 2016	60.1	42.1	3.5	105.7

	2016 £m	2015 £m
Current	32.0	75.4
Non-current	73.7	32.2
	105.7	107.6

Franchise commitments comprise £57.7m (2015: £60.1m) dilapidation provisions on vehicles, depots and stations across our three active rail franchises, and £2.4m (2015: £3.1m) provisions relating to other franchise commitments. Of the dilapidations provisions, £12.1m (2015: £52.1m) are classified as current. All of the £2.4m (2015: £3.1m) provision relating to other franchise commitments is classified as current. During the year £3.4m (2015: £9.3m) of provisions previously provided were released following the successful renegotiation of certain contract conditions. The dilapidations will be incurred as part of a rolling maintenance contract over the next three years. The provisions are based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors.

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. Of the uninsured claims, £16.0m (2015: £19.1m) are classified as current and £26.1m (2015: £22.2m) 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.

Within other provisions, £3.2m (2015: £2.8m) relates to dilapidations in the bus division of which £1.2m (2015: £0.8m) are classified as current, and £2.0m (2015: £2.0m) are classified as non-current. It is expected that the dilapidations will be incurred within two to five years. The remaining other current provision of £0.3m (2015: £0.3m) relates to completion claims regarding the sale of our aviation business.

25. 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 the notes to the accounts.

	Allotted, called up and fully paid			
	2016 Millions	2016 £m	2015 Millions	2015 £m
As at 2 July 2016 and 27 June 2015	46.9	4.7	46.9	4.7

The Group has one class of ordinary shares which carry no right to fixed income and have a par value of 10p per share.

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 4,017,412 ordinary shares (8.6% of share capital), of which 115,182 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 2 July 2016 the Group has repurchased 172,964 shares (2015: no shares purchased). The Group has not cancelled any shares during the year (2015: no shares cancelled).

Share premium reserve

The share premium 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.

26. Commitments

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

	2016 £m	2015 £m
Contracted for but not provided – acquisition of property, plant and equipment	78.3	52.7

Contractual commitments

The Group had contractual commitments, regarding payments to the DfT in respect of the Southern franchise, which transferred to GTR on 26 July 2015 of £nil at 2 July 2016 (27 June 2015: £22.5m payable within one year).

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 2 July 2016 and 27 June 2015 were as follows:

As at 2 July 2016

	Bus vehicles £m	Bus property £m	Rail rolling stock £m	Rail access charges £m	Rail other £m
Within one year	10.6	0.6	525.6	608.0	202.7
In the second to fifth years inclusive	12.3	3.0	1,801.2	1,264.9	571.8
Over five years	2.8	2.6	86.7	57.3	29.4
	25.7	6.2	2,413.5	1,930.2	803.9

As at 27 June 2015

	Bus vehicles £m	Bus property £m	Rail rolling stock £m	Rail access charges £m	Rail other £m
Within one year	14.5	2.3	484.3	618.8	166.4
In the second to fifth years inclusive	12.6	5.4	1,791.7	1,810.9	541.9
Over five years	0.7	3.9	280.0	251.0	71.9
	27.8	11.6	2,556.0	2,680.7	780.2

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 2 July 2016 and 27 June 2015 were as follows:

	2016		2015	
	Land and buildings £m	Other rail agreements £m	Land and buildings £m	Other rail agreements £m
Within one year	3.5	2.9	4.8	2.8
In the second to fifth years inclusive	2.5	2.8	11.7	–
Over five years	–	–	2.1	–
	6.0	5.7	18.6	2.8

Performance bonds

The Group has provided bank guaranteed performance bonds of £76.2m (2015: £124.3m), a loan guarantee bond of £36.3m (2015: £36.3m), and season ticket bonds of £227.1m (2015: £207.2m) to the DfT in support of the Group's rail franchise operations.

The bank guaranteed performance bonds and season ticket bonds are supported by a 65% several guarantee from The Go-Ahead Group plc and a 35% several guarantee from Keolis (UK) Limited. The Go-Ahead Group plc is jointly and severally liable for the loan guarantee bond.

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 2 July 2016 is £45.0m (2015: £45.0m).

The Group has a bond of $10.9m SGD (2015: $nil SGD) to the Land Transport Authority of Singapore in support of the Group's Singapore bus operations. At the year-end exchange rate this equates to £6.1m (2015: £nil).

27. 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. The train operating companies participate in the Rail Pension Scheme, 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. For accounting policies see 'Retirement benefits' in the notes to the accounts.

