Business and finance review

£3,461.5m

Group revenue
2017: £3,481.1m

£135.9m

Group operating profit
pre-exceptional items
2017: £150.6m

£161.0m

Group operating profit
post-exceptional items
2017: £150.6m

£289.0m

Adjusted net debt
2017: £285.8m

Resilient financial performance

All references to operating profit and margins are on a pre-exceptional basis unless otherwise detailed. A full reconciliation between pre- and post-exceptional operating profit is shown within the income statement and associated notes.

Financial overview

Revenue for the year was £3,461.5m, down £19.6m, or 0.6%, on last year (2017: £3,481.1m). This small decrease was attributable to the rail division, following the ending of the London Midland franchise in December 2017, partially offset by inflationary increases in revenue.

Profit attributable to shareholders for the year decreased by £0.1m, or 0.1%, to £89.0m (2017: £89.1m) and earnings per share fell by 0.2% to 207.2p (2017: 207.7p) with exceptional gains offsetting declining rail profit.

Excluding exceptional items, profits attributable to shareholders decreased by £11.1m or 12.5% to £78.0m and earnings per share by 12.6% to 181.6p (2017: 207.7p).

The adjusted net debt (excluding restricted cash) at the year end was £289.0m (2017: £285.8m). The higher net debt largely reflects the expiry of the London Midland franchise, working capital movements relating to the timing of franchise payments and increased capital expenditure in London bus, reflecting contract renewal commitments. The adjusted net debt (excluding restricted cash) to EBITDA ratio of 1.30x (2017: 1.30x) remains below our target range of 1.5x to 2.5x.

"We have delivered a resilient financial performance under challenging market conditions. Free cashflow has improved and the balance sheet remains strong."

Patrick Butcher,
Group Chief Financial Officer

Group overview

	2018 £m	2017 £m	Increase/(decrease) £m	Increase/(decrease) %
Group revenue	**3,461.5**	3,481.1	(19.6)	(0.6)
Regional bus operating profit	**45.8**	47.1	(1.3)	(2.8)
London bus operating profit	**45.6**	43.6	2.0	4.6
Total bus operating profit	**91.4**	90.7	0.7	0.8
Rail operating profit	**44.5**	59.9	(15.4)	(25.7)
Group operating profit (pre-exceptional items)	**135.9**	150.6	(14.7)	(9.8)
Exceptional operating items	**25.1**	–	25.1	n/a
Group operating profit (post-exceptional items)	**161.0**	150.6	10.4	6.9
Share of result of joint venture	**(1.1)**	(0.4)	(0.7)	(175)
Net finance costs*	**(14.2)**	(13.4)	(0.8)	(6.0)
Profit before tax	**145.7**	136.8	8.9	6.5
Total tax expense*	**(36.4)**	(25.3)	(11.1)	(43.8)
Profit for the period	**109.3**	111.5	(2.2)	(2.0)
Non-controlling interests	**(20.3)**	(22.4)	2.1	9.4
Profit attributable to shareholders	**89.0**	89.1	(0.1)	(0.1)
Profit attributable to shareholders (pre-exceptional items)	**78.0**	89.1	(11.1)	(12.5)
Weighted average number of shares (m)	**43.0**	42.9	0.1	0.2
Proposed dividend per share (p)	**102.08**	102.08	–	–

