Annual Report and Accounts
for the year ended 3 July 2010

Go-Ahead

A good place to be

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DIRECTORS' REPORT: BUSINESS REVIEW

Provides information about the Group's financial and operational performance, including detailed reviews of our bus and rail divisions. It also contains background market information, investors' key issues, our strategy, key performance indicators and risks.

DIRECTORS' REPORT: CORPORATE GOVERNANCE

Gives information about the Board of Directors and senior management, including the culture and behaviours within the organisation. It also outlines the governance framework within which the Group operates and the remuneration arrangements for the Board of Directors.

FINANCIAL STATEMENTS

Contains statutory information on the Group and parent company accounts.

SHAREHOLDER INFORMATION

Icons used in this report direct you to expanded information within this report and our website.
This report, along with other useful information, is available on our website: **www.go-ahead.com**

GROUP HIGHLIGHTS

Go-Ahead is one of the UK's leading providers of bus and rail services. Our strategy is to deliver high quality services in dense urban markets.

GO-AHEAD – A GOOD PLACE TO BE...

Focused on bus and rail

We have made good strategic progress over the financial year. We retained our Southern franchise and launched the UK's first domestic high speed rail service in Southeastern; disposed of the majority of our loss making aviation services division; invested over £35 million in UK bus acquisitions and started a yellow school bus joint venture in North America.

Fundamental sector strengths

Public transport plays a key role in building a strong economy, reducing traffic congestion and air pollution and helps to promote social inclusion. There is strong political support for public transport and a clear recognition that the private sector is best placed to deliver and grow these services.

Geographically well located

Most of our operations are in the South East of the UK. This area is forecast to have the highest economic and population growth rates in the country. We have also started a small yellow school bus joint venture in North America and will cautiously assess further opportunities in this market.

Local high quality services

We operate a devolved management structure which provides a strong local focus on our passengers and high quality bus and rail services.

Responsible operator

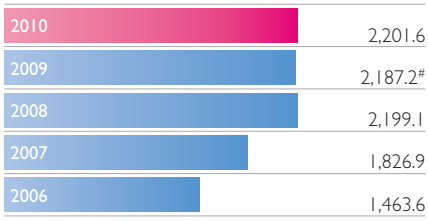
Operating our companies in a safe, socially and environmentally responsible manner is a vital part of our business. It is what we do on a day-to-day basis and is deeply embedded across our organisation at all levels.

Delivering shareholder value

We are committed to delivering shareholder value through our clear and effective strategy. Maintaining the amount of dividend per share through the economic cycle, including those times when earnings may reduce, is a high priority for us and is supported by our strong balance sheet and cash generation.

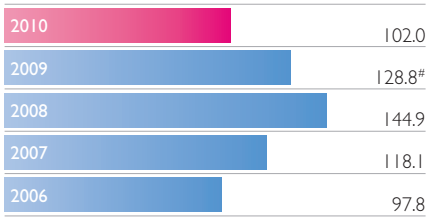
Revenue (£m)

£2,201.6m ↑0.7%



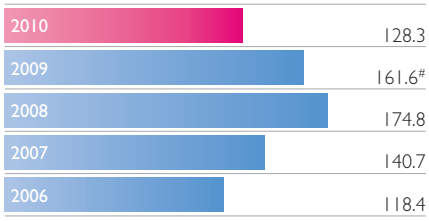
Operating profit (£m)*

£102.0m ↓20.8%



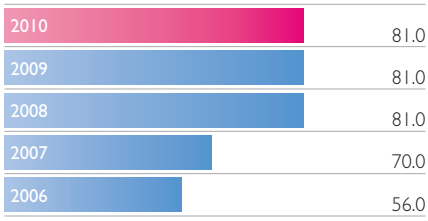
Adjusted earnings per share (p)*

128.3p ↓20.6%



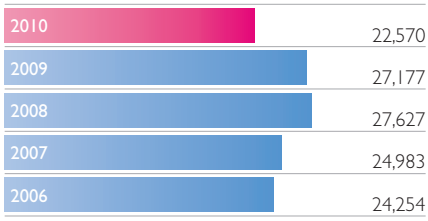
Dividend paid and proposed per share (p)†

81.0p → 0%



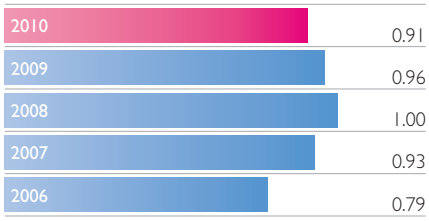
Average number of employees

22,570 ↓17.0%



CO2 emissions per passenger journey+

0.91kgs ↓5.2%

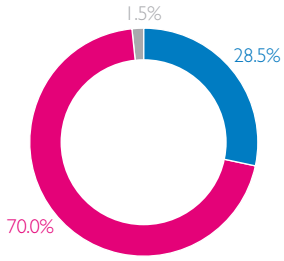


* Before amortisation and exceptional items.
† Includes interim dividend paid and final proposed dividend.
# Restated to exclude our ground handling and cargo operations.
+ The CO2 conversion factors used are in accordance with the most recent Department for Energy and Climate Change guidelines 2009. The 2008 figure has been restated due to updated rail consumption data.

DIRECTORS' REPORT: BUSINESS REVIEW
GROUP OVERVIEW

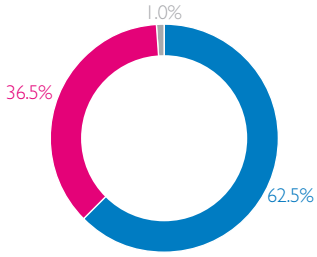
Our bus and rail companies are significant contributors to the UK's public transport infrastructure, with over one billion passenger journeys undertaken on our services this year.

Group revenue
£2,201.6m



- Bus
- Rail
- Aviation Services

Group operating profit*
£102.0m



- Bus
- Rail
- Aviation Services

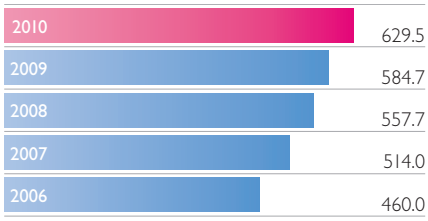
BUS (100% owned)

Go-Ahead is one of the UK's largest bus operators. With a fleet of around 3,800 buses, we carry, on average, around 1.7 million passengers every day. We have a strong presence in London, with around 21% market share, and also operate in Oxford, the South East, Southern and North East England. We also have a small yellow school bus joint venture in North America.

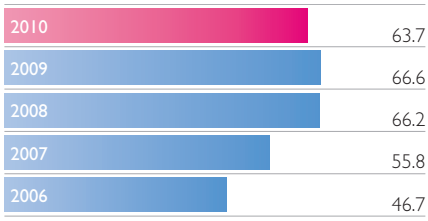
See pages 30 – 37 for bus operating review

Operating company	Go Ahead London	Go North East	Metrobus	southcoast	Brighton & Hove	oxford bus company	cityBus	konectbus
Revenue (£m)	296.5	86.2	77.6	74.2	49.7	34.4	9.6	1.3
Managing Director	John Trayner	Peter Huntley	Alan Eatwell	Alex Carter	Roger French	Philip Kirk	Andrew Wickham	Steve Challis
Nature of business	Regulated	Deregulated	Regulated/deregulated	Deregulated	Deregulated	Deregulated	Deregulated	Deregulated
Geographical area	Central London South London East London	Tyne & Wear County Durham Northumberland Teesside	South East London Kent Surrey East Sussex West Sussex	Dorset Wiltshire Hampshire Isle of Wight Southampton	Brighton Hove Eastbourne Tunbridge Wells Steyning/Shoreham	Oxfordshire Routes to: London, Heathrow and Gatwick	Plymouth	Swaffham Norwich Dereham Watton Wymondham
Approx passenger journeys**	369 million	72 million	74 million	41 million	46 million	19 million	15 million	2 million
Average number of employees	4,700	2,050	1,376	1,479	1,047	565	401	72
Fleet size†	1,512 buses	660 buses	433 buses	589 buses	273 buses	158 buses	174 buses	44 buses

Bus revenue (£m)
£629.5m



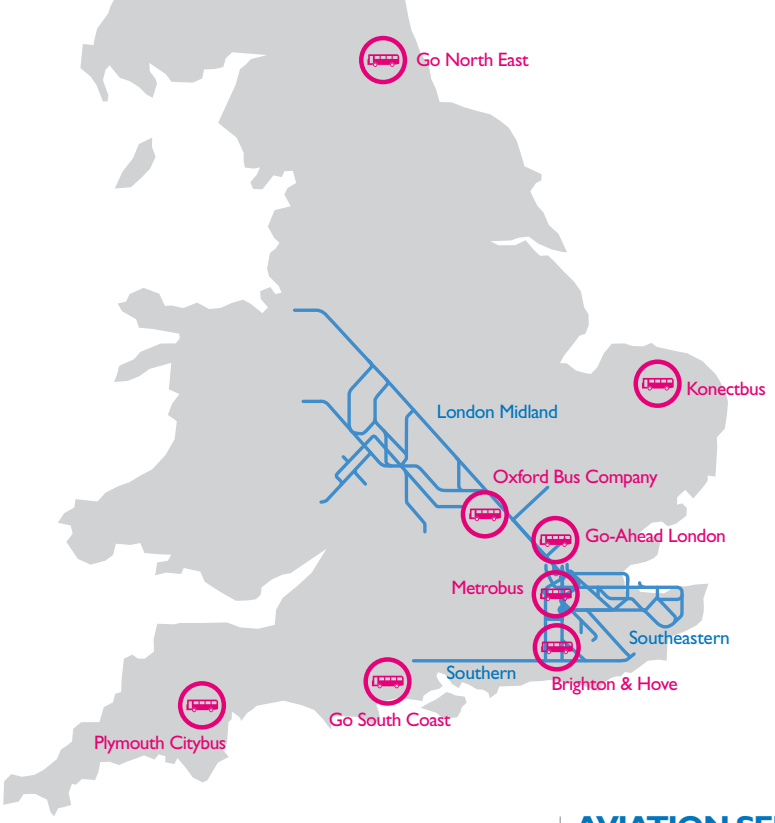
Bus operating profit (£m)*
£63.7m



Our locations

Bus operating company

Rail network



RAIL (65% owned)

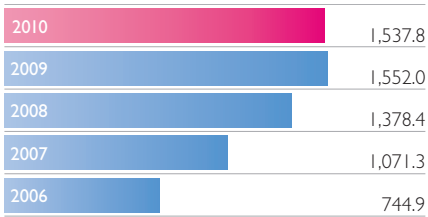
The rail operation, Govia, is 65% owned by Go-Ahead and 35% by Keolis+. It is the busiest rail operation in the UK, responsible for nearly 30% of UK passenger rail journeys through its three rail franchises: Southern, Southeastern and London Midland.

See pages 38 – 44 for rail operating review

Operating company	southeastern	Southern	London midland
Revenue (£m)	627.7	585.3	324.8
Managing Director	Charles Horton	Chris Burchell	Mike Hodson
Geographical area	London Kent East Sussex	London Surrey East / West Sussex Hampshire Kent	London Milton Keynes Northampton Birmingham / West Midlands Liverpool
Approx passenger journeys**	158 million	162 million	53 million
Average number of employees	3,751	4,065	2,451
Fleet size†	367 trains	303 trains	163 trains

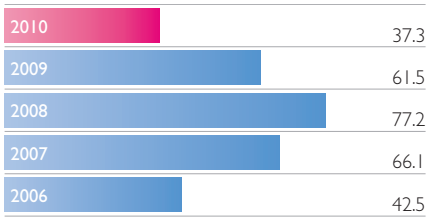
Rail revenue (£m)

£1,537.8m



Rail operating profit (£m)*

£37.3m



AVIATION SERVICES (100% owned)

Following the disposal of the majority of this division, 'Aviation Services' for the financial year primarily consisted of car parking services through Meteor.

See page 45 for aviation services operating review

Operating company	meteor
Revenue (£m)	34.3
Managing Director	Patrick Verwer
Geographical area	Nationwide
Approx parking transactions	7 million
Average number of employees	730
Parking spaces†	40,000

* Before amortisation and exceptional items.
** Rounded to the nearest one million. Passenger journeys for Plymouth Citybus and Konectbus are approximate annual figures. Both companies were acquired in the financial year.
† As at 3 July 2010.
+ Keolis is a French-based operator of passenger transport services which is majority owned by the French national railway SNCF.

CHAIRMAN'S STATEMENT

We have made good progress in delivering our strategy which leaves us well placed for the future. Our bus and rail operations remain fundamentally strong and we look forward to working closely with the new Government.

Sir Patrick Brown, Chairman

We are pleased with the progress we have made this year in challenging economic conditions. All of our bus and rail operations have increased passenger revenue, highlighting the quality and value for money of our services.

We have sold most of our aviation services division and started our yellow school bus joint venture in North America. We have also acquisitively grown our bus operations in the UK, leading to more than one billion annual passenger journeys on our bus and rail operations for the first time in our history. We are working closely with the new Government and welcome its review of future rail franchising announced in July 2010. In summary, we are in good financial shape and continue to believe in the fundamental strengths of public transport.

Business development and acquisitions

We made significant progress in delivering our Group strategy this year, namely:

- Successful launch of the new Southern rail franchise
- Introduction of the UK's first domestic high speed rail service
- Investment of over £35m in five UK bus acquisitions
- Establishment of our North American yellow school bus joint venture, which successfully commenced operations in August 2010
- Disposal of the majority of our aviation services division

Our ground handling and cargo business is now classified as discontinued and is excluded from the results discussed throughout this report. Overall, revenue increased by £14.4m, or 0.7%, to £2,201.6m (2009: £2,187.2m), consisting of £194.3m due to a change in access charge regime subsidy and an underlying increase of £208.7m, or 9.5%. Operating profit* was some £5m ahead of our expectations at £102.0m, albeit £26.8m, or 20.8%, below last year's strong result (2009: £128.8m). Adjusted earnings per share* was 128.3p (2009: 161.6p), basic earnings per share, including exceptional items and discontinued operations, was 40.1p (2009: 14.7p) and profit attributable to members was £17.2m (2009: £6.3m).

Dividends

We recognise that our dividend policy is a key part of the investment decision for many shareholders. Maintaining the amount of dividend per share through the economic cycle, including those times when earnings may reduce, is a high priority for us and is supported by the Group's strong balance sheet and cash generation.

The Board is proposing a final dividend of 30.0p per share (2009: 55.5p) to maintain the total dividend for the year at 81.0p (2009: 81.0p), following a one-off change to the proportion of full year dividend paid at the interim stage this year. The final dividend is payable on 19 November 2010 to registered shareholders at the close of business on 5 November 2010.

The Board of Directors and Governance

The Board of Go-Ahead continuously reviews the way in which the Group is managed against best practice corporate governance. Following such a review during the year, Rupert Pennant-Rea was appointed as Chairman of the Remuneration Committee on 30 October 2009. Katherine Innes Ker joined the Board as a Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees on 9 July 2010. These two changes demonstrate our commitment to good corporate governance and full compliance with the provisions of the Combined Code (published in June 2008).

In May 2010, the Financial Reporting Council issued a new edition of the Combined Code, renamed the UK Corporate Governance Code, which outlines a number of changes that are designed to reinforce Board quality, focus on risk and improve accountability to shareholders. The Board welcomes the new Code and although not applicable to Go-Ahead until the financial year ending June

Financial highlights

	2010	2009#	Increase/ (decrease)	Increase/ (decrease)
Revenue (£m)	2,201.6	2,187.2	14.4	0.7%
Operating profit* (£m)	102.0	128.8	(26.8)	(20.8)%
Profit before tax* (£m)	88.7	117.3	(28.6)	(24.4)%
Profit attributable to members (£m)	17.2	6.3	10.9	173.0%
Basic earnings per share (p)	40.1	14.7	25.4	172.8%
Adjusted earnings per share* (p)	128.3	161.6	(33.3)	(20.6)%
Dividend paid and proposed† (p)	81.0	81.0	0	0.0%
Cashflow generated from operations (£m)	160.6	233.4	(72.8)	(31.2)%
Net debt (£m)	88.3	91.0	(2.7)	(3.0)%

2011, we are already considering and working towards implementing the changes appropriate to our own corporate governance arrangements as soon as possible. In particular, at the forthcoming AGM, all Directors will be subject to annual election by shareholders.

Corporate responsibility

As a public transport operator, corporate responsibility is integral to the way we run our business and is a key part of the Group's strategy. Our responsibility is centred around five key areas: Safety, Environment, Passengers, Employees and Community. The safety and security of our passengers, our people and the general public is an absolute priority for the Group and we continually strive to improve our already high safety performance.

We are committed to improving the energy efficiency of our bus and rail operations as this not only has important environmental benefits, but also helps to reduce operating costs. This year we launched our 'Driving Energy Further' campaign which sets out a five year target to reduce our CO2 emissions per passenger journey by 20% by 2015. Through investment, innovation and the commitment of our employees we have made good progress this year as we continue towards our target.

Employees

The number of employees in the Group averaged 22,570 for the financial year, below last year's 27,177, primarily due to the disposal of the majority of our aviation services division. I would like to thank our employees for their dedication and hard work through these challenging economic conditions to ensure that we remain a strong and successful Group.

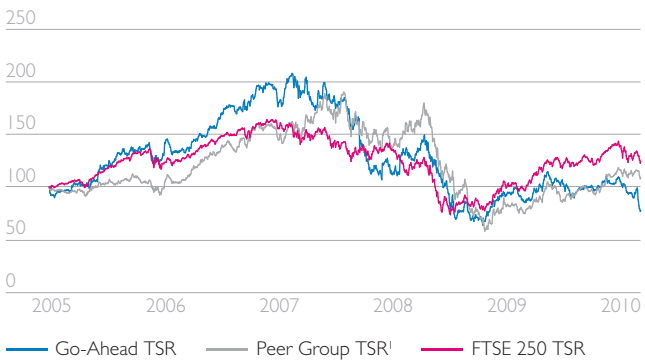
Outlook

We have made good progress in delivering our strategy which leaves us well placed for the future. Our bus and rail operations remain fundamentally strong and we look forward to working with the new Government.

However, we continue to be cautious on the near term prospects for the UK economy and the outlook for the next financial year remains difficult to predict, including any impact from the Government's Comprehensive Spending Review expected to be announced in October 2010.

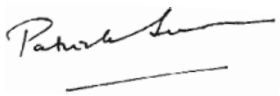
[1] TSR peer group consists of Arriva plc, FirstGroup plc, National Express Group plc and Stagecoach Group plc.
* Before amortisation and exceptional items.
† Includes interim dividend paid and final proposed dividend.
# Restated to exclude our ground handling and cargo operations.

Total shareholder return (rebased to 100)



At this stage, we have not changed our outlook for the next financial year since our trading update in June 2010, and are assuming that the broad operating trends experienced in the second half of the financial year ended 3 July 2010 continue throughout the next financial year. In bus, we therefore expect lower fuel costs and a small additional contribution from acquisitions to be partly offset by the full year effect of lower operating profit* margins in London. In rail, we expect a small reduction in operating profit* margin next year compared to the financial year just ended. We will continue to take management action accordingly, focusing on service quality, cost control and financial discipline.

Our cashflow, balance sheet and financing are strong and the maintenance of the dividend per share will remain a priority. We have started the new financial year well and trading has been in line with the Board's expectations.



Sir Patrick Brown, Chairman
1 September 2010

GROUP CHIEF EXECUTIVE'S REVIEW

We continue to deliver solid results by prioritising service quality, operational excellence, local focus on our high density urban businesses and financial discipline.

Keith Ludeman, Group Chief Executive

I am pleased with our overall operational performance. We continue to deliver solid results by prioritising service quality, operational excellence, local focus on our high density urban businesses and financial discipline.

Summary of performance

Revenue was £2,201.6m (2009: £2,187.2m), with the increase of £14.4m consisting of a reduction of £194.3m due to a change in access charge regime subsidy and an underlying increase of £208.7m, or 9.5%.

Overall operating performance was some £5m ahead of our expectations, with operating profit* of £102.0m supported by a strong finish to the year from our bus operations and lower than anticipated electricity costs in our rail division. We completed the disposal of the majority of our cargo and ground handling operations during the year and expect to sell the remaining ground handling operations in the next twelve months.

Strong cash management resulted in cashflow from operations being well ahead of our expectations at £160.6m (2009: £233.4m) and net debt remained low at £88.3m (2009: £91.0m). Capital investment was slightly ahead of depreciation, as expected, partly driven by franchise commitments in both Southern and London Midland but also to maintain our high quality asset base in our expanding bus division.

We made good progress with bus acquisitions in the year, with a total investment of £37.2m, of which cash consideration was £35.2m. On 3 October 2009 we purchased East Thames Buses from Transport for London for £5.0m, and bought Arriva's Horsham depot for £5.0m. These businesses are now fully integrated into Go-Ahead London and Metrobus respectively. On 1 December 2009 we completed the acquisition of Plymouth Citybus for £19.0m, a high quality urban operation with a large centrally located freehold depot and a strong reputation that we are seeking to further enhance. In March 2010 we acquired the entire share capital of Konectbus, a quality operator in East Anglia, and completed the acquisition of Arriva's Hexham depot operations and sold our Ashington depot to Arriva.

We remain financially robust and gained investment grade ratings from Moody's and Standard & Poor's in the period and completed our debut issue of a 7½ year £200m bond in March 2010. This further strengthens our balance sheet and secures our financing beyond our November 2012 bank facilities. We have maintained our full year dividend to shareholders at 81.0p per share (2009: 81.0p).

DIVISIONAL PERFORMANCE OVERVIEW

Bus

Our bus division performed slightly ahead of our expectations due to a strong finish to the year. Like-for-like revenue increased in all six of our bus companies, endorsing the economic resilience of these operations. Our acquisitions performed well and contributed £3.6m of operating profit, including a strong performance by East Thames Bus. Operating profit* was slightly below last year at £63.7m (2009: £66.6m), primarily due to lower margin contract renewals in our regulated London operations. Our devolved structure encourages high levels of service quality, customer focus and strong local cost control. Management initiatives contributed a further £4.3m of cost savings. We continue to champion Group purchasing power and have de-risked fuel costs through a comprehensive hedging programme that is complete for the next two years at 41pence per litre (ppl), compared with 47 ppl in the year just ended. Capital investment continues at above depreciation, ensuring that we retain one of the youngest bus fleets in the sector and maintain our strategically important freehold depot locations.

Through our joint venture with Cook Illinois, Go-Ahead North America finished its preparations to run its first yellow school bus franchise in St Louis which commenced trading in August 2010.

Rail

Our rail division performed well and operating profit* was approximately £3m ahead of our expectations, primarily due to a reduction in electricity costs allocated by Network Rail at the end of the financial year.

Each of our three rail franchises is underpinned by a focus on high density, urban commuter markets. Passenger revenue continued to grow in line with current expectations, with second half trends slightly stronger than those in the first half. Operating profit* was £37.3m compared to £61.5m last year, primarily due to the change from the previous to the new Southern franchise, more difficult economic conditions compared to the assumptions at the time of our bid for Southeastern and additional costs in London Midland. We began running the new Southern franchise in September 2009 and are pleased with the performance of this franchise to date. This year saw the introduction of the UK's first domestic high speed rail service, operated by Southeastern between St Pancras International and Kent as part of a major timetable change in December 2009. In London Midland the new management team has significantly improved the operational performance of that franchise. We continue to make good progress with cost control initiatives in our rail operations and estimate savings for the year just ended of £25.0m.

Aviation services

We disposed of the majority of our cargo and ground handling operations in January 2010 and are making progress on disposing of the remaining ground handling operations. Consequently, operating profit* of £1.0m (2009: £0.7m) for the aviation services division for the financial year consisted primarily of our Meteor parking and security business which performed as expected in the year.

Market environment

In the near term, we expect economic conditions to remain challenging. Political support from the new Government is strong, notwithstanding the likelihood of reduced funding as part of the Comprehensive Spending Review due to be announced in October 2010. We welcome the Government's review of the future of rail franchising and will actively participate in the consultation process. In the medium term, we expect to benefit from both a cyclical economic recovery and from the fundamental strengths of public transport in the UK.

Our strategy

Our strategy continues to focus on providing high quality passenger transport in the UK, primarily through bus and rail.

The underlying elements of this strategy are to:

- Run our companies in a safe, socially and environmentally responsible manner
- Provide high quality, locally focused passenger transport services
- Prioritise high density, urban markets in the UK
- Maintain strong financial discipline to deliver shareholder value

In summary

We are pleased with the results for the year given the challenging economic conditions and we have made good progress in delivering our strategy.

Whilst we remain cautious on the near term outlook for the UK economy and the potential impact of the Government's October 2010 Comprehensive Spending Review on our operations, we continue to be confident in the underlying strengths of, and growth opportunities for, our business.

Keith Ludeman, Group Chief Executive
1 September 2010

Revenue and operating profit* by division

	2010 (£m)	2009 (£m)#	Increase/(decrease) (£m)	Increase/(decrease) (%)
Revenue				
Bus	629.5	584.7	44.8	7.7
Rail	1,537.8	1,552.0	(14.2)	(0.9)
Aviation Services	34.3	50.5	(16.2)	(32.3)
Total	**2,201.6**	**2,187.2**	**14.4**	**0.7**
Operating profit*				
Bus	63.7	66.6	(2.9)	(4.4)
Rail	37.3	61.5	(24.2)	(39.3)
Aviation Services	1.0	0.7	0.3	42.9
Total	**102.0**	**128.8**	**(26.8)**	**(20.8)**

* Before amortisation and exceptional items.
\# Restated to exclude our ground handling and cargo operations.

MARKET OVERVIEW

The economic downturn has presented some challenging market conditions for the industry and the impact of public spending cuts remains unclear. However, the fundamentals of public transport remain strong. Growth in the sector is essential to the economic and sustainable future of the UK.

Impact of economic downturn

Two important drivers of transport businesses are economic growth (GDP) and employment. In the 12 months ended June 2010, UK GDP declined by 1.7% and employment rose marginally by 0.36%[1]. Whilst the economic climate made UK market conditions difficult, in particular causing a reduction in discretionary travel, urban bus operations proved to be relatively resilient and the impact on commuter rail franchises was less than some had predicted. This may be in part due to further improvements in service quality and value for money compared with other modes of transport. In addition, there has been a focus on cost reduction across the industry to limit the adverse impact of the economic downturn on margins.

Rail franchise reform

The recession has highlighted issues with the existing rail franchise model. In November 2009, the East Coast inter-city franchise was handed back to the Government. At present almost all franchises which are eligible for revenue support are receiving it. This situation is not beneficial to the Government or the industry and as a result in July 2010 the new Government published a consultation document entitled "Shaping the future of rail franchising." Whilst this is still at the consultation stage we see the potential changes outlined in the document as a positive step for the rail industry and look forward to working with the new Government.

Department for Transport public spending cuts

In June 2010 the Government announced its initial cuts to transport spending. It stated that £683m will be cut from the Department for Transport's £22bn budget for the 2010/11 financial year as part of the programme of cuts to tackle the national budget deficit.

Detailed information on our bus and rail markets is provided in the operating reviews:

Bus: pages 30-37
Rail: pages 38-44

To date, little additional detail around the proposed cuts has been published. More information and further spending reductions are expected in the Comprehensive Spending Review in October 2010. It is believed that many of the savings will come from large scale infrastructure projects which would not directly affect day-to-day public transport services. However, there are some risks to public transport operators, with the bus industry potentially exposed to cuts. The table opposite shows the main risks, consequences and certain mitigating factors.

Broadly speaking, rail operators are protected from cuts in transport spending because franchise contracts, which typically last for around eight years, are legally binding.

Sector activity

In April 2010 Deutsche Bahn announced that a recommended cash offer had been agreed to purchase Arriva. The transaction completed in August 2010 and this means there are now four listed UK public transport groups in the UK: Go-Ahead, FirstGroup, National Express and Stagecoach. The UK public transport market is the most liberalised in Europe but the Continental European market is in the process of becoming more deregulated. A number of European players operate in the UK public transport market, including SNCF, Ned Railways, Transdev and Deutsche Bahn.

Long term growth

We remain cautious on the near term outlook for the UK economy as the new Government begins to tackle the UK's budget deficit. However, despite the near term uncertainty, we believe in the fundamental strengths of public transport and long term growth in the sector. An efficient public transport system strengthens the economy, creates jobs, reduces traffic congestion and air pollution, and helps tackle social exclusion. This is recognised by the Government and other major political parties, with a clear acceptance that the private sector is best placed to deliver and grow these services.

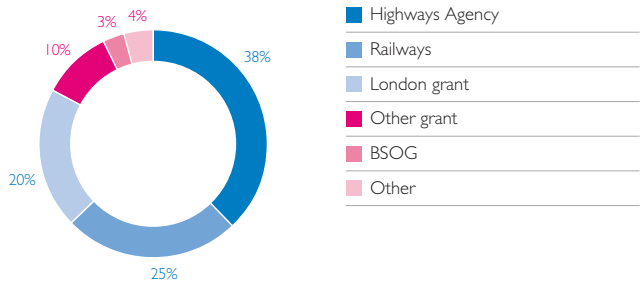
"THE GOVERNMENT BELIEVES THAT A MODERN TRANSPORT INFRASTRUCTURE IS ESSENTIAL FOR A DYNAMIC AND ENTREPRENEURIAL ECONOMY."

New Government, May 2010

Potential impacts of Government transport spending cuts

Description	Approximate total Government funding per annum[2]	Relevance to Go-Ahead	Potential consequences/ mitigation
Bus service operators grant (BSOG) Typically bus operators receive a fuel duty rebate of 43 pence per litre. See page 34 for more information on the composition of Go-Ahead's fuel costs.	£500 million	Go-Ahead receives approximately £48m through BSOG, with just over half in London. Equivalent to around 8% of bus revenue.	In London any changes to BSOG are likely to be passed on to TfL on contract renewal. Outside London, operators would need to look at ways to recover the extra costs, potentially through network reduction and fare increases.
Bus concessionary fares Currently anyone aged 60 or over is eligible to travel for free on any off peak local bus service in England. Local authorities receive a fund from the Government which they use to reimburse bus operators a percentage of the full fare.	£1.2 billion	Concessionary passengers represent around 30% of Go-Ahead's deregulated bus passengers and around 20% of deregulated bus revenue, equivalent to approximately £60 million. Overall, our average reimbursement rates are around 50-60%. In London we are not exposed to the scheme as we do not collect passenger revenue.	The concessionary fares scheme has proved very popular and it is believed it would be difficult for the Government to withdraw it completely. However, if the fund reduced and eligibility changed, operators would need to look at ways to recover the extra costs, potentially through network reduction and fare increases.
Tendered bus services Transport for London (TfL) tenders bus routes in the capital. Outside London, bus routes which are not commercially viable, such as non-frequent rural services, are tendered by local authorities.	£1.2 billion Includes subsidy to TfL of c.£600m	Go-Ahead operates around 21% of the London bus market. Less than 10% of Go-Ahead's deregulated operations are tendered. We focus on high density commuter areas where we operate commercially run services.	Bus is the most frequently used mode of transport in London and is vital to the capital. TfL's business plan 2009/10-2017/18 outlines ways to reduce the bus subsidy whilst maintaining the network. Outside London, some rural routes could be withdrawn but it is unlikely to have a material effect on Go-Ahead.

Department for Transport spending, 2008/09[3]



Breakdown of initial Government cuts to transport spend, 2010/11[4]

	£m
Local transport	309
Department for Transport direct expenditure	112
Transport for London	108
Network Rail	100
Road and rail projects	54
Total savings	**683**

[1] Office for National Statistics, July 2010.
[2] Public Transport Statistics Bulletin GB: 2009 Edition Supplement, November 2009.
[3] DfT, UBS research, June 2010.
[4] Local Transport Today, May 2010, Morgan Stanley research, June 2010.

GROUP CHIEF EXECUTIVE'S Q&A

Keith Ludeman, Group Chief Executive, reviews investors' key concerns and topical issues. Keith joined Go-Ahead in 1996 and has been Group Chief Executive since 2006. He has nearly 40 years experience in the transport sector.

"WE ARE A RELATIVELY MATURE BUSINESS AND MAINTAINING THE DIVIDEND PER SHARE IS A HIGH PRIORITY FOR THE BOARD."

Keith Ludeman, Group Chief Executive

How will Go-Ahead be affected by the Government's budget cuts?

To date the specifics around how the cuts in the Department for Transport's budget will affect public transport operators are not known. However, I believe the biggest potential risk for us lies in the bus industry with the possible reduction in, or removal of, the bus service operators grant (BSOG). BSOG currently reimburses operators around three quarters of the fuel duty cost. For Go-Ahead, this equates to £48m per annum, around 8% of total bus revenues. In London, the bus network is vital to the capital and hopefully BSOG relating to existing contracts would be preserved. In the medium term, any changes are likely to be recovered from TfL on contract renewal. Outside London, the risk is that a reduction in BSOG would lead to a combination of network reduction and price increases. We believe the Government is aware of these potential consequences and expect further information as part of the Comprehensive Spending Review in October.

Why have you entered the North American yellow school bus market?

The UK market remains our priority, but after a review of potential overseas growth opportunities, we identified North American yellow school bus as an attractive market. It has many similarities with the UK bus market and fits well with the Group's strategy of providing high quality, locally focused services.

Setting up a joint venture with an established local operator represents a low risk means of market entry and we are very pleased with our partner Cook Illinois. While we recognise that the market is currently under pressure as school districts look to save costs, the current climate presents a valuable opportunity for us to learn about the business. We also believe in the market's long term growth prospects due to both demographic trends and potential conversion to the private sector. However, as previously stated, we will continue to maintain a cautious approach to further expansion in this market.

Your rail profits have halved since 2008. Do you still think the UK rail market is a good place to be?

Yes I do. Fundamentally, rail is a very good business and the private sector is best placed to deliver the service to passengers. Go-Ahead has a good track record in winning bids and delivering high quality services. The dilemma for the industry is how to translate this into a more sustainable business model which appeals to the private sector. The economic climate has highlighted the volatile nature of the current rail franchising model. In 2008, we reported a rail operating profit* of £77.2m, compared with £37.3m this year. I would far rather we averaged a more stable level of earnings for a longer period than the current franchise allows and believe franchise reform can address these issues. I therefore welcome the Government's review of the future of rail franchising.

See pages 39-40 for more information about the UK rail market and franchise reform.

You say you remain cautious on the outlook for the Group. What does this mean for the dividend?

We are a relatively mature business and maintaining the dividend per share is a high priority for the Board. Our strong balance sheet and cashflows support this level of dividend whilst ensuring we can continue to invest properly in our existing business. We will continue to seek acquisitions where they add value, preferring bolt-on transactions in UK bus and gradual expansion in North America.

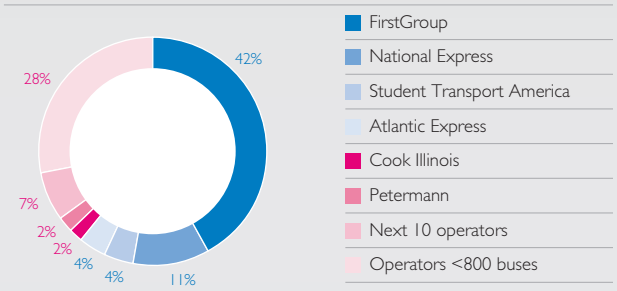
How do you see the medium/ long term future of the business?

I am pleased with the strategic progress we have made to strengthen our core bus and rail operations. I believe in the fundamentals of public transport and in our focus on local management teams empowered to deliver high quality services to local communities. I expect the near term to remain challenging as we work through the economic recovery, but, in the medium to long term, I believe that Go-Ahead is a good place to be.

NORTH AMERICAN YELLOW SCHOOL BUS MARKET

We believe that yellow school bus is an attractive market with significant growth opportunities. However, we are taking a cautious approach to entry. The market has many similarities with UK bus, but is far larger and more fragmented. The total market is approximately 450,000 buses of which around 150,000 are run by private operators. The chart below shows approximate market share for the private sector.

Yellow school bus market share (private sector)[1]



The North American yellow school bus market is vast. To illustrate its size, we operate around 3,800 buses in the UK. An equivalent sized operator in the privatised sector of the North American yellow school bus market would have a market share of around 2.5%.

* Before amortisation and exceptional items.
[1] Macquarie equity research, school bus fleet, July 2009.

STRATEGIC REVIEW

Our long term strategy is to deliver high quality passenger transport services in dense urban markets, primarily through bus and rail.

We have made significant progress with our strategy over the financial year. We disposed of the majority of our loss making aviation services division in January 2010 enabling us to focus on growing our core bus and rail operations.

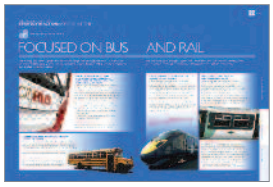
We remain committed to the UK market. We are recognised as having significant expertise in UK bus and rail which is welcomed by our shareholders and will remain our primary focus. However, following a review of potential growth opportunities outside the UK, we decided to enter the North American yellow school bus market. In November 2009, we announced we had established a small joint venture with an established local operator. This represents a low risk means of market entry and we will continue to maintain a cautious approach to developing this business.

Operating responsibly is a vital part of the Group's strategy. Providing safe, punctual and customer focused services is an integral part of our day-to-day operations. In addition, we are committed to improving the energy efficiency of our operations. This reduces our impact on the environment and generates significant cost savings.

Our simple, but effective strategy has successfully continued to deliver shareholder value through the economic cycle. Our bus operations provide strong and stable cashflows and, although the rail industry has been through a challenging period, we believe that fundamentally it is a good business and look forward to working with the new Government on the potential improvements to the franchise model.

The devolved nature of Go-Ahead differentiates us from the other large public transport groups. We continue to believe that a flat, decentralised structure is the most effective way to run our Group. We empower our local managers to deliver services in their own markets. This local focus ensures close links to the community, helping us to provide high quality services tailored to local circumstances, whilst being part of a large Group provides financial efficiencies and sharing of knowledge and best practice. The flat structure of the Group means the Executive Directors stay close to the operating and financial performance of each company.

See our strategy in action on pages 14 – 17



STRATEGIC PRIORITIES

1 TO RUN OUR COMPANIES IN A SAFE, SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE MANNER

As a public transport operator, corporate responsibility is integral to the way we run our business. Ensuring the safety of our passengers and employees is an absolute priority for the Group. We are also committed to reducing the environmental impacts of our operations and strongly believe that a sustainable public transport network is essential to the future of the UK.

2 TO PROVIDE HIGH QUALITY LOCALLY FOCUSED PASSENGER TRANSPORT SERVICES

We believe providing a reliable and convenient service encourages passenger growth and offers an attractive alternative to the private car. Our unique devolved structure ensures a strong local focus to provide our passengers with high quality bus and rail services.

3 TO PRIORITISE OUR OPERATIONS IN HIGH DENSITY URBAN MARKETS IN THE UK

We focus our operations in high density commuter markets, predominantly in the South East of the UK, where there is strong demand for public transport. The UK will remain our primary focus however we will consider investment in overseas operations if we believe it will add shareholder value.

4 TO RUN OUR BUSINESS WITH STRONG FINANCIAL DISCIPLINE TO DELIVER SHAREHOLDER VALUE

Our aim is to deliver shareholder value through a combination of earnings growth, strong cash generation and balance sheet management, supplemented by value adding acquisitions and disposals.

[1] RIDDOR - the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. See page 18 for more information.
[2] SPADs – Signals Passed at Danger. See page 18 for more information.

2010 PROGRESS	KPIS	2011 PRIORITIES	RISKS
• Maintained strong safety performance; employee RIDDOR[1] accidents reduced by 16%, bus accidents down 6% and SPADs[2] reduced by 10% • Progress in fuel economy, including a 14% improvement in rail electricity efficiency • Site energy reduced by 9% • Carbon emissions per passenger journey reduced by 5% • Committed to a five year carbon reduction strategy -'Driving energy further'	• RIDDOR[1] accidents per 100 employees • Bus accidents per million miles • SPADs[2] per million miles • Carbon emissions per passenger journey	• Further improve safety, working towards target to improve KPIs by 20% by 2015 • Make further progress on our commitment to reduce carbon emissions by 20% by 2015 (per passenger journey) • Reduce site energy by a further 8% • Maintain momentum amongst bus and train drivers to further improve energy efficiency • Reduce water consumption by 10%	• Major accident or incident (including terrorism or act of God) or pandemic - potential for serious injury, service disruption and lost earnings
• Maintained high levels of punctuality at around 90% across our bus and rail services • Excess waiting time in London bus remained low despite roadworks • Highest rail customer satisfaction scores achieved in Spring National Passenger Survey • Pioneering industry marketing campaign launched at Southern • Successful trials of Go-Ahead's smartcard 'the key'	• Rail punctuality • London bus excess waiting time • Deregulated bus punctuality • Customer satisfaction	• Maintain high levels of punctuality • Further improve customer satisfaction • Roll out smartcards across more companies • Increase rail online sales by 20%	• Major accident or incident (including terrorism or act of God) or pandemic • Economic downturn has a negative impact on the Group's businesses and demand for services • Political and regulatory changes and availability of public funding • Loss of business to competitors • London bus contracts not renewed • Breach of franchise agreements
• Invested over £35m in UK bus acquisitions • Bus and rail passenger journeys increased by 8.7% and 3.2% respectively • Successful transition to new Southern franchise • Established small yellow school bus joint venture in North America • Prequalified for the London commuter based Greater Anglia franchise before the bid process was cancelled by the new Government	• Value adding acquisitions • Passenger journeys	• Assess UK bolt-on bus acquisition opportunities • Successfully operate our first yellow school bus contract • Work closely with Government on review of future of rail franchising	• Economic downturn has a negative impact on the Group's businesses and demand for services • Political and regulatory changes and availability of public funding • Loss of business to competitors • London bus contracts not renewed • Breach of franchise agreements • Financing risk (loss of liquidity, credit risk on cash investments, interest rate risk)
• Strong cash management • Net debt further reduced • Maintained dividend at 81.0p per share • Issued £200m 7½ year sterling bond • Initiated investment grade ratings from Standard & Poor's (BBB-) and Moody's (Baa3)	• Operating profit growth • Cashflow to EBITDA • Capital investment to depreciation • Dividend cover • Adjusted net debt to EBITDA	• Continue to manage cash closely to convert EBITDA into operating cash • Prioritise maintaining the amount of dividend per share • Maintain adjusted net debt to EBITDA between 1.5x and 2.5x through the economic cycle	• Economic downturn has a negative impact on the Group's businesses and demand for services • Major accident or incident (including terrorism or act of God) or pandemic • Inappropriate strategy or investment • Political and regulatory changes and availability of public funding • Financing risk (loss of liquidity, credit risk on cash investments, interest rate risk)

See pages 18-21 for further details on our KPIs.

See pages 22-25 for further details on risks, including potential impact and mitigation.

STRATEGY IN ACTION: A GOOD PLACE TO BE

Delivering on strategic priorities 2, 3 and 4

FOCUSED ON BUS

Our strategy is to deliver high quality transport services, primarily through bus and rail. We have now disposed of the majority of our loss making aviation services division, enabling us to focus on growing our core bus and rail operations.

