

Facing the future with confidence



In a challenging market environment, our businesses have demonstrated a resilient financial performance and delivered an operating profit which is higher than our initial expectations. We are firmly of the view that this is a result of our clear and simple strategy, supported by our devolved business model and an ethos which seeks to deliver for all of our stakeholders.

Protect and grow the core

Go-Ahead has been a leading provider of bus and rail services to passengers across the UK for over 30 years. Our core bus operations in London and the UK regions provide us with stable profits and cash flows, and our UK rail operations generate additional cashflows and high returns on capital. The first pillar of our strategy is to protect and grow these activities through a strong, local customer focus, efficient operations and with appropriate investment in the future.

Bus

Operating profit, pre-exceptional items, in our bus division at £91.4m (2017: £90.7m) was slightly higher than last year, with a lower result in our regional bus business offset by an increased performance in London.

In regional bus, the industry backdrop for passenger volumes remains challenging with journeys across regional markets in England reducing by over 2%, driven largely by local authority cuts, congestion and changes in consumer behaviour. Our regional business, with its weighting towards urban areas in the south of the country, and with devolved management teams that have the flexibility and agility to respond effectively to local market conditions, saw a slightly better performance with a decline in like for like passenger volumes of 1.6%. Within this overall performance, trends remained mixed across our various markets with growth in some areas offset by declines in others. Our like for like passenger revenues grew by 0.4% and with a continued focus on cost efficiencies, our pre-exceptional operating profit of £45.8m (2017: £47.1m) was only slightly below last year's level with an operating margin of 11.9% remaining close to industry leading levels.

 [More information on page 38.](#)

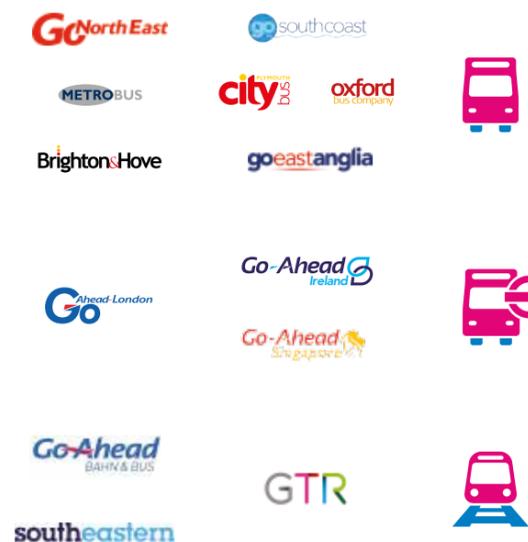
Air quality and congestion are high on the agenda and we remain resolute in our efforts to demonstrate that buses are the solution to these issues. The potential impact of the Bus Services Act remains unclear and we continue to monitor developments in Manchester, the first area where there could be changes to the current model. We believe that working with local authorities in a collaborative, mutually beneficial way is the best solution to deliver desired outcomes for passengers and taxpayers alike.

Our approach in regional bus is to focus on urban areas with growth potential. We retain our strong customer focus and are proud to have achieved the highest ever passenger satisfaction score of 91% from Transport Focus, including the highest scores for punctuality and journey time. We continue to use technology to promote bus use by making services simpler and more comfortable to use. The roll out of contactless continues across our regional bus business, accounting for up to 30% of transactions at some of our operators. Over 2,000 buses have been enabled, with Brighton and Go East Anglia also on track to provide contactless by the end of the year.

The market environment is presenting us with further consolidation and bolt-on acquisition opportunities. We remain very selective about those which we pursue and are pleased to have acquired Tom Tappin Limited, a small sightseeing operation in Oxford, and East Yorkshire Motor Services (EYMS), a larger, well established operator of over 300 buses and coaches. We are confident that these businesses will contribute positively to our results in the future.

In London, buses are still the most popular means of public transport, carrying 200 million more passenger journeys than all other Transport for London (TfL) services combined. We are the largest bus operator in the UK capital with just under a quarter of the market. Passenger demand in London is decreasing as it is in the rest of the country, with more people working from home and increasing online shopping. Budgetary pressure at TfL is resulting in a reduction in mileage for operators in London, with TfL's business plan suggesting a reduction of around 7.5% in mileage over the coming three years.

