Go-Ahead half year results

For the six months ended 27 December 2014

19 February 2015

Half year results overview

- Overall results in line with management expectations. Full year expectations are unchanged
- Bus operating profit up 8.4% to £45.1m, in line with strategic target
- Rail operating profit down 2.9% to £10.2m, with margins reducing to 0.9%. Contribution to the Government increased to £108.2m
- Challenging start to GTR franchise. Investment already underway to improve performance for passengers
- Working with Network Rail to minimise disruption to rail passengers during major infrastructure projects, in particular the £6.5 billion Thameslink Programme
- Proposed interim dividend increased by 4.3% to 26.6p (H1'14: 25.5p), in line with 2013/14 full year dividend increase
- Shortlisted for Northern and TransPennine Express franchises. Exploring overseas bus and rail opportunities
- Strong cashflow and reduction in adjusted net debt

Keith Down

Group Finance Director

Good overall performance

	Operating profit as reported H1'14 £m	Reclassification of interest expense* £m	Operating profit (restated) H1'14 £m	Year on year Variance £m	Operating profit H1'15 £'m
Regional bus	20.2	0.5	20.7	2.7	23.4
London bus	20.4	0.5	20.9	0.8	21.7
Total bus	**40.6**	**1.0**	**41.6**	**3.5**	**45.1**
Rail	10.5	-	10.5	(0.3)	10.2
Total	**51.1**	**1.0**	**52.1**	**3.2**	**55.3**

* The Group has reclassified the defined benefit pension scheme net interest expense from operating costs into finance costs

- Overall results for the Group in line with management expectations
- Prior year numbers restated to reclassify defined benefit pension scheme interest expense from operating costs into finance costs
- Half year non-cash impact of IAS 19 (revised) of £12.1m, absorbed in the results shown. Bus impacted by £2.0m and rail £10.1m (analysed in appendix)
- Group revenue up 13.8% - 10% of increase from GTR
- Operating profit up 6.1%, driven by bus division

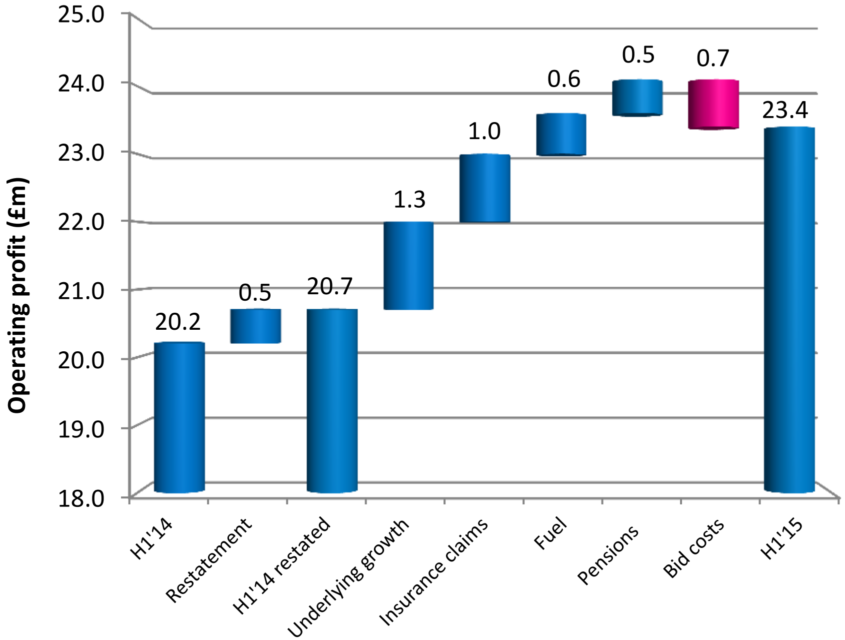
Unless otherwise stated, operating profit excludes amortisation and exceptional items