STRENGTHENED OUR POSITION IN KEY URBAN AREAS THROUGH INVESTMENT OF OVER £35 MILLION IN UK BUS ACQUISITIONS

Plymouth Citybus was our largest acquisition. Acquired from Plymouth City Council in December 2009 for £19.0m, the company is the market leading bus operator in the City of Plymouth and surrounding areas. Our devolved structure, which empowers local management teams, and our focus on local identity were favourable factors for the council when considering potential buyers.

Other bus transactions in the financial year included:

- East Thames Buses bought from Transport for London
- Acquisition of Arriva's Horsham operations
- Konectbus, Norwich based company acquired from private operator
- Arriva's Hexham operations acquired. Go-Ahead's Ashington depot sold to Arriva.

Growth opportunities

We currently operate around 5% of the deregulated market and aim to grow this part of our business.

ENTERED THE NORTH AMERICAN YELLOW SCHOOL BUS MARKET

We are pleased to have entered a joint venture arrangement with Cook Illinois, a well-established, high quality operator in Illinois. The joint venture has won its first contract and successfully started to operate 120 buses in St Louis, Missouri, in August 2010. The contact is for three years with two one year extension options. Our share of the joint venture investment is expected to be around $6 million.

Growth opportunities

We are taking a cautious approach to developing our North American yellow school bus business but believe the market presents good long term growth prospects.

AND RAIL

We have made good strategic progress over the financial year. We have acquisitively grown our bus division and continue to focus on strong commuter rail links into London.

LAUNCHED THE UK'S FIRST HIGH SPEED DOMESTIC RAIL SERVICE

In December 2009, our Southeastern rail franchise launched the UK's first high speed domestic rail service between central London and Kent. The trains run at speeds of up to 140 mph, significantly reducing journey times into the capital. Operationally the service has been a huge success and was recently rated the UK's most customer focused rail service. We see the successful delivery of this project as a significant achievement for the Group.

The service has opened up new markets among people previously commuting by car to London and the Docklands, and will play a key role in the 2012 London Olympics with Stratford International only seven minutes away from St Pancras International.

Ashford to London **1 hour 24 minutes** reduced to **37 minutes**. For £4 extra a day[2]

SUCCESSFUL START TO NEW SOUTHERN FRANCHISE

We began operating the new Southern franchise in September 2009 after successfully retaining the business following a rigorous bidding competition. The franchise operates frequent services from central London to South London and the South Coast. The transition to the new franchise at the end of last year went extremely well, and the experienced and highly capable management team is making good progress. The timing of this franchise means that current macro-economic forecasts remain similar to those used in the bid in early 2009. The franchise runs until June 2017.[1]

Growth opportunities

In March 2010, we submitted an initial entry bid for the London commuter based Greater Anglia franchise through Go-Ahead rather than the Govia joint venture. Feedback from the Department for Transport indicates we would have been included on the bidder shortlist. However, the competition was cancelled by the new Government while they review the franchise model. We look forward to seeing how the review process changes the new tender, expected at the end of 2010.

[1] Assuming a two year extension at the DfT's discretion is granted.
[2] Based on a weekly high speed service ticket compared with the mainline service.

Delivering on strategic priorities 1, 2, and 4

QUALITY AND INNOVATION

Our bus and rail operations continue to perform with high levels of punctuality and customer satisfaction. In response to changing consumer behaviour, we have made innovative progress with online retailing, improving the passenger experience and generating revenues.

CUSTOMER SATISFACTION

Our three train operating companies each achieved their best ever customer satisfaction scores in the Spring 2010 National Passenger Survey. Highlights include the Gatwick Express (part of Southern) achieving 93% and the new high speed service (part of Southeastern) scoring 95%.

PIONEERING MARKETING CAMPAIGN

In November 2009 Southern launched a pioneering marketing campaign, with the comical character Loco Toledo heading up the promotion. Since its introduction, online sales have grown from around £1.5m to nearly £15m, with over a third of sales coming from new customers. The Loco Toledo campaign won the Travel Information and Marketing Award at the 2010 National Transport Awards.

SMARTCARDS

The success of Transport for London's 'Oyster' smartcard demonstrates that passengers find using the card a convenient and efficient way to travel. More than 80% of all journeys made on Transport for London services use the Oyster card.

At Go-Ahead we have begun to roll out our own smartcard 'the key' across our bus and rail companies enabling us to provide a higher quality of service to our passengers.

Growth opportunities

Progress with online retailing and smartcards improves the customer experience and enables us to better understand our passengers' buying and travelling patterns. This means we are able to develop effective and targeted marketing and new products tailored to customers' needs, generating new revenue streams.

Delivering on strategic priorities 1 and 4

DRIVING ENERGY FURTHER

Climate change is one of the biggest challenges facing the world today. Reducing our environmental impact is an integral part of the Group's strategy. It helps to ensure we are a responsible operator as well as realising significant cost savings.

REDUCING OUR CARBON FOOTPRINT

We have led the way in introducing innovative solutions aimed at reducing our carbon footprint and were the first public transport group to receive the Carbon Trust Standard in recognition of our work.

Over the past couple of years we have invested around £8 million in energy projects which have successfully delivered fuel efficiency on our trains and buses and reduced site energy consumption.

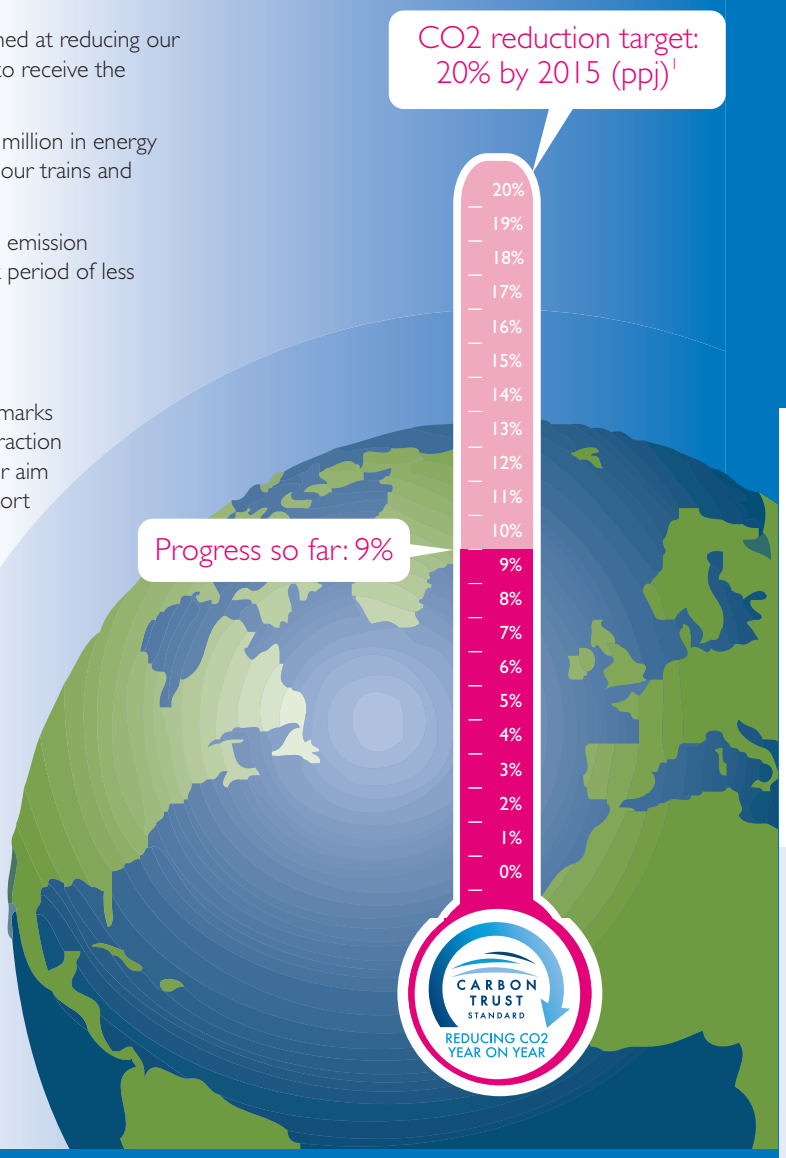
To date, we estimate these projects have resulted in carbon emission reductions of over 80,000 tonnes and a cost saving payback period of less than one year.

TARGET: REDUCE CARBON EMISSIONS BY 20% BY 2015 per passenger journey (ppj)

We are committed to doing more and our five year target marks our determination to continually seek ways of making our traction electricity, diesel fuel and site energy go that bit further. Our aim also includes encouraging more people to use public transport by providing high quality, convenient and value for money transport solutions.

Growth opportunities

Demonstrating that we are a responsible operator is important to our stakeholders and our environmental credentials increasingly play an important role in helping us win contracts and grow the business. Public transport is the most carbon efficient mode of mass transit and will therefore play a vital role in reducing carbon emissions.



For more information visit 'Driving energy further – our vision for a sustainable future.' Available on our website from October 2010.

1 Our target uses the 2008 financial year as our benchmark.

KEY PERFORMANCE INDICATORS

In order to measure progress against our strategy, the senior management and Board frequently monitor a range of financial and non-financial KPIs.

1 DELIVERING ON STRATEGIC PRIORITY 1

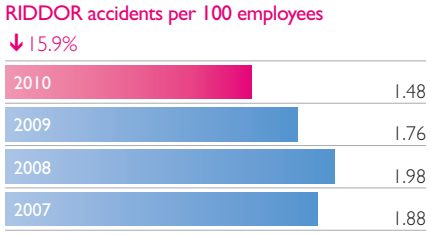
THE FOLLOWING KPIS UNDERPIN OUR STRATEGIC OBJECTIVE TO BE A RESPONSIBLE OPERATOR

RIDDOR ACCIDENTS PER 100 EMPLOYEES

The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) is a statutory requirement for all companies and relates to a work place incident which results in absence from work for over three days or a legally reportable incident to the Health & Safety Executive. We are pleased to report no employee fatalities this financial year.

Why it's important: Helps us to measure against our commitment to provide a safe working environment for our employees.

Aim: To reduce 20% by 2015[1].

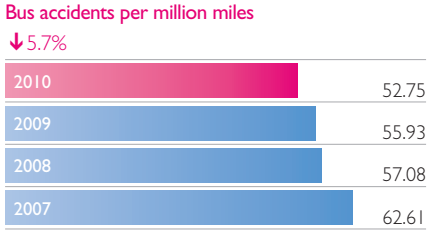


BUS ACCIDENTS PER MILLION MILES[2]

The Board monitors the number of bus accidents which result in a notification to a claims handler.

Why it's important: Helps us to measure against our commitment to provide a safe and positive travel experience for our bus passengers and helps us to manage accident claim costs.

Aim: To reduce 20% by 2015[1].

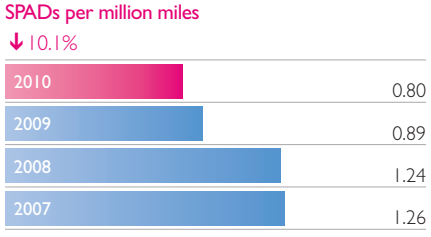


SPADS PER MILLION MILES[3]

Across the rail industry train operating companies are legally required to report Signals Passed at Danger (SPADs). Although every SPAD is treated as a serious incident, most SPADs occur at low speed where braking distance has been misjudged and the train is stopped by automatic warning systems and therefore the likelihood of an accident is very low. The industry average is 1.08[4].

Why it's important: Helps us to measure against our commitment to provide a safe rail passenger service.

Aim: To reduce 20% by 2015[1].

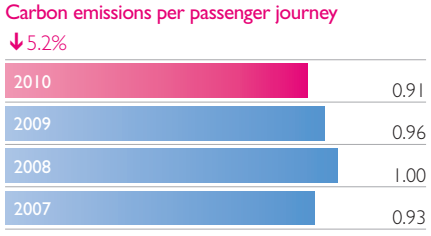


CARBON EMISSIONS PER PASSENGER JOURNEY[5]

We monitor the carbon emissions from our operations per passenger journey. A breakdown of our total carbon emissions by source can be found on page 50.

Why it's important: Helps us to measure against our commitment to improve our energy efficiency and deliver high quality services that provide attractive alternatives to car travel.

Aim: To reduce 20% by 2015[1].



[1] Target uses 2008 as the base year.
[2] Bus accidents refers to those which result in a notification to a claims handler.
[3] SPADS excludes those that in occur in our depots, in line with industry reporting.
[4] Rail Safety and Standards Board - March 2010.
[5] Target uses 2008 as the base year. CO2 conversion factors used are in accordance. with the most recent Department for Energy and Climate change guidelines 2009.
[6] Office of Rail Regulation, National Rail Trends, for the year ended March 2010.
[7] Transport for London, 1 April 2010 - 25 June 2010.

2 DELIVERING ON STRATEGIC PRIORITY 2

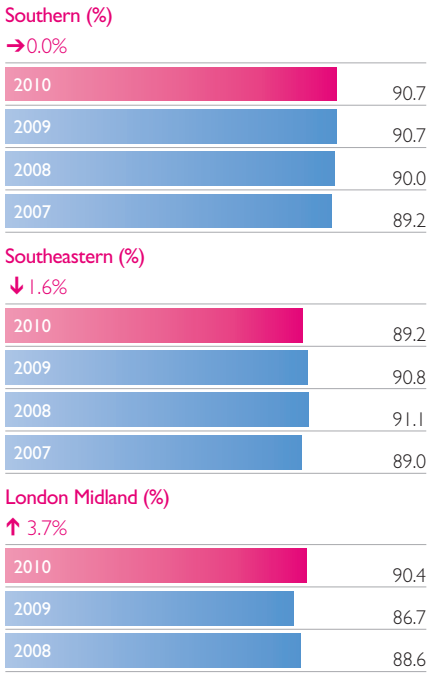
THE FOLLOWING KPIS UNDERPIN OUR STRATEGIC OBJECTIVE TO BE A HIGH QUALITY OPERATOR

RAIL PUNCTUALITY

The punctuality of our rail operations is measured on the basis of the Department for Transport's Public Performance Measure (PPM) on a moving annual average basis. This is the percentage of trains that arrive at their final destination within five minutes of their scheduled arrival time having called at all scheduled stations. This time frame is an industry standard definition for 'on-time' measurement. We also monitor customer satisfaction through the National Passenger Survey, conducted by the statutory public transport users watchdog Passenger Focus. See pages 43 to 44 for our performance.

Why it's important: Providing a punctual service is one of the most important factors for our passengers. Our PPM performance also forms part of the franchise agreement.

Aim: Maintain our high levels of punctuality at or above 90%. The PPM industry average is 91.5%[6].

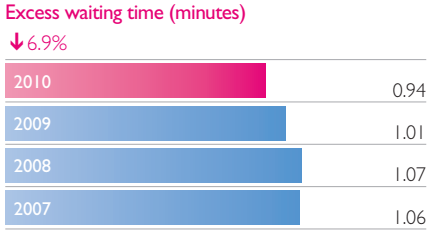


LONDON BUS PUNCTUALITY

The reliability of our London bus operations is primarily measured on the basis of Transport for London's (TfL) excess waiting time. This is the time in minutes passengers have to wait for a bus above the average scheduled waiting time. Therefore, the lower the excess waiting time the better. The industry average is 0.96 minutes.[7]

Why it's important: Providing a punctual service is one of the most important factors for our passengers. We earn extra revenue through quality incentive contracts (QIC) if we exceed punctuality targets set by TfL.

Aim: Maintain our low excess waiting time performance at below one minute.

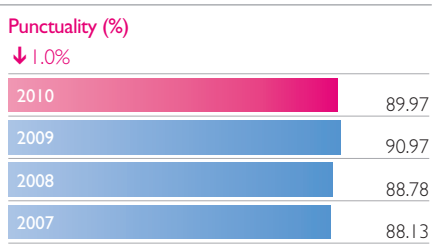


DEREGULATED BUS PUNCTUALITY

The punctuality of our deregulated bus operations is measured as a percentage of buses that arrive at their stop between one minute before and five minutes after their scheduled time. Therefore the higher the percentage the better. This time frame is an industry standard definition for 'on-time' measurement.

Why it's important: Providing a punctual service is one of the most important factors for our passengers. Delivering a high quality service helps us to grow passenger numbers.

Aim: Maintain our high levels of punctuality at or above 90%.



3 DELIVERING ON STRATEGIC PRIORITY 3

THE FOLLOWING KPIS UNDERPIN OUR STRATEGIC OBJECTIVE TO OPERATE IN HIGH DENSITY URBAN MARKETS

VALUE ADDING ACQUISITIONS

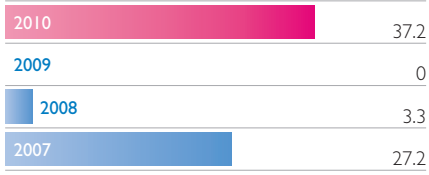
We continue to assess acquisition opportunities primarily in the UK, but these will only be pursued if we believe they will add value for our shareholders. We spent over £35 million this financial year expanding our UK bus business through acquisitions.

Why it's important: Demonstrates our commitment to strengthen our position in key urban areas and helps us assess the value of our investment.

Aim: Post tax operating profit* from transactions to exceed our post tax weighted average cost of capital of 8%.

Acquisition spend (£m)

↑ £37.2m



PASSENGER JOURNEYS

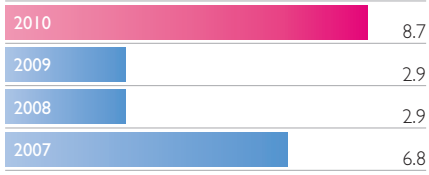
We focus our operations in high density urban markets, predominantly in the South East of England, where there is strong demand for public transport.

Why it's important: Helps us to demonstrate that our strategy of focusing our operations in urban areas is effective. We have organically increased our bus and rail passenger journeys throughout the economic downturn. In bus, regulated mileage increased by 7.4%, deregulated passenger numbers increased by 8.7% and in rail, passenger numbers increased by 3.2%. Passenger journeys also helps us to measure against our commitment to provide a high quality service.

Aim: To increase passenger journeys each year by providing a high quality service.

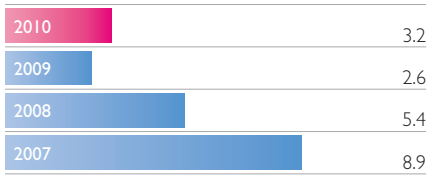
Bus passengers journey growth (excluding London) (%)

↑ 8.7%



Rail passengers journey growth[8] (%)

↑ 3.2%



* Before amortisation and exceptional items.
# Restated to exclude our ground handling and cargo operations.
8 Rail passenger journey growth is like-for-like (excluding part year at start of franchise).

4 DELIVERING ON STRATEGIC PRIORITY 4

THE FOLLOWING KPIS UNDERPIN OUR STRATEGIC OBJECTIVE TO DELIVER SHAREHOLDER VALUE

OPERATING PROFIT GROWTH

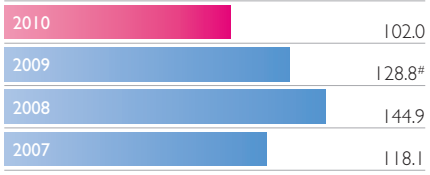
Operating profit is measured before amortisation and exceptional items to provide more comparable year-on-year information.

Why it's important: Helps us to measure the underlying performance of our operating companies.

Aim: Increase operating profit* and adjusted earnings per share* year-on-year.

Operating profit* (£m)

↓20.8%



CASHFLOW / EBITDA

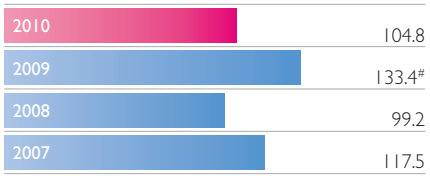
We manage payments and receipts closely to convert operating profit (before amortisation & exceptional items) into operating cash.

Why it's important: Demonstrates strong working capital management and financial discipline. Strong cash generation provides liquidity.

Aim: Match or exceed cashflow generated from operations to operating profit* plus depreciation (EBITDA).

Cashflow generated from operations/EBITDA (%)

↓28.6ppts



CAPITAL INVESTMENT / DEPRECIATION

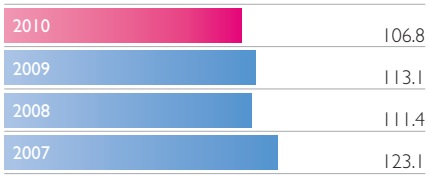
We invest in capital to both maintain and enhance our operations.

Why it's important: Ongoing investment in our business is beneficial. We want to maintain our high quality operations and invest in new, innovative products to continually improve service quality and reduce costs.

Aim: Maintenance capital investment to match depreciation through the cycle, supplemented by additional discretionary investment if value adding.

Net capital investment/depreciation (%)

↓6.3ppts



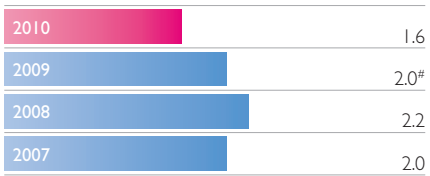
DIVIDEND COVER

We are committed to delivering shareholder value through our progressive dividend policy.

Why it's important: We measure our dividend cover (adjusted earnings per share* divided by dividend per share) to help us assess how much of our profits we can pay out as a dividend.

Aim: Dividend cover to average 2x adjusted earnings per share* through the economic cycle.

Dividend cover (x)



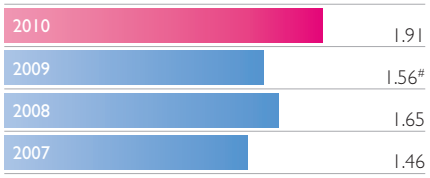
ADJUSTED NET DEBT / EBITDA

We measure adjusted net debt (net debt plus restricted cash in our rail division) to EBITDA.

Why it's important: Helps us measure against our commitment to preserve a strong capital structure, maintain our investment grade credit ratings and ensure we are within our bank covenant limit of 3.5x.

Aim: Maintain adjusted net debt / EBITDA at between 1.5x and 2.5x through the economic cycle.

Adjusted net debt/EBITDA (x)

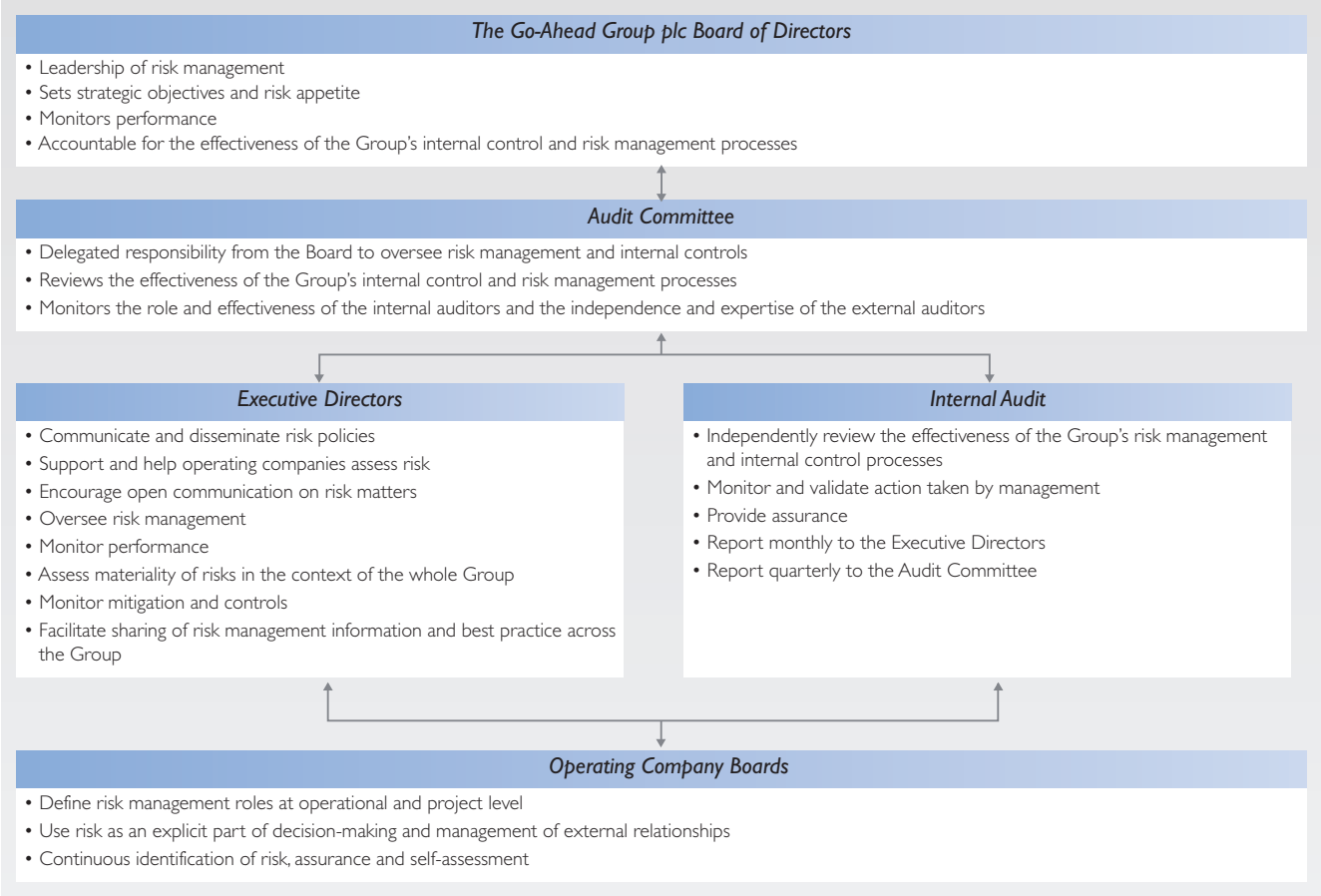


PRINCIPAL RISKS AND UNCERTAINTIES

The effective management of risk supports the delivery of the Group's objectives, protection of its reputation and achievement of sustainable shareholder value. Go-Ahead's devolved management structure provides a robust risk management and internal control framework, as detailed in the Corporate Governance report on pages 54 to 65.

The diagram below illustrates the key roles and responsibilities for each of the respective functions within our 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 communication on risk matters within a clearly defined framework and reporting process. Ownership of risk identification and mitigation lies with the senior management in operating companies where it is an integral part of day-to-day local company operations.

The tables on pages 23 to 25 summarises our assessment of the key risks and uncertainties that could impact the Group's performance. These risks are monitored on an ongoing basis through the Group's risk management processes, together with the effectiveness of mitigation through the internal control environment. Residual risk is assessed by the Board and accepted if appropriate as an integral part of the risk and reward of the business, or deemed unacceptable and therefore either reduced, transferred to third parties or avoided by no longer pursuing the relevant activity. The matters described are not intended to be an exhaustive list of all possible risks and uncertainties.



GROUP

Risk description	Potential impact	Mitigation
Major accident or incident (including terrorism or act of God) or pandemic	Potential for serious injury, service disruption and lost earnings.	• Rigorous high profile health & safety programme throughout the Group. • Appropriate and regularly reviewed and tested contingency and disaster recovery plans.
Economic downturn	Negative impact on the Group's businesses and demand for services, in particular, revenues from rail franchises.	• Proactive cost control, revenue management and economic modelling of new contracts. • Organisational structure of businesses supports close monitoring of prices, capacity and demand. • London bus contracts secured for 5-7 years. • Revenue support in rail.
Political and regulatory changes and availability of public funding	Changes to laws and regulations, and a reduction in the availability of Government financial support (including bus service operators' grants for fuel, concessionary fare reimbursement and government and local authority contracts) could adversely impact the Group's operations and financial position.	• Closely monitor and understand the impact of proposals for change in the regulatory environment. • Actively participate in industry, trade and Government forums and maintain close relationships with key stakeholders.
Inappropriate strategy or investment	Reduction in economic and shareholder value.	• Comprehensive strategic discussions with main Board and advisers. • Extensive valuation and due diligence, supported by external expertise. • Discipline to "walk away" from opportunities. • Value adding investments are required to return in excess of the Group's post tax weighted average cost of capital. • Cautious approach to investment opportunities in North America yellow school bus.
Competition	Loss of business from a number of competitive sources.	• Work closely with stakeholders to manage their requirements including service quality and price.
Labour costs and employee relations	A 1% increase in staff costs and salaries across the Group would increase costs by £7.9m. Poor employee relations or reduced availability of staff could adversely impact reputation and revenue.	• Experienced approach to wage negotiations and fostering of good relationships with employees and unions at operating company level. • Robust and regularly reviewed recruitment and retention policies, training schemes and working practices.
Increased pension scheme funding required	The Group participates in a number of pension schemes, including rail and non-rail defined benefit schemes. Any funding shortfalls could adversely impact the Group's financial position.	• Rail pension schemes and obligations guaranteed by DfT at end of franchise. • Non-rail defined benefit schemes closed to new entrants. • Board participation in overall pensions strategy decisions for non-rail pensions arrangements. Dedicated Investment Sub-Committee works with management, on de-risking of investments to mitigate volatility. See note 28 for more detail.
Fuel costs	The Group's bus and rail businesses are exposed to fuel cost volatility, primarily diesel for buses and electricity for rail traction. Increases in fuel prices which are not fully mitigated by the Group's policies, or hedged prices in excess of market prices, could adversely impact the Group's financial position.	• The Group forward buys prices for electricity for rail traction as appropriate and regularly enters into forward swap contracts to buy fuel at fixed prices to cover all of the requirements of the current financial year, at least 50% of the requirements for the next financial year and at least 25% of the following financial year.

GROUP CONTINUED

Risk description	Potential impact	Mitigation
Insurance and claims	The number and magnitude of claims falling within the Group's self-insured limits is significantly higher or lower than expected.	• Comprehensive insurance cover, with self-insurance up to defined limits and purchases above these limits from reputable global insurance firms. • Insurance and claims activity monitored closely.
Financing risk	Loss of liquidity, credit risk on cash investments, interest rate risk.	• Board approved treasury policy, which is regularly reviewed. • Three year cashflow and covenant forecasts monitored on a monthly basis. • Investment grade credit rating. • £200m sterling bond issue secures financing to September 2017. • Five year £280m revolving credit facility secures financing to November 2012. • Comprehensive, low risk cash investment policy. • Over 50% of net debt is subject to fixed interest rates.
Succession planning	A failure to attract, or the loss of, key members of senior management could adversely impact the Group's businesses and operations.	• The Group prioritises the attraction and retention of senior directors and managers, including through the appointed Nomination Committee, to ensure that the Group has the necessary expertise and continuity.
Dividend per share is reduced	Reduces from current full year level of 81.0p per share.	• Maintaining dividend per share is a strategic priority for the Board. • Supported by strong cashflows and balance sheet.

BUS DIVISION

Risk description	Potential impact	Mitigation
Economic downturn or Government cuts reduces demand for bus services	A 1% loss of revenue results in a reduction in operating profit of approximately £0.6m, assuming all costs are variable.	• Improved revenue forecasting. • Management action plans to reduce costs in the event of a downturn.
Reduction or removal of Government funding of fuel duty rebates (Bus Service Operators Grant – BSOG)	BSOG totalled around £48m for the Group in the year, with just over half in London.	• Engage and consult with the Government on the proposals for change . • Extensive management initiatives underway to manage and mitigate any reduction in rebate.
London bus contracts not renewed or reduction in existing revenues through withdrawal or re-pricing	Adverse earnings impact.	• Well located depots, 85% capacity freehold. • Strong reputation for quality and cost control. • Contract retention rate averages over 90%.
Concessionary fares scheme reduces or, does not provide an adequate economic return	Concessionary fares accounted for around 20% of the current year's deregulated bus revenue.	• Almost all of our schemes have been successfully agreed with local authorities for 2009/10.
Bus fuel prices increase	An increase of ten pence per litre increases the cost of fuel by approximately £11m.	• Rolling fuel hedging programme. • Fuel fully hedged for next two years. See page 34 for further details

BUS DIVISION CONTINUED

Risk description	Potential impact	Mitigation
UK Competition Commission referral	Changes arising from the referral adversely impact the Group's financial prospects.	• Around half of the Group's bus revenues are in London, and therefore outside the scope of this referral. • The Group's deregulated operations amount to only approximately 5% of the market which is the subject of the referral. These operations will work closely with the UK Competition Commission throughout the investigation period and ensure that the Group's position is clearly and strongly represented.

RAIL DIVISION

Risk description	Potential impact	Mitigation
Economic downturn reduces demand for rail services	A 1% loss of revenue results in a reduction in operating profit of approximately £8m, assuming all costs are fixed.	• Improved revenue forecasting. • Management action plans to reduce costs in the event of a downturn. • DfT revenue support from 1 April 2010 in Southeastern. • Revenue support available in London Midland from 11 November 2011 and in Southern from 21 September 2013.
Inaccurate or erroneous bid assumptions	Adverse trends in passenger volumes and inflation adversely affect the Group's rail businesses, results of operations and financial position.	• Shared revenue risks with Govia, which is 65% owned by Go-Ahead and 35% by Keolis. • Some protection against economic downturn through revenue support arrangements. • Significant management resource and financial investment in bidding for new rail franchises. • Board approval of overall rail bidding strategy and key parameters.
Breach of rail franchise agreements	Failure to comply with the conditions of the rail franchise agreements results in penalties, including the potential termination of one or more rail franchise agreements. This could result in the Group losing the right to continue operating the affected operations and consequently the related revenues and cashflows. The Group may also lose cash balances or season ticket bonds set aside to cover working capital requirements, and performance bonds. Any such loss of revenues or cashflow could adversely impact the Group's businesses, results of operations and financial position.	• Compliance with franchise conditions closely managed and monitored on a monthly basis to minimise risk of non-compliance. • Regular review and monitoring by Board. • Bonding severally shared with Go-Ahead at 65% and Keolis at 35%.
Earnings volatility impacts Group's financial strength	Rail represents approximately one third of the Group's current year operating profit*.	• All rail operations held through Govia, which is 65% owned by Go-Ahead and 35% by Keolis.
Profit improvement plans in Southern franchise bid not delivered	Each 1% of revenue growth not achieved is approximately £5m of operating profit* assuming all costs are fixed.	• Strong and experienced team assembled to deliver the new Southern franchise. • Comprehensive tracking of delivery against bid.

* Before amortisation and exceptional items.

FINANCIAL REVIEW

The Group operates with financial discipline to deliver shareholder value. Our businesses are highly cash generative and our balance sheet and financing remain strong.

Nick Swift, Group Finance Director

Operating profit* for the year was £102.0m, 20.8% below last year (2009: £128.8m) primarily due to lower results in our rail division. Adjusted earnings per share* followed a similar trend, down 20.6% to 128.3p per share (2009: 161.6p). Basic earnings per share were 40.1p (2009:14.7p) as a result of significant exceptional and discontinued items.

Cash conversion was, once again, excellent with cashflow generated from operations of £160.6m (2009: £233.4m) compared to operating profit before depreciation, amortisation and exceptional items (EBITDA) of £153.2m (2009: £175.0m).

Our balance sheet and financing remains strong. Adjusted net debt to EBITDA was 1.91x at June 2010 (June 2009: 1.56x) and remains well within our target range of 1.5-2.5x. Our funding is secured, partly to November 2012 through a 5 year syndicated loan facility, and partly through a 7½ year £200m bond to September 2017. At June 2010 we had headroom within the loan facility of £177.0m (2009: £101.0m).

Treatment of discontinued operations

Following the disposal of the majority of our aviation services division, the income statements for both the current and the comparative period have been restated to show continuing operations (those which remain) and discontinued (all of ground handling and cargo), with the net profit or loss for the latter shown as one line at the end of the income statement. This narrative refers to continuing operations unless otherwise indicated.

Operating profit before depreciation, amortisation and exceptional items (EBITDA)

EBITDA was £153.2m (2009: £175.0m) consisting of operating profit* of £102.0m (2009: £128.8m) and depreciation of £51.2m (2009: £46.2m).

Pensions

Operating profit* included the net cost of the Group's defined benefit pension plans of £36.3m (2009: £36.1m), consisting of bus and aviation services costs of £5.4m (2009: £3.5m) and rail costs of £30.9m (2009: £32.6m). Company cash contributions to the schemes were £6.9m (2009: £2.8m) higher than the net cost in the income statement, totalling £43.2m (2009: £38.9m).

The total net deficit after taxation for the bus and aviation schemes was £69.8m (2009: £54.7m), consisting of pre tax liabilities of £96.9m (2009: £76.0m) less a deferred tax asset of £27.1m (2009: £21.3m). The pre tax deficit consisted of assets of £420.0m (2009: £352.7m) less estimated liabilities of £516.9m (2009: £428.7m) and 49.2% of the assets (2009: 47.8%) were held as bonds and cash.

The net deficit on the rail schemes was £nil (2009:£7.5m). Any deficit at the end of the franchise is guaranteed by the DfT and hence we only recognise the share of deficit (or surplus) expected to be funded (or received) over the franchise period.

Goodwill and intangible amortisation

The charge for the year of £10.9m (2009: £11.9m) represents the non-cash cost of amortising goodwill, intangibles including assets associated with pension accounting for the rail franchises and computer costs. The decrease against the prior year reflects the part year charge for the old Southern franchise terminating on 19 September 2009, compared to a full year's charge in 2009.

Net finance costs

The net finance costs for the year increased to £13.3m (2009: £11.5m) consisting of finance costs of £14.9m (2009: £17.6m) less finance revenue of £1.6m (2009: £6.1m). The reduction in finance

Summary income statement

	2010 £m	2009 Restated £m	Increase/ (Decrease) £m	Increase/ (Decrease) %
Revenue	2,201.6	2,187.2	14.4	0.7%
Operating profit*	102.0	128.8	(26.8)	(20.8%)
Net finance costs	(13.3)	(11.5)	1.8	15.7%
Profit before tax*	88.7	117.3	(28.6)	(24.4%)
Amortisation	(10.9)	(11.9)	(1.0)	(8.4%)
Exceptional items	(27.4)	(14.5)	12.9	89.0%
Profit before tax	50.4	90.9	(40.5)	(44.6%)
Tax charges	(20.6)	(27.9)	(7.3)	(26.2%)
Exceptional tax	–	(8.6)	(8.6)	(100.0%)
Tax on exceptional items	5.7	4.1	1.6	39.0%
Total tax expense	(14.9)	(32.4)	(17.5)	(54.0%)
Profit for the year	35.5	58.5	(23.0)	(39.3%)
Discontinued operations	(12.0)	(40.2)	(28.2)	(70.1%)
Minority interest	(6.3)	(12.0)	(5.7)	(47.5%)
Profit attributable to members	17.2	6.3	10.9	173.0%
Adjusted profit attributable to members	55.1	69.4	(14.3)	(20.6%)
Weighted average number of shares (m)	42.9	42.9	0	0.0%
Adjusted earnings per share (p)*	128.3	161.6	(33.3)	(20.6%)

revenue on cash held as part of the rail franchise obligations reflects lower interest rates. Finance costs included £3.0m for the 7½ year sterling bond issued at a 5.375% coupon in March 2010. The average net interest rate was 4.8% (2009: 5.0%) for the year and the proportion of gross debt held under fixed interest rate agreements at 3 July 2010 was 105.6% (2009: 47.2%).

Exceptional items

Exceptional items before taxation totalled £46.8m (2009: £57.7m) of which £27.4m (2009: £14.5m) related to continuing operations. Most of the items were non-cash, with cash items totalling £11.0m (2009: £10.1m). Exceptional costs relating to Meteor were £16.4m (2009: £1.5m) consisting of a first half impairment charge of £16.2m and a subsequent restructuring provision of £0.2m in the second half of 2010.

Bus and rail related exceptionals totalled £11.0m (2009: £12.4m), including £6.7m of rail restructuring and £0.8m of bus restructuring costs. In March 2010 the Mayor of London announced that all articulated buses would come out of use by March 2011 rather than at the end of the relevant TfL contracts. This has led to a further acceleration of depreciation charge in this year of £2.6m following £0.8m last year and a further £1.8m is expected to be charged against the Group's 2011 results.

Taxation

The net taxation charge in the income statement of £14.9m (2009: £32.4m) included underlying tax on ordinary activities of £20.3m (2009: £28.2m), equivalent to an effective rate of 26.1% (2009: 26.7%) slightly below the UK statutory rate for the period of 28.0% (2009: 28.0%) due to the benefit of previous tax efficient asset finance arrangements.

The charge also includes a tax benefit of £5.7m (2009: £4.1m) relating to the exceptional costs. The 2009 charge includes an exceptional, non-cash tax charge of £8.6m following the UK Government's abolition of industrial buildings allowances announced in July 2008.

Discontinued operations

Discontinued operations consist of the cargo and ground handling activities which have either been sold or are intended to be sold by the year end. The loss for the year was £12.0m (2009: £40.2m), consisting of an operating profit of £3.5m (2009: loss £5.2m), exceptional costs of £19.4m (2009: £43.2m), a tax benefit of £4.1m (2009: £8.7m) and other costs of £0.2 m (2009: £0.5m). The exceptional cost relating to discontinued operations of £19.4m is largely unchanged from the £19.6m recognised at the half year.

Minority interest

The minority interest in the income statement of £6.3m (2009: £12.0m) arises from our 65% holding in Govia Limited (which owns our rail operations) and therefore represents 35% of the profit after taxation of the rail division.

* Before amortisation and exceptional items, excluding discontinued operations.

Adjusted earnings per share

Adjusted profit attributable to members* was £55.1m (2009: £69.4m). This consisted of a profit attributable to members of £17.2m (2009: profit £6.3m) adjusted to add back members' share of post tax amortisation of £5.9m (2009: £6.5m), members' share of exceptional items of £20.0m (2009: £16.4m) and post tax loss on discontinued operations of £12.0m (2009: £40.2m).

The weighted average number of shares remained at 42.9 million (2009: 42.9 million). The closing number of shares in issue, net of treasury shares, was 42.9 million (2009: 42.9 million).

Adjusted earnings per share* decreased by 20.6%, or 33.3p, to 128.3 pence per share (2009: 161.6 pence per share).

Dividends

The Board is proposing a total dividend for the year of 81.0p per share, unchanged from last year and including a proposed final payment of 30.0p payable on 20 November 2010 to registered shareholders at the close of business on 6 November 2010. This follows the one-off change to the proportion of the full year dividend paid as an interim amount this year.

Dividends paid in the period represents the payment of last year's final dividend of 55.5p (2009: 55.5p) and the interim dividend in respect of this year of 55.5p per share (2009: 25.5p).

Cashflow

Cash generated from operations before taxation was £160.6m (2009: £233.4m), with tight working capital management resulting in a favourable net movement of £8.6m (2009: £76.7m) and other net outflows of £1.2m (2009: £18.3m).

Tax paid of £18.8m (2009: £11.4m) was primarily the current portion of the pre-exceptional tax charge of £20.6m. The 2009 tax charge includes £8.6m non-cash charge relating to the abolition of industrial buildings allowances, and a one off refund of £5.2m. Net interest paid of £10.7m (2009: £11.9m) is in line with the charge for the period of £13.3m (2009: £11.5m) except for £3.0m of interest on the £200m 7½ year sterling bond, which is due 29 September 2010. Capital expenditure, net of sale proceeds, was similar to last year at £54.7m (2009: £56.6m), equivalent to 107% of depreciation (2009: 123%).