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

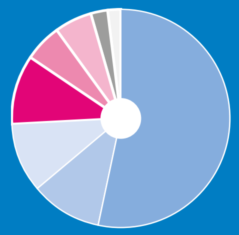
* Including exceptional items

Bus

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

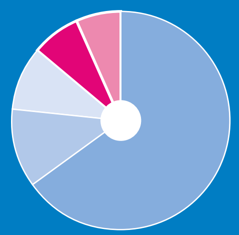
Our bus financial highlights

2018 Bus revenue
£934.2m (2017: £902.0m)



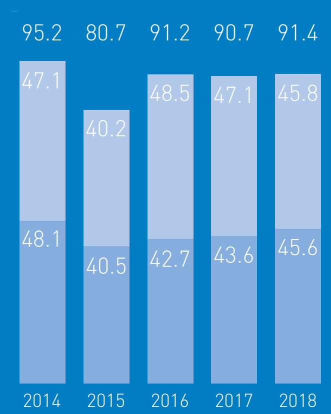
- Go-Ahead London: £498.4m
- Go South Coast: £98.9m
- Go North East: £98.0m
- Brighton and Hove: £95.0m
- Go-Ahead Singapore: £52.1m
- Oxford Bus Company: £51.0m
- Plymouth Citybus: £25.2m
- Go East Anglia: £15.6m

2018 Bus operating cost base
£842.8m (2017: £811.3m)



- Staff costs: 65.2%
- Fuel costs: 11.6%
- Engineering costs: 9.5%
- Depreciation: 7.3%
- Other: 6.4%

2018 Bus operating profit (pre-exceptional items)
£91.4m (2017: £90.7m)



Bus overview

	2018	2017	Increase/ (decrease) £m	Increase/ (decrease) %
Total bus operations				
Revenue (£m)	**934.2**	902.0	32.2	3.6
Operating profit (£m)	**91.4**	90.7	0.7	0.8
Operating profit margin	**9.8%**	10.1%	n/a	(0.3ppt)
Regional bus				
Revenue (£m)	**383.7**	376.6	7.1	1.9
Operating profit (£m)	**45.8**	47.1	(1.3)	(2.8)
Operating profit margin	**11.9%**	12.5%	n/a	(0.6ppt)
London bus				
Revenue (£m)	**550.5**	525.4	25.1	4.8
Operating profit (£m)	**45.6**	43.6	2.0	4.6
Operating profit margin	**8.3%**	8.3%	n/a	–
Like for like revenue growth				
Regional bus	**0.4%**	1.0%	n/a	(0.6ppts)
London bus	**3.1%**	1.5%	n/a	1.6pts
Like for like volume growth				
Regional bus passenger journeys	**(1.6%)**	(0.2%)	n/a	(1.4ppts)
London bus miles operated	**(1.0%)**	(1.7%)	n/a	0.7ppts

Overall bus performance

Total bus revenue increased by 3.6%, or £32.2m, to £934.2m (2017: £902.0m) including the contribution of acquisitions and the full year impact of the Singapore business. While operating profit was slightly ahead of the prior year at £91.4m (2017: £90.7m), the operating profit margin decreased slightly by 0.3ppts to 9.8%. This performance, which was in line with our expectations for the year, reflected a good performance in London, offset by continued challenges in the regional bus business.

Regional bus

Regional bus revenue was £383.7m (2017: £376.6m), up £7.1m, or 1.9%, including the contribution of acquisitions. Like for like revenue growth of 0.4% 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 including some contract losses, resulting in an overall decline in like for like passenger volumes of 1.6%. Growth in revenue and passenger numbers was also impacted by the restructuring of selected route networks to match passenger demand and reduce costs, and the impact of the extreme weather during early 2018.

Operating profit in the regional bus division fell £1.3m, or 2.8%, to £45.8m (2017: £47.1m), with operating profit margin down 0.6ppts to 11.9% (2017: 12.5%). Depreciation costs increased in the year, reflecting continued investment in buses. While the division benefited from a reduction in fuel costs due to lower hedge prices, inflationary increases impacted costs during the year.

	£m
2017 operating profit	47.1
Changes:	
Net impact of acquisitions	0.3
Prior year one offs	2.8
Passenger volume (including weather impact)	(4.6)
Contract volumes	(4.1)
Yield, route restructures and pricing	8.8
Net cost inflation	(4.5)
2018 operating profit	45.8

London bus

Reported results for the London bus division include our bus operation in Singapore. London bus revenue grew by 4.8%, to £550.5m in the year (2017: £525.4m).

