

PRESS RELEASE

28 February 2017

THE GO-AHEAD GROUP PLC ("GO-AHEAD" OR "THE GROUP")

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

Bus profits stable. Rail impacted by GTR.

Business overview

- Half year results in line with management expectations. Full year expectations lowered due to challenges in GTR and a slowdown in passenger numbers in regional bus
- Regional bus operating profit* up 6.2% to £25.7m. Revenue growth was 0.8% whilst passenger numbers fell by 0.7%, slightly outperforming subdued national trends
- Achieved highest customer satisfaction score in regional bus sector of 89%
- London bus, now including new Singapore bus operations, saw operating profit* up 8.6% to £21.5m. Excluding Singapore, revenue growth in London bus was 2.8% while mileage was broadly flat
- Largest operator of electric buses in the UK. Opened the UK's first fully dedicated electric depot; in London
- Rail operating profit* fell 35.0% to £26.9m, owing to losses at GTR and known bid costs. Contribution to the DfT of £42.9m
- Statutory operating profit in bus and rail was £46.4m (H1'16: £42.8m) and £26.6m (H1'16 restated: £41.0m) respectively
- Increasing levels of customer satisfaction at Southeastern and continued high levels at London Midland. Good financial performance in both franchises
- Lengthy and significant industrial relations issues at GTR related to the modernisation of working practices, required by the contract, have caused months of disrupted travel. We are working towards a resolution so we can provide a reliable service for customers
- Awaiting the outcome of bid competitions in UK rail, German rail and Singaporean bus markets. Exploring opportunities in targeted international markets, including Scandinavia
- Strong cash generation and robust balance sheet
- Stable bus profits support interim dividend increase of 6.5%

* Before amortisation

Financial summary

	HI'17 £m	HI'16* £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	1,715.6	1,665.0	50.6	3.0
Operating profit (before amortisation)	74.1	85.4	(11.3)	(13.2)
Operating profit margin (before amortisation)	4.3%	5.1%		
Statutory operating profit	73.0	83.8	(10.8)	(12.9)
Profit before tax	67.0	75.9	(8.9)	(11.7)
Basic earnings per share (p)	107.6	115.2	(7.6)	(6.6)
Dividend per share (p)	30.17	28.33	1.84	6.5

	HI'17 £m	HI'16* £m	Increase/ (decrease) £m
Cashflow generated from operations	67.0	143.6	(76.6)
Free cashflow	(60.9)	63.6	(124.5)
Net cash	227.7	313.4	(85.7)
Adjusted net debt**	286.7	260.8	25.9
Adjusted net debt/EBITDA**	1.35x	1.19x	

* Restated for the change in accounting policy regarding rail pension schemes as explained in note 3

** Adjusted net debt is net cash less restricted cash

David Brown, Group Chief Executive, commented:

"We have delivered financial results in line with expectations. Beneath these overall results there is a mixed picture. Both of our bus divisions and two of our three rail businesses performed well, but there are clearly ongoing issues at GTR which we are working hard to resolve.

"In regional bus, while variations exist between different geographical areas, revenue has continued to grow. Passenger volumes, while subdued, have outperformed national trends. The London bus business performed in line with our expectations.

"We began operating our first bus contract in Singapore in September 2016 and are pleased with the service we are providing to customers on behalf of the Land Transport Authority.

"We recently acquired two regional bus businesses which will deliver cost synergies and drive revenue in the long-term through the expertise of our local teams.

"In rail, the GTR franchise has been challenging from the outset. It is the largest and most complex franchise ever tendered in the UK, designed to facilitate change arising as a consequence of the Thameslink Programme infrastructure works. We have made significant investment in GTR, the full benefit of which cannot yet be felt by passengers while service disruption continues. Since the franchise began in September 2014, over 400 new train carriages have been introduced by GTR, more than the rest of the UK rail network combined. We have also invested in a significant driver recruitment and training programme – the largest in the UK – and have recruited an additional one hundred On Board Supervisors. In addition to the inherent challenges of operating this complex franchise, we have faced lengthy and significant industrial relations issues related to the modernisation of working practices required by the contract. Our customers have suffered months of disrupted travel, impacting work and family lives and we are sorry that such inconvenience and hardship has been caused. Discussions with trade unions are ongoing as we strive to reach a full resolution of these issues.

"During the period, the DfT indicated that it will extend the Southeastern franchise by 24 weeks, to December 2018, on existing contract terms. We look forward to our customers beginning to feel the benefit of the improvements made on this part of the railway through the Thameslink Programme, as the project nears its end in 2018.

"By the end of this financial year we expect to learn the outcome of the West Midlands franchise competition. We hope to be given the opportunity to continue the progress that has been made during our time operating as London Midland which was recently named 'the most improved organisation' in the latest UK Customer Satisfaction Index.

"Following the start of our first bus operations in Singapore, we submitted a bid for a further tranche of work during the period. We look forward to learning the outcome of the competition in the coming months and hope to continue expanding in this region. Mobilisation of our German rail contract is well underway ahead of its 2019 start date and our Berlin-based team are currently working on a number of bids. We have recently established a bid team based in Sweden to coordinate bids in Scandinavia and have been shortlisted for a rail contract in Sweden and have pre-qualified for a Norwegian rail competition.

"Despite the near term challenges, our bus and rail businesses remain fundamentally strong and we are committed to protecting our core business and delivering value. The Group is in a good financial position, with strong cash generation and a robust balance sheet allowing flexibility to pursue value-adding opportunities and make returns to shareholders."

Outlook

Our expectations for the full year have lowered in both bus and rail.

Our expectations for full year regional bus division profitability have lowered as a result of the slowdown in passenger volumes across the business, most notably in the north east and Oxford.

Performance in our London bus business is in line with expectations for the full year although securing profitable growth in this market, as always, remains challenging.

In rail, the long-running industrial relations issues in GTR have introduced additional costs and delays to expected efficiencies which will result in lower than anticipated profits in the full year.

The GTR contract is complex and was designed to cater for the significant change planned for this railway. The service disruption caused by industrial action, in response to the modernisation of working practices, has impacted GTR's performance. As a result, we are in discussions with the DfT regarding a number of contractual variations relating to these issues. At the half year, management made judgements on the outcome of these discussions. The complexity of these contractual variations and the timescales over which they will be resolved are such that there are a range of reasonably possible outcomes. Management's judgement of these outcomes is that, relating to events up to 31 December 2016, the impact on rail profitability is likely to be within a range of plus or minus £10m. Given the continuing uncertainty, our expectation for the full year is that this range will increase to plus or minus £15m. We are doing everything we can to reduce these uncertainties through discussions with the DfT. It is important these matters are resolved so they do not distract from the primary objective of trying to seek a resolution of the industrial relations issues to improve services for passengers.

There are three main drivers of long term profitability once the current issues have been resolved. First, high levels of train service reliability must be delivered for customers. Second, the additional costs of running more and longer trains on the expanded infrastructure must be agreed with the DfT using the contractual mechanisms designed to cater for these changes driven by the Thameslink Programme. Finally, the programme of driving efficiency gains envisaged at the outset of the contract must be delivered. We are working on all three areas and our outlook for the remainder of the contract is kept under constant review.

ENDS

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David Brown, Group Chief Executive and Patrick Butcher, Group Chief Financial Officer will be hosting a presentation for analysts at 9.00am today in The Bridewell Suite at Crowne Plaza London - The City, 19 New Bridge St, London EC4V 6DB.

A live audio webcast of the presentation will be available on Go-Ahead's website – www.go-ahead.com. The presentation slides will be added to Go-Ahead's website www.go-ahead.com at around 7:30am today.

Chairman's statement

We have delivered a first half result in line with our expectations, and the Group remains in a sound financial position. While operating profit in bus increased against the same period last year, as expected, overall Group performance has been significantly impacted by a reduction in rail profitability due to losses from our GTR franchise, as a result of ongoing industrial action on Southern. Looking to full year profitability, the Board has lowered its expectations in both bus and rail. Bus profits are expected to be impacted by slowing passenger volumes in regional bus. Rail profits will be affected by losses in GTR owing to additional costs and delays to expected efficiencies as a result of the impact of industrial action.

Like many business sectors, the UK public transport sector is not immune from challenges and uncertainty. Over the last three decades, our presence in the UK bus and rail markets has enabled us to deliver significant growth in passenger journeys, make large-scale investment in public transport networks and drive significant growth in the Group's market capitalisation, building a stronger business with greater prospects for the benefit of all our stakeholders.

Following the EU referendum vote in June last year, the UK faces a period of economic uncertainty. While some of our businesses are experiencing slowing growth in passenger journeys, we are not yet able to identify clear trends connecting this slowdown to the outcome of the referendum.

Performance and prospects

In line with industry trends, growth in our regional bus division has slowed in recent months. However, our local management teams are at the heart of the communities they serve and are well placed to respond quickly to customer requirements and market changes. This, together with the resilience of many of our operating areas, has enabled us to outperform the wider regional bus sector. London bus continues to perform well despite the challenges of ongoing congestion in the Capital.

Our rail division has delivered a mixed performance in the first half of the year. In GTR, operational and industrial relations issues have continued to place pressure on our customers, our colleagues and our profitability during a period of significant investment in rail infrastructure and rolling stock and modernisation of working practices. We apologise to our passengers who have faced months of severe disruption and inconvenience. Our primary aim is to improve the service for passengers and we remain in discussions with trade unions with the aim of reaching a full resolution of these ongoing issues so that we can deliver services our customers can rely on. We continue to work closely in partnership with Network Rail, the DfT, rolling stock providers and other key industry partners to deliver the longer term benefits of the Thameslink Programme.

Our Southeastern and London Midland franchises have performed well in the first half. This good performance in both franchises has resulted in contributions being made to the Government through profit share mechanisms, enabling reinvestment in rail infrastructure to support a more resilient network for the future.

We are making good progress with our strategy of gradual expansion into targeted international markets and look forward to learning the outcomes of bus and rail bid competitions in the second half of the financial year.

Dividends

In line with the Group's progressive dividend policy the interim dividend has been increased by 6.5% to 30.17p (H1'16 28.33p), supported by stable bus profitability, and is payable on 21 April 2017 to shareholders registered at the close of business on 31 March 2017.

The strength of our balance sheet and stability of bus division profitability leave us well placed to support our capital allocation policy to support existing businesses, expand in targeted markets, reserve against risk and make appropriate returns to shareholders.

Governance

Protecting the interests of our shareholders and wider stakeholders is fundamental to the Board's purpose. We strive to ensure the highest standards of corporate governance through the regular review of our Board practices and committees' terms of reference and associated policies, making changes where appropriate and always ensuring they reflect best practice. You have a strong Board, committed to growing the Group for the long term, recognising our responsibilities to all stakeholders and proud of the contribution the Group makes to society. Like our colleagues all around the business, we are constantly striving to improve and deliver positive change.

Part of good governance is ensuring the views of our shareholders are heard. For this reason, I'm hoping to meet with our major shareholders later in the year ahead of the Board's annual strategy day.

