

At Go-Ahead, we care about every journey made on our services



“Through our strategy, we aim to deliver excellent customer service, returns for shareholders and value for all our stakeholders.”

David Brown,
Group Chief Executive

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.



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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.

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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.

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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.

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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.

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CHIEF EXECUTIVE'S REVIEW CONTINUED

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.

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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.

Our change themes

Our management teams are committed on delivering change through a renewed focus on five key areas all underpinned by our vision, beliefs and attitudes



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.

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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.

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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.

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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.

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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.

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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.

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%.



Change theme: Leadership

Continuous development of our leaders

In line with best practice and good corporate governance, the Board is required to undertake a formal evaluation each year to help continually improve its effectiveness. This year as part of the Group-wide culture change programme, Go-Ahead's Board has considered the personal development of each member in the wider context of the Board's overall effectiveness.

The programme, which runs over several months, and is still ongoing, includes interviews, surveys, data analysis, personal coaching and feedback sessions, as well as a two-day off-site session to foster stronger relationships between Board members. Challenging conversations in a supportive and constructive environment have resulted in a commitment to make better use of the relationships between executive and non-executive directors.

Initial findings early in the process showed the Board to be strong, with good levels of trust. As such, the off-site session aimed to build on this, leveraging existing skills and strengths. This new approach, which is aligned with the



Group's vision, beliefs and attitude, was designed to help Board members develop insights about themselves and colleagues, and create a foundation upon which each member could increase their personal impact, and so improve the Board's wider efficacy.

It is clear that this less traditional and more dynamic approach has led to greater insights and a more collegiate, but self-aware group. The Board has committed to continue to working in this way.

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.

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.

David Brown,
Group Chief Executive