Summary cashflow

	2010 £m	2009 £m	Increase/ (Decrease) £m
EBITDA+	153.2	175.0	(21.8)
Working capital/other	7.4	58.4	(51.0)
Cashflow generated from operations	160.6	233.4	(72.8)
Tax paid	(18.8)	(11.4)	(7.4)
Net interest paid	(10.7)	(11.9)	1.2
Net capital investment	(54.7)	(56.2)	1.5
Free cashflow	76.4	153.9	(77.5)
Net acquisitions and joint venture investment	(35.9)	–	(35.9)
Cash acquired from businesses	1.9	–	–
Disposal of subsidiary operations	14.8	0.0	14.8
Franchise transfer/ other	(2.4)	(0.4)	(2.0)
Dividends paid	(52.3)	(47.1)	(5.2)
Share issues/ buybacks	(0.1)	0.4	(0.5)
Decrease/(increase) in net debt	2.7	106.8	(104.1)
Opening net debt	(91.0)	(197.8)	(106.8)
Closing net debt	(88.3)	(91.0)	(2.7)

Following a decision to increase the proportion of the total dividend for this year payable as an interim dividend, dividends paid to parent company shareholders amounted to £45.7m (2009: £34.8m) consisting of 55.5p per share final dividend for 2009 (2009: final dividend for 2008 55.5p) and 51.0p interim dividend for 2010 (2009: 25.5p). Dividends to minority interests were £6.6m (2009: £12.3m). During the period there have been no repurchases of shares (2009: Nil) and 4,000 shares were issued (2009: 50,000 shares) on exercise of share options for proceeds of £0.2m (2009: £0.6m).

Capital structure

	2010 £m	2009 £m
Five year syndicated facility 2012	280.0	340.0
£200m 7½ year 5.375% sterling bond	200.0	–
Total core facilities	480.0	340.0
Amount drawn down at 3 July	303.0	239.0
Balance available	177.0	101.0
Restricted cash	204.0	181.3
Net debt	88.3	91.0
Adjusted net debt	292.3	272.3
EBITDA+	153.2	175.0
Adjusted net debt/EBITDA+	1.91x	1.56x

Balance sheet

Net debt has been maintained below last year's significantly lower balance, reducing in the year by a further £2.7m to £88.3m (2009: £91.0m; 2008: £197.8m).

Prior to our bond issue we achieved investment grade ratings from Moody's (Baa3, stable outlook) and Standard and Poor's (BBB-, stable outlook) consistent with our belief that a target range for adjusted net debt to EBITDA of 1.5x – 2.5x is broadly equivalent to an investment grade rating.

On 24 March 2010 we launched our debut bond for £200m over 7½ years at a 5.375% coupon and used the proceeds to pay down part of the syndicated loan facility as well as reducing that facility from £340m to £280m. This provided us with core financing of £480m (2009: £340m), of which £177m was undrawn and available at the year end (2009: £101m).

Net debt consisted of the £200m bond, amounts drawn down against the £280m (2009: £340m) five year syndicated loan facility of £103.0m (2009: £239.0m); other bank loans of £5.6m (2009: £36.0m); hire purchase and lease agreements of £10.0m (2009: £18.1m) and overdrafts of £5.2m (2009: £5.0m), partly offset by cash and short term deposits of £235.5m (2009: £207.1m) which included restricted cash in rail of £204.0m (2009: £181.3m). The increase in restricted cash reflects the working capital payments expected in rail assessed by the DfT over the past 12 months and the next 12 months.

Adjusted net debt, consisting of net debt plus restricted cash, was £292.3m (2009: £272.3m), equivalent to 1.91x EBITDA (2009: 1.56x), well within our target range and significantly below our primary financing covenant of not more than 3.5x.

On 26 July 2010 we entered into a US$10m facility with RBS to provide medium term funding for our North American yellow school bus joint venture, using the US$ denomination to provide a currency hedge against our US$ investment in the joint venture.

Net assets total £(41.3)m at the end of the year compared to £(9.5)m at 27 June 2009. The reduction of £31.8m consists of profit for the year of £23.5m plus shares issued of £0.2m plus gains on financial instruments of £18.1m; less an increase in pension scheme liabilities of £22.5m, dividends paid of £52.3m, £0.8m of other taxes recognised in other comprehensive income and net credits for share movements of £0.4m.

Key risks and uncertainties

Key risks and uncertainties are described on pages 23 to 25, and include political and economic risks such as the impact of the Government's Comprehensive Spending Review in October 2010, together with other risks such as a major accident or incident. Page 22 summarises how we manage these risks across the Group.

Nick Swift, Group Finance Director
1 September 2010

* Before amortisation and exceptional items.
+ Operating profit before interest, tax, depreciation, amortisation and exceptional items.

BUS

CONTENTS

ON AVERAGE, AROUND 1.7 MILLION PEOPLE TRAVEL ON OUR BUSES EVERY DAY

Go-Ahead is one of the UK's largest bus operators. We have a strong presence in London, with around 21% market share, and have operations in Oxford, the South East, Southern and North East England. We also have a small yellow school bus joint venture in North America.

2010 BUS HIGHLIGHTS

	2010	2009
Revenue (£m)	629.5	584.7
Operating profit* (£m)	63.7	66.6
Margin*	10.1%	11.4%
Revenue growth		
Regulated	6.5%	6.1%
Deregulated	9.0%	6.4%
Volume growth		
Regulated – miles operated	7.4%	1.8%
Deregulated – passenger journeys	8.7%	2.9%

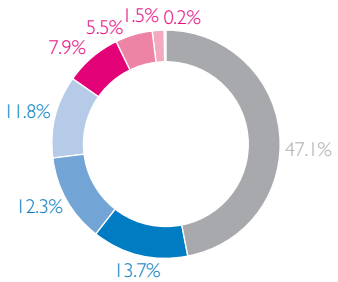
* Before amortisation and exceptional items.

Bus revenue by operating company

	2010 (£m)	2009 (£m)
Go-Ahead London	296.5	283.3
Go North East	86.2	82.5
Metrobus	77.6	68.2
Go South Coast	74.2	70.5
Brighton & Hove	49.7	48.3
Oxford Bus	34.4	31.9
Plymouth Citybus	9.6	–
Konectbus	1.3	–
Total bus	629.5	584.7

2010 revenue split

£629.5m



Our bus brands

BUS STRATEGY

Our core bus strategy is to focus our services in high density urban areas in the UK where there is a strong demand for frequent services. We strongly believe that locally based management teams and local branding helps to ensure close links to the community and key stakeholders such as local authorities. This helps us to provide high quality services and means we can respond quickly to changing passenger needs.

Our aim is to grow our bus business in the UK both organically and through value adding bolt-on acquisitions, particularly in the deregulated market where we have a relatively small proportion of the overall market. In addition, we have established a joint venture in North America to pursue potential growth opportunities in the yellow school bus market. We are taking a cautious approach to developing this business.

MARKET ENVIRONMENT

Bus travel is the most frequently used mode of public transport in the UK with around five billion passenger journeys made each year[1].

The UK bus market is split into two models. The London market is regulated by Transport for London (TfL) and outside London, the market is largely operated on a normal commercial basis (deregulated).

Go-Ahead operates in the UK bus market through eight business units: Go-Ahead London, Go North East, Go South Coast, Metrobus, Brighton & Hove, Oxford Bus Company, Plymouth Citybus and Konectbus.

Go-Ahead London and around 70% of Metrobus' operations are within the regulated London market.

Impact of economic climate on UK bus market

Overall, the bus market has been relatively resilient throughout the recession as bus can often be the cheapest way to travel. Bus passenger journeys in England increased by 2% for the year ended March 2009[2], in part due to the popularity of the concessionary fares scheme which was extended in April 2008 to enable anyone aged 60+ to travel for free on any local bus service in England.

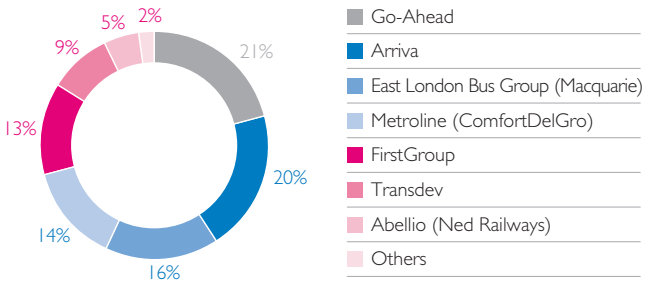
Latest industry figures suggest bus passenger journeys in England decreased by 1.8% for the year ended March 2010[2]. However, it is important to note that there are significant regional variations in demand for bus use. In London, there has been continued volume growth throughout the economic downturn and Go-Ahead's strategy of focusing on high density urban areas means that overall, demand for our deregulated services has continued to grow.

REGULATED BUS

Buses are a fundamental feature of the capital. They are by far the most used mode of public transport in London with over two billion passenger journeys a year (the most since the 1960s), compared with around one billion on the London Underground[3].

Go-Ahead is the largest bus operator in London with around 21% market share. We operate over 100 bus routes and carry approximately one million passengers a day.

London bus market share[4]



Transport for London

Operating under a regulated system, TfL issues tenders for each bus route and private operators enter a competitive bidding process for the right to operate them. The contracts are usually five years in duration with a two year extension if TfL performance targets are met. Route contracts are awarded on a cost per mile basis. This means that bus operators are not subject to any near term passenger revenue risk. TfL contracts are price index adjusted, designed to offset inflationary increases in costs. Broadly speaking, therefore operators' profits are not impacted by inflationary changes.

Over 90%
Go-Ahead's typical contract retention rate

[1] Department for Transport, Public Transport Statistics Bulletin GB: 2009 Edition.
[2] Department for Transport, June 2010.
[3] Transport for London: Annual Report and Statement of Accounts 2009/10.
[4] KPMG Independent Strategic Review of Bus Services in London, July 2009 & Go-Ahead estimates. Based on scheduled kilometres.

Bus fleet

TfL specify which buses should be used for each contract. Go-Ahead runs over 1,500 buses in London, of which around 50% are leased. Outside London we own all our buses.

Running a quality London bus operation

Go-Ahead believes running a successful London bus operation is based on two main factors:

Strong and experienced management team

Running high quality frequent bus services in the busy and congested capital is a complex operation. Go-Ahead has a very experienced management team and has successfully run bus services in London for over 20 years.

Good network of freehold depots

A depot located close to bus routes results in greater cost efficiency. Go-Ahead has 16 strategically located London depots, with around 85% of our depot capacity owned as freehold. The book value of these properties is approximately £100m, which we believe is around the current market value.

Quality Incentive Contracts

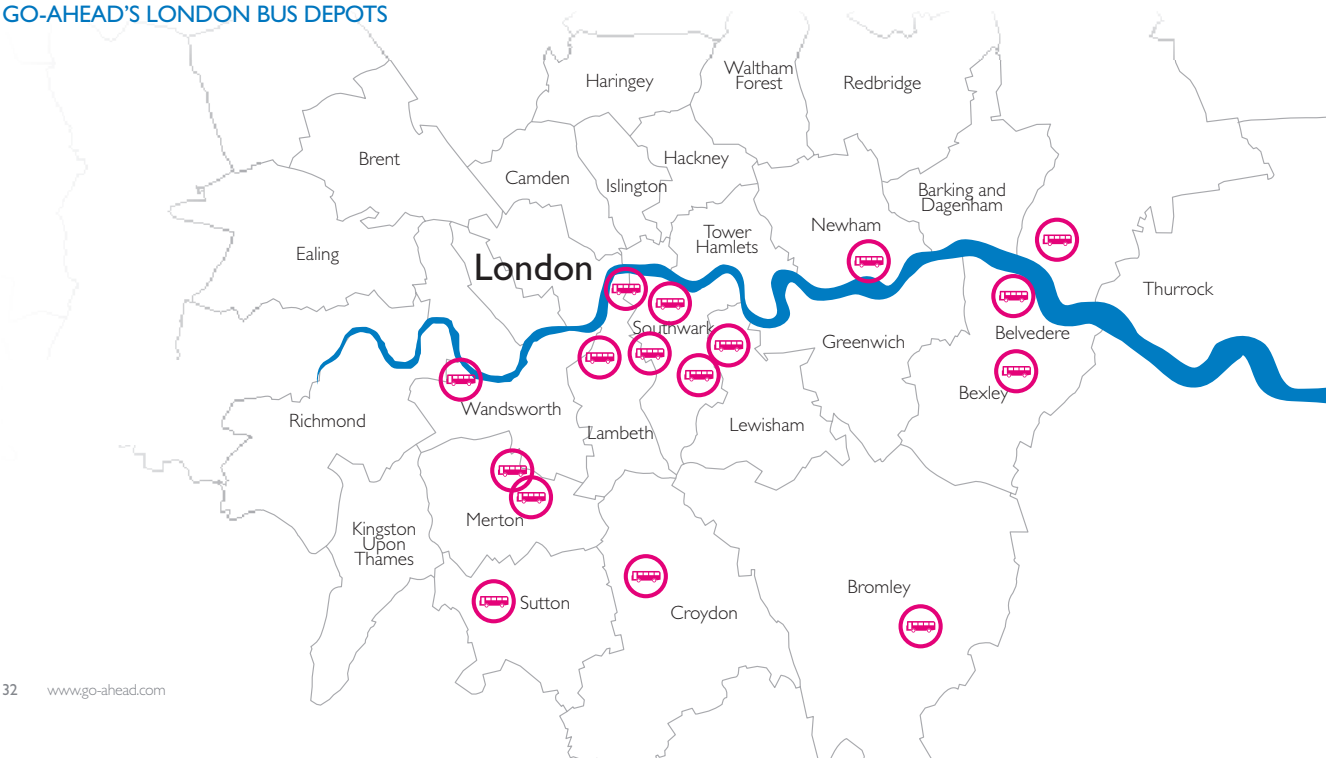
TfL set performance targets called Quality Incentive Contracts (QICs) to ensure bus companies run a high quality service. When targets are met, operators are rewarded with cash bonuses. If targets are not met operators are penalised. Go-Ahead's operations consistently rank highly in the TfL performance leagues, which are available on TfL's website. In 2010, our quality incentive bonus revenue totalled £12.3m (2009: £14.2m).

Go-Ahead has previously highlighted that the amount received through QICs is likely to continue to fall in the future. This is due to a combination of factors:

QIC1 is based on punctuality and forms part of the tendered contract. Typically, on retender the punctuality targets for the new contract are based on the level achieved at the end of the previous contract and so it becomes increasingly difficult to exceed the new targets and earn QIC revenue.

QIC2 was introduced in October 2008. This was a bonus payment based on qualitative factors such as bus driver attitude and bus cleanliness. This initiative was withdrawn by TfL by March 2010 as a way of reducing TfL's subsidy. In the financial year just ended, Go-Ahead received £3.5m in revenues from QIC2.

GO-AHEAD'S LONDON BUS DEPOTS



Transport for London – bus volume growth[5]

	2009/10	2008/09	2007/08	2006/07	2005/06
Passenger journeys (millions)	2,257	2,247	2,176	1,880	1,816
% increase year-on-year	0.45%	3.26%	15.74%	3.52%	6.70%
Km operated (millions)	483	478	468	458	454
% increase year-on-year	1.05%	2.14%	2.18%	0.88%	0.89%

Continued demand for London buses

The London bus market has been resilient through the economic downturn. Figures from TfL show that bus passenger journeys have grown on average by 5.6% over the last five years. This is also reflected in Go-Ahead's London operations and may be due to the following factors:

- Bus is typically the cheapest method of public transport in the capital
- Congestion zone charging for private car use
- Limited and expensive car parking facilities
- High proportion of bus lanes (almost 300km)
- Significant percentage of the population without car ownership

It is likely that the capital's bus network will remain relatively stable over the next couple of years as TfL's budget is constrained. However, the market presents good long term growth opportunities. The London population is set to increase by 1.3 million by 2031 and the Mayor of London has set a target of reducing London's greenhouse gas emissions by 60 per cent by 2025[6]. Both are key drivers to continued future growth of the London bus market.

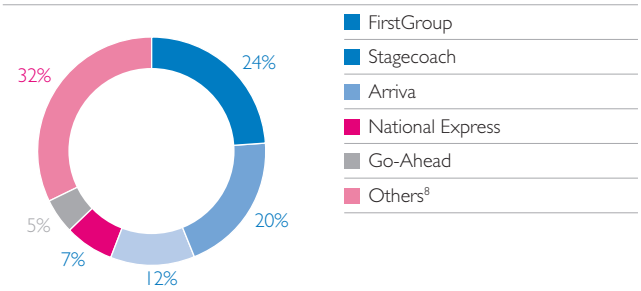
"ONE OF THE BEST WAYS TO TACKLE CLIMATE CHANGE IS TO PERSUADE PEOPLE TO LEAVE THEIR CARS BEHIND AND USE PUBLIC TRANSPORT."

Transport for London, Business Plan 2009/10 – 2017/18

DEREGULATED BUS

Outside London, bus services are largely commercially run by private operators. Operators work closely with local authorities and other stakeholders to provide the appropriate services to meet demand and are free to set fares on a commercial basis. Go-Ahead operates around 5% of this market, with a particular focus on dense, urban operations.

Deregulated bus market share[7]



Running a quality deregulated bus operation

Go-Ahead believes running a successful regional bus operation is based on the following factors:

Comprehensive network of bus routes

This enables companies to offer frequent and convenient services for passengers in a cost efficient way, resulting in good value fares which are competitive with other forms of transport.

[5] Transport for London Annual Report and Statement of Accounts 2009/10. March year end. Published August 2010.

[6] Transport for London Business Plan (2009/10 – 2017/18).

[7] Macquarie research, September 2009.

[8] 'Others' includes independent operators, 11 local authority owned bus operators and companies owned by overseas operators.

Go-Ahead hedging prices

	2008	2009	2010	2011	2012	2013
% hedged	50%	Fully	Fully	Fully	Fully	25%
Price (pence per litre)	34	43	47	41	41	42
Usage (m litres pa)	110	110	115	115	115	115
£'m cost	37	47	54	47	47	48*

* Assuming hedging completed at same average price.

Good relationships with local authorities
Local authorities invest in bus priority measures and technology such as real time bus information to promote bus travel.

Local and customer focused operations
Bus travel is very localised. It is important to have close links with communities to deliver services tailored to local circumstances.

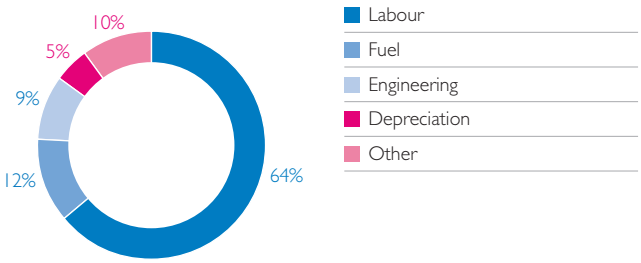
Quality and reliable services
Investing in modern fleets and ensuring services are punctual help to grow passengers. This year we spent £38m on new buses. The average age of our bus fleet is 7.4 years.

BUS OPERATING COST BASE

Ongoing cost control is an important part of running a good bus operation. Labour is the largest operating cost, accounting for 64% of Go-Ahead's bus cost base. Fuel accounts for 12%. Typically, bus operators have some flexibility within their cost base and in an economic downturn can vary service levels to demand.

Go-Ahead bus operating cost base

£565.8m



Go-Ahead fuel costs

We consumed around 115m litres of fuel this financial year at a net cost of £71m, consisting of:

	Price per litre (p)	Approx cost (£'m)
Underlying cost (hedged price)	47	54
Duty	56	64
Delivery	1	1
Gross cost	104	119
Bus Service Operators Grant (BSOG)	(43)	(48)
Net cost	61	71
% of BSOG compared to duty	77%	–

Bus service operators grant (BSOG) is a rebate paid by the DfT to reimburse bus operators for around 70-80% of the excise duty paid on the fuel consumed in operating an eligible bus service. BSOG is currently under review by the Government.

Go-Ahead hedging policy and prices

Our bus fuel hedging programme uses fuel swaps to fix the price of our diesel fuel in advance. Our aim is to be fully hedged for the next financial year three months before the start of that year, at which point we aim to have also fixed at least 50% of the following year and 25% of the year after that. This hedging profile is then maintained on a quarterly basis. See table at the top of page for our current hedging prices.

OFTs referral of bus services to Competition Commission

In January 2010 The Office of Fair Trading (OFT) referred UK local bus services to the Competition Commission. Provisional findings are expected to be announced towards the end of this calendar year and the industry is working closely with the Competition Commission believing that: "Bus companies operate in highly competitive local markets and it is always in our interests to keep prices competitive to attract passengers out of their cars and onto our services... The industry delivers one of the most comprehensive bus networks in Europe for one of the lowest levels of public subsidy."
Confederation of Passenger Transport UK, January 2010.

2010 PERFORMANCE OVERVIEW

The performance of our bus operations was slightly ahead of our expectations due to a strong finish to the year.

Revenue increased by 7.7%, or £44.8m, to £629.5m (2009: £584.7m), consisting of £31.5m, or 5.4%, from acquisitions and like-for-like growth of £13.3m, or 2.3%.

Operating profit* was £63.7m, slightly ahead of our expectations but below the record year last year (2009: £66.6m) with an increase of £3.6m due to acquisitions more than offset by a like-for-like reduction of £6.5m, primarily due to lower second half margins in our regulated London operations. Consequently, bus operating profit* margin fell to 10.1%, 1.3 ppts below last year (2009: 11.4%). As expected, this year's operating profit* included additional like-for-like costs for fuel of £4.0m, additional duty of around £1.0m and further pension costs of £1.9m. This has been partly offset by a reduction in accident claim costs of £1.8m and benefits from cost saving initiatives of approximately £4.3m.

Acquisitions

This was a successful year for acquisitions in the regulated and deregulated businesses, and the acquired businesses have made significant contributions to both turnover and operating profit*.

Most of the increased revenue and operating profit* was from East Thames Buses, a regulated business operating in the East of London, which was acquired from Transport for London by our Go-Ahead London operation on 3 October 2009 for cash consideration of £5.0m and has now been successfully integrated into our existing depots.

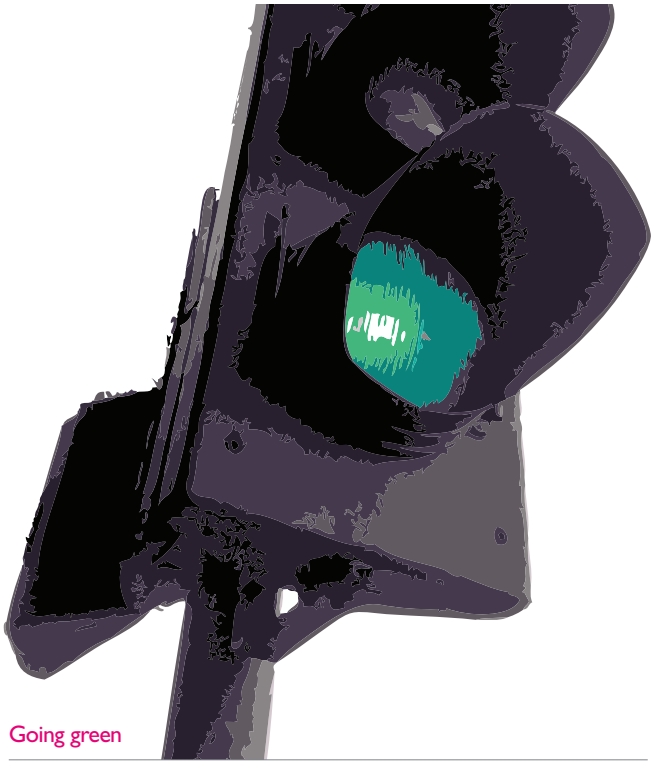
Also on 3 October 2009, our Metrobus subsidiary acquired Arriva's Horsham depot which operates a mix of regulated routes and deregulated services. Consideration was £5.0m and operations were quickly and seamlessly absorbed into Metrobus's Crawley operations.

Plymouth Citybus, a high quality urban business which operates from a centrally based freehold depot, was bought by the Group on 1 December 2009 for a cash consideration of £19.0m. This business has a strong local presence and reputation that we intend to enhance.

* Before amortisation and exceptional items.

In March 2010 we purchased the entire share capital of Konectbus, a high quality operator in Norfolk, and also in March 2010 our Go North East business acquired the Hexham operations of Arriva. We also sold our Ashington depot to Arriva. The total consideration for these deals was £8.2m.

In total, the acquisition spend for 2010 was £37.2m, with cash consideration of £35.2m.



Going green

Following a Group wide initiative to improve bus fuel economy, by training drivers and investing £3m in engine monitoring technology, we have successfully managed to improve our fuel efficiency, with some bus companies achieving a 6% improvement in miles per gallon. The efficiency programme encourages smooth driving and has also helped to reduce accidents.

To help monitor progress, we have introduced a traffic light system which ranks drivers based on how well they are driving. Green represents the most efficient. The proportion of drivers in the Green is reviewed at monthly Board meetings.

The traffic light system also encourages healthy competition amongst drivers and operating companies and helps to maintain motivation amongst our drivers.

Nearly 80% of our 8,000 bus drivers are in the Green.

Like-for-like performance

Like-for-like performance, excluding acquisitions, remained strong. Revenue growth was achieved in each of our regulated and deregulated businesses and tight cost control remained a priority with initiatives delivering savings of £4.3m in the 2010 financial year.

Our underlying fuel costs, before delivery and duty, were around £4m higher than the same period last year. We consumed around 115m litres of fuel in the 2010 financial year and hedged all of our expected fuel requirements at 47p per litre (ppl) compared with an average price of 43ppl in 2009. The total fuel rebate provided through the bus service operators grant was £47.7m, being 43 ppl, and just over half this amount relates to our regulated London operations.

Labour costs account for around two thirds of our cost base and are closely controlled through local wage negotiations and ongoing productivity improvements. Total depreciation for the division was £35.5m (2009: £31.5m) and net capital expenditure was £39.6m (2009: £44.9m). The average age of our deregulated fleet remains one of the youngest in the sector.

REGULATED OPERATIONS

Our regulated bus operations in London performed well during the year, albeit with lower second half margins due to a reduction in revenue per mile and quality incentive income on a number of contracts renewed in January 2010. Revenue increased by 6.5% in the year, of which acquisitions represented 5.4% and like-for-like growth totalled 1.1%. Contracted mileage increased by 7.4% to 72.8 million miles, of which 5.2% was from acquisitions and 2.2% from like-for-like growth.

In addition, quality incentive bonuses declined to £12.3m (2009: £14.2m), of which £3.5m (2009: £1.5m) was from QIC2 incentives for driver quality and bus incentives which ended during the year. We continue to perform well in the TfL quality league tables and operated in excess of 99.5% of our target mileage before traffic congestion losses (2009: 99.6%).

Revenue trends were as anticipated, with growth in the second half of 4.3% (2009: 3.8%) compared to a first half of 8.7% (2009: 8.5%). Excluding acquisitions, this shows a second half reduction in revenue of 2.8% compared to a second half increase in mileage of 2.5% reflecting the new contracts started in January 2010.

Around 85% of our depot capacity in London is owned as freehold which provides a strong base for contract renewals. During 2010, we retained contracts for 281 peak vehicle requirements (PVR), won new work for 45 PVR and lost 91 PVR.

During 2009 TfL commenced the decommissioning of articulated "bendy" buses as contracts expire. This process accelerated in 2010 and all articulated buses are now expected to be withdrawn by March 2011. We will continue to provide for the reduction in residual values as an exceptional item and now expect a total cost of £5.2m charged over this year and next, rather than over four years as previously anticipated. £2.6m has been recognised in this year (2009: £0.8m) and £1.8m is expected be charged against 2011.

UK Bus Operator of the Year

Brighton & Hove Bus Company was awarded the prestigious UK Bus Operator of the Year at the 2009 UK Bus Awards. Commending Brighton & Hove's achievement the judges noted: 'The company has an enviable reputation in the local community it serves. It is perhaps the best example today of how partnership with local authorities and other stakeholders can grow patronage and encourage modal shift consistently over many years.'

DEREGULATED OPERATIONS

Each of our operating companies reported continued revenue growth and a strong finish to the financial year resulted in a revenue increase of 9.0% of which acquisitions represented 5.1% and like-for-like growth totalled 3.9%. Passenger journeys increased by 8.7%, of which acquisitions represented 5.5% and like-for-like growth was 3.2%. Around two thirds of the like-for-like passenger increase was due to fare paying passengers and one third from concessionary passengers.

Revenue growth trends across all of our deregulated businesses remained positive with second half like-for-like growth of 2.9%, slightly below the first half growth of 4.9% which benefited from new contracts such as Southampton University. Like-for-like passenger numbers also increased in each of our operating companies with a total second half increase of 3.3% compared to a first half increase of 3.1%.

NORTH AMERICA YELLOW SCHOOL BUS

During the financial year we established a 50:50 North American joint venture with Cook Illinois Corporation to operate in the yellow school bus market. To date, the joint venture has won its first contract in St Louis, Missouri to run approximately 120 buses and these successfully commenced operation in August 2010. Our share of the joint venture investment at the balance sheet date was US$1.0m (approximately £0.7m) and at commencement of operations was approximately US$6m. We have secured a US$10m revolving credit facility to fund our share of the operations and to provide a hedge for the US$ foreign exchange exposure on the investment.

OUTLOOK

Overall, at this stage, we expect the underlying performance of our bus operations to remain robust for the next financial year. We are assuming that the broad operating trends experienced in the second half of our 2010 financial year continue throughout the next financial year.

In London, we therefore expect a full year effect of reduced margins from January 2010, primarily through lower QIC revenue given the end of the QIC2 regime and the more difficult QIC1 targets. We expect demand for our deregulated operations to remain robust. Full year contribution from acquisitions is expected to add a further £1.0m to operating profit*.

We expect to benefit from a reduction in the underlying cost of fuel, with the commodity cost fully hedged at around 41ppl for both financial years ending 2011 and 2012 compared to 47ppl in 2010. We anticipate fuel usage to remain at 115m litres, resulting in a saving of around £7m per annum.

Cost control across the division will remain a key focus and priority. This includes ongoing wage negotiations and productivity improvements to maintain competitive labour costs. We continue to make excellent progress with energy savings, fuel consumption and procurement initiatives and are not assuming any significant change in pensions or accident claim costs compared to the last financial year.

Risks to these assumptions include the potential for a reduction in government support across the industry as part of the October 2010 Comprehensive Spending Review, and any adverse impact from the Competition Commission review of the deregulated bus industry.

Opportunities include further like-for-like growth in demand, bolt-on acquisitions and additional cost savings.

RAIL

CONTENTS

ON AVERAGE, AROUND 1 MILLION PEOPLE TRAVEL ON OUR TRAINS EVERY DAY

Our 65% owned rail division is the busiest in the UK, responsible for nearly 30% of UK passenger rail journeys through its three rail franchises: Southern, Southeastern and London Midland.

2010 RAIL HIGHLIGHTS

	2010	2009
Revenue (£m)	1,537.8	1,552.0
Operating profit* (£m)	37.3	61.5
Margin*	2.4%	4.0%
Passenger revenue growth		
Southern**	9.8%	7.9%
Southeastern	7.5%	5.5%
London Midland***	10.0%	9.1%
Passenger volume growth		
Southern**	4.5%	4.4%
Southeastern	1.4%	1.0%
London Midland***	4.6%	3.6%

* Before amortisation and exceptional items.

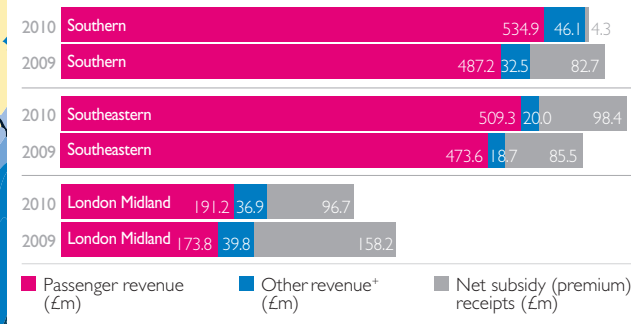
** 2009 growth rates exclude Gatwick Express (became part of Southern on 22 June 2008).

*** 2009 growth rates are in like-for-like comparison to 11 November 2007 to 28 June 2008 (London Midland joined the group 11 November 2007).

Total rail revenue by franchise

	2010 (£m)	2009 (£m)
Southern	585.3	602.4
Southeastern	627.7	577.8
London Midland	324.8	371.8
Total rail	1,537.8	1,552.0

Total revenue split (£m)



+ Other revenue varies between franchise but may include revenue from parking, third party maintenance and sub leasing rolling stock.

Our rail franchises

SOUTHERN southeastern London midland

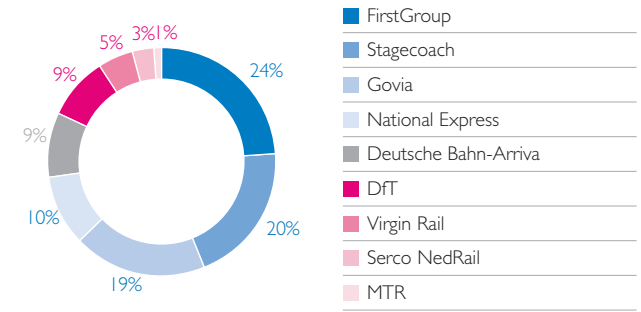
RAIL STRATEGY

Go-Ahead's strategy is to operate urban intensive commuter franchises in the UK. We are the UK's busiest rail operator, with almost 30% of rail passenger journeys, representing around 20% of total industry revenue. Our aim is to turn this fundamentally good business and significant market share into greater shareholder value. We believe this could be achieved by improving the franchise model and welcome the Government's current review of potential franchise reform. We currently operate three rail franchises through Govia, our 65% joint venture with Keolis.

MARKET ENVIRONMENT

The UK rail market is regulated by the Department for Transport (DfT). The DfT tenders franchise agreements to run rail services across the UK which typically last for around eight years. There are currently 19 rail franchises in the UK. Go-Ahead operates three - Southern, Southeastern and London Midland.

UK rail market share (revenue)[1]



Impact of economic downturn on UK rail market

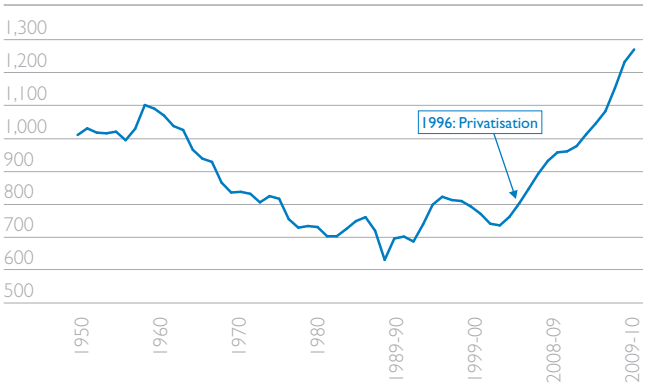
The rail industry is driven by GDP and employment and the recession therefore has had an impact on growth. Short distance commuter services have generally been less affected by the economic downturn than long distance inter-city services, the latter being more reliant on discretionary passenger spend. For the year ended March 2010 passenger journeys in Great Britain decreased by 1.3%, compared to a 6.9% rise in 2008[1].

However, latest industry data shows that overall demand for rail travel has returned to growth since the beginning of 2010. During the first six months of 2010 passenger journeys rose by 5.1%[2]. Whilst these trends are positive, we remain cautious on the near term outlook for the rail market as the Government begins to tackle the UK's budget deficit.

Issues with current rail franchise model

In general, the privatisation of the rail industry has been highly successful as shown by the unprecedented growth in passenger journeys since 1996. Punctuality and customer satisfaction levels are at record highs and over one billion train journeys are now made in the UK each year, the most since the Second World War on a network virtually half the size.

UK rail passenger journeys (m)[1]



However, the economic downturn has highlighted issues with the current franchising model, resulting in volatility of train operating companies (TOCs) earnings. In 2008, Go-Ahead reported a rail operating profit* of £77.2m, compared with £37.3m this year.

* Before amortisation and exceptional items.

[1] Office of Rail Regulation (ORR) National Rail Trends, July 2010.

[2] Association of Train Operating Companies (ATOC), August 2010.

Sensitivity of rail earnings

	Southern	Southeastern[4]	London Midland	Total
Illustrative passenger revenue per annum (£m)	500	500	200	**1,200**
1% change in passenger revenue (£m)	5	1	2	**8**
1% change in passenger revenue post 28% tax (£m)	3.6	0.7	1.4	**5.7**
Net of 35% minorities	2.3	0.5	0.9	**3.7**
Impact on adjusted earnings per share (p)	5.4	1.1	2.2	**8.7**

Little flexibility to respond to changing market conditions

Franchise agreements are highly specified by the DfT and, generally speaking, the tender process is financially driven. TOCs submit bids based on profit margins which are typically below 5%. Based on this level of return the bidder specifies the premium profile they will pay to the DfT or the subsidy they require from the DfT.

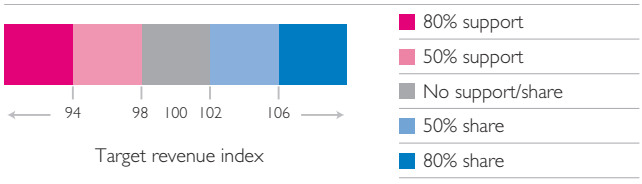
TOCs bids are based on assumptions for passenger revenue growth over the life of the franchise. These assumptions are based on economic forecasts and revenue generating initiatives.

Some TOCs which secured franchises before the economic climate changed found that during the recession actual passenger revenue growth was significantly below that assumed in the bids. The highly specified contracts, together with the high proportion of fixed costs inherent in franchise agreements (see page 41 for further detail), means there is little flexibility for operators to respond to changing market circumstances.

Revenue risk

A franchise agreement usually includes the revenue share and support mechanism as shown in the diagram below. The revenue share mechanism begins at the start of the franchise but operators are required to take the revenue risk until the support mechanism begins, typically after the fourth year of the franchise. At present almost all franchises which are eligible for revenue support are receiving it.

Standard DfT revenue share and support model[3]



For more information about revenue share and support visit our website:
www.go-ahead.com/goahead/ir/factsheets_rail

Sensitivity of earnings

As revenue support does not typically begin until after the fourth year, the early years of franchises are exposed to any shortfall in revenue. For example, a 2.5% decrease in revenue would halve operating profits based on a typical 5% margin (assuming no reduction in costs). The sensitivity to passenger revenue in Go-Ahead is illustrated in the table above, and is mitigated in part by 80% revenue support in Southeastern since 1 April 2010.

In addition to the sensitivity of earnings to changes in passenger revenue, the contractual nature of the franchise agreements also means there are often a number of allocation estimates or contractual disputes which can have a significant impact on operating profit. Examples include allocation issues between operating companies around Travelcard revenue and electricity consumption and disputes with third parties such as Network Rail, rolling stock leasing companies and the DfT.

Rail franchise reform

Operators have been working with the previous and new Government on ways to improve the franchise structure which could lead to a better, more efficient railway and more consistent returns to shareholders. Such measures might include:

- longer franchises
- less complex franchise specification
- improvements to the risk/reward share structure

In July 2010 the Department for Transport published a consultation document entitled *"Shaping the future of rail franchising"* which notes: *'The Government believes that the existing system of rail franchising has become too prescriptive at the point of bidding, and lacks flexibility once operational… We need to reform franchising to bring in more private sector investment in order to help deliver important improvements to the railways that passengers want.'* The document takes into account the three measures listed above in its possible approach to future franchises. The consultation remains open until 18 October.

We welcome the review and believe it represents an opportunity to provide a more commercial basis for franchises.

[3] This mechanism applies to all three of Go-Ahead's rail franchises.
[4] Impact on earnings is net of 80% revenue support for Southeastern.

Track access and rolling stock

TOCs are not responsible for rail infrastructure (such as tracks). They pay access fees to Network Rail for this. Operators typically lease rolling stock for the life of the franchise.

Rail fares

Peak time week day fares (i.e. commuter based fares) are regulated by the DfT. The typical formula for annual January fare increases is the previous year's July Retail Price Index (RPI)+1%. This formula applies to our Southern and London Midland franchises. Due to the introduction of the high speed service, the current formula for Southeastern is RPI+3%, becoming RPI+1% from January 2012.

The July 2010 RPI, which will apply to January 2011 fare increases, is 4.8%

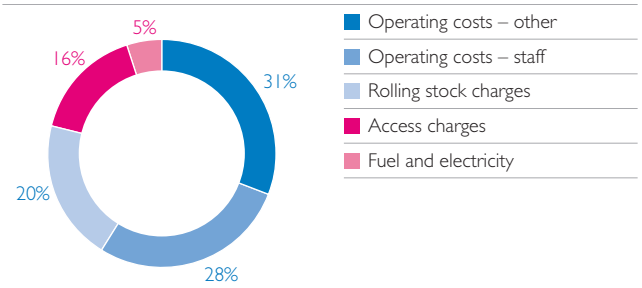
Generally speaking, TOCs profits should not be impacted by inflationary changes as the subsidy/premium profile takes indexation into account.

RAIL OPERATING COST BASE

Typically, around 70% of a TOC's cost base is fixed. The split of costs varies between each franchise but around 40% of the costs are for track access and leasing rolling stock and around 30% are staff costs.

Go-Ahead rail operating cost base

£1,500.5m



Energy costs

Our three franchises in total are the largest consumers of rail traction electricity in the UK with around 900,000 megawatt hours used each year. Electricity for traction (EC4T) represents around 5% of our rail division's cost base, costing £78m in 2010.

In 2008 we became the first operators to introduce regenerative braking on the third rail system[5]. This significant engineering achievement saves energy by capturing electricity through braking and returning it to the rail network. It has helped us to improve our EC4T efficiency, reducing our carbon emissions and operating costs.

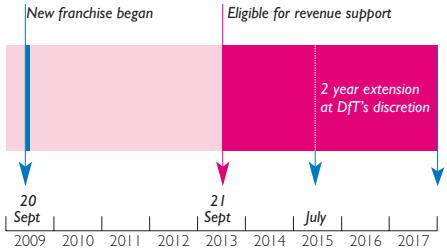
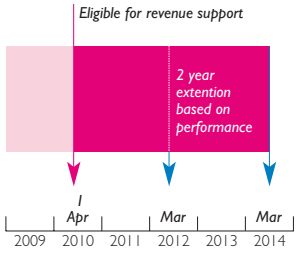
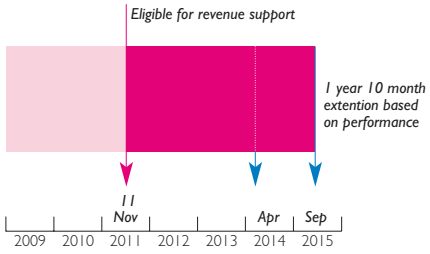
EC4T is bought from Network Rail who in turn buys from British Energy-EDF. Every year, consumption is estimated for each TOC by Network Rail for the year ended March and is then finalised at the end of June. This process attempts to take into account usage by each TOC on shared areas of the network together with other users such as freight, electricity leakage through the network and consumption efficiencies such as regenerative braking.

The price of electricity is bought forward with Network Rail and is typically fixed for the next 12 months and 50% for the following 12 months.