Culture

Since Go-Ahead began, as a single bus company in north east England, we have always endeavoured to be a great place to work. We strive to be an organisation that looks after its people and delivers good service to our customers.

Our people are the bedrock of our Group. It is their hard work, commitment and desire to deliver the best service possible that has enabled our successes over our many years. I would like to thank everyone across the Group for their ongoing dedication to improving service for our customers and building a stronger Go-Ahead.

Our teams around the business have been thinking more about what it means to work for Go-Ahead; the attitudes we have and the behaviours we display that enable us to move closer towards our vision: "A world where every journey is taken care of". We are already seeing the benefit of this renewed focus on our culture and I look forward to meeting colleagues around the business in the coming months to hear more about the progress that is being made.

Chairman's statement continued

Sustainability

Operating in a sustainable way is very important to us and all of our stakeholders, and running our Group responsibly is a priority for us. During this period, we were pleased to retain our Carbon Trust accreditation and receive the joint highest Carbon Disclosure Project score in the bus and rail sector.

Our vision reflects our focus on the customer experience. We always strive to improve the service we provide and make travelling on our buses and trains easier and more enjoyable. For example, we have recently introduced a new payment channel, PayPal, across our bus and rail operations, making it quicker and easier to buy tickets through our mobile apps.

Our teams around the business are key to our success and we believe that investing in the development of our colleagues through training, talent management and succession planning is beneficial to us as a Group, our people and our customers.

The financial sustainability of the Group is also important to all stakeholders. We operate with strong financial discipline and believe in transparency of reporting.

Conclusion

I place great trust in our management to steer us successfully through the challenges we face and I have every confidence that our teams will make every effort to deliver the best possible service to our customers, moving ever closer to a world where every journey is taken care of.

Andrew Allner,
Chairman

27 February 2017

Chief Executive's Review

Performance overview

The Group's bus division delivered a robust financial performance in the first half of the year, with operating profit up 7.3% to £47.2m (H1'16: £44.0m). The regional bus business saw a 6.2% increase in operating profit, largely as a result of fuel cost savings. London bus delivered growth in operating profit of 8.6%, principally due to higher Quality Incentive Contract (QIC) bonuses in the first quarter of the year. As expected, this good QICs performance began to slow in the second quarter, a trend which has continued into the second half of the year.

In rail, Southeastern and London Midland delivered good results, with both franchises returning money to the Government during the period through profit share mechanisms. GTR made a loss as a result of ongoing industrial relations issues requiring additional investment and delaying expected efficiencies and therefore, rail operating profit fell 35.0% to £26.9m (H1'16 restated: £41.4m).

Overall Group operating profit reduced by 13.2% to £74.1m (H1'16 restated: £85.4m).

Bus

In regional bus, while variations exist between different geographical areas, revenue has continued to grow. Passenger volumes, while subdued, have outperformed national trends. We believe these trends are partly driven by structural change in the market due to factors such as road congestion and reduced high street footfall, as well as isolated issues in specific areas. Trading in the north east remained challenging in the first half of the year whilst in Oxford, retail infrastructure developments in the city centre, due to be completed in October 2017 continued to suppress passenger demand. Other areas have been more resilient, with growth in passenger numbers. Higher insurance claim costs and other cost base increases were more than offset by fuel cost savings in the period.

For the third year running all of our regional bus services have been part of the national bus passenger survey undertaken by independent watchdog Transport Focus and we were pleased to achieve 89%, the highest score in the sector, in the last survey. We place great emphasis on measuring the value our customers place on our services.

London bus revenue, excluding Singapore bus operations, increased by 2.8%, while mileage was broadly flat, in line with our expectations. However, London continues to suffer from increasing congestion, making it harder to run a reliable bus service on behalf of Transport for London (TfL) and consequently earn revenue from QIC bonuses. The implications of congestion in the Capital are far reaching and tackling this issue is firmly on the agenda of the Mayor and TfL. The London Assembly Transport committee recently published a report addressing the impacts of congestion on the Capital, calling for the Congestion Charge to be reformed to target the most congested areas. We are pleased that the issue of congestion is high on the agenda and will strive to inform and support TfL in its approach to tackling this pervasive issue which affects all road users, the environment and the economy.

For the first time, the London bus division includes results from our bus operations in Singapore. We began operating our first contract in that market in September 2016 and are pleased with the service we are providing to customers on behalf of the Land Transport Authority.

During the period, we invested over £70m in 254 new buses, predominantly in London. We are now the largest operator of electric buses in the UK, with the first fully dedicated electric depot in Waterloo.

The Bus Services Bill, proposed under the previous Government in 2015, continues to be considered by Parliament. The Government consultation on the draft regulations associated to the Bus Services Bill is underway and we will be contributing to this. Go-Ahead has helped shape the evolution of this Bill through continual engagement with the Secretary of State for Transport and the DfT. Our view, that private sector investment is fundamental to the future of local bus services, remains unchanged. Over the last three decades, Go-Ahead has invested significant resources into improving local bus services and have laid strong foundations for future development. It is important that these foundations are not eroded to the detriment of passengers. We firmly believe that strong partnerships with local authorities will deliver the best outcome for passengers and local taxpayers.

Following the half year end we acquired a bus company, Thamesdown Transport Limited, from Swindon Borough Council. The business, which currently operates 85 buses, will be managed by our operating company, Go South Coast. During the half year, another small acquisition, Excelsior Coaches, which operated 22 coaches, was also made by our operating company, Go South Coast. "Bolt-on" acquisitions like these allow us to deliver cost synergies and drive revenue in the long-term through the expertise of our local teams. Gradual market consolidation since privatisation in the 1980s has left a relatively small pool of opportunities like this in the UK. However, our bus development team continually assesses the market for value adding acquisitions. We also regularly consider the attractiveness of tendered contracts in the UK, exercising the financial discipline we apply across the Group when bidding.

Rail

Over the two decades that we have operated rail services on behalf of the DfT we have seen significant change and challenge in the industry. Some of this has impacted us directly, and some the wider industry and our peers. Despite the challenges we have faced over this time, rail has played a significant role in the Group, both in terms of financial contribution and the sharing of good industry practice. We continue to see UK rail as an attractive market that we believe will deliver sustainable returns over the long term.

London Midland performed well in the period and is expected to continue making contributions to the DfT through a profit share mechanism until the end of the franchise term, in October 2017. By the end of this financial year we expect to learn the outcome of the West Midlands franchise competition. Our bid reflects good value for the Government and acceptable risks and returns for our shareholders. We hope to be given the opportunity to continue the progress that has been made during our time operating as London Midland which was recently named 'the most improved organisation' in the latest UK Customer Satisfaction Index.

Chief Executive's Review continued

During the period, the DfT indicated that it will extend the Southeastern franchise by 24 weeks, to December 2018, on existing contract terms. The performance of this franchise has also been impacted by the Thameslink Programme infrastructure works underway at London Bridge and we look forward to our customers beginning to feel the benefit of these improvements as the project nears its end in 2018. While the financial performance of this franchise has been good, with contributions to the DfT through a profit share mechanism, Southeastern is expected to cease making substantive profit share contributions in April 2017 as profitability is impacted by declining passenger numbers. A cost reduction plan is in place to mitigate reducing revenue.

The GTR franchise has been challenging from the outset. It is the largest and most complex franchise ever tendered in the UK, designed to facilitate change arising as a consequence of the long-running infrastructure work which is part of the Thameslink Programme. Alongside Network Rail and the DfT, Go-Ahead is playing a key role in the introduction of these changes that will transform the travelling experience of millions of people. In addition to the inherent challenges of operating this complex franchise, we have faced lengthy and significant industrial relations issues related to the implementation of modernisation plans required by our contract, including the introduction of new trains and changing working practices. Our customers have suffered months of disrupted travel, impacting work and family lives and we are sorry that such inconvenience and hardship has been caused. Discussions with trade unions are ongoing as we strive to reach a full resolution of these issues. We have made significant investment in GTR, the full benefit of which cannot yet be felt by passengers while service disruption continues. Since the franchise began in September 2014, over 400 new train carriages have been introduced by GTR, more than the rest of the UK rail network combined. We have also invested in a significant driver recruitment and training programme – the largest in the UK – and have recruited an additional one hundred On Board Supervisors.

As described above, the GTR contract is complex and was designed to cater for the significant change planned for this railway. The service disruption caused by industrial action, in response to the modernisation of working practices, has impacted GTR's performance. As a result, we are in discussions with the DfT regarding a number of contractual variations relating to these issues. At the half year, management made judgements on the outcome of these discussions. The complexity of these contractual variations and the timescales over which they will be resolved are such that there are a range of reasonably possible outcomes. Management's judgement of the range of these outcomes is explained in the outlook.

International developments

Following the start of our first bus operations in Singapore, we have submitted a bid for a further tranche of work, similar in size and nature. We look forward to learning the outcome of the competition in the coming months and hope to continue expanding in this region.

Mobilisation of our German rail contract is well underway ahead of its 2019 start date and our Berlin-based team are currently working on a number of bids, due for submission in the second half of the year.

We have recently established a bid team based in Sweden to coordinate bids in Scandinavia. We have been shortlisted for a rail contract in Sweden and have pre-qualified for a Norwegian rail competition. The characteristics of both markets are aligned with our targeted international expansion strategy and we look forward to pursuing these opportunities further.

Our international aspirations remain focused and targeted. Our bus and rail development teams use clear criteria aligned with the Group's strategy and risk appetite, to identify attractive markets and bid opportunities. Whilst we remain committed to our existing UK markets and believe they continue to offer value to the Group, we see growth opportunities in other targeted markets.

Outlook

Our expectations for the full year have lowered in both bus and rail.

Our expectations for full year regional bus division profitability have lowered as a result of the slowdown in passenger volumes across the business, most notably in the north east and Oxford. We also anticipate slightly higher insurance claim costs in the second half of the year as a result of several new claims in the regional business following the half year end.

Performance in our London bus business is in line with expectations for the full year although securing profitable growth in this market, as always, remains challenging.

In rail, the long-running industrial relations issues in GTR have introduced additional costs and delays to expected efficiencies which will result in lower than anticipated profits in the full year. Additionally, as described above, there are a number contractual discussions underway with the DfT that have a range of reasonably possible outcomes. Management's judgement of these outcomes is that, relating to events up to 31 December 2016, the impact on rail profitability is likely to be within a range of plus or minus £10m. Given the continuing uncertainty, our expectation for the full year is that this range will increase to plus or minus £15m. We are doing everything we can to reduce these uncertainties through discussions with the DfT. It is important these matters are resolved so they do not distract from the primary objective of trying to seek a resolution of the industrial relations issues to improve services for passengers.

There are three main drivers of long term profitability once the current issues have been resolved. First, high levels of train service reliability must be delivered for customers. Second, the additional costs of running more and longer trains on the expanded infrastructure must be agreed with the DfT using the contractual mechanisms designed to cater for these changes driven by the Thameslink Programme. Finally, the programme of driving efficiency gains envisaged at the outset of the contract must be delivered. We are working on all three areas and our outlook for the remainder of the contract is kept under constant review.