Our operating companies



As anticipated, our mileage in London for the year was down by 1% reflecting contract tenders. In this environment, we have focused our efforts on quality, which has helped us to achieve strong Quality Incentive Contract income (QICs), and on tight cost control with the development of lean engineering. This has enabled our London bus division to deliver an increased operating profit of £45.6m (2017: £43.6m) with a stable operating margin of 8.3%.

Looking forward, we support the Mayor of London's aspiration to increase the number of trips made on foot, by cycle and by public transport and believe that buses have a key role to play in delivering that vision. London is still an attractive place to run buses, and we believe that as London heads towards a population of nine million people, population growth in the suburbs will continue to stimulate demand.

“Doing the right thing for our customers has always been a core part of who we are and drives our thinking as we make improvements across the business.”

David Brown,
Group Chief Executive

Protect and grow the core



Win new bus and rail contracts



Develop for the future of transport





Rail

Operating profit in our rail division at £44.5m (2017: £59.9m) declined by 25.7% compared to last year.

London Midland performed very well during the first six months of the year prior to the expiry of the franchise and we were very disappointed that we were unsuccessful in our bid to retain the routes under the new West Midlands franchise.

Southeastern experienced a year on year reduction in passengers during the first half of the year, impacted by a shift in working patterns. This led us to accelerate our efforts to deliver business efficiencies which have borne fruit and supported profitability. During the second half of the year, passenger journeys and revenue growth showed an improvement, boosted by the resumption of full services through London Bridge station.

At GTR, prior to the introduction of the May timetable changes, operational performance was steadily improving with higher passenger satisfaction levels on our Thameslink service than at any point since 1999 according to the Spring 2018 National Rail Passenger Satisfaction (NRPS) survey. This showed an 86% overall satisfaction rate, an increase of 11 percentage points over the previous year.

In May, in partnership with the industry, we began the introduction of the largest timetable change in decades to provide new routes, greater connectivity and increased peak frequency through central London. Due mainly to the sheer number of changes required, approvals for service alterations being delayed and some timetable requests being amended, there was much less time than originally planned to prepare adequately for the new timetable. We are very sorry for the severe disruption this caused some of our passengers and we are working very hard with our industry partners to restore service to levels that we expect to deliver and our customers rightfully expect from us.

In July, we implemented a new timetable which focuses on running as many peak services as possible. I am pleased that this has stabilised the service and is now providing a schedule on which passengers can better rely and plan around. We continue to work hard to progressively implement the full benefits of the changes that had been planned for May by the next timetable change.

 [Read more on page 40.](#)

Win new bus and rail contracts

Our international expansion is a significant part of the second pillar of our strategy. Our extensive experience in the UK positions us well in international markets. Our bus contract in Singapore, which began operating in September 2016, has continued to perform well.

In Ireland, mobilisation of our first contract to operate bus services in the outer Dublin area is progressing apace and operations will commence in September 2018. Similar to the structure of bus contracts in London and Singapore, this contract will run for five years with a possible extension of two years. During the financial year, we were pleased to have been awarded a second bus contract in Ireland for services linking Dublin to commuter towns in Offaly, Laois, Kildare and Meath. These routes will begin operating in early 2019, also on a five-year contract with a possible two-year extension, and will bring the total number of routes in Ireland up to 30.

Mobilisation in Germany for the start of three rail contracts in 2019 is progressing according to plan and we were pleased to have been awarded a fourth contract to operate the E-Netz Allgäu routes. This new contract will provide regional services and important links between Munich and Lindau, within the German federal states of Bavaria and Baden-Württemberg, on a 12 year franchise which is due to start in 2021.

In total, we have now secured seven contract wins outside the UK which are expected to have an annualised turnover of around £250m once they are all operating. We are actively pursuing other opportunities in our existing and other targeted markets within a clear framework. International work enriches our market knowledge and expertise, and provides further opportunities for sharing of experiences and best practices across the Group. The goal of generating 15% to 20% of Group profit from international operations by 2022 remains unchanged and we are on a good trajectory to achieve this.