Diesel is used in parts of our Southern and London Midland franchises and accounts for around 0.3% of the rail division's cost base. We are fully hedged for the remainder of both franchises.

[5] The third rail or conductor rail is the electrical system by which some trains draw their power. This system is found mainly in the South of England.

CURRENT FRANCHISES

Franchise	Size	Franchise length	Revenue support
SOUTHERN Central/South London, East & West Sussex, Hampshire (includes Gatwick Express).	£534.9m Passenger revenue 162m Passenger journeys c.50% Commuter passengers		Current passenger revenue is nearly 2% above bid for the year ended June 2010. Target passenger revenue in the bid assumed average growth in real terms (before inflation) of around 6% per annum for the life of the franchise.
SOUTHEASTERN Central/South East London, Kent, East Sussex.	£509.3m Passenger revenue (FY'10) 158m Passenger journeys (FY'10) c.70% Commuter passengers		**In 80% revenue support** We estimate that Southeastern will be around 10% below bid passenger revenue for the year ended 31 March 2011. We expect the franchise to remain in 80% support to the end of the current franchise.
LONDON MIDLAND North London, Milton Keynes, Northampton, Birmingham - Liverpool.	£191.2m Passenger revenue (FY'10) 53m Passenger journeys (FY'10) c.50% Commuter passengers		Current passenger revenue is around 3% below bid for the year ended June 2010. Target passenger revenue in the bid assumed average growth in real terms (before inflation) of around 6% per annum for the life of the franchise.

Go-Ahead rail (premium) / subsidy profile (£m)

	Southern	Southeastern	London Midland	Total	Variance
1 July 2009 – 30 June 2010	(9)	134	95	**220**	–
1 July 2010 – 30 June 2011	(42)	105	80	**143**	(77)
1 July 2011 – 30 June 2012	(82)	55	74	**47**	(96)
1 July 2012 – 30 June 2013	(116)	5	65	**(46)**	(93)
1 July 2013 – 30 June 2014	(149)	(23)	55	**(117)**	(71)
1 July 2014 – 30 June 2015	(187)	–	44	**(143)**	(26)
1 July 2015 – 30 June 2016	(15)	–	8	**(7)**	136
	(600)	276	421	**97**	

The above figures are subject to change, including adjustment for indexation.

2010 PERFORMANCE OVERVIEW

The operating profit* from our rail division was approximately £3m ahead of our previous expectations, primarily due to a favourable reduction in our allocation of electricity costs by Network Rail at the end of the financial year. Highlights for the year were the transition to the new Southern franchise, the introduction of the high speed service in Southeastern and the significantly improved customer satisfaction ratings for London Midland.

Total revenue decreased by 0.9% or £14.2m, to £1,537.8m (2009: £1,552.0m), consisting of increased passenger revenue from the addition of high speed services into Kent as well as continued growth in like-for-like passenger revenue in all three franchises being offset by reduced levels of DfT subsidy. Passenger revenue increased £100.8m, or 8.9% of which approximately 2% is estimated to be due to the additional week of trading this year, and passenger numbers increased by 3.2%. Other revenue increased by £12.0m, or 13.2%, and DfT subsidy reduced by £127.0m or 38.9%. The reduction in subsidy includes an estimated £194.3m due to the change in the track access regime from 1 April 2009 (which decreased both subsidy income and track access costs and hence has no net impact on operating profit). Excluding this change, the underlying subsidy increased by £74.7m as agreed in the bidding process, primarily to recognise the additional high speed costs in Southeastern.

Operating profit* declined by 39.3% or £24.2m, to £37.3m (2009: £61.5m) reflecting the lower revenue growth below bid assumptions which have more than offset the benefit of cost savings of around £25.0m in the year. Operating profit margin fell 1.6 percentage points from 4.0% to 2.4%. Restructuring costs incurred in the year amounted to £6.7m and are shown in exceptional items.

Total depreciation for the rail division was £14.4m (2009: £13.0m). Net capital expenditure was £18.2m (2009: £12.2m), of which £15.2m (2009: £8.1m) represented franchise commitments in Southern and London Midland.

SOUTHERN

The results for Southern consist of the previous franchise to 20 September 2009 and the new franchise for the remainder of the year.

As reported at the half year, the previous franchise ended without any operational issues and the financial results were in line with expectations. This franchise operated with a profit share regime where the DfT were paid 60% of profit over a pre determined limit.

Total revenue in Southern consisted of passenger revenue of £534.9m (2009: £487.2m), other income of £46.1m (2009: £32.5m) and net subsidy receipts of £4.3m (2009: £82.7m).

Passenger revenue growth was 9.8% (2009: 7.9%) with second half growth of 9.6% similar to that of the first half at 10.0%. Passenger numbers increased by 4.5% compared to last year (2009: 4.4%). Growth rates in the second half of the year were stronger than the first, increasing by 4.8% in the second half compared to 4.1% in the first half.

We are pleased with progress under the new franchise. Our management team have made excellent progress in delivering bid initiatives, supported by strong online promotions and marketing and good operational quality. Following the start of the new franchise an exceptional charge of £3.0m was incurred due to restructuring.

Our public performance measure (PPM) showed that 90.7% (2009: 90%) of our trains arrived on time and the Spring National Passenger Survey customer satisfaction rating increased to 84% (2009: 80%).

The macro-economic conditions factored into the bid in 2009 remain valid and operating profit* for the period was slightly ahead of our bid assumptions.

Southern customer satisfaction (%)[6]

SOUTHEASTERN

Our Southeastern franchise has performed well, successfully delivering a new timetable in December 2009 which included the introduction of the UK's first domestic high speed service whilst maintaining significant cost savings to mitigate the impact of the weaker economy compared to the original bid assumptions in 2005.

Total revenue in Southeastern consisted of passenger revenue of £509.3m (2009: £473.6m), other income of £20.0m (2009: £18.7m) and net subsidy receipts of £98.4m (2009: £85.5m).

[6] Results from Spring National Passenger Survey. The survey is conducted by the statutory public transport users watchdog Passenger Focus. The industry average is 83%.

The increase in full year passenger revenue was 7.5% (2009: 5.7%), consisting of a first half increase of 3.9% and a second half increase of 11.2%. Passenger numbers increased by 1.4% (2009: 1.0%) compared to last year, with a first half reduction of 2.0% due to the remapping of some journeys to the Southern franchise and a second half increase of 5.1%, most of which is estimated to be due to the introduction of the high speed services in December 2009. The difference between passenger revenue and passenger numbers partly reflects the RPI + 3% fare regime in this franchise, and partly the premium fare charged on the high speed service.

Southeastern became entitled to revenue support from 1 April 2010. Revenue support is provided by the DfT based on projections of the relevant revenue amounts for the rail year ended each March compared to bid. We estimate that Southeastern will be at around 90% of bid revenue for the year ended 31 March 2011. This 10% shortfall is shared with the DfT who provide 50% support between 98% and 94% and 80% support for any shortfall below 94%. On this basis, DfT support would be 5.2% of revenue or roughly half of the 10% shortfall.

Underlying profitability has been achieved through a continuing and significant cost savings programme which Southeastern started in the first half of 2009. The programme includes further reductions in staffing which incurred an exceptional charge of £0.5m (2009: £1.9m), ongoing procurement savings and other efficiency savings.

Our operational performance in Southeastern remained strong, with a PPM showing 89.2% (2009: 90%) of our trains arrived on time and the Spring National Passenger Survey customer satisfaction rating improved to 81% (2009: 76%).

Southeastern customer satisfaction (%)[6]

LONDON MIDLAND

Following a change in the senior management teams early in 2009, the operational performance of our London Midland franchise continues to improve and we achieved a PPM of 90.4% (2009: 87%) and a customer satisfaction rating of 86% (2009: 78%) for the period.

Total revenue in London Midland consisted of passenger revenue of £191.2m (2009: £173.8m), other income of £36.9m (2009: £39.8m) and net subsidy receipts of £96.7m (2009: £158.2m).

Like-for-like passenger revenue growth was 10.0% with first half growth at 11.0%, reflecting the timetable expansion in December 2008, and second half growth at 9.0%. Passenger numbers increased by 4.6% for the full year, consisting of a first half year increase of 6.4% benefiting from the December 2008 timetable changes followed by 2.9% for the second half.

We continue to undertake a significant amount of restructuring in this franchise, incurring an exceptional charge of £3.2m (2009: £2.8m) in the year. Costs in this franchise are complicated by legacy issues and are currently above bid assumptions. Cost control will continue to be an area of focus as we try to restore margins in this franchise.

London Midland customer satisfaction (%)[6]

OUTLOOK

The outlook for rail is difficult to predict at this stage of the year.

We are pleased with progress made by our Southern franchise management team to date and are assuming we will perform in line with the financial assumptions in the bid for the next financial year.

In Southeastern, we expect to remain in 80% revenue support until the end of the franchise in 2014 and so will continue with our significant cost saving programme to remain profitable in this franchise.

In London Midland, we will also continue with our cost saving focus as well as progress a range of other initiatives such as capital expenditure on gating and car parking, further new trains during the next financial year and increased marketing to highlight the excellent value for money fares in this franchise.

Overall, we are assuming a small reduction in operating profit* margin next year compared to this financial year.

In the medium term, we strongly believe in the fundamental strengths of the rail business and welcome the Government's review of the future of rail franchising.

* Before amortisation and exceptional items.

DIRECTORS' REPORT: BUSINESS REVIEW

AVIATION SERVICES

2010 AVIATION SERVICES HIGHLIGHTS

	2010	2009 Restated
Revenue (£m)	34.3	50.5
Operating profit*(£m)	1.0	0.7
Margin	2.9%	1.4%
Revenue growth		
Meteor	(35.7%)	(36.0%)
Volume Growth		
Meteor – parking transactions	(7.4%)	(11.4%)

* Before amortisation and exceptional items

Aviation services revenue by operating activity (£m)

	2010	2009 Restated
Meteor	27.6	42.9
Other activities	6.7	7.6
Aviation services totals	34.3	50.5

We have sold all of our cargo operations and the majority of our ground handling operations, and intend to dispose of the remaining ground handling operations over the next twelve months. Accordingly, these results exclude all of our cargo and ground handling operations which are classified as discontinued and are addressed in the financial section of this report.

The remaining operations mainly consist of our Meteor parking and security business. Total revenue (excluding discontinued operations) was £34.3m (2009: £50.5m), primarily attributable to Meteor. The reduction in Meteor's turnover is largely due to the expiration of the Heathrow parking contract in September 2009.

Operating profit (excluding discontinued operations) of £1.0m (2009: £0.7m) was mainly generated by Meteor.

Total depreciation for the division was £1.3m (2009: £1.8m) and net capital expenditure was £0.3m (2008: £1.0m).

CORPORATE RESPONSIBILITY

Operating our companies in a safe, socially and environmentally responsible manner is a vital part of the Group's strategy. It is what we do on a day-to-day basis and is deeply embedded across our organisation at all levels.

2010 HIGHLIGHTS

Safe and secure networks
- Bus accidents per million miles reduced by 6%
- SPADs per million miles reduced by 10%
- 75 additional stations awarded Secure Station Status

Improved energy efficiency
Electricity for rail traction efficiency improved by 14%
Site energy reduced by 9%[1].

Greener bus fleet
£38m invested in new buses with cleaner emissions
Bus fuel efficiency improved by 2%.

Customer satisfaction
Highest ever rail customer satisfaction scores achieved in National Passenger Survey.

Accessible fleet
72% of buses already compliant with the accessibility regulation of the Disability Discrimination Act which comes into effect in 2016.

Investors in People
Southeastern achieved Bronze Investors in People status.

Positive working environment
£10m spent on staff training
RIDDOR accidents per 100 employees reduced by 16%.

Community investment
Over £250,000 donated to charities and community groups.

Gold rating
Achieved highest ever score in Business in the Community's Responsibility Index, securing gold standard for the fourth year.

BUREAU VERITAS

We work with an external agency, Bureau Veritas, who verify our CR data collection process.

[1] Like-for-like comparison. Gas consumption data has been normalised by use of degree days to account for variations in temperature.

We recognise that adopting a responsible approach directly contributes to the success of our business. Our performance on issues such as safety, service punctuality, convenience and value for money are factors that help us grow patronage. In many cases our operational performance is regulated by bodies such as Transport for London and the Department for Transport and therefore forms part of the Group's licence to operate.

Minimising the Group's environmental impact also makes good business sense. Improving the fuel economy of our rail and bus operations reduces carbon emissions and delivers significant cost benefits. In addition, our achievements in reducing site energy consumption will help to mitigate the financial implications of the Government's Carbon Reduction Commitment Energy Efficiency Scheme (CRC). As concern about climate change grows, our environmental credentials are becoming increasingly important to our stakeholders and can play a key part in helping to secure contracts.

We firmly believe that public transport is a good place to be. Buses and trains are more carbon efficient than the private car and it is widely accepted that sustainable transport is key to tackling congestion, delivering important international commitments on climate change and achieving a low carbon economy.

An efficient public transport system is also vital to economic development. Buses and trains take people to and from work and provide access to services and leisure activities. The transport sector remains a major employer and contributor to the local economy. At Go-Ahead we have 22,500 staff working in our businesses across England.

OUR APPROACH TO CORPORATE RESPONSIBILITY

Corporate responsibility (CR) has always been at the heart of Go-Ahead and over the years we have led the way in our approach. We recognise the importance of being open about our performance and were the first in our sector to publish our responsibility data, at Group and individual operating company level. We remain the only public transport company to provide this level of transparency.

We have voluntarily responded to the Carbon Disclosure Project (CDP) survey since 2006 disclosing details of how we manage our greenhouse gas footprint. CDP is an independent not-for-profit organisation holding the largest database of corporate climate change information in the world. The information is used by a wide

audience including institutional investors, policymakers and government bodies. In recognition of our industry leading approach to reducing our greenhouse gas emissions we were the first public transport company to be awarded the Carbon Trust Standard. This year we achieved our highest ever score in Business in the Community's (BITC) Responsibility Index, securing the gold standard for the fourth year and the position of highest scoring public transport operator. BITC is one of the Prince of Wales' charities and challenges businesses to improve their performance in the areas of community, environment, workplace and marketplace.

Read about our approach to corporate responsibility governance and how we robustly manage our performance and disseminate good practice and knowledge across our devolved structure on pages 54 - 55.

FIVE AREAS OF RESPONSIBILITY

Feedback from last year's Corporate Responsibility report and our engagement with key stakeholders showed a clear desire for a simpler approach to reporting our CR objectives and achievements. We have taken those comments on board and have structured our reporting around five key areas.

We have also undertaken significant work internally to improve the process of centrally collating CR data from across our devolved Group. This has brought the process in line with our approach to collating the Group's financial results.

SAFETY

The safety and security of our passengers, the public and our people.

ENVIRONMENT

The work we do to reduce the environmental impacts of our operations.

PASSENGERS

The punctuality of our services, customer satisfaction and how we are responding to passengers' needs.

EMPLOYEES

How we develop people's performance at work and provide a positive working environment.

COMMUNITY

Our contribution to the success of our local communities, including our economic impact on society, and our engagement with stakeholders.

The table on page 48 shows how we have progressed against our targets and objectives in each of these five areas.

Safe and secure stations

We continue to increase the number of train stations with Secure Station Status, awarded by the Department for Transport and the British Transport Police. During the financial year, an additional 75 stations were accredited, bringing the total to 274 stations, covering almost 90% of our passengers. Secure Stations are those which meet strict security criteria, including a reduction in crime rates, good station maintenance, including lighting and CCTV, and positive results in an independent passenger survey.

Southern's new Safer Travel Team, pictured left, includes specialist accredited rail employees supported by British Transport Police and has been particularly successful in reducing crime and the fear of crime across the network.

Progress against our key areas

Overall objective	2010 progress	2011 objectives
Safety The safety and security of our passengers, our people and the general public is an absolute priority for the Group. We aim to achieve a 20% improvement across our health & safety KPIs by 20% by 2015[2].	Internal safety video produced to raise awareness of preventing bus accidents and efficiently managing insurance claims. Bus accidents (which result in a notification to a claims handler) per million miles reduced by 6%. SPADs per million miles reduced by 10%. 75 additional stations awarded Secure Station Status, bringing the total to 274. Staff RIDDOR accidents per 100 employees reduced by 16%. Group wide health & safety forum held every quarter. Annual safety audit of all Go-Ahead businesses.	Further improve high safety standards working towards 2015 targets. Continue to reduce crime and anti-social behaviour on our networks.
Environment Operate our services in a sustainable manner and reduce our environmental impacts through our 'Driving Energy Further' strategy to reduce carbon emissions by 20% by 2015 (per passenger journey)[2].	Group target and Driving Energy Further strategy launched to reduce carbon emissions per passenger journey by 20% by 2015 and provide framework for energy reduction activity. 9% reduction in site energy achieved. Bus fuel efficiency improved by 2%. £38m spent on new buses which emit cleaner emissions but are heavier and therefore less fuel efficient than older models. Electricity for rail traction (EC4T) efficiency improved by 14%. Review of water consumption undertaken and new Group wide contract implemented to increase amount of waste recycled. Group wide energy and engineering forums held every quarter. Involvement in national Greener Journeys campaign to remove one billion car journeys from the road in three years.	Continue to improve energy efficiency to meet Driving Energy Further target. Reduce site energy by 8%. Reduce water consumption by 10%. Continue to engage and motivate employees in energy efficiency projects and initiatives.
Passengers To attract more passengers on to our services each year by providing a high quality service that is reliable and convenient.	Passenger journey growth of 8.7% and 3.2% in our bus and rail divisions. Maintained high punctuality rates and achieved best ever rail customer satisfaction scores in a national survey. Successful launch of the UK's first domestic high speed rail service between Kent and London. Rail websites upgraded and pioneering industry marketing campaign at Southern launched which has increased online sales from £1.5m to nearly £15m. Successful trial of Go-Ahead's smartcard 'the key' at Go North East and London Midland.	Further improve customer satisfaction and maintain high punctuality rates. Continue to develop innovative online ticket retailing and roll out 'the key' across more operating companies.
Employees To be the employer of choice in the sector. We have a unique devolved structure based on empowerment, trust and innovation; it enables our businesses to develop our staff, and reward them for contributing to our success.	More businesses have achieved Investors in People (IiP) status. IiP is the UK's most widely recognised people management standard which drives business improvement. Southeastern achieved Bronze status and Go North East retained its accreditation. £10m spent on staff training across the Group. More staff achieved NVQ qualifications - 40% of Southeastern staff have an NVQ; continuation of safe and fuel efficient driving for all 8,000 bus drivers; opening of Go North East's first lifelong learning centre. Maintained low levels of staff turnover (11.6%) and absenteeism (4.2%).	Southeastern to achieve Silver IiP status. Southern to work towards achieveing IiP accreditation for the first time. More staff to receive work-related training and further development of lifelong learning opportunities.
Community To be an outstanding member of the communities we operate in.	Over £250,000 donated to charities and community groups Achieved highest ever score in Business in the Community's (BITC) Responsibility Index, securing the gold standard for the fourth year. BITC rates companies on their progress in the areas of community, environment, workplace and marketplace. Extensive stakeholder engagement across the Group by our operating companies, including meetings, consultation, briefings, launches and media events. First virtual Passenger Panels launched.	Review charitable donations policy. Continue to benchmark ourselves through BITC Corporate Responsibility Index and achieve Platinum rating in BITC in 2011. Continue to work closely with stakeholders at all levels; establish and expand new and innovative ways of communicating eg through social media and online.

[2] Target uses 2008 financial year as the base year.

OUR KEY STAKEHOLDERS

At Go-Ahead, working with stakeholders is a fundamental part of the way we run our business. Working closely with the groups listed below is pivotal to our success. Frequent engagement enables us to better understand their expectations and gives us the opportunity to share our plans with them.

At Board and senior management level we have good working relationships with the Government and other industry bodies. Our devolved business structure supports positive relationships with local stakeholders. Across the Group we held around 1,000 stakeholder events this financial year to help understand local issues and explain our plans. These include 'Meet the Manager' sessions, Stakeholder Advisery Boards and meetings with local authorities and MPs.

EMPLOYEES
Our 22,500 employees keep our company moving. They work in a wide range of roles, from bus and train drivers and station staff to engineering, accountancy and marketing. Almost all of our operational employees belong to a union.

PASSENGERS
Over one billion passenger journeys are made with us each year, so our customers are our key audience.

COMMUNITY
Our bus and rail companies form integral parts of the towns and cities they serve. Good relationships with local communities are essential to our business.

Go-Ahead plc

GOVERNMENT AND LOCAL AUTHORITIES
Public transport is a fundamental part of the UK's infrastructure. Changes to Government policy and regulation can affect our business, and working closely with local authorities helps to deliver passenger growth.

INVESTORS
As a public listed company, attracting private investment is vital to our success. We are committed to delivering shareholder value and maintain open and frequent dialogue with investors throughout the year.

SUPPLY CHAIN
Our key suppliers range from bus and train manufacturers to Network Rail who provide the infrastructure for our train operations. Our suppliers help us to deliver our services in a safe and environmentally responsible manner.

OUR KEY ISSUES

This financial year we have focused on the following three areas:

SAFETY: OUR NUMBER ONE PRIORITY

As a public transport operator, the safety and security of our passengers, our people and the general public is always an absolute priority for the Group. Although Go-Ahead and the industry already operate to high safety standards we continually strive to improve our performance. This year we have set Group wide targets to improve our safety peformance by 20% by 2015[2].

Bus accidents

The number of bus accidents per million miles has decreased by 8% since 2008, but we are committed to doing more. Not only is it our responsibility to provide a safe and positive travel experience but reducing the number of accidents also makes business sense as the cost of insurance claims remains a significant Group expense. In 2008/09 we launched the Group wide 'safe & fuel efficient' driving scheme which promotes smooth driving. This year, we have produced a unique training video called 'Accidents Can Be Avoided.' The video features bus drivers from around the Group sharing their knowledge and experience in ways to prevent accidents, as well as real life footage. It also illustrates the importance of efficient management of insurance claim costs if an accident does occur.

Training video

Our video 'Accidents Can Be Avoided' is frequently used across our bus companies as part of our bus driver training programme.

ENVIRONMENT: DRIVING ENERGY FURTHER

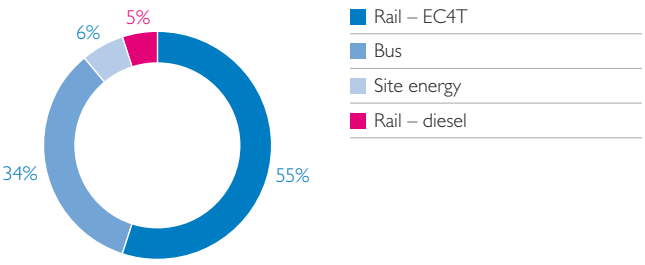
It is now widely accepted that climate change is one of the biggest challenges facing our society. Transport accounts for one third of UK greenhouse gas (GHG) emissions with the private car close to 60%. In contrast, buses and trains together account for only 5% . The maths is clear – encouraging people out of cars onto public transport delivers real carbon savings today.

We recognise that as a transport provider, we contribute to GHG emissions. As our passenger numbers grow, we are putting more vehicles on the road and rails. Despite this, we also help to alleviate environmental impacts, because trains and buses are much more environmentally efficient per passenger journey than the private car.

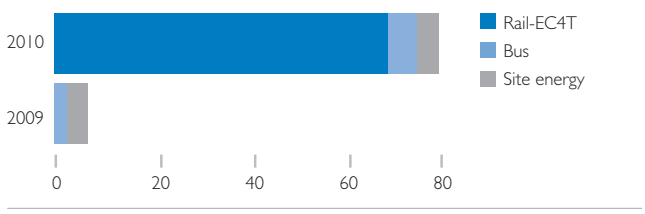
Through innovation and investment in energy efficiency projects of around £8m, we have made significant progress in reducing our carbon emissions. The financial savings have also been substantial, with a payback period of less than one year on capital expenditure.

Carbon emissions by source

911,484 tonnes



Estimated carbon reductions (CO2 '000 tonnes) from improvements in energy efficiency



The chart above shows the estimated carbon savings resulting from our energy efficiency projects in the financial years 2009 and 2010. The savings are based on improvements in rail electric vehicle kms/kwh, where the consumption data is provided by Network Rail, improvements in mpg in our bus companies and reductions in site and gas consumption at our sites.

Almost 60% of the Group's carbon emissions result from traction electricity used to power electric train fleets, mainly on our Southern and Southeastern networks. The effects of regenerative braking on the third rail have therefore been significant. The introduction of eco driving techniques has also helped to improve rail energy efficiency.

In our bus division the carbon savings have resulted from the success of our fuel efficient driving programme. Across our depots we have reduced site energy through investment in intelligent lighting systems, smart gas and electricity meters and by encouraging all colleagues to take simple steps to control site energy use by switching off unnecessary lights, electrical equipment and heating.

Go-Ahead target: 20% reduction in CO2 by 2015 (per passenger journey)

This year we have set a Group wide strategy 'Driving Energy Further' to reduce our carbon emissions by 20% by 2015[2] per passenger journey. This target marks our commitment to continually seek ways of making our fuel and energy go that bit further while continuing to encourage more people to use public transport by providing high quality, convenient and value for money transport solutions.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

The progress we have made in reducing our site energy places us in a favourable position with the Government's Carbon Reduction Commitment Energy Efficiency Scheme (CRC) which began in April 2010. The UK Government has committed to a 20% reduction in CO2 emissions by 2020, compared to 1990 levels. CRC has been designed to focus UK business on this goal through a new emissions trading scheme, whereby companies have to purchase allowances each year to cover their CO2 emissions. The revenues are redistributed among the participants, with each receiving either a bonus or a penalty, depending on the extent to which they have reduced their emissions.

PASSENGERS: IMPROVING THE CUSTOMER EXPERIENCE

This year we progressed a number of projects to improve the convenience of buying tickets and travelling on our services following customer research and feedback. Online retailing in the bus and rail industry is less developed than other sectors. For example, in the aviation industry, passengers widely use the internet to book flights; in rail a very limited amount of rail tickets continue to be bought online.

[2] Target uses financial year 2008 as the base year.

The progress we have made is highlighted on page 16. We have launched innovative marketing campaigns which have successfully increased online sales, rolled out our own unique smartcard 'the key' and upgraded our websites to make it easier for our customers to find up to date information.

FOCUS FOR 2011

Working closely with our stakeholders, we will remain focused on providing high quality, efficient and responsibly operated bus and rail transport, despite the potential challenges the industry and economy may face in the next 12 months, as the new Government tackles the UK's budget deficit.

The table on page 48 highlights the Group's key objectives for 2011 around our five key areas of responsibility. As ever, our number one priority is safety and we continually strive to improve our already rigorous standards. We will build on our successes this year in improving the passenger experience as we roll out 'the key' smartcard across more of our operating companies and make further progress with online ticket retailing.

We have set new targets for 2011 to further improve our energy efficiency as we progress with our 'driving energy further' strategy. We also aim to make our business more sustainable by reducing the Group's water consumption by 10%.

We look forward to continuing to demonstrate our industry leading approach to corporate responsibility.

MORE INFORMATION

Further information will be available in our Group Corporate Responsibility Report and individual operating company reports. Our performance against a wide range of KPIs for each of our five areas of responsibility, analysed at Group, division and operating company level, will be available on our website from October 2010.

To view our environmental data publications visit:
www.go-ahead.com/goahead/responsibility/se_reports/

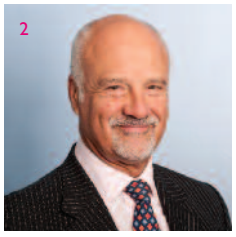
Accessible bus fleet

Over 70% of our buses are already compliant with the Public Service Vehicles Accessibility Regulation (PSVAR) which comes into effect in 2016. This regulation, part of the Disability Discrimination Act (DDA), requires buses to be certified fully accessible which includes measures such as low floor access and wheelchair ramps.

BOARD OF DIRECTORS

1 Sir Patrick Brown
Non-Executive Chairman

Term of office: Sir Patrick Brown joined the Board in January 1999 as Non-Executive Director, becoming Non-Executive Chairman in October 2002. Last re-elected by shareholders at the 2009 AGM, he will again stand for annual re-election at the AGM in October 2010.
Independent: On appointment
Committee membership: Chairman of the Nomination Committee and member of the Remuneration Committee. Regularly attends Audit Committee by invitation.
External appointments: Senior Independent Director at Northumbrian Water Group plc (Chairman of the Audit Committee and member of the Nomination and Remuneration Committees); Non-Executive Director of Northumbrian Water Ltd, Northumbrian Water Share Scheme Trustees Ltd and Camelot Group Ltd; Chairman of the Advisory Committee of Alexander Proudfoot UK.
Previous experience: Sir Patrick Brown spent ten years in industry and management consultancy before joining the Civil Service, initially involved in privatisation in the Department of Transport during the 1980s. He then moved to the Department of the Environment, before returning to the Department of Transport as Permanent Secretary from 1991 to 1997.



2 Keith Ludeman
Group Chief Executive

Term of office: Keith Ludeman joined the Board in September 2004 and was appointed as Group Chief Executive in July 2006. He was last re-elected by shareholders at the 2007 AGM and will stand for annual re-election at the AGM in October 2010.
Committee membership: Member of the Nomination Committee. Attends Audit and Remuneration Committee by invitation.
External appointments: Non-Executive Director of the Association of Train Operating Companies Ltd.
Previous experience: Keith Ludeman became a main Board advisor in 1998, after joining Go-Ahead in 1996 when the Group acquired London General. Prior to this he held senior management positions in several bus companies, mainly at Managing Director level, in Greater Manchester, Lancashire and London. He has also worked overseas and as a transport consultant. He was appointed Chief Executive of the Group's London bus division in 1997 and then moved over to head the rail division in 1999. A postgraduate transport planner, he is a fellow of the Institute of Logistics and Transport, a fellow of the Institute of Railway Operators and a fellow of the Royal Society of Arts. He has been awarded an honorary degree by the University of Salford for his achievements in transport services.

3 Nick Swift
Group Finance Director

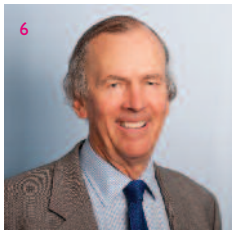
Term of office: Nick Swift was appointed to the Board as Group Finance Director in July 2007. Following his appointment, he was elected by shareholders at the 2007 AGM and will stand for annual re-election at the AGM in October 2010.
Committee membership: Attends Audit Committee by invitation
External appointments: None
Previous experience: Prior to Go-Ahead, Nick Swift worked as Group Finance Manager at Hanson plc where he was responsible for investor relations and had also been Head of Tax and Treasury and Group Financial Controller. He joined Hanson plc in 2000 following its acquisition of Pioneer International where he held a number of senior corporate and operational finance roles including European Finance Director. He has prior experience of the transport industry having been Group Financial Reporting Manager at Air New Zealand which he joined from Touche Ross. He is a chartered accountant.

4 Andrew Allner
Non-Executive Director

Term of office: Andrew Allner joined the Board in October 2008. Following his appointment, he was elected by shareholders at the 2009 AGM and will stand for annual re-election at the AGM in October 2010.
Independent: Yes
Committee membership: Chairman of the Audit Committee. Member of the Remuneration and Nomination Committees.
External appointments: Non-Executive Chairman at Marshalls plc (Chairman of the Nomination Committee); Non-Executive Director at CSR plc (Chairman of the Audit Committee and member of the Nomination and Remuneration Committees); Non-Executive Director at Northgate plc (Chairman of the Audit Committee and member of the Nomination and Remuneration Committees).
Previous experience: Andrew Allner is a chartered accountant and a former partner at PricewaterhouseCoopers. He was Group Finance Director of RHM plc between 2004 and 2007, and Chief Executive of Enodis plc prior to this. He was also a Non-Executive Director of Moss Bros Group plc and Chairman of their Audit Committee until 2005.

5 Katherine Innes Ker
Non-Executive Director

Term of office: Katherine Innes Ker joined the Board in July 2010. She will be standing for election for the first time following her appointment at the AGM in October 2010.
Independent: Yes
Committee membership: Member of the Audit, Remuneration and Nomination Committees.
External appointments: Non-Executive Director of Taylor Wimpey plc (Chairman of the Corporate Responsibility Committee and member of the Remuneration and Nomination Committees), Tribal Group plc (Senior Independent Director, Chairman of the Remuneration Committee and member of the Audit and Nomination Committees), St Modwen Properties plc, and Marine Farms ASA (Deputy Chairman).
Previous experience: Katherine Innes Ker was a Non-Executive Director of Taylor Woodrow plc, The Television Corporation plc, Fibernet plc, Williams Lea plc, The Ordnance Survey, Shed Media plc and Gyrus Group plc. Katherine has also spent a decade working in the City.



6 Rupert Pennant-Rea
Senior Independent Non-Executive Director

Term of office: Rupert Pennant-Rea joined the Board in October 2002 and was appointed Senior Independent Director in October 2008 and Chairman of the Remuneration Committee in October 2009. He was last re-elected by shareholders at the 2009 AGM and will stand for annual re-election at the AGM in October 2010.
Independent: Yes
Committee membership: Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.
External appointments: Non-Executive Chairman of Henderson Group plc (Chairman of the Nomination Committee), The Economist Group, PGI Group Ltd, Acuity Growth VCT plc, Non-Executive Director of Times Newspapers Holdings Ltd, Defaqto Group Ltd, Specialist Waste Recycling Ltd, Gold Fields Ltd and First Quantum Minerals Ltd.
Previous experience: Rupert Pennant-Rea was Deputy Governor of the Bank of England from 1993 to 1995, prior to which he was Editor of The Economist. He has held a variety of non-executive directorships over the last 15 years.

7 Carolyn Sephton
Group Company Secretary

Term of office: Carolyn Sephton was appointed to the Board as Group Company Secretary in July 2006.
Committee membership: Secretary to the Audit, Remuneration and Nomination Committees.
External appointments: None
Previous experience: Carolyn Sephton spent 12 years working for Northern Electric, predominantly in the field of pensions, before joining Go-Ahead in 2001. Carolyn is a chartered secretary. Prior to her appointment as Group Company Secretary in 2006, she was Assistant Company Secretary for the Group with responsibility for non-rail pensions and a wide range of company secretariat functions including share schemes, legislative compliance, corporate governance and codes of conduct specific to the Group's business activities.

SENIOR MANAGEMENT

Alex Carter
Managing Director, Go South Coast

Alex has been Managing Director since 2003. He controls eight businesses within Go South Coast embracing bus, coach and engineering. Alex joined the bus industry in 1981 in its nationalised form and has held a number of senior roles post-privatisation.

Alan Eatwell
Managing Director, Metrobus

Alan has been Managing Director since 2001 and was previously the Group's Engineering Director. Alan has over 40 years experience in the bus industry and successfully participated in the management buy-out of Brighton & Hove.

Roger French
Managing Director, Brighton & Hove

Roger has been Managing Director of Brighton & Hove since the company was purchased by Go-Ahead in 1993. He joined Brighton & Hove in 1982 and as general manager he was part of the Company's management buy-out. Roger received an OBE in 2005 for his services to public transport.

Peter Huntley
Managing Director, Go North East

Peter has been Managing Director since 2006. He has brought a wide range of innovations and developments to the north east business. Peter has over 35 years experience in the bus industry including periods working with local and national Government on policy development.

Philip Kirk
Managing Director, Oxford Bus Company

Philip has been Managing Director since 2001, having joined the company in 1995 shortly after it was acquired by Go-Ahead He has 30 years experience of managerial and technical positions in bus companies.

John Trayner
Managing Director, Go-Ahead London

John has been Managing Director since 2006. He joined the Group in 2002 as Operations Director of London Central/London General having previously held senior positions at Arriva London. He has been in the transport industry for 35 years.

Andrew Wickham
Managing Director, Plymouth Citybus

Andrew was appointed Managing Director in December 2009 when Go-Ahead acquired the company. Andrew has over twenty years management experience in the bus industry. He was previously Operations Director for Go South Coast.

Chris Burchell
Managing Director, Southern

Chris has been Managing Director of Southern since April 2006, having previously been Operations Director at the company. He has also worked at Thames Trains, the Foreign & Commonwealth Office and Railtrack, accumulating over 14 years of railway experience.

Mike Hodson
Managing Director, London Midland

Mike was appointed Managing Director in July 2009. Previously, he was Operations and Safety Director of Southeastern and was instrumental to the successful introduction of the High Speed preview service. Mike was Managing Director of Thames Trains from 2003 to 2004 and has over 30 years experience in rail.

Charles Horton
Managing Director, Southeastern

Charles has been Managing Director since April 2006, after three years in the same role at Southern. He has gained extensive management experience in a career spanning 24 years on National Rail and London Underground.

Martin Dean
Managing Director, Bus Development

Martin joined Go-Ahead in 2008. He leads and acts as a focus for all bus development and acquisition activity in the Group. Previously, Martin held senior management roles in rail and bus with FirstGroup and National Express. He began his career with London Transport.

Tom Smith
Managing Director, Rail Development

Tom has been Managing Director since 2001. He leads the rail division's business development and franchise bidding activity. Tom was appointed Chairman of Association of Train Operating Companies in 2009. Previously, Tom was Managing Director of the company that financed and built the M6 toll motorway. He spent 11 years in the diplomatic service after graduating from Oxford.

Patrick Verwer
Managing Director, Aviation Services

Patrick joined as Managing Director in December 2007. Previously, he spent more than 10 years with Netherlands Railways in various executive roles. Patrick came to the UK in 2002 to head up the Serco/ NedRailways Merseyrail concession in Liverpool. He started his working career as a senior police officer in Rotterdam.

CORPORATE GOVERNANCE

The Board is committed to maintaining the highest standards of corporate governance and this section of the Annual Report describes how Go-Ahead achieves these standards and complies with the Combined Code of Corporate Governance. As a Board, we welcome the changes arising from the new UK Corporate Governance Code and, while not applicable to Go-Ahead until next year, we are already considering and implementing the changes appropriate to our own corporate governance arrangements. In particular, and with effect from this year's Annual General Meeting, all Directors will stand for annual shareholder election.

BOARD EFFECTIVENESS

We believe that we are able to demonstrate the Board's commitment to good practices of corporate governance through an ongoing re-evaluation of the Board, its structure and performance. During the year, we made two important changes:

New Chairman of the Remuneration Committee

The Board was pleased to appoint Rupert Pennant-Rea (who is also Senior Independent Director) as Chairman of the Remuneration Committee in October 2009. This represents a change to the previous constitution, and historic non-compliance with the Combined Code, where the Chairman of the Company was also the Chairman of the Remuneration Committee.

Appointment of New Non-Executive Director

The Board was pleased to announce the recent appointment of Katherine Innes Ker as a Non-Executive Director of the Board with effect from 9 July 2010. Katherine is also a member of the Audit, Remuneration and Nomination Committees. This represents a change to the previous constitution, and historic non-compliance with the Combined Code, where the Audit and Remuneration Committees were not made up of at least three Non-Executive Directors.

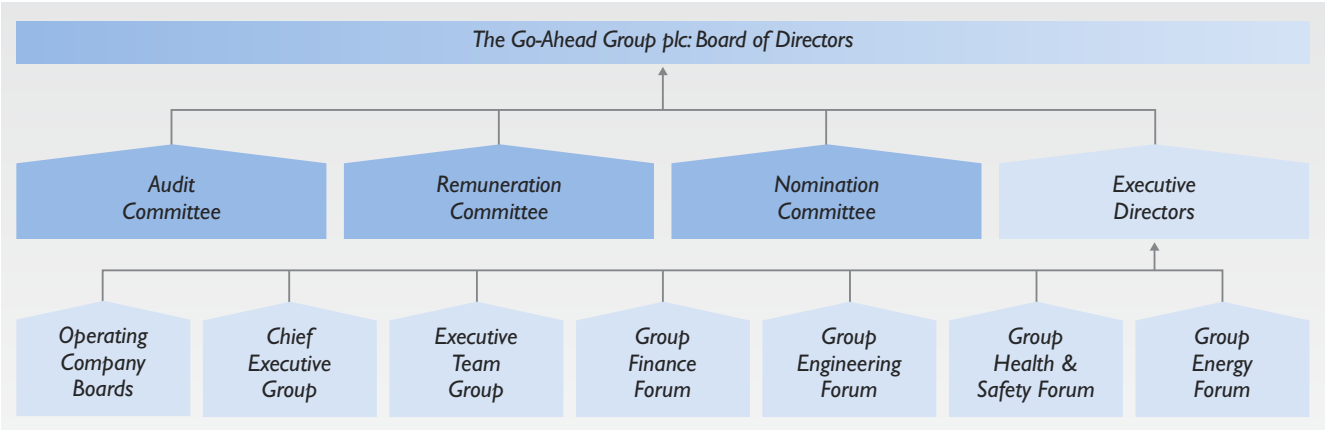
With effect from 9 July 2010, there are no longer any provisions of the Combined Code with which Go-Ahead does not comply.

OUR DEVOLVED STRUCTURE

We believe that our devolved management structure, as illustrated below, enables the Group to be managed in a particularly effective way. Local management throughout the Group are empowered to operate our companies as autonomous business units, whilst working together to share experience and expertise around the Group. For example, many aspects of the Group's day-to-day operations report through operating company senior management directly into the Board through the Group Chief Executive and the Group Finance Director (the 'Executive Directors'):

- The Executive Directors sit on the board of each operating company and meet formally with local senior management each month. As each operating company is a separate legal entity, and because of the autonomous nature of the business units, minutes of each meeting are recorded.

Board and management structure



- The Executive Directors hold regular meetings with the Managing Directors of all of the operating companies (the 'Chief Executive Group') to facilitate the sharing of experience and best practice across operations.
- The Executive Directors meet on a monthly basis with the senior managers who are responsible for the key centralised Group functions (the 'Executive Team Group') which include company secretarial, finance, pensions, engineering, properties and services, procurement and technology.

In addition, there are a number of Group forums that are held on a regular basis which consider finance, engineering, health & safety and energy matters. These key forums, which also report directly to the Executive Directors, enable representatives from all operating companies to share best and emerging practice, to seek synergies and cost savings, to improve quality and to achieve economies of scale wherever possible.

CORPORATE RESPONSIBILITY

Operating our companies in a safe, socially and environmentally responsible manner is a vital part of the Group's strategy. It is what we do on a day-to-day basis and is deeply embedded across our organisation at all levels.

The Board is ultimately responsible for the Group's corporate responsibility. We do not have separate Board level committees for corporate responsibility and health & safety as we believe it is fundamental for the Board as a whole to be involved in these areas, which are integral to our business.

The Group's flat structure enables the Board to closely monitor the performance of each operating company. Safety and energy Key Performance Indicators ('KPIs') are reviewed at monthly operating company board meetings, chaired by the Executive Directors. Internal safety and energy targets for each of our operating companies are set at the beginning of the financial year and progress against these targets is linked to both operating company senior managers' and Executive Directors' remuneration. A health & safety audit of each of our businesses is undertaken by an external consultant each year.