Despite the near term challenges, our bus and rail businesses remain fundamentally strong and we are committed to protecting our core business and delivering value. The Group is in a good financial position, with strong cash generation and a robust balance sheet.

David Brown
Group Chief Executive

27 February 2017

Business and finance review

As announced on 29 November 2016, in line with our commitment to transparent reporting and to be consistent with emerging industry practice, we have changed the way in which we account for rail pension schemes in the income statement. Prior year comparative figures have been restated accordingly in the financial statements for the six months ended 31 December 2016. Note 3 contains further details of the restatement for the year ended 2 July 2016 and the six months ended 26 December 2015.

Unless otherwise stated, references made to operating profit throughout this report exclude amortisation.

The London bus division now includes the Singaporean bus operation which started trading on 4 September 2016.

Revenue and operating profit by division

	HI'17 £m	Restated HI'16 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue				
Regional bus	187.6	186.1	1.5	0.8
London bus	259.2	237.3	21.9	9.2
Total bus	446.8	423.4	23.4	5.5
Rail	1,268.8	1,241.6	27.2	2.2
Total	1,715.6	1,665.0	50.6	3.0
Operating profit				
Regional bus	25.7	24.2	1.5	6.2
London bus	21.5	19.8	1.7	8.6
Total bus	47.2	44.0	3.2	7.3
Rail	26.9	41.4	(14.5)	(35.0)
Total	74.1	85.4	(11.3)	(13.2)

Summary income statement

	HI'17 £m	Restated HI'16 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	1,715.6	1,665.0	50.6	3.0
Operating profit	74.1	85.4	(11.3)	(13.2)
Amortisation	(1.1)	(1.6)	0.5	31.3
Share of result of associate	(0.2)	–	(0.2)	n/a
Net finance costs	(5.8)	(7.9)	2.1	26.6
Profit before tax	67.0	75.9	(8.9)	(11.7)
Tax expense	(10.8)	(12.7)	1.9	15.0
Profit for the period	56.2	63.2	(7.0)	(11.1)
Non-controlling interests	(10.1)	(13.7)	3.6	26.3
Profit attributable to members	46.1	49.5	(3.4)	(6.9)
Weighted average number of shares (m)	42.9	43.0	(0.1)	(0.2)
Basic earnings per share (p)	107.6	115.2	(7.6)	(6.6)
Proposed dividend per share (p)	30.17	28.33	1.84	6.5%

Overview and highlights

Group revenue has increased as a result of continued growth in the rail division and the start of bus operations in Singapore. Additional costs and delays to expected efficiencies as a result of ongoing industrial action in GTR, as well as increased bidding activity have depressed Group operating profit. This reduction is reflected in earnings per share and profit after tax, although the effect has been mitigated by lower finance costs. The adjusted net debt (net cash less restricted cash in the rail division) to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio remains below the target range of 1.5x to 2.5x at 1.35x.

Business and finance review continued

Bus

	HI'17	HI'16
Revenue		
Regional bus	£187.6m	£186.1m
London bus	£259.2m	£237.3m
Total bus	£446.8m	£423.4m
Operating profit		
Regional bus	£25.7m	£24.2m
London bus	£21.5m	£19.8m
Total bus	£47.2m	£44.0m
Operating profit margin		
Regional bus	13.7%	13.0%
London bus	8.3%	8.3%
Total bus	10.6%	10.4%
Revenue growth		
Regional bus	0.8%	2.6%
London bus*	2.8%	3.7%
Volume growth		
Regional bus – passenger journeys	(0.7%)	(0.5%)
London bus – miles operated*	(0.2%)	2.3%
Customer satisfaction**		
Regional bus	89%	90%

* On a like for like basis, excluding the Singaporean bus operations which began trading on 4 September 2016

** Based on Passenger Focus' annual independent passenger survey

Overall bus performance review

Overall bus operations delivered a small improvement in half year operating profits, with growth in revenue and reduced costs for fuel more than offsetting higher insurance claims and other cost base increases. Operating profit rose 7.3%, or £3.2m, to £47.2m (HI'16: £44.0m) and operating profit margin increased by 0.2ppts to 10.6% (HI'16: 10.4%).

Capital expenditure

Capital expenditure for the division was £81.3m (HI'16: £52.7m), including £71.3m on 254 new buses (HI'16: £38.0m on 179 new buses). We expect full year bus division capital expenditure of around £115m, with the majority of expenditure in London, reflecting the timing of contract renewals.

Regional bus

Revenue

Regional bus revenue growth was 0.8%, driven by higher contract income and fare increases in line with inflation. A decline of 0.7% in passenger numbers is the result of a continued slowdown in the north east and the impact of retail infrastructure developments in Oxford city centre. Passenger growth, excluding these areas, was 0.2%. This was driven by an increase in commercial passengers, offsetting a decline in concessionary travel. Mileage operated in regional services increased 0.9% year on year.

Operating profit

Regional bus operating profit was £25.7m (HI'16: £24.2m), up 6.2%, or £1.5m, driven by revenue growth and lower fuel costs. Operating profit margins increased 0.7ppts to 13.7% (HI'16: 13.0%).

HI'16 operating profit	£24.2m
Change in:	
Revenue	£1.5m
Cost base	(£1.5m)
Fuel costs	£2.9m
Insurance claim costs	(£0.4m)
Depreciation	(£1.0m)
HI'17 operating profit	£25.7m

Business and finance review continued

London bus

Revenue

In the first half of the year, London bus revenue saw growth of 2.8% on a like for like basis, excluding revenue of £15.2m from the Singaporean bus operation which began trading on 4 September 2016. Like for like mileage fell by 0.2%.

Operating profit

Operating profit for the London bus operations was £21.5m (H1'16: £19.8m), up 8.6%, or £1.7m. The operating profit margin remained at 8.3% (H1'16: 8.3%).

H1'16 operating profit	£19.8m
Change in:	
Revenue	£3.9m
Cost base	(£3.3m)
QIC bonuses	£2.9m
Fuel costs	£2.8m
Depreciation	(£2.9m)
Insurance claim costs	(£0.8m)
Bid costs	(£0.9m)
H1'17 operating profit	£21.5m

Rail

	H1'17	Restated H1'16
Total revenue	£1,268.8m	£1,241.6m
Operating profit	£26.9m	£41.4m
Operating profit margin	2.1%	3.3%
Passenger revenue growth*		
Southeastern	2.5%	6.1%
London Midland	5.9%	9.6%
GTR**	(6.4%)	5.9%
Passenger journey growth*		
Southeastern	0.1%	3.6%
London Midland	4.3%	4.7%
GTR	(3.4%)	6.4%
Punctuality†		
Southeastern	86%	86%
London Midland	88%	87%
GTR	71%	80%
Customer satisfaction**		
Southeastern	77%	75%
London Midland	85%	86%
GTR	72%	78%

* On a like for like basis adjusted for one off factors

** Represents passenger revenue collected on behalf of the DfT

† DfT Public Performance Measure on a moving annual average basis

** Based on the Transport Focus National Rail Passenger Survey – Autumn 2016

Business and finance review continued

Performance review

The rail division operates the Southeastern, London Midland and GTR franchises through a 65% owned subsidiary, Govia.

In the first half of the year, the rate of revenue growth for Southeastern slowed in line with national trends, with passenger revenue growth of 2.5%, compared with assumed growth of over 6% in the direct award contract. Growth in passenger numbers was 0.1%, lower than expected due to changes in the allocation of Travelcard usage between operators. Southeastern made a contribution of £6.1m (H1'16: £14.7m) to the Government through a profit share mechanism in the first half of the year.

London Midland continues to trade well and is expected to make profit share payments to the DfT for the remainder of the franchise. Profit share payments in the period amounted to £5.9m (H1'16: £nil). London Midland reported 5.9% growth in passenger revenue and 4.3% growth in passenger journeys.

GTR has reported a 6.4% decline in passenger revenue and a 3.4% decline in passenger journeys, compared with the same period last year. This is primarily due to the impact of industrial action on GTR's Southern services. This disruption has significantly impacted customer satisfaction in the period, with Southern's score particularly affected. The GTR team continues to work towards a resolution to these issues and provide the best possible service to customers under the circumstances. The industrial action has resulted in additional costs being incurred and delays to expected efficiencies, impacting financial performance. The service disruption caused by industrial action, in response to the modernisation of working practices, has impacted GTR's performance. As a result, we are in discussions with the DfT regarding a number of contractual variations relating to these issues. At the half year, management made judgements on the outcome of these discussions. The complexity of these contractual variations and the timescales over which they will be resolved are such that there are a range of reasonably possible outcomes. Management's judgement of these outcomes is that, relating to events up to 31 December 2016, the impact of rail profitability is likely to be within a range of plus or minus £10m. Given the continuing uncertainty, our expectation for the full year is that this range will increase to plus or minus £15m. Rail bid costs in the half year were £7.1m (H1'16: £2.3m), primarily relating to German bids and the West Midlands franchise bid. We expect full year bid costs of around £13m, with ongoing bidding activity in Germany and Scandinavia.

Revenue

Total rail revenue increased by 2.2%, or £27.2m, to £1,268.8m. This consisted of:

	H1'17 £m	H1'16 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Passenger revenue				
Gross passenger revenue*	1,200.0	1,237.0	(37.0)	(3.0)
GTR revenue adjustment**	(97.1)	(142.3)	45.2	31.8
Total passenger revenue	1,102.9	1,094.7	8.2	0.7
Other revenue	101.1	93.9	7.2	7.7
Subsidy and revenue support				
Southeastern subsidy	21.9	30.0	(8.1)	(27.0)
London Midland subsidy	42.2	20.1	22.1	(110.0)
Southern revenue support	–	2.9	(2.9)	n/a
London Midland revenue support	0.7	–	0.7	n/a
Total subsidy and revenue support	64.8	53.0	11.8	22.3
Total revenue	1,268.8	1,241.6	27.2	2.2

* Includes passenger revenue of £658.8m (H1'16: £642.4m) collected by GTR on behalf of the DfT

** Represents passenger revenue generated and payable to the DfT in excess of the management fee payable to GTR for operating the franchise, which is remitted to the DfT.

Business and finance review continued

Group's overall net contribution to the DfT

	HI'17 £m	HI'16 £m	Increase/ (decrease) £m
GTR revenue adjustment	97.1	142.3	(45.2)
Southern's core premium (settlement)/payment	(1.4)	20.7	(22.1)
Subsidy receipts – Southeastern	(21.9)	(30.0)	8.1
Subsidy receipts – London Midland	(42.2)	(20.1)	(22.1)
Revenue support - Southern	–	(2.9)	2.9
Revenue support – London Midland	(0.7)	–	(0.7)
Profit share – Southeastern	6.1	14.7	(8.6)
Profit share – London Midland	5.9	–	5.9
Revenue share – London Midland	–	1.9	(1.9)
Group's overall contribution to DfT	42.9	126.6	(83.7)

The GTR revenue adjustment of £97.1m reflects the difference between passenger revenue and the franchise payment from the DfT, as set out in the bid model. The GTR revenue adjustment was a payment to the DfT which reduced by £45.2m in the period due to the impact of industrial action on passenger revenue.