Regional bus: Revenue

Total	**H1'15**	H1'14	FY'14
Revenue	**4.1%**	3.7%	4.3%
Passenger journeys	**(0.5%)**	1.4%	1.9%

- Revenue up 4.1% driven by increase in higher yield fares and contract revenue growth
- Passenger journeys reduced by 0.5% impacted by continued economic weakness in the north east and significant roadworks in Oxford. Excluding these businesses growth was 1.7%
- Commercial and concessionary revenue growth in all operating companies – over 60% of concessionary revenue is from fixed reimbursement schemes
- Mileage increased slightly year on year
- Expect lower revenue growth in second half of the year as we lap contract gains

Regional bus: Profit bridge



- Operating profit up £2.7m to £23.4m
- Continued focus on accident prevention and minimising claims
- Underlying organic growth reflects like for like revenue growth outstripping cost inflation
- Fuel cost movements reflect decrease in hedge price
- Decreased pension costs due to reduction in defined benefit charges partially offset by higher defined contribution charges, including auto-enrolment
- H1’15 margins improved year on year due to a reduction in fuel, insurance claim and pension costs
- Bid costs of £0.7m reflect work carried out pursing opportunities in the Singapore bus market. FY’15 expected to be c.£1m

Margin performance

	H1’15	H1’14	H2’14	FY’14
Operating profit margin	12.9%	11.9%*	11.9%	11.9%

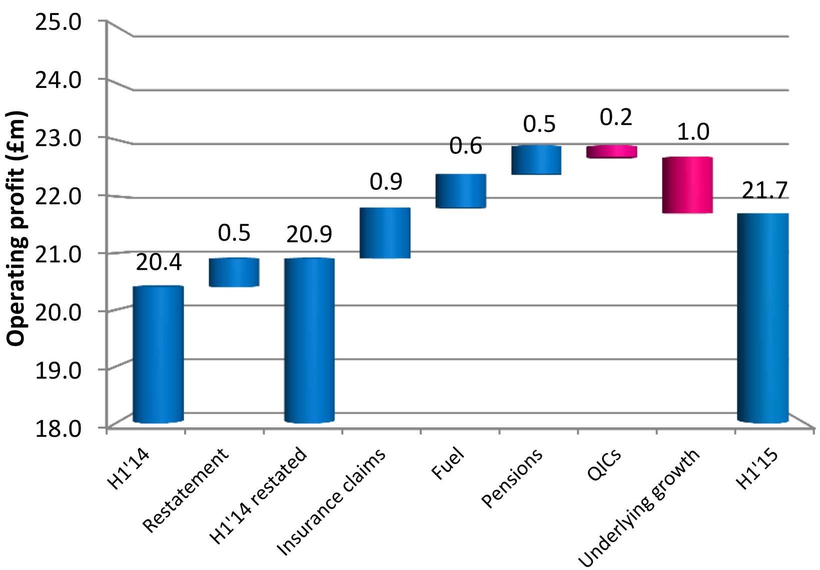
*Restated to reflect the reclassification of defined benefit pension scheme net interest expense from operating costs into finance costs

London bus: Revenue

Total	**H1'15**	H1'14	FY'14
Revenue	**2.8%**	7.9%	7.5%
Mileage	**(1.6%)**	2.8%	1.6%
QICs	**£4.4m**	£4.6m	£9.1m

- Revenue up 2.8%
- Re-allocation of BSOG from costs to revenue in Q2 contributed 2.6% of H1'15 revenue growth
- Like for like mileage down 1.6% due to contract losses, as expected
- Full year mileage expected to be broadly flat, with contract gains expected in second half
- QICs down £0.2m year on year

London bus: Profit bridge



- Operating profit up £0.8m to £21.7m
- Continued focus on accident prevention and minimising claims
- Slight reduction in QICs
- Fuel cost movements reflect decrease in hedge price
- Decreased pension costs due to reduction in defined benefit charges partially offset by higher defined contribution charges, including auto-enrolment
- Margins up slightly year on year

