

PRESS RELEASE

7 September 2017

THE GO-AHEAD GROUP PLC ("GO-AHEAD" OR "THE GROUP")

FULL YEAR RESULTS FOR THE YEAR ENDED 1 JULY 2017

RESULTS IN LINE WITH EXPECTATIONS, NEW INTERNATIONAL PROFIT TARGET SET

Business overview

- Results in line with expectations
- Bus and rail operating profit at £90.7m (2016: £91.2m) and £59.9m (2016 restated: £71.4m), respectively
- GTR service levels improving after impact and level of industrial action reduces
- Agreement reached in July with the DfT on GTR contractual variations relating to industrial action has reduced financial uncertainty
- Maintained sector-leading performance in customer satisfaction in regional bus, with score of 90%
- Southeastern achieved the largest ever improvement in customer satisfaction of any UK rail operator
- Proposed final dividend increase of 6.5%, in line with rise in interim dividend, resulting in a full year dividend of 102.08p
- Clear strategy of protecting and growing our core business, winning new bus and rail contracts, and developing for the future of transport

International development

- Progressing towards a new target for international operations to contribute 15% to 20% of Group profit within five years
- Bus contract in Singapore commenced and delivering high performance levels
- Third German rail contract secured and bus contract won in Dublin
- Actively exploring further bus and rail opportunities in Nordic region and Australia

Financial summary

	FY'17*	FY'16**	Increase/ (decrease)	Increase/ (decrease)
	£m	£m	£m	%
Revenue	3,481.1	3,361.3	119.8	3.6
Operating profit	150.6	162.6	(12.0)	(7.4)
Operating profit margin	4.3%	4.8%		
Profit before tax	136.8	145.0	(8.2)	(5.7)
Basic earnings per share (p)	207.7	218.2	(10.5)	(4.8)
Full year dividend per share (p)	102.08	95.85	6.23	6.5

	FY'17	FY'16	Increase/ (decrease)
	£m	£m	£m
Cashflow generated from operations	224.4	212.4	12.0
Capital investment	141.9	113.9	28.0
Free cashflow	32.9	68.2	(35.3)
Net cash	230.3	323.0	(92.7)
Adjusted net debt+	285.8	239.3	46.5
Adjusted net debt/EBITDA+	1.30x	1.08x	

Analysis of these figures is provided in the business and finance review

* The year ended 1 July 2017 was a 52 week financial year compared with the year ended 2 July 2016 which was a 53 week financial year

** Restated for the change in accounting policy regarding rail pension schemes as explained in note 3

+ Adjusted net debt is net cash less restricted cash, as set out in the business and finance review

David Brown, Group Chief Executive, commented:

"Looking back on the year, our resilient business model has enabled us to operate through challenging market and trading conditions in our bus and rail businesses. If not for some one-off costs in regional bus, we would have seen profit growth, rather than the consistent performance delivered year on year. In London bus, we saw profit in what is a highly competitive market. While it was disappointing to be unsuccessful in our bid to retain London Midland, progress in our international strategy will see some of the lost revenue from the franchise replaced with contracts in the targeted markets of Singapore bus, Dublin bus and German rail.

"The UK rail network is one of the busiest in the world, with the number of annual passenger journeys more than doubling since privatisation in the 1990s. That is why significant investment is being made in infrastructure improvement projects, such as the Thameslink Programme, which we are delivering through Southeastern and GTR, to ensure network capacity grows and reliability improves. Unfortunately, as with any large-scale improvement programme, some disruption is inevitable before the long term benefits to improve the daily journeys of hundreds of thousands of people are delivered.

"We apologise to our Southern passengers who have been inconvenienced for many months by disruption caused by industrial relations issues. Service levels are beginning to improve but there is still a lot of work to be done to provide the level of service we and our customers expect. Our primary aim is to improve the experience for our passengers and we are resolute in this commitment.

"Go-Ahead's regional bus operation received the highest levels of customer satisfaction in the sector, up to 90% in the latest survey and exceeding the levels of satisfaction achieved by some of Britain's best-loved brands. Our local bus businesses are focused on improving customer experience, including making it easier to pay for travel. During the year, the latest contactless technology was introduced across a number of our operations. We plan for contactless payments to be available to every Go-Ahead bus customer by the end of the year.

"Our international development strategy is progressing well and, with five contracts won in three new markets, today we announce a target of 15% to 20% of Group profit to be generated from international operations within five years. We will continue to bid in markets that match our investment criteria, and where we can use our skills and experience to improve local transport services. In addition, we're looking at opportunities that address future transport needs, complementing our existing operations and utilising our expertise and assets. This includes deploying our spare depot capacity in new ways and delivering new services for our customers.

"As one of the UK's largest providers of public transport, Go-Ahead plays a vital role in building a thriving economy and connecting communities. By providing essential bus and rail services, we help people connect with each other and get where they want to go. We believe in creating shared value for our many stakeholders. We strive to deliver high quality services for our customers and sustainable returns for our shareholders. Our 29,000 employees, who are at the heart of the communities we serve, are key to our success and we believe in taking care of them. Effective partnership working is vital to delivering efficient transport systems; we work closely with key strategic partners to deliver improvement and change.

"The Group remains in a good financial position, with a robust balance sheet, allowing us to invest in our core UK businesses and providing flexibility to pursue value-adding opportunities in new and existing markets."

Financial outlook

Regional bus trading in the early part of the year has been consistent with the fourth quarter of the prior year. We expect a slight improvement in performance as one-off costs in 2016/17 no longer impact results.

The London bus business has secured almost all its revenue for the coming year. However, increased competitive pressure has resulted in some recent contract losses which will have a slight impact on performance in 2017/18. This position is expected to improve when the market stabilises.

In rail, having been unsuccessful in the bid to retain the London Midland contract, the franchise will end on 10 December 2017 reducing profitability in 2017/18. The slowdown in the rate of growth in Southeastern passenger revenue is expected to continue as economic conditions impact customers' travel patterns. This also reduces our expectations of rail division profitability for the current financial year.

As previously announced, discussions between GTR and the DfT about service changes and rolling stock cascades are ongoing. The outcomes of these discussions, relating to events up to 1 July 2017, is that the impact on rail profitability is likely to be within a range of plus or minus £5m. In addition, we now expect margins over the life of the GTR contract to be between 0.75% and 1.5%.

Internationally, we will be working towards our target of generating 15% to 20% of Group profit from operations outside the UK within five years.

ENDS

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David Brown, Group Chief Executive and Patrick Butcher, Group Chief Financial Officer will be hosting a presentation for investors and analysts at 9.00am today 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,

These are times of significant change for the world's transport industries. Technology, the political landscape and environmental factors are constantly presenting new opportunities and challenges in the bus and rail markets.

At Go-Ahead, we are committed to being at the forefront of these developments. We aim to make the best possible use of new technology and new working practices to provide long term benefit for our passengers, transport authority clients, communities and investors, while continuing to meet our obligations as a major taxpayer and large-scale employer.

Modernisation of equipment must result in modernisation of working practices. This inevitably creates disruption at times and it is regrettable that industrial action on GTR's Southern rail network resulted in significant delays and cancellations to services during the period, adversely affecting passengers. Although the situation improved in the second half of the year as industrial action reduced, service levels still fell short of our and our customers' expectations. We remain committed to delivering improvements that will create long term benefits for passengers.

While continuing difficulties at Southern have negatively impacted shareholder returns, strong financial performance in our other franchises has enabled us to deliver value through the rail division.

In the year, our rail businesses contributed £77.6m to the Government, enabling further investment in infrastructure to support a more resilient rail network for the future.

The enactment of the Bus Services Act during the year focused attention on the benefits that partnership working can bring to communities. While it is too early to know the extent of the opportunities and challenges the Act will bring, it has already highlighted the need for private sector investment to maintain and improve bus networks and fleets in the future.

Our strategy

The evolution of our strategy, to protect and grow our core business, win new bus and rail contracts and develop for the future of transport, has refocused the Group on five key themes through which all our companies will deliver change.

Following the disappointing decision by the Department for Transport (DfT) in August 2017 to award the West Midlands franchise to another operator, our UK rail strategy is focused on restoring service and value to GTR and delivering attractive and value enhancing bids to operate future rail franchises.

As we explore new ways of delivering our services, we also continue to explore new markets. Our international development is progressing well with new contracts being won and introduced during the year in three international markets. This good progress has led us to introduce a five-year target for 15% to 20% of Group profit to be generated from international operations.

Our strategy is designed to deliver value to all stakeholders, including our shareholders. Reflecting your Board's commitment to the dividend and our confidence in the outlook for the Group, we propose a final dividend increase of 6.5%, in line with the rise in interim dividend, resulting in a full year dividend of 102.08p.

Your Board has a clear capital allocation policy for the Group, which aims to support existing businesses, expand in targeted markets, reserve against risk and make appropriate returns to shareholders. This policy is supported by the strength of our balance sheet and stable profits in our bus division.

Our people and culture

On behalf of the Board, I would like to thank all of our 29,000 colleagues who work hard every day, sometimes under challenging circumstances, to bring us ever closer to achieving our vision: a world where every journey is taken care of.

On my regular visits to businesses around the Group, I am always impressed by the commitment demonstrated by colleagues to improve services for our passengers. With each visit, I see more examples of Go-Ahead's beliefs and attitudes being brought to life in people's day-to-day roles, reaffirming to me the value of our culture change programme.

Over the last three decades, Go-Ahead has welcomed employees from around the world. Our diverse workforce not only reflects our customer base but also ensures the appropriate pool of people to fulfil our recruitment needs. It is important that we strive to protect the rights of all our people and secure adequate resource for our current and future operations.

At Go-Ahead, we believe in taking care of our people. As well as providing good working conditions and fair pay, we invest in people's training, development and wellbeing. I'm proud of our Investors in People accreditations across the business, particularly in the four companies which have achieved the highest possible status.

This year, inflationary pay increases were awarded across the Group and we continue to support the Voluntary Living Wage. We believe pay should be closely linked to performance and our remuneration policies reflect this. In light of the severe disruption faced by Southern customers in the year, both the Chief Executive, David Brown, and Group Chief Financial Officer, Patrick Butcher, have requested that the remuneration committee does not consider them for an annual performance-related bonus. This will be the second consecutive year in which David has declined an annual bonus.

Your Board

Just as it's important for our organisation to adapt to change and continuously improve, it is equally crucial for your Board to do the same. In line with our commitment to good corporate governance, the Board undertakes an annual evaluation aiming to enhance effectiveness. This year, as an alternative to the more traditional Board effectiveness review and aligned to the Group's culture change programme, we undertook a comprehensive Board development programme, which enabled us to build upon the Board's strengths, support our succession planning strategy and improve the Board's effectiveness. Having undertaken this process, the Board has committed to retaining its focus on three core areas in the coming year: resolving the issues at GTR, developing our strategy for sustainable growth and improving the culture of the Group. I believe strongly in the importance of the Board's role within an organisation, demonstrating the beliefs and attitudes in its approach to leadership.

In accordance with our succession plan, Nick Horler will retire from the Board at the 2017 AGM after seven years on Go-Ahead's Board. On behalf of the Board, I would like to thank Nick for the valuable contribution he has made to the Group; he has brought great expertise and experience to the Board, and I have very much enjoyed working with him.

I look forward to welcoming two new Board members in the coming months. Harry Holt and Leanne Wood, who will join the Board in October 2017, will ensure we have the right balance of skills and experience to take the business forward, creating greater diversity of thought and approach.

Our purpose and contribution

In this, Go-Ahead's thirtieth year, I'm proud to lead the Board of a business that has enabled three decades of passenger journeys; connecting people with friends, family, work and leisure activities.

Over the last year, we've made progress in evolving our strategy, shaping our culture and preparing for the future challenges facing us and our wider industry. A good public transport system is essential to support a growing economy and a thriving society. As one of the largest operators of public transport in the UK, we play an important role, providing a vital service for our communities, through the people we employ and the taxes we pay. Partnership working in all areas of our business is critical to our success and the wider success of the industry; improvement and change cannot be delivered single-handedly.

Our Group has a clear and important purpose. We believe in doing business in the right way, behaving ethically and creating value beyond financial return for all our stakeholders. I believe that these values, along with Go-Ahead's strong financial grounding and track record of operational delivery, support our position as a leading provider of public transport now and in the future.

CHIEF EXECUTIVE'S REVIEW

In a year of remarkable political uncertainty, one of the few steady reference points has been the enduring need for transport services against a background of evolving public policy objectives.

As one of the UK's largest providers of public transport, Go-Ahead plays a vital role in building a thriving economy and connecting communities. By providing essential bus and rail services, we help people connect with each other and get where they want to go; enabling access to jobs, education, retail and leisure. The role of public transport in delivering public policy has also come to the fore in the debate over air quality. As the operator of the UK's largest all-electric bus fleet, one of the largest hybrid bus fleets, and with 94% of rail fleet being electric, Go-Ahead has contributed the lessons of practical experience to this debate.

The pace of technological innovation has rapidly increased in recent years, presenting both a challenge and an opportunity. During the year, we have used technology to make our services more attractive and responsive to changing consumer needs. Contactless payment systems have quickly become part of the UK retail environment, with around three quarters of the population now using this technology in their daily lives. The roll-out of the latest contactless technology is well underway across our bus operations. This provides the opportunity for more sophisticated fare structures such as fare-capping.

Demographics and consumer priorities are changing. As we keep listening to our customers, hearing their views and asking more questions, we're better placed to serve their existing and future needs. Younger city-dwellers appear less interested in the commitment of owning and running cars; while at the other end of the age spectrum, a growing population is more active in later life. These changes in society present us with opportunities to meet the needs of changing lifestyles and habits, helping people live fuller lives while increasing demand for our services.

