

MANAGING RISK CONTINUED

Risk appetite

Our risk appetite statement below sets out how we balance risk and opportunity in pursuit of achieving our business objectives. It forms an integral part of the development of our corporate strategy, governance and reporting framework. During the year, the principal risks were reviewed by the Board in the context of the Group's risk appetite statement, which helped to determine the level of mitigation and resource required to reduce the potential impact of each principal risk.

Go-Ahead's risk appetite statement

Safety and Security: The Group has no tolerance for safety risk exposure, including an incident such as a major passenger accident or an act of terrorism.

1 Protect and grow the core

The Group will only tolerate low risk with regard to the management of its core activities.

2 Win new rail and bus contracts

The Group is willing to accept moderate risk within stable and regulated markets as it bids for new rail and bus contracts.

3 Develop the future of transport

In pursuit of its objective to develop the future of transport, the Group recognises that innovation and striving to be one step ahead of our competitors comes with some inherent risk. Moderate risks, in some circumstances, will be accepted in pursuit of these objectives.

Definitions

Low: The level of risk will not substantially impede the ability to achieve the Group's strategic objectives. Controls are prudent and robust.

Moderate: The level of risk may delay or disrupt achievement of the Group's strategic objectives. Controls are adequately designed and are generally effective.

Controls: Consist of policies, procedures, employee behaviour or activities that could reduce the likelihood and/or impact of risk events.

Prioritising our principal risks

A robust assessment has been undertaken by the Board to assess the principal risks facing the Group and consideration has been given to those that threaten our business model, could impact on our future performance, solvency or liquidity as well as our strategic objectives.

This heat map shows the position of our principal risks in relation to others. Further details of the key risks within each of the Group's principal risk areas is shown below.



External risks



Economic environment and society

Lower economic growth or reduction in economic activity.

Potential impact

Reduced revenue as:

- Customers make fewer journeys
- Customers buy lower priced tickets
- Customers switch mode (to walking, cycling, private car etc)

Mitigating actions

- Continue to focus our operations in more resilient geographical areas
- Local management constantly assesses the needs of local markets and direct services and products accordingly
- Provide attractive services and products
- Focus on driving volumes through innovative and targeted marketing
- Generate customer loyalty through initiatives such as smart ticketing
- Proactive cost control
- Make public transport easier to access and use

Opportunity

- Maximise geographic and product diversification opportunities
- One rail contract will be re-bid over the next two years allowing for a rebasing of target revenue
- There are variances between geographical areas in the rate of recovery

Change in risk in the year

Increase in risk during the year, as UK growth rates remain volatile, and at risk from political instability.

- Following the result of the EU referendum, economic growth rates have been resilient, but remain volatile (e.g. UK gross domestic product (GDP) was estimated to have increased by 0.3% in Quarter 2 (April to June 2017), while Quarter 4 (October to December 2016) GDP growth had been 0.7%)*

* Statistics provided by Office for National Statistics.

Key to risk changes



Increase in risk in the year



No change in risk in the year



Political and regulatory framework

Changes to the legal and regulatory framework, particularly the Bus Services Act 2017, and the impact of the UK leaving the EU.

Potential impact

- If bus services are franchised, the Group could lose revenue in some areas
- Adverse change to the rail franchising model
- Reduced funding for public transport
- A reduction in European immigration to the United Kingdom could have an impact on the availability and cost of employees

Mitigating actions

- Limited exposure to local authority funding. Our operations are largely commercial
- Actively participate in key industry, trade and government steering and policy development groups
- Collaboration and partnership working with local authorities
- Devise strategy for bus franchising
- Demonstrate the value delivered by the private sector through investment in services, responding quickly and flexibly to passenger needs

Opportunity

- 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 Bus Services Act could provide business opportunities in new markets, and facilitate the consolidation of existing relationships

Change in risk in the year

Increase in risk during the year, as the UK's political landscape has become increasingly uncertain.

- The 2017 General Election resulted in a hung parliament, and this has increased political and economic uncertainty
- Labour's 2017 manifesto pledge to bring private rail companies back into public ownership as their franchises expire
- Bus Services Act received Royal Assent on 27 April 2017, and includes devolved powers to regulate bus services in local areas, subject to certain criteria being met
- The Queen's speech of 21 June 2017 included 27 bills, of which eight are dedicated entirely to measures around the UK leaving the EU
- Proposed rise in corporation tax under a potential Labour government to 26%

Strategic risks



Sustainability of rail profits or loss of franchise

Failure to retain key franchises on acceptable terms and failure to stabilise GTR's business performance.

Potential impact

- Rail profitability and cash flow could fall over the next three years

Mitigating actions

- Flexible and experienced management team which responds quickly and expertly to changing circumstances
- Shared risk through the Govia joint venture, which is 65% owned by Go-Ahead and 35% by Keolis
- 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
- Recovery plan for GTR
- Reduce head office costs across the Group

Opportunity

- Growing portfolio of German rail contracts
- Growth opportunities within the Nordic region

Change in risk in the year

Increase in risk during the year, as the issues concerning the GTR franchise have intensified and the Group's joint venture Govia was unsuccessful in its bid to win the new West Midland rail franchise.

