

MANAGING RISK



“Understanding our key risks and having appropriate processes of mitigation in place are integral to achieving our strategic priorities and fundamental to the long term success of the Group.”

DEAR SHAREHOLDER

The Group's risk and governance framework allows the Board to understand the Group's most significant risk exposures and manage them accordingly within agreed levels of risk appetite and tolerance. Go-Ahead takes a conservative view of risk and attempts to minimise its exposure to undue risk. This is reflected in the Group's strategy.

Risk is always high on the Board's agenda and this focus on effective risk management cascades all the way through the organisation. The culture of the organisation ensures that all activities, from day-to-day operations to high level strategic decisions, are performed in line with this approach.

HOW WE MANAGE RISK

Through our robust and well-established risk management and internal control systems, we are able to identify, assess and prioritise risks to our business and seek to minimise, monitor and control their probability and impact whilst maximising the opportunities they present. Risks are monitored on an ongoing basis through our risk management processes and are mitigated through the internal control environment. Residual risks are assessed and it is determined whether they will be accepted as an integral part of the business, or deemed unacceptable and therefore either reduced, transferred to third parties or avoided by no longer pursuing the relevant activities. In addition to reports from the Group's internal auditors and health and safety consultants, external auditors' reports and updates from the executive directors were regularly reviewed by the audit committee during the year.

In 2015/16, the audit committee will continue to review the Group's risk management and internal control processes in line with the changes arising from the new UK Governance Code and FRC Guidelines on risk management.

WHO IS INVOLVED IN RISK MANAGEMENT

All of our employees are required to manage risks of varying levels in their roles. We empower our people to take responsibility for risks facing them or their colleagues, our passengers, the general public and the success of the Group. The diagram on page 35 illustrates the key roles and responsibilities of each of the respective functions within our formalised risk management framework.

Ultimate accountability for risk management lies with the Board, supported by the work of the audit committee, to which the Board has delegated responsibility for reviewing the effectiveness of the Group's risk management and internal control systems. With clear leadership from the Board and audit

committee, the executive directors play an integral role in helping the operating companies identify, assess and monitor their respective risks and controls. Through monthly meetings with the senior management of each operating company, the executive directors encourage open bottom-up communication on risk matters within a clearly defined framework and reporting process. Ownership of risk identification and mitigation lies with senior management in the operating companies, where it is an integral part of day-to-day local company operations.

WHAT ARE OUR RISKS

Go-Ahead is exposed to a range of risks with varying likelihoods and impacts. These risks could impact our performance, business model, strategy and our stakeholders and are therefore closely monitored and managed.

This report includes risks considered by the Group to be financially or reputationally material and relevant to the year under review. Longer term risks, including environmental risks, are also reviewed and managed by the Board.

The tables on pages 36 to 39 summarise our assessment of the key risks that could have a material impact on the Group's performance, strategy or business model.