Our businesses

Overall profitability for the year was in line with our expectations. Group operating profit was £150.6m (2016 restated: £162.6m), down 7.4% as a result of falling rail division profits.

Bus

Bus division profits were level against the prior year. Strong performance in some of our operating areas was offset by non-recurring costs, challenging trading conditions and declining passenger volumes in other regions. This performance was delivered against a backdrop of wider bus industry challenges, with national regional passenger volumes down 2.6% and pressure on London bus volumes as congestion continues to increase.

In regional bus, declining passenger volumes in the North East affected our financial performance. To drive revenue and control cost, the local management team responded to by performing detailed route analysis, restructuring timetables, and introducing contactless payments and a new customer app. Additionally, our business in Oxford had a challenging year with several bus accidents putting pressure on costs, local authority cuts reducing revenue and ongoing retail development in the city centre affecting passenger volumes. The management team in Oxford is engaging with the local authority and retail developer ahead of the scheduled opening of a large new shopping centre in central Oxford in October 2017, to try to ensure good ease of access to the shopping centre for bus passengers. We are disappointed that the local authority is not currently enabling adequate bus access. As well as providing an attractive retail and leisure offering, the completion of the work will reduce disruption in the city centre, improving journey times and service reliability.

Go-Ahead's regional bus operation received the highest levels of customer satisfaction in the sector, up to 90% in the latest survey; exceeding the satisfaction scores of some of Britain's best-loved brands. Go North East achieved a score of 91%, up from 89% the year before, having delivered improvements in punctuality, quality and journey times.

Our local bus businesses are focused on improving customer experience, including making it easier to pay for travel. During the year, the latest contactless technology was introduced across a number of our operations. We plan for contactless payments to be available to every Go-Ahead bus customer by the end of 2017.

In London bus, where we remain the market's largest operator, we delivered revenue growth linked to the timing of contract wins and improved performance against Quality Incentive Contract targets. In a competitive market, we continue to maintain strong financial discipline and utilise our strategically located depots efficiently to maximise value. Close partnership working with Transport for London (TfL) is important to our success in London. During the year, we engaged in discussions with TfL around key market issues such as tackling congestion, improving air quality and driving passenger numbers.

Rail

Our rail division delivered a mixed performance in the year.

London Midland performed very well, driving up passenger volumes, revenue, customer satisfaction and employee engagement. During the year, we invested in technology to improve the customer experience with a free onboard entertainment system and free WiFi available to three quarters of passengers. In August 2017, we learnt we had been unsuccessful in our bid to retain these routes under the new West Midlands franchise. London Midland and its people have been part of our Group's rail business for ten years. In that time we have delivered significant improvements across the entire network which have seen London Midland transformed into an award-winning franchise with high levels of employee engagement and customer satisfaction. While we're disappointed not to retain the franchise, we're confident that we submitted a robust, high quality and price-disciplined bid.

Southeastern's operational performance was very good, resulting in the most improved customer satisfaction score of all UK rail operators, up from 72% to 82%. Despite this significant improvement, passenger growth slowed putting pressure on revenue towards the end of the year, with Southeastern research suggesting travel habits are changing.

In GTR, industrial relations issues affected our customers, our colleagues and our profitability. We apologise to our Southern passengers who have been inconvenienced for many months by disruption caused by industrial action. Service improvements began to be realised in the second half of the year but there is still a lot of work to be done to deliver the level of service we and our customers expect. Our primary aim is to improve service for passengers and we are resolute in this commitment.

The UK rail network is one of the busiest in the world, with the number of annual passenger journeys more than doubling since privatisation in the 1990s. This is why significant investment is being made in infrastructure improvement projects. The Thameslink Programme, which Southeastern and GTR are jointly delivering with key industry partners, was designed to ensure network capacity grows and reliability improves. Unfortunately, as with any large scale improvement programme, some disruption is inevitable before the long term benefits to improve the daily journeys of hundreds of thousands of people are delivered.

Supporting our strategy

We have a simple and clear strategy: to protect and grow our core business, win new bus and rail contracts and develop for future transport needs. Through this strategy we aim to deliver excellent service for our customers, returns for our shareholders and value for all of Go-Ahead's stakeholders.

Protect and grow the core

Go-Ahead has been a leading bus and rail operator in the UK for three decades, providing value for money travel to people across the country. Our core bus business provides stable profit and cash flow, while our rail operations offer strong cash flow and high return on capital. We are committed to ensuring high levels of customer service and strong financial performance from these core businesses through our local, customer-focused business units. We are focused on delivering change in five key areas, to drive sustainable revenue growth and cost control to protect and grow our core business for the long term.

Win new bus and rail contracts

In Singapore, we took expertise gained from almost thirty years of operating in the London bus market and translated it into commercial advantage in a new but similar market. Our 1,000 employees operate 395 buses on 26 routes, scoring very highly against performance targets. We submitted another bid in this market in August 2017.

The experience gained in our Singapore operation will prove to be valuable as we prepare for the introduction of a new bus contract in the outer Dublin area in late 2018, awarded by Ireland's National Transport Authority (NTA) in August 2017. This is the first contract to be tendered in this market, marking the start of the NTA's plans to transform the provision of bus services in the Greater Dublin area.

In Germany, we're preparing for the start of three rail contracts in 2019, one of which was won during the year. This is an attractive market offering good returns, synergies and a steady pipeline of contract tenders.

We're also actively pursuing targeted opportunities in other international markets, including the Nordic region and Australia as well as closer to home. We're excited about the opportunities ahead.

When embarking upon international expansion, we performed a global market assessment with a preference for contract opportunities within a clear risk framework. Our target markets have a visible pipeline of contract opportunities offering appropriate returns, stable political and legal systems and transport authorities committed to introducing international operators. Go-Ahead brings experience, expertise and a focus on high quality operations to these markets. We aim to generate synergies as we expand within each market and also explore opportunities to develop from established local platforms. Our target is for 15% to 20% of Group profit to be generated from international operations within five years.

Develop for the future of transport

The way people travel is changing and Go-Ahead will continue to be part of this evolving landscape, delivering transport solutions to millions of people. In the face of this changing world, we are seeking new ways to use our skills, knowledge and assets to enable sustainable growth for the long term. Our project team is currently exploring a range of initiatives to maximise value from our operations by providing secondary services to existing customers, offer demand responsive transport, develop strategic long term partnerships, influence regulation and outsource our skills and systems.

In order to deliver this strategy, our management teams are focused on delivering change through a renewed focus on five key areas: lean processes, technology, customer experience, culture change and leadership, all underpinned by our vision, beliefs and attitudes which over the last 12 months our people have embraced to drive change.

Lean processes

Our operating companies will strive to deliver what our customers want more efficiently. Using this customer-centric approach we will continuously improve our processes and minimise waste. We will initially focus on engineering and operational processes such as fleet management, before adopting lean processes more widely across all business functions.

Technology

Across the Group, we are focused on using technology to improve internal processes, increase customer satisfaction and drive revenue. We are utilising developments in technology to improve customer experience, from optimising automated ticket machines to reliably providing real time passenger information and providing our colleagues with live business intelligence.

Culture change

Over the last year, Go-Ahead began implementing a culture change programme, underpinned by our beliefs and attitudes, focusing on empowering our people and enabling two-way communication between customer-facing colleagues and leadership teams. With an emphasis on collaboration, we are building an open and agile culture which will drive change.

Customer experience

We strive to be a customer-focused business, understanding the importance of continually improving the customer experience. Using customer journey mapping we consider every element of the customer experience and work hard to empower our people to provide customers with control, comfort and ease.

Leadership

Strong leadership is key to success in any organisation. The leaders of our businesses effect change, guide their teams through challenging times and plan for the future. We are increasing our efforts across the business to develop leadership skills in both existing and future leaders to safeguard the Group for the long term.

Looking ahead

Times of uncertainty and change make it important for us to further develop our underlying strengths, and to embrace opportunities as they arise. We have a clear strategy and a robust business model, and our thirty-year track record provides us with the experience and expertise needed to deliver sustainable returns and improvements for customers in existing and new markets.

Looking to 2017/18, regional bus trading in the early part of the year has been consistent with the fourth quarter of the prior year. We're striving to improve on our industry leading customer satisfaction scores; listening to our customers and providing the services they want, with a focus on driving passenger numbers. We expect a slight improvement in performance as one-off costs in 2016/17 no longer impact results.

The London bus business has secured almost all its revenue for the coming year. However, increased competitive pressure has resulted in some recent contract losses which will have a slight impact on performance in 2017/18. This position is expected to improve when the market stabilises.

In rail, our priority is resolving the issues at GTR so we're able to provide our passengers with services they can rely on. I'm pleased we're making progress but we're not yet delivering the level of service we or our passengers expect.

As previously announced, discussions between GTR and the DfT about service changes and rolling stock cascades are ongoing. The outcomes of these discussions, relating to events up to 1 July 2017, is that the impact on rail profitability is likely to be within a range of plus or minus £5m. In addition, we now expect margins over the life of the GTR contract to be between 0.75% and 1.5%.

Having being unsuccessful in the bid to retain the London Midland contract, the franchise will end on 10 December 2017 reducing profitability in 2017/18. The slowdown in the rate of growth in Southeastern passenger revenue is expected to continue as economic conditions impact customers' travel patterns. This also reduces our expectations of rail division profitability for the current financial year.

We have a clear international growth strategy to build a portfolio of international operations with attractive returns in target markets. The introduction of our bus operation in Singapore, together with the contracts won in German rail and Dublin bus during the year, demonstrate the progress we have already made towards our new five-year international growth target. We continue to pursue value-adding opportunities that match our investment criteria, in target markets including the Nordic regions and Australia. In addition, we're looking at opportunities that address future needs, complementing our existing operations and utilising our expertise and assets.

Looking ahead, we are faced with challenges that we're well placed to address and opportunities that we will take to deliver value for all our stakeholders.

BUSINESS AND FINANCIAL REVIEW

The financial year ended 1 July 2017 was a 52 week reporting period compared with the year ended 2 July 2016 which was 53 weeks.

As announced on 29 November 2016, in line with our commitment to transparent reporting, we have changed the way in which we account for rail pension schemes in the income statement. Figures for the year ended 2 July 2016 have been restated accordingly in the financial statements. Note 3 contains further details of the restatement.

Bus and rail division results are now reported on a statutory basis. Previously, we reported adjusted operating profit excluding amortisation, goodwill impairment, exceptional operating items and the incremental impact of IAS 19 (revised). Reflecting our transparent approach to reporting, we no longer report adjusted profit measures.

Reported results for the London bus division include our bus operation in Singapore, which started trading on 4 September 2016, due to the similarities between the contract structures.

Financial overview

Revenue for the year was £3,481.1m, up £119.8m, or 3.6%, on last year (2016: £3,361.3m). The majority of this increase was attributable to the rail division.

Profit attributable to shareholders for the year decreased by £4.6m, or 4.9%, to £89.1m (2016 restated: £93.7m) and earnings per share decreased by 4.8% to 207.7p (2016 restated: 218.2p) as a result of declining rail profitability.

Net cash at the year end was £230.3m (2016: £323.0m). The lower cash balance largely reflect working capital movements relating to the timing of franchise payments and increased capital expenditure in London bus, reflecting contract renewal commitments. The net debt (net debt plus restricted cash) to EBITDA ratio of 1.30x (2016 restated: 1.08x) is below our target range of 1.5x to 2.5x, consistent with our position in the previous year.

Group overview

	2017 £m	Restated 2016 £m
Regional bus operating profit	47.1	48.5
London bus operating profit	43.6	42.7
Total bus operating profit	90.7	91.2
Rail operating profit	59.9	71.4
Group operating profit	150.6	162.6
Share of result of joint venture	(0.4)	–
Net finance costs	(13.4)	(17.6)
Profit before tax	136.8	145.0
Total tax expense	(25.3)	(26.9)
Profit for the period	111.5	118.1
Non-controlling interests	(22.4)	(24.4)
Profit attributable to shareholders	89.1	93.7

Weighted average number of shares (m)	42.9	43.0
Proposed dividend per share (p)	102.08	95.85

BUS

Bus overview

	2017	2016	Increase/ (decrease) £m	Increase/ (decrease) %
Total bus operations				
Revenue (£m)	902.0	863.3	38.7	4.5
Operating profit (£m)	90.7	91.2	(0.5)	(0.5)
Operating profit margin	10.1%	10.6%	n/a	(0.5ppt)
Regional bus				
Revenue (£m)	376.6	375.7	0.9	0.2
Operating profit (£m)	47.1	48.5	(1.4)	(2.9)
Operating profit margin	12.5%	12.9%	n/a	(0.4ppts)
London bus				
Revenue (£m)	525.4	487.6	37.8	7.8
Operating profit (£m)	43.6	42.7	0.9	2.1
Operating profit margin	8.3%	8.8%	n/a	(0.5ppts)
Like for like revenue growth				
Regional bus	1.0%	2.4%	n/a	(1.4ppts)
London bus	1.5%	4.4%	n/a	(2.9ppts)
Like for like volume growth				
Regional bus passenger journeys	(0.2%)	0.0%	n/a	(0.2ppts)
London bus miles operated	(1.7%)	2.3%	n/a	(4.0ppts)

Overall bus performance

Total bus revenue increased by 4.5%, or £38.7m, to £902.0m (2016: £863.3m) including the impact of the additional week of trading in the prior year and the contribution of acquisitions, while operating profit was broadly in line with the prior year at £90.7m (2016: £91.2m), it resulted in a decline in operating profit margin of 0.5ppts to 10.1%. This performance, which was in line with expectations for the year reflects a good performance in London, the introduction of the bus contract in Singapore, and the profit impact of challenges in Oxford and the continued slowdown in the North East.