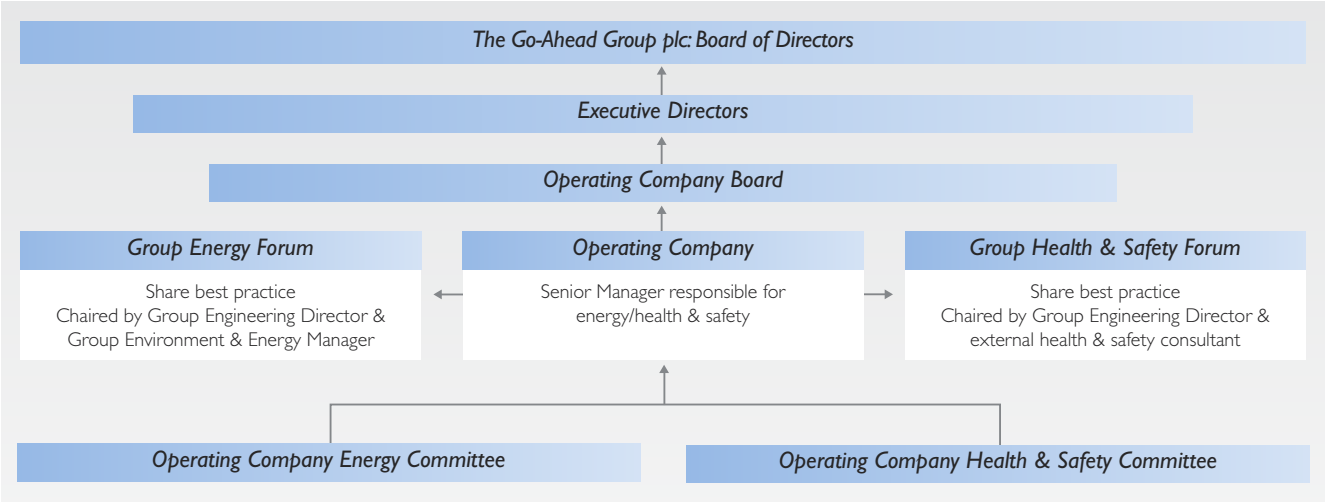
Health & Safety Forum

The Group regularly holds forums where representatives from across our operating companies share best practice and help develop group-wide standards and policies. Pictured below is our Health & Safety Forum which meets every quarter and is attended by our external health & safety consultant.

"IT REMAINS OUR BELIEF THAT OPERATING OUR COMPANIES IN A SAFE, SOCIALLY & ENVIRONMENTALLY RESPONSIBLE MANNER, WITHIN A ROBUST GOVERNANCE STRUCTURE, UNDERPINS THE DELIVERY OF THE GROUP'S STRATEGY AND SHAREHOLDER VALUE OVER THE LONGER TERM."

Sir Patrick Brown, Chairman
1 September 2010

Internal corporate responsibility structure



COMPLIANCE WITH THE COMBINED CODE

The Board confirms that the Company has been in full compliance throughout the financial year with the main principles of the Combined Code published in June 2008 (the 'Combined Code'). A copy of the Combined Code is available on the Financial Reporting Council's website (www.frc.org.uk/corporate/combinedcode.cfm). The Company has also complied with all of the provisions set out in Section 1 of the Combined Code, with the following exceptions:

B.2.1 – The Remuneration Committee should be made up of at least three independent Non-Executive Directors and the Company Chairman should not chair the Committee.

Following the appointment of Rupert Pennant-Rea as Chairman of the Remuneration Committee in October 2009 and the appointment of Katherine Innes Ker as Non-Executive Director in July 2010, Go-Ahead is now fully compliant with this provision.

C.3.1 – The Audit Committee should be made up of at least three independent Non-Executive Directors.

Following the appointment of Katherine Innes Ker as Non-Executive Director in July 2010, Go-Ahead is now fully compliant with this provision.

BOARD ORGANISATION AND STRUCTURE

The Board

At the beginning of the year, the Board comprised the Non-Executive Chairman, two independent Non-Executive Directors (one of whom is the Senior Independent Director) and two Executive Directors. Following the appointment of Katherine Innes Ker on 9 July 2010, the Board now comprises three independent Non-Executive Directors. The Directors' biographies can be found on page 52. With the exception of Katherine Innes Ker, all Directors were members of the Board throughout the financial year.

The Board has a formal schedule of matters reserved to it for decision (see page 58). The Board has also delegated specific responsibilities to the Audit, Remuneration and Nomination Committees, each of which has terms of reference which detail their authority and duties.

While the Board delegates some of its responsibilities to these Committees, it still retains full Board responsibility for a number of key areas such as health & safety, corporate responsibility and risk management. The Board feels that it is fundamental that the Board as a whole is involved in decision making in these areas and this 'hands-on' approach has served the business well over previous years.

Responsibility for the operation of Group companies, implementing Group strategy in accordance with the strategy agreed by the Board and achievement of objectives is delegated to the Executive Directors. The Executive Directors meet regularly with the senior management and staff in the Group's operating companies, both formally via the monthly board meetings, and less formally on a regular basis.

The Board maintains a Board Procedures Manual, prepared in response to the Combined Code. This includes formal procedures for the working of the Board and its Committees, delegated authorities, the timely provision of appropriate information and the duties and responsibilities of Directors, including standards of conduct and compliance. The Board has established robust procedures for ensuring that their powers to authorise conflicts are operated in accordance with the Company's Articles of Association. The Board considers that the Directors' powers to authorise conflict situations have operated effectively during the year and that the procedures in place have been properly followed.

Ongoing development and induction

In addition to Board and Committee meeting attendance, the Non-Executive Directors are encouraged to update their skills, knowledge and familiarity with the Company in order to competently carry out their responsibility to Go-Ahead's shareholders. The Chairman and the Non-Executive Directors attend the Group's annual Senior Management Conference each year, enabling them to review and discuss the Group's strategy with senior managers from across the Group. The Chairman also attends meetings of the Chief Executive Group.

A full, formal and tailored induction for Katherine Innes Ker is currently underway which includes a full briefing of her responsibilities and obligations under law, regulation and corporate governance guidelines. Katherine will also visit operating companies to meet with local senior management, as well as meeting with the Executive Directors and key Group personnel.

Roles of the Board

The offices of the Chairman and Group Chief Executive are held separately. The Company Chairman is Sir Patrick Brown and the Group Chief Executive is Keith Ludeman. There is a clear division of responsibility between the Chairman and the Group Chief Executive. The Group Finance Director is Nick Swift. Rupert Pennant-Rea is the Senior Independent Non-Executive Director. Andrew Allner and Katherine Innes Ker are Non-Executive Directors. The table below outlines the division of key responsibilities, as agreed by the Board:

Role	Key Responsibilities
Chairman	• Leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda, taking into account the issues relevant to the Group and the concerns of all Board members; • Ensuring a regular evaluation of the performance of the Board and its Committees; • Facilitating the effective contribution of Non-Executive Directors; and • Encouraging active engagement by all members of the Board and constructive relations between the Executive and Non-Executive Directors.
Group Chief Executive	• Running the day-to-day business of the Group within the authorities delegated by the Board; • Leading the development of the Group's strategy including identifying and assessing opportunities; • Ensuring the execution of policies and strategy as set by the Board as a whole; • Ensuring effective communication with shareholders and investors; • Day-to-day leadership of the executive and senior management team; and • Ensuring that the Chairman is kept updated in a timely manner of issues, events and developments.
Group Finance Director	• Maintaining strong financial management underpinned by effective financial controls; • Developing the Group's policies and strategy on tax, treasury, financing, insurance and pensions; • Ensuring a commercial and financial focus on potential acquisitions, business case appraisal and financial planning; • Ensuring the appropriateness of risk management and internal control processes and systems; • Supporting and advising the senior management team in their operational roles; and • Ensuring effective communication with shareholders and investors.
Senior Independent Non-Executive Director	• Providing an important point of contact for shareholders in the event that they have concerns which have not been resolved through the normal channels of the Executive Directors or Chairman, or for which such contact is inappropriate; • Providing a sounding board for the Chairman and serving as an intermediary for the other Directors as necessary; and • Leading a meeting of the Non-Executive Directors at least once a year, without the Chairman present, to evaluate the Chairman's performance.
Non-Executive Directors	• Ensuring constructive challenge; • Helping develop proposals on strategy; • Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance; • Ensuring the integrity of financial information; • Ensuring financial controls and systems of risk management are robust and defensible; and • Ensuring appropriate remuneration and succession planning arrangements are in place in relation to the Executive Directors.

Board meetings

Directors are expected, wherever possible, to attend all Board meetings, relevant Committee meetings, Annual and any General Meetings. The Board holds a minimum of seven scheduled Board meetings throughout the year. At least one of the meetings each year is dedicated to reviewing the Group's strategy. Additional meetings are held as and when required. The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present.

During the year ended 3 July 2010, the Board held eight scheduled meetings. The table on page 59 shows Directors' attendance at scheduled meetings they were eligible to attend during the financial year. There were also a number of additional Board meetings held to consider matters arising before the next scheduled Board meeting. In addition to the Annual General Meeting held in October 2009, a General Meeting of shareholders was held in February 2010 to alter the current restrictions on the borrowings imposed by the current Articles of Association of the Company.

The agenda for each Board meeting is set by the Chairman, in consultation with the Group Chief Executive and Group Company Secretary. Detailed briefing papers in relation to the business to be conducted at each meeting are circulated to the Board at least one week before each meeting and individual Board members have direct access to the Executive Directors and the Group Company Secretary should they wish to receive additional information.

Board meetings are structured to allow open discussion and debate and the Chairman ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. Key senior managers and advisors attend relevant parts of Board meetings on a regular basis, and as required, to ensure that the Board is properly informed about the current issues facing the business. Minutes of all meetings are circulated promptly afterwards.

Schedule of matters reserved for the Board

1 Approval of the Group's strategy, objectives, values and overall governance framework.

2 Approval of the Company's Annual Report and Accounts, Directors' Remuneration Report, Corporate Governance Statement and Half Year Reports.

3 Approval of any interim dividend and recommendation of the final dividend.

4 Approval of the Notice of Annual General Meeting and the resolutions to shareholders therein, including the recommendation for the appointment, re-appointment or removal of the Auditors.

5 Approval of all other circulars, listing particulars, and corresponding documentation sent to shareholders.

6 Approval of any changes to the Company's constitutional documentation.

7 Approval of the Group's financial, taxation and treasury management policies, dividend policy, long term financing, annual budget and operating plans.

8 Approval of material capital projects, investments, acquisitions, franchises and disposals.

9 Approval of any significant change in accounting, tax or treasury management policies or practices.

10 Approval of changes in the capital structure of the Company or its status as a public limited company listed on the London Stock Exchange and, in particular, the issue or allotment of shares in the Company otherwise than pursuant to Company-approved employee share schemes and share buyback programmes.

11 Responsibility for the appointment, re-appointment and removal of the Chairman and Directors and the recommendation to shareholders as to their election or re-election under the Articles of Association; the appointment and removal of the Group Company Secretary; ensuring that suitable procedures are in place for succession planning and the fees payable to the Non-Executive Directors.

12 Regular review and approval of the Board Procedures Manual, the division of responsibilities between the Chairman and the Group Chief Executive and the Schedule of Matters reserved for the Board.

13 Responsibility for establishing Committees of the Board, approving their terms of reference, regularly reviewing their activities, and where appropriate, ratifying decisions.

14 Approval of all minutes of Board and Committee meetings.

15 Responsibility for internal control, risk management, health and safety matters and corporate social responsibility.

Meeting attendance

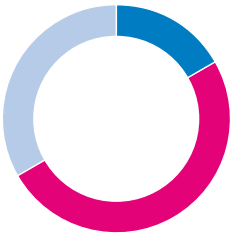
	Board		Audit Committee		Remuneration Committee		Nomination Committee		Annual and General Mtgs	
Director	Act	Poss	Act	Poss	Act	Poss	Act	Poss	Act	Poss
Sir Patrick Brown	8	8	4	4	4(1)	4	2	2	2	2
Rupert Pennant-Rea	8	8	4	4	4	4	2	2	2	2
Andrew Allner	8	8	4	4	4	4	2	2	2	2
Keith Ludeman	8	8	4(2)	4	4(2)	4	2	2	2	2
Nick Swift	8	8	4(2)	4	0	0	0	0	2	2

Act – Actual Poss – Possible

(1) Sir Patrick Brown attended three meetings of the Remuneration Committee as the Chairman of the Committee prior to October 2009 when he was replaced as Chairman of the Remuneration Committee by Rupert Pennant-Rea. Since then, Sir Patrick Brown attended one further meeting of the Remuneration Committee as a member only.

(2) Keith Ludeman and Nick Swift attended the stated number of meetings by invitation of the relevant Committee. Keith Ludeman's attendance at Remuneration Committee meetings was on a part-meeting basis where discussions were held in respect of his own remuneration.

Balance of Non-Executive and Executive Directors



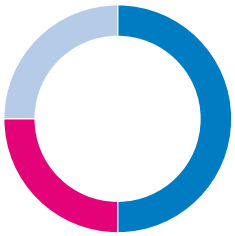
Chairman
Sir Patrick Brown

Independent Non-Executive Directors
Andrew Allner
Rupert Pennant-Rea
Katherine Innes Ker*

Executive Directors
Keith Ludeman
Nick Swift

* Appointed as Independent Non-Executive Director with effect from 9 July 2010.

Non-Executive Directors' tenure



0-3 years
Andrew Allner
Katherine Innes Ker*

6-9 years
Rupert Pennant-Rea

9+ years
Sir Patrick Brown

NB: There is currently no 3-6 year category

* Appointed as Independent Non-Executive Director with effect from 9 July 2010.

Board balance and independence

The Board regularly considers whether the Executive and Non-Executive Directors together have the range of skills, knowledge and experience to enable them to promote shareholders' interests and govern the business effectively. Excluding the Chairman, more than half of the Board are Non-Executive Directors who bring a wide range of experience and objectivity to the Boardroom. The Executive Directors bring additional perspective to the Board's work through a deep understanding of the Group's business. The balance of Executive and Non-Executive Directors at the date of this report is shown above. This includes Katherine Innes Ker, who was appointed as a Non-Executive Director after the year end on 9 July 2010.

In accordance with the Combined Code, the Chairman was considered independent on his appointment and the Board considers all of the Non-Executive Directors to be robustly independent in character and judgement in accordance with the provisions of the Combined Code. The Board also regularly assesses the other commitments of the Non-Executive Directors and is satisfied that there are no conflicts of duties and that the Non-Executives have sufficient time to fulfil their responsibilities to shareholders.

It is important that the Board ensures planned and progressive refreshing of the Board. The balance of experience of the Non-Executive Directors, in terms of their length of tenure at the date of the approval of this report, is shown above. This includes Katherine Innes Ker, who was appointed as a Non-Executive Director after the year end on 9 July 2010.

Group Company Secretary

Carolyn Sephton, who was appointed in July 2006, is the Group Company Secretary. Her biography can be found on page 52. She is Secretary to the Board and all of its Committees. The Group Company Secretary reports to the Company Chairman in her role as Secretary to the Board and its Committees. For all other company secretariat matters, including the management of the Group's non-rail pension arrangements, she reports to the Group Finance Director.

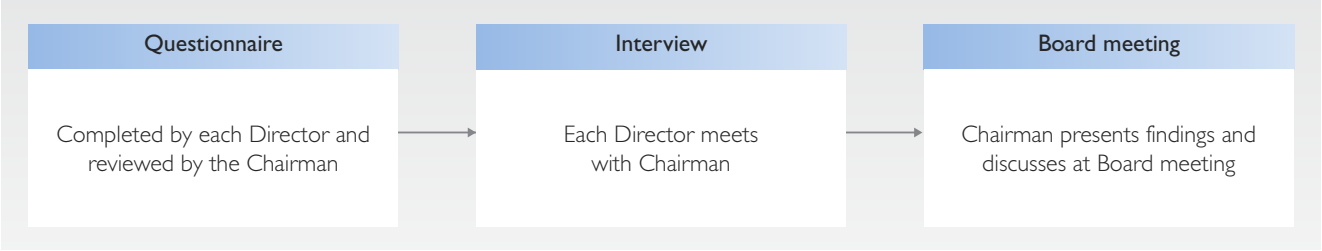
The Group Company Secretary is responsible to the Board for ensuring that Board procedures are complied with, facilitating effective communication flows within the Board and its Committees, as well as the provision of accurate, timely and clear information to the Board ahead of meetings. Responsibilities also include ensuring that the Board is regularly updated on matters of corporate governance, legislative changes and regulatory regimes affecting the Group. The appointment and removal of the Group Company Secretary are matters for the Board as a whole.

All Directors have access to the advice and services of the Group Company Secretary and may also take independent professional advice at the Group's expense, if they believe it necessary for the proper discharge of their duties as Directors.

APPOINTMENTS TO THE BOARD

During the year, the Nomination Committee commenced a selection process for the appointment of a new independent Non-Executive Director. An external search agency was appointed to assist in the identification of suitable candidates. After interviewing a number of potential candidates the Committee unanimously proposed, and the Board unanimously approved, the appointment of Katherine Innes Ker with effect from 9 July 2010. Katherine is also a member of the Audit, Remuneration and Nomination Committees. As explained on page 56, an induction process for Katherine Innes Ker is currently underway.

Performance evaluation process



As is the case for all of Go-Ahead's Non-Executive Directors, Katherine Innes Ker has not been appointed for a specified term. However, in accordance with the Combined Code, she will stand for election by the shareholders at the 2010 Annual General Meeting and for re-election annually thereafter. Katherine has significant Executive and Non-Executive experience of helping to grow successful and dynamic organisations and has considerable experience as a financial analyst, qualifying her to make an effective contribution to the Board. Her biography can be found on page 52. The Board recommends unanimously to shareholders that Katherine Innes Ker is elected as a Non-Executive Director at the 2010 Annual General Meeting.

PERFORMANCE EVALUATION

Each year an evaluation of the performance of the Board, its Committees, individual Directors and the Group Company Secretary is undertaken. As shown above, the Board's evaluation was carried out by the Chairman this year and was based on the completion of a tailored questionnaire by each Director. Following individual meetings with the Chairman, the results of the evaluation were reported back to the Board as a whole. The objectives of this exercise were to ensure that the Board, its Committees and each individual Director continued to act effectively and to fulfil the duties and responsibilities expected of them, in addition to identifying any additional training requirements.

The Non-Executive Directors, led by the Senior Independent Director, were responsible for the performance evaluation of the Chairman, taking into account the views of the Executive Directors.

No significant issues were raised in the course of the evaluation process. It is anticipated that the evaluation of the Board will be carried out by an external consultant next year.

RE-ELECTION OF DIRECTORS

The Board is pleased to adopt early the provision of the new UK Corporate Governance Code which requires all directors of FTSE 350 companies to be subject to annual election by shareholders. At this year's Annual General Meeting, Sir Patrick Brown, Rupert Pennant-Rea, Andrew Allner, Keith Ludeman and Nick Swift will stand for re-election. Katherine Innes Ker will stand for election.

The Board's annual performance evaluation confirmed that each Director standing for re-election continued to contribute effectively and demonstrated commitment to the role.

Sir Patrick Brown joined the Board in 1999 as a Non-Executive Director and became Non-Executive Chairman in 2002. The Board recognises his industry-wide experience and long-standing contribution to the Board and unanimously recommends that he should be re-elected for a further year.

Rupert Pennant-Rea became a Non-Executive Director of the Board in 2002. He was appointed Senior Independent Director in 2008 and Chairman of the Remuneration Committee in 2009. Rupert is well known to investors and financial professionals and available to shareholders in his role as Senior Independent Director as required. The Board recommends unanimously his re-election for a further year.

Andrew Allner became a Non-Executive Director of the Board in 2008 and is Chairman of the Audit Committee. Andrew is a chartered accountant with extensive recent financial experience and the Board recommends unanimously his re-election for a further year.

Keith Ludeman joined the Board as an Executive Director in 2004 and became Group Chief Executive in July 2006. Along with his industry-wide experience, Keith has been a main Board advisor since 1998 and has brought a continuation of the management style synonymous with the success of the Group. The Board recommends unanimously that Keith Ludeman be re-elected for a further year.

Nick Swift was appointed as Group Finance Director in July 2007. Nick is a chartered accountant and brought extensive experience in investor relations, tax and treasury from a number of senior corporate and operational finance roles before joining Go-Ahead. The Board recommends unanimously that Nick Swift be re-elected for a further year.

Further details of each Director can be found in the Directors' biographies on page 52.

RELATIONS WITH SHAREHOLDERS

The Group recognises the importance of regular communication with all of its shareholders. The reporting calendar is dominated by the publication of the annual and half year results each year. In addition, the interim management and trading statements provide shareholders with a balanced and regular understanding of the Group's operational performance, its financial results and prospects.

The Executive Directors meet with the Group's major shareholders (both institutional investors and private shareholders with significant holdings) after the announcement of annual and half year results and at other times as appropriate. Such meetings include site visits and management presentations such as that which took place earlier in the year regarding the proposal to alter the restrictions on borrowings imposed by the current Articles of Association of the Company.

In addition to the meetings with Executive Directors, institutional shareholders are offered the opportunity of meetings with the Non-Executive Directors. The institutional shareholders have further opportunities to make their views known through follow-up interviews with the Company's brokers which are then documented

and circulated to the Board. The Executive Directors provide feedback to the Board following presentations to investors and an independent survey of shareholder opinion was also undertaken during the year.

The principal communication with private shareholders is through the Annual Report and the Annual General Meeting, which is attended by all Directors. All shareholders are invited to attend the Annual General Meeting which provides an opportunity for shareholders to develop their understanding of the Company and ask questions on the matters put to the meeting (as detailed in the Notice of Meeting sent to registered shareholders in advance of the meeting). There is also an opportunity to meet informally with the Directors before and after the meeting. The Board encourages all shareholders to attend the Annual General Meeting.

Ordinary business which is raised for consideration at the Annual General Meeting each year includes:

- To receive the financial statements for the year, together with the Directors' and Auditors' Reports;
- To approve the Directors' Remuneration Report;
- To approve the final dividend;
- To elect and re-elect members of the Board;
- To re-appoint the Company's Auditor; and
- To give the Directors the authority to determine the Auditors' remuneration.

Other matters included on the agenda for the Annual General Meeting vary from year to year in accordance with the requirements of the Company.

The Company maintains a comprehensive website that provides a wealth of information including access to the annual and half year reports, presentations, useful fact sheets, as well as share price and general shareholder information. Shareholders can contact the Company using the email communication system available on the Company's website.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board as a whole, supported by the Audit Committee, has responsibility for reviewing the effectiveness of the Group's system of internal controls, including the financial, operational and compliance controls and risk management systems. The Board has established procedures to provide an ongoing process for identifying, evaluating and managing the significant risks facing the Group and has established the procedures necessary to meet the requirements of the Code and its related guidance on internal controls. The effectiveness of these procedures are regularly reviewed by the Directors who consider that they accord with the Turnbull guidance on internal controls. These procedures have been in place during the financial year ended 3 July 2010 and up to the date of the approval of this report.

During the year, the Group continued to improve the identification, management and reporting of risk, with a focus on the evaluation of key risks to each operating company's own objectives and the efficiency of the controls in place to mitigate those risks. Risks are assessed both at an operating company level and for materiality in the context of the whole Group, in addition to being used to develop part of the internal audit plan for the year ahead. Assessment is on an ongoing basis, taking into account changes in external and internal circumstances. Through monthly meetings with the Executive Directors, the key risks and mitigating controls facing the Group are able to be kept under regular review.

The principle risks and uncertainties facing the Group are discussed on pages 22 to 25.

During the year, the Group has also strengthened its ongoing processes for internal controls. The key features of the internal control system, which have been established to safeguard both the shareholders' investment and the assets of the Group, are described as follows:

The Board's responsibilities

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The Group's Policy and Procedures Manual is designed to strengthen the Group's corporate governance, internal control processes and management of risk. All operating companies must adhere to this Manual and annually certify that they have done so. In addition, the Board gains assurance from the Group's structure and the financial, risk management, operating and compliance reporting processes which are in place. The Board has also developed an understanding of its risk appetite which supports the Group's strategy and objectives, decision-making and management.

Board-level reporting on internal control

The Board is supported by the work of the Audit Committee which has delegated responsibility from the Board for reviewing the effectiveness of the Company's risk management and internal control systems. During the year the Audit Committee regularly reviewed reports from the internal auditors, the external auditors and the Executive Directors on matters relating to internal controls, financial reporting and risk management. The Audit Committee provides the

Board with an independent assessment of the Group's position and the Board receives regular updates on how specific risks that are assessed as material are being managed.

Group structure

The Group's decentralised organisation structure enables the Executive Directors to play an active role in communicating the objectives, risk strategy and policy of the Group. Open communication on risk matters is encouraged and performance is monitored against objectives. Risk management is an integral part of day-to-day operations where there exists clear ownership of risk identification and mitigation at operating company level. Operating companies are fully supported by the Executive Directors in assessing and managing risks and internal controls. Because of the organisational structure, risk management information can also be shared across the Group as well as reported upwards.

Financial reporting and planning processes

As part of the Group's Policy and Procedures Manual, there are formally defined lines of financial reporting responsibility, delegated authorities, capital investment approval policies and clear operating processes. Monthly reporting of financial information to the Board encompasses profit and loss, cashflow and balance sheet information and key operating ratios. The annual budgeting and strategic planning process includes regular re-forecasting of results, taking into account key risks and opportunities.

The use of the Group's Manual by finance teams throughout the Group ensures that transactions and balances are recognised and measured in accordance with prescribed accounting policies and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting pack by all operating companies in the Group ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.

There is also regular reporting to the Board on specific matters including safety, insurance, pensions, tax and treasury management. Business planning encompasses due diligence and risk assessments where businesses are being acquired or divested and all projects and partnerships are entered into taking into account an appropriate risk-reward balance.

Risk management processes

As part of the Group's Manual, and in accordance with the Turnbull guidance on internal controls, an ongoing process has been established for the identification and evaluation of the significant risks faced by the Group and the effectiveness of the internal controls in place. During the year, and in conjunction with the internal auditors, PricewaterhouseCoopers, the Group continued to strengthen its ongoing risk management processes, which includes top-down risk assessment at Group level and bottom-up risk assessments at operating company level. A bespoke risk categorisation model exists which is used across the Group to ensure that risks are identified and reported on a consistent basis and a process is in place to aggregate key risks on a Group-wide basis. These key procedures ensure that the impact of key and emerging risks are addressed, with controls and mitigations monitored at monthly operating company board meetings. A consolidated review of the Group's risks and controls is undertaken by the Audit Committee at least annually.

Health and safety reporting processes

Health and safety standards have been established across all operating companies and key performance indicators are closely monitored at monthly operating company board meetings. The Group Chief Executive reports on health and safety, which includes key performance indicators, at each Board meeting.

Group internal audit

The Group's internal auditors, PricewaterhouseCoopers, provide assurance as to the effectiveness of key controls identified as part of the risk assessment process. In addition to meetings with local management, the internal auditors report on a monthly basis to the Executive Directors and to the Audit Committee at least three times a year.

The Directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control and for ensuring its effectiveness. As with any system of internal controls, the policies and processes in place throughout the Group are designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. There have been no material weaknesses identified that require specific disclosure in the Group's Annual Report.

DISCLOSURE AND TRANSPARENCY RULES

Disclosures required under DTR 7.2.6 can be found on pages 73 to 77.

COMMITTEES OF THE BOARD

The Board has established a number of Committees to deal with specific aspects of the Group's affairs. The responsibilities of each Committee are determined by its terms of reference which are available on the Company's website or upon request from the Group Company Secretary.

AUDIT COMMITTEE REPORT

"The Committee continued to improve the effectiveness of risk management and internal controls"

Andrew Allner (Audit Committee Chairman)

Members:

Andrew Allner – Committee Chairman (Non-Executive Director)

Rupert Pennant-Rea (Senior Independent Non-Executive Director)

Katherine Innes Ker (Non-Executive Director) from 9 July 2010

Committee Secretary

Carolyn Sephton (Group Company Secretary)

Meetings also regularly attended, by invitation, by:

Sir Patrick Brown (Company Chairman)

Keith Ludeman (Group Chief Executive)

Nick Swift (Group Finance Director)

Internal Auditors' representative(s)

External Auditors' representative(s)

RESPONSIBILITIES

During the year the Committee met four times and, as part of the annual performance evaluation process, also undertook a specific evaluation of its effectiveness. The main activities undertaken during the year included:

- Receiving and reviewing reports from the Group's External and Internal Auditors, including health and safety auditors;
- Reviewing the relationship with the external and internal auditors, including their terms of engagement and fees, independence, objectivity and expertise, resources and qualification;
- Receiving and reviewing reports from management relating to the annual and half year profit figures and statements, reviewing the effectiveness of the financial reporting, the controls in force and the key judgemental areas at the half year and year end to ensure the integrity of the financial information reported to shareholders;
- Reviewing the effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risk, as outlined on pages 61 and 62;
- Advising the Board on the appointment of the external auditors and considering their remuneration for both audit and non-audit work; and
- Reviewing the 'whistle blowing' arrangements in place across the Group, and approving new procedures to ensure compliance with the new Bribery Act 2010.

Under the Combined Code, at least one member of the Committee should have recent and relevant financial experience. As a chartered accountant, and previously the Group Finance Director of another listed company between 2004 and 2007, Andrew Allner fully satisfies this requirement.

At least once a year, the Non-Executive Directors meet with the external auditors, without the Executive Directors being present.

Policy on the Auditors providing non-audit services

In order to ensure auditor objectivity and independence, the provision of certain non-audit services (including accounting and tax services if the fees exceed a level set by the Audit Committee) are subject to approval by the Audit Committee. The Committee has specified that the external audit firm may not provide certain categories of non-audit services to the Group as detailed in the Committee's terms of reference. The Committee keeps under review the cost effectiveness, independence and objectivity of the external auditors. During the financial year, the audit fees of the external auditor were £0.5m and their fees for non-audit work in relation to continuing operations only were £0.3m. In comparison, non-audit fees paid to other audit firms during the financial year were £0.3m.

Review of the External Auditors

The Audit Committee advises the Board on the appointment or re-appointment of the Group's external auditors and recommends to the Board the audit fees to be paid to the external auditors. The Board's decision on these matters is subject to the approval of shareholders.

The independence, objectivity and effectiveness of the external auditors is reviewed by the Committee and during the year discussions were held regarding their terms of engagement, remuneration and proposal for partner rotation. The Senior Statutory Auditor is Debbie O'Hanlon. The appointment of the Senior Statutory Auditor is rotated every five years and, on this basis, the 2009/10 audit will be the last year of Debbie O'Hanlon's tenure. From the 2010/11 audit, subject to shareholders' approval at the 2010 Annual General Meeting, Debbie O'Hanlon will be replaced by Kath Barrow.

Whistle Blowing Policy

The Group is committed to the highest standards of quality, honesty, openness and accountability and a 'whistle blowing' policy has been issued to all operating companies to ensure a consistent approach across the Group. Employees are encouraged to raise genuine concerns under the policy and any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken. Any matters of significance are reported to the Audit Committee. During the year, no issues of significance were raised.

CHANGES TO THE AUDIT COMMITTEE'S CONSTITUTION

Following the appointment of Katherine Innes Ker as Non-Executive Director on 9 July 2010, the constitution of the Audit Committee is now fully compliant with the provisions of the Combined Code.

The terms of reference of the Audit Committee are available on the Group's website at www.go-ahead.com or upon request from the Group Company Secretary.

NOMINATION COMMITTEE REPORT

'The Committee proposed to the Board the appointment of Katherine Innes Ker during the year'

Sir Patrick Brown (Nomination Comitttee Chairman)

Members:

Sir Patrick Brown – Committee Chairman (Company Chairman)

Rupert Pennant-Rea (Senior Independent Non-Executive Director)

Andrew Allner (Non-Executive Director)

Katherine Innes Ker (Non-Executive Director) from 9 July 2010

Keith Ludeman (Group Chief Executive)

Committee Secretary

Carolyn Sephton (Group Company Secretary)

RESPONSIBILITIES

The majority of members of the Nomination Committee are Non-Executive Directors. During the year, the Committee met two times (not including interviews with potential candidates) and, as part of the annual performance evaluation process, also undertook a specific evaluation of its effectiveness. The main activities undertaken during the year included:

- Reviewing the structure, size and composition of the Board;
- Recommending to the Board, the membership and chairmanship of Committees;
- Evaluating the balance of skills, knowledge and experience on the Board and its Committees;
- Identifying and nominating for the Board's approval suitable candidates to fill vacancies for Board appointments; and
- Planning for the orderly succession of new Directors to the Board.

The Committee meets as needed to deal with necessary assignments and is responsible for leading the process of identifying candidates for Board appointment and making recommendations to the Board in accordance with the needs of the Company and best practice in corporate governance from time to time.

During the year, in consultation with an external search consultancy, the Committee met to discuss the appointment of a new Non-Executive Director. After interviewing a number of potential candidates, the Committee unanimously proposed, and the Board approved, that Katherine Innes Ker be appointed as Non-Executive Director with effect from 9 July 2010.

The terms of reference of the Nomination Committee are available on the Group's website at www.go-ahead.com or upon request from the Group Company Secretary.

REMUNERATION COMMITTEE REPORT

'The Committee's constitution is now compliant with the Combined Code'

Rupert Pennant-Rea
(Remuneration Committee Chairman)

Members:
Rupert Pennant-Rea – Committee Chairman
(Senior Independent Non-Executive Director)

Sir Patrick Brown (Company Chairman)

Andrew Allner (Non-Executive Director)

Katherine Innes Ker (Non-Executive Director) from 9 July 2010

Committee Secretary
Carolyn Sephton (Group Company Secretary)

Meetings also regularly attended, by invitation, by:
Keith Ludeman (Group Chief Executive)

RESPONSIBILITIES

During the year the Remuneration Committee met four times and, as part of the annual performance evaluation process, also undertook a specific evaluation of its effectiveness. The Committee is responsible for all aspects of remuneration. The key responsibilities and activities of the Committee during the year included:

- Determining the overall remuneration policy (including the balance between fixed and performance-related elements of pay);
- Determining the additional discretionary cash & deferred share awards and the additional performance related cash bonus payable for the achievement of specific strategic targets;
- Determining the fees of the Chairman;
- Reviewing the operation and continued appropriateness of the Long Term Incentive Plan, as well as performance conditions and awards made;
- Reviewing the vesting of awards under the Long Term Incentive Plan;
- Reviewing the vesting of the pension arrangements for the Group Chief Executive;
- Reviewing the terms of reference for the Remuneration Committee; and
- Receiving and reviewing reports from the Group Chief Executive on salary and bonus arrangements for the senior management of each operating company and senior Group personnel.

Members of the Committee and any person attending its meetings do not participate in any discussion or decision on their own remuneration.

CHANGES TO THE REMUNERATION COMMITTEE'S CONSTITUTION

Rupert Pennant-Rea (who is Senior Independent Director) replaced the Chairman of the Company as Chairman of the Remuneration Committee in October 2009. The Chairman of the Board remains a member of the Remuneration Committee.

Following the appointment of Katherine Innes Ker as Non-Executive Director on 9 July 2010, the constitution of the Remuneration Committee is now fully compliant with the provisions of the Combined Code.

The terms of reference of the Remuneration Committee are available on the Group's website at www.go-ahead.com or upon request from the Group Company Secretary. Full details of remuneration policy can be found in the Directors' Remuneration Report on pages 66 to 72.

DIRECTORS' REMUNERATION REPORT

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and has been approved by the Remuneration Committee and the Board. Ernst and Young LLP have audited certain parts of this report. Where disclosures have been subject to audit, they are indicated as such. The auditors' opinion is included in their report on page 78.

The Board supports the principles of good corporate governance relating to Directors' remuneration and, in preparing this report, the Remuneration Committee has followed the provisions of the Combined Code.

An ordinary resolution to receive and approve this Directors' Remuneration Report will be proposed at the Company's Annual General Meeting to be held on 28 October 2010.

REMUNERATION COMMITTEE

COMPOSITION OF THE COMMITTEE

Details of the members, the number of meetings and attendees in the year and the activities of the Remuneration Committee are shown on page 65.

The Committee has appointed Towers Watson Limited (formerly Watson Wyatt Limited) to advise on all aspects of Board remuneration. In addition to advising the Committee, Towers Watson Limited are also consulting actuaries to The Go-Ahead Group Pension Plan and advise the Company on various pension related issues.

Acceptance by the Board of Remuneration Committee proposals

During the year, the Committee's recommendations were all accepted unanimously by the Board and implemented without amendment.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

It is the responsibility of the Remuneration Committee to set the remuneration of the Executive Directors. The Committee is also informed of the pay, incentives and benefits packages of senior managers in the Group and its operating companies. The overall policy adopted by the Committee is to ensure that the Group is paying sufficient to attract, retain and motivate high calibre Executive Directors for the benefit of the Group's shareholders. Considerable emphasis is placed on performance-driven compensation where targets are aligned with the Group's strategic objectives and targeted shareholder returns.

In considering the Executive Directors' remuneration, the Committee follows the Combined Code in designing performance-related remuneration schemes. In setting the framework for remuneration, the Committee also has regard to the pay practices of its major commercial competitors, to the wider pay market in the FTSE 250 and to other factors specific to the Group and to each Director.

The Committee recognises that, for the Group's business, shareholder value is dependent on factors not all necessarily appearing within the published financial statements, although their effect on later financial statements can be significant. Leading these factors are safety, control of risk and other executive actions of a strategic nature that may take several accounting periods to show changes in shareholder value. The Executive Directors are encouraged to take environmental, social, governance and strategy matters extremely seriously and always to consider the long term implications of their decision making. The Committee has regard to these factors, as well as the annual reported financial statements, in arriving at the overall remuneration and in considering the mix between fixed and variable pay.

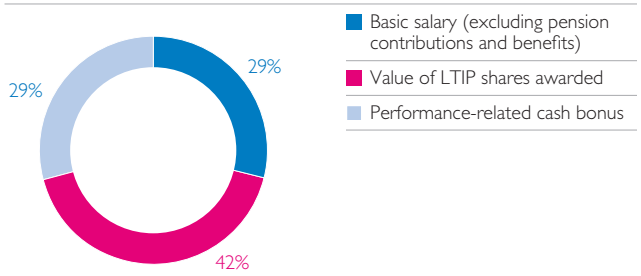
In accordance with the Remuneration Committee's policy, a substantial proportion of the Executive Directors' pay is performance-related. The chart on page 67 shows the balance between fixed and performance-related pay at maximum performance levels. Maximum performance assumes achievement of maximum cash bonus and full vesting of shares under the Long Term Incentive Plan (LTIP).

Executive Directors' Remuneration

Elements	Commentary
Basic salary (fixed)	Salary is determined by reference to the individual's performance and experience in post, using comparable mid-market data for guidance.
Performance-related cash bonus (variable)	Bonus is performance-related, with 80% financially driven and 20% driven by personal performance. Bonus payments are based on the achievement of specified objectives.
Long Term Incentive Plan – LTIP (variable)	The LTIP provides for the award of options to acquire shares, exercisable at the end of a three year performance period subject to the satisfaction of performance conditions.
Pension (fixed)	The policy is to provide market competitive retirement benefits or, depending on individual circumstances, a cash alternative. Only basic salary is pensionable.
Other benefits (fixed)	Includes a car replacement allowance and private medical insurance.

As reported last year, for the year ending 3 July 2010 only, the proportion of performance-related pay increased as a result of an increase in the performance-related cash bonus and an additional discretionary bonus award. Page 68 illustrates the actual remuneration for the Executive Directors for the year ending 3 July 2010 compared to the previous year. For subsequent years, the policy will revert to that shown in the chart below.

Fixed and performance-related pay at maximum performance levels



BASIC SALARY

Each of the Executive Directors is paid an annual basic salary which is reviewed in April each year. At the review in April 2009, and in view of wider economic conditions, the Committee decided that no increases in basic salary should be awarded. In considering the pay review in April 2010, the Committee remained mindful of the continuing difficult economic conditions and the general level of interest and concern over executive salaries, in addition to the pay and employment conditions elsewhere in the Group.

At the review in April 2010, and in consultation with Towers Watson Limited, the Committee decided that the Group Chief Executive should be awarded an increase in line with inflation (2.5%). The Committee also decided that the Group Finance Director should be awarded an increase beyond inflation based on clear evidence that his existing salary was not competitive in relation to his performance and experience in post.

PERFORMANCE-RELATED CASH BONUS

Each of the Executive Directors also has the opportunity to earn additional remuneration under a performance-related cash bonus arrangement. The bonus is non-pensionable and is paid in cash. This opportunity is normally capped at a maximum bonus of 100% of basic annual salary. Of the bonus potential of 100%, 80% is driven by financial performance against budget and 20% by personal performance against a number of qualitative objectives agreed with each Executive Director at the beginning of the year. As reported last year, while the fundamental structure of the performance-related bonus targets remains unchanged, for the year ending 3 July 2010, the Committee resolved that an additional 15% of basic salary would be achievable in relation to a specific strategic target, which was to dispose of the majority of the aviation division. For this year only, the maximum performance-related cash bonus potential was 115% of basic annual salary.

For the year ending 3 July 2010, the Executive Directors were both awarded the maximum performance-related cash bonus of 115% of basic salary. The Group's profit substantially exceeded budget, triggering a bonus of 80% for financial performance against budget. Both Executive Directors met their qualitative objectives and so received a bonus of 20%. An additional 15% was payable following the successful disposal of the majority of the aviation division.

In subsequent years, the maximum bonus potential will revert to 100%.

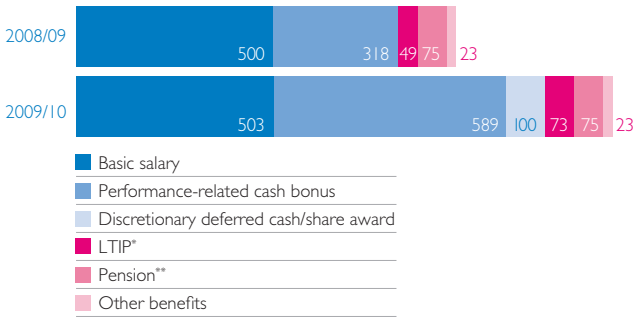
ADDITIONAL DISCRETIONARY BONUS

As reported last year, following the year ending 27 June 2009, and in recognition of the significant achievement in retaining the Southern franchise, the Committee exercised their discretion and resolved to award an additional discretionary bonus to the Executive Directors. The Committee felt that it was appropriate to recognise the importance of the retention of the franchise to the Group outside the normal annual bonus structure, with a deferred share element to provide long term alignment with shareholders' interests.

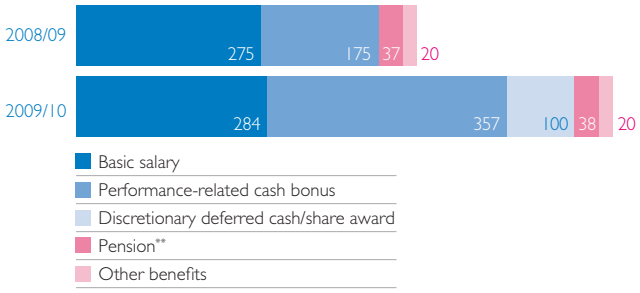
Out of a total discretionary award of £100,000 each payable to the Group Chief Executive and the Group Finance Director, 50% (£50,000 each) was payable in November 2009 as an additional non-pensionable cash bonus. The remaining 50% (£50,000 each) was used to purchase 3,498 shares each, under a Deferred Share Bonus Plan, subject to a holding provision of three years. The deferred share awards will lapse if the Executive Director leaves the Company during the deferral period for any reason other than redundancy, retirement or ill health.