Quality Incentive Contract bonuses (QICs) were £13.2m (2017: £6.9m) as a result of improved performance against TfL quality targets. This has been achieved in partnership with TfL, which has implemented additional bus prioritisation measures and fewer roadworks on our routes, while we have further strengthened our service control capabilities. As anticipated, like for like mileage decreased by 1.0% due to the timing of contract renewals and TfL's route restructuring. Operating profit in the London bus division was £45.6m (2017: £43.6m), up £2.0m, or 4.6%, with operating profit margin stable at 8.3% (2017: 8.3%). As with regional bus, our London operations saw a reduction in fuel costs reflecting the lower hedge price, and higher depreciation as a result of significant capital expenditure.

	£m
2017 operating profit	43.6
Changes:	
Singapore	1.4
QIC bonuses	6.3
Volume	(0.4)
Margin	(1.1)
Net inflation	0.1
One offs	(2.7)
Other	(1.6)
2018 operating profit	45.6

Capital expenditure and depreciation

	2018 £m	2017 £m
Regional bus fleet (inc. vehicle refurbishment)	**41.1**	37.1
London bus fleet (inc. vehicle refurbishment)	**46.2**	60.0
Technology and other	**8.4**	8.8
Depots	**3.9**	6.8
Total capital expenditure	**99.6**	112.7

In London, the purchase of 135 new buses (2017: 261 buses) reflects the timing of contract renewals. In regional bus, demonstrating our commitment to maintaining a young and greener bus fleet, 173 new buses (2017: 102 buses) were bought. The average age of our buses is now 6.5 years (2017: 7.0 years).

Depreciation for the division was £61.8m (2017: £56.1m), reflecting the increased capital spend in recent years.

In 2018/19, we expect total capital expenditure for the bus division to be around £65m with a significantly lower level in London due to the timing of contract renewals and continued investment in our regional bus services.

Fuel

In the year, the bus division required around 137 million litres of fuel, with a net cost of £98.2m.

Bus fuel hedging prices

We have continued 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 month by month basis.

With Board approval, additional purchases can be made to lock in future costs for greater certainty. The table below reflects the year end position; no significant purchases have been made following the year end.

	2019	2020	2021
% hedged	Fully	55%	30%
Price (pence per litre)	32.5	33.2	33.9

At each period end, the fuel hedges are marked to market price. The change in the fuel hedge liability to a fuel hedge asset 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 current year has been consistent with the fourth quarter of 2017/18. We expect a slight improvement in regional bus operating profit for 2018/19 despite market conditions remaining challenging.

The London bus business has already secured almost all of its revenue for the current year. While competitive pressure and TfL funding constraints continue to result in market contraction in bus miles operated, we have the opportunity to bid for around £95m of additional work in 2018/19.

Rail

Go-Ahead's rail operations are the busiest in the UK, responsible for around 30% of all train passenger journeys.

Rail performance

The rail division has delivered a financial result slightly ahead of the Board's expectations, supported by a better performance and one-off disposal gains at the end of the London Midland franchise in the first half, and some cost improvement benefits at Southeastern. Overall margins have remained at historically low levels, impacted in particular by GTR.

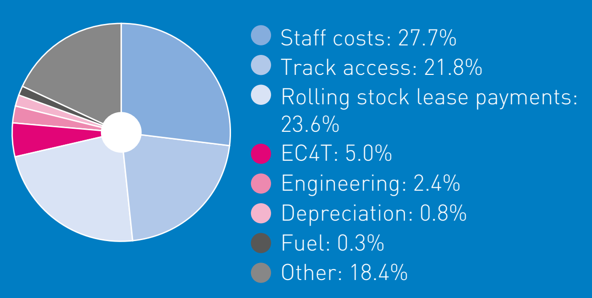
Our rail financial highlights

2018 Rail revenue

£2,527.3m (2017: £2,579.1m)

