David Brown
Group Chief Executive
Introduction

- Instrumental role in the Government’s £6bn Thameslink Programme
- Busiest UK rail franchise – increasing passenger capacity by 50%
- Introducing three new train fleets and station improvements
- Bid focused on improving customers’ experience
- Proven track record of working in partnership and delivering on major projects
Serving important regional centres
• To the north: Bedford, Cambridge, Luton, Milton Keynes and Peterborough
• To the south: Brighton, Portsmouth and Southampton

Connecting to major London stations
• Kings Cross, London Bridge, St Pancras International and Victoria
• Farringdon: links for Crossrail and Heathrow

Improved connections to international travel
• Direct rail links to Gatwick and Luton airports and Eurostar services

Major infrastructure enhancements:
• Thameslink core: St Pancras to London Blackfriars
• Rebuilding London Bridge station
Franchise structure  Supporting the £6bn Thameslink Programme

• The Thameslink Programme is a major infrastructure and investment programme

• It will transform north-south travel through London, increasing train capacity and also helping relieve congestion on London Underground

• The Programme includes extensive track work, lengthening platforms, rebuilding London Bridge Station and upgrading other stations

• Due to the complexity and scale of the Thameslink Programme, the TSGN franchise has been let as a management contract where ticket revenues are passed to the Government rather than retained by the franchisee

• Govia will work with the DfT to generate passenger revenue of an estimated £12.4bn for the benefit of the taxpayer. We will receive franchise payments to reflect operating costs and a small margin allowance.

• Our focus will be on operational performance, customer improvements and supporting the delivery of the Programme
Franchise timeline

Mobilisation and integration planning: 23 May 2014
Southeastern services transfer: 14 Sep 2014
Southern including Gatwick Express integrated: Dec 2014
Thameslink Programme due to complete: 26 July 2015
Franchise term starts: 2018
Franchise term ends: 19 Sep 2021
Working in partnership

• Govia is an experienced and responsible UK rail operator

• In collaboration with the DfT, manufacturers and Network Rail, we have introduced more trains than any other operator

• Govia’s Southern and Southeastern franchises are already partners in the Programme

    Expert support from Keolis and SNCF from comparable projects (e.g. Automatic Train Operation, RER Metro system in Paris)

    A history of expertise in managing and delivering large and complex UK rail industry ‘change’ projects:

    – Major timetable changes at Southern, Southeastern and London Midland increasing capacity and speeding up journey times

    – The UK’s first domestic high speed services on HS1 introduced six months early

    – Operators of the Javelin service; the ‘jewel in the crown’ of the London 2012 Olympic and Paralympic Games transport plan
Improving customer experience  Introducing three new train fleets

• New Class 700 fleet for Thameslink services
  – 1,140 carriages from Siemens, procured through the Thameslink Programme
  – £1.6bn financing package in place for manufacture and maintenance
  – Delivered between 2016 and 2018

• New Gatwick Express fleet
  – 108 new Gatwick Express carriages (27 four-car units)
  – Capital cost c.£162m
  – Delivered by 2016

• New trains for Moorgate services
  – 150 new metro carriages for Moorgate service (25 six-car units)
  – Capital cost c.£225m
  – Delivered in 2018

• We are industry leaders at new train introduction and have introduced more trains than any other operator, in collaboration with the DfT, manufacturers and Network Rail
• **Passenger demand forecast to increase** – increased capacity created by the Thameslink Programme with 10,000 additional morning peak seats into London, new trains, more services and improved timetables

• **Customers will see improved punctuality and shorter journey times. Highlights include:**
  – More services to and from Gatwick Airport including a new direct Cambridge to Brighton service
  – Improved Brighton Main Line services from December 2015
  – Full use of new rolling stock with up to 24 trains per hour during the peak through the Thameslink core (St Pancras to Blackfriars)

• **We have a proven record of working with industry partners to successfully integrate franchises**
  – Gatwick Express integrated with the Southern franchise
  – London Midland created from Silverlink and Central Trains integration
  – The Integrated Kent Franchise; Southeastern high speed services introduced on HS1
Keith Down
Group Finance Director
Franchise payments

• Govia will work with the DfT to generate passenger revenue of an estimated £12.4bn over the life of the franchise for the benefit of the taxpayer. Franchise payments from the DfT to Govia will amount to an estimated £8.9bn, with an anticipated NPV of £6.8bn*.

• Franchise payments are calculated as the amount forecast at the time of the bid to:
  – Reflect the franchisee’s operating costs
  – Generate the franchisee’s margin on net cost (gross cost less ancillary revenues)

• Franchise payments are contracted at 30 September 2014 prices and are largely indexed at RPI.

*based on DfT discount rate of 3.5% in real terms
Franchisee financial risk

• DfT retains passenger revenue risk (full upside and downside)

• Performance regimes

  – Thameslink Programme incentive provides £nil to £25m income for achieving milestones, mostly payable mid-term

  – There are incentives or penalties for a range of service quality targets (punctuality, passenger experience, revenue protection etc) over the life of the franchise

• Govia bears cost and ancillary revenue risk (except some infrastructure/rolling stock charges)

• Key cost risks include integration, staff, rolling stock, electricity costs and cost of sales
Franchisee financial returns

- Estimated NPV of franchise payments to Govia: £6.8bn*
  - Govia ownership: 65% Go-Ahead, 35% Keolis
  - Year 1: Franchise payments: c.£350m (September 2014 to 30 June 2015)
  - Year 2: Franchise payments: c.£1.1bn (Year to 2 July 2016, Southern integrated on 26 July 2015)

- Target average operating profit margin of c.3% over the franchise term after estimated annual non-cash margin impact of c.1% for IAS 19 (revised) pension costs

- Operating cash flow after capital expenditure broadly neutral in Year 1 and thereafter cash flow generated should largely reflect operating profit

- Expected working capital inflow of c.£45m relating to season ticket monies, treated as restricted cash

*based on DfT discount rate of 3.5% in real terms
Franchise capital structure and commitments

- Subscription for £5m of share capital

- Two subordinated contingent loan facilities totalling £136.4m to support working capital and capital investment
  - £63.9m: unbonded
  - £72.5m: 50% bonded
  - Given the expected cash flow profile of the franchise it is not anticipated that these facilities will be materially drawn over the franchise life

- Season ticket bond
  - 100% cash backed, dependent on season ticket income
  - Expected to increase from c.£45m to c.£95m on the integration of Southern

- Performance bond: £20m

- Govia will be directly funding c.£40m of investment on franchise initiatives over the franchise term. Most of which will be in the first two years
Financial summary

• Bid assessed on a weighted price and quality score

• Considerable industry expertise, analysis and challenge
  – Bottom-up analysis of the two existing franchises
  – Prudent economic and cost assumptions
  – Quantified revenue growth and cost saving initiatives
  – Independent operating performance estimates

• Good returns to Govia

• Manageable risks

• Appropriate level of parent company support
David Brown

Group Chief Executive
Next steps

• ‘Standstill period’ of ten days before the award is formally confirmed and DfT sign the contract

• Preparation has already started

• Our experienced team is working on practical mobilisation and integration plans

• Over the coming weeks and months we’ll be meeting local stakeholders to give more detailed briefings about customer benefits in their areas

• **Looking forward to putting in place the plans set out in our bid to deliver improvements for passengers and returns for taxpayers and shareholders**