Actual remuneration for the Executive Directors

Keith Ludeman



Nick Swift



* Based on actual value of LTIP shares vesting.
** Based on employer contributions or cash alternative.

LONG TERM INCENTIVE PLAN (LTIP)

Following its approval by shareholders in October 2005, the LTIP has been the Group's sole long-term share incentive plan for the Executive Directors. The LTIP provides for the award of nil-cost options to acquire shares, exercisable at the end of a three year performance period, subject to the satisfaction of performance conditions. The Executive Directors are eligible to receive an award of shares up to an equivalent of 150% of their annual basic salary each year.

Current Performance Conditions

Awards granted under the LTIP from the 2009/10 financial year will vest based solely on a comparison of the Group's three year Total Shareholder Return ('TSR') performance with that of the companies within two comparator groups: the Transport Sector Comparator Group (Arriva plc, FirstGroup plc, National Express Group plc and Stagecoach Group plc) and the constituents of the FTSE 250 Index (excluding investment trusts). Specifically:-

Transport Sector Comparator Award (one half)

One half of the award requires a comparison of the Group's TSR with the TSR of other companies in the transport sector - this is a highly relevant but small peer group comprising five companies only including the Group. This half of the award is calculated as follows:

- if the Group's TSR is midway between the TSR of the comparator companies with the highest and the lowest TSRs, the award vests as to 25% (12.5% of total potential award);
- if the Group's TSR is higher than the TSR of the comparator company with the highest TSR, or is less than that TSR by not more than 25% of the difference between the TSRs of the comparator companies with the highest and the lowest TSRs, the award vests in full (50% of total potential award); and
- if the Group's TSR falls between those two positions, the proportion of the award that vests increases, on a straight-line basis, from 25% to 100%, the higher the TSR of the Group (12.5% to 50% of total potential award).

FTSE 250 Comparator Award (one half)

The other half of the award is based on a comparison of the Group's TSR with the TSR of companies (excluding investment trusts) that comprise the FTSE 250 index of companies. This half of the award is calculated as follows:

- if the Group's TSR is placed at the median position, the award vests as to 25% only (12.5% of total potential award);
- if the Group's TSR is placed in the top quartile, 100% of the award vests (50% of total potential award); and
- if the Group's TSR is placed between those two positions, the proportion of the award that vests increases, on a straight-line basis, from 25% to 100%, the higher the TSR of the Group (12.5% to 50% of total potential award).

Historic Performance Conditions

Awards granted under the LTIP for the 2008/09 financial year are such that only half of the award is linked to comparative TSR against the two comparator groups and the other half is linked to real growth in adjusted earnings per share (EPS). Awards granted in relation to the financial years up to and including the 2007/08 financial year are based on current performance conditions with an additional minimum requirement that the Group should achieve an increase in adjusted EPS over a three year period of not less than the increase in the retail prices index (RPI) plus 3% per year. If this target is not met, no part of these awards will vest (and, accordingly, participants will not acquire any shares). There is no ability to retest any performance conditions.

All changes to the LTIP involve consultation with major shareholders. The most recent consultation was last year, when the Committee concluded that it was no longer appropriate to use an EPS target given the current economic uncertainty, and that the most suitable way to set a stretching but motivating target was to align with returns to shareholders, namely TSR.

It is the Committee's view that the structure of LTIP ensures that the Executive Directors continue to be rewarded if they achieve substantial improvements in the Group's underlying financial performance and perform well relative to other companies in the FTSE 250. The Committee considers that the LTIP is aligned to the long term interests of the Group, with performance conditions that are relevant, challenging and designed to enhance shareholder value. Awards will vest in full only if exceptional performance has been achieved.

SHARE INCENTIVE PLAN

The Group operates a Share Incentive Plan in which the Executive Directors are eligible to participate, under terms identical to any other participating Group employee. Any such participation would not be separately regulated by the Remuneration Committee. The Executive Directors do not currently participate in the Share Incentive Plan.

There are no other share option or long term incentive schemes available to the Executive Directors.

OTHER BENEFITS

The Group does not allocate company cars to any employees, including the Executive Directors. Instead, employees who would have been allocated a company car as part of their benefits, or to accomplish their work, are given a car replacement allowance. Such allowances are non-pensionable.

PENSION FUNDS

Under the terms of their service agreements, the Executive Directors are entitled to become members of The Go-Ahead Group Pension Plan.

The Group Chief Executive opted out of The Go-Ahead Group Pension Plan with effect from 1 December 2006, but retained a salary link in relation to his accrued benefit which was provided separately through an individual non-registered unfunded pension arrangement (UURBS). In lieu of future benefits, he receives a non-pensionable salary supplement. This salary supplement is not included with basic salary for the purposes of calculating performance-related cash bonus or LTIP awards. With effect from 1 April 2010, the Group Chief Executive began receiving his benefits from the Plan and UURBS (see page 72 for further details).

The Group Finance Director is a member of The Go-Ahead Group Pension Plan.

SHAREHOLDING GUIDELINES

Shareholder guidelines are in place for the Executive Directors which provide for them to build up a personal or spouse's shareholding equal to one year's basic annual salary over a period of five years. At the end of the financial year, the Group Chief Executive had been in post for four years and held 34,829 shares. Based on the closing share price on 3 July 2010, this equates to 72% of his basic salary held in shares of the Company. The Group Finance Director had been in post for three years and held 12,586 shares, equating to 43% of his basic salary.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The fees of the Non-Executive Directors are set by the Chairman and the Executive Directors following an annual review in April each year. The review takes account of fees paid for similar positions in the market, the time commitment required and any additional responsibilities undertaken. Non-Executive Directors are not eligible to receive pension entitlements or performance-related remuneration and may not participate in share option schemes. The Remuneration Committee considers the remuneration of the Chairman in his absence.

No increase in such fees was made following the annual reviews in April 2009 and 2010. Details of the fees paid to the Chairman and Non-Executive Directors are below:

Fees	1 April 2010 £'000 pa	1 April 2009 £'000 pa
Sir Patrick Brown	150	150
Rupert Pennant-Rea	44	44
Andrew Allner*	44	30

* Date of service commenced 24 October 2008.

The members of the Remuneration Committee have no personal interests in the matters to be decided by the Committee other than as shareholders, and have no conflicts of interest arising from cross-directorships.

DIRECTORS' CONTRACTS

It is the Group's policy to restrict the notice periods for Executive Directors to a maximum of 12 months. In line with this policy, the Executive Directors have service contracts with an undefined term but which provide for a notice period of 12 months. There are no provisions for special pension benefits, such as beneficial early retirement terms. Other than the notice periods specified, the Executive Directors are not due any contractual compensation payments in the event of loss of office.

Each Non-Executive Director has a letter of appointment which provides for a notice period of six months. The terms of appointment contain no entitlement to compensation for early termination. The letters of appointment are available for inspection at the Company's Registered Office during normal business hours and will also be available for inspection prior to and during the Annual General Meeting.

Director	Date of service contract	Notice period
Sir Patrick Brown	February 1999	6 months
Rupert Pennant-Rea	October 2002	6 months
Andrew Allner	October 2008	6 months
Katherine Innes Ker*	July 2010	6 months
Keith Ludeman	December 2006	1 year
Nick Swift	July 2007	1 year

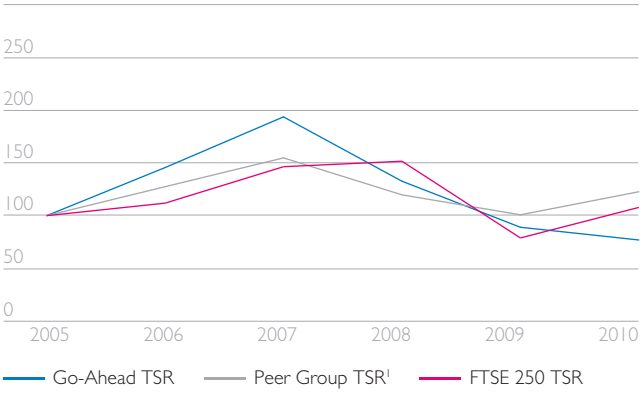
* Date of service commenced 9 July 2010.

In accordance with the provisions of the new UK Corporate Governance Code, from the 2010 Annual General Meeting onwards, all Directors will be subject to re-election on an annual basis.

PERFORMANCE GRAPH

The following graph shows a comparison of The Go-Ahead Group plc's total cumulative shareholder return against that achieved by the Group's peers and the FTSE 250 Index for the last five financial years to 3 July 2010. In assessing the performance of the Group's TSR the Board believes the comparator groups chosen represent an appropriate and fair benchmark upon which to measure the Group's performance for this purpose.

Total shareholder return (rebased to 100)



(1) TSR peer group consists of Arriva plc, FirstGroup plc, National Express plc and Stagecoach Group plc.

This graph is included to meet the relevant legislative requirements and is not directly relevant to the performance criteria used for the Company's LTIP. However, the indices used were selected as the Directors believe that they are the most appropriate and representative indices against which to measure the Company's performance, in terms of both the size of the Company and the nature of its business.

AUDITED INFORMATION

EMOLUMENTS AND COMPENSATION

	Salary/Fees[1]		Performance-related cash bonus		Discretionary cash bonus[2]		Car replacement allowance		Benefits in kind[3]		Total (exc pension and LTIP)	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Sir Patrick Brown	**150**	150	**–**	–	**–**	–	**–**	–	**–**	–	**150**	150
Rupert Pennant-Rea	**44**	44	**–**	–	**–**	–	**–**	–	**–**	–	**44**	44
Andrew Allner	**44**	30	**–**	–	**–**	–	**–**	–	**–**	–	**44**	30
Keith Ludeman	**578**	575	**589**	318	**50**	–	**19**	19	**4**	4	**1,240**	916
Nick Swift	**284**	275	**357**	175	**50**	–	**17**	17	**3**	3	**711**	470
	1,100	1,074	**946**	493	**100**	–	**36**	36	**7**	7	**2,189**	1,610

(1) The total salary for Keith Ludeman includes the non-pensionable salary supplement of £75,469 (2009: £75,000).
(2) The non-pensionable cash element of the additional discretionary bonus paid to the Executive Directors, as described on page 67 is shown above. The deferred share award element of this bonus is shown in the Deferred Share Plan table on page 72
(3) The only benefits in kind received during the financial year was the provision of private medical insurance for the Executive Directors, their spouses, and their children under the age of 24.

During the financial year, no sums that were chargeable to UK income tax were payable to any Director of the Company by way of an expense allowance in respect of qualifying services.

Long Term Incentive Plan

	Award date	Balance at 27 June 2009 No.	Awards. lapsed in year No.	Awards granted in year No.	Share price at date of award	Awards vested in year No.	Share. price at date of vesting	Balance at 3 July 2010 No.	End of period when conditions must be met
Keith Ludeman[1]	11 Sep 06	24,514	19,195	–	£18.61	5,319	£13.70	–	27 June 2009
Keith Ludeman[2]	10 Sep 07	17,974	–	–	–	–	–	17,974	3 July 2010
Nick Swift[2]	10 Sep 07	9,556	–	–	–	–	–	9,556	3 July 2010
Keith Ludeman[3]	24 Oct 08	46,908	–	–	£14.58	–	–	46,908	2 July 2011
Nick Swift[3]	24 Oct 08	25,799	–	–	£14.58	–	–	25,799	2 July 2011
Keith Ludeman[4]	30 Oct 09	–	–	52,722	£14.18	–	–	52,722	30 June 2012
Nick Swift[4]	30 Oct 09	–	–	28,997	£14.18	–	–	28,997	30 June 2012

(1) During the year, the Committee considered the extent to which the awards granted to Keith Ludeman in September 2006 should vest. Taking advice from Towers Watson Limited (formerly known as Watson Wyatt Limited) on the extent to which the TSR and EPS tests had been met, the Committee determined that 5,319 of the shares should be allowed to vest to Keith Ludeman on 28 October 2009 in accordance with the rules of the LTIP.
(2) The awards granted on 10 September 2007 will vest following a period of three years from the award date and will be upon the satisfaction of the historic performance conditions as set out on page 69, covering the period commencing with the start of the 2006/07 financial period and ending with the end of the 2009/10 financial period.
(3) The awards granted on 24 October 2008 will vest following a period of three years from the award date and will be dependent upon the satisfaction of the historic performance conditions as set out on page 69, covering the period commencing with the start of the 2007/08 financial period and ending with the end of the 2010/11 financial period.
(4) The awards granted on 30 October 2009 will vest following a period of three years from the award date and will be dependent upon the satisfaction of the current performance conditions as set out on page 68, covering the period commencing with the start of the 2008/09 financial period and ending with the end of the 2011/12 financial period.

DIRECTORS' SHARE OPTIONS

No share options are held by or have been granted to the Executive Directors during the financial year.

Deferred Share Plan

The Executive Directors held awards over ordinary shares of the Company which were granted under the Deferred Share Bonus Plan:

	Deferred Share Award Date	Deferred share awards granted No.	Awards vested during year No.	Awards lapsed during the year No.	Balance at 3 July 2010 No.	Date of Vesting
Keith Ludeman	17 Nov 09	3,498	–	–	3,498	17 Nov 12
Nick Swift	17 Nov 09	3,498	–	–	3,498	17 Nov 12

The awards granted on 17 November 2009, as part of the additional discretionary bonus, are held in trust on behalf of the beneficiaries for a period of three years. No further awards will be made under this arrangement. Please refer to page 67 for further details.

Directors' pension funds

The following disclosures are included to meet the relevant legislative requirements in relation to the Directors' final salary pension benefits:

Accrued pensions

	Keith Ludeman £ '000 p.a.	Nick Swift £ '000 p.a.
Accrued pension – 27 June 2009	285	8
Accrued pension – 3 July 2010	204	14
Increase in the accrued pension during the year	–	5
Increase in the accrued pension during the year in excess of inflation	–	5

Transfer values and notional contributions

	Keith Ludeman £'000	Nick Swift £'000
Transfer value of the accrued pension at 27 June 2009	3,703	49
Transfer value of the accrued pension at 3 July 2010	5,021	103
Directors' notional contributions during the year	–	24
Increase in transfer value over the year net of Directors' notional contributions	1,318	30
Transfer value of the increase in the accrued pension in excess of inflation and Directors' notional contributions	–	16

Notes

(1) In light of changes to legislation and market conditions and upon taking actuarial advice, the Trustees of The Go-Ahead Group Pension Plan reviewed and amended the basis for the calculation of cash equivalent transfer values with effect from 25 November 2009. The transfer values at the year end have been calculated in accordance with this basis.

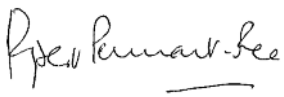
(2) Keith Ludeman and Nick Swift were members of the Group's approved final salary pension during the financial year. In addition, part of Keith Ludeman's benefit is provided separately through an individual unapproved unfunded pension arrangement (UURBS).

(3) Keith Ludeman opted out of the Group's approved final salary arrangement from 1 December 2006 but retained a salary link in relation to his accrued benefit. On 1 April 2010, Keith Ludeman began receiving his benefits from both the approved and unapproved arrangements. The above figures reflect both of these defined benefit arrangements. His pension entitlement from the Plan was calculated in line with standard practice, which included reducing his pension to reflect the fact that his benefit had come into payment in advance of the Plan's normal retirement age. The accrued pension at 3 July 2010 is Keith Ludeman's immediate early retirement pension as at 1 April 2010, after commutation for a tax-free cash lump sum of £406,000. The transfer value as at 3 July 2010 is based on market conditions at 3 July 2010, but calculated at the date Keith Ludeman took early retirement. Consequently, his annual accrued pension has decreased over the financial year, but the value of this benefit has increased due to its immediate vesting.

(4) In lieu of future pension benefits, Keith Ludeman receives a non-pensionable salary supplement of 15% of basic salary which amounted to £75,469 during the financial year.

(5) Nick Swift participated in the pensions salary sacrifice arrangement operated by the Group during the year. The notional contributions shown in the table above are those he would have paid had he not participated in this arrangement.

For and On Behalf of the Board



Rupert Pennant-Rea, Chairman of Remuneration Committee
1 September 2010

OTHER STATUTORY INFORMATION

The Directors present their report and audited financial statements for the year ended 3 July 2010.

Principal activities

The principal activity of the Group throughout the year has been the provision of passenger transport services.

Results and dividends

The results for the year are set out in the consolidated income statement on page 79. The Directors propose that a final dividend of 30.0p be paid, making a total of 81.0p for the year (2009: 81.0p). The proposed final dividend, if approved, will be payable on Friday 19 November 2010 to shareholders on the register at the close of business on Friday 5 November 2010.

A review of the business of the Group during the year and its prospects for the future, together with a description of the principal risks and uncertainties facing the Group, can be found in the Director's Report: Business Review from pages 1 to 51.

Directors and their interests

The names of the persons who at any time during the financial year were Directors of the company are: Sir Patrick Brown, Rupert Pennant-Rea, Andrew Allner, Keith Ludeman, and Nick Swift. Katherine Innes Ker joined the Board with effect from 9 July 2010.

Directors are appointed by ordinary resolution at a general meeting of holders of ordinary shares. The Directors have the power to appoint a Director but any person so appointed will hold office only until the next Annual General Meeting and will then be eligible for appointment by ordinary resolution at that meeting. Under the Company's current Articles of Association, one third of the Directors must retire by rotation at each Annual General Meeting. The Directors are committed to measures that promote good governance, and accordingly have chosen to early adopt the new UK Corporate Governance Code provision whereby all Directors should be re-elected on an annual basis. Consequently, the proposed new Articles of Association will require all of the Directors to retire from office at every Annual General Meeting and, if eligible, offer themselves for re-election.

The Directors' beneficial or family interests in the share capital of the Company at 3 July 2010, with comparative figures for the 2009 year end, are shown below. There were no changes in these interests up to 1 September 2010.

Details of the Executive Directors' interests in awards granted to them as participants in the Long Term Incentive Plan can be found in the Directors' Remuneration Report on page 71.

No Director was interested in any contract or arrangement which was significant in relation to the Group's business.

Indemnification of Directors

In accordance with the Company's Articles of Association and to the extent permitted by law, the Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the Directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year. This policy has been renewed for the next financial year. Neither the Company's indemnity nor the insurance provides cover in the event that a Director is proven to have acted dishonestly or fraudulently.

Directors' interests in shares

	2010 No.	2009 No.
Sir Patrick Brown	10,149(1)	10,149
Rupert Pennant-Rea	2,000	2,000
Andrew Allner	–	–
Keith Ludeman	34,829(2)	26,012
Nick Swift	12,586(3)	9,088

(1) On 4 March 2010, Sir Patrick Brown transferred 10,149 shares to Lady Brown.
(2) On 17 March 2010, Mr K Ludeman transferred 31,331 shares to Mrs D Ludeman. The remaining 3,498 shares are deferred shares held under the Deferred Share Plan.
(3) On 12 March 2010, Mr N Swift transferred 9,088 shares to Mrs J Swift. The remaining 3,498 shares are deferred shares held under the Deferred Share Plan.

Shareholder and control structure

As at 3 July 2010, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. At this date there were 46,908,978 ordinary shares in issue, of which 3,902,230 were held in treasury. This included 13,699 new shares issued during the course of the year following the exercise of share options granted under the Company's all-employee share scheme. The Company did not purchase any of its own shares during the year, and no shares were purchased between 3 July 2010 and the date of this report.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- Certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- Restrictions pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

All shareholders have the same voting rights for each share, regardless of the total number of shares held. On a show of hands at a general meeting of the Company, every holder of shares present in person or by proxy and entitled to vote shall have one vote (except in the circumstances where a proxy has been appointed by more than one member in which case he or she will have one vote for and one vote against if he or she has been instructed by one or more members to vote for the resolution and by one or more members to vote against). On a poll, every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. The Notice of Meeting specifies deadlines for exercising voting rights either in person or by proxy in relation to resolutions to be passed at the 2010 Annual General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the Annual General Meeting and published on the Company's website (www.go-ahead.com) after the meeting.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

The authorities for the Company to allot relevant securities (up to an aggregate nominal amount of £1,433,266) and for the disapplication of pre-emption rights on the allotment of equity securities (for cash up to an aggregate nominal amount of £214,989), as passed by special resolutions at the 2009 Annual General Meeting, were not utilised in the financial year or up to the date of this report. These authorities will expire at the upcoming Annual General Meeting of the Company and approval for new authorities will be sought. In the last three years no shares have been issued on a non-pre-emptive basis, other than those issued under all-employee share schemes which are not included for the purposes of this authority.

The authority for the Company to make market purchases of its own ordinary shares, as passed by special resolution at the 2009 Annual General Meeting, was still in effect at the end of the financial year and will expire at the upcoming Annual General Meeting of the Company, where approval for a new authority will be sought. Under the existing authority the maximum aggregate number of shares that can be purchased is 4,299,799. The authority also limits the maximum number of shares held in treasury to 10% of the issued share capital of the Company and states minimum and maximum prices payable for shares purchased under the authority. During the financial year this authority was not utilised.

The business of the Company is managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting, subject to the Company's Articles of Association, relevant statutory law and any direction given by the Company in general meeting by special resolution.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. At the upcoming Annual General Meeting, a resolution will be put to shareholders proposing amendments to the current Articles of Association in accordance with the provisions of the new Companies Act 2006. Further details are set out in the Notice of Annual General Meeting.

The 23rd Annual General Meeting of the Company will be held at the Hilton Newcastle Gateshead, Bottle Bank, Gateshead, NE8 2AR on Thursday 28 October 2010 at 11.00 hours. Details of the business to be considered can be found in the Notice of Meeting which will be available on the Company's website (www.go-ahead.com) from 27 September 2010.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. The Company is party to a number of banking agreements which are terminable upon the provision of fourteen days' notice upon a change of control of the Company.

Each of the Group's rail franchise agreements is subject to change of control criteria that would mean, on a change of control, there would be deemed to be an 'event of default' that could potentially terminate the rail franchise. This is, however, subject to the discretion of the Secretary of State. The Group's recent sterling bond issue is subject to a change of control clause that contains certain specified conditions which could lead to a compulsory prepayment of the bond.

Substantial shareholdings

As at 1 September 2010, the Company had been notified of the interests in its shares representing 3% or more of the issued ordinary share capital, as shown below.

These holdings include, where applicable, the aggregate of investment management clients' interests within the respective asset management companies and may have changed without triggering a further notification.

Share schemes

EES Trustees International Limited, as Trustee of The Go-Ahead Group Employee Trust, holds 0.1% of the issued share capital of the Company in trust for the benefit of the Executive Directors of the Group and their dependants under the Long Term Incentive Plan. The voting rights in relation to these shares are exercised by the Trustee and dividends are waived while the shares are held by the Trustee.

Under the rules of the Company's Share Incentive Plan, employees of the Group are entitled to acquire shares in the Company. In order to preserve certain tax benefits these shares are held in a trust by EES Corporate Trustees Limited for participating employees. Whilst these shares are held in trust, the voting rights attached to them will not be exercised by the Trustee or the employees for whom they are held. As at the date of this report, 0.6% of the issued share capital of the Company was held by EES Corporate Trustees Limited. In the event of an offer being made to acquire these shares the employees are entitled to direct EES Corporate Trustees Limited to accept an offer in respect of the shares held on their behalf.

During the financial year, 13,699 ordinary shares were allotted to employees and former employees of the Company under the rules of the Company's Sharesave Scheme (a savings related share option scheme). These shares held an aggregate nominal value of £1,370 and the Company received a total consideration of £200,948 for them. In accordance with best practice guidelines, options granted under this scheme do not exceed 10% of the issued ordinary share capital during a rolling ten year period. Vesting of awards under the Long Term Incentive Plan for the Executive Directors is satisfied by market purchases of shares, and therefore there is no further dilution of the issued share capital.

Employees

The Group's responsibility is to provide a positive work environment conducive to the recruitment and retention of staff and one which meets its business objectives by motivating and

Substantial shareholdings

	Indirect/Direct	2010 No.	2010 %
Ameriprise Financial, Inc. and its group	Indirect	3,743,465	8.70
	Direct	20,500	0.05
Newton Investment Management Ltd	Direct	3,352,486	7.80
D Ballinger	Direct	2,525,580	5.87
UBS Wealth Management	Indirect	2,269,225	5.28
Artemis Investment Management Ltd	Direct	2,086,486	4.85
J Moyes	Direct	2,054,061	4.78
Legal & General Group plc	Direct	1,448,712	3.37
JP Morgan Chase & Co	Indirect	1,438,491	3.34

encouraging the Group's employees to be responsive to the needs of its customers, maintaining, and, wherever possible, improving operational performance.

The Group is committed to providing equality of opportunity to all employees and treats all employees fairly regardless of gender, ethnic origin, age, religion, belief, race and, where practical, physical disability. Appropriate training, career development and promotion opportunities are provided for all employees. The Group gives full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes and abilities. It is the Group's policy to provide continuing employment, and arrange appropriate training, for existing employees who become disabled during their employment, and to provide training, career development and promotion as appropriate to all disabled employees.

Our companies maintain relationships with recognised trade unions and have established a network of local employee representatives who are consulted on key business decisions likely to affect their interests. Three of our companies have Stakeholder Boards which bring together employees, individual passengers and representative bodies to share views. The Group produces a range of internal newsletters, information circulars and intranet sites that keep employees abreast of developments at their specific employing company and across the Group as a whole. The Group has awards to recognise and reward outstanding contributions made by our employees.

Employees are encouraged to participate directly in the success of the business through the Group's HMRC approved Share Incentive Plan (SIP) which is open to all employees with six months' service and gives the opportunity to buy shares in the Company in a tax-efficient manner.

The Group is committed to developing a culture of openness across all its businesses and ensuring the highest standards of probity and accountability. The Group engages with its employees, who are encouraged to discuss matters of interest to them and subjects affecting day-to-day operations with operating company management. The Board also actively encourages employees with serious concerns regarding the interests of others or the Group to come forward. The Group and its operating companies have policies in place to ensure processes exist whereby employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

Further details of the Group's responsibilities as an employer, including operating in a socially and environmentally responsible manner, can be found on pages 46 to 51 and also in the Group's Environmental and Social Report which is published separately and can be found on the Company's website (www.go-ahead.com).

Charitable donations

Charitable donations, sponsorship and community support over the year amounted to £268,000 (2009: £257,000).

Political donations and expenditure

It is the Group's policy not to make political donations and accordingly no such payments were made in the year (2009: £nil). Additionally, the Company did not incur any political expenditure as defined in the Companies Act 2006 (2009: £nil).

Land and buildings

In the opinion of the Directors, there is no material difference between the market value of the Group's interest in land and buildings and its net book value.

Suppliers

Each Group operating company individually agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the suppliers and the timely submission of satisfactory invoices. For the year ended 3 July 2010, the trade creditor days for The Go-Ahead Group plc as a Company (not as a Group) were 11 days (2009: 7), based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Post balance sheet events

There are no post balance sheet events.

Going concern

The Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Director's Report: Business Review on pages 1 to 51. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 26 to 29. In addition, note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Cash generation from the Group's bus and rail operations was excellent and the balance sheet remains strong. Core financing is provided by a £200m sterling bond issue securing financing to September 2017 and bank facilities funding of £280m to November 2012, of which £177m was undrawn and available at the year end. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable UK law and those International Financial Reporting Standards as adopted by the European Union.

Under company law, the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, the financial performance, and cashflows of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors' and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and accounting estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, enabling them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility Statements

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 52. The Directors confirm that to the best of their knowledge:

a) The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

b) The Directors' Report: Business Review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' statement as to disclosure of information to auditors

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board

C Sephton, Company Secretary
1 September 2010

FINANCIAL STATEMENTS
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE GO-AHEAD GROUP PLC

We have audited the Group financial statements of The Go-Ahead Group plc for the year ended 3 July 2010, which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cashflow statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Director's Responsibilities Statement, set out on page 77, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 3 July 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 61 to 62 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 76 and 77, in relation to going concern; and
- the part of the Corporate Governance statement on pages 56 to 62 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of The Go-Ahead Group plc for the year ended 3 July 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ernst & Young LLP

Debbie O' Hanlon (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne

1 September 2010

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 3 July 2010

	Notes	2010 £m	2009 £m
Group revenue	4	**2,201.6**	2,187.2
Operating costs (excluding amortisation and exceptional items)	5	**(2,099.6)**	(2,058.4)
Group operating profit (before amortisation and exceptional items)		**102.0**	128.8
Goodwill and intangible asset amortisation	3	**(10.9)**	(11.9)
Exceptional items (before taxation)	7	**(27.4)**	(14.5)
Group operating profit (after amortisation and exceptional items)		**63.7**	102.4
Finance revenue	9	**1.6**	6.1
Finance costs	9	**(14.9)**	(17.6)
Profit on ordinary activities before taxation		**50.4**	90.9
Tax expense	10	**(14.9)**	(32.4)
Profit for the year from continuing operations		**35.5**	58.5
Discontinued operations			
Loss for the year from discontinued operations	8	**(12.0)**	(40.2)
Profit for the year		**23.5**	18.3
Attributable to:			
Equity holders of the parent		**17.2**	6.3
Minority interest		**6.3**	12.0
		23.5	18.3
Earnings per share from continuing operations			
– basic and diluted	11	**68.0p**	108.3p
– adjusted	11	**128.3p**	161.6p
Earnings per share from total operations			
– basic & diluted	10	**40.1p**	14.7p
– adjusted		**135.1p**	152.3p
Dividends paid (pence per share)	12	**106.5p**	81.0p
Final dividend proposed (pence per share)	12	**30.0p**	55.5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 3 July 2010

	Notes	2010 £m	2009 £m
Profit for the year		**23.5**	18.3
Other comprehensive income			
Actuarial losses on defined benefit pension plans	28	**(22.5)**	(26.9)
Unrealised gains/(losses) on cashflow hedges		**1.8**	(54.2)
Losses on cashflow hedges taken to income statement – operating costs		**16.3**	12.6
Tax recognised in other comprehensive income	10	**0.8**	19.2
Other comprehensive income for the year, net of tax		**(3.6)**	(49.3)
Total comprehensive income for the year		**19.9**	(31.0)
Attributable to:			
Equity holders of the parent		**11.9**	(39.6)
Minority interest		**8.0**	8.6
		19.9	(31.0)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 3 July 2010

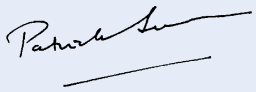
	Share capital £m	Reserve for own shares £m	Hedging reserve £m	Other reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m	Minority interest £m	Total £m
At 28 June 2008	71.3	(68.8)	17.5	1.6	0.7	31.9	**54.2**	13.3	**67.5**
Profit for the year	–	–	–	–	–	6.3	**6.3**	12.0	**18.3**
Other comprehensive income	–	–	(28.0)	–	–	(17.9)	**(45.9)**	(3.4)	**(49.3)**
Total comprehensive income	–	–	(28.0)	–	–	(11.6)	**(39.6)**	8.6	**(31.0)**
Share based payment charge	–	–	–	–	–	0.7	**0.7**	–	**0.7**
Dividends	–	–	–	–	–	(34.8)	**(34.8)**	(12.3)	**(47.1)**
Acquisition of own shares	–	(0.2)	–	–	–	–	**(0.2)**	–	**(0.2)**
Arising on shares issued for share options	0.6	–	–	–	–	–	**0.6**	–	**0.6**
Reserve transfer	–	0.2	–	–	–	(0.2)	**–**	–	**–**
At 27 June 2009	71.9	(68.8)	(10.5)	1.6	0.7	(14.0)	**(19.1)**	9.6	**(9.5)**
Profit for the year	–	–	–	–	–	17.2	**17.2**	6.3	**23.5**
Other comprehensive income	–	–	12.5	–	–	(17.8)	**(5.3)**	1.7	**(3.6)**
Total comprehensive income	–	–	12.5	–	–	(0.6)	**11.9**	8.0	**19.9**
Share based payment charge	–	–	–	–	–	0.7	**0.7**	–	**0.7**
Dividends	–	–	–	–	–	(45.7)	**(45.7)**	(6.6)	**(52.3)**
Acquisition of own shares	–	(0.3)	–	–	–	–	**(0.3)**	–	**(0.3)**
Arising on shares issued for share options	0.2	–	–	–	–	–	**0.2**	–	**0.2**
Reserve transfer	–	0.1	–	–	–	(0.1)	**–**	–	**–**
At 3 July 2010	**72.1**	**(69.0)**	**2.0**	**1.6**	**0.7**	**(59.7)**	**(52.3)**	**11.0**	**(41.3)**

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at 3 July 2010

	Notes	2010 £m	2009 £m
Assets			
Non-current assets			
Property, plant and equipment	13	**415.9**	409.9
Intangible assets	14	**108.6**	110.3
Trade and other receivables	18	**1.8**	3.1
Investments		**0.7**	–
Other financial assets	24	**4.3**	3.1
Deferred tax assets	10	**27.1**	23.4
		558.4	549.8
Current assets			
Inventories	17	**12.9**	13.1
Trade and other receivables	18	**188.8**	199.2
Cash and cash equivalents	19	**235.8**	207.1
Other financial assets	24	**3.0**	0.6
		440.5	420.0
Assets classified as held for sale	16	**1.7**	9.7
Assets held in disposal groups held for sale	8	**10.2**	–
		11.9	9.7
Total assets		**1010.8**	979.5
Liabilities			
Current liabilities			
Trade and other payables	20	**(493.7)**	(485.7)
Other financial liabilities	24	**(7.9)**	(16.4)
Interest-bearing loans and borrowings	21	**(17.1)**	(30.4)
Current tax liabilities		**(20.4)**	(14.9)
Provisions	25	**(12.0)**	–
		(551.1)	(547.4)
Non-current liabilities			
Interest-bearing loans and borrowings	21	**(303.9)**	(266.5)
Retirement benefit obligations	28	**(96.9)**	(83.5)
Other financial liabilities	24	**(3.3)**	(8.5)
Deferred tax liabilities	10	**(65.6)**	(68.4)
Other liabilities	20	**(5.3)**	(8.9)
Provisions	25	**(8.1)**	(5.8)
		(483.1)	(441.6)
Liabilities held in disposal groups held for sale	8	**(17.9)**	–
Total liabilities		**(1052.1)**	(989.0)
Net liabilities		**(41.3)**	(9.5)
Capital & reserves			
Share capital		**72.1**	71.9
Reserve for own shares		**(69.0)**	(68.8)
Hedging reserve		**2.0**	(10.5)
Other reserve		**1.6**	1.6
Capital redemption reserve		**0.7**	0.7
Retained earnings		**(59.7)**	(14.0)
Total shareholders' equity		**(52.3)**	(19.1)
Minority interest		**11.0**	9.6
Total equity		**(41.3)**	(9.5)



Sir Patrick Brown, Chairman
1 September 2010

Nick Swift, Group Finance Director
1 September 2010

FINANCIAL STATEMENTS

CONSOLIDATED CASHFLOW STATEMENT

for the year ended 3 July 2010

	Notes	2010 £m	2009 £m
Profit after tax from continuing operations		**35.5**	58.5
Loss after tax from discontinued operations		**(12.0)**	(40.2)
Profit after tax for the year		**23.5**	18.3
Net finance costs	9	**13.3**	11.5
Tax expense	10	**10.8**	23.7
Depreciation of property, plant and equipment	13	**52.1**	49.7
Amortisation of goodwill and intangible assets	14	**10.9**	12.4
Other non-cash exceptional items	7	**35.8**	47.6
Ineffective interest swap hedge		**0.8**	–
Profit on sale of property, plant and equipment		**(0.2)**	(0.3)
Share based payments	6	**0.7**	0.7
Difference between pension contributions paid and amounts recognised in the income statement		**(6.9)**	(2.8)
Movement in provisions		**14.3**	3.4
Purchase of assets held for disposal		**–**	(7.5)
Sale of assets held for disposal		**8.1**	–
Decrease/(increase) in inventories		**0.2**	(1.1)
(Increase)/decrease in trade and other receivables		**(10.6)**	36.1
Increase in trade and other payables		**7.8**	41.7
Cashflow generated from operations		**160.6**	233.4
Taxation paid	10	**(18.8)**	(11.4)
Net cashflows from operating activities		**141.8**	222.0
Cashflows from investing activities			
Interest received		**1.6**	6.6
Proceeds from sale of property, plant and equipment		**5.7**	4.3
Purchase of property, plant and equipment		**(58.1)**	(57.7)
Purchase of intangible assets		**(2.3)**	(2.8)
Purchase of subsidiaries	15	**(35.2)**	–
Proceeds from sale of subsidiaries		**14.8**	–
Purchase of joint venture		**(0.7)**	–
Cash acquired with subsidiaries		**2.0**	–
Cash associated with disposal		**(0.1)**	
Deposit paid on rolling stock		**–**	(0.4)
Net cashflows used in investing activities		**(72.3)**	(50.0)
Cashflows from financing activities			
Interest paid		**(12.3)**	(18.5)
Dividends paid to members of the parent	12	**(45.7)**	(34.8)
Dividends paid to minority interests		**(6.6)**	(12.3)
Proceeds from issue of shares		**0.2**	0.6
Payment to acquire own shares		**(0.3)**	(0.2)
Repayment of borrowings		**(216.4)**	(39.8)
Proceeds from borrowings		**50.0**	–
Proceeds from bond financing		**200.0**	–
Payment of finance lease and hire purchase liabilities		**(10.5)**	(16.2)
Repayment of loan notes		**–**	–
Net cash outflows on financing activities		**(41.6)**	(121.2)
Net increase in cash and cash equivalents		**27.9**	50.8
Cash and cash equivalents at 27 June 2009	19	**202.1**	151.3
Cash and cash equivalents at 3 July 2010	19	**230.0**	202.1

1. Authorisation of financial statements and statement of compliance with IFRSs

The consolidated financial statements of The Go-Ahead Group plc (the 'Group') for the year ended 3 July 2010 were authorised for issue by the Board of Directors on 1 September 2010 and the balance sheet was signed on the Board's behalf by Sir Patrick Brown and Nick Swift. The Go-Ahead Group plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) as they apply to the consolidated financial statements of the Group for the year ended 3 July 2010, and applied in accordance with the provisions of the Companies Act 2006. The Group is required to comply with international accounting requirements under IAS 1 'Presentation of Financial Statements' except in extremely rare circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to 'present fairly' its financial statements. On that basis, the Group has departed from the requirements of IAS 19 'Employee Benefits' and has accounted for its constructive but not legal obligations for the Railways Pension Scheme (RPS) under the terms of its UK rail franchise agreements. Details of the background and rationale for this departure are provided in note 28.

2. Summary of significant accounting policies

Basis of preparation

A summary of the Group's accounting policies applied in preparing the financial statements for the year ended 3 July 2010 are set out below.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand (£0.1m) except when otherwise indicated.

As noted above, the Group has taken the decision to depart from the requirements of IAS 19 so as to present fairly its financial performance, position, and cashflows in respect of its obligation for the RPS.

New standards

The following new standards or interpretations are mandatory for the first time for the financial year ending 3 July 2010:

- IFRS8 'Operating segments'
- IAS23 'Borrowing costs (revised)'
- IFRS2 'Share-based payments – vesting conditions and cancellations'
- IAS1 'Presentation of financial statements (revised)'
- Amendment to IAS32 and IAS 31 'Puttable financial instruments and obligations arising on liquidations'
- Amendments to IFRS1 and IAS27 'Amendments for determining the cost of an investment in separate financial statements'
- Amendment to IAS39 'Eligible hedged items'
- Amendment to IFRS7 'Improving disclosures'
- Improvements to IFRSs (May 2008)
- IFRIC13 'Customer loyalty programmes'
- IFRIC15 'Agreements for the construction of real estate'
- IFRIC16 'Hedges of a net investment in a foreign operation'

The adoption of IAS1 'Presentation of Financial Statements (revised)' has required the 'Statement of changes in equity', previously described in note 26 to the annual report for the year ended 27 June 2009, to be presented as a primary statement entitled 'Consolidated statement of changes in equity'. In addition, the 'Consolidated statement of recognised income and expense' has been replaced with the 'Consolidated statement of comprehensive income'.

In adopting IFRS8 'Operating segments', the Group concluded that the operating segments were the same as the business segments determined in accordance with IAS14 'Segment reporting', more details are provided in note 3.

Adoption of the remaining new standards and interpretations did not have a material impact on the financial performance or position of the Group.

In accordance with IFRS5 'Non-current assets held for sale and discontinued operations', the Group has classified the results of the ground handling and cargo operations as discontinued and accordingly the comparatives in the income statement and related notes have been restated. The above treatment is a result of the sale which completed on 30 January 2010 of the majority of the Group's ground handling and cargo operations at Heathrow to Dnata and the majority of the Group's ground handling operations outside Heathrow to Servisair UK Limited. The remaining ground handling operations are expected to be sold in the next twelve months and are also included in discontinued operations.

Use of estimates

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 that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are in relation to:

- the measurement and impairment testing of indefinite life intangible assets requires estimation of future cashflows and the selection of a suitable discount rate and growth rate, as detailed in note 14;
- the measurement of defined benefit pension obligations requires the estimation of future changes in salaries, inflation, the expected return on assets and the selection of a suitable discount rate, as set out in note 28; and
- the measurement of uninsured liabilities is based on an assessment of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of The Go-Ahead Group plc and its subsidiaries as at 3 July 2010.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The financial statements of subsidiaries for use in the consolidation are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Minority interests represent the interests not held by the Group in Govia Limited, a 65% owned subsidiary, and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

2. Summary of significant accounting policies continued

Interest in joint ventures

In the year the Group has entered into a contractual arrangement with another party which represents a joint venture. This takes the form of an agreement to share control over another entity, through an interest in a company, (a jointly controlled entity). The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of the investment. The Group income statement reflects the share of the jointly controlled entity's results after tax. Where there has been a change recognised in other comprehensive income of the jointly controlled entity, the Group recognises its share of any such changes in the Consolidated statement of comprehensive income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the income will flow to the Group and the value can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Rendering of services

The revenue of the Group comprises income from road passenger transport, rail passenger transport and aviation services.

Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities. Revenue for aviation services represents income receivable generated from contracts in place with airlines and also includes parking revenue generated through the operation and management of car parks and associated services, which include security and bus transportation. Where the Group acts as a managing agent at a car park it recognises only the commission earned as revenue.

Rail revenue comprises amounts based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts and other related services such as rolling stock maintenance and commission on tickets sold. In addition, franchise subsidy receipts from the DfT and local Passenger Transport Executives (PTEs) are treated as revenue, and franchise premium payments to the DfT are recognised in operating costs.

Revenue is recognised by reference to the stage of completion of the customer's journey or for other services based on the proportion of services provided. The attributable share of season ticket or travel card income is deferred within liabilities and released to the income statement over the life of the relevant season ticket or travel card.

Rental income

Rental income is generated from rental of surplus properties and subleasing of rolling stock and railway infrastructure access. It is accounted for on a straight-line basis over the lease term.

Finance revenue

Interest on deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the income statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate. Where the grant relates to a non-current asset, value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset.