Margin performance

	H1'15	H1'14	H2'14	FY'14
Operating profit margin	9.5%	9.4%*	9.2%	9.3%

*Restated to reflect the reclassification of defined benefit pension scheme net interest expense from operating costs into finance costs

Bus: Fuel

Fuel hedging prices	FY'14	**FY'15**	FY'16	FY'17*	FY'18*
% hedged	Fully	**Fully**	Fully	35%	10%
Price (pence per litre)	50.5	**48.5**	45.8	37.5	35.9
Usage (m litres pa)	126	**126**	126	126	126
£'m commodity cost	64	**61**	58	47	45

- No benefit of current low oil price until FY'17
- FY'15 fully hedged - 4.0 % lower than FY'14
- FY'16 fully hedged - 5.6% lower than FY'15
- FY'17 onwards in line with policy
- BSOG down to c.£20m in regional business

*Assuming consistent usage and that hedging is completed at December 2014 market price

Rail: Revenue

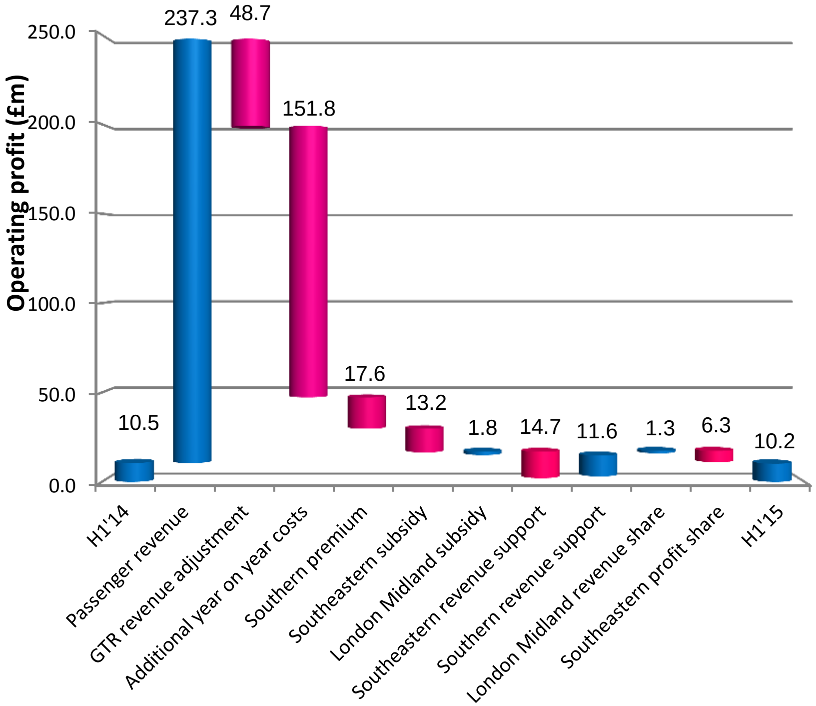
Passenger revenue	**H1'15**	H1'14	FY'14
Southern	**6.2%**	8.2%	6.1%
Southeastern	**10.7%**	5.3%	5.6%
London Midland	**4.0%**	10.1%	7.4%
GTR*	**9.3%**	n/a	n/a

Passenger journeys			
Southern	**5.0%**	4.3%	4.1%
Southeastern	**7.9%**	3.9%	5.3%
London Midland	**1.6%**	5.4%	4.9%
GTR*	**8.8%**	n/a	n/a

- Southern: Revenue growth driven by good growth in journeys. Remains in 80% revenue support. To be integrated with GTR in July 2015
- Southeastern: Strong trading performance. Operating under new contract terms. Made profit share contribution in the period
- London Midland: Trading performance impacted by engineering work in the first quarter
- GTR: Began trading on 14 September 2014. Investment in GTR improvements resulted in no contribution to Group profitability in the half year
- As January 2015 fare increases (+2.2%) were lower than the prior year (+2.7%), more modest revenue growth is expected in the second half of the year