WHERE TO FIND OUT MORE

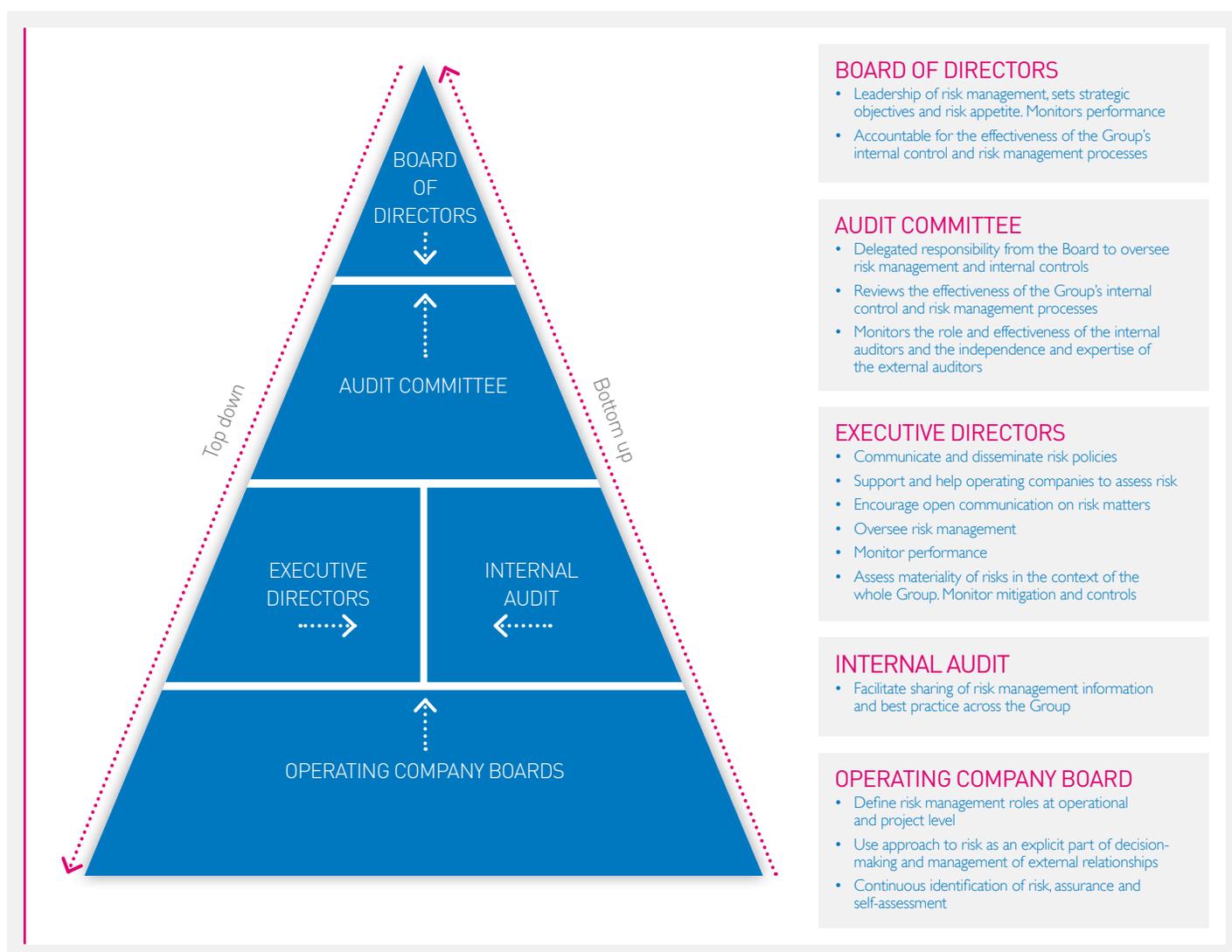
More detail of Go-Ahead's risk management and internal control framework can be found in the corporate governance report from page 56 of this report.

A handwritten signature in blue ink, appearing to read 'A Ewer'.

Adrian Ewer,
Chairman of the audit committee

2 September 2015

RISK MANAGEMENT FRAMEWORK



CYBER SECURITY

The increasing threat of cyber security attacks* is an area which Go-Ahead is taking very seriously and working hard to mitigate. A dedicated Group function has been established to oversee this activity and to ensure best practice protection and implemented Group-wide. Guidance on the remedial action steps to take is also part of the damage limitation. As well as sound business continuity and reputational reasons to focus attention and resource in this area, a recent KPMG survey** highlights that investors would be discouraged from investing in a business that has been hacked.

We have implemented a set of controls into operational and support systems which provides Group companies protection from the most prevalent forms of threat coming from the internet and, by doing so, we have been awarded Cyber Essentials Certification in the Government-backed, industry-supported scheme. The certification means we can demonstrate we are secure and are protecting our businesses against common cyber attacks.

An internal communications campaign, underpinned by training and company policy, encourages our employees to report any security breach no matter how insignificant it may seem.

IT and technical solutions can minimise the risk of a security breach but it is very often employees' working practices which are where the risks lie. So behaviour and common practice need to be continually monitored to ensure the effectiveness of the technical and procedural controls in place and minimise the vulnerability of our security systems.

All breaches, vulnerability and system malfunctions, whether accidental or malicious, are reported so that the effectiveness of existing controls can be monitored and new countermeasures can be introduced as required. Vulnerable areas can be identified and positive corrective action taken, leading to potential significant savings against the cost of investigation and recovery following a security breach.

* The number of security incidents detected climbed by 25% from 2012 to 2013 and the average losses per incidents by 23% over the same period: PwC's Annual Global Information Security Survey.

** April 2015 Institutional investors shy away from hacked businesses: research conducted by FTI Consulting on behalf of KPMG.