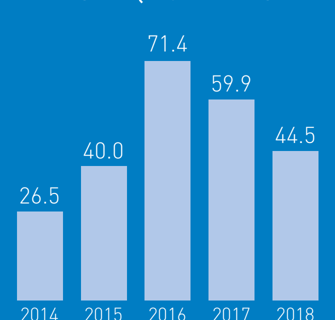
2018 Rail operating cost base

£2,482.8m (2017: £2,519.2m)



2018 Rail operating profit

£44.5m (2017: £59.9m)



Rail overview

	2018	2017	Increase/ (decrease) £m	Increase/ (decrease) %
Total rail operations				
Total revenue (£m)	**2,527.3**	2,579.1	(51.8)	(2.0)
Operating profit (£m)	**44.5**	59.9	(15.4)	(25.7)
Operating profit margin	**1.8%**	2.3%	n/a	(0.5ppt)
Like for like passenger revenue growth				
Southeastern	**3.8%**	3.2%		0.6ppt
GTR	**7.7%**	(4.1)%		11.8ppt
Like for like passenger growth				
Southeastern	**1.4%**	(0.9)%		2.3ppt
GTR	**2.1%**	(3.9)%		6.0ppt

Revenue

Total revenue decreased by 2.0%, or £51.8m, to £2,527.3m (2017: £2,579.1m), consisting of:

	2018 £m	2017 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Passenger revenue				
Southeastern	**786.3**	755.6	30.7	4.1
London Midland	**156.2**	339.6	(183.4)	(54.0)
GTR	**1,271.3**	1,148.2	123.1	10.7
Total passenger revenue	**2,213.8**	2,243.4	(29.6)	(1.3)
Other revenue				
Southeastern	**34.1**	43.2	(9.1)	(21.1)
London Midland	**35.1**	55.1	(20.0)	(36.3)
GTR	**139.5**	105.1	34.4	32.7
Germany	**0.3**	–	0.3	n/a
Total other revenue	**209.0**	203.4	5.6	2.8
Subsidy and revenue support				
Southeastern subsidy	**67.3**	45.2	22.1	48.9
London Midland subsidy	**36.6**	87.0	(50.4)	(57.9)
Southern revenue support*	**0.6**	(0.4)	1.0	n/a
London Midland revenue support	**–**	0.5	(0.5)	n/a
Total subsidy and revenue support	**104.5**	132.3	(27.8)	(21.0)
Total revenue	**2,527.3**	2,579.1	(51.8)	(2.0)

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

Premium payments, profit share payments and revenue share payments

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

	2018 £m	2017 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Southern core premium	**–**	(1.4)	1.4	n/a
Southeastern profit share	**16.2**	22.9	(6.7)	(29.3)
London Midland profit share	**4.4**	8.7	(4.3)	(49.4)

Operating profit

Operating profit in the rail division was down £15.4m at £44.5m (2017: £59.9m), with the operating profit margin decreasing to 1.8% (2017: 2.3%). This was mainly driven by the expiry of the London Midland franchise in December 2017.

	£m
2017 operating profit	59.9
Changes:	
Southeastern	10.4
London Midland	(13.0)
GTR / Southern	(10.0)
Bid and mobilisation costs	(2.8)
2018 operating profit	44.5

Individual franchise performance

GTR

The business reported a 2.1% rise (2017: 3.9% decline) in passenger journeys and a 7.7% rise (2017: 4.1% decline) in passenger revenue. Prior to the timetable change in May 2018, train performance had consistently improved, especially when compared to the period of intense industrial action in the prior year. This led to increased passenger journeys and revenue, particularly on longer distance Southern services, which generate higher income. All passenger income is payable to the government.

In May, the rail industry began the introduction of the largest and most complex timetable change in decades to provide new routes, greater connectivity and increased peak frequency through central London. Unfortunately delays in finalising the timetable by the rail industry resulted in insufficient time to implement it smoothly and effectively, resulting in significant disruption across the rail network.

We continue to work hard to progressively implement the full benefits of the changes which had been planned for May.