Regional bus

Regional bus revenue was £376.6m (2016: £375.7m), up £0.9m, or 0.2%, including the impact of the additional week of trading in the prior year and the contribution of acquisitions. Like-for-like revenue growth was broadly in line with our expectations and slightly ahead of wider industry trends. Growth in passenger journeys in some regions was offset by softer performance in other operating areas, resulting in a small decline in overall like for like passenger volumes. Growth in revenue and passenger numbers is also slightly subdued as a consequence of the restructuring of selected route networks to match passenger demand and reduce costs.

Operating profit in the regional bus division fell £1.4m, or 2.9%, to £47.1m (2016: £48.5m), with operating profit margins down 0.4ppts to 12.5% (2016: 12.9%). Depreciation costs increased in the year reflecting continued investment in buses. While the division benefited from a reduction in fuel costs, as a result of lower hedge prices, one-off costs impacted profit in the year.

	£m
2016 operating profit	48.5
Impact of 53rd week in prior year	(0.9)
Like for like 2016 operating profit	47.6
Changes:	
Revenue	8.0
Cost base	(8.8)
One-off costs	(2.8)
Fuel costs	6.2
Depreciation	(3.1)
2017 operating profit	47.1

London bus

Reported results for the London bus division include our bus operation in Singapore, which started trading on 4 September 2016.

Including £39.7m of revenue from this new contract, London bus revenue grew by 7.8%, to £525.4m in the year (2016: £487.6m).

Quality Incentive Contract (QICs) bonuses were £6.9m (2016: £1.1m) as a result of improved performance against Transport for London (TfL) quality targets, reflecting route restructuring by TfL due to congestion. Like for like mileage decreased by 1.7% due to the timing of contract renewals and TfL's route restructuring. Operating profit in the London bus division was £43.6m (2016: £42.7m), up £0.9m, or 2.1%, with operating profit margins down 0.5ppts at 8.3% (2016: 8.8%). As with regional bus, our London operations saw a reduction in fuel costs, reflecting the lower hedge price. Higher depreciation is the result of significant capital expenditure.

	£m
2016 operating profit	42.7
Impact of 53rd week in prior year	(0.8)
Like for like 2016 operating profit	41.9
Changes:	
Revenue	2.1
Cost base	(7.3)
QICs bonuses	5.8
Fuel cost	8.8
Bid costs	(1.3)
Depreciation	(6.4)
2017 operating profit	43.6

Capital expenditure and depreciation

	2017 £m	2016 £m
Regional bus fleet (inc. vehicle refurbishment)	37.1	41.8
London bus fleet (inc. vehicle refurbishment)	60.0	36.6
New depots and plant and equipment	15.6	17.7
Total capital expenditure	112.7	96.1

In London, the purchase of 261 new buses (2016: 118 buses) reflects the timing of contract renewals. In regional bus, demonstrating our commitment to maintaining a young and greener bus fleet, 102 new vehicles (2016: 198 buses) were bought. The average age of our buses is 7.0 years (2016: 7.8 years).

Depreciation for the division was £56.1m (2016: £47.8m), reflecting the increased capital spend.

In 2017/18, we expect total capital expenditure for the bus division to be around £100m due to the timing of London contract renewals and continued investment in our regional bus services.

Fuel

In the year, the bus division required around 138 million litres of fuel, within a net cost of £102.7m.

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 in future costs in order to create certainty around this. The table below reflects the year end position; no significant purchases have been made following the year end.

	2017	2018	2019	2020	2021
% hedged	Fully	Fully	70%	40%	20%
Price (pence per litre)	36.4	34.7	32.1	33.0	32.2

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.

Bus financial outlook

Regional bus trading in the early part of the year has been consistent with the fourth quarter of the prior year. We expect a slight improvement in performance as one-off costs in 2016/17 no longer impact results.

The London bus business has secured almost all its revenue for the coming year. However, increased competitive pressure has resulted in some recent contract losses which will have a slight impact on performance in 2017/18. This position is expected to improve when the market stabilises.

RAIL

Rail overview

	2017	Restated 2016	Increase/ (decrease) £m	Increase/ (decrease) %
Total rail operations				
Total revenue (£m)	2,579.1	2,498.0	81.1	3.2
Operating profit (£m)	59.9	71.4	(11.5)	(16.1)
Operating profit margin	2.3%	2.9%	n/a	(0.6ppts)
Like for like passenger revenue growth				
Southeastern	3.2%	4.9%	n/a	(1.7ppts)
London Midland	5.2%	9.3%	n/a	(4.1ppts)
GTR	(4.1)%	3.4%	n/a	(7.5ppts)
Like for like passenger growth				
Southeastern	(0.9)%	2.3%	n/a	(3.2ppts)
London Midland	4.1%	5.9%	n/a	(1.8ppts)
GTR	(3.9)%	2.9%	n/a	(6.8ppts)

Rail performance

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, particularly subdued by GTR.

Revenue

Total revenue increased by 3.2%, or £81.1m, to £2,579.1m (2016: £2,498.0m), consisting of:

	2017 £m	2016 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Passenger revenue				
Southeastern	755.6	753.0	2.6	0.3
London Midland	339.6	330.0	9.6	2.9
GTR/Southern ¹	1,327.9	1,414.1	(86.2)	(6.1)
Gross passenger revenue	2,423.1	2,497.1	(74.0)	(3.0)
GTR revenue adjustment ²	(179.7)	(276.0)	96.3	34.9
Total passenger revenue	2,243.4	2,221.1	22.3	1.0
Other revenue				
Southeastern	43.2	47.2	(4.0)	(8.5)
London Midland	55.1	44.3	10.8	24.4
GTR/Southern ³	105.1	69.4	35.7	51.4
Total other revenue	203.4	160.9	42.5	26.4
Subsidy and revenue support				
Southeastern subsidy	45.2	61.1	(15.9)	(26.0)
London Midland subsidy	87.0	52.0	35.0	67.3
Southern revenue support ⁴	(0.4)	2.9	(3.3)	(113.8)
London Midland revenue support	0.5	–	0.5	100
Total subsidy and revenue support	132.3	116.0	16.3	14.1
Total revenue	2,579.1	2,498.0	81.1	3.2

1. Includes passenger revenue collected by GTR on behalf of the DfT and passenger revenue from the previous Southern franchise which ended in July 2015

2. Represents passenger revenue from GTR remitted to the DfT in excess of the management fee payable to GTR for operating the franchise

3. Includes other revenue for GTR and the previous Southern franchise which ended in July 2015

4. Southern revenue support and core premium payments relate to the Southern franchise which ended in July 2015

Group's overall net contribution to the DfT:

	2017 £m	2016 £m	Increase/ (decrease) £m	Increase/ (decrease) %
GTR revenue adjustment	179.7	276.0	(96.3)	(34.9)
Southern's core premium payments ¹	(1.4)	18.8	(20.2)	(107.4)
Subsidy receipts – Southeastern	(45.2)	(61.1)	15.9	26.0

Subsidy receipts – London Midland	(87.0)	(52.0)	(35.0)	(67.3)
Revenue support – Southern ¹	0.4	(2.9)	3.3	113.8
Revenue support – London Midland	(0.5)	–	(0.5)	(100.0)
Profit share – Southeastern	22.9	39.9	(17.0)	(42.6)
Profit share – London Midland	8.7	0.6	8.1	1350.0
Revenue share – London Midland	–	3.1	(3.1)	(100.0)
Group's overall net contribution to the DfT	77.6	222.4	(144.8)	(65.1)

1. Southern revenue support and core premium payments relate to the Southern franchise which ended in July 2015

The GTR revenue adjustment of £179.7m 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 decreased by £96.3m 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.

	2017	2016	Increase/ (decrease)	Increase/ (decrease)
	£m	£m	£m	%
Southern core premium ¹	(1.4)	18.8	(20.2)	(107.4)
Southeastern profit share	22.9	39.9	(17.0)	(42.6)
London Midland profit share	8.7	0.6	8.1	1350.0
London Midland revenue share	–	3.1	(3.1)	(100.0)

1. Southern revenue support and core premium payments relate to the Southern franchise which ended in July 2015

Operating profit

Operating profit in the rail division was down £11.5m at £59.9m (2016 restated: £71.4m), with the operating profit margin decreasing to 2.3% (2016 restated: 2.9%).

	£m
2016 operating profit (restated)	71.4
Impact of 53rd week in prior year	(1.3)
Like for like 2016 operating profit	70.1
Changes:	
Southeastern profit	(8.8)
London Midland profit	16.7
GTR/Southern profit	(8.1)
Bid and mobilisation costs	(10.0)
2017 operating profit	59.9

Individual franchise performance

GTR

In GTR, industrial relations issues resulted in significant disruption to the network. The business reported a 3.9% decline (2016: 2.9% increase) in passenger journeys and a 4.1% decline (2016: 3.4% increase) in passenger revenue.

On 13 July 2017, agreement was reached with the Department for Transport (DfT) regarding GTR contractual variations relating to the impact of industrial action on train performance over a period of around 18 months. In agreement with the DfT, GTR will fund a package of performance and passenger improvements worth £13.4m.

At the half year, we disclosed that the year end results had a range of reasonably possible outcomes of plus or minus £15m. This range related to the outcome of discussions with the DfT regarding the impact of industrial action, and other contractual variations. The contractual discussions relating to the impact of industrial action have now been resolved and the outcome was very close to management's central judgements. The remaining range of uncertainty is plus or minus £5m, reflecting a number of other ongoing contractual variations accrued, including rolling stock cascades and timetable specifications, which remain under discussion with the DfT.

The agreement made with the DfT on 13 July 2017 resolves financial uncertainty relating to past industrial action and allows GTR to focus on improving services for Southern customers and delivering the significant passenger benefits associated with the Thameslink Programme.

Southeastern

Southeastern recorded a stable trading performance. On a like for like basis, passenger revenue increased by 3.2% (2016: 4.9%) while passenger numbers fell 0.9% (2016: 2.3% increase). The rate of passenger growth significantly slowed in the fourth quarter reflecting changes in travel patterns.

Southeastern's strong financial performance in the first half of the year enabled a contribution of £22.9m to be made to the DfT during the year through a profit sharing mechanism included in the directly awarded contract Southeastern has operated under since October 2014. The

franchise stopped making profit share contributions in April 2017, reflecting the impact of slowing passenger volume growth on financial performance.

London Midland

In London Midland, like for like passenger revenue grew by 5.2% (2016: 9.3%) in the year and passenger numbers increased by 4.1% (2016: 5.9%). The franchise, originally awarded in 2007 and which has operated under a directly awarded contract since 1 April 2016, made profit share contributions of £8.7m to the DfT in the year, as performance exceeded expectations set out in the bid. London Midland is expected to continue making contributions through its profit share mechanism until the franchise ends on 10 December 2017.

Rail bid costs and international

Rail bid and contract mobilisation costs in the year were £11.1m, primarily relating to the bids for and mobilisation of German rail contracts, and the unsuccessful West Midlands franchise bid. Rail bidding activity in Germany and the Nordic countries is ongoing.

Capital expenditure and depreciation

Capital expenditure for the rail division was £29.2m (2016: £17.8m), predominantly relating to GTR, including expenditure on station improvements and ticket machines. Depreciation was £9.3m (2016: £7.4m).

In 2017/18, capital expenditure for the rail division is expected to be around £43m, reflecting investment in our continuing franchises of GTR and Southeastern and mobilisation of our German operations.

Rail financial outlook

In rail, having been unsuccessful in the bid to retain the London Midland contract, the franchise will end on 10 December 2017 reducing profitability in 2017/18. The slowdown in the rate of growth in Southeastern passenger revenue is expected to continue as economic conditions impact customers' travel patterns. This also reduces our expectations of rail division profitability for the current financial year.

As previously announced, discussions between GTR and the DfT about service changes and rolling stock cascades are ongoing. The outcomes of these discussions, relating to events up to 1 July 2017, is that the impact on rail profitability is likely to be within a range of plus or minus £5m. In addition, we now expect margins over the life of the GTR contract to be between 0.75% and 1.5%.

FINANCIAL REVIEW

Earnings per share

Earnings were £89.1m (2016 restated: £93.7m), resulting in a decrease in earnings per share from 218.2p (restated) to 207.7p.

The weighted average number of shares was 42.9 million and the number of shares in issue, net of treasury shares, was 43.1 million.

	2017	2016*	2015*	2014*	2013*
Earnings per share	207.7p	218.2p	147.9p	174.3p	114.3p

* Restated

Dividend

The Board is proposing a total dividend for the year of 102.08p per share (2016: 95.85p), an increase of 6.5%, following the same percentage increase in the interim dividend. This includes a proposed final payment of 71.91p per share (2016: 67.52p) payable on 24 November 2017 to shareholders registered at the close of business on 10 November 2017.

Dividends of £41.8m (2016: £39.4m) paid in the period represent the payment of the prior year's final dividend of 67.52p per share (2016: 63.4p) and the interim dividend in respect of this year of 30.17p per share (2016: 28.33p). Dividends paid to non-controlling interests were £21.3m (2016: £17.8m), and dividend cover was 2.03x (2016 restated: 2.28x), in line with the dividend policy.