Retirement benefit obligations consist of the following:

	2016			2015		
	Bus £m	Rail £m	Total £m	Bus £m	Rail £m	Total £m
Pre-tax pension scheme liabilities	(2.7)	–	(2.7)	(59.5)	–	(59.5)

	2016			2015		
	Bus £m	Rail £m	Total £m	Bus £m	Rail £m	Total £m
Remeasurement gains/(losses) due to:						
Experience on benefit obligations	68.8	(0.4)	68.4	21.9	32.9	54.8
Changes in demographic assumptions	(10.6)	(184.0)	(194.6)	–	(206.0)	(206.0)
Changes in financial assumptions	(102.1)	–	(102.1)	(93.5)	–	(93.5)
Salary cap introduction	–	48.1	48.1	–	–	–
Return on assets greater than discount rate	99.4	102.2	201.6	72.3	65.8	138.1
Franchise adjustment movement	–	79.4	79.4	–	131.2	131.2
Remeasurement gains on defined benefit pension plans	55.5	45.3	100.8	0.7	23.9	24.6

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 is now closed to new entrants and has been 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 £9.9m (2015: £11.3m), being the contributions paid and payable. The expense recognised for the workplace saving scheme is £2.8m (2015: £1.9m) 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. The defined benefit section of The Go-Ahead Group Pension Plan has been closed to new entrants and closed to future accrual.

The Go-Ahead Plan is a plan for related companies within the Group 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 Go-Ahead 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 Plan had an effective date of 31 March 2015.

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 bus schemes year end assumptions

	2016 %	2015 %
Retail price index inflation	2.9	3.3
Consumer price index inflation	1.9	2.3
Discount rate	2.8	3.8
Rate of increase in salaries	n/a	n/a
Rate of increase of pensions in payment and deferred pension	1.9	2.0

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.

	2016 Years	2015 Years
Pensioner	21	20
Non-pensioner	22	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.

	2016 Pension deficit %	2015 Pension deficit %
Discount rate – increase of 0.1%	(1.7)	(1.7)
Price inflation – increase of 0.1%	1.5	1.5
Rate of increase in salaries – increase of 0.1%	n/a	n/a
Rate of increase of pensions in payment – increase of 0.1%	0.9	0.9
Increase in life expectancy of pensioners or non-pensioners by 1 year	3.6	3.6

The sensitivity analysis presented above has been calculated using approximate methods. The use of 0.1% and 1 year in the sensitivity analysis is considered to be a reasonable illustrative approximation of possible changes, as these variations can regularly arise.

Maturity profile of bus schemes defined benefit obligation

The following tables shows the expected future benefit payments of the plan at 2 July 2016 and 27 June 2015.

	2016 £m
June 2017	22.5
June 2018	23.0
June 2019	23.5
June 2020	24.1
June 2021	24.6
June 2022 to June 2026	131.5

	2015 £m
June 2016	25.6
June 2017	26.4
June 2018	27.3
June 2019	28.2
June 2020	29.1
June 2021 to June 2035	568.0

Category of assets at the year end

	2016		2015	
	£m	%	£m	%
Equities	275.1	36.0	254.3	38.6
Bonds	16.5	2.2	15.9	2.4
Property	69.6	9.1	61.4	9.3
Liability driven investing portfolio	392.2	51.4	306.1	46.4
Cash/other	9.7	1.3	21.5	3.3
	763.1	100.0	659.2	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

	2016 £m	2015 £m
Employer's share of pension scheme:		
Liabilities at the end of the year	(765.8)	(718.7)
Assets at fair value	763.1	659.2
Pension scheme liability	(2.7)	(59.5)

Pension cost for the financial year

	2016 £m	2015 £m
Service cost	0.1	–
Administration costs	1.8	2.2
Settlement (gain)/ loss	(0.5)	0.5
Interest cost on net liabilities	2.1	2.4
Total pension costs	3.5	5.1

The £0.5m settlement gain represents gains made by the pension scheme in respect of the pension increase exchange exercise undertaken in the year.

Analysis of the change in the pension scheme liabilities over the financial year

	2016 £m	2015 £m
Pension scheme liabilities – at start of year	718.7	663.3
Service cost	0.1	–
Interest cost	26.4	27.2
Settlement gain	(0.5)	–
Remeasurement (gains)/losses due to:		
Experience on benefit obligations	(68.8)	(21.9)
Changes in demographic assumptions	10.6	–
Changes in financial assumptions	102.1	93.5
Transfer payments	–	(17.9)
Benefits paid	(22.8)	(25.5)
Pension scheme liabilities – at end of year	765.8	718.7

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

	2016 £m	2015 £m
Fair value of assets – at start of year	659.2	603.5
Interest income of plan assets	24.3	24.8
Remeasurement gains due to return on assets greater than discount rate	99.4	72.3
Administration costs	(1.8)	(2.2)
Group contributions	4.8	4.7
Transfer payments	–	(18.4)
Benefits paid	(22.8)	(25.5)
Fair value of plan assets – at end of year	763.1	659.2

Estimated contributions for future

	£m
Estimated Group contributions in financial year 2017	6.5
Estimated employee contributions in financial year 2017	–
Estimated total contributions in financial year 2017	6.5

Rail schemes

The Railways Pension Scheme (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.

Changes in financial assumptions includes the effect of changes in the salary cap agreed to offset additional National Insurance costs as a result of the schemes no longer "opting out".