Southeastern

Southeastern recorded a good trading performance. On a like for like basis, passenger revenue rose by 3.8% (2017: 3.2%) while passenger numbers increased by 1.4% (2017: 0.9% decrease). Underlying passenger journeys and revenue growth improved, following the resumption of full services through London Bridge station, after three years of partial closure. Continued good progress in the delivery of our efficiency programme also led to an increase in profit for the year.

Southeastern's strong financial performance enabled a contribution of £16.2m to be made to the DfT during the year through the profit sharing mechanism included in the directly awarded contract that it has operated under since October 2014.

London Midland

The London Midland franchise ceased operations on 10 December 2017. Assets with a net book value of £6.1m were sold to the incoming operator for £12.5m, resulting in a £6.4m profit on disposal.

Rail bid costs and international

Rail bid and contract mobilisation costs in the year were £13.9m (2017: £11.1m), primarily relating to the bids for, and mobilisation of German rail contracts, the South Eastern franchise bid and international bidding in the Nordic countries.

Capital expenditure and depreciation

Capital expenditure for the rail division was £27.1m (2017: £29.2m), predominantly relating to GTR, including expenditure on station improvements and ticket machines. Depreciation was £20.9m (2017: £9.3m), reflecting the high level of capex which is being depreciated over the life of the franchises.

In 2018/19, capital expenditure for the rail division is expected to be around £20m, reflecting continued investment in GTR and mobilisation of our German operations.

Rail financial outlook

The existing Southeastern franchise has now been extended until 31 March 2019. Passenger journeys and revenue growth for Southeastern are expected to continue the improvement shown in the second half of 2017/18, boosted by the resumption of full services through London Bridge station. However the 2018/19 financial performance of our rail division will be impacted by the expiry of the London Midland franchise and by the scheduled end of the Southeastern franchise.

We have submitted a deliverable and economically sensible bid for the South Eastern franchise which is currently scheduled to commence on 1 April 2019.

As previously announced, discussions between GTR and the DfT about a number of contractual variations remain ongoing, in particular regarding payment for operating more and longer trains as part of the Thameslink train service increases. The outcome of these discussions, relating to events up to 30 June 2018, is that the impact on rail profitability is likely to remain within a range of plus or minus £5m.

Following the implementation of a revised timetable in May, the performance of GTR services has been below certain contractual thresholds. These shortfalls are in large measure attributable to failings across the industry and are not the sole responsibility of GTR. Discussions are continuing with the DfT to apportion accountability for these shortfalls. It is possible that the DfT will determine that a sufficient part of these failings are down to GTR and that it is in breach of its contractual obligations. At that point, the DfT may choose, as is usual, to require the production of a Remedial Plan and/or seek to impose penalties or may seek to terminate the contract.

In the event of a termination, it is possible that there will be costs that the DfT will seek to recover from GTR. These are not possible to estimate at this stage and in any event would be contested. GTR continues to work hard to further stabilise and improve services for customers and remains committed to working with the DfT to resolve the long outstanding contract variations which support the delivery of new services and will address remaining contractual performance issues described above.

As previously announced, the margin over the life of the GTR contract is expected to be in the range of between 0.75% and 1.5%.

Financial review

£126.7m

Group capital expenditure
2017: £141.9m

£57.7m

Free cashflow
2017: £11.6m

Earnings per share

Earnings were £89.0m (2017: £89.1m), resulting in a decrease in earnings per share from 207.7p to 207.2p. Excluding exceptional items, earnings were £78.0m, resulting in decrease of earnings per share from 207.7p to 181.6p. The weighted average number of shares was 43.0 million and the number of shares in issue, net of treasury shares, was 43.1 million.