Uninsured liabilities

The Group limits its exposure to the cost of motor, employer and public liability claims through insurance policies issued by third parties. These provide individual claim cover, subject to high excess limits and an annual aggregate stop loss for total claims within the excess limits. An accrual is made within current liabilities for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss. On the basis that the Group does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date, these uninsured liabilities are classified as current.

Profit/revenue sharing agreements

The estimation of the balance sheet uninsured claims accrual is made after taking appropriate professional advice and is based on an assessment of the expected settlement on known claims, together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but that have not yet been reported to the Group by the insurer.

Franchise bid costs

A key part of the Group's activities is the process of bidding for and securing franchises to operate rail services in the UK. All franchise bid costs incurred prior to achieving preferred bidder status are treated as an expense in the income statement irrespective of the ultimate outcome of the bid. Directly attributable, incremental costs incurred after achieving preferred bidder status are capitalised as an intangible asset and amortised over the life of the franchise.

The rail companies have certain revenue and profit sharing agreements with the DfT. An accrual is made within amounts payable to central government for the estimated cost to the Group of the relevant amounts accrued at the balance sheet date.

Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of revenue or expense which, because of the size or the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow better understanding of financial performance.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost on transition to IFRSs less accumulated depreciation and any impairment in value. Freehold land is not depreciated.

Assets held under finance leases are depreciated over the shorter of their expected useful lives and the lease terms.

Depreciation is charged to the income statement based on cost or fair value, less estimated residual value of each asset, evenly over its expected useful life as follows:

Short leasehold land and buildings	The life of the lease
Freehold buildings and long leasehold land and buildings	Over 10 to 100 years
Rolling stock	Over 8 to 15 years
Plant and equipment	Over 3 to 15 years

The carrying values of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists the assets are written down to their recoverable amount.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Business combinations and goodwill

Acquisitions of businesses since 3 July 2004 are accounted for under IFRS 3 'Business Combinations' using the purchase method. Goodwill on acquisition is initially measured at cost being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, meeting the conditions for recognition under IFRS 3 at the acquisition date. It is capitalised and carried as an asset on the balance sheet. If an acquisition gives rise to negative goodwill, this is released immediately to the income statement.

In some instances certain fair value accounting adjustments are required to be made using provisional estimates, based on information available, and amendments are sometimes necessary in the 12 months following the acquisition, with a corresponding adjustment to goodwill.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement and not subsequently reversed. For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous amounts, and has been subject to impairment testing as at the transition date and annually thereafter. Goodwill written off to reserves prior to 27 June 1998 has not been reinstated. In the event of subsequent disposal of the business to which it relates, goodwill is included in the carrying amount of the operation when determining the gain or loss on disposal to be charged to the income statement.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount, being the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, and the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reinstated amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Franchise assets

Where the conditions relating to the award of a franchise require the Group to assume legal responsibility for any pension liability that exists at that point in time, the Group recognises a liability representing the fair value of the related net pension deficit that the Group expects to fund during the franchise term. When a pension deficit exists at the start of the franchise, a corresponding intangible asset is recognised, reflecting a cost in acquiring the right to operate the franchise. If a pension surplus exists at the start of the franchise, then a corresponding deferred income balance is recognised, representing a government grant. The intangible asset or deferred income balance is amortised through the income statement on a straight-line basis over the period of the franchise.

The carrying value of franchise assets is reviewed for impairment at the end of the first financial year following the award of the franchise and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Software

Software, that is not integral to the related hardware, is capitalised as an intangible asset and stated at cost less amortisation and any impairment in value. Amortisation is charged to the income statement evenly over its expected useful life of three to five years.

Inventories

Stocks of fuel and engineering spares are valued at the lower of cost and net realisable value. Cost comprises direct materials and costs incurred in bringing the items to their present location and condition. Net realisable value represents the estimated selling price less costs of sale.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand, and short term deposits with an original maturity of three months or less. For the purpose of the consolidated cashflow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2. Summary of significant accounting policies continued

Financial assets and derivatives

Financial assets are accounted for in accordance with IAS 39. Financial assets are initially recognised at fair value, being the transaction price plus directly attributable transaction costs.

The Group uses energy derivatives to hedge its risks associated with fuel price fluctuations and interest derivatives to hedge its risks associated with interest rate fluctuations. Such derivatives are initially recognised at fair value by reference to market values for similar instruments, and subsequently re-measured at fair value at each balance sheet date.

Changes in the fair value of financial instruments that are designated and effective as hedges of future cashflows are recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. When the cashflow hedge results in the recognition of a non-financial asset or a liability, then at the time that asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of that non-financial asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the period which the hedged item affects net profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement as they arise.

Hedge accounting is discontinued when the derivative expires or is sold, terminated or exercised without replacement or rollover, or otherwise no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs, at which point it is taken to the income statement or included in the initial carrying amount of the related non-financial asset as described above. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement.

Interest-bearing loans and borrowings

Debt is initially stated at the amount of the net proceeds, being the fair value of the consideration received after deduction of issue costs. Following initial recognition the carrying amount is measured at amortised cost using the effective interest method. Amortisation of liabilities and any gains and losses arising on the repurchase, settlement or other de-recognition of debt, are recognised directly in the income statement.

Assets held under finance leases, which are leases where substantially all of the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet, with a corresponding liability being recognised, and are depreciated over the shorter of their useful lives and the lease terms. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged to the income statement over the periods of the leases and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding.

Leases where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases, and the amortisation of lease incentives and initial direct costs in securing leases, are charged to the income statement on a straight-line basis over the lease term.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Treasury shares

Re-acquired shares in the Group, which remain uncancelled, are deducted from equity. Consideration paid and the associated costs are also recognised in shareholders' funds as a separate reserve for own shares. Any gain or loss on the purchase, sale, issue or cancellation of the Group's shares is transferred from the reserve for own shares to revenue reserves.

Retirement benefits

The Group operates a number of pension schemes; both defined benefit and defined contribution. The costs of these are recognised in the income statement within operating costs. As discussed below, the Group has invoked the provisions of IAS 1 'Presentation of Financial Statements' and has departed from the requirements of IAS 19 in respect of the Rail Pension Schemes (RPS).

Non-rail schemes

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. The interest element of the defined benefit cost represents the change in present value of obligations during the period, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year.

The Group has applied the option under IAS 19 to recognise actuarial gains and losses in the statement of comprehensive income in the period in which they occur.

The difference between the expected return on plan assets and the interest cost, along with the current service cost, is recognised in the income statement within operating costs.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Contributions payable under defined contribution schemes are charged to operating costs in the income statement as they fall due.

Rail schemes
Our train operating companies participate in the RPS, a defined benefit scheme which covers the whole of the UK Rail Industry. This is partitioned into sections and the Group is responsible for the funding of these schemes whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. A liability or asset is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability or asset represents the deficit or surplus that the Group expects to fund or benefit from during the franchise term. This represents a departure from IAS 19 so as to present fairly the Group's financial performance, position and cashflow in respect of its obligations for the RPS.

Share-based payment transactions
The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In granting equity-settled options conditions are linked to some or all of the following: the price of the shares of The Go-Ahead Group plc ('market conditions'); to conditions not related to performance or service ('non-vesting conditions'); and to earnings per share criteria.

The cost of options is recognised in the income statement over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in equity. The cumulative expense recognised at each reporting date reflects the extent to which the period to vesting has expired and the Directors' best estimate of the number of options that will ultimately vest or, in the case of an instrument subject to a market or non-vesting condition, be treated as vesting as described above. This includes any award where non-vesting conditions within the control of the Group or the employee are not met.

No cost is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

Taxation
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax base of assets and liabilities for taxation purposes and their carrying amounts in the financial statements. It is provided for on all temporary differences, except:

- on the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Tax relating to items recognised outside the income statement is recognised in other comprehensive income or directly in equity in correlation with the underlying transaction. Otherwise, tax is recognised in the income statement.

2. Summary of significant accounting policies continued

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRSs)	Effective date (periods beginning on or after)
IFRS 3 'Business combinations (revised)'	1 July 2009
IAS 27 'Consolidated and separate financial statements (revised)'	1 July 2009
Improvements to IFRSs (April 2009)	1 July 2009
Amendment to IFRS 2 'Group cash-settled share-based payment transactions'	1 January 2010
Amendment to IAS 32 'Classification of Rights Issues'	1 February 2010
IAS 24 'Related Party Disclosures' (revised)	1 January 2011
Improvements to IFRSs (May 2010)	1 January 2011
IFRS 9 'Financial Instruments: Classification and Measurement'	1 January 2013

International Financial Reporting Interpretation Committee (IFRIC)	
IFRIC 17 'Distribution of non-cash assets to owners'	1 July 2009
IFRIC 18 'Transfer of assets from customers'	1 July 2009
IFRIC 19 'Extinguishing financial liabilities with equity instruments'	1 July 2010

The Directors do not anticipate adoption of these standards and interpretations will have a material impact on the Group's financial statements.

3. Segmental analysis

IFRS8 Operating Segments has been applied for the first time by the Group in these financial statements. For management purposes, the Group is organised into three core divisions, Bus, Rail and aviation services, which form the basis of the Group's reportable operating segments (as they did previously under IAS14). Operating segments within those divisions are combined on the basis of their similar long term economic characteristics and similar nature of their products and services, as follows;

The Bus division comprises regulated bus operations in London and deregulated operations in the north east, Oxford, the south east, southern England and Norfolk.

The Group also has a 50% investment in a US school bus operation valued at £0.7m which has not traded in the year.

The Rail operation, Govia, is 65% owned by Go-Ahead and 35% by Keolis and comprises three rail franchises: Southern, Southeastern and London Midland.

As disclosed in note 8, the majority of the Group's ground handling and cargo operations were sold on 30 January 2010 and are therefore classified as discontinued operations. Amounts included in continuing operations for the aviation services segment comprise mainly Meteor and some residual ground handling operations.

Management monitors the operating results of its divisions separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments disclosed in the financial statements are the same as reported to the Chief Operating Decision Maker. Segment performance is evaluated based on operating profit or loss excluding amortisation of goodwill and intangible assets and exceptional items.

The following tables present information regarding the Group's reportable segments for the year ended 3 July 2010 and the year ended 27 June 2009. Information relating to prior periods has been restated to reflect those elements of the other services division that are classified as discontinued operations.

Year ended 3 July 2010

	Bus £m	Rail £m	Aviation services £m	Total continuing operations £m	Total discontinued operations (note 8) £m	Total operations £m
Segment revenue	650.9	1,546.0	37.6	2,234.5	98.6	2,333.1
Inter-segment revenue	(21.4)	(8.2)	(3.3)	(32.9)	(0.1)	(33.0)
Group revenue	**629.5**	**1,537.8**	**34.3**	**2,201.6**	**98.5**	**2,300.1**
Operating costs (excluding amortisation and exceptional items)	(565.8)	(1,500.5)	(33.3)	(2,099.6)	(95.0)	(2,194.6)
Segment profit – Group operating profit (before amortisation and exceptional items)	**63.7**	**37.3**	**1.0**	**102.0**	**3.5**	**105.5**
Goodwill and intangible amortisation	(2.3)	(8.6)	–	(10.9)	(0.1)	(11.0)
Exceptional items	(4.3)	(6.7)	(16.4)	(27.4)	(19.4)	(46.8)
Group operating profit/(loss) (after amortisation and exceptional items)	**57.1**	**22.0**	**(15.4)**	**63.7**	**(16.0)**	**47.7**
Net finance costs				(13.3)	(0.1)	(13.4)
Profit/(loss) before tax and minority interest				**50.4**	**(16.1)**	**34.3**
Tax expense				(14.9)	4.1	(10.8)
Profit/(loss) for the year				**35.5**	**(12.0)**	**23.5**

Assets and liabilities

	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Segment assets	509.9	450.4	11.5	27.1	998.9
Assets classified as held for sale	1.7	–	–	–	1.7
Assets held in disposal groups held for sale	–	–	10.2	–	10.2
Total assets	511.6	450.4	21.7	27.1	1010.8
Segment liabilities	(128.3)	(420.3)	(6.2)	(479.4)	(1034.2)
Liabilities held in disposal groups held for sale	–	–	(17.9)	–	(17.9)
Total liabilities	(128.3)	(420.3)	(24.1)	(479.4)	(1052.1)
Net assets/(liabilities)	**383.3**	**30.1**	**(2.4)**	**(452.3)**	**(41.3)**

	Bus £m	Rail £m	Other services £m	Total continuing operations £m	Total discontinued operations £m	Total operations £m
Other segment information						
Capital expenditure:						
Additions	39.6	18.2	0.3	58.1	0.2	58.3
Acquisitions	15.3	–	–	15.3	–	15.3
Intangible fixed assets	24.2	1.9	–	26.1	–	26.1
Depreciation	35.5	14.4	1.3	51.2	0.9	52.1
Exceptional depreciation	2.6	–	–	2.6	–	2.6
Impairment charges	–	–	16.2	16.2	–	16.2
Provision for onerous contracts	0.9	–	–	0.9	6.0	6.9

3. Segmental analysis continued

Year ended 27 June 2009

	Bus £m	Rail £m	Aviation services £m	Total continuing operations £m	Total discontinued operations (note 8) £m	Total operations £m
Segment revenue	606.7	1,557.5	54.8	2,219.0	158.9	2,377.9
Inter-segment revenue	(22.0)	(5.5)	(4.3)	(31.8)	–	(31.8)
Group revenue	**584.7**	**1,552.0**	**50.5**	**2,187.2**	**158.9**	**2,346.1**
Operating costs (excluding amortisation and exceptional items)	(518.1)	(1,490.5)	(49.8)	(2,058.4)	(164.1)	(2,222.5)
Segment profit/(loss) – Group operating profit/(loss) (before amortisation and exceptional items)	**66.6**	**61.5**	**0.7**	**128.8**	**(5.2)**	**123.6**
Goodwill and intangible amortisation	(1.9)	(10.0)	–	(11.9)	(0.5)	(12.4)
Exceptional items	(7.8)	(4.7)	(2.0)	(14.5)	(43.2)	(57.7)
Group operating profit/(loss) (after amortisation and exceptional items)	**56.9**	**46.8**	**(1.3)**	**102.4**	**(48.9)**	**53.5**
Net finance costs				(11.5)	–	(11.5)
Profit/(loss) before tax and minority interest				**90.9**	**(48.9)**	**42.0**
Tax expense				(32.4)	8.7	(23.7)
Profit/(loss) for the year				**58.5**	**(40.2)**	**18.3**

Assets and liabilities

	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Segment assets	470.4	394.6	70.6	34.2	969.8
Assets classified as held for sale	9.7	–	–	–	9.7
Total assets	480.1	394.6	70.6	34.2	979.5
Segment liabilities	(135.4)	(384.6)	(37.5)	(431.5)	(989.0)
Net assets/(liabilities)	**344.7**	**10.0**	**33.1**	**(397.3)**	**(9.5)**

	Bus £m	Rail £m	Other services £m	Total continuing operations £m	Total discontinued operations £m	Total operations £m
Other segment information						
Capital expenditure:						
Additions	44.9	12.2	1.0	58.1	1.5	59.6
Acquisitions	–	–	–	–	–	–
Intangible fixed assets	0.9	1.6	–	2.5	0.3	2.8
Depreciation	31.5	13.0	1.7	46.2	3.5	49.7
Impairment charges	–	–	38.1	38.1	0.3	38.4
Provision for onerous contracts	–	–	1.5	1.5	–	1.5
Fuel hedge	6.9	–	–	6.9	–	6.9
Exceptional depreciation	0.8	–	–	0.8	–	0.8

Summary of unallocated assets and liabilities

	2010 £m	2009 £m
Assets		
Cash	–	10.8
Deferred tax assets	**27.1**	23.4
	27.1	34.2
Liabilities		
Interest-bearing loans and borrowings	**315.2**	291.9
Overdraft	**5.1**	–
Current tax liabilities	**20.4**	14.9
Deferred tax liabilities	**65.6**	68.4
Group retirement benefit obligations – The Go-Ahead Group Pension Plan	**73.1**	56.3
Other liabilities	**–**	–
	479.4	431.5

During the year ended 3 July 2010, revenue from external customers outside the United Kingdom was immaterial.

At 3 July 2010, there were non-current assets of £0.7m relating to US operations, being made up entirely of equity accounted investments in Go-Ahead North America, a 50:50 joint venture with Cook Illinois which commenced trading in August 2010.

4. Group revenue

	2010 £m	2009 £m
Rendering of services	**1,986.7**	1,850.5
Rental income	**15.5**	17.7
Franchise subsidy receipts	**199.4**	319.0
Group revenue from continuing operations	**2,201.6**	2,187.2
Group revenue from discontinued operations (note 8)	**98.5**	158.9
Total group revenue	**2,300.1**	2,346.1

5. Operating costs (excluding amortisation and exceptional items)

	2010 £m	2009 £m
Staff costs (note 6)	**791.6**	752.6
Total operating lease		
– bus vehicles	**13.0**	13.5
– non rail properties	**7.4**	5.3
– other non rail	**0.3**	0.5
– rail rolling stock	**298.0**	235.8
– other rail	**63.5**	82.3
Total lease and sublease payments recognised as an expense (excluding rail access charges)*	**382.2**	337.4
– rail access charges	**396.7**	479.7
Total lease and sublease payments recognised as an expense**	**778.9**	817.1
Other operating income	**(32.1)**	(33.5)
Depreciation of property, plant and equipment		
– owned assets	**35.5**	27.9
– leased assets	**15.7**	18.3
Total depreciation expense	**51.2**	46.2
Auditors' remuneration		
– audit of the financial statements	**0.5**	0.6
– taxation services	**0.2**	0.2
– other services	**0.1**	0.2
	0.8	1.0
Trade receivables not recovered	**1.2**	1.7
Energy costs		
– bus fuel	**71.2**	61.7
– rail diesel fuel	**6.9**	6.7
– rail electricity (EC4T)	**78.0**	73.4
– cost of site energy	**11.1**	11.7
Total energy costs	**167.2**	153.5
Government grants	**(0.3)**	(4.5)
Gain/(Loss) on disposal of property, plant and equipment	**0.1**	(0.4)
Costs expensed relating to franchise bidding activities	**0.1**	3.5
Other operating costs	**340.9**	321.2
Operating costs from continuing operations	**2,099.6**	2,058.4
Operating costs on discontinued operations (note 8)	**95.0**	164.1
Total operating costs	**2,194.6**	2,222.5
Exceptional items (note 7)	**46.8**	57.7
Goodwill and intangible amortisation	**11.0**	12.4

* The total lease and sublease payments recognised as an expense (excluding rail access charges) are made up of minimum lease payments of £397.0m net of sublease payments of £14.8m, relating to other rail leases.

** The total lease and sublease payments recognised as an expense are made up of minimum lease payments of £793.7m net of sublease payments of £14.8m relating to other rail leases.

Including discontinued operations, the fee relating to the audit of the financial statements can be analysed between audit of the Company's financial statements of £0.1m (2009: £0.2m) and audit of subsidiaries' financial statements of £0.5m (2009: £0.5m).

In addition to audit fees detailed above, £0.2m of non-audit fees were capitalised as part of the cost of acquisitions during the year. During the year, £0.3m (2009: £2.6m) was also paid to other 'Big 4' accounting firms for a variety of services.

6. Staff costs

Year ended 3 July 2010

	Continuing operations £m	Discontinued operations £m	Total operations £m
Wages and salaries	**690.1**	**59.9**	750.0
Social security costs	**60.0**	**5.5**	65.5
Other pension costs	**40.9**	**1.1**	42.0
Share based payments charge	**0.6**	**0.1**	0.7
Total staff costs	**791.6**	**66.6**	858.2

Year ended 27 June 2009

	Continuing operations £m	Discontinued operations £m	Total operations £m
Wages and salaries	**655.5**	**101.1**	756.6
Social security costs	**57.0**	**9.6**	66.6
Other pension costs	**39.6**	**1.8**	41.4
Share based payments charge	**0.5**	**0.2**	0.7
Total staff costs	**752.6**	**112.7**	865.3

The average monthly number of employees during the year, including Directors, was:

	2010 No.	2009 No.
Administration and supervision	**2,518**	2,476
Maintenance and engineering	**2,192**	2,176
Operations	**17,860**	17,844
	22,570	22,496

The information required by Schedule 5 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and details regarding compensation of key management personnel of the Group is provided in the Directors' Report.

Sharesave Scheme

The Group operates an HM Revenue & Customs ('HMRC') approved savings-related share option scheme, known as The Go-Ahead Group plc Savings-Related Share Option Scheme 2003 (the 'Sharesave Scheme'). The Sharesave Scheme is open to all Group employees (including Executive Directors) who have completed at least six months' service with a Group company at the date they are invited to participate in the scheme. Qualifying employees are invited to save between £5 and £75 per month (up to a maximum of £250 per month across all schemes) for a period of three years. At the end of that period, employees can apply the amounts saved, together with a bonus, in acquiring shares in the Company at a minimum price equal to 80% of their market price at the time of invitation.

There are savings-related options at 3 July 2010 as follows:

Scheme maturity	1 June 2010	1 July 2009	1 June 2008
Option price (£)	19.14	14.62	12.10
No. of options unexercised at 3 July 2010	55,183	464,432	–
No. of options exercised during the year	148	13,551	–
No. of options exercisable at 3 July 2010	328,133	–	–

The expense recognised for these schemes during the year to 3 July 2010 was £0.5m (2009: £0.7m).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options for the SAYE:

	2010 No.	2010 WAEP £	2009 No.	2009 WAEP £
Outstanding at the beginning of the year	**861,595**	**16.63**	1,150,741	16.38
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(519,763)**	**15.10**	(239,210)	16.35
Exercised during the year	**(13,699)**	**14.67**	(49,936)	12.21
Outstanding at the end of the year	**328,133**	**19.14**	861,595	16.63

6. Staff costs continued

The weighted average share price at the date of exercise for the options exercised in the period was £13.18 (2009: £17.61).

The options outstanding at the end of the year have a weighted average remaining contracted life of 0.0 years (2009: 0.4 years). These options are exercisable at £19.14 (2009: between £14.62 and £19.14).

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The key assumptions input into the model are future share price volatility, future dividend yield, future risk free interest rate, forfeiture rate and option life.

Share incentive plans

The Company operates an HMRC approved share incentive plan, known as The Go-Ahead Group plc Share Incentive Plan (the SIP). The SIP is open to all Group employees (including Executive Directors) who have completed at least six months' service with a Group company at the date they are invited to participate in the plan.

The SIP permits the Company to make four different types of awards to employees (free shares, partnership shares, matching shares and dividend shares), although the Company has, so far, made awards of partnership shares only. Under these awards, the Company invites qualifying employees to apply between £10 and £125 per month in acquiring shares in the Company at the prevailing market price. Under the terms of the scheme, certain tax advantages are available to the Company and employees.

Long term incentive plans

The Executive Directors participate in The Go-Ahead Group Long Term Incentive Plan 2005 (the LTIP). The LTIP provides for Executive Directors and certain other senior employees to be awarded shares in the Company conditional on specified performance conditions being met over a period of three years. Refer to the Directors' Remuneration Report for further details of the LTIP.

The expense recognised for the LTIP during the year to 3 July 2010 was £0.2m (2009: £nil).

The fair value of LTIP options granted is estimated as at the date of grant using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the options granted in the year to 3 July 2010 were:

	2010 % per annum	2009 % per annum
The Go-Ahead Group		
Future share price volatility	**37.0**	31.0
Transport sector comparator		
Future share price volatility	**35.0 – 51.0**	29.0 – 37.0
Correlation between companies	**60.0**	60.0
FTSE Mid-250 index comparator		
Future share price volatility	**40.0**	35.0
Correlation between companies	**20.0**	20.0

The following table illustrates the number of share options for the LTIP:

	2010 No.	2009 No.
Outstanding at the beginning of the year	**124,751**	69,835
Granted during the year	**132,017**	72,707
Forfeited during the year	**(19,195)**	(13,806)
Vested during the year	**(5,319)**	(3,985)
Outstanding at the end of the year	**232,254**	124,751

None of the options were exercisable at the year end and the weighted average exercise price of the options is £nil.

Directors' discretionary deferred share awards.

On 29 October 2009 the Company awarded a total of 6,996 ordinary shares to Directors of the Group. The stock was at no cost to the Directors and restrictions limit the sale or transfer of these shares until they vest, which occurs at the end of a three year period. The shares are held in a trust until they vest. The expenses recognised for the Directors' discretionary deferred share awards during the year to 3 July 2010 was £ nil.

	2010 No	**2010 WAEP £**	2009 No	2009 WAEP £
Outstanding restricted stock at the beginning of the year	**–**	**–**	–	–
Granted during the year	**6,996**	**14.29**	–	–
Forfeited during the year	**–**	**–**	–	–
Vested during the year	**–**	**–**	–	–
Outstanding restricted stock at the end of the year	**6,996**	**14.29**	–	–

7. Exceptional items

	2010 £m	2009 £m
Continuing operations		
Residual ground handling operations:		
Pre-sale reorganisation costs	–	(0.3)
Impairments	–	(0.3)
		(0.6)
Meteor Parking:		
Impairment provision	**(16.2)**	–
Reorganisation costs	**(0.2)**	–
Onerous contracts	–	(1.5)
	(16.4)	(1.5)
Bus and rail related items:		
Rail reorganisation costs	**(6.7)**	(4.7)
London bus accelerated depreciation	**(2.6)**	(0.8)
Bus reorganisation costs	**(0.8)**	–
Onerous bus leases	**(0.9)**	–
Fuel hedging	–	(6.9)
	(11.0)	(12.4)
Total exceptional items on continuing operations	**(27.4)**	(14.5)
Discontinued operations		
Loss on sale:		
Agreed proceeds	**14.8**	–
Less net assets sold	**(17.8)**	–
Loss on sale	**(3.0)**	–
Less sale provision	**(10.1)**	–
	(13.1)	–
Pre-sale reorganisation costs	**(2.4)**	(5.1)
Onerous contracts	**(6.1)**	–
Pension scheme curtailment gain	**2.2**	–
Pre-sale impairments	–	(38.1)
Total exceptional items on discontinued operations	**(19.4)**	(43.2)
Total exceptional items	**(46.8)**	(57.7)
Consisting of:		
Non-cash items	**(50.6)**	(47.6)
Cash proceeds	**14.8**	–
	(35.8)	(47.6)
Other cash items	**(11.0)**	(10.1)
Total	**(46.8)**	(57.7)

7. Exceptional items continued

Year ended 3 July 2010

Total exceptional items in the year were £46.8m (2009: £57.7m) consisting of sales proceeds of £14.8m (2009: £nil), non-cash items of £50.6m (2009: £47.6m), and other cash items of £11.0m (2009: £10.1m).

Exceptional items on continuing operations for the year were £27.4m (2009: £14.5m). An impairment review of the Meteor Parking business was undertaken, resulting in a goodwill impairment charge of £16.2m. Restructuring costs in Meteor totalled £0.2m following changes to the senior management team to effect a fundamental reorganisation of the business. Bus and rail related exceptional costs totalled £11.0m, consisting of £6.7m of rail restructuring costs, and £2.6m of accelerated depreciation in respect of the articulated London buses which are being phased out by March 2011. It is expected a further exceptional depreciation charge of around £1.8m will be incurred into 2011.

The discontinued exceptional items of £19.4m consist of a net loss on sale of £13.1m, pre-sale reorganisation costs which related to operations subsequently sold of £2.4m and onerous contract provisions of £6.1m. The loss on sale represents sales proceeds of £14.8m, less net book value of assets sold of £17.8m and provisions of £10.1m.

Year ended 27 June 2009

Of the exceptional items totalling £57.7m some £43.2m has been reclassified as relating to discontinued operations.

Costs relating to continuing operations were an impairment charge and reorganisation charges in Meteor, totalling £0.6m and an onerous contract provision in that business of £1.5m. Bus and rail related exceptional costs totalled £5.5m, consisting of £4.7m of rail restructuring costs, and £0.8m of accelerated depreciation in respect of the articulated London buses which are being phased out by March 2011. Non-cash exceptional items also included £6.9m relating to the fair value part of the current year bus fuel hedge (designated as ineffective under IAS 39).

Discontinued impairment charges consisted of £38.4m non-cash pre-sale impairments to reduce the carrying value of the ground handling and cargo operations within the aviation services division, and £5.1m of pre-sale reorganisation costs.

8. Discontinued operations

On 30 January 2010, most of the Group's ground handling and cargo operations at Heathrow were sold to Dnata for £14.8m consideration, and most of the Group's ground handling operations outside Heathrow were sold to Servisair UK Limited for a nominal consideration. The remaining ground handling operations are expected to be sold within the next twelve months and are also included in discontinued operations. The results of the discontinued operations for the years ended 3 July 2010 and 27 June 2009 are as follows:

	2010 £m	2009 £m
Loss from discontinued operations	**(9.0)**	(40.2)
Loss on disposal	**(3.0)**	–
Loss for the year from discontinued operations	**(12.0)**	(40.2)
Loss per share from discontinued operations		
– basic and diluted	**(27.9p)**	(93.6p)

The loss per share is attributable to equity holders of the parent and calculated as described on the basis of the number of shares disclosed in note 11.

Revenue

	2010 £m	2009 £m
Rendering of services	**98.2**	158.6
Rental income	**0.3**	0.3
Franchise subsidy receipts	**–**	–
Group revenue on discontinued operations	**98.5**	158.9

Operating costs

	2010 £m	2009 £m
Staff costs	**66.6**	112.7
Total lease & sublease payments recognised as an expense*	**6.5**	11.3
Depreciation of property, plant and equipment – owned assets	**0.8**	3.3
Depreciation of property, plant and equipment – leased assets	**0.1**	0.2
Auditors' remuneration – audit of the financial statements	**0.1**	0.1
Trade receivables not recovered	**0.2**	0.6
Loss on disposal of property, plant & equipment	**–**	0.1
Other operating costs	**20.7**	35.8
Operating costs on discontinued operations	**95.0**	164.1

*The entire balance comprises minimum lease payments.

The cashflows attributable to the discontinued operations are as follows:

	2010 £m	2009 £m
Operating cashflows	**1.5**	(6.4)
Investing cashflows	**15.0**	(1.4)
Financing cashflows	**(0.4)**	(0.2)
Net cashflow	**16.1**	(8.0)

The net assets disposed of and consideration received on the sales to Servisair UK Limited and Dnata were as follows:

	2010 £m
Net assets disposed of:	
Tangible fixed assets	7.3
Inventories	0.2
Receivables	16.8
Cash at bank	0.1
Payables falling due within one year	(7.8)
Deferred taxation	1.2
	17.8
Consideration received:	
Cash	14.8
Total consideration	14.8
Loss on disposal	(3.0)

At 3 July 2010, net assets held in disposal groups held for sale were as follows;

	2010 £m
Assets:	
Non-current assets:	
Deferred tax asset	3.3
	3.3
Current assets:	
Inventories	0.2
Cash	0.3
Trade and other receivables	4.0
Taxation asset	2.4
	6.9
Total assets held in disposal groups held for sale	10.2
Liabilities:	
Trade and other payables	(17.9)
Total liabilities held in disposal groups held for sale	(17.9)
Net liabilities held in disposal groups held for sale	(7.7)

9. Finance revenue and costs

	2010 £m	2009 £m
Bank interest receivable on bank deposits	**1.3**	5.2
Other interest receivable	**0.3**	0.9
Finance revenue	**1.6**	6.1
Interest payable on bank loans and overdrafts	**(8.6)**	(14.2)
Interest payable on £200m Sterling 7.5 year bond	**(3.0)**	–
Other interest payable	**(2.4)**	(1.9)
Interest payable under finance leases and hire purchase contracts	**(0.9)**	(1.5)
Finance costs	**(14.9)**	(17.6)

10. Taxation

a. Tax recognised in the income statement and in equity

	2010 £m	2009 £m
Current tax charge	**16.1**	24.2
Adjustments in respect of current tax of previous years	**0.2**	0.1
	16.3	24.3
Deferred tax relating to origination and reversal of temporary differences	**(5.5)**	(8.7)
Previously unrecognised deferred tax of a prior period	**–**	(0.5)
Total tax including discontinued operations (before exceptional tax – changes in tax laws)	**10.8**	15.1
Previously unrecognised deferred tax of a prior period (exceptional tax – changes in tax laws)	**–**	8.6
Total tax including discontinued operations (after exceptional tax – changes in tax laws)	**10.8**	23.7
Tax on discontinued operations	**(4.1)**	(8.7)
Tax on continuing operations	**14.9**	32.4

The effect of changes in tax laws relate to the abolition of industrial buildings allowances.

Tax relating to items charged or credited outside of profit or loss

	2010 £m	2009 £m
Tax on actuarial losses on defined benefit pension plans	**(6.3)**	(7.6)
Corporation Tax on IAS 39 asset/(liability)	**5.3**	(11.6)
Deferred tax on IAS 39 asset	**0.2**	–
Tax reported outside of profit or loss	**(0.8)**	(19.2)

b. Reconciliation

A reconciliation of income tax applicable to accounting profit before tax and exceptional items at the statutory tax rate to tax at the Group's effective tax rate for the years ended 3 July 2010 and 27 June 2009 is as follows:

Year ended 3 July 2010

	Pre-exceptional excluding discontinued operations £m	Pre-exceptional £m	Exceptional tax and tax on exceptional items £m	Total £m
Profit on ordinary activities before taxation from continuing operations	77.8	77.8	(27.4)	50.4
Profit on ordinary activities before taxation from discontinued operations	–	3.3	(19.4)	(16.1)
Accounting profit on ordinary activities before taxation	77.8	81.1	(46.8)	34.3
At United Kingdom tax rate of 28%	21.8	22.7	(13.1)	9.6
Adjustments in respect of current tax of previous years	0.2	0.2	–	0.2
Expenditure not allowable for tax purposes	0.8	0.8	–	0.8
Goodwill amortisation and impairment charges	0.4	0.4	4.5	4.9
Differences relating to tax efficient financing	(2.9)	(2.9)	–	(2.9)
Expenses not allowable on sale of aviation business	–	–	0.8	0.8
Release of deferred tax on rolled over gains arising on sale of aviation business	–	–	(2.6)	(2.6)
Total tax reported in consolidated income statement	20.3	21.2	(10.4)	10.8
Effective tax rate	26.1%	26.1%		31.5%

Year ended 27 June 2009

	Pre-exceptional excluding discontinued operations £m	Pre-exceptional £m	Exceptional tax and tax on exceptional items £m	Total £m
Profit on ordinary activities before taxation from continuing operations	105.4	105.4	(14.5)	90.9
Profit on ordinary activities before taxation from discontinued operations	–	(5.7)	(43.2)	(48.9)
Accounting profit on ordinary activities before taxation	105.4	99.7	(57.7)	42.0
At United Kingdom tax rate of 28%	29.5	27.9	(16.1)	11.8
Adjustments in respect of current tax of previous years	0.1	0.1	–	0.1
Previously unrecognised deferred tax of a prior period	(0.5)	(0.5)	–	(0.5)
Previously unrecognised deferred tax of a prior period (exceptional tax – changes in tax laws)	–	–	8.6	8.6
Expenditure not allowable for tax purposes	1.7	1.7	0.1	1.8
Goodwill amortisation and impairment charges	0.7	0.7	4.5	5.2
Differences relating to tax efficient financing	(3.3)	(3.3)	–	(3.3)
Tax reported in consolidated income statement	28.2	26.6	(2.9)	23.7
Effective tax rate	26.7%	26.7%		56.4%

10. Taxation continued

c. Deferred tax

The deferred tax included in the balance sheet is as follows:

	2010 £m	2009 £m
Deferred tax liability		
Accelerated capital allowances	**(28.7)**	(28.4)
Intangible assets	**(4.6)**	(5.9)
Other temporary differences	**(4.7)**	(9.8)
Revaluation of land and buildings	**(24.3)**	(24.3)
Total deferred tax liability	**(62.3)**	(68.4)
Included within net assets held for disposal (note 8)	**3.3**	–
Deferred tax liability included in balance sheet	**(65.6)**	(68.4)
Deferred tax asset		
Retirement benefit obligations	**27.1**	23.4
Total Deferred tax asset	**27.1**	23.4
Included within net assets held for disposal (note 8)	**–**	–
Deferred tax asset included in balance sheet	**27.1**	23.4

The deferred tax included in the Group income statement is as follows:

	2010 £m	2009 £m
Accelerated capital allowances	**(0.9)**	(6.0)
Share based payments	**–**	0.5
Tax losses	**–**	0.1
Retirement benefit obligations	**1.4**	(0.4)
Other temporary differences	**(6.0)**	(2.9)
	(5.5)	(8.7)
Adjustments in respect of prior years	**–**	(0.5)
Adjustments in respect of prior years (exceptional tax – changes in tax laws)	**–**	8.6
Total Deferred income tax credit	**(5.5)**	(0.6)
Deferred income tax expense on discontinued operations	**(1.6)**	(5.4)
Deferred income tax expense on continuing operations	**(3.9)**	4.8

d. Cash tax

	2010 £m
2009 Current tax charge (note 9a)	24.2
2010 Adjustments in respect of current tax of previous years in income statement (note 9a)	0.2
2010 Adjustments in respect of current tax of previous years in equity	0.4
Carry back on fuel swaps and interest rate hedges	(4.4)
Other adjustments	0.2
	20.6
Less January 2009 and April 2009 quarterly instalment payments	(11.1)
Plus January 2010 and April 2010 quarterly instalment payments	9.3
Cash tax paid	18.8

On 22 June 2010 the Emergency Budget announced by the UK Coalition Government contained details of proposed changes to corporation tax rates and the rates of capital allowances to be fully implemented by 2014. The rate of corporation tax is to be cut from 28% to 27% from 1 April 2011 and then by a further 1% each year until 1 April 2014 when it reaches 24%. The principal rate of capital allowances will be reduced from 20% to 18% from 1 April 2012 with reductions in special and short life pool rates from 10% to 8%. None of these changes had been enacted or substantially enacted at 3 July 2010 and no adjustment has been recognised in these financial statements. If all changes had been enacted then for each 1% change our deferred tax asset would reduce by £1.0m and our deferred tax liability would reduce by £2.3m.

11. Earnings per share

Basic and diluted earnings per share

	2010	2009
Net profit on total operations attributable to equity holders of the parent (£m)	**17.2**	6.3
Consisting of:		
Adjusted earnings on continuing operations attributable to equity holders of the parent (£m)	**55.1**	69.4
Exceptional items after taxation and minority interest (£m)	**(20.0)**	(16.4)
Amortisation after taxation and minority interest (£m)	**(5.9)**	(6.5)
Basic and diluted earnings on continuing operations attributable to equity holders of the parent (£m)	**29.2**	46.5
Loss on discontinued operations attributable to equity holders of the parent (£m)	**(12.0)**	(40.2)
Basic and diluted earnings on total operations attributable to equity holders of the parent (£m)	**17.2**	6.3
Weighted average shares in issue ('000)	**42,938**	42,934
Earnings per share:		
Adjusted earnings per share from continuing operations (pence per share)	**128.3**	161.6
Basic and diluted earnings per share from continuing operations (pence per share)	**68.0**	108.3
Basic and diluted earnings per share from total operations (pence per share)	**40.1**	14.7

The weighted average number of shares in issue excludes treasury shares held by the Company, and shares held in trust for the Directors' LTIP.

No shares were bought back and cancelled by the Group in the period from 3 July 2010 to 1 September 2010.

The effect of potentially issuable shares is anti-dilutive in all periods presented and as such basic and diluted earnings per share are the same in each period.

The effect of taxation and minority interest on exceptional items and amortisation is shown below for each of the periods.

Adjusted earnings per share

Adjusted earnings per share is also presented to eliminate the impact of goodwill and intangible amortisation and exceptional costs and revenues in order to show a 'normalised' earnings per share. For continuing operations this is analysed as follows:

Year ended 3 July 2010

	Profit for the year £m	Exceptional items £m	Amortisation £m	2010 Total £m
Profit before taxation from continuing operations	**50.4**	**27.4**	**10.9**	**88.7**
Less: Taxation	**(14.9)**	**(5.7)**	**(2.7)**	**(23.3)**
Less: Minority Interest	**(6.3)**	**(1.7)**	**(2.3)**	**(10.3)**
Adjusted profit attributable to equity holders of the parent	**29.2**	**20.0**	**5.9**	**55.1**
Adjusted earnings per share from continuing operations (pence per share)				**128.3**

Year ended 27 June 2009

	Profit for the year £m	Exceptional items £m	Amortisation £m	2009 Total £m
Profit before taxation from continuing operations	90.9	14.5	11.9	117.3
Less: Taxation	(32.4)	4.5	(2.7)	(30.6)
Less: Minority Interest	(12.0)	(2.6)	(2.7)	(17.3)
Adjusted profit attributable to equity holders of the parent	46.5	16.4	6.5	69.4
Adjusted earnings per share from continuing operations (pence per share)				161.6

12. Dividends paid and proposed

	2010 £m	2009 £m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2009: 55.5p per share (2008: 55.5p)	**23.8**	23.8
Interim dividend for 2010: 51.0p per share (2009: 25.5p)	**21.9**	11.0
	45.7	34.8

	2010 £m	2009 £m
Proposed for approval at AGM (not recognised as a liability as at 3 July 2010)		
Equity dividends on ordinary shares:		
Final dividend for 2010: 30.0p per share (2009: 55.5p)	**12.9**	23.9

13. Property, plant and equipment

	Freehold land and buildings £m	Leasehold properties £m	Bus vehicles £m	Plant and equipment £m	Total £m
Cost:					
At 28 June 2008	144.6	18.3	349.0	189.0	700.9
Additions	1.1	1.3	34.0	23.2	59.6
Disposals	–	–	(17.4)	(6.5)	(23.9)
Transfer categories	–	–	(0.1)	0.1	–
Transfer of assets held for resale	0.8	–	(1.8)	–	(1.0)
At 27 June 2009	146.5	19.6	363.7	205.8	735.6
Additions	7.2	0.1	31.7	19.3	58.3
Acquisitions	0.2	1.3	13.2	0.6	15.3
Disposals	(0.7)	(4.0)	(15.4)	(75.9)	(96.0)
Transfer categories	1.5	–	–	(1.5)	–
Transfer of assets held for resale	–	–	(1.3)	–	(1.3)
At 3 July 2010	**154.7**	**17.0**	**391.9**	**148.3**	**711.9**
Depreciation and impairment:					
At 28 June 2008	4.8	4.1	152.2	113.2	274.3
Charge for the year	0.6	1.1	27.3	20.7	49.7
Exceptional depreciation	–	–	0.8	–	0.8
Impairment charges	–	–	–	22.2	22.2
Disposals	–	–	(14.5)	(5.7)	(20.2)
Transfer of assets held for resale	0.1	–	(1.2)	–	(1.1)
At 27 June 2009	5.5	5.2	164.6	150.4	325.7
Charge for the year	0.7	1.4	30.0	20.0	52.1
Exceptional depreciation	–	–	2.6	–	2.6
Disposals	(0.1)	(2.2)	(13.2)	(67.7)	(83.2)
Transfer of assets held for resale	–	–	(1.2)	–	(1.2)
At 3 July 2010	**6.1**	**4.4**	**182.8**	**102.7**	**296.0**
Net book value					
At 3 July 2010	**148.6**	**12.6**	**209.1**	**45.6**	**415.9**
At 27 June 2009	141.0	14.4	199.1	55.4	409.9
At 28 June 2008	139.8	14.2	196.8	75.8	426.6

The net book value of leased assets and assets acquired under hire purchase contracts is:

	2010 £m	2009 £m
Rolling stock	**97.4**	118.3
Plant and equipment	**0.4**	1.9
	97.8	120.2

Additions during the year included £nil (2009: £nil) of rolling stock and £nil (2009: £nil) of plant and equipment held under finance leases and hire purchase contracts.