Summary cashflow

	2017 £m	Restated 2016 £m	Increase/ (decrease) £m
EBITDA	219.1	220.8	(1.7)
Working capital/other items (excluding restricted cash movements)	5.3	(8.4)	13.7
Cashflow generated from operations	224.4	212.4	12.0
Tax paid	(34.1)	(24.8)	(9.3)
Net interest paid	(12.7)	(13.0)	0.3
Net capital investment	(144.7)	(106.4)	(38.3)
Free cashflow	32.9	68.2	(35.3)
Net acquisitions	(11.2)	(0.5)	(10.7)
Other	(4.2)	(0.7)	(3.5)
Proceeds from issue of shares	1.5	-	1.5
Payments to acquire own shares	(2.4)	(4.4)	2.0

Dividends paid	(63.1)	(57.2)	(5.9)
Decrease in adjusted net debt*	(46.5)	5.4	(51.9)
Opening adjusted net debt*	(239.3)	(244.7)	n/a
Closing adjusted net debt	(285.8)	(239.3)	n/a

* Adjusted net debt is net cash less restricted cash

Cashflow

Cash generated from operations before tax and excluding movements in restricted cash was £224.4m (2016: £212.4m). This increase of £12.0m is largely due to movements in working capital, primarily reflecting structural changes in rail franchises. Tax paid of £34.1m (2016: £24.8m) comprised payments on account in respect of the current and prior years' liabilities. Net interest paid of £12.7m (2016: £13.0m) is lower than the net charge for the period of £13.4m (2016: £17.6m) after excluding the impact of non-cash interest on pensions and the unwinding of discounting on provisions. Capital expenditure, net of sale proceeds, was £38.3m higher in the year at £144.7m (2016: £106.4m), predominantly due to increased investment in both the regional and London bus fleets. Group capital investment is expected to be around £143m in 2017/18.

During the year, as part of a planned programme of monthly share purchases, the Group purchased 121,084 ordinary shares for a total consideration of £2.4m (2016: 172,964 ordinary shares for a total consideration of £4.4m).

At the year end, significant medium term finance was secured through a revolving credit facility (RCF) and sterling bonds. After the year end, a £250m sterling bond was issued. 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 £200m sterling bond, which expires in September 2017, will be replaced by a £250m bond, the terms of which were agreed on 6 July 2017.

Capital expenditure

Expenditure on capital during the year can be summarised as:

	2017 £m	2016 £m
Regional bus	49.6	57.4
London bus	63.1	38.7
Total bus	112.7	96.1
Rail	29.2	17.8
Group total	141.9	113.9

Net cash/debt

Net cash of £230.3m (2016: £323.0m) comprised debt arising from the £200m sterling bond, amounts drawn down against the £280m five year RCF of £156.0m (2016: £113.0m) amount drawn down against the £20m revolving credit facility of £0.9m (2016: Nil), and hire purchase and lease agreements of £3.0m (2016: £0.3m), offset by cash and short term deposits of £590.2m (2016: £636.3m) including £516.1m of restricted cash in rail (2016: £562.3m). There were no overdrafts in use at the year end (2016: 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 cash less restricted cash) to EBITDA of 1.30x (2016 restated: 1.08x) remains under our target range of 1.5x to 2.5x.

Capital structure

	2017 £m	2016 £m
Five year syndicated facility 2021	280.0	280.0
7.5 year £200m 5.375% sterling bond 2017	200.0	200.0
€20m revolving credit facility	17.5	-
Total core facilities	497.5	480.0
Amount drawn down at 1 July 2017	356.9	313.0
Balance available	140.6	167.0
Restricted cash	516.1	562.3
Net cash	(230.3)	(323.0)
Adjusted net debt	285.8	239.3
EBITDA (restated)	219.1	220.8
Adjusted net debt/EBITDA (restated)	1.30x	1.08x

Our investment grade ratings from Moody's (Baa3, stable outlook) and Standard & Poor's (BBB-, stable outlook) remain unchanged. These ratings were both recently reaffirmed in advance of 6 July 2017, when the Group raised a seven year £250m bond with a coupon rate of 2.5%, maturing on 6 July 2024.

Net finance costs

Net finance costs for the year were ahead of the prior year at £13.4m (2016: £17.6m) including finance costs of £15.8m (2016: £20.8m) less finance revenue of £2.4m (2016: £3.2m). The average net interest rate for the period was 4.2% (2016: 4.2%).

Amortisation

The amortisation charge for the year was £3.1m (2016: £3.0m), which relates to the non-cash cost of amortising software costs, franchise bid costs and customer contracts.

Exceptional operating items

There were no exceptional operating items in this or the prior year.

Taxation

Net tax for the year was £25.3m (2016 restated: £26.9m), equivalent to an effective rate of 18.5% (2016 restated: 18.6%), below the UK statutory rate for the period of 19.75% (2016: 20%). Excluding the impact of the deferred tax rate reduction of £4.1m, the tax rate would have been 21.5%, as a result of non-deductible items such as bid costs in Germany and Singapore. The statutory rate will reduce to 19% in 2017 and 17% in 2020. We expect our effective tax rate to be 2% to 3% above the statutory rate in future years.

Non-controlling interest

The non-controlling interest in the income statement of £22.4m (2016 restated: £24.4m) arises from our 65% holding in Govia Limited, which owns 100% of our current rail operations and therefore represents 35% of the profit after taxation of these operations.

Pensions

Operating profit includes the net cost of the Group's defined benefit pension plans for the year of £37.4m (2016 restated: £45.6m) consisting of bus costs of £0.4m (2016: £1.4m) and rail costs of £37.0m (2016 restated: £44.2m). Group contributions to the schemes totalled £42.9m (2016: £48.3m).

Bus pensions

Under accounting valuations, the net deficit after taxation on the bus defined benefit schemes was £17.3m (2016: £2.2m), consisting of pre-tax liabilities of £20.9m (2016: £2.7m) less a deferred tax asset of £3.6m (2016: £0.5m). The pre-tax deficit consisted of estimated liabilities of £805.5m (2016: £765.8m) less assets of £784.6m (2016: £763.1m). The percentage of assets held in higher risk, return seeking assets was 53.4% (2016: 48%).

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 (2016: £nil).

KEY RISKS

The key risks described in the Group's Annual Report for the year ended 1 July 2017 can be summarised as below. More detail can be found in the 2017 Group Annual Report and Accounts, available on our website at www.go-ahead.com

External:

Economic environment

Lower economic growth or reduction in economic activity.

Political and regulatory framework

Changes to the legal and regulatory framework, particularly the Bus Services Act 2017, and the impact of the UK leaving the EU.

Strategic:

Sustainability of rail profits or loss of franchise

Failure to retain key franchises on acceptable terms and failure to stabilise GTR's business performance.

Inappropriate strategy or investment

Failure to make appropriate strategic or investment decisions.

Competition

Competition from existing and new market participants, loss of business to other modes and threats from market disruptors.

Operational:

Catastrophic incident or severe infrastructure failure

An incident, such as a major accident, an act of terrorism, a pandemic, or a severe failure of rail infrastructure.

Large scale infrastructure projects

Large scale infrastructure projects on and around the networks on which we operate, such as the Thameslink Programme, HS2 and major roadworks.

Labour costs, employee relations and resource planning

Failure to effectively engage with our people and trade unions in making change and managing costs.

Information technology failure or interruption or security breach

Prolonged or major failure of the Group's IT systems or a significant security breach.

In addition the critical accounting judgements and key sources of estimation uncertainty disclosed in the Group Annual Report and Accounts for the year ended 1 July 2017 continue to apply.

CONSOLIDATED INCOME STATEMENT

for the year ended 1 July 2017

	Notes	2017 £m	Restated* 2016 £m
Group revenue	5	3,481.1	3,361.3
Operating costs	6	(3,330.5)	(3,198.7)
Group operating profit		150.6	162.6
Share of result of joint venture		(0.4)	–
Finance revenue	5, 8	2.4	3.2
Finance costs	8	(15.8)	(20.8)
Profit on ordinary activities before taxation		136.8	145.0
Tax expense	9	(25.3)	(26.9)
Profit for the year from continuing operations		111.5	118.1
Attributable to:			
Equity holders of the parent		89.1	93.7
Non-controlling interests		22.4	24.4
		111.5	118.1
Earnings per share			
– basic	10	207.7p	218.2p
– diluted	10	207.1p	216.9p
Dividends paid (pence per share)	11	97.69p	91.73p
Final dividend proposed (pence per share)	11	71.91p	67.52p

* Restated for the change in accounting policy regarding rail pension schemes as explained in note 3.

The year ended 1 July 2017 was a 52 week year compared with the year ended 2 July 2016 which was a 53 week year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 1 July 2017

	Notes	2017 £m	Restated 2016 £m
Profit for the year		111.5	118.1
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on defined benefit pension plans	27	(24.2)	55.6
Tax relating to items that will not be reclassified	9	4.1	(11.3)
		(20.1)	44.3
Items that may subsequently be reclassified to profit or loss			
Unrealised losses on cashflow hedges		(3.2)	(17.4)
Losses on cashflow hedges taken to income statement – operating costs		6.7	28.7

Tax relating to items that may be reclassified	9	(0.9)	(2.1)
Foreign exchange (loss)/gain		(0.3)	0.4
		2.3	9.6
Other comprehensive (losses)/ gains for the year, net of tax		(17.8)	53.9
Total comprehensive income for the year		93.7	172.0
Attributable to:			
Equity holders of the parent		71.3	147.6
Non-controlling interests		22.4	24.4
		93.7	172.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 1 July 2017

	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 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 restated	-	-	-	-	-	93.7	93.7	24.4	118.1
Net movement on hedges (net of tax)	-	-	9.2	-	-	-	9.2	-	9.2
Remeasurement on defined benefit retirement plans (net of tax) (note 27) restated	-	-	-	-	-	44.3	44.3	-	44.3
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) (note 7)	-	-	-	-	-	2.0	2.0	-	2.0
Acquisition of own shares	-	(4.4)	-	-	-	-	(4.4)	-	(4.4)
Dividends (note 11)	-	-	-	-	-	(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
Profit for the year	-	-	-	-	-	89.1	89.1	22.4	111.5
Net movement on hedges (net of tax)	-	-	2.6	-	-	-	2.6	-	2.6
Remeasurement on defined benefit retirement plans (net of tax) (note 27)	-	-	-	-	-	(20.1)	(20.1)	-	(20.1)
Foreign exchange loss	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Total comprehensive income	-	-	2.6	-	-	68.7	71.3	22.4	93.7
Exercise of share options	-	1.4	-	-	-	(1.4)	-	-	-
Share based payment charge (and associated tax) (note 7)	-	-	-	-	-	2.4	2.4	-	2.4
Acquisition of own shares	-	(2.4)	-	-	-	-	(2.4)	-	(2.4)
Share issue	1.5	-	-	-	-	-	1.5	-	1.5
Dividends (note 11)	-	-	-	-	-	(41.8)	(41.8)	(21.3)	(63.1)
At 1 July 2017	73.6	(71.9)	(8.2)	1.6	0.7	206.3	202.1	25.1	227.2

CONSOLIDATED BALANCE SHEET

as at 1 July 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			

Property, plant and equipment	12	575.2	494.3
Intangible assets	13	91.5	82.8
Trade and other receivables	17	-	1.6
Other financial assets	23	-	0.2
Deferred tax assets	9	6.1	4.2
Interests in joint ventures		0.8	-
		673.6	583.1
Current assets			
Inventories	16	18.9	18.3
Trade and other receivables	17	332.5	337.0
Other financial assets	23	0.2	0.6
Cash and cash equivalents	18	590.2	636.3
		941.8	992.2
Assets classified as held for sale	15	1.7	0.8
Total assets		1,617.1	1,576.1
Liabilities			
Current liabilities			
Trade and other payables	19	(836.6)	(872.5)
Other financial liabilities	23	(7.3)	(10.3)
Interest-bearing loans and borrowings	20	(201.5)	-
Current tax liabilities	9	(12.0)	(18.9)
Provisions	24	(40.3)	(32.0)
		(1,097.7)	(933.7)
Non-current liabilities			
Trade and other payables	19	(1.0)	(4.3)
Other financial liabilities	23	(3.0)	(4.1)
Interest-bearing loans and borrowings	20	(157.6)	(312.4)
Retirement benefit obligations	27	(20.9)	(2.7)
Deferred tax liabilities	9	(47.8)	(50.1)
Provisions	24	(61.9)	(73.7)
		(292.2)	(447.3)
Total liabilities		(1,389.9)	(1,381.0)
Net assets		227.2	195.1
Capital & reserves			
Share capital	25	73.6	72.1
Reserve for own shares	25	(71.9)	(70.9)
Hedging reserve	25	(8.2)	(10.8)
Share premium reserve	25	1.6	1.6
Capital redemption reserve	25	0.7	0.7
Retained earnings	25	206.3	178.4
Total shareholders' equity		202.1	171.1
Non-controlling interests		25.1	24.0
Total equity		227.2	195.1

CONSOLIDATED CASHFLOW STATEMENT

for the year ended 1 July 2017

	Notes	2017 £m	Restated 2016 £m
Profit after tax for the year		111.5	118.1
Net finance costs	8	13.4	17.6
Tax expense	9	25.3	26.9
Depreciation of property, plant and equipment	12	65.4	55.2
Amortisation of intangible assets	13	3.1	3.0
Share of result of joint venture		0.4	-
Profit on sale of assets held for sale		-	(0.7)

(Profit)/loss on sale of property, plant and equipment		(0.3)	0.7
Share based payment charges	7	2.7	2.2
Difference between pension contributions paid and amounts recognised in the income statement		(6.0)	(3.4)
Increase in inventories		(0.3)	(0.4)
Decrease/(increase) in trade and other receivables		8.0	(76.8)
(Decrease)/increase in trade and other payables		(40.7)	99.0
Movement in provisions		(4.3)	(4.3)
Cashflow generated from operations		178.2	237.1
Taxation paid	9	(34.1)	(24.8)
Net cashflows from operating activities		144.1	212.3
Cashflows from investing activities			
Interest received		2.4	3.2
Proceeds from sale of property, plant and equipment		2.2	2.3
Proceeds from sale of assets held for disposal		-	5.9
Purchase of property, plant and equipment		(141.9)	(113.9)
Purchase of intangible assets		(5.0)	(0.7)
Purchase of businesses	14	(11.7)	(0.5)
Cash acquired with subsidiary		0.5	-
Net cashflows used in investing activities		(153.5)	(103.7)
Cashflows from financing activities			
Interest paid		(15.1)	(16.2)
Dividends paid to members of the parent	11	(41.8)	(39.4)
Dividends paid to non-controlling interests		(21.3)	(17.8)
Payment to acquire own shares		(2.4)	(4.4)
Foreign exchange (loss)/gain		(0.3)	0.4
Proceeds from borrowings		43.8	2.0
Proceeds from issue of shares		1.5	-
Payment of finance lease and hire purchase liabilities		(1.1)	(1.1)
Net cash outflows on financing activities		(36.7)	(76.5)
Net (decrease)/increase in cash and cash equivalents		(46.1)	32.1
Cash and cash equivalents at 2 July 2016	18	636.3	604.2
Cash and cash equivalents at 1 July 2017	18	590.2	636.3

Cash balances of £516.1m (2016: £562.3m) were held as restricted at 1 July 2017, further details are shown in note 18.