	2018*	2017	2016	2015	2014
Earnings per share	**181.6p**	207.7p	218.2p	147.9p	174.3p

* Pre-exceptional

Dividend

The Board is proposing a total dividend for the year of 102.08p per share (2017: 102.08p), consistent with the prior year. This includes a proposed final payment of 71.91p per share (2017: 71.91p) payable on 23 November 2018 to shareholders registered at the close of business on 9 November 2018. Dividends of £43.8m (2017: £41.8m) paid in the period represent the payment of the prior year's final dividend of 71.91p per share (2017: 67.52p) and the interim dividend in respect of this year of 30.17p per share (2017: 30.17p). Dividends paid to non-controlling interests were £13.9m (2017: £21.3m), and dividend payout was 56% (2017: 49%) on a pre-exceptional earnings basis.

Summary cashflow

	2018 £m	2017 £m	Increase/ (decrease) £m
EBITDA	**221.9**	219.1	2.8
Working capital/other items (excluding restricted cash movements)	**10.9**	5.3	5.6
Cashflow generated from operations	**232.8**	224.4	8.4
Tax paid	**(28.7)**	(34.1)	5.4
Net interest paid	**(13.3)**	(12.7)	(0.6)
Net capital investment	**(119.2)**	(144.7)	25.5
Dividends paid – minority partner	**(13.9)**	(21.3)	7.4
Free cashflow	**57.7**	11.6	46.1
Net acquisitions	**(7.5)**	(11.2)	3.7
Other	**(9.1)**	(4.2)	(4.9)
Net cash on issue/purchase of shares	**(0.5)**	(0.9)	0.4
Dividends paid	**(43.8)**	(41.8)	(2.0)
Increase in adjusted net debt*	**(3.2)**	(46.5)	43.3
Opening adjusted net debt*	**(285.8)**	(239.3)	n/a
Closing adjusted net debt*	**(289.0)**	(285.8)	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 £232.8m (2017: £224.4m). This increase of £8.4m is largely due to movements in working capital, primarily reflecting structural changes in rail franchises. Tax paid of £28.7m (2017: £34.1m) comprised payments on account in respect of the current and prior years' liabilities. Net interest paid of £13.3m (2017: £12.7m) was lower than the net charge for the period of £14.2m (2017: £13.4m) after excluding the impact of non-cash interest on pensions and the unwinding of discounting on provisions. Capital expenditure, net of sale proceeds, was £25.5m lower in the year at £119.2m (2017: £144.7m), predominantly due to lower investment in our London bus fleet from the prior year's elevated level, and the proceeds received from the sale of the London Midland assets. Net group capital investment is expected to be around £85.0m in 2018/19.

During the year, as part of a planned programme of monthly share purchases to satisfy future share awards, the Group purchased 64,012 ordinary shares for a total consideration of £1.1m (2017: 121,084 ordinary shares for a total consideration of £2.4m).

At the year end, significant medium term finance was secured through a revolving credit facility (RCF) and a £250m sterling bond. The £280m five year RCF had an initial maturity of July 2019 with two one-year extension options, the second of which was agreed on 20 June 2016, extending the maturity of the facility to July 2021. On 20 July 2018 an additional extension of two years was agreed, extending the maturity of the facility to July 2023. A further two one-year extensions are available which if exercised would extend the maturity to July 2025.

Capital expenditure

Expenditure on capital during the year can be summarised as:

	2018 £m	2017 £m
Regional bus	**47.9**	49.6
London bus	**51.7**	63.1
Total bus	**99.6**	112.7
Rail	**27.1**	29.2
Group total	**126.7**	141.9

Net cash/debt

Net cash of £149.9m (2017: £230.3m) comprised debt arising from the £250m sterling bond (2017: £200m sterling bond), amounts drawn down against the £280m five year RCF of £136.0m (2017: £156.0m), amounts drawn down against the €8m revolving credit facility and €10.6m financial facility of £11.2m (2017: £0.9), and hire purchase and lease agreements of £9.4m (2017: £3.0m), offset by cash and short term deposits of £556.5m (2017: £590.2m) including £438.9m of restricted cash in rail (2017: £516.1m). There were no overdrafts in use at the year end (2017: £nil).

Our primary financial covenant under the 2018 RCF is an adjusted net debt to EBITDA ratio of not more than 3.5x. Adjusted net debt (excluding restricted cash) to EBITDA of 1.30x (2017: 1.30x) remains below the target range of 1.5x to 2.5x.