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

Operating profit

Half year operating profit from our rail businesses was £26.9m (HI'16 restated: £41.4m). The division's operating profit margin decreased by 1.2ppts to 2.1% (HI'16 restated: 3.3%), largely as a result of costs in GTR.

HI'16 operating profit (restated)	£41.4m
Change in:	
Southeastern profitability	(£1.7m)
London Midland profitability	£5.1m
GTR/Southern profitability	(£10.8m)
Central costs	(£2.3m)
Bid costs	(£4.8m)
HI'17 operating profit	£26.9m

Capital expenditure

Capital expenditure in rail was £12.5m (HI'16: £6.4m), of which £1.4m related to Southeastern, £1.5m related to London Midland and £9.6m related to GTR. Full year rail capital expenditure is expected to be around £35m.

Business and finance review continued

Other financial items

Pensions

Operating profit includes the net cost of the Group's defined benefit pension plans for the period of £19.7m (H1'16 restated: £24.4m), comprising bus costs of £0.9m (H1'16: £1.1m) and rail costs of £18.8m (H1'16 restated: £23.3m). Group contributions to the schemes totalled £22.0m (H1'16: £25.8m).

The net deficit after taxation on the bus defined benefit schemes was £27.3m (2 July 2016: £2.2m), consisting of pre tax liabilities of £32.9m (2 July 2016: £2.7m) less a deferred tax asset of £5.6m (2 July 2016: £0.5m). The pre tax deficit consisted of estimated liabilities of £817.5m (2 July 2016: £765.8m) less assets of £784.6m (2 July 2016: £763.1m). The percentage of assets held in higher risk, return seeking assets was 51% (2 July 2016: 48%).

An asset backed funding arrangement is in place which gives the bus pension scheme trustees a right to the income generated from some Group properties. This reduces the actuarial deficit in the scheme at triennial scheme valuations which are used to determine future contribution levels. For the purposes of IAS 19 (revised) this interest has nil value within scheme assets as the properties involved are included in property, plant and equipment in the Group financial statements.

As the long term responsibility for the rail pension schemes rests with the DfT only the share of surplus or deficit expected to be realised over the life of each franchise is recognised. At the half year end the rail pension scheme deficit was £nil (2 July 2016: £nil).

In the financial statements for the six months ended 31 December 2016, The Go-Ahead Group plc has changed the way in which it accounts for rail pension schemes in its income statement. See note 3 of the interim consolidated financial statements for details.

Fuel hedging activity

The fuel spot price on 31 December 2016 was 35 pence per litre (ppl) (30 June 2016: 27ppl). The increase in the spot price resulted in a significant movement in the value of the fuel derivative during the period from a liability of £13.6m at 2 July 2016 to an asset of £6.2m at 31 December 2016. The movement in the value of the fuel derivative does not impact the income statement, it is taken through reserves.

Fuel is hedged in sterling and therefore the hedges are not subject to foreign exchange risk.

Intangible amortisation and exceptional operating costs

The amortisation charge for the period of £1.1m (H1'16: £1.6m) represents the non-cash cost of amortising intangible items including acquired contracts and software costs. The charge was lower than the prior year due to some acquired contracts and franchise bid costs coming to the end of their period of amortisation.

There were no exceptional operating costs in the period (H1'16: £nil).

Share of result of associate

Share of result of associate for the period was a loss of £0.2m (H1'16: £nil), relating to a 50% share of the results of On Track Retail Limited.

Net finance costs

Net finance costs for the period were £5.8m (H1'16: £7.9m), comprising finance costs of £7.2m (H1'16: £9.4m) less finance revenue of £1.4m (H1'16: £1.5m). The average net interest rate for the period was 4.0% (H1'16: 4.2%).

Taxation

Net tax for the period of £10.8m (H1'16 restated: £12.7m) includes the impact of the opening deferred tax rate reduction of £3.3m credit (H1'16: £3.0m credit), following the substantive enactment of the corporation tax rate reduction from 18% to 17% at the half year. Excluding the impact of the opening deferred tax rate reduction, the underlying tax charge was consistent with expectations and reflects an effective tax rate of 21.0% (H1'16 restated: 20.7%) being above the statutory rate for the period of 19.75% as a result of German bid costs and other disallowable expenditure. The effective tax rate for the full year is expected to be around 21% after excluding the impact of the opening deferred tax rate reduction.

Non-controlling interests

Non-controlling interests in the income statement of £10.1m (H1'16 restated: £13.7m) are a result of our holding of 65% of Govia Limited which owns 100% of our current rail operations and therefore represents 35% of the profit after taxation of these operations.

Earnings per share

Profit attributable to members was £46.1m in the period (H1'16 restated: £49.5m) resulting in basic earnings per share of 107.6p (H1'16 restated: 115.2p). The reduction in basic earnings per share is as a result of a reduction in operating profit.

The weighted average number of shares decreased to 42.9 million (H1'16: 43.0 million). The closing number of shares in issue, net of treasury shares was also 42.9 million (H1'16: 43.0 million).

Dividends

The Board proposes an increase in the interim dividend to 30.17p (H1'16: 28.33p), an increase of 6.5%. This is payable on 21 April 2017 to shareholders registered at the close of business on 31 March 2017.

Dividends paid in the period represent the payment of last year's final dividend of 67.52p (H1'16: 63.4p), giving a total dividend in respect of the full year ended 2 July 2016 of 95.85p (27 June 2015: 90.0p).

Business and finance review continued

Summary cashflow

	H1'17 £m	Restated H1'16 £m	Increase/ (decrease) £m
EBITDA	104.9	112.6	(7.7)
Working capital/other items	(37.9)	31.0	(68.9)
Cashflow generated from operations	67.0	143.6	(76.6)
Tax paid	(18.7)	(10.2)	(8.5)
Net interest paid	(13.1)	(11.5)	(1.6)
Net capital investment	(96.1)	(58.3)	(37.8)
Free cashflow	(60.9)	63.6	(124.5)
Purchase of businesses	(1.1)	(0.5)	(0.6)
Interest bearing loans and borrowings acquired on purchase of businesses	(2.1)	(1.1)	(1.0)
Payment to acquire treasury shares	(1.9)	(2.1)	0.2
Dividends paid	(29.3)	(39.4)	10.1
Movement in net cash	(95.3)	20.5	(115.8)
Opening net cash	323.0	292.9	30.1
Closing net cash	227.7	313.4	(85.7)

Cashflow

Cashflow generated from operations before taxation decreased by £76.6m to £67.0m (H1'16: £143.6m) largely as a result of a negative movement in working capital and other items of £37.9m (H1'16 restated: a positive working capital movement of £31.0m). The majority of the negative working capital movement is due to the timing of contractual payments in the rail division.

Tax paid of £18.7m (H1'16: £10.2m) related to the final instalments of the 2015/16 tax year and a payment to settle an outstanding tax provision of £4.9m from prior years. Net interest paid of £13.1m (H1'16: £11.5m) was higher than the net charge for the period of £5.8m (H1'16: £7.9m) due to accrued amounts in respect of interest on the sterling bond which is paid annually in September each year. Capital expenditure, net of sale proceeds in the period, was £96.1m (H1'16: £58.3m). Capital expenditure for the full year is expected to be around £150m.

Capital structure

	H1'17 £m	Restated H1'16 £m	Restated FY'16 £m
Five year syndicated facility 2021	280.0	280.0	280.0
7½ year £200m 5.375% sterling bond 2017	200.0	200.0	200.0
Total core facilities	480.0	480.0	480.0
Amount drawn down at half year end	395.0	308.0	313.0
Balance available	85.0	172.0	167.0
Restricted cash	514.4	574.2	562.3
Net cash	(227.7)	(313.4)	(323.0)
Adjusted net debt	286.7	260.8	239.3
EBITDA	104.9	112.6	220.8
Adjusted net debt/EBITDA (twelve month rolling basis)	1.35x	1.19x	1.08x

Significant medium term finance is secured through our revolving credit facility (RCF) and £200m sterling bond. The RCF has a maturity of July 2021.

Net cash / (debt)

Net cash was £227.7m at the half year end (2 July 2016: net cash £323.0m; H1'16: net cash £313.4m). This largely reflects the working capital movement in the rail division and high capital expenditure in the bus division in the period. As the rail division working capital movement is included within restricted cash, adjusted net debt is primarily impacted by bus capital expenditure.

Adjusted net debt, consisting of net cash less restricted cash in our rail division of £514.4m (H1'16: £574.2m), was £286.7m (H1'16: £260.8m), equivalent to 1.35x EBITDA (2 July 2016 restated: 1.08x; H1'16 restated: 1.19x), below our target range of 1.5x to 2.5x, as expected.

Net cash comprised the £200m sterling bond (H1'16: £200m), amounts drawn down against the £280.0m five year revolving credit facility of £195.0m (H1'16: £108.0m), hire purchase and lease agreements of £2.0m (H1'16: £nil) less cash and short term deposits of £624.7m (H1'16: £621.4m).

Risk management

During the period, the Board reviewed the risks and uncertainties described in the Group's Annual report and Accounts for the year ended 2 July 2016 and identified the following principal risks and uncertainties affecting the Group's business for the second six months of the financial year ended 1 July 2017. The key risks and uncertainties include external, strategic and operational factors as outlined in note 4 in the notes to the interim consolidated financial statements.

More details about these risks can be found on pages 43 – 45 of the 'Managing Risk' section of the Group Annual Report and Accounts for the year ended 2 July 2016, available on our website at www.go-ahead.com.

Responsibility and cautionary statements

Responsibility statements

We confirm that to the best of our knowledge:

- the interim financial statements have been prepared in accordance with IAS34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by the Financial Conduct Authority's Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Patrick Butcher
Group Chief Financial Officer

27 February 2017

Cautionary statement

This report is addressed to shareholders of The Go-Ahead Group plc and has been prepared solely to provide information to them.