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 1 July 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered in due course. The auditor's reports on the 2017 and 2016 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 2017 Annual Report has been authorised for issue and signed by the Board of directors at the time of this announcement.

Directors' responsibility statement

The responsibility statement has been prepared in connection with the preparation of the company's full annual report for the 52 week period ended 1 July 2017. 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 announcement was approved by the Board of directors on 6 September 2017 and is signed on its behalf by:

David Brown Group, Chief Executive

Patrick Butcher Group, Chief 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.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations, 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 items

In certain years the Group presents as exceptional operating items 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. There are no exceptional items in the current or comparative year.

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. In the year ended 1 July 2017 the Group has changed the way in which it accounts for rail pension schemes in its income statement. The Group has revised its accounting policy so that only the Group's resulting share of costs are recognised. This compares to the previous approach where the full service cost was included within the income statement and the majority of the franchise adjustments were recognised through the statement of comprehensive income. Please refer to note 3 for further details.

Uninsured claims

The measurement of uninsured liabilities is based on an assessment of both the expected settlement of known claims and of the cost of claims not yet reported to the Group, as detailed in note 24. 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.

Key sources of estimation uncertainty

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 them 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. The GTR franchise is complex and there are a number of contractual discussions underway with the DfT that have a range of reasonably possible outcomes. Management's judgements are that, relating to events up to 1 July 2017, the impact on rail profitability of these outcomes is likely to be within a range of plus or minus £5m. Contract and franchise accounting specific to the rail business is disclosed in the segmental analysis in note 4.

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 note 24. 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.

Retirement benefit obligations – Bus schemes

The measurement of defined benefit pension obligations requires the estimation of future changes in salaries, inflation, longevity of current and deferred members and the selection of a suitable discount rate, as set out in note 27. 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 the Group's particular circumstances. Management also benchmark these assumptions on a periodic basis with other professional advisors.

3. Restatement of prior year comparatives

In the financial statements for the year ended 1 July 2017, The Go-Ahead Group has changed the way in which it accounts for defined benefit rail pension schemes impacting the income statement. Reflecting that, under rail franchise agreements, the long term contractual responsibility for the rail pension schemes rests with the Department for Transport, the franchisee is only responsible for agreed funding contributions over the period of the franchise.

The Group's balance sheet only recognises the share of the surplus or deficit expected to be realised over the life of each franchise based on the assumptions and agreements at the balance sheet date. The assessment at 1 July 2017 and at 2 July 2016 is that no net surplus or deficit was required to be included in the balance sheet in respect of the railway pension schemes, after reflecting a franchise adjustment, in an approach consistent with prior years.

The Group has revised its accounting policy to now only recognise the Group's resulting share of service costs in its income statement. The net service cost is therefore calculated looking at the near term liability for the employees only, and the costs of the employer only, over the life of the franchise rather than costs that will be borne by other parties. This takes into account any increase that may come about at triennial reviews within the franchise life or any variations in the annual contributions over the franchise. This compares to the previous approach where the full service cost was included within the income statement and the franchise adjustments arising were recognised through the statement of comprehensive income. Accordingly the railway pensions cost for the period reflects the service cost calculated of £92.6m (2016: £85.5m) and administration costs of £7.2m (2016: £3.9m) now reduced by a franchise adjustment of £62.8m (2016: £45.2m) leading to a net income statement charge of £37.0m (2016: £44.2m).

This new approach better reflects that a substantial part of the service cost relates to an estimate of the cost of benefits accruing in the current year but for which funding falls beyond the duration of the franchise, the contributions for which will be borne by future franchise holders and the Department for Transport. The change has been effected by means of utilising part of the franchise adjustment arising to reduce the expense charged in the income statement to the extent it will be borne by others, rather than it being reflected only through the statement of comprehensive income.

The revision to accounting for railway pension schemes was announced on 29 November 2016 and is considered by the directors to be a better approach to reflect the Group's share of the costs of the railway defined benefit pension schemes in its franchises. The audit committee's consideration of this change is noted within the report of the audit committee in the annual report. No changes to the treatment of the bus schemes have arisen reflecting that this matter is unique to the Group's rail franchises.

The tables below detail the adjustments made to the consolidated income statement and the consolidated statement of comprehensive income as a result of the revision to the accounting policy. There was no impact on the consolidated balance sheet as a result of the revision to the accounting policy.

Consolidated income statement

	Reported Year to 2 Jul 16 £m Audited	Impact of change in accounting policy £m	Restated Year to 2 Jul 16 £m Audited
Group revenue	3,361.3	–	3,361.3
Operating costs	(3,243.9)	45.2	(3,198.7)
Group operating profit	117.4	45.2	162.6
Finance revenue	3.2	–	3.2
Finance costs	(20.8)	–	(20.8)
Profit on ordinary activities before taxation	99.8	45.2	145.0
Tax expense	(18.5)	(8.4)	(26.9)
Profit for the year from continuing operations	81.3	36.8	118.1
Attributable to:			
Equity holders of the parent	69.7	24.0	93.7
Non-controlling interests	11.6	12.8	24.4
	81.3	36.8	118.1
Earnings per share			
– basic	162.3p	55.9p	218.2p
– diluted	161.4p	55.5p	216.9p

Consolidated statement of comprehensive income

	Reported Year to 2 Jul 16 £m Audited	Impact of change in accounting policy £m	Restated Year to 2 Jul 16 £m Audited
Profit for the year	81.3	36.8	118.1
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement gains on defined benefit pension plans	100.8	(45.2)	55.6
Tax relating to items that will not be reclassified	(19.7)	8.4	(11.3)
	81.1	(36.8)	44.3
Items that may subsequently be reclassified to profit or loss			
Unrealised losses on cashflow hedges	(17.4)	–	(17.4)
Losses on cashflow hedges taken to income statement – operating costs	28.7	–	28.7
Tax relating to items that may be reclassified	(2.1)	–	(2.1)
Foreign exchange gain	0.4	–	0.4
	9.6	–	9.6
Other comprehensive gains for the year, net of tax	90.7	(36.8)	53.9
Total comprehensive income for the year	172.0	–	172.0
Attributable to:			
Equity holders of the parent	147.6	–	147.6
Non-controlling interests	24.4	–	24.4
	172.0	–	172.0

4. 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 UK bus operations outside London.

The London bus division now comprises bus operations in London under control of Transport for London (TfL), rail replacement and other contracted services in London, and bus operations in Singapore under control of the Land Transport Authority (LTA) of Singapore. These are aggregated as a segment given the similar contractual nature of the business.

The rail operation through an intermediate holding company, Govia Limited, is 65% owned by Go-Ahead and 35% by Keolis and comprises three rail franchises: 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 the Department for Transport (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.

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 1 July 2017 and the year ended 2 July 2016.

Year ended 1 July 2017

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	406.8	545.3	952.1	2,594.6	3,546.7
Inter-segment revenue	(30.2)	(19.9)	(50.1)	(15.5)	(65.6)
Group revenue	376.6	525.4	902.0	2,579.1	3,481.1

Operating costs	(329.5)	(481.8)	(811.3)	(2,519.2)	(3,330.5)
Group operating profit	47.1	43.6	90.7	59.9	150.6
Share of result of joint venture					(0.4)
Net finance costs					(13.4)
Profit before tax and non-controlling interests					136.8
Tax expense					(25.3)
Profit for the year					111.5

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Other segment information					
Capital expenditure:					
– Additions	49.6	63.1	112.7	29.2	141.9
– Acquisitions	8.7	–	8.7	–	8.7
– Intangible assets	8.4	–	8.4	3.3	11.7
Depreciation	31.5	24.6	56.1	9.3	65.4

At 1 July 2017, there were non-current assets included within London bus of £2.1m (2016: £1.2m) relating to operations in Singapore. The operations in Singapore commenced trading on 4 September 2016 and the revenue generated during the year to 1 July 2017 was £39.7m (2016: £nil).

We have two major customers which individually contribute more than 10% of the Group revenue, one of which contributes £1,148.6m (2016: £1,076.6m) and the other contributes £479.1m (2016: £481.5m).

Year ended 2 July 2016 Restated

	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	(327.2)	(444.9)	(772.1)	(2,426.6)	(3,198.7)
Group operating profit	48.5	42.7	91.2	71.4	162.6
Net finance costs					(17.6)
Profit before tax and non-controlling interests					145.0
Tax expense					(26.9)
Profit for the year					118.1

	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

5. Group revenue

This note provides an analysis of Group revenue. For accounting policies see 'Revenue recognition', 'Rendering of services', 'Rental income' and 'Profit and revenue sharing/support agreements' in notes to the accounts.

	2017 £m	2016 £m
Rendering of services	3,502.6	3,498.5
Rental income	25.9	22.8
GTR franchise revenue adjustment	(179.7)	(276.0)
Franchise subsidy receipts and revenue support	132.3	116.0
Group revenue	3,481.1	3,361.3
Finance revenue	2.4	3.2
Total Group revenue	3,483.5	3,364.5

6. 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 notes to the accounts.

	2017 £m	Restated 2016 £m
Employee costs (note 7)	1,237.6	1,170.3
Operating lease payments		
– bus vehicles	14.0	15.4
– non-rail properties	2.6	3.3
– other non-rail	0.1	–
– rail rolling stock	465.9	427.7
– other rail	165.5	112.2
Total lease and sublease payments recognised as an expense (excluding rail access charges) ¹	648.1	558.6
– rail access charges	489.4	519.2
Total lease and sublease payments recognised as an expense ²	1,137.5	1,077.8
DfT Franchise agreement (receipts)/payments	(35.2)	38.2
Other operating income	(17.9)	(17.5)
Depreciation of property, plant and equipment		
– owned assets	64.9	54.9
– leased assets	0.5	0.3
Total depreciation expense	65.4	55.2
Intangible amortisation	3.1	3.0
Auditor's remuneration		
– audit of parent financial statements	0.1	0.1
– audit of subsidiary financial statements	0.6	0.5
Total audit fees	0.7	0.6
– taxation compliance services (by EY)	0.1	0.1
– other non-audit ³	0.4	0.1
Total non-audit fees	0.5	0.2
Total auditor's remuneration	1.2	0.8
Trade receivables not recovered	0.7	0.8
Energy costs		
– bus fuel	102.7	116.8
– rail diesel fuel	10.8	9.8
– rail electricity (EC4T)	120.6	122.3
– cost of site energy	15.4	15.3
Total energy costs	249.5	264.2
Government grants	(2.1)	(4.1)
(Profit)/loss on disposal of property, plant and equipment	(0.9)	0.7
Profit on sale of assets held for sale	–	(0.7)
Costs expensed relating to franchise bidding activities	11.1	5.7
DfT profit share	33.5	43.7
Other operating costs	647.0	560.6
Total operating costs	3,330.5	3,198.7

1. The total lease and sublease payments recognised as an expense (excluding rail access charges) are made up of minimum lease payments of £634.3m (2016: £574.2m), net of sublease payments of £13.8m (2016: £15.6m) relating to other rail leases.

2. The total lease and sublease payments recognised as an expense are made up of minimum lease payments of £1,151.3m (2016: £1,093.4m), net of sublease payments of £13.8m (2016: £15.6m) relating to other rail leases.

3. Other non-audit services of £0.4m (2016: £0.1m) are detailed in the audit committee report in the annual report.

During the year, £1.8m (2016: £1.4m) was also paid to other 'Big 4' accounting firms for a variety of services.

Government grant income of £2.1m (2016: £4.1m) is mainly attributable to service improvements including smart ticketing, deliverable over a period of up to five years.

7. 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 notes to the accounts.