- The GTR franchise has seen a difficult year as a result of the impact of major infrastructure projects and ongoing industrial action
- Organic international expansion, including the recently awarded 13 year rail contract by Transport Ministry of Baden Württemberg in Germany
- Shortlisted by the Department for Transport to bid for the South Eastern franchise

MANAGING RISK CONTINUED



Inappropriate strategy or investment

Failure to make appropriate strategic or investment decisions.

Potential impact

- Shareholder value could be lost and the Group could suffer reputational damage

Mitigating actions

- 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
- Cautious approach to investment opportunities overseas and outside our core operating areas
- The Board has a clear stated risk appetite that governs the acceptable level of risk in pursuit of objectives

Opportunity

- Continual focus on and review of strategy ensures the Board is well placed to assess value adding opportunities as they arise
- Growth opportunities in Singapore, Dublin, Australia, Germany and Nordic region

Change in risk in the year

No change in risk during the year, as the Board strategy day did not determine any material change to the Group's strategy.

- Good strategic progress has been made during the year. Continued focus on delivering profit growth in bus
- Go-Ahead has a clear strategy, communicated to all levels of the organisation



Competition

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

Potential impact

- Loss of revenue and profits
- Reputational damage
- Rapid change required to business model and structure

Mitigating actions

- Disciplined and focused bidding in London
- 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

Opportunity

- Strategic partnerships 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

Change in risk in the year

Increase in risk during the year, as innovative forms of competition (for example, Uber) continue to challenge the Group's core markets.

- 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
- Technology based start-ups are entering transport market
- An increase in competition, as more foreign companies enter the UK market



Operational risks



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.

Potential impact

- Serious injury to the public, our passengers or our people
- Service disruption with financial losses and reputational damage
- Acts of terrorism, while not directly targeting rail/bus public transport, may discourage travel and tourism

Mitigating actions

- 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
- Work closely with our industry partners, such as rail infrastructure provider, Network Rail
- We have maintained high levels of safety performance, demonstrating our continuing efforts to minimise this risk

Opportunity

- 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

Change in risk in the year

Increase in risk during the year, as the likelihood of an act of terror impacting the Group's transport network has increased.

- Numerous terrorism related incidents during the year

Key to risk changes

↑ Increase in risk in the year

= No change in risk in the year



1

Large scale infrastructure projects

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

Potential impact

- Reduced capacity decreases resilience and creates congestion causing lower reliability which impacts service levels and contractual performance
- Inadequate planning or execution can cause severe disruption
- Slowdown in passenger numbers in regional bus as road networks become more congested

Mitigating actions

- Work constructively with industry partners, such as Network Rail, to minimise the impact of any disruption on our passengers
- Strong engagement with stakeholders, including our customers, to enable effective communication, especially during structural change programmes and disruption to the service
- Good relationships with local authorities and industry bodies, such as the DfT

Opportunity

- Investment in railway infrastructure and roads will deliver long term benefits to passengers travelling on our services

Change in risk in the year

No change in risk during the year, as the predicted impact of large scale infrastructure projects remains unchanged from the previous financial year.

- 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 have impacted our services with passengers choosing alternative modes of transport



1

Labour costs, employee relations and resource planning

Failure to effectively engage with our people and trade unions in making change and managing costs.

Potential impact

- Failure to retain and attract employees at all levels
- Strikes leading to reputational damage
- Low levels of morale and engagement lead to inadequate customer service
- Service disruption and costs arising from industrial action
- Inability to deploy new technology and work practices for the benefit of customers
- Wage costs increase or are higher than necessary
- Reduction in value of sterling leading to a slowdown in employment from Europe

Mitigating actions

- Work to maintain good relationships with employees and trade unions
- Robust and regularly reviewed recruitment and retention policies, training schemes, resource planning and working practices
- Experienced approach to wage negotiations
- Employee engagement surveys across all businesses to identify issues
- Engaging all our people in the vision, beliefs and attitudes

Opportunity

- Through fostering positive employee relations and offering good employment packages we have a motivated and committed workforce, with low staff turnover across all businesses
- We are monitoring the impact of changes in the employment market which may affect our ability to retain and recruit staff

Change in risk in the year

Increase in risk during the year, as trade union disputes have intensified.

- Operational challenges on the GTR franchise have been compounded by industrial action and a spike in sickness absence
- Strike action by drivers at Oxford Bus Company has resulted in service disruptions



1

Information technology failure or interruption or security breach

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

Potential impact

- Disruption to trading and/or operational service delivery
- Reputation damage and regulatory breach from misuse of data
- Financial loss

Mitigating actions

- 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
- Cyber Essentials, a government backed cyber security certification scheme, was achieved
- Continued investment in and maintenance of IT systems across the Group
- Test scenarios conducted across the Group
- Preparing for the General Data Protection Regulation, which comes into force on 25 May 2018

Opportunity

- Ensuring our systems and processes are efficient and reliable strengthens day-to-day operations across the Group

Change in risk in the year

Increase in risk during the year, following several external high profile cyber security breaches.

- Significant cyber attacks, including ransomware attacks, across the public and private sector during the year