This half yearly report is intended to inform the shareholders of the Group's performance during the six months to 31 December 2016 and this report and the announcement under which it was released do not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Go-Ahead Group shares or other securities. This report contains forward looking statements based on knowledge and information available to the Directors at the date the report was prepared. These statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information and any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Interim consolidated income statement

for the six months ended 31 December 2016

		Six months to 31 Dec 16 £m Unaudited	Restated* Six months to 26 Dec 15 £m Unaudited	Restated* Year to 2 Jul 16 £m Audited
	Notes			
Group revenue	5	1,715.6	1,665.0	3,361.3
Operating costs (excluding amortisation)		(1,641.5)	(1,579.6)	(3,195.7)
Intangible asset amortisation		(1.1)	(1.6)	(3.0)
Total operating costs		(1,642.6)	(1,581.2)	(3,198.7)
Group operating profit		73.0	83.8	162.6
Group operating profit (before amortisation)	5	74.1	85.4	165.6
Share of result of associate		(0.2)	–	–
Finance revenue		1.4	1.5	3.2
Finance costs		(7.2)	(9.4)	(20.8)
Profit on ordinary activities before taxation		67.0	75.9	145.0
Tax expense	6	(10.8)	(12.7)	(26.9)
Profit for the period from continuing operations		56.2	63.2	118.1
Attributable to:				
Equity holders of the parent		46.1	49.5	93.7
Non-controlling interests		10.1	13.7	24.4
		56.2	63.2	118.1
Earnings per share				
– basic	7	107.6p	115.2p	218.2p
– diluted	7	106.9p	113.4p	216.9p
Dividend paid (pence per share)	10	67.52p	63.40p	91.73p
Dividend proposed (pence per share)	10	30.17p	28.33p	67.52p

* Restated for the change in accounting policy regarding rail pension schemes as explained in note 3

Interim consolidated statement of comprehensive income

for the six months ended 31 December 2016

	Notes	Six months to 31 Dec 16 £m Unaudited	Restated Six months to 26 Dec 15 £m Unaudited	Restated Year to 2 Jul 16 £m Audited
Profit for the period		56.2	63.2	118.1
Other comprehensive income/(losses)				
Items that will not be reclassified to profit or loss				
Remeasurements on defined benefit retirement plans		(32.5)	–	55.6
Tax relating to items that will not be reclassified	6	5.5	(1.2)	(11.3)
		(27.0)	(1.2)	44.3
Items that may subsequently be reclassified to profit or loss				
Unrealised gains/(losses) on cashflow hedges		15.5	(35.4)	(17.4)
Losses on cashflow hedges taken to income statement – operating costs		4.3	13.3	28.7
Tax relating to items that may be reclassified	6	(4.0)	4.5	(2.1)
Foreign exchange gain		–	–	0.4
		15.8	(17.6)	9.6
Other comprehensive (losses)/income for the period, net of tax		(11.2)	(18.8)	53.9
Total comprehensive income for the period		45.0	44.4	172.0
Attributable to:				
Equity holders of the parent		34.9	30.7	147.6
Non-controlling interests		10.1	13.7	24.4
		45.0	44.4	172.0

Interim consolidated statement of changes in equity

for the six months ended 31 December 2016

	Share capital £m	Reserve for own shares £m	Hedging reserve £m	Other reserve £m	Capital redemption reserve £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total £m
At 27 June 2015	72.1	(68.8)	(20.0)	1.6	0.7	79.7	65.3	17.4	82.7
Profit for the year restated	–	–	–	–	–	93.7	93.7	24.4	118.1
Net movement on hedges (net of tax) (note 12)	–	–	9.2	–	–	–	9.2	–	9.2
Remeasurements on defined benefit retirement plans (net of tax) restated	–	–	–	–	–	44.3	44.3	–	44.3
Foreign exchange gain	–	–	–	–	–	0.4	0.4	–	0.4
Total comprehensive income	–	–	9.2	–	–	138.4	147.6	24.4	172.0
Exercise of share options	–	2.3	–	–	–	(2.3)	–	–	–
Acquisition of own shares	–	(4.4)	–	–	–	–	(4.4)	–	(4.4)
Share based payment charge (and associated tax)	–	–	–	–	–	2.0	2.0	–	2.0
Dividends (note 10)	–	–	–	–	–	(39.4)	(39.4)	(17.8)	(57.2)
At 2 July 2016	72.1	(70.9)	(10.8)	1.6	0.7	178.4	171.1	24.0	195.1
Profit for the period	–	–	–	–	–	46.1	46.1	10.1	56.2
Net movement on hedges (net of tax) (note 12)	–	–	15.8	–	–	–	15.8	–	15.8
Remeasurements on defined benefit retirement plans (net of tax)	–	–	–	–	–	(27.0)	(27.0)	–	(27.0)
Total comprehensive income	–	–	15.8	–	–	19.1	34.9	10.1	45.0
Exercise of share options	–	1.3	–	–	–	(1.3)	–	–	–
Acquisition of own shares	–	(1.9)	–	–	–	–	(1.9)	–	(1.9)
Share based payment charge	–	–	–	–	–	1.3	1.3	–	1.3
Dividends (note 10)	–	–	–	–	–	(28.9)	(28.9)	(0.4)	(29.3)
At 31 December 2016	72.1	(71.5)	5.0	1.6	0.7	168.6	176.5	33.7	210.2

	Share capital £m	Reserve for own shares £m	Hedging reserve £m	Other reserve £m	Capital redemption reserve £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total £m
At 27 June 2015	72.1	(68.8)	(20.0)	1.6	0.7	79.7	65.3	17.4	82.7
Profit for the period restated	–	–	–	–	–	49.5	49.5	13.7	63.2
Net movement on hedges (net of tax) (note 12)	–	–	(17.6)	–	–	–	(17.6)	–	(17.6)
Remeasurements of defined benefit retirement plans (net of tax) restated	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Total comprehensive income	–	–	(17.6)	–	–	48.3	30.7	13.7	44.4
Exercise of share options	–	2.3	–	–	–	(2.3)	–	–	–
Acquisition of own shares	–	(2.1)	–	–	–	–	(2.1)	–	(2.1)
Share based payment charge	–	–	–	–	–	0.5	0.5	–	0.5
Dividends (note 10)	–	–	–	–	–	(27.2)	(27.2)	(12.2)	(39.4)
At 26 December 2015	72.1	(68.6)	(37.6)	1.6	0.7	99.0	67.2	18.9	86.1

Interim consolidated balance sheet

as at 31 December 2016

	Notes	31 Dec 16 £m Unaudited	26 Dec 15 £m Unaudited	2 Jul 16 £m Audited
Assets				
Non-current assets				
Property, plant and equipment		559.1	469.8	494.3
Intangible assets		84.1	84.1	82.8
Trade and other receivables		0.3	0.3	1.6
Other financial assets	12	5.5	–	0.2
Deferred tax assets		6.5	20.0	4.2
Investments accounted for using the equity method		0.9	–	–
		656.4	574.2	583.1
Current assets				
Inventories		18.4	18.6	18.3
Trade and other receivables		352.0	295.1	337.0
Other financial assets	12	3.7	–	0.6
Cash and cash equivalents		624.7	621.4	636.3
		998.8	935.1	992.2
Assets classified as held for sale	11	1.1	3.6	0.8
Total assets		1,656.3	1,512.9	1,576.1
Liabilities				
Current liabilities				
Trade and other payables		(843.9)	(836.2)	(872.5)
Other financial liabilities	12	(2.6)	(27.1)	(10.3)
Interest-bearing loans and borrowings		(200.0)	–	–
Current tax liabilities		(13.9)	(20.0)	(18.9)
Provisions	13	(25.7)	(32.8)	(32.0)
		(1,086.1)	(916.1)	(933.7)
Non-current liabilities				
Interest-bearing loans and borrowings		(196.0)	(306.5)	(312.4)
Retirement benefit obligations	8	(32.9)	(59.1)	(2.7)
Other financial liabilities	12	(0.4)	(19.6)	(4.1)
Deferred tax liabilities		(48.0)	(48.3)	(50.1)
Other liabilities		(2.1)	(3.3)	(4.3)
Provisions	13	(80.6)	(73.9)	(73.7)
		(360.0)	(510.7)	(447.3)
Total liabilities		(1,446.1)	(1,426.8)	(1,381.0)
Net assets		210.2	86.1	195.1
Capital & reserves				
Share capital		72.1	72.1	72.1
Reserve for own shares		(71.5)	(68.6)	(70.9)
Hedging reserve		5.0	(37.6)	(10.8)
Other reserve		1.6	1.6	1.6
Capital redemption reserve		0.7	0.7	0.7
Retained earnings		168.6	99.0	178.4
Total shareholders' equity		176.5	67.2	171.1
Non-controlling interests		33.7	18.9	24.0
Total equity		210.2	86.1	195.1

Interim consolidated cashflow statement

for the six months ended 31 December 2016

	Notes	Six months to 31 Dec 16 £m Unaudited	Restated Six months to 26 Dec 15 £m Unaudited	Restated Year to 2 Jul 16 £m Audited
Profit after tax		56.2	63.2	118.1
Net finance costs		5.8	7.9	17.6
Tax expense	6	10.8	12.7	26.9
Share of result of associate		0.2	–	–
Depreciation of property, plant and equipment		30.8	27.2	55.2
Amortisation of intangible assets		1.1	1.6	3.0
(Profit)/loss on sale of property, plant and equipment		(0.5)	(0.5)	0.7
Profit on assets held for disposal		–	(0.7)	(0.7)
Share based payment charges		1.3	0.5	2.2
Difference between pension contributions paid and amounts recognised in the income statement		(2.3)	(1.4)	(3.4)
Sale of assets held for disposal		–	5.9	–
Purchase of assets held for disposal		–	(2.9)	–
Increase in inventories		–	(0.7)	(0.4)
Increase in trade and other receivables		(13.0)	(34.1)	(76.8)
(Decrease)/increase in trade and other payables		(23.9)	66.5	99.0
Movement in provisions		0.5	(1.6)	(4.3)
Cashflow generated from operations		67.0	143.6	237.1
Taxation paid		(18.7)	(10.2)	(24.8)
Net cashflows from operating activities		48.3	133.4	212.3
Interest received		1.3	1.3	3.2
Proceeds from sale of property, plant and equipment		0.7	1.3	2.3
Proceeds from sale of assets held for disposal		–	–	5.9
Purchase of property, plant and equipment		(93.8)	(59.1)	(113.9)
Purchase of intangible assets		(3.0)	(0.5)	(0.7)
Purchase of businesses		(1.1)	(0.5)	(0.5)
Net cashflows used in investing activities		(95.9)	(57.5)	(103.7)
Interest paid		(14.4)	(12.8)	(16.2)
Dividends paid to members of the parent	10	(28.9)	(27.2)	(39.4)
Dividends paid to non-controlling interests		(0.4)	(12.2)	(17.8)
Payment to acquire own shares		(1.9)	(2.1)	(4.4)
Foreign exchange gain		–	–	0.4
Repayment of borrowings		–	(3.0)	–
Proceeds from borrowings		82.0	–	2.0
Payment of finance lease and hire purchase liabilities		(0.4)	(1.4)	(1.1)
Net cash inflows/(outflows) on financing activities		36.0	(58.7)	(76.5)
Net (decrease)/increase in cash and cash equivalents		(11.6)	17.2	32.1
Cash and cash equivalents at start of period	9	636.3	604.2	604.2
Cash and cash equivalents at end of period	9	624.7	621.4	636.3

Notes to the interim consolidated financial statements

for the six months ended 31 December 2016

1. Corporate information

The Go-Ahead Group plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. Its ordinary shares are publicly traded and it is not under the control of any single shareholder.