Read more case studies online, visit: www.go-ahead.com →

MANAGING RISK CONTINUED

| | POTENTIAL IMPACT | MITIGATING ACTION |
|--|--|--|
| EXTERNAL Economic environment | Negative impact on the Group's businesses, largely through a reduction in demand for services. In rail, franchise bids make economic assumptions years into the future. A weaker economy can lead to under performance against bid targets and management's expectations | <ul style="list-style-type: none"> • Continue to focus our operations in more resilient geographical areas • Local management constantly assesses the needs of local markets and tailors services and products accordingly • Focus on driving volumes through innovative and targeted marketing • Generate customer loyalty through initiatives such as smart-ticketing • Proactive cost control |
| Political and regulatory framework | Changes in Government or to laws, regulations, policies (e.g. introduction of a Bus Bill, pressure on concessionary travel or BSOG, restrictions around vehicle specification devolution to TfL), local authority attitudes towards public transport and reductions in the availability of Government financial support could adversely impact the Group's operations and financial position | <ul style="list-style-type: none"> • Limited exposure to local authority funding. Our operations are predominantly commercial and do not require local authority funding • Actively participate in key industry, trade and Government steering groups • Maintain close relationships with key industry partners and stakeholders • Continually engage with all stakeholders to influence policies impacting the industry • Use internal initiatives across the business to offset the impact of external issues • Demonstrate the value delivered by the private sector through investment in services, responding quickly and flexibly to passengers' needs |
| STRATEGIC Sustainability of rail profits | The sustainability of rail profits is dependent on a number of factors. The nature of the current rail franchising model leads to high volatility of earnings; failure to retain, win or successfully mobilise and integrate franchises could impact on the overall profitability of the Group; failure to comply with conditions of rail franchise agreements could lead to financial penalties or even the termination of a rail franchise | <ul style="list-style-type: none"> • Flexible and experienced management team which responds quickly and expertly to changing circumstances • Experienced permanent bid team well placed to produce compelling bid submissions • Shared risk through Govia, which is 65% owned by Go-Ahead and 35% by Keolis • Element of protection through revenue support arrangements on some contracts. Not all contracts are exposed to revenue risk • Willingness to invest in performance improvements • Work constructively with industry partners, such as Network Rail, to deliver long term economic and infrastructure benefits • Significant resource and financial investment in bidding for new franchises • Regular Board review of rail performance, and Board approval of overall rail bidding strategy • Compliance with franchise conditions closely monitored • Clear mobilisation and integration plans |
| Inappropriate strategy or investment | Inappropriate strategic or investment decisions could adversely impact on the Group's economic and shareholder value | <ul style="list-style-type: none"> • Comprehensive strategic discussions with main Board and advisors • Extensive valuation and due diligence, supported by external expertise • Maintain strong financial discipline when assessing viability of opportunities • Minimum return on capital requirements of all investment opportunities • Cautious approach to investment opportunities overseas and outside our core operating areas |
| Competition | Loss of business to other modes of transport, existing competitors or new market entrants in our markets could have a significant impact on business, such as new technology based start ups | <ul style="list-style-type: none"> • Work hard to maintain our good reputation with our customers • Provide convenient, value for money services offering cost effective alternatives to the private car • Adapt to changing customer requirements and technological advancements • Foster close relationships with stakeholders to ensure we are meeting requirements including service quality and price • Work in partnership with local authorities and other operators • Promote multi-modal travel, improving the overall door-to-door experience for passengers • Remain at the forefront of promoting and introducing inter-operable ticketing schemes • Focus on customer needs and expectations, including more channels for ticket purchase and journey planning |

POTENTIAL OPPORTUNITIES

- A more challenging economic environment encourages modal shift, as motorists seek value for money alternatives to the private car
 - Improvements in the economic environment can lead to increased employment and discretionary spending in shops and leisure facilities, which can result in more journeys being taken on public transport
-
- Changes in law, regulation or funding could positively impact the Group, potentially leading to increased funding or more flexibility for operators. For example, the potential introduction of local authority contract schemes outside London may increase our ability to bid for contracts in new areas
 - The political and regulatory framework provides us with the opportunity to influence decisions through close dialogue with the Government, local authorities and other key parties

- The DfT's rail franchise competition timetable is well underway. Several rail franchises are due to be awarded in the next three years, presenting growth opportunities for the Group
- We continue to bid for new franchises, including Northern and TransPennine Express, and are shortlisted for London Overground
- For contracts where we take revenue risk, there may be the opportunity for increased earnings if the economic climate is stronger than assumed in a franchise bid

- Continual focus on and review of strategy ensures the Board is well placed to assess value adding opportunities as they arise

- Strategic partnerships, such as our joint-operator scheme with Stagecoach and the local authority in Oxford, may provide opportunities and aim to improve the passenger experience and perception of public transport as a whole
- Increased competition in the market encourages innovation which improves the customer experience

OVERALL CHANGE IN RISK IN THE YEAR

- Economic growth rates for the quarter ended June 2015 were 2.6%¹ for the UK. There are variances between geographical areas in the rate of recovery. For example, unemployment in north east England was around 7.7% compared to close to 5.6% in the rest of the UK¹



¹ Office for National Statistics.