British Railways Additional Superannuation Scheme (BRASS) matching AVC Group contributions of £0.7m (2015: £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.

IAS 19 (revised) would require the Group to account for its legal obligation under the formal terms of the RPS and its contractual 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 contractual 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 includes an assessment of surpluses or deficits that could arise from future contributions, and 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.

Summary of year end assumptions

	2016 %	2015 %
Retail price index inflation	2.9	3.3
Consumer price index inflation	1.9	2.3
Discount rate	2.8	3.8
Rate of increase in salaries	3.1	4.3
Rate of increase of pensions in payment and deferred pension	1.9	2.3

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.

	2016 Years	2015 Years
Pensioner	22	22
Non-pensioner	24	24

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

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.

	2016 Pension deficit %	2015 Pension deficit %
Discount rate – increase of 0.1%	(2.0)	(2.0)
Price inflation – increase of 0.1%	2.0	2.0
Rate of increase in salaries – increase of 0.1%	0.5	0.5
Rate of increase of pensions in payment – increase of 0.1%	1.1	1.1
Increase in life expectancy of pensioners or non-pensioners by 1 year	3.1	3.1

The sensitivity analysis presented above has been calculated using approximate methods. The use of 0.1% and 1 year in the sensitivity analysis is considered to be a reasonable illustrative approximation of possible changes, as there variations can regularly arise.

Category of assets at the year end

	2016		2015	
	£m	%	£m	%
Equities	1,907.6	96.5	1,663.6	95.5
Property	67.2	3.4	71.4	4.1
Cash	2.0	0.1	7.0	0.4
	1,976.8	100.0	1,742.0	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

	2016 £m	2015 £m
Employer's 60% share of pension scheme:		
Liabilities at the end of the year	(2,625.8)	(2,290.4)
Assets at fair value	1,976.8	1,742.0
Gross deficit	(649.0)	(548.4)
Franchise adjustment	649.0	548.4
Pension scheme liability	–	–

Pension cost for the financial year

	2016 £m	2015 £m
Service cost	85.5	63.2
Administration costs	3.9	3.0
Interest cost on net liabilities	21.2	16.9
Interest on franchise adjustments	(21.2)	(16.9)
Pension cost	89.4	66.2

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

	2016 £m	2015 £m
Employer's 60% share of pension scheme liabilities – at start of year	2,290.4	1,601.6
Franchise adjustment (100%)	(548.4)	(337.3)
	1,742.0	1,264.3
Liability movement for members' share of assets (40%)	119.9	94.1
Service cost (60%)	85.5	63.2
Interest cost (60%)	60.6	55.2
Interest on franchise adjustment (100%)	(21.2)	(16.9)
Remeasurement losses/(gains) due to:		
Experience on benefit obligations (60%)	0.4	(32.9)
Changes in demographic assumptions (60%)	184.0	206.1
Changes in financial assumptions (60%)	(48.1)	–
Benefits paid (100%)	(66.9)	(51.7)
GTR franchise award – employers' share of pension scheme liabilities (60%)	–	354.8
GTR franchise award – franchise adjustment (100%)	–	(63.0)
Franchise adjustment movement (100%)	(79.4)	(131.2)
	1,976.8	1,742.0
Franchise adjustment (100%)	649.0	548.4
Employer's 60% share of pension scheme liabilities – at end of year	2,625.8	2,290.4

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

	2016 £m	2015 £m
Fair value of assets – at start of year (100%)	1,742.0	1,264.3
Interest income of plan assets (60%)	39.3	38.3
Remeasurement gains due to return on assets greater than discount rate (60%)	102.2	65.8
Administration costs (100%)	(6.6)	(5.0)
Group contributions (100%)	43.5	41.5
Benefits paid (100%)	(66.9)	(51.7)
GTR franchise award (100%)	–	291.8
Members' share of movement of assets (40%)	123.3	97.0
Fair value of plan assets – at end of year (100%)	1,976.8	1,742.0

Estimated contributions for future

	£m
Estimated Group contributions in financial year 2017	37.4
Estimated employee contributions in financial year 2017	24.2
Estimated total contributions in financial year 2017	61.6

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:

	2016 £m	2015 £m
Balance sheet		
Defined benefit pension plan	(649.0)	(548.4)
Deferred tax asset	116.8	109.7
	(532.2)	(438.7)
Other comprehensive income		
Remeasurement gains	79.4	131.2
Tax on remeasurement gains	(14.3)	(26.2)
	65.1	105.0
Income statement		
Operating costs – franchise adjustment	(21.2)	(16.9)
Deferred tax charge	3.8	3.4
	(17.4)	(13.5)

Risks associated with defined benefit plans

Rail schemes

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited, as under the franchise arrangements, the train operating companies are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cashflow risk within this business.

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.

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
Asset volatility	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.
Inflation risk	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.
Life expectancy	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.
Legislative risk	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.

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