2. Basis of preparation

The condensed financial statements for the six months ended 31 December 2016 have been prepared in accordance with the DTR of the Financial Conduct Authority and IAS 34, 'Interim Financial Reporting', as adopted by the European Union. The condensed financial statements have been prepared using the same accounting policies and methods of computation used to prepare the Group's 2016 Annual Report and Accounts as described on pages 121 to 125 of that report which can be found on the Group's website at www.go-ahead.com, with the exception of the change in accounting policy regarding accounting for rail pension schemes (see note 3), and the adoption of new standards and interpretations, noted below. The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union.

The following new standards or interpretations are mandatory for the first time for the financial year ending 1 July 2017:

Annual Improvements to IFRSs 2012 – 2014 Cycle

IFRS 14 Regulatory Deferral Accounts

IAS 1 Presentation of Financial Statements – Disclosure Initiative (amendment)

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Bearer Plants (amendment)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation (amendment)

IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (amendment)

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates – Investment Entities: Applying the Consolidation Exception (amendment)

IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statement (amendment)

Adoption of these standards and interpretations had no material impact on the Group's financial position or reported performance.

The financial statements for the six months ended 31 December 2016 and the comparative financial statements for the six months ended 26 December 2015 have not been audited, but have been reviewed by the auditor, Deloitte LLP. The comparative financial statements for the year ended 2 July 2016 have been extracted from the 2016 Annual Report and Accounts and adjusted for the change in accounting policy regarding accounting for rail pension schemes (see note 3). The financial statements contained in this interim report do not constitute statutory accounts as defined in section 435 of the Companies Act 2006 and do not reflect all of the information contained in the Group's 2016 Annual Report and Accounts. The statutory accounts for the year ended 2 July 2016, which were approved by the Board of Directors on 8 September 2016 and have been filed with the Registrar of Companies, received an unqualified audit report which did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The preparation of the financial statements requires the use of estimates and assumptions. Although these estimates are based on management's best knowledge, actual results ultimately may differ from these estimates. The key sources of estimation uncertainty are consistent with those disclosed in the Group's 2016 Annual Report and Accounts.

The Group's operations do not suffer from significant seasonal demand fluctuations.

Going concern

Our medium term funding is provided through a £200m sterling bond due September 2017 and a £280m syndicated loan facility with an anticipated repayment date of July 2021. The syndicated loan facility was £195.0m drawn down at the period end. The Group has also entered into a £200m term loan to provide flexibility on refinancing the £200m sterling bond, which is available to draw down between 4 September 2017 and 29 September 2017. After making enquiries and reviewing the outlook for 2017 and medium term plans of the business to 2019/2020, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing this half yearly report.

Notes to the interim consolidated financial statements continued

3. Restatement of prior period comparatives

In the financial statements for the six months ended 31 December 2016 The Go-Ahead Group plc has changed the way in which it accounts for rail pension schemes in its income statement. Reflecting that under the rail franchise agreement the long term contractual responsibility for the rail pension schemes rests with the Department for Transport, the franchisee is only responsible for meeting agreed contributions over the period of the franchise. Accordingly the Group's balance sheet only recognises the share of the surplus or deficit expected to be realised over the life of each franchise. The current assessment is that there is no net surplus or deficit to be reflected in the balance sheet in respect of the railway pension schemes and so no asset or liability is recognised.

The Group has revised its accounting policy so that operating profit will now also only recognise the Group's resulting share of costs. This compares to the previous approach where the full service charge was included within the income statement and the majority of the franchise adjustments arising were recognised through the statement of comprehensive income. This new approach better reflects that a substantial part of the service charge relates to an estimate of the future cost of benefits accruing in the current year but for which funding falls beyond the duration of the franchise, the contributions for which will be borne by others. The change has been effected by means of a franchise adjustment to reduce the expense charged in the income statement to the extent it will be borne by others, so limiting it to the Group's share of the costs, in line with emerging industry practice.

The tables below detail the adjustments made to the consolidated income statement and the consolidated statement of comprehensive income as a result of the revision to the accounting policy. There was no impact on the consolidated balance sheet as a result of the revision to the accounting policy.

Consolidated income statement

	Reported Six months to 26 Dec 15 £m Unaudited	Impact of change in accounting policy £m	Restated Six months to 26 Dec 15 £m Unaudited	Reported Year to 2 Jul 16 £m Audited	Impact of change in accounting policy £m	Restated Year to 2 Jul 16 £m Audited
Group revenue	1,665.0	–	1,665.0	3,361.3	–	3,361.3
Operating costs (excluding amortisation)	(1,603.4)	23.8	(1,579.6)	(3,240.9)	45.2	(3,195.7)
Intangible asset amortisation	(1.6)	–	(1.6)	(3.0)	–	(3.0)
Total operating costs	(1,605.0)	23.8	(1,581.2)	(3,243.9)	45.2	(3,198.7)
Group operating profit	60.0	23.8	83.8	117.4	45.2	162.6
Group operating profit (before amortisation)	61.6	23.8	85.4	120.4	45.2	165.6
Finance revenue	1.5	–	1.5	3.2	–	3.2
Finance costs	(9.4)	–	(9.4)	(20.8)	–	(20.8)
Profit on ordinary activities before taxation	52.1	23.8	75.9	99.8	45.2	145.0
Tax expense	(7.9)	(4.8)	(12.7)	(18.5)	(8.4)	(26.9)
Profit for the period from continuing operations	44.2	19.0	63.2	81.3	36.8	118.1
Attributable to:						
Equity holders of the parent	37.1	12.4	49.5	69.7	24.0	93.7
Non-controlling interests	7.1	6.6	13.7	11.6	12.8	24.4
	44.2	19.0	63.2	81.3	36.8	118.1
Earnings per share						
– basic	86.4p	28.8p	115.2p	162.3p	55.9p	218.2p
– diluted	85.0p	28.4p	113.4p	161.4p	55.5p	216.9p

Notes to the interim consolidated financial statements continued

3. Restatement of prior period comparatives continued

Consolidated statement of comprehensive income

	Reported Six months to 26 Dec 15 £m Unaudited	Impact of change in accounting policy £m	Restated Six months to 26 Dec 15 £m Unaudited	Reported Year to 2 Jul 16 £m Audited	Impact of change in accounting policy £m	Restated Year to 2 Jul 16 £m Audited
Profit for the period	44.2	19.0	63.2	81.3	36.8	118.1
Other comprehensive income/(losses)						
Items that will not be reclassified to profit or loss						
Remeasurements on defined benefit retirement plans	23.8	(23.8)	–	100.8	(45.2)	55.6
Tax relating to items that will not be reclassified	(6.0)	4.8	(1.2)	(19.7)	8.4	(11.3)
	17.8	(19.0)	(1.2)	81.1	(36.8)	44.3
Items that may subsequently be reclassified to profit or loss						
Unrealised losses on cashflow hedges	(35.4)	–	(35.4)	(17.4)	–	(17.4)
Losses on cashflow hedges taken to income statement – operating costs	13.3	–	13.3	28.7	–	28.7
Tax relating to items that may be reclassified	4.5	–	4.5	(2.1)	–	(2.1)
Foreign exchange gain	–	–	–	0.4	–	0.4
	(17.6)	–	(17.6)	9.6	–	9.6
Other comprehensive income/(losses) for the period, net of tax	0.2	(19.0)	(18.8)	90.7	(36.8)	53.9
Total comprehensive income for the period	44.4	–	44.4	172.0	–	172.0
Attributable to:						
Equity holders of the parent	30.7	–	30.7	147.6	–	147.6
Non-controlling interests	13.7	–	13.7	24.4	–	24.4
	44.4	–	44.4	172.0	–	172.0

4. Risks and uncertainties

During the period, the Board reviewed the risks and uncertainties described in the Group's Annual Report and Accounts for the year ended 2 July 2016 and identified the following principal risks and uncertainties affecting the Group's business for the second six months of the financial year ended 1 July 2017.

The key risks and uncertainties include:

External:

Economic environment Lower economic growth or reduction in economic activity.

Political and regulatory framework Changes to the legal and regulatory framework, particularly the Bus Services Bill.

Strategic:

Sustainability of rail profits or loss of franchise Failure to retain two key franchises on acceptable terms and failure to stabilise GTR's business performance.

Inappropriate strategy or investment Failure to make appropriate strategic or investment decisions.

Competition Competition from existing and new market participants, loss of business to other modes and threats from market disruptors.

Operational:

Catastrophic incident or severe infrastructure failure An incident, such as a major accident, an act of terrorism, a pandemic, or a severe failure of rail infrastructure.

Large scale infrastructure projects Large scale projects on and around the networks on which we operate, such as the Thameslink Programme, HS2 and major roadworks.

Labour costs, employee relations and resource planning We fail to get the effective engagement of our people and trade unions in making change and managing costs.

Information technology failure or interruption or security breach Prolonged or major failure of the Group's IT systems or a significant security breach.

More details about these risks can be found on pages 43 – 45 of the 'Managing Risk' section of the Group Annual Report and Accounts for the year ended 2 July 2016, available on our website at www.go-ahead.com

In addition the critical accounting judgements and key sources of estimation uncertainty disclosed on page 120 of the Group Annual Report and Accounts for the year ended 2 July 2016 continue to apply, and in particular the judgements associated with contract and franchise accounting. Contract and franchise accounting is specific to the rail business disclosed in the segmental analysis in note 5. Judgements are made on a continuing basis, with the GTR franchise being the most complex. As disclosed in the Chief Executive's Review, there are a number contractual discussions underway with the DfT that have a range of reasonably possible outcomes. Management's judgement is that, relating to events up to 31 December 2016, the impact on rail profitability of these outcomes is likely to be within a range of plus or minus £10m. Given the continuing uncertainty, our expectation for the full year is that this range will increase to plus or minus £15m.

5. Segmental analysis

The Group's businesses are managed on a divisional basis. Selected financial data is presented on this basis below.

For management purposes, the Group is organised into three reportable segments: regional bus, London bus, and rail. Operating segments within those reportable divisions are combined on the basis of their long term characteristics and similar nature of their products and services, as follows:

The regional bus division comprises UK bus operations outside of London.

The London bus division now comprises bus operations in London under control of Transport for London (TfL), rail replacement and other contracted services in London, and bus operations in Singapore under control of the Land Transport Authority (LTA) of Singapore. These are aggregated as a segment given the similar contractual nature of the businesses.

The rail operation, through an intermediate holding company, Govia Limited, is 65% owned by Go-Ahead and 35% by Keolis (UK) Limited and comprises three rail franchises: Southeastern, London Midland and GTR. The division is aggregated for the purpose of segmental reporting under IFRS8 as each operating company has similar objectives, to provide passenger rail services and achieve a modest profit margin through its franchise arrangements with DfT. Each company targets similar margins, has similar economic risks and is viewed and reacted to as one segment by the chief operating decision maker, considered to be the Group Chief Executive. The registered office of Keolis is in England and Wales.