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

Rail: Operating profit bridge



- Operating profit down £0.3m to £10.2m
- Passenger revenue increased by 29.1% partially offsetting additional costs and net contribution to the DfT
- Net contribution to DfT increased by £85.8m to £108.2m (H1'14: £22.4m)
- Margins remain at historically low levels
- Rail bid costs of c.£3m incurred. FY'15 expected to be c.£9m, including c.£1.5m in Germany
- Capitalised GTR mobilisation costs of £2.9m, as expected

Margin performance

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

Summary income statement

£m	H1'15	Restated* H1'14	*Variance*
Revenue	1,558.7	1,370.0	*188.7*
Operating profit	**55.3**	**52.1**	***3.2***
Net finance costs	(8.4)	(8.6)	*0.2*
Profit before tax and amortisation	**46.9**	**43.5**	***3.4***
Amortisation	(2.2)	(3.2)	*1.0*
Profit before tax	**44.7**	**40.3**	***4.4***
Tax	(9.8)	(2.4)	*(7.4)*
Profit for the year	**34.9**	**37.9**	***(3.0)***
Non-controlling interests	(4.1)	(4.3)	*0.2*
Profit attributable to members	**30.8**	**33.6**	***(2.8)***

Adjusted earnings per share (p)	**75.6**	**83.3**	***(7.7)***
Proposed dividend per share (p)	**26.6**	**25.5**	***1.1***

→ In line with expectations

→ FY'15 rate expected to be 22%. H1'14 rate affected by statutory rate change impact on deferred tax

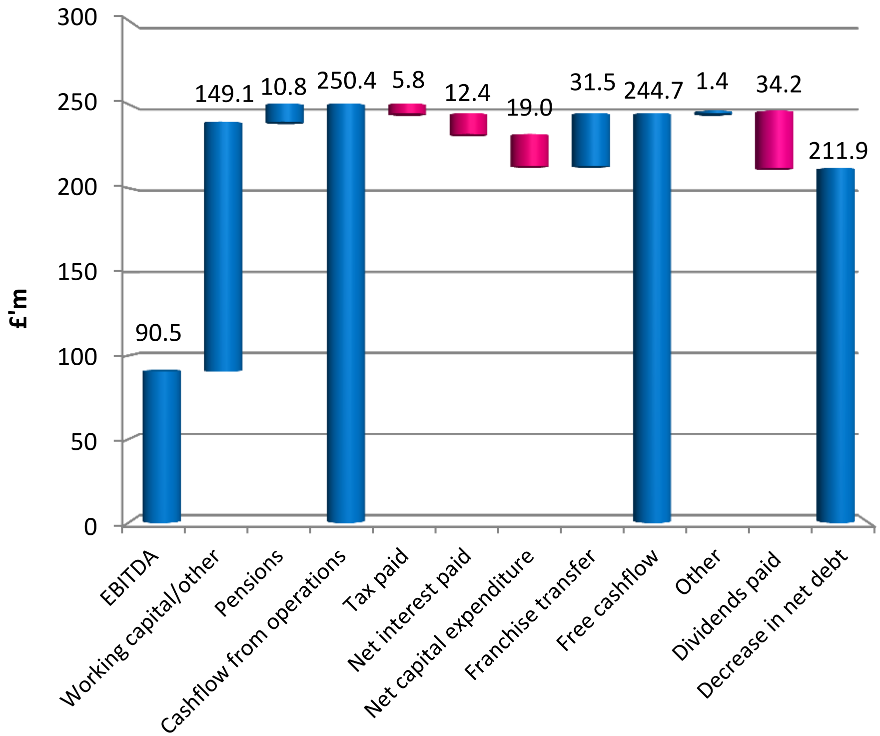
→ 35% Keolis rail holding

→ EPS impacted by increase in effective tax rate, partly offset by increased profits (H1'14 impact of tax rate: 15.6p)