	2017 £m	Restated 2016 £m
Wages and salaries	1,077.8	1,017.6
Social security costs ¹	107.2	92.2
Other pension costs ¹	49.9	58.3
Share based payments charge	2.7	2.2
	1,237.6	1,170.3

1. Following changes by the Government looking to simplify certain aspects of pensions regulation from April 2016, the right for employees to contract out of the state pension was removed. After industry wide consultation with active railway pension scheme members, changes were made to the pension scheme rules, which enabled the pension cost to reduce to cover the majority of the impact of the national insurance cost increase arising following these changes.

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

	2017	2016
Administration and supervision	3,189	3,007
Maintenance and engineering	2,698	2,597
Operations	23,187	21,962
	29,074	27,566

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 1 July 2017 as follows:

Scheme maturity	1 May 2019	1 May 2017
Option price (£)	19.11	17.34
No. of options unexercised at 1 July 2017	326,928	262,816
No. of options exercised during the year	63	85,404
No. of options exercisable at 1 July 2017	-	262,816

The expense recognised for the scheme during the year to 1 July 2017 was £0.8m (2016: £0.4m).

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

	2017 No.	2017 WAEP £	2016 No.	2016 WAEP £
Outstanding at the beginning of the year	764,904	18.19	436,322	17.34
Granted during the year	-	-	370,251	19.11
Forfeited during the year	(89,693)	18.14	(40,002)	17.46
Exercised during the year	(85,467)	17.34	(1,667)	17.34
Outstanding at the end of the year	589,744	18.32	764,904	18.19

The weighted average exercise price at the date of exercise for the options exercised in the period was £17.34 (2016: £17.34).

At the year end, 262,816 (2016: nil) options were exercisable and the weighted average exercise price of the options was £18.32 (2016: £18.19).

The options outstanding at the end of the year have a weighted average remaining contracted life of 1.01 years (2016: 1.79 years).

Long Term Incentive Plans

The executive directors participate in The Go-Ahead Group Long Term Incentive Plan 2005 and 2015 (LTIP). The LTIP provides for executive directors 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 1 July 2017 was £0.6m (2016: £0.5m).

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 1 July 2017 and 2 July 2016 were:

	2017 % per annum	2016 % per annum
The Go-Ahead Group plc		
Future share price volatility	28.0	21.0
FTSE Mid-250 index comparator		
Future share price volatility	25.0	20.0
Correlation between companies	30.0	30.0

The weighted average fair value of options granted during the year was £14.90 (2016: £20.82).

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

	2017	2016
Outstanding at the beginning of the year	84,415	181,302
Granted during the year	57,771	32,618
Forfeited during the year	(3,047)	(33,157)
Exercised during the year	(27,415)	(96,348)
Outstanding at the end of the year	111,724	84,415

At the year end, 11,520 options related to the 2014 LTIP award, which will be eligible to vest from November 2017. The weighted average share price of the options was £17.77 (2016: £19.78).

The weighted average remaining contractual life of the options was 1.33 years (2016: 1.03 years). The weighted average share price of options exercised was £20.33 (2016: £25.44).

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 1 July 2017 was £1.3m (2016: £1.3m).

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 £20.08 (2016: £25.97).

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

	2017	2016
Outstanding at the beginning of the year	165,646	136,144
Granted during the year	44,490	62,047
Forfeited during the year	(7,711)	(18,341)
Exercised during the year	(26,167)	(14,204)
Outstanding at the end of the year	176,258	165,646

At the year end, 7,427 options related to the 2013 DSBP award and vested in November 2016 but have not yet been exercised by participants. 70,405 options relating to the 2014 DSBP will be eligible to vest from November 2017 following the end of a three year deferral period. The weighted average share price of the options was £17.77 (2016: £19.78).

The weighted average remaining contractual life of the options was 0.81 years (2016: 1.18 years). The weighted average share price of options exercised was £20.10 (2016: £25.57).

Share incentive plans

The Group operates an HM Revenue & Customs (HMRC) approved share incentive plan, known as The Go-Ahead Group plc Share Incentive Plan (SIP). The SIP is open to all Group employees (including executive directors) who have completed at least six months' service with a Group company at the date they are invited to participate in the plan.

The SIP permits the Group to make four different types of awards to employees (free shares, partnership shares, matching shares and dividend shares), although the Group has, so far, made awards of partnership shares only. Under these awards, the Group invites qualifying employees to apply between £10 and £150 per month in acquiring shares in the Group at the prevailing market price. Under the terms of the scheme, certain tax advantages are available to the Group and employees.

8. 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-bearing loans and borrowings' in notes to the accounts.

	2017 £m	2016 £m
Bank interest receivable on bank deposits	2.4	3.2
Finance revenue	2.4	3.2
Interest payable on bank loans and overdrafts	(2.7)	(2.0)
Interest payable on £200m sterling 7.5 year bond	(11.0)	(11.3)
Other interest payable	(1.7)	(2.2)
Unwinding of discounting on provisions	(0.2)	(2.4)
Interest payable under finance leases and hire purchase contracts	(0.2)	(0.8)
Interest on net pension liability	-	(2.1)
Finance costs	(15.8)	(20.8)

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 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

	2017 £m	Restated 2016 £m
Current tax charge	27.2	28.5
Adjustments in respect of current tax of previous years	-	0.6
	27.2	29.1
Deferred tax relating to origination and reversal of temporary differences at 19.75% (2016: 20%)	1.9	1.3
Adjustments in respect of deferred tax of previous years	0.3	0.2
Impact of opening deferred tax rate reduction	(4.1)	(3.7)
Tax reported in consolidated income statement	25.3	26.9

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

	2017 £m	Restated 2016 £m
Tax on remeasurement (losses)/ gains on defined benefit pension plans	(4.1)	10.1
Deferred tax on cashflow hedges	0.9	2.1
Deferred tax on share based payments (taken directly to equity)	0.3	0.5
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	(2.9)	13.6

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 1 July 2017 and 2 July 2016 is as follows:

	2017 £m	Restated 2016 £m
Accounting profit on ordinary activities before taxation	136.8	145.0
At United Kingdom tax rate of 19.75% (2016: 20%)	27.0	29.0
Adjustments in respect of current tax of previous years	-	0.6
Bid costs not allowable for tax purposes	0.6	0.8

Share scheme costs not allowable for tax purposes	0.3	(0.2)
Non-qualifying depreciation	0.6	-
Expenditure not allowable for tax purposes	0.4	0.2
Adjustments in respect of deferred tax of previous years	0.3	0.2
Movement on unrecognised deferred tax on losses carried forward	0.6	-
Effect of the difference between current year corporation tax and deferred tax rates	(0.4)	-
Impact of opening deferred tax rate reduction	(4.1)	(3.7)
Tax reported in consolidated income statement	25.3	26.9
Effective tax rate	18.5%	18.6%

The Group had subsidiary companies in Germany, Scandinavia and Singapore during the year. 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.

The Group has not recognised a deferred tax asset of £0.9m based on a rate of 29% in respect of losses incurred in Germany carried forward.

c. Reconciliation of current tax liabilities

A reconciliation of the current tax liability is provided below:

	2017 £m	2016 £m
Current tax liability at start of year	18.9	14.9
Corporation tax reported in consolidated income statement	27.2	29.1
Corporation tax (taken directly to equity)	-	(0.3)
Paid in the year	(34.1)	(24.8)
Current tax liability at end of year	12.0	18.9

d. Deferred tax

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

	2017 £m	2016 £m
Deferred tax liability		
Accelerated capital allowances	(25.0)	(28.4)
Other temporary differences	(10.8)	(8.4)
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(12.0)	(13.3)
Deferred tax liability included in balance sheet	(47.8)	(50.1)
Deferred tax asset		
Retirement benefit obligations	3.6	0.5
Cashflow hedges	1.9	2.8
Share based payments	0.6	0.9
Deferred tax asset included in balance sheet	6.1	4.2

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, £1.5m (2016: £1.6m) is classed as current and £46.3m (2016: £48.5m) is classed as non-current. Of the deferred tax asset, £1.3m (2016: £2.0m) is classed as current and £4.8m (2016: £2.2m) as non-current.

The movements in deferred tax in the income statement and other comprehensive income for the years ending 1 July 2017 and 2 July 2016 are as follows:

Year ended 1 July 2017

	At 2 July 2016 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised directly in equity £m	Acquisitions £m	At 1 July 2017 £m
Accelerated capital allowances	(28.4)	3.2	-	-	0.2	(25.0)
Asset backed funding pension arrangement	(8.3)	(1.8)	-	-	-	(10.1)
Other temporary differences	(0.1)	0.2	-	-	(0.8)	(0.7)

Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(13.3)	1.3	-	-	-	(12.0)
Retirement benefit obligations	0.5	(1.0)	4.1	-	-	3.6
Cashflow hedges	2.8	-	(0.9)	-	-	1.9
Share based payments	0.9	-	-	(0.3)	-	0.6
	(45.9)	1.9	3.2	(0.3)	(0.6)	(41.7)

Year ended 2 July 2016 Restated

	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)
Asset backed funding pension arrangement	(6.5)	(1.8)	-	-	-	(8.3)
Other temporary differences	5.4	0.8	-	-	(6.3)	(0.1)
Revaluation of land and buildings treated as deemed cost on conversion to IFRS	(15.4)	2.1	-	-	-	(13.3)
Retirement benefit obligations	11.9	(0.1)	(11.3)	-	-	0.5
Cashflow hedges	-	-	(2.1)	-	4.9	2.8
Share based payments	-	-	-	(0.5)	1.4	0.9
	(34.2)	2.2	(13.4)	(0.5)	-	(45.9)

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

	2017 £m	Restated 2016 £m
Accelerated capital allowances	(0.4)	0.2
Revaluation	(0.6)	(0.6)
Retirement benefit obligations	1.0	0.1
Temporary differences arising on pension spreading	2.3	2.4
Other temporary differences	(0.4)	(0.8)
	1.9	1.3
Adjustments in respect of prior years	0.3	0.2
Adjustments in respect of opening deferred tax rate reduction	(4.1)	(3.7)
Deferred tax expense	(1.9)	(2.2)

The standard rate of UK corporation tax reduced from 20% to 19% from 1 April 2017. A rate of 19.75% therefore applies to the current tax charge arising during the year ended 1 July 2017.

In addition to the change in rate of corporation tax identified above, further reductions in the rate to 17% from 1 April 2020 were substantively enacted prior to the balance sheet date and have been applied where applicable to the Group's deferred tax balance at the balance sheet date.

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.

Basic and diluted earnings per share

	2017 £m	Restated 2016 £m
Net profit attributable to equity holders of the parent	89.1	93.7

	2017	Restated 2016
Basic weighted average number of shares in issue ('000)	42,902	42,951
Dilutive potential share options ('000)	122	247
Diluted weighted average number of shares in issue ('000)	43,024	43,198

Earnings per share:

Basic earnings per share (pence per share)	207.7	218.2
Diluted earnings per share (pence per share)	207.1	216.9

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 1 July 2017 to 6 September 2017.

11. Dividends paid and proposed

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

	2017 £m	2016 £m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2016: 67.52p per share (2015: 63.4p)	28.9	27.2
Interim dividend for 2017: 30.17p per share (2016: 28.33p)	12.9	12.2
	41.8	39.4

	2017 £m	2016 £m
Proposed for approval at the AGM (not recognised as a liability as at 1 July 2017)		
Equity dividends on ordinary shares:		
Final dividend for 2017: 71.91p per share (2016: 67.52p)	31.0	29.0

Payment of proposed dividends will not have any tax consequences for the Group.

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 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 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
Additions	8.2	-	1.0	97.1	35.6	141.9
Acquisitions	4.0	-	-	4.5	0.2	8.7
Disposals	-	-	(0.1)	(28.6)	(8.3)	(37.0)
Transfer categories	-	-	-	1.7	(1.7)	-
Transfer of assets held for sale	(1.7)	-	-	-	-	(1.7)
Transfer of intangible assets	-	-	-	-	(1.8)	(1.8)
At 1 July 2017	209.4	0.4	15.6	647.5	235.3	1,108.2
Depreciation and impairment:						
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
Charge for the year	1.1	-	1.4	50.0	12.9	65.4
Disposals	-	-	(0.1)	(27.8)	(8.1)	(36.0)
Impairment of assets	0.7	-	-	-	0.2	0.9
Transfer assets held for sale	(0.8)	-	-	-	-	(0.8)
Transfer of intangible assets	-	-	-	-	(0.3)	(0.3)
At 1 July 2017	33.1	-	10.1	317.2	172.6	533.0

Net book value:

At 1 July 2017	176.3	0.4	5.5	330.3	62.7	575.2
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

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

	2017	2016
	£m	£m
Bus vehicles	0.7	2.7

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 notes to the accounts.

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Customer contracts £m	Total £m
Cost:						
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
Additions	-	1.9	3.1	-	-	5.0
Acquisitions	5.6	-	-	-	1.1	6.7
Transfer from tangible fixed assets	-	1.8	-	-	-	1.8
Disposals	-	(1.9)	-	-	-	(1.9)
At 1 July 2017	86.4	23.1	14.6	16.7	13.4	154.2
Amortisation and impairment:						
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
Charge for the year	-	1.8	0.8	-	0.5	3.1
Transfer from tangible fixed assets	-	0.3	-	-	-	0.3
Disposals	-	(0.5)	-	-	-	(0.5)
At 1 July 2017	4.9	18.9	10.1	16.7	12.1	62.7
Net book value:						
At 1 July 2017	81.5	4.2	4.5	-	1.3	91.5
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

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 and bus services in the UK and overseas. 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:

	2017 £m	2016 £m
Go South Coast	34.2	28.6
Brighton & Hove	12.7	12.7
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
	81.5	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 2.0% which reflects the directors' view of long term growth rates in each business, and the long term recurrent nature of the businesses.