The information reported to the Group Chief Executive in his capacity as chief operating decision maker does not include an analysis of assets and liabilities and accordingly IFRS8 does not require this information to be presented. Segment performance is evaluated based on operating profit or loss excluding amortisation of intangible assets.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties.

The following tables present information regarding the Group's reportable segments for the six months ended 31 December 2016, the six months ended 26 December 2015 and the year ended 2 July 2016.

Six months ended 31 December 2016 (unaudited)

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	202.5	269.0	471.5	1,276.0	1,747.5
Inter-segment revenue	(14.9)	(9.8)	(24.7)	(7.2)	(31.9)
Group revenue	187.6	259.2	446.8	1,268.8	1,715.6
Segment profit – Group operating profit (before amortisation)	25.7	21.5	47.2	26.9	74.1
Intangible amortisation	(0.4)	(0.4)	(0.8)	(0.3)	(1.1)
Group operating profit	25.3	21.1	46.4	26.6	73.0
Share of result of associate					(0.2)
Net finance costs					(5.8)
Profit before tax and non-controlling interests					67.0
Tax expense					(10.8)
Profit for the period					56.2

The London bus division now includes Singapore bus operations which commenced trading on 4 September 2016. At 31 December 2016, an intangible asset of £2.0m was held in respect of Singapore bus operations, consisting of capitalised costs of £7.7m less grant income of £5.7m.

During the six months ended 31 December 2016, segment revenue of £15.2m from external customers outside the United Kingdom related to the Singapore bus operations.

We have two major customers which individually contribute more than 10% of the group revenue, one of which contributes £561.7m (H1'16: £509.5m; 2016: £1,076.6m) and the other contributes £240.6m (H1'16: £233.8m; 2016: £481.5m).

Notes to the interim consolidated financial statements continued

5. Segmental analysis continued

Six months ended 26 December 2015 (unaudited) Restated

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	198.1	244.2	442.3	1,248.5	1,690.8
Inter-segment revenue	(12.0)	(6.9)	(18.9)	(6.9)	(25.8)
Group revenue	186.1	237.3	423.4	1,241.6	1,665.0
Segment profit – Group operating profit (before amortisation)	24.2	19.8	44.0	41.4	85.4
Intangible amortisation	(0.7)	(0.5)	(1.2)	(0.4)	(1.6)
Group operating profit	23.5	19.3	42.8	41.0	83.8
Net finance costs					(7.9)
Profit before tax and non-controlling interests					75.9
Tax expense					(12.7)
Profit for the period					63.2

Year ended 2 July 2016 (audited) Restated

	Regional bus £m	London bus £m	Total bus £m	Rail £m	Total operations £m
Segment revenue	403.3	507.2	910.5	2,511.1	3,421.6
Inter-segment revenue	(27.6)	(19.6)	(47.2)	(13.1)	(60.3)
Group revenue	375.7	487.6	863.3	2,498.0	3,361.3
Segment profit – Group operating profit (before amortisation)	49.7	43.6	93.3	72.3	165.6
Intangible amortisation	(1.2)	(0.9)	(2.1)	(0.9)	(3.0)
Group operating profit	48.5	42.7	91.2	71.4	162.6
Net finance costs					(17.6)
Profit before tax and non-controlling interests					145.0
Tax expense					(26.9)
Profit for the year					118.1

During the six months to 31 December 2016 the Group incurred capital expenditure of £93.8m (H1'16: £59.1m; 2016: £113.9m) on tangible fixed assets of which £21.7m (H1'16: £31.2m; 2016: £57.4m) related to the regional bus division, £59.6m (H1'16: £21.5m; 2016: £38.7m) related to the London bus division and £12.5m (H1'16: £6.4m; 2016: £17.8m) related to the rail division.

During the six months to 31 December 2016 the depreciation charge for the Group was £30.8m (H1'16: £27.2m; 2016: £55.2m) of which £15.3m (H1'16: £14.3m; 2016: £29.0m) related to the regional bus division, £11.9m (H1'16: £8.7m; 2016: £18.8m) related to the London bus division and £3.6m (H1'16: £4.2m; 2016: £7.4m) related to the rail division.

Notes to the interim consolidated financial statements continued

6. Taxation

The total taxation charge recognised in the income statement is made up as follows:

	Six months to 31 Dec 16 £m Unaudited	Restated Six months to 26 Dec 15 £m Unaudited	Restated Year to 2 Jul 16 £m Audited
Current tax charge	13.6	15.3	28.5
Adjustments in respect of current tax of previous years	–	–	0.6
	13.6	15.3	29.1
Deferred tax relating to origination and reversal of temporary differences in the period at 20% (27 June 2015: 20%; 26 December 2015: 20%)	0.5	0.4	1.3
Adjustments in respect of deferred tax of a prior period	–	–	0.2
Impact of opening deferred tax rate reduction	(3.3)	(3.0)	(3.7)
Total tax	10.8	12.7	26.9

The taxation charge has been calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period. Excluding the impact of deferred rate tax reductions our tax rate is 21.0% (H1'16 restated: 20.7% ; 2016 restated: 21.1%), higher than the statutory rate. Including the impact of the opening deferred tax rate reduction of £3.3m credit (H1'16: £3.0m credit; 2016: £3.7m credit), the effective tax rate is 16.1% (H1'16 restated: 16.7%; 2016 restated: 18.6%).

	Six months to 31 Dec 16 £m Unaudited	Restated Six months to 26 Dec 15 £m Unaudited	Restated Year to 2 Jul 16 £m Audited
Tax charges	14.1	15.7	30.6
Impact of opening deferred tax rate reduction	(3.3)	(3.0)	(3.7)
	10.8	12.7	26.9

The interim tax rate is based on the full year expected tax rate.

The tax relating to items charged or credited to the statement of comprehensive income or directly to equity is made up as follows:

	Six months to 31 Dec 16 £m Unaudited	Restated Six months to 26 Dec 15 £m Unaudited	Restated Year to 2 Jul 16 £m Audited
Tax on remeasurements on defined benefit retirement plans	(5.5)	–	10.1
Deferred tax on cashflow hedges	4.0	(4.5)	2.1
Deferred tax on share based payments (direct to equity)	–	–	0.5
Corporation tax on share based payments (direct to equity)	–	–	(0.3)
Impact of opening deferred tax rate reduction	–	1.2	1.2
	(1.5)	(3.3)	13.6

The standard rate of UK corporation tax is currently 20%. A rate reduction to 19% comes into effect from 1 April 2017 and a further rate reduction to 17% comes into effect from 1 April 2020. Both of these reductions in rate were substantively enacted prior to the balance sheet date and have been applied to the Group's deferred tax balance at the balance sheet date.

Notes to the interim consolidated financial statements continued

7. Earnings per share

Basic and diluted earnings per share

	Six months to 31 Dec 16 Unaudited	Restated Six months to 26 Dec 15 Unaudited	Restated Year to 2 Jul 16 Audited
Net profit on total operations attributable to equity holders of the parent (£m)	46.1	49.5	93.7
Basic weighted average shares in issue ('000)	42,856	42,964	42,951
Dilutive potential share options ('000)	275	677	247
Diluted weighted average number of shares in issue ('000)	43,131	43,641	43,198
Earnings per share:			
Basic earnings per share (pence per share)	107.6	115.2	218.2
Diluted earnings per share (pence per share)	106.9	113.4	216.9

The weighted average number of shares in issue excludes treasury shares held by the company, and shares held in trust for the Directors' Long Term Incentive Plan and Deferred Share Bonus Plan arrangements.

No shares were bought back and cancelled by the Group in the period from 1 January 2017 to 27 February 2017.

8. Pensions

Retirement benefit obligations consist of the following:

	Bus £m Unaudited	Rail £m Unaudited	31 Dec 16 Total £m Unaudited	Bus £m Audited	Rail £m Audited	2 Jul 16 Total £m Audited
Pre-tax pension scheme liabilities	(32.9)	–	(32.9)	(2.7)	–	(2.7)
Deferred tax asset	5.6	–	5.6	0.5	–	0.5
Post-tax pension scheme liabilities	(27.3)	–	(27.3)	(2.2)	–	(2.2)

The net deficit before taxation on the bus defined benefit scheme was £32.9m (2 July 2016: £2.7m), consisting of estimated liabilities of £817.5m (2 July 2016: £765.8m) less assets of £784.6m (2 July 2016: £763.1m).

The net deficit before taxation on the rail schemes was £nil (2 July 2016: £nil). The nature of these schemes means that only the share of surplus or deficit to be benefited from or to be funded during the franchise period is recognised.

The net deficit on the pension schemes was calculated based on the following assumptions.

	Six months to 31 Dec 16 % Unaudited	Year to 2 Jul 16 % Audited
Retail price index inflation	3.4	2.9
Consumer price index inflation	2.4	1.9
Discount rate	2.7	2.8
Rate of increase in salaries *	3.6	3.1
Rate of increase of pensions in payment and deferred pension	2.0	1.9

* for rail pension schemes only (the defined benefit section of the bus scheme is closed to future accrual for all members)

Notes to the interim consolidated financial statements continued

8. Pensions continued

The most significant non-financial assumption is the assumed rate of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a male member of each pension scheme at age 65.

	Bus Years Unaudited	31 Dec 16 Rail Years Unaudited	Bus Years Audited	2 Jul 16 Rail Years Audited
Pensioner	21	22	21	22
Non Pensioner	22	24	22	24

Sensitivity analysis

The following is an approximate sensitivity analysis of the impact of the change in the key assumptions for the bus scheme calculated as at 2 July 2016. In isolation the following adjustments would adjust the pension deficit as shown.

	Bus 2016 Pension deficit %
Discount factor – increase of 0.1%	(1.7)
Price inflation – increase of 0.1%	1.5
Rate of increase of pension in payment – increase of 0.1%	0.9
Increase in life expectancy of pensioners or non pensioners by 1 year	3.6

9. Notes to the cashflow statement

Analysis of Group net cash/(debt) (unaudited)

	Cash and cash equivalents £m Unaudited	Syndicated loan facility £m Unaudited	Hire purchase/ finance leases £m Unaudited	£200m Sterling Bond £m Unaudited	Total £m Unaudited
2 July 2016	636.3	(113.0)	(0.3)	(200.0)	323.0
Cashflow	(11.6)	(82.0)	0.4	–	(93.2)
On acquisition	–	–	(2.1)	–	(2.1)
31 December 2016	624.7	(195.0)	(2.0)	(200.0)	227.7

Cash and cash equivalents include overdrafts amounting to £nil (2 July 2016: £nil).

On 16 July 2014, the Group entered into a £280.0m five year loan facility. The facility had an initial maturity of July 2019, with two one-year extensions, the second of which was agreed on 20 June 2016, extending the maturity of the facility to July 2021 from that date.

On 24 March 2010, the Group raised a £200m bond of 7.5 years maturing on 29 September 2017 with a coupon rate of 5.375%.

On 26 August 2016, the Group entered into a £200m term loan to provide flexibility on refinancing the £200m sterling 7.5 year bond. The facility is available to draw down between 4 September 2017 and 29 September 2017. Once drawn down, the facility is available to the Group with extensions for up to a further 24 months.