→ Dividend increased 4.3%. Payable 10 April

*Restated to reflect the reclassification of defined benefit pension scheme net interest expense from operating costs into finance costs

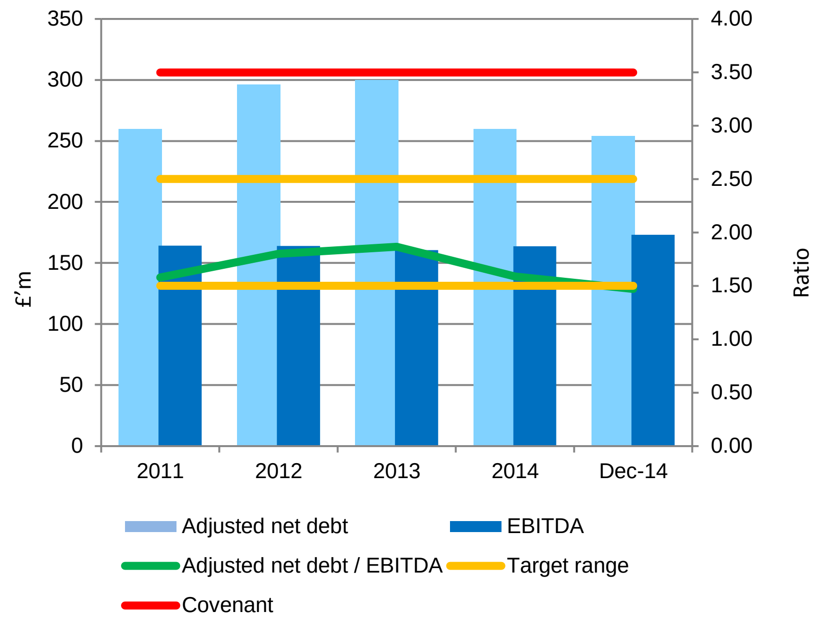
Cashflow analysis



- Positive working capital movement of £149.1m
  - c.£40m due to cash inflow from GTR. Not expected to reverse
  - Balance due to increase in season ticket cash and timing of contractual payments of which c.£70m expected to reverse
- All positive working capital movement in rail is included within restricted cash
- Free cashflow of £244.7m exceeds last year (H1'14: £52.8m) due to improved profitability, positive working capital and lower capital expenditure
- Bus capital expenditure: £14.0m (H1'14: £48.8m) – higher investment in deregulated fleet in prior year. FY'15 expect c.£40m
- Rail capital expenditure: £2.3m (H1'14: £0.7m). FY'15 expect c.£20m

Balance sheet

- Adjusted net debt / EBITDA 1.47x; below target range* of 1.5x - 2.5x, as expected
- BBB- / Baa3 (stable) rating
- Restricted cash increased to £423.3m (H1'14: £225.1m)
- Net cash of £169.2m (H1'14: net debt £70.5m) largely reflects working capital movement
- Expected net cash of c.£100m at year end due to working capital reversal



As at 27 December 2014	£'m
Five year syndicated facility 2019	280
7½ year £200m sterling bond 2017	200
Total core facilities	**480**
Amount drawn down	316
Total headroom	**164**

As at 27 December 2014	£'m
Restricted cash	423.3
Net cash	169.2
Adjusted net debt	254.1
EBITDA	173.1
Adjusted net debt/EBITDA	1.47x

*Targets and covenant refer to adjusted net debt to EBITDA

Bus pensions

Net pension scheme liabilities:

£m	H1'15	H1'14	FY'14
Assets	678.5	577.4	603.5
Liabilities	(707.8)	(659.4)	(663.3)
Net deficit	(29.3)	(82.0)	(59.8)
Less tax	5.9	16.4	12.0
Post tax deficit	(23.4)	(65.6)	(47.8)