The Group's weighted average cost of capital has been initially calculated as 4.6% (2016: 5.4%). Given the current low weighted average cost of capital the calculation of value in use has been initially derived based on the internal rate of return that the Group uses to appraise investments, currently 8.0%, to identify any goodwill balances requiring further consideration and review. The economic conditions that the cash-generating units operate in are considered similar enough, primarily being UK based, to use the same discount rate.

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.

A 0.5% increase in WACC or revenue growth falling by 1.0% are considered the most likely sensitivities that could impact recoverable amounts. These sensitivities would not cause the carrying value of any of the businesses to exceed their recoverable amount, except for Konectbus (a division of the East Anglian business) where the estimated recoverable amount exceeds goodwill held of £3.6m by c.£1.0m. An improvement to past levels of profitability at Konectbus is forecast following the current investment in fleet, management and other operational changes. Whilst a 0.5% increase in WACC from 8.0% to 8.5% would not impair the £3.6m goodwill value, a revenue growth fall of 1.0% after the 3 year forecast period could impair the balance by £0.7m. There has been investment in fleet and people in the period to support the growth forecast and the discount rate at 8.0% as noted above is considered conservative. Furthermore reflecting that the property, plant and equipment associated with the business represents buses which can be either sold or deployed no wider impairment risks arise.

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 notes to the accounts.

Year ended 1 July 2017

On 3 February 2017, Go South Coast Limited, a wholly owned subsidiary of the group, took control of Thamesdown Transport Limited from Swindon Borough Council. Thamesdown services operate across Swindon and north Wiltshire with a fleet of 85 buses.

Net assets at date of acquisition:

	Total acquisitions – Provisional fair value to Group £m
Property, plant and equipment	6.5
Inventories	0.3
Cash	0.5
Deferred tax	(0.5)
Trade and other receivables	1.5
Trade and other payables	(1.5)
Interest-bearing loans and borrowings	(1.7)
Net assets	5.1
Goodwill arising on acquisition	5.6

Cash	10.7
Total consideration	10.7

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

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

From the date of acquisition in the period, the acquisition recorded an operating profit of less than £0.1m and revenue of £4.1m. Had the acquisition been completed on the first day of the financial period, the impact on the Group's operating profit would have been an increase of £0.5m and the impact on revenue would have been an increase of £9.9m.

On 4 October 2016, Go South Coast Limited, a wholly owned subsidiary of the Group, acquired the Excelsior group of companies – Excelsior Coaches Limited, Excelsior Transport Limited and Excelsior Travel Limited – for a cash consideration of £1.0m.

Net assets at date of acquisition:

	Total acquisitions – Provisional fair value to Group £m
Property, plant and equipment	2.2
Intangible assets – customer contracts	1.0
Deferred tax	(0.1)
Interest-bearing loans and borrowings	(2.1)
Net assets	1.0
Cash	1.0
Total consideration	1.0

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 loss of £0.1m and revenue of £1.2m. Had the acquisition been completed on the first day of the financial period, the impact on the Group's operating profit would have been £0.1m and the impact on revenue would have been £1.6m.

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 notes to the accounts.

At 1 July 2017, assets held for sale, with a carrying value of £1.7m, related to property, plant and equipment available for sale, and were included in the regional bus segment.

The Group expects to sell £1.7m within 12 months of them going onto the 'for sale' list and being actively marketed. The assets held for sale relate to land and buildings whereby offers have been made which management are currently assessing. The value at each balance sheet date represents management's best estimate of their resale value less disposal costs. During the year ended 1 July 2017, there were no sales of assets held for sale.

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 were included in the regional bus segment.

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 notes to the accounts.

	2017 £m	2016 £m
Raw materials and consumables	18.9	18.3

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.

	2017 £m	2016 £m
Current		

Trade receivables	147.5	178.1
Less: Provision for impairment of receivables	(2.1)	(1.7)
Trade receivables – net	145.4	176.4
Other receivables	37.2	32.7
Prepayments	68.2	48.5
Accrued income	42.4	45.4
Receivable from central government	39.3	34.0
	332.5	337.0
	2017	2016
	£m	£m
Non-current		
Other receivables	–	1.6

As at 1 July 2017 and 2 July 2016, the ageing analysis of trade receivables was 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
2017	145.4	130.8	4.9	1.9	3.3	1.2	3.3
2016	176.4	166.5	3.0	3.4	2.2	0.5	0.8

Trade receivables at nominal value of £2.1m (2016: £1.7m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Total £m
At 2 July 2016	1.7
Charge for the year	0.7
Utilised	(0.1)
Unused amounts reversed	(0.2)
At 1 July 2017	2.1

As at 1 July 2017, the ageing analysis of impaired and fully provided for trade receivables is as follows:

	2017 £m	2016 £m
60-90 days	0.1	–
90-120 days	–	–
More than 120 days	2.0	1.7
	2.1	1.7

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

	2017 £m	2016 £m
Cash at bank and in hand	87.0	82.1
Cash and cash equivalents	503.2	554.2
	590.2	636.3

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 distributable reserves or based on a working capital formula. As at 1 July 2017, balances amounting to £516.1m (2016: £562.3m) were restricted. Part of this amount is to cover deferred income for rail season tickets, which was £178.0m at 1 July 2017 (2016: £181.3m).

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.

	2017 £m	2016 £m
Current		
Trade payables	266.0	262.0
Other taxes and social security costs	32.4	30.6
Other payables	77.3	67.9
Deferred season ticket income	178.0	181.3
Accruals	114.6	122.1
Deferred income	54.2	56.0
Payable to central government	108.9	149.9
Government grants	5.2	2.7
	836.6	872.5

	2017 £m	2016 £m
Non-current		
Government grants	1.0	4.3
	1.0	4.3

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. For accounting policies see 'Interest-bearing loans and borrowings' and 'Cash and cash equivalents' in 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 1 July 2017

	Effective interest rate %	Maturity	Current	Non-current		Total £m
			Within one year £m	After one year but not more than five years £m	After more than five years £m	
Syndicated loans (see below)	1.00	0-4 years	-	156.0	-	156.0
Debt issue costs on syndicated loans			(0.3)	(0.5)	-	(0.8)
£200m sterling 7.5 year bond (see below)	5.38	0-1 years	200.0	-	-	200.0
€20m revolving credit facility	1.30	0-1 years	0.9	-	-	0.9
Finance leases and HP commitments (see note 21)	4.96	0-5 years	0.9	2.0	0.1	3.0
Total interest-bearing loans and borrowings			201.5	157.5	0.1	359.1
Debt issue costs			0.3	0.5		0.8
Total interest-bearing loans and borrowings (gross of debt issue costs)			201.8	158.0	0.1	359.9
Cash and short term deposits (note 18)			(590.2)			(590.2)
Net cash			(388.4)	158.0	0.1	(230.3)
Restricted cash*						516.1
Adjusted net debt						285.8

Year ended 2 July 2016

	Effective interest rate %	Maturity	Current	Non-current		Total £m
			Within one year £m	After one year but not more than five years £m	After more than five years £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

Finance leases and HP commitments (see note 21)	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 (note 18)			(636.3)	-	-	(636.3)
Net cash			(636.0)	313.0	-	(323.0)
Restricted cash*						562.3
Adjusted net debt						239.3

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

Analysis of Group net cash

	Cash and cash equivalents £m	Syndicated loan facility £m	Hire purchase/ finance leases £m	£200m sterling bond £m	€20m RCF £m	Total £m
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
Cashflow	(46.6)	(43.0)	1.1	-	(0.9)	(89.4)
On acquisition	0.5	-	(3.8)	-	-	(3.3)
1 July 2017	590.2	(156.0)	(3.0)	(200.0)	(0.9)	230.3

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 1 July 2017, £156.0m (2016: £113.0m) of the facility was drawn down.

£200m sterling 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%.

Post year end, on 6 July 2017, the Group raised a £250m bond of 7 years maturing on 6 July 2024 with a coupon rate of 2.5%.

€20m revolving credit facility (RCF)

On 27 April 2017, the Group's subsidiary, Go-Ahead Verkehrsgesellschaft Deutschland GmbH, entered into a €20m one year revolving credit facility. As at 1 July 2017, €1.0m or £0.9m (2016: £nil) was drawn down. The facility is unsecured and interest is charged at 1.3% plus EURIBOR.

Debt issue costs

There are debt issue costs of £0.8m (2016: £0.9m) on the syndicated loan facility.

The £200m sterling 7.5 year bond has debt issue costs of £nil (2016: £nil).

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 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:

	2017		2016	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	0.9	0.9	0.3	0.3
After one year but not more than five years	2.3	2.0	-	-
Over five years	0.1	0.1		

Total minimum lease payments	3.3	3.0	0.3	0.3
Less amounts representing finance charges	(0.3)	-	-	-
Present value of minimum lease payments	3.0	3.0	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 2016/17, 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 derivatives. Risks arising from these are explained in note 23.

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 1 July 2017 and 2 July 2016 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 debt issue costs) as at 1 July 2017 and 2 July 2016 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 1 July 2017								
Floating rate (assets)/liabilities								
Variable rate loans	1.00	-	-	-	156.0	-	-	156.0
€20m revolving credit facility	1.30	0.9	-	-	-	-	-	0.9
Gross floating rate liabilities		0.9	-	-	156.0	-	-	156.9
Cash assets	0.31	(590.2)	-	-	-	-	-	(590.2)
Net floating rate (assets)/liabilities		(589.3)	-	-	156.0	-	-	(433.3)
Fixed rate liabilities								
£200m sterling 7.5 year bond	5.38	200.0	-	-	-	-	-	200.0
Obligations under finance lease and hire purchase contracts	4.96	0.9	0.6	0.5	0.4	0.5	0.1	3.0
Net fixed rate liabilities		200.9	0.6	0.5	0.4	0.5	0.1	203.0
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

The expected maturity of the financial assets and liabilities 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
2017			
GBP	50.0	(0.8)	(0.8)
GBP	(50.0)	0.8	0.8
2016			
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 note 20.

On 27 April 2017, the Group's subsidiary, Go-Ahead Verkehrsgesellschaft Deutschland GmbH, entered into a €20m one year revolving credit facility. The level of drawdown and prevailing interest rates are detailed in note 20.

Post year end, on 6 July 2017, the Group raised a £250m bond which will replace the £200m bond.

Available liquidity as at 1 July 2017 and 2 July 2016 was as follows:

	2017 £m	2016 £m
Five year syndicated facility 2021	280.0	280.0
£200m 7.5 year 5.375% sterling bond 2017	200.0	200.0
€20m revolving credit facility	17.5	–
Total core facilities	497.5	480.0
Amount drawn down at 1 July 2017	356.9	313.0
Headroom	140.6	167.0

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 (see note 17) and cash deposits (see note 18). 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 1 July 2017 and 2 July 2016 based on contractual undiscounted payments.

Year ended 1 July 2017

	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	–	0.3	3.7	162.4	0.1	166.5
£200m sterling 7.5 year bond	–	210.7	–	–	–	210.7
Other financial liabilities	–	2.0	5.5	3.0	–	10.5
Trade and other payables	18.2	458.5	84.3	–	–	561.0
	18.2	671.5	93.5	165.4	0.1	948.7

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

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 note 25. Details of interest-bearing loans and borrowings are shown in note 20.

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 1 July 2017 and 2 July 2016.

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 1 July 2017.

The Group's policy is to maintain an adjusted net debt to EBITDA ratio of 1.5x to 2.5x. The Group's calculation of adjusted net debt is set out in note 20 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 2021 syndicated loan facility is an adjusted net debt to EBITDA ratio of not more than 3.5x and at 1 July 2017, was 1.30x (2016 restated: 1.08x).

* Operating profit before interest, tax, depreciation and amortisation.

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 £1.5m (2016: £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 £30.2m (2016: £24.6m).

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 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 1 July 2017 and 2 July 2016 and are as follows:

	2017 £m	2016 £m
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Non-current assets		-	0.2
Current assets		0.2	0.6
		0.2	0.8
Current liabilities		(7.3)	(10.3)
Non-current liabilities		(3.0)	(4.1)
		(10.3)	(14.4)
Net financial derivatives		(10.1)	(13.6)

Year ended 1 July 2017

	Amortised cost £m	Held for trading –Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	-	(10.1)	(10.1)	(10.1)
Net financial derivatives	-	(10.1)	(10.1)	(10.1)
Obligations under finance lease and hire purchase contracts	(3.0)	-	(3.0)	(3.0)
	(3.0)	(10.1)	(13.1)	(13.1)

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	-	(13.6)	(13.6)	(13.6)
Net financial derivatives	-	(13.6)	(13.6)	(13.6)
Obligations under finance lease and hire purchase contracts	(0.3)	-	(0.3)	(0.3)
	(0.3)	(13.6)	(13.9)	(13.9)

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 £202.1m (2016: £209.5m) but is carried at its amortised cost of £200.0m (2016: £200.0m). 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 1 July 2017 and 2 July 2016, the Group has used a level 2 valuation technique to determine the fair value of the fuel price derivatives. The valuations are based on the external Mark-to-Market (MtM) valuations provided by the derivative providers and are prepared in accordance with the providers own internal models and calculation methods based upon well recognized financial principles, relevant current market conditions and reasonable estimates about relevant future market conditions.