Group net cash/(debt) excludes unamortised issue costs of £1.0m (2 July 2016: £0.9m).

As at 31 December 2016 balances amounting to £514.4m (H1'16: £574.2m; 2 July 2016: £562.3m) were restricted, including amounts to cover deferred income for season tickets sold in advance of £233.1m (H1'16: £187.1m; 2 July 2016: £181.3m) and amounts held by rail companies which can only be distributed up to the value of distributable reserves, subject to DfT dispensation.

10. Dividends paid and proposed

	Six months to 31 Dec 16 £m Unaudited	Six months to 26 Dec 15 £m Unaudited	Year to 2 Jul 16 £m Audited
Declared and paid during the period			
Equity dividends on ordinary shares:			
Final dividend for 2016: 67.52p per share (2015: 63.40p)	28.9	27.2	27.2
Interim dividend for 2016: 28.33p per share	–	–	12.2
	28.9	27.2	39.4

	Six months to 31 Dec 16 £m Unaudited	Six months to 26 Dec 15 £m Unaudited	Year to 2 Jul 16 £m Audited
Dividend proposed (not recognised as a liability)			
Equity dividends on ordinary shares:			
Interim dividend for 2017: 30.17p per share (2016: 28.33p)	13.0	12.2	29.0

11. Assets classified as held for sale

At 31 December 2016, assets held for sale, with a carrying value of £1.1m (2 July 2016: £0.8m) related to property, plant and equipment available for sale and are included in the regional bus division.

12. Derivatives and financial instruments

a. Fair values

The fair values of the Group's financial derivatives carried in the financial statements have been reviewed as at 31 December 2016 and 2 July 2016 and are as follows:

	31 Dec 16 £m	2 Jul 16 £m
Non-current assets	5.5	0.2
Current assets	3.7	0.6
	9.2	0.8
Current liabilities	(2.6)	(10.3)
Non-current liabilities	(0.4)	(4.1)
	(3.0)	(14.4)
Net financial derivatives	6.2	(13.6)

At 31 December 2016

	Amortised cost £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	6.2	6.2	6.2
Net financial derivatives	–	6.2	6.2	6.2
Obligations under finance lease and hire purchase contracts	(2.0)	–	(2.0)	(2.0)
	(2.0)	6.2	4.2	4.2

At 2 July 2016

	Amortised cost £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	(13.6)	(13.6)	(13.6)
Net financial derivatives	–	(13.6)	(13.6)	(13.6)
Obligations under finance lease and hire purchase contracts	(0.3)	–	(0.3)	(0.3)
	(0.3)	(13.6)	(13.9)	(13.9)

12. Derivatives and financial instruments continued

The fair value of all other financial assets and liabilities is not significantly different from their carrying amount, with the exception of the £200m sterling 7.5 year bond which has a fair value of £206.6m (2 July 2016: £209.5m) but is carried at its amortised cost of £200m. The fair value of the £200m sterling 7.5 year bond has been determined by reference to the price available from the market on which the bond is traded. The fuel price derivatives and interest rate swaps were valued externally by the respective banks by comparison with the market fuel price for the relevant date.

All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As at 31 December 2016, the Group has used a level 2 valuation technique to determine the fair value of all financial instruments. During the six months ended 31 December 2016, there were no transfers between valuation levels.

b. Hedging activities

Fuel derivatives

The Group is exposed to commodity price risk as a result of fuel usage. The Group closely monitors fuel prices and uses fuel derivatives to hedge its exposure to increases in fuel prices, when it deems this to be appropriate.

Bus

As at 31 December 2016 the Group had derivatives against bus fuel of 308 million litres for the five years ending June 2021. The fair value of the asset or liability has been recognised on the balance sheet. The value has been generated since the date of acquisition of the instruments due to the movement in market fuel prices.

As at 31 December 2016 the amounts hedged are as follows:

	2017	2018	2019*	2020*	2021*
Actual percentage of forecast usage hedged	100%	100%	60%	30%	10%
Litres hedged (million)	63	124	73	36	12
Price (pence per litre)	36.4	34.7	34.0	35.7	36.9

* Assuming consistent usage and that hedging is completed at December 2016 market price

Rail

As at 31 December 2016 the Group had derivatives against rail fuel of 6 million litres for the year ended 1 July 2017 and 4 million litres for the 2018 financial year, representing the anticipated fuel usage in London Midland. The fair value of the asset or liability has been recognised on the balance sheet. The value has been generated since the date of the acquisition of the instruments due to the movement in market fuel prices.

The movement during the six months ended 31 December 2016 on the hedging reserve was £15.8m credit (net of tax) (2016: £9.2m credit (net of tax)) taken through other comprehensive income.

13. Provisions

	Franchise Commitments £m Unaudited	Uninsured Claims £m Unaudited	Other £m Unaudited	Total £m Unaudited
At 2 July 2016	60.1	42.1	3.5	105.7
Provided	2.3	11.4	0.7	14.4
Utilised	(3.2)	(7.4)	–	(10.6)
Released	(2.0)	(1.1)	(0.1)	(3.2)
At 31 December 2016	57.2	45.0	4.1	106.3
			31 Dec 16 £m Unaudited	2 Jul 16 £m Audited
Current			25.7	32.0
Non current			80.6	73.7
			106.3	105.7

Franchise commitments comprise £54.9m (2 July 2016: £57.7m) dilapidation provisions on vehicles, depots and stations across our three active rail franchises, and £2.3m (2 July 2016: £2.4m) provisions relating to other franchise commitments. Of the dilapidations provisions, £8.0m (2 July 2016: £12.1m) are classified as current. All of the £2.3m (2 July 2016: £2.4m) provision relating to other franchise commitments is classified as non-current. During the six months ended 31 December 2016, £2.0m of provisions previously provided were released following the successful renegotiation of certain contract conditions. The dilapidations will be incurred as part of a rolling maintenance contract over the next four years. The provisions are based on management's assessment of most probable outcomes, supported where appropriate by valuations from professional external advisors.

Uninsured claims represent the cost to the Group to settle claims for incidents occurring prior to the balance sheet date, together with an estimate of settlements that will be made in respect of incidents that have not yet been reported to the Group by the insurer. Of the uninsured claims, £16.3m (2 July 2016: £16.0m) are classified as current and £28.7m (2 July 2016: £26.1m) are classified as non-current based on past experience of uninsured claims paid out annually. It is estimated that the majority of uninsured claims will be settled within the next six years.

Within other provisions, £3.5m (2 July 2016: £3.2m) relates to dilapidation provisions on vehicles and depots, of which £0.8m (2 July 2016: £1.2m) are classified as current, and £2.7m (2 July 2016: £2.0m) are classified as non-current. These provisions relate to the bus division. It is expected that the dilapidations will be incurred within two to five years. A further £0.3m of other current provisions relate to transition-out costs in Singapore. The remaining other current provision of £0.3m (2 July 2016: £0.3m) relates to completion claims regarding the sale of our aviation business.

14. Commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 31 December 2016 were £49.4m (2 July 2016: £78.3m).

Performance bonds

The Group has provided bank guaranteed performance bonds of £76.9m (2 July 2016: £76.2m), a loan guarantee bond of £36.3m (2 July 2016: £36.3m) and season ticket bonds of £226.2m (2 July 2016: £227.1m) in favour of the DfT in support of the Group's rail franchise operations.

To support subsidiary companies in their normal course of business, the Group has indemnified certain banks and insurance companies who have issued certain performance bonds and a letter of credit. The letter of credit at 31 December 2016 is £62.5m (2 July 2016: £45.0m).

The Group has a bond of \$10.9m SGD (2 July 2016: \$10.9m SGD) in favour of the Land Transport Authority of Singapore in support of the Group's Singapore bus operations. At the period end exchange rate this equates to £6.1m (2 July 2016: £6.1m).

15. Statement of changes in equity

The reserve for own shares is in respect of 4,055,634 (2 July 2016: 4,017,412) ordinary shares (8.6% of share capital), of which 153,404 (2 July 2016: 115,182) are held for LTIP and DSBP arrangements. The remaining shares were purchased in order to enhance shareholders' returns and are being held as treasury shares for future issue in appropriate circumstances.

During the six months ended 31 December 2016 the company has repurchased 95,964 shares (year ended 2 July 2016: 172,964). No shares were cancelled in the period (year ended 2 July 2016: no shares cancelled).

At 31 December 2016 there were 46,908,908 ordinary shares in issue (2 July 2016: 46,907,809).

16. Related party transactions

There are no related party transactions or changes since the last year end that could have a material effect on the Group's financial position or performance for the period.

17. Business combinations

On 4 October 2016, Go South Coast Limited, a wholly owned subsidiary of the Group, acquired the Excelsior group of companies – Excelsior Coaches Limited, Excelsior Transport Limited and Excelsior Travel Limited – for a cash consideration of £1.1m.

Net assets at date of acquisition:

	Total acquisitions – Fair value to Group £m
Property, plant and equipment	2.2
Intangible assets – customer contracts	1.2
Inventories	0.1
Trade and other receivables	0.2
Trade and other payables	(0.5)
Interest-bearing loans and borrowings	(2.1)
Net assets	1.1
Cash	1.1
Total consideration	1.1

Interest-bearing loans and borrowings comprise finance leases and hire purchase commitments.

Acquisition costs of less than £0.1m have been expensed through operating costs.

From the date of acquisition in the period, the acquisition recorded an operating loss of less than £0.1m and revenue of £0.4m. Had the acquisition been completed on the first day of the financial period, the impact on the Group's operating loss would have been £0.1m and the impact on revenue would have been £0.8m.

18. Post balance sheet event

On 3 February 2017, Go South Coast Limited, a wholly owned subsidiary of the Group, took control of Thamesdown Transport Limited from Swindon Borough Council. Thamesdown services operate across Swindon and north Wiltshire with a fleet of 85 buses.

Directors and Advisors

Directors

Andrew Allner	Chairman (Non-Executive)
David Brown	Group Chief Executive
Patrick Butcher	Group Chief Financial Officer
Katherine Innes Ker	Non-Executive Director / Senior Independent Director
Nick Horler	Non-Executive Director
Adrian Ewer	Non-Executive Director

Company Secretary

Carolyn Ferguson	Group Company Secretary
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Joint corporate broker

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Joint corporate broker

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Financial PR advisors

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London Wall
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Registrars

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Auditor

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Chartered Accountants and Statutory Auditor
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United Kingdom
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Principal banker

The Royal Bank of Scotland plc
Corporate Banking
8th Floor
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London
EC2M 3UR

Independent review report to The Go-Ahead Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 December 2016 which comprises the Interim Consolidated Income Statement, Interim Consolidated Statement of Comprehensive Income, Interim Consolidated Statement of Changes in Equity, Interim Consolidated Balance Sheet, Interim Consolidated Cashflow Statement, and the related notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority. As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 December 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
27 February 2017