- Scheme closed to future accrual with effect from 1 April 2014
- Net operating cost of defined benefit £1.0m (H1'14 restated*: £4.3m) partially offset by higher defined contribution charges, including auto-enrolment
- Different assumptions applied on actuarial valuation compared to accounting valuation
- Asset backed funding in place to give pension scheme trustees interest in some Group properties

*Restated to reflect the reclassification of defined benefit pension scheme net interest expense from operating costs into finance costs

David Brown

Group Chief Executive

Regional bus

HIGHLIGHTS

- Operating profit up 13.0%
- Margins improving, up to 12.9%

	H1'15	H1'14	FY'14
Operating margin	**12.9%**	11.9%*	11.9%
Revenue growth (lfl)	**4.1%**	3.7%	4.3%
Passenger growth (lfl)	**(0.5%)**	1.4%	1.9%

*Restated to reflect the reclassification of defined benefit pension scheme net interest expense from operating costs into finance costs

- As planned, regional bus business has overtaken London's profitability
- North east economy recovering at slower rate than other operating areas – impacting passenger volumes
- Significant roadworks in Oxford resulted in long delays due to congestion deterring travel
- New bus app launching next week to make bus travel more convenient for our passengers – building on existing bus m-ticketing channels and experience with our rail app. Plus more WiFi on buses
- Introduced a multi-operator smart ticketing scheme in the north east – giving passengers more choice and flexibility
- Continued investment in our fleet - £10m on new buses in the period
- Continued cost savings – insurance, fuel and pensions

Regional bus: Market

- Tyne and Wear looking to introduce a Quality Contract Scheme, bus franchising being considered in Manchester
- Voluntary partnership would provide a better outcome for both passengers and taxpayers
- Investment; buses, premises and technology, £170m last 5 years
- Responsive; listening to customers needs and responding. Bus passenger satisfaction rates of 92%
- Growing patronage; passenger journeys up 15% over last 5 years
- Community; an integral part of local communities
- Smart ticketing; largest user of smartcards outside London
- Adaptable; partnership working is how we conduct our business

London bus

HIGHLIGHTS

- Best in class operating margins
- Known contract wins in H2’15

	H1’15	H1’14	FY’14
Operating margin	**9.5%**	9.4%*	9.3%
Revenue growth	**2.8%**	7.9%	7.5%
Passenger growth	**(1.6%)**	2.8%	1.6%

*Restated to reflect the reclassification of defined benefit pension scheme net interest expense from operating costs into finance costs

- Well established and regulated market
- Largest London bus operator running 24% of services
- High quality and cost efficient operator
- Experienced management team
- High contract retention rate
- Roadworks and congestion
- Population growth – increasing demand forecast
- TfL committed to growing the network – 500 buses to be introduced

Rail

HIGHLIGHTS

- Significant changes in the division
- Shortlisted for Northern and TPE

	H1'15	H1'14	FY'14
Operating margin	**0.9%**	1.1%	1.0%
Passenger revenue growth (lfl)	**7.6%**	7.3%	6.1%
Passenger journey growth (lfl)	**5.7%**	4.3%	4.8%

Southeastern

- Strong trading performance
- Operating under new contract terms since October 2014
- Contributed to DfT through profit share mechanism
- Successfully delivered significant timetable changes as part of London Bridge redevelopment
- Working hard to minimise disruption to our passengers
- Close working relationship with Network Rail aiding improvements in operational performance

Rail continued

Southern

- Trading in line with expectations
- Unable to operate contracted timetable at London Bridge due to Network Rail capacity constraints
- Working with Network Rail to improve performance
- Continued roll out of ‘the key’ across Southern network – around 50,000 cards in issue
- Work is underway to ensure smooth integration of Southern and Gatwick Express into GTR in July 2015 – consultation process underway with our employees