Capital structure

	2018 £m	2017 £m
Syndicated facility 2023	**280.0**	280.0
7 year £250m 2.5% sterling bond 2024	**250.0**	–
7.5 year £200m 5.375% sterling bond 2017	**–**	200.0
Euro financing facilities	**16.5**	17.5
Total core facilities	**546.5**	497.5
Amount drawn down at 1 July 2017	**397.2**	356.9
Balance available	**149.3**	140.6
Restricted cash	**438.9**	516.1
Net cash	**(149.9)**	(230.3)
Adjusted net debt	**289.0**	285.8
EBITDA	**221.9**	219.1
Adjusted net debt/EBITDA	**1.30x**	1.30x

Investment grade ratings from Moody's (Baa3, stable outlook) and Standard & Poor's (BBB-, stable outlook) have been recently reconfirmed and remain unchanged.

Exceptional items

On 28 March the Group and the Trustee of The Go-Ahead Group Pension Plan agreed to change the reference inflation index for the purpose of annual increases to the majority of pensions payable by the Bus Plan. From 1 April 2018 onwards, the Consumer Prices Index is used to increase pensions in payment rather than the Retail Prices Index. This change reduces the financial risks of the Plan and enhances the long term sustainability of the scheme, providing an improvement in the security of Plan members' benefit.

As a result of this change, the IFRS balance sheet valuation of the Group's pension liabilities has reduced by £35.2m and the Group has recognised a pre-tax, non-cash exceptional credit of this value in the income statement.

The Group has also reviewed the carrying value of goodwill and associated tangible assets on its regional bus businesses. This has led to an exceptional impairment charge of £10.1m.

Included within net finance costs and taxation are exceptional items relating to an ongoing HMRC enquiry as explained below. There were no exceptional operating items in the prior year

Amortisation

The amortisation charge for the year was £3.3m (2017: £3.1m), which relates to the non-cash cost of amortising software costs, franchise mobilisation costs and customer contracts.

Net finance costs

Net finance costs for the year were ahead of the prior year at £14.2m (2017: £13.4m) including finance costs of £16.7m (2017: £15.8m) less finance revenue of £2.5m (2017: £2.4m). Finance costs include an exceptional cost of £2.6m (2017: £nil) in respect of the estimated settlement of the HMRC capital allowances enquiry. The average net interest rate for the period was 4.1% (2017: 4.2%).

Taxation

Net tax for the year was £36.4m (2017: £25.3m), equivalent to an effective rate of 25.0% (2017: 18.5%). A provision has been made in the tax charge in relation to a current HMRC enquiry and is shown as exceptional. Excluding the impact of this one-off provision and the impact of exceptional items, the tax rate would have been 21.0%, as a result of non-deductible items such as bid costs in Germany and other international areas.

The statutory rate will reduce to 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 £20.3m (2017: £22.4m) 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 £35.4m (2017: £37.4m) consisting of bus costs of £1.8m (2017: £0.4m) and rail costs of £33.7m (2017: £37.0m). Group contributions to the schemes totalled £40.3m (2017: £42.9m).

An exceptional gain of £35.2m (2017: £nil) was recognised in the year as explained above.

Bus pensions

Under accounting valuations, the net surplus after taxation on the bus defined benefit schemes was £30.3m (2017: a deficit of £17.3m), consisting of pre-tax assets of £36.8m (2017: liabilities of £20.9m) less a deferred tax liability of £6.5m (2017: deferred tax asset of £3.6m). The pre-tax asset consisted of assets of £829.3m (2017: £784.6m) less estimated liabilities of £792.5m (2017:£805.5m). The percentage of assets held in higher risk, return seeking assets was 48.5% (2017: 53.4%).

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. As a result, our pre-tax liability continues to be £nil (2017: £nil).

Patrick Butcher,
Group Chief Financial Officer

5 September 2018