- Following the general election, uncertainty around the composition of the government has reduced. We engage with the new Government and play a role in helping to shape new policies. We also continue to engage with major political parties with a view to influencing policies impacting on the industry and Go-Ahead
- The new Government has announced its intention to introduce a Bus Bill relating to bus franchising outside London. Details of this Bill are not yet known
- Following a fourth consultation, proposals for a bus contract scheme in Tyne & Wear are being considered by the Quality Contracts Scheme Board. Its conclusion is expected to be announced in autumn 2015



- The GTR franchise has seen a difficult start as a result of inherited operational issues, the impact of major infrastructure projects and network changes
- We are heavily reliant on third parties, which have their own targets, budgets and deadlines to meet
- We began operating Southeastern under new contract terms in October 2014 which will run until June 2018
- Discussions continue with the DfT regarding the proposed extension of the London Midland franchise to October 2017



- Good strategic progress made during the year: Continued focus on delivering profit growth in bus. Future of rail secured to 2021 through the GTR franchise
- Go-Ahead has a clear strategy, communicated to all levels of the organisation



- The reduction in oil price, leading to lower fuel prices for motorists, could result in passengers taking more trips in private cars rather than choosing public transport
- We are becoming increasingly experienced in developing inter-operable schemes, with initiatives launched in Go North East and Brighton since January 2015
- Technology based start ups are entering transport markets



MANAGING RISK CONTINUED

| | POTENTIAL IMPACT | MITIGATING ACTION |
|--|--|---|
| OPERATIONAL Catastrophic incident or severe infrastructure failure | An incident, such as a major accident, an act of terrorism, a force majeure, a pandemic or severe failure of rail infrastructure, could result in serious injury, disruption to service and loss of earnings | <ul style="list-style-type: none"> • Rigorous, high profile health and safety programme throughout the Group • Appropriate and regularly reviewed and tested contingency and disaster recovery plans • Thorough and regular staff training • Close relationship and work closely with our industry partners, such as Network Rail, which maintains the rail infrastructure, particularly on large infrastructure projects like the Thameslink Programme and London Bridge redevelopment |
| Large scale infrastructure projects | Large scale projects on and around the networks on which we operate (such as the Thameslink Programme, HS2, major roadworks) can significantly impact on our ability to run our services reliably, meet contractual obligations, and performance targets, or damage customer reputation | <ul style="list-style-type: none"> • Work constructively with industry partners, such as Network Rail, to minimise the impact of any disruption on our passengers • Strong engagement with stakeholders to enable effective communication • Good relationships with local authorities and industry bodies, such as the DfT • Communicate effectively with customers during structural change programmes and during disruption |
| Labour costs, employee relations and resource planning | Poor employee relations or reduced availability of staff could impact on reputation, revenue, staff morale and our ability to fulfil contract obligations. Labour costs are a high proportion of our cost base. Even relatively small percentage increases in wages could have a material impact on profits. For example, an increase of 1% in staff costs would increase costs by around £11m | <ul style="list-style-type: none"> • Ensuring Go-Ahead is viewed as an employer of choice • Robust and regularly reviewed recruitment and retention policies, training schemes, resource planning and working practices • Experienced approach to wage negotiations and fostering good relationships with employees and trade unions • Employee engagement surveys across all businesses to identify issues |
| Information technology (IT) failure or interruption or security breach | Prolonged or major failure of the Group's IT systems or a significant security breach could pose significant risk to the ability to operate and trade | <ul style="list-style-type: none"> • Process standardisation and continued investment in best practice systems, including 'light sites' and 'load bearing' servers • Clear and tested business continuity plans • Proactive approach to cyber security issues |

POTENTIAL OPPORTUNITIES

- The threat of such an event requires our staff to be well trained and prepared at all times. Continuous review of processes and procedures can identify areas for operational improvement and improve overall safety on our networks
- Investment in railway infrastructure and roads will deliver long term benefits to passengers travelling on our services
- Through fostering positive employee relations and offering good employment packages we have a motivated and committed workforce, with low staff turnover and absenteeism rates across all businesses
- Ensuring our systems and processes are efficient and reliable strengthens day-to-day operations across the Group

OVERALL CHANGE IN RISK IN THE YEAR

- We have maintained good levels of safety performance, demonstrating our continuing efforts to minimise this risk 
- During the year, bus services in Oxford and Brighton have been significantly impacted by roadworks 
- Our rail operations have been impacted by works associated with the £6.5bn Thameslink Programme, particularly around London Bridge
- Congestion due to roadworks in London has reduced our income from Quality Incentive Contracts
- We have developed our 'people plans' during the year, with particular focus on leadership development, performance management and succession planning 
- We are monitoring the impact of changes in the employment market which may affect our ability to retain and recruit staff
- Continued investment in and maintenance of IT systems across the Group 
- Cyber security certification achieved in June 2015

[Read more about our case study on page 35](#) →