During the year ended 1 July 2017, 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 1 July 2017 the Group had derivatives against bus fuel of 282 million litres for the four 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 1 July 2017 the amounts hedged are as follows:

	2018	2019*	2020*	2021*
Actual percentage hedged	100%	70%	40%	20%

Litres hedged (million)	124	85	49	24
Price (pence per litre)	34.7	32.1	33.0	32.2

* Assuming consistent usage and that hedging is completed at June 2017 market price.

Rail

As at 1 July 2017 the Group had derivatives against rail fuel of 4 million litres for the 2018 financial year, representing the anticipated fuel usage in London Midland. 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 £2.6m credit (net of tax) (2016: £9.2m credit (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 notes to the accounts.

	Franchise commitments £m	Uninsured claims £m	Other £m	Total £m
At 2 July 2016	60.1	42.1	3.5	105.7
Provided (after discounting)	8.8	22.3	1.7	32.8
Utilised	(6.3)	(15.7)	-	(22.0)
Released	(9.7)	(4.5)	(0.3)	(14.5)
Unwinding of discounting	0.1	0.1	-	0.2
At 1 July 2017	53.0	44.3	4.9	102.2

	2017 £m	2016 £m
Current	40.3	32.0
Non-current	61.9	73.7
	102.2	105.7

Franchise commitments comprise £50.5m (2016: £57.7m) dilapidation provisions on vehicles, depots and stations across our three active rail franchises, and £2.5m (2016: £2.4m) provisions relating to other franchise commitments. Of the dilapidations provisions, £21.2m (2016: £12.1m) are classified as current. All of the £2.5m (2016: £2.4m) provision relating to other franchise commitments is classified as current. During the year £9.7m (2016: £3.4m) 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, £13.2m (2016: £16.0m) are classified as current and £31.1m (2016: £26.1m) are classified as non-current based on past experience of uninsured claims paid out annually. It is estimated that the majority of uninsured claims will be settled within the next six years. Both the estimate of settlements that will be made in respect of claims received, as well as the estimate of settlements made in respect of incidents not yet reported, are based on historic trends which can alter over time reflecting the length of time some matters can take to be resolved. No material changes to carrying values are expected within the next 12 months.

Within other provisions, £4.6m (2016: £3.2m) relates to dilapidations in the bus division of which £3.1m (2016: £1.2m) are classified as current, and £1.5m (2016: £2.0m) are classified as non-current. It is expected that the dilapidations will be incurred within two to five years. Reflecting the nature of the judgements associated with the provisioning for dilapidations it is not practicable to provide further sensitivity analysis of the extent by which these amounts could change in the next financial year. The remaining other current provision of £0.3m (2016: £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 notes to the accounts.

	Allotted, called up and fully paid			
	Millions	2017 £m	Millions	2016 £m
As at 1 July 2017 and 2 July 2016	47.0	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 4,077,487 ordinary shares (8.7% of share capital), of which 175,247 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 1 July 2017 the Group has repurchased 121,084 shares (2016: 172,964 shares purchased). The Group has not cancelled any shares during the year (2016: 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

	2017 £m	2016 £m
Contracted for but not provided – acquisition of property, plant and equipment	45.7	78.3

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.

The Group's train operating companies hold agreements under which they lease rolling stock from rolling stock operating companies, 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 1 July 2017 and 2 July 2016 were as follows:

As at 1 July 2017

	Bus vehicles and other £m	Bus property £m	Rail rolling stock £m	Rail access charges £m	Rail other £m	Total £m
Within one year	12.7	1.5	584.0	387.4	156.6	1,142.2
In the second to fifth years inclusive	28.3	5.4	1,389.2	183.0	334.2	1,940.1
Over five years	–	5.0	163.9	–	–	168.9
	41.0	11.9	2,137.1	570.4	490.8	3,251.2

As at 2 July 2016

	Bus vehicles £m	Bus property £m	Rail rolling stock £m	Rail access charges £m	Rail other £m	Total £m
Within one year	10.6	0.6	525.6	608.0	202.7	1,347.5
In the second to fifth years inclusive	12.3	3.0	1,801.2	1,264.9	571.8	3,653.2
Over five years	2.8	2.6	86.7	57.3	29.4	178.8
	25.7	6.2	2,413.5	1,930.2	803.9	5,179.5

Operating lease commitments – Group as lessor

The Group's rail operating companies sub lease access to stations and depots to other commercial organisations.

Future minimum rentals payable under non-cancellable operating leases as at 1 July 2017 and 2 July 2016 were as follows:

	2017		2016	
	Land and buildings £m	Other rail agreements £m	Land and buildings £m	Other rail agreements £m

Within one year	2.9	9.3	3.5	9.5
In the second to fifth years inclusive	0.2	51.2	2.5	45.6
Over five years	-	-	-	2.6
	3.1	60.5	6.0	57.7

Performance bonds

The Group has provided bank guaranteed performance bonds of £76.9m (2016: £76.2m), a loan guarantee bond of £36.3m (2016: £36.3m), and season ticket bonds of £226.2m (2016: £227.1m) to the DfT in support of the Group's rail franchise operations.

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 1 July 2017 is £72.0m (2016: £45.0m).

The Group has a bond of \$4.2m SGD (2016: \$10.9m SGD) to the Land Transport Authority (LTA) of Singapore in support of the Group's Singapore bus operations. At the year-end exchange rate this equates to £2.4m (2016: £6.1m).

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 notes to the accounts.

Retirement benefit obligations consist of the following:

	2017			2016		
	Bus £m	Rail £m	Total £m	Bus £m	Rail £m	Total £m
Pre-tax pension scheme liabilities	(20.9)	-	(20.9)	(2.7)	-	(2.7)

	2017			Restated 2016		
	Bus £m	Rail £m	Total £m	Bus £m	Rail £m	Total £m
Remeasurement gains/(losses) due to:						
Experience on benefit obligations	8.0	9.7	17.7	68.8	(0.4)	68.4
Changes in demographic assumptions	(0.1)	-	(0.1)	(10.6)	-	(10.6)
Changes in financial assumptions	(52.8)	(193.5)	(246.3)	(102.1)	(184.0)	(286.1)
Salary cap introduction	-	-	-	-	48.1	48.1
Return on assets greater than discount rate	20.7	128.8	149.5	99.4	102.2	201.6
Franchise adjustment movement	-	55.0	55.0	-	34.1	34.1
Remeasurement (losses)/ gains on defined benefit pension plans	(24.2)	-	(24.2)	55.5	-	55.5

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 £9.6m (2016: £9.9m), being the contributions paid and payable. The expense recognised for the workplace saving scheme is £2.9m (2016: £2.8m) 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

	2017	2016
	%	%
Retail price index inflation	3.3	2.9
Consumer price index inflation	2.3	1.9
Discount rate	2.6	2.8
Rate of increase in salaries	n/a	n/a
Rate of increase of pensions in payment and deferred pension	2.0	1.9

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.

	2017	2016
	Years	Years
Pensioner	21	21
Non-pensioner	22	22

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.

	2017	2016
	Pension deficit	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	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 1 July 2017.

	2017
	£m
June 2018	24.2
June 2019	24.8
June 2020	25.3
June 2021	25.9
June 2022	26.5
June 2023 to June 2027	141.5

Category of assets at the year end

	2017		2016	
	£m	%	£m	%
Equities	306.3	39.1	275.1	36.0
Bonds	15.4	2.0	16.5	2.2
Property	43.5	5.5	69.6	9.1
Liability driven investing portfolio	341.4	43.5	392.2	51.4

Cash/other	78.0	9.9	9.7	1.3
	784.6	100.0	763.1	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

	2017 £m	2016 £m
Employer's share of pension scheme:		
Liabilities at the end of the year	(805.5)	(765.8)
Assets at fair value	784.6	763.1
Pension scheme liability	(20.9)	(2.7)

Pension cost for the financial year

	2017 £m	2016 £m
Service cost	–	0.1
Administration costs	1.6	1.8
Settlement gain	(1.2)	(0.5)
Interest cost on net liabilities	–	2.1
Total pension costs	0.4	3.5

The £1.2m (2016: £0.5m) settlement gain represents gains made by the pension scheme in respect of the pension increase exchange exercise undertaken in the current and prior year.

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

	2017 £m	2016 £m
Pension scheme liabilities – at start of year	765.8	718.7
Service cost	–	0.1
Interest cost	20.7	26.4
Settlement gain	(1.2)	(0.5)
Remeasurement (gains)/losses due to:		
Experience on benefit obligations	(8.0)	(68.8)
Changes in demographic assumptions	(0.1)	10.6
Changes in financial assumptions	52.8	102.1
Benefits paid	(24.5)	(22.8)
Pension scheme liabilities – at end of year	805.5	765.8

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

	2017 £m	2016 £m
Fair value of assets – at start of year	763.1	659.2
Interest income of plan assets	20.7	24.3
Remeasurement gains due to return on assets greater than discount rate	20.7	99.4
Actuarial gain on assets	(0.3)	–
Administration costs	(1.6)	(1.8)
Group contributions	6.5	4.8
Benefits paid	(24.5)	(22.8)
Fair value of plan assets – at end of year	784.6	763.1

Estimated contributions for future

	£m
Estimated Group contributions in financial year 2018	6.5
Estimated employee contributions in financial year 2018	–
Estimated total contributions in financial year 2018	6.5

Rail schemes

Full details of the change in accounting policy for this scheme is provided in note 3.

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 £0.6m (2016: £0.7m) were paid in the year.

All pension obligations to the RPS have to date ceased 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 over the period of the franchise.

The RPS is governed by the Railways Pension Trustee Company Limited and is subject to regulation from the Pensions Regulator and relevant UK legislation.

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

	2017	2016
	%	%
Retail price index inflation	3.3	2.9
Consumer price index inflation	2.3	1.9
Discount rate	2.6	2.8
Rate of increase in salaries	3.5	3.1
Rate of increase of pensions in payment and deferred pension	2.3	1.9

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.

	2017	2016
	Years	Years
Pensioner	22	22
Non-pensioner	24	24

The mortality assumptions adopted as at 1 July 2017 and 2 July 2016 are based on the results of the latest funding valuation as at 31 December 2013.

Sensitivity analysis

Due to the nature of the franchise adjustment, the balance sheet position in respect of the rail pension schemes is not sensitive to small movements in any of the assumptions and therefore we have not included any quantitative sensitivity analysis.

Category of assets at the year end

	2017		2016	
	£m	%	£m	%
Equities	2,154.2	96.8	1,907.6	96.5
Property	69.0	3.1	67.2	3.4
Cash	2.2	0.1	2.0	0.1
	2,225.4	100.0	1,976.8	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

	2017	2016
	£m	£m
Employer's 60% share of pension scheme:		
Liabilities at the end of the year	(3,010.9)	(2,625.8)
Assets at fair value	2,225.4	1,976.8
Gross deficit	(785.5)	(649.0)

Franchise adjustment	785.5	649.0
Pension scheme liability	-	-

Pension cost for the financial year

	2017 £m	Restated 2016 £m
Service cost	92.6	85.5
Administration costs	7.2	3.9
Franchise adjustment to current period costs	(62.8)	(45.2)
Interest cost on net liabilities	18.7	21.2
Interest on franchise adjustments	(18.7)	(21.2)
Pension cost	37.0	44.2

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

	2017 £m	Restated 2016 £m
Pension scheme liabilities less members share (40%) of the deficit – at start of year	2,625.8	2,290.4
Franchise adjustment (100%)	(649.0)	(548.4)
	1,976.8	1,742.0
Liability movement for members' share of assets (40%)	126.4	119.9
Service cost (60%)	92.6	85.5
Interest cost (60%)	51.1	60.6
Interest on franchise adjustment (100%)	(18.7)	(21.2)
Franchise adjustment to current period costs (100%)	(62.8)	(45.2)
Remeasurement losses/(gains) due to:		
Experience on benefit obligations (60%)	(9.7)	0.4
Changes in financial assumptions (60%)	193.6	184.0
Salary cap introduction (60%)	-	(48.1)
Benefits paid (100%)	(68.9)	(66.9)
Franchise adjustment movement (100%)	(55.0)	(34.2)
	2,225.4	1,976.8
Franchise adjustment (100%)	785.5	649.0
Pension scheme liabilities less members share (40%) of the deficit – at end of year	3,010.9	2,625.8

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

	2017 £m	2016 £m
Fair value of assets – at start of year (100%)	1,976.8	1,742.0
Interest income of plan assets (60%)	32.5	39.3
Remeasurement gains due to return on assets greater than discount rate (60%)	128.8	102.2
Administration costs (100%)	(12.0)	(6.6)
Group contributions (100%)	36.4	43.5
Benefits paid (100%)	(68.9)	(66.9)
Members' share of movement of assets (40%)	131.8	123.3
Fair value of plan assets – at end of year (100%)	2,225.4	1,976.8

Estimated contributions for future

	£m
Estimated Group contributions in financial year 2018	32.9
Estimated employee contributions in financial year 2018	22.1
Estimated total contributions in financial year 2018	55.0

Franchise adjustment

The effect of the franchise adjustment on the financial statements is provided below.

	2017 £m	Restated 2016 £m
Balance sheet		

Defined benefit pension plan	(785.5)	(649.0)
Deferred tax asset	133.5	116.8
	(652.0)	(532.2)
Other comprehensive income		
Remeasurement gains	55.0	34.1
Tax on remeasurement gains	(9.4)	(6.1)
	45.6	28.0
Income statement		
Franchise adjustment to current period costs	(62.8)	(45.2)
Interest on franchise adjustments	(18.7)	(21.2)
Deferred tax charge	13.9	12.0
	(67.6)	(54.4)

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 limited short term cashflow risk within this business and if agreed would also be proportionately borne by the employees as well as the Group.

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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