Develop for the future of transport

The third pillar of our strategy revolves around adapting to changes in the way people live their lives and how this impacts their mobility needs. We constantly strive to be more relevant to customers tomorrow than we are today so that we can continue to fulfil their evolving travel preferences. A forward thinking approach is key to future proofing the business as we seek new ways to apply skills, knowledge and assets to enable sustainable performance over the long term. We are focused on ensuring that we invest sufficiently to understand changing trends and are able to capture opportunities through a process of researching, testing and trialling.

In June, we launched the UK's largest on-demand bus service in Oxford, called PickMeUp. Passengers can summon buses via a mobile app to virtual bus stops nearby. There has been a positive initial response and we look forward to seeing how this develops with a possible roll out to other areas in the future.

During the financial year, we began working with logistics partners including the commencement of a pilot at our Crawley depot to manage deliveries in the area. Elsewhere, our Hammock IT consulting business uses existing retail and IT knowledge to provide technology solutions to local authorities and other customers and has been making good progress, winning two contracts this year. We also invested in a 12% stake in Mobileeee, a Frankfurt based, award winning start up to forge environmentally friendly car sharing schemes.

We are developing Mobility as a Service (MaaS) in Brighton to make public transport and not owning a car an easy, clear and transparent choice for end-to-end journeys. We also piloted the UK's first bus ticket system using iBeacons in Southampton earlier in the year.

In July, we launched the Billion Journey Project, a business accelerator programme to partner with scale-up businesses looking to innovate and improve the experience of travel. The programme, which will initially nurture 10 companies, offers technical assistance and mentorship from our team of transport experts and aims to support new businesses looking to change and shape the future of transport by focusing on improving passenger experiences.

Outlook

Whilst these are challenging times, we are convinced that such an environment can provide opportunities for agile, forward looking businesses. The provision of customer focused and efficient public transport services has an important role to play in local communities as an enabler of social and economic activity and it is also an answer to congestion and air quality issues. We are confident that our clear and focused strategy positions us well to address the challenges and capture the opportunities over the long term.

The business ethics and values which have always been important to us are becoming increasingly relevant. The people we have in our businesses, with our commitment to help them develop, along with our devolved management structure and forward thinking ethos, help us to keep one step ahead and our strong balance sheet provides us with the financial resources to capture opportunities and weather short term turbulence.

Looking to 2018/19, in our regional bus business, we remain focused on maintaining our leading passenger satisfaction scores, on the continued adoption of smart technology, and on capturing more benefits from the roll out of our Lean framework. Market conditions are expected to remain challenging, but we expect operating profit to show a slight improvement on the level achieved in 2017/18.



Our London bus business will see a reduction in mileage for 2018/19 resulting from TfL budget pressures and some contract losses towards the end of 2017/18. The value of our own contracts available for tender in 2018/19 is markedly lower than has been the case in the preceding two years and there are good opportunities to win work from competitors during the year.

In rail, our focus is on working with our industry partners to deliver an improved service for passengers, particularly for those travelling on services operated by our GTR franchise who experienced severe disruption after the timetable change in May. We remain hopeful of winning the new South Eastern franchise and have submitted a deliverable and economically sensible bid.

We will continue to execute our international strategy with the start of operations in Dublin and continued mobilisation in Germany, and we also expect to submit bids for additional international contracts in our targeted markets. Further progress will also be made on our various initiatives around developing for the future of transport.

For the Group overall, we expect to deliver a robust performance in 2018/19, taking into account the expiry of the London Midland franchise last year which contributed positively to the first six months of 2017/18. We expect free cashflow generation to be strong, resulting in a further reduction in net debt excluding restricted rail cash.

Looking forward, we remain confident that we are in a good position to deliver long term value for all our stakeholders and deliver our vision of a world where every journey is taken care of.



David Brown,
Group Chief Executive

5 September 2018