London Midland

- Revenue and journey growth slowed due to engineering work in the first quarter
- Franchise has continued to improve performance
- Introduced 40 new train carriages during the period – increasing capacity and frequency
- Working with DfT regarding planned extension to June 2017

Rail continued

GTR

- Chosen to run the UK's biggest train franchise and working collaboratively on the £6.5bn Thameslink Programme
- Began in September 2014 after short mobilisation
- Creation of a new business, new leadership team, a new culture and a programme of works for customer improvements
- Significant disruption in the period and continuing into the second half due to infrastructure issues and inherited operational challenges
  - Network Rail infrastructure issues and Thames Water flooding in Farringdon tunnel impacted our operations
  - Operational issues now require investment in drivers, training, maintenance and rolling stock
- Introduced an improvement plan with Network Rail to address issues
- Incremental costs should be temporary
- Increased infrastructure investment is essential to improve services; will deliver significant benefit in the long term

Exploring opportunities

- Have always considered growth prospects both within and outside of traditional markets
- Look for value adding opportunities in line with our measured approach to risk
- Bid team preparing for release of Northern and TransPennine ITT, due in late February
- Submitted bid for contract in Singaporean bus market
  - Similar features to London bus market
  - Over a billion passenger journeys annually
- Small team in Germany considering opportunities in regional rail market
  - Largest European rail market
  - Liberalised
  - Regional passenger revenue €9.6 billion per annum
  - 50 billion annual passenger kilometres operated
- Careful analysis is undertaken for all potential development activity

Outlook and summary

- Overall expectations remain unchanged
- Expect similar second half profits as the first half of the year in both bus and rail
- In bus, remain committed to our operating profit target
- In rail, concentrating on delivering operational improvements and successfully integrating Southern and Gatwick Express into GTR
- Working on UK rail bids and considering other opportunities for overseas growth in both bus and rail
- The Group remains in a good financial position with strong cash generation and a robust balance sheet, supporting our progressive dividend policy and allowing flexibility to pursue value-adding opportunities

Q&A

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Appendix

IAS 19 (revised)

- IAS19 (revised) became effective for the Group in the 2014 financial year
- The table shows the impact on the financial results for H1'15 and comparative periods
- The impact of the revised standard is a reduction in profit before tax for the year of £12.3m (H1'14: £7.1m), £7.2m of which is attributable to equity holders of the parent (H1'14: £4.2m)
- This results in a reduction in basic earnings per share of 16.9p (H1'14: 9.8p) and a reduction to adjusted earnings per share of 18.0p (H1'14: 12.0p), of which 5.8p (H1'14: 4.1p) relates to the bus division
- Applying the revised standard has no effect on cash or credit rating

	H1'15 £m	Restated* H1'14 £m	FY'14 £m
Profit adjustment – bus	**(2.0)**	(1.3)	(3.3)
Profit adjustment – rail	**(10.1)**	(6.7)	(12.3)
Total operating profit effect	**(12.1)**	(8.0)	(15.6)
Amortisation	**1.0**	1.9	3.4
Net finance costs	**(1.2)**	(1.0)	(2.0)
Profit before tax	**(12.3)**	(7.1)	(14.2)
Tax	**2.6**	1.6	3.2
Profit for the period	**(9.7)**	(5.5)	(11.0)
Attributable to:			
Equity holders of the parent	**(7.2)**	(4.2)	(8.6)
Non controlling interests	**(2.5)**	(1.3)	(2.4)
	(9.7)	(5.5)	(11.0)
Reduction in basic eps	**(16.9)p**	(9.8)p	(20.1)p
Reduction in adjusted eps	**(18.0)p**	(12.0)p	(24.0)p
Reduction in eps attributable to bus	**(5.8)p**	(4.1)p	(9.6)p

*Restated for reclassification of defined benefit pension scheme net interest expense from operating costs to finance costs