14. Intangible assets

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Customer contracts £m	Total £m
Cost						
At 28 June 2008	105.1	8.8	7.2	49.6	5.5	176.2
Additions	–	2.6	0.2	–	–	2.8
At 27 June 2009	105.1	11.4	7.4	49.6	5.5	179.0
Additions	23.1	1.0	1.3	–	0.7	26.1
Disposals	(0.4)	(0.7)	–	–	–	(1.1)
At 3 July 2010	**127.8**	**11.7**	**8.7**	**49.6**	**6.2**	**204.0**
Amortisation and impairment						
At 28 June 2008	18.7	4.5	2.8	12.4	1.6	40.0
Charge for the year	2.4	1.4	0.9	6.2	1.5	12.4
Impairment	16.1	0.1	–	–	0.1	16.3
At 27 June 2009	37.2	6.0	3.7	18.6	3.2	68.7
Charge for the year	1.1	1.7	0.9	6.1	1.1	10.9
Disposals	–	(0.4)	–	–	–	(0.4)
Impairment	16.2	–	–	–	–	16.2
At 3 July 2010	**54.5**	**7.3**	**4.6**	**24.7**	**4.3**	**95.4**
Net book value						
At 3 July 2010	**73.3**	**4.4**	**4.1**	**24.9**	**1.9**	**108.6**
At 27 June 2009	67.9	5.4	3.7	31.0	2.3	110.3
At 28 June 2008	86.4	4.3	4.4	37.2	3.9	136.2

Rail franchise asset

This reflects the cost of the right to operate a rail franchise. The brought forward element of the franchise intangible is made up of £21.1m relating to the opening deficit in the RPS and £9.9m relating to the cost of the intangible asset acquired on the handover of the franchise assets relating to the Southeastern rail franchise. The intangible asset is being amortised on a straight-line basis over the life of the franchises (being between five and eight years).

Software costs

Software costs capitalised exclude software that is integral to the related hardware.

Customer contracts

This relates to the value attributed to customer contracts and relationships purchased as part of the Group's acquisitions. The value is calculated based on the unexpired term of the contracts at the date of acquisition and is amortised over that period.

Impairment

During the year ended 3 July 2010 an impairment review of the aviation services division resulted in the goodwill of Meteor Parking of £18.4m being written down to £2.2m.

14. Intangible assets continued

Goodwill

As from 3 July 2004, goodwill is no longer amortised and is tested annually for impairment.

The goodwill charge of £1.1m (2009: £2.4m) is in respect of rail businesses which, due to the finite nature of the franchises, require the goodwill to be impaired annually.

Goodwill acquired through acquisitions has been allocated to individual cash-generating units for impairment testing on the basis of the Group's business operations. The carrying value of goodwill by cash-generating unit is as follows:

	2010 £m	2009 £m
Meteor Parking	**2.2**	18.4
New Southern Railway	**–**	1.0
Metrobus	**10.6**	6.5
Go South Coast	**28.6**	28.6
Brighton & Hove	**2.1**	2.1
Plymouth Citybus	**13.0**	–
Go-Ahead London	**10.5**	10.5
Go North East	**2.7**	0.8
Konectbus	**3.6**	–
	73.3	67.9

The recoverable amount of goodwill has been determined based on a value in use calculation for each cash-generating unit, using cashflow projections based on financial budgets and forecasts approved by senior management covering a three-year period. Growth has been extrapolated forward from the end of the forecasts, using a growth rate of 3.0% which reflects the Directors' view of long term growth rates in each business.

The pre-tax cashflows for all cash-generating units have been discounted using a pre-tax discount rate of 11.1% (2009: 11.0%), based on the Group's weighted average cost of capital, plus an appropriate risk premium for each cash-generating unit of 0.0-2.0% (2009: 0.0-2.0%).

The calculation of value in use for each cash-generating unit is most sensitive to the forecast operating cashflows, the discount rate and the growth rate used to extrapolate cashflows beyond the budget period. The operating cashflows are based on assumptions of revenue, staff costs and general overheads. These assumptions are influenced by several internal and external factors.

The Directors consider the assumptions used to be consistent with the historical performance of each unit and to be realistically achievable in light of economic and industry measures and forecasts. We have conducted sensitivity analysis on our calculations and confirmed that there are no likely movement on assumptions that would lead to an impairment. The cash generating unit with the least headroom is Plymouth City Bus, as expected given it has only recently been acquired. An increase of 1% of the Group's weighted cost of capital would result in an impairment of £0.9m and a further 1% increase would lead to a further impairment charge of £2.0m.

15. Business combinations

Year ended 3 July 2010

On 3 October 2009, London General Transport Services Limited, a wholly owned subsidiary of the Group, acquired the assets of East Thames Buses from Transport for London ('TfL') for a total cash consideration of £5.0m. East Thames Buses operated a fleet of approximately 120 vehicles over nine TfL contracted routes.

On 3 October 2009, Metrobus Limited, a wholly owned subsidiary of the Group, acquired the assets of Arriva's bus interest in Horsham for a total cash consideration of £5.0m. The interests include a fleet of 18 vehicles and 58 employees, and will operate as part of Metrobus Limited which provides bus services in Sussex, Surrey and Kent including regulated services for TfL.

On 1 December 2009, Go-Ahead Holding Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Plymouth Citybus Limited from Plymouth City Council for a cash consideration of £19.0m. Plymouth Citybus operates a fleet of 175 vehicles and employs approximately 470 employees in the Plymouth area.

On 9 March 2010, Go Ahead Holding Limited also acquired 100% of the share capital of Konectbus Limited which operates a bus fleet of 44 vehicles and employs approximately 70 employees in the Norfolk area. On 28 March 2010, Go North East Limited, a wholly owned subsidiary of the group, entered into a contract to acquire the Hexham operations of Arriva plc for a cash consideration and agreed to sell Go North East's Ashington operations to Arriva. The operations became effective April 2010. The combined consideration for these acquisitions was £8.2m.

A summary of the transactions is detailed below:

Net assets at date of acquisition:

	Book value 2010 £m	Fair value to Group 2010 £m
Intangible assets – contracts	–	0.7
Tangible fixed assets	15.3	15.3
Inventories	0.5	0.5
Receivables	0.9	0.9
Cash at bank	2.0	2.0
Payables falling due within one year	(4.2)	(4.2)
Payables falling due after one year	(0.4)	(0.4)
Deferred taxation	(0.5)	(0.7)
	13.6	14.1
Goodwill capitalised		23.1
		37.2
Cash		34.9
Expenses		0.3
Total cash consideration		35.2
Deferred consideration		1.3
Transfer of Ashington operations		0.7
Total consideration		37.2

Intangible assets acquired represent customer contracts of £0.7m

Payment of deferred consideration is dependent upon achievement of target operating profit levels.

The goodwill capitalised reflects the access to the markets served by the acquired entities and the potential business synergies that can be achieved upon acquisition. Management believes that goodwill represents future growth opportunities and created value to the growth in respect of customer awareness and an assembled workforce for which the recognition of a discreet intangible asset is not permitted.

From the date of acquisition, in the year ended 3 July 2010, the acquisitions recorded an operating profit of £3.6m to the Group and revenue of £31.5m. Had the combinations taken place at the beginning of the year, it is estimated that they would have recorded £4.9m of operating profit and £48.7m of revenue to the Group. This would have resulted in total Group revenue of £2,218.8m, and total operating profit (before amortisation and exceptional items) of £103.3m

Year ended 27 June 2009
There have been no business combinations during the year ended 27 June 2009.

16. Assets classified as held for sale

Assets held for sale, with a carrying amount of £1.7m (2009: £9.7m), represent property, plant and equipment which are currently not used in the business and are now available for sale. These assets classified as held for sale had no associated liabilities at the year end (2009: £nil).

17. Inventories

	2010 £m	2009 £m
Raw materials and consumables	**12.9**	13.1

The amount of any write down of inventories recognised as an expense during the year is immaterial.

18. Trade and other receivables

	2010 £m	2009 £m
Current		
Trade receivables	**89.0**	94.0
Less: Provision for impairment of receivables	**(3.6)**	(4.4)
Trade receivables – net	**85.4**	89.6
Other receivables	**12.2**	27.3
Prepayments and accrued income	**51.3**	59.1
Receivable from central government	**39.9**	23.2
	188.8	199.2

	2010 £m	2009 £m
Non-current		
Other receivables	**1.8**	3.1

Included within other receivables is £nil (2009: £21.6m) deposit paid on rolling stock.

Trade receivables at nominal value of £3.6m (2009: £4.4m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Individually impaired £m	Collectively impaired £m	Continuing operations £m	Discontinued operations individually impaired £m	Total £m
At 28 June 2008	2.9	0.1	3.0	–	3.0
Charge for the year	2.5	0.5	3.0	–	3.0
Utilised	(0.8)	(0.1)	(0.9)	–	(0.9)
Unused amounts reversed	(0.7)	–	(0.7)	–	(0.7)
At 27 June 2009	3.9	0.5	4.4	–	4.4
Transfer to held for disposal	(0.2)	–	(0.2)	0.2	–
Charge for the year	1.4	0.1	1.5	0.2	1.7
Utilised	(1.5)	(0.3)	(1.8)	(0.1)	(1.9)
Unused amounts reversed	(0.2)	(0.1)	(0.3)	–	(0.3)
At 3 July 2010	**3.4**	**0.2**	**3.6**	**0.3**	**3.9**

As at 3 July 2010, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	< 30 days £m	30 – 60 days £m	60 – 90 days £m	90 – 120 days £m	Past due but not impaired > 120 days £m
2010	**85.4**	**76.7**	**3.8**	**1.6**	**1.0**	**1.3**	**1.0**
2009	89.6	60.8	16.6	4.8	0.2	3.2	4.0

19. Cash and short term deposits

	2010 £m	2009 £m
Cash at bank and in hand	**28.3**	32.2
Short term deposits	**207.5**	174.9
	235.8	207.1
Cash associated with discontinued operations (note 8)	**0.3**	–
	236.1	207.1

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The fair value of cash and cash equivalents is not materially different to book value.

Amounts held by rail companies included in cash at bank and on short term deposit, can be distributed only with the agreement of the DfT, normally up to the value of revenue reserves or based on a working capital formula agreed with the DfT. As at 3 July 2010, balances amounting to £204.0m (2009: £181.3m) were restricted. Part of this amount is to cover deferred income for season tickets which was £65.1m at 3 July 2010 (2009: £82.1m)

For the purposes of the consolidated cashflow statement, cash and cash equivalents comprise the following:

	2010 £m	2009 £m
Cash at bank and in hand	**28.3**	32.2
Short term deposits	**207.5**	174.9
Bank overdrafts (note 21)	**(5.8)**	(5.0)
	230.0	202.1
Cash associated with discontinued operations (note 8)	**0.3**	–
	230.3	202.1

20. Trade and other payables

	2010 £m	2009 £m
Current		
Trade payables	**163.5**	179.3
Other taxes and social security costs	**23.7**	22.2
Other payables	**38.0**	30.1
Deferred season ticket income	**91.0**	88.8
Accruals and deferred income	**69.7**	81.3
Uninsured claims accrual	**40.0**	40.2
Payable to central Government	**65.3**	39.5
Government grants	**2.5**	4.3
	493.7	485.7

	2010 £m	2009 £m
Non-current		
Government grants	**2.7**	3.7
Other liabilities	**2.6**	5.2
	5.3	8.9

Terms and conditions of the above financial liabilities are as follows:

- Trade payables are non-interest-bearing and are normally settled on 30 day terms;
- Other payables are non-interest-bearing and have varying terms of up to 12 months.

21. Interest-bearing loans and borrowings

Net debt and interest-bearing loans and borrowings

Our net debt position comprises cash, short term deposits, interest-bearing loans and borrowings, and can be summarised as:

Year ended 3 July 2010

	Current			Non-current		
	Effective interest rate %	Maturity	**Within one year £m**	After one year but not more than five years £m	After five years £m	Total £m
Syndicated loans (see below)	1.02	0-3 years	–	103.0	–	103.0
Debt issue costs on syndicated loans			(0.7)	–	–	(0.7)
Medium term loans (see below)	0.92	0-1 years	5.6	–	–	5.6
Debt issue costs on medium term loans			–	–	–	–
£200m Sterling 7.5 year bond (see below)	5.38	0-8 years	–	–	200.0	200.0
Debt issue costs			–	(0.4)	(2.3)	(2.7)
Finance leases and HP commitments (see below)	5.26	0-5 years	6.4	3.6	–	10.0
Bank overdraft (note 19)	1.50	On demand	5.8	–	–	5.8
Total interest-bearing loans and borrowings			17.1	106.2	197.7	321.0
Debt issue costs			0.7	0.4	2.3	3.4
Total interest-bearing loans and borrowings (gross of debt issue costs)			17.8	106.6	200.0	324.4
Cash and short term deposits (note 19)			(236.1)	–	–	(236.1)
Net debt			**(218.3)**	**106.6**	**200.0**	**88.3**
Restricted cash						204.0
Adjusted net debt						292.3

Year ended 27 June 2009

	Current			Non-current		
	Effective interest rate %	Maturity	**Within one year £m**	After one year but not more than five years £m	After five years £m	Total £m
Syndicated loans (see below)	1.12	0-4 years	–	239.0	–	239.0
Debt issue costs on syndicated loans			(1.1)	–	–	(1.1)
Medium term loans (see below)	4.29	0-3 years	17.4	18.6	–	36.0
Debt issue costs on medium term loans			(0.1)	–	–	(0.1)
Finance leases and HP commitments (see below)	5.19	0-5 years	9.2	8.9	–	18.1
Bank overdraft (note 19)	1.50	On demand	5.0	–	–	5.0
Total interest-bearing loans and borrowings			30.4	266.5	–	296.9
Debt issue costs			1.2	–	–	1.2
Total interest-bearing loans and borrowings (gross of debt issue costs)			31.6	266.5	–	298.1
Cash and short term deposits (note 19)			(207.1)	–	–	(207.1)
Net debt			**(175.5)**	**266.5**	**–**	**91.0**
Restricted cash						181.3
Adjusted net debt						272.3

Analysis of Group net debt

	Cash and cash equivalents £m	Syndicated loan facility £m	Term loans £m	Hire purchase/ finance leases £m	£200m Sterling Bond £m	Total £m
28 June 2008	151.3	(262.0)	(52.8)	(34.3)	–	(197.8)
Cashflow	50.8	23.0	16.8	16.2	–	106.8
27 June 2009	202.1	(239.0)	(36.0)	(18.1)	–	(91.0)
On acquisitions	–	–	–	(2.4)	–	(2.4)
Cashflow	28.2	136.0	30.4	10.5	(200.0)	5.1
3 July 2010	**230.3**	**(103.0)**	**(5.6)**	**(10.0)**	**(200.0)**	**(88.3)**
Adjusted net debt						**292.3**

Syndicated loan facility
On 23 November 2007 the Group entered into a £340.0m five-year syndicated loan facility. The debt is unsecured and interest is charged at LIBOR + Margin, where the margin is dependent upon the gearing of the Group and the intended use of the borrowings. On 15 April 2010 the syndicated loan facility was reduced by the Group to £280.0m.

As at 3 July 2010, £103.0m (2009: £239.0m) of the facility was drawn down.

£200m Sterling 7.5 Year Bond
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%.

Medium term loans
The Group had a number of medium term loans during the year, all of which are unsecured.

	Effective interest rate %	2010 £m	2009 £m
Fixed rate term loan	–	–	24.8
Floating rate term loans	**0.92**	**5.6**	11.2
		5.6	36.0

The fixed rate term loan, which was subject to interest of 5.71% and repayable on 22 September each year, was repaid early on 12 April 2010.

There is one floating rate loan which is unsecured. It is subject to interest at LIBOR + 0.3%, and is repayable in annual instalments of £5.6m on 22 August each year. This was repaid early on 2 August 2010.

On 26 August 2009 two additional floating rate loans were arranged. The first being a £15.0m loan subject to interest at LIBOR + 3.0% with a single repayment on 25 August 2012. The second was also for £15.0m and was subject to interest at LIBOR + 2.25%. Repayments of £1.5m, £3.5m and £10.0m were scheduled to be made in year one, year two and year three respectively. Both loans were repaid early on 12 April 2010 and 9 April 2010 respectively.

A further additional floating rate loan of £20.0m was entered into on 27 November 2009 with an interest rate of LIBOR + 2.5%. This loan was repaid early on 9 April 2010.

Debt issue costs
There are debt issue costs of £0.7m (2009: £1.1m) on the syndicated loan facility and £nil (2009: £0.1m) on the medium term loans.

The £200m sterling 7½ year bond has debt issue costs of £2.7m (2009: £nil)

22. Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for rolling stock and various items of plant and machinery. These contracts have no terms of renewal or purchase option escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments, are as follows:

	2010		2009	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	**6.9**	**6.4**	10.0	9.2
After one year but not more than five years	**3.8**	**3.6**	9.5	8.9
Total minimum lease payments	**10.7**	**–**	19.5	–
Less amounts representing finance charges	**(0.7)**	**–**	(1.4)	–
Present value of minimum lease payments	**10.0**	**10.0**	18.1	18.1

The finance lease and hire purchase commitments all relate to bus vehicles.

23. Financial risk management objectives and policies

Financial risk factors and management

The Group's principal financial instruments comprise bank loans, hire purchase and finance lease contracts, and cash and short term deposits. The main purpose of these financial instruments is to provide an appropriate level of net debt to fund the Group's activities, namely working capital, fixed asset expenditure, acquisitions, dividends and share buybacks. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily interest rate swaps and fuel swaps. The purpose is to manage the interest rate and fuel price risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2010 and 2009, the Group's policy that no trading in derivatives shall be undertaken and derivatives are only purchased for internal benefit.

The main financial risks arising from the Group's activities are interest rate risk, liquidity risk and credit risk. Risks arising from fuel derivatives are explained in note 24.

Interest rate risk

The Group borrows and deposits funds and is exposed to changes in interest rates. The Board's policy toward cash deposits is to deposit cash short term on UK money markets. Interest payable on senior bank borrowings is based on re-fixing the rate of interest over short periods of time of up to 36 months. During the year the Group has partially managed interest rate risk by hedging. Excluding fixed rate debt, the Group has net borrowings and hence the present adverse risk is an increase in interest rates.

The maturity and interest rate profile of the financial assets and liabilities of the Group as at 3 July 2010 is as follows:

	Average rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Year ended 3 July 2010								
Floating rate liabilities/(assets)								
Bank overdrafts	1.50	5.8	–	–	–	–	–	5.8
Variable rate loans	1.01	5.6	–	103.0	–	–	–	108.6
Obligations under finance lease and HP contracts	1.31	0.8	–	–	–	–	–	0.8
Interest rate swaps	2.25	–	(53.4)	(80.0)	–	–	–	(133.4)
Gross floating rate liabilities/(assets)		12.2	(53.4)	23.0	–	–	–	(18.2)
Cash assets	0.55	(236.1)	–	–	–	–	–	(236.1)
Net floating rate (assets)/liabilities		(223.9)	(53.4)	23.0	–	–	–	(254.3)
Fixed rate liabilities								
£200m Sterling 7.5 year bond	5.38	–	–	–	–	–	200.0	200.0
Medium term fixed rate loan	–	–	–	–	–	–	–	–
Obligations under finance lease and hire purchase	5.68	5.5	2.3	1.0	0.3	0.1	–	9.2
Interest rate swaps	2.25	–	53.4	80.0	–	–	–	133.4
		5.5	55.7	81.0	0.3	0.1	200.0	342.6
Total floating and fixed profile		(218.4)	2.3	104.0	0.3	0.1	200.0	88.3
Year ended 27 June 2009								
Floating rate liabilities/(assets)								
Bank overdrafts	1.50	5.0	–	–	–	–	–	5.0
Variable rate loans	1.11	5.6	5.6	–	239.0	–	–	250.2
Obligations under finance lease and HP contracts	1.42	0.8	0.8	–	–	–	–	1.6
Interest rate swaps	2.20	–	–	(49.5)	(50.0)	–	–	(99.5)
Gross floating rate liabilities/(assets)		11.4	6.4	(49.5)	189.0	–	–	157.3
Cash assets	0.78	(207.1)	–	–	–	–	–	(207.1)
Net floating rate (assets)/liabilities		(195.7)	6.4	(49.5)	189.0	–	–	(49.8)
Fixed rate liabilities								
Medium term fixed rate loan	5.76	11.8	5.8	7.2	–	–	–	24.8
Obligations under finance lease and hire purchase contracts	5.55	8.4	5.0	2.5	0.4	0.2	–	16.5
Interest rate swaps	2.20	–	–	49.5	50.0	–	–	99.5
		20.2	10.8	59.2	50.4	0.2	–	140.8
Total floating and fixed profile		(175.5)	17.2	9.7	239.4	0.2	–	91.0

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

At 3 July 2010, the Group had four interest rate swaps totalling £130.0m. Two of these interest rate swaps fix the interest on part of the variable rate syndicated loan – £50.0m was fixed at 2.01% plus margin until December 2011 and £50.0m was fixed at 2.39% plus margin until December 2012. The remaining two interest rate swaps of £15.0m each are now ineffective. During the year ended 3 July 2010, these four interest swaps have resulted in a realised loss of £3.0m.

These swaps result in a net fixed rate liability of £3.4m at 3 July 2010. Hence the adverse risk at year end is a decrease in interest rates.

23. Financial risk management objectives and policies continued

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
2010			
GBP	**50.0**	**(0.5)**	**(0.5)**
GBP	**(50.0)**	**0.5**	**0.5**
2009			
GBP	50.0	(0.7)	(0.7)
GBP	(50.0)	0.7	0.7

Liquidity risk

The Group has in place a £280.0m syndicated loan facility which allows the Group to maintain liquidity within the desired gearing range. Available liquidity as at 3 July 2010 was as follows:

	2010 £m	2009 £m
Amount drawn down under syndicated loan facility	**103.0**	239.0
Total available facility	**280.0**	340.0
Headroom	**177.0**	101.0

On 24 March 2010, the Group raised a £200m bond of 7.5 years maturing on 29 September 2017. The level of drawdown and prevailing interest rates are detailed in note 21.

The Group's road passenger vehicles can be financed by hire purchase or finance lease arrangements, or term loans at fixed rates of interest over two to five year primary borrowing periods. This provides a regular inflow of funding to cover expenditure as it arises.

Foreign currency risk

The Group rarely enters into transactions in foreign currency and no transaction to date has been material. Should larger foreign currency transactions be undertaken, consideration would be given to hedging the foreign currency exchange risk.

On 26 July 2010, a $10.0m facility was agreed with RBS to ensure dollar investment in our US joint venture is funded by dollar borrowings to provide an effective foreign currency hedge.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables and cash deposits (see note 18). The maximum credit risk exposure of the Group comprises the amounts presented in the balance sheet, which are stated net of provisions for doubtful debt. A provision is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of future cashflows.

The majority of the Group's receivables are with public (or quasi-public) bodies (such as the DfT). The Group does not consider these counterparties to be a significant credit risk. Outside of this, the Group does not consider it has significant concentrations of credit risk. Risk of exposure to non-return of cash on deposit is managed through a treasury policy of holding deposits with banks rated A+ or Aa3 or above with at least one of the agencies. Our treasury policy outlines the maximum level of deposit that can be placed with any one given financial institution.

Contractual payments

The table below summarises the maturity profile of the Group's financial liabilities at 3 July 2010 based on contractual undiscounted payments.

Year ended 3 July 2010

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	> 5 years £m	Total £m
Interest-bearing loans and borrowings	**5.8**	**3.7**	**6.9**	**110.6**	**–**	**127.0**
£200m Sterling 7.5 year bond	**–**	**5.9**	**–**	**47.0**	**235.3**	**288.2**
Other financial liabilities	**–**	**2.0**	**5.9**	**3.3**	**–**	**11.2**
Trade and other payables	**91.4**	**226.3**	**44.4**	**1.0**	**1.1**	**364.2**
	97.2	**237.9**	**57.2**	**161.9**	**236.4**	**790.6**

Year ended 27 June 2009

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	> 5 years £m	Total £m
Interest-bearing loans and borrowings	5.0	16.5	18.6	291.2	–	331.3
Other financial liabilities	–	4.1	12.3	8.5	–	24.9
Trade and other payables	48.1	263.6	37.5	4.6	–	353.8
	53.1	284.2	68.4	304.3	–	710.0

Managing capital

During the year the Group obtained investment grade long term credit ratings from Standard & Poor's and Moody's as follows:

Standard & Poor's BBB - (Stable outlook)

Moody's Baa3 (Stable outlook)

The Group manages its capital structure such that net debt (adjusted to exclude restricted cash), to EBITDA (before exceptionals) is within a range which retains an investment grade debt rating. Adjusted net debt at the year end was £292.3m (2009: £272.3m), equivalent to 1.91x (2009: 1.56x) EBITDA in line with the Group's aim to maintain to an adjusted net debt to EBITDA ratio of 1.5x to 2.5x through the cycle.

Operating leases

The Group uses operating leases for bus and coach purchases across the Group primarily where the vehicles service specific contracts to mitigate the risk of ownership at the end of the contract. This results in £1.2m (2009: £0.4m) of cost within operating charges which would otherwise have been charged to interest. The Group holds operating leases for its bus fleet with an asset capital value of £31.2m (2009: £13.1m).

The majority of assets in the rail division are financed by operating leases, in particular rolling stock. Leases are entered into by the respective operating companies and are not the subject of parent company guarantees.

24. Derivatives and financial instruments

a. Fair values

The fair values of the Group's financial instruments carried in the financial statements have been reviewed as at 3 July 2010 and are as follows:

Year ended 3 July 2010

	Amortised cost £m	Held for trading – fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	**(0.5)**	(0.5)	(0.5)
Interest rate derivatives	–	**(3.4)**	(3.4)	(3.4)
Fixed rate debt	–	–	–	–
Obligations under finance lease and hire purchase contracts	**(10.0)**	–	(10.0)	(10.0)
	(10.0)	**(3.9)**	(13.9)	(13.9)

Year ended 27 June 2009

	Amortised cost £m	Held for trading – Fair value through profit and loss £m	Total carrying value £m	Fair value £m
Fuel price derivatives	–	**(21.7)**	(21.7)	(21.7)
Interest rate derivatives	–	**0.5**	0.5	0.5
Fixed rate debt	**(24.8)**	–	(24.8)	(25.5)
Obligations under finance lease and hire purchase contracts	**(16.5)**	–	(16.5)	(16.5)
	(41.3)	**(21.2)**	(62.5)	(63.2)

The fair value of all other assets and liabilities in notes 18, 20 and 21 is not significantly different to their carrying amount. The fuel price derivatives and interest rate swaps were valued externally by the respective banks by comparison with the market fuel price at the relevant date.

The fair value of fixed rate borrowings has been calculated by discounting the expected future cashflows at prevailing 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 all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 3 July 2010, the Group has used a level 2 valuation technique to determine the fair value of all financial instruments. During the year ended 3 July 2010, 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 appropriate.

At the year end, the Group had various fuel price swaps in place. For the 2011, 2012, 2013 and 2014 financial years cashflow hedges were placed over 126, 122, 27 and 1 million litres of fuel respectively. 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.

As at 3 July 2010 the Group had derivatives against bus fuel of 109 million litres for the year ending 2 July 2011, representing approximately 97.0% of the anticipated fuel usage in our bus division. As at 3 July 2010 the Group also had derivatives against bus fuel for the 2012, 2013 and 2014 financial years of 105, 13 (increased to 28 million litres after 3 July 2010) and 1 million litres respectively.

As at 3 July 2010 the Group had derivatives against rail fuel of 17 million litres for the year ending 2 July 2011, representing the anticipated fuel usage in London Midland and Southern. As at 3 July 2010 the Group also had further derivatives for the 2012 and 2013 financial years of 17 and 14 millions litres of rail fuel respectively.

The Group's hedging policy for the target percentage of anticipated bus fuel usage hedged for the next year and subsequent two years, and its current compliance with that policy is as follows:

	2011	2012	2013
Percentage to hedge per Group policy	**100.0%**	**50.0%**	25.0%
Actual percentage hedged	**97.0%**	**93.0%**	25.0%

25. Provisions

	Depots £m	Onerous contracts £m	Franchise commitments £m	Total £m
At 27 June 2009	4.3	1.5	–	5.8
Provided	3.0	1.0	11.2	15.2
Utilised	**–**	**(0.9)**	**–**	**(0.9)**
At 3 July 2010	**7.3**	**1.6**	**11.2**	**20.1**

	2010 £m	2009 £m
Current	12.0	–
Non current	8.1	5.8
	20.1	**5.8**

At 3 July 2010 the depot provision has been increased to cover potential disputed costs in one of the train operating companies.

During the year ended 3 July 2010, the onerous contract provision in the aviation services division reduced from £1.5m to £0.6m as the expected losses were incurred, and a further onerous contract provision of £1.0m was created in the bus division to cover the costs of operating lease commitments on routes served by articulated buses which are being phased out.

Franchise commitments comprise contractual obligations arising in connection with franchise delivery where the amounts payable are subject to ongoing disputes.

The depot provisions represent ongoing legal actions relating to planning consent issues and are expected to be incurred within five years. Onerous contracts provisions are expected to be incurred within three years. Franchise commitment provisions are expected to be incurred within one year.

26. Issued capital and reserves

	2010 £m	2009 £m
62.5 million 10p ordinary shares	**6.3**	6.3

			Allotted, called up and fully paid	
	Millions	2010 £m	Millions	2009 £m
As at 27 June 2009	**46.9**	**4.7**	46.8	4.7
Issued on exercise of share options	**–**	**–**	0.1	–
Cancelled during the year	**–**	**–**	–	–
As at 3 July 2010	**46.9**	**4.7**	46.9	4.7

The Company has one class of ordinary shares which carry no right to fixed income.

Share capital
Share capital represents proceeds on issue of the Company's equity, both nominal value and share premium.

Reserve for own shares
The reserve for own shares is in respect of 3,976,025 ordinary shares (8.5% of share capital), of which 73,795 are held for Directors' bonus plans. 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 year ended 3 July 2010 the Company has repurchased 26,447 shares (2009: 13,615 shares). A consideration of £0.3m (2009: £0.2m) including expenses was made for the shares purchased during the year. The Company has not cancelled any shares during the year (2009: no shares).

Other reserve
The other reserve represents the premium on shares that have been issued to fund or part fund acquisitions made by the Group. This treatment is in line with Section 612 of the Companies Act 2006.

Hedging reserve
The hedging reserve records the movement in value of fuel price derivatives, offset by any movements recognised directly in equity.

Capital redemption reserve
The redemption reserve reflects the nominal value of cancelled shares.

27. Commitments and contingencies

Capital commitments

	2010 £m	2009 £m
Contracted for but not provided	**10.4**	42.4

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain properties and other items. Renewals are at the option of the lessee. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 3 July 2010 are as follows:

As at 3 July 2010

	Bus vehicles £m	Bus property £m	Other non rail £m	Rail rolling stock £m	Rail access charges £m	Rail other £m
Within one year	**12.2**	2.6	3.4	297.5	354.4	96.4
In the second to fifth years inclusive	**30.6**	5.3	8.9	728.1	898.2	190.0
Over five years	**0.3**	1.1	28.8	36.0	44.4	8.5
	43.1	9.0	41.1	1061.6	1297.0	294.9

As at 27 June 2009

	Bus vehicles £m	Bus property £m	Other non rail £m	Rail rolling stock £m	Rail access charges £m	Rail other £m
Within one year	**15.4**	2.4	13.6	215.4	192.0	97.2
In the second to fifth years inclusive	**36.8**	4.3	45.5	459.3	484.7	224.3
Over five years	**0.2**	1.0	80.2	66.0	106.7	22.3
	52.4	7.7	139.3	740.7	783.4	343.8

Details of the lease cost for the period are shown in note 5 and note 8.

Operating lease commitments – Group as lessor

The Group's train operating companies hold agreements under which they sub-lease rolling stock, and agreements with Network Rail for access to the railway infrastructure (track, stations and depots).

Future minimum rentals payable under non-cancellable operating leases as at 3 July 2010 are as follows:

	2010 Land and buildings £m	**2010 Other rail agreements £m**	2009 Land and buildings £m	2009 Other rail agreements £m
Within one year	**2.8**	**18.5**	2.5	2.5
After one year but not more than five years	**5.5**	**48.8**	1.7	–
More than five years	**0.2**	**1.3**	–	–
	8.5	**68.6**	4.2	2.5

Performance bonds

The Group has provided bank guaranteed performance bonds of £111.0m (2009: £131.7m), and season ticket bonds of £116.7m (2009: £110.2m) to 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 letters of credit. The letter of credit at 3 July 2010 is £35.0m (2009: £35.0m).

These bonds are supported by a 65% several guarantee from The Go-Ahead Group plc and 35% several guarantee from Keolis S.A.

28. Pensions

Retirement benefit obligations consist of the following:

	2010			2009		
	Bus & Aviation Services £m	Rail £m	Total £m	Bus & Aviation Services £m	Rail £m	Total £m
Pre-tax pension liabilities	(96.9)	–	(96.9)	(76.0)	(7.5)	(83.5)
Deferred tax asset	27.1	–	27.1	21.3	2.1	23.4
Post tax pension scheme liabilities	(69.8)	–	(69.8)	(54.7)	(5.4)	(60.1)

Bus and aviation schemes

The Go-Ahead Group Pension Plan

For the majority of non-rail employees, the Group operates one main pension scheme, The Go-Ahead Group Pension Plan (the 'Go-Ahead Plan'), which consists of a funded defined benefit scheme and a defined contribution section as follows:

The defined contribution section of The Go-Ahead Plan is not contracted-out of the State Second Pension Scheme and is open to new entrants. The expense recognised for the defined contribution section of The Go-Ahead Plan is £5.4m (2009: £4.9m) being the contributions paid and payable.

The defined benefit section of The Go-Ahead Plan is contracted-out of the State Second Pension Scheme and provides benefits based on a member's final salary. The assets of the scheme are held in a separate trustee-administered fund. Contributions to this section are assessed in accordance with the advice of an independent qualified actuary. The section is effectively closed to new entrants. As a result, it can be expected that the service cost will increase in future as a percentage of payroll. However, this percentage is likely to be applied to a reducing total pensionable payroll.

The Go-Ahead Plan is a Group plan for related companies where risks are shared. The overall costs of the Go-Ahead Plan have been recognised in the Group's financial statements according to IAS 19. Each of the participating companies accounts on the basis of contributions paid by that company. The Group accounts for the difference between the aggregate IAS 19 cost of the scheme and the aggregate contributions paid.

Wilts & Dorset Pension Scheme and Southern Vectis Group Pension Plan

Some employees of our Go South Coast operations participate in the Wilts & Dorset Pension Scheme or the Southern Vectis Group Pension Plan. These are defined benefit schemes which are externally funded and contracted-out of the State Second Pension Scheme. Contributions to the schemes are assessed in accordance with the advice of an independent qualified actuary. The schemes are closed to new entrants, however eligible employees can join the defined contribution section of the The Go-Ahead Group Pension Plan.

Other pension plans

During the year, a defined benefit plan was introduced for a small number of employees transferring from East Thames Buses, similarly some transferring employees of Plymouth City Bus have entitlement to a Devon County Council defined benefit plan. Both schemes are externally funded. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary. Both schemes are now closed to new entrants.

Other pension arrangements

A small number of employees in aviance have access to separate defined contribution pension arrangements as part of legacy agreements. The expense recognised for this is £0.1m (2009: £0.3m), being the contributions paid.

Summary of year end assumptions

	2010 %	2009 %
Price inflation	**3.3**	3.4
Discount rate	**5.3**	6.3
Rate of increase in salaries	**4.3**	4.4
Rate of increase of pensions in payment and deferred pension*	**3.3**	3.4

* In excess of any Guaranteed Minimum Pension (GMP) element.

The discount rate is based on the anticipated return of AA rated corporate bonds with a term matching the maturity of the scheme liabilities.

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.

	2010 Years	2009 Years
Pensioner	**19**	19
Non-pensioner	**20**	20

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes (i.e. equities and bonds). The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (suggested by the yields available), and the views of investment organisations.

28. Pensions continued

Sensitivity analysis

In making the valuation, the above assumptions have been used. For non-rail pension schemes, the following is an approximate sensitivity analysis of the impact of the change in the key assumptions. In isolation the following adjustments would adjust the pension deficit and cost as shown.

	2010 Pension deficit £m	2010 Pension cost £m
Discount Factor – increase of 0.1%	(9.2)	(0.2)
Price Inflation – increase of 0.1%	8.0	0.6
Rate of increase in salaries – increase of 0.1%	1.8	0.1
Rate of increase of pensions in payment – increase of 0.1%	4.9	0.4
Increase in life expectancy of pensioners or non-pensioners by 1 year	18.2	1.7

Category of assets at the year end

	2010 £m	2010 %	2009 £m	2009 %
Equities	181.0	43.1	166.5	47.2
Bonds	205.0	48.8	162.9	46.2
Property	32.3	7.7	17.6	5.0
Cash	1.7	0.4	5.7	1.6
	420.0	100.0	352.7	100.0

The weighted average expected long term rates of return were:

	2010 % p.a.	2009 % p.a.
Weighted average rate of return	6.8	7.8

Funding position of the Group's pension arrangements

	2010 £m	2009 £m
Employer's share of pension scheme:		
Liabilities at the end of the year	(516.9)	(428.7)
Assets at fair value	420.0	352.7
Pension scheme liability	(96.9)	(76.0)

Pension cost for the financial year

	2010 £m	2009 £m
Service cost	6.3	6.1
Interest cost on liabilities	26.6	26.8
Expected return on assets	(27.5)	(29.4)
Pension costs	5.4	3.5
Curtailment gain (exceptional items)	(2.2)	–
Total pension costs	3.2	3.5

Experience recognised in other comprehensive income

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience (losses)/gains on pension scheme liabilities	(68.6)	28.8	(10.5)	35.0	(14.0)
Experience gain/(losses) on assets	40.0	(49.7)	(39.6)	25.6	29.9
Total (loss)/gain recognised in other comprehensive income during the year	(28.6)	(20.9)	(50.1)	60.6	15.9

The Directors were unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and then taken directly to equity is attributable to actuarial gains and losses since the inception of the pension schemes. Consequently the Directors are unable to determine the amounts of actuarial gains and losses that would have been recognised in other comprehensive income before 3 July 2004.

Analysis of the change in the pension scheme liabilities over the financial year

	2010 £m	2009 £m
Employer's share of pension scheme liabilities – at start of year	**428.7**	436.2
Service cost	**12.1**	12.3
Interest cost	**26.6**	26.8
Actuarial loss /(gain)	**68.6**	(28.8)
Benefits paid	**(16.9)**	(17.8)
Curtailments	**(2.2)**	–
Employer's share of pension scheme liabilities – at end of year	**516.9**	428.7

Analysis of the change in the pension scheme assets over the financial year

	2010 £m	2009 £m
Fair value of assets – at start of year	**352.7**	376.8
Expected return on assets	**27.5**	29.4
Actuarial gain/(loss) on assets	**40.0**	(49.7)
Company contributions	**10.9**	7.8
Employee contributions (including age related rebates)	**5.8**	6.2
Benefits paid	**(16.9)**	(17.8)
Fair value of plan assets – at end of year	**420.0**	352.7

Estimated contributions for future

	£m
Estimated company contributions in financial year 2010	12.4
Estimated employee contributions in financial year 2010	5.4
Estimated total contributions in financial year 2010	17.8

Rail schemes

The Railways Pension Scheme (the RPS)

The majority of employees in our train operating companies are members of sections of the RPS, a funded defined benefit scheme. The RPS is a shared costs scheme, with assets and liabilities split 60%/40% between the franchise holder/employee respectively. The RPS sections are all open to new entrants and the assets and liabilities of each company's section are separately identifiable and segregated for funding purposes.

In addition to the defined benefit cost, BRASS matching AVC company contributions of £1.2m (2009: £0.9m) were paid in the year.

It is our experience that all pension obligations to the RPS cease on expiry of the franchises without cash or other settlement, and therefore the obligations recognised on the balance sheet under IAS 19 are only those that are expected to be funded during the franchise term. However, in spite of our past experience and that of other train operating companies proving otherwise, our legal obligations are not restricted. On entering into a franchise, the operator becomes the designated employer for the term of the contract and under the RPS rules is obliged to meet the schedule of contributions agreed with the scheme trustees and actuaries, in respect of which no funding cap is set out in the franchise contract.

Summary of year end assumptions

	2010 %	2009 %
Price inflation	**3.3**	3.4
Discount rate	**5.3**	6.3
Rate of increase in salaries	**4.3**	4.4
Rate of increase of pensions in payment and deferred pension*	**3.3**	3.4

* In excess of any Guaranteed Minimum Pension (GMP) element.

The discount rate is based on the anticipated return of AA rated corporate bonds with a term matching the maturity of the scheme liabilities.

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.

	2010 years	2009 years
Pensioner	**20**	20
Non-Pensioner	**22**	22

28. Pensions continued

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes (i.e. equities and bonds). The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (suggested by the yields available), and the views of investment organisations.

Category of assets at the year end

	2010 £m	**2010 %**	2009 £m	2009 %
Equities	**528.3**	**61.6**	447.5	63.4
Bonds	**96.9**	**11.3**	71.3	10.1
Property	**126.1**	**14.7**	110.1	15.6
Cash	**106.4**	**12.4**	76.9	10.9
	857.7	**100.0**	705.8	100.0

The weighted average expected long term rates of return were:

	2010 % p.a.	2009 % p.a.
Weighted average rate of return	**7.5**	8.1

Funding position of the Group's pension arrangements

	2010 £m	2009 £m
Employer's share of pension scheme:		
Liabilities at the end of the year	**(1,195.2)**	(937.1)
Assets at fair value	**857.7**	705.8
Gross deficit	**(337.5)**	(231.3)
Franchise adjustment	**337.5**	223.8
Pension scheme liability	**–**	(7.5)

Pension cost for the financial year

	2010 £m	2009 £m
Service cost	**38.1**	41.6
Interest cost on liabilities	**40.8**	42.8
Expected return on assets	**(34.5)**	(42.0)
Interest on franchise adjustments	**(13.5)**	(9.8)
Pension cost	**30.9**	32.6

Experience recognised in Other Comprehensive Income

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience (loss)/gain on pension scheme liabilities	**(136.4)**	89.6	(65.3)	4.8	1.0
Experience gains/(losses) on assets	**41.9**	(152.9)	(81.5)	36.4	5.7
Franchise adjustment movement	**100.6**	57.3	152.3	(26.8)	(5.7)
Total gain/(loss) recognised in other comprehensive income during the year	**6.1**	(6.0)	5.5	14.4	1.0

The Directors were unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and then taken directly to equity is attributable to actuarial gains and losses since the inception of the pension schemes. Consequently the Directors are unable to determine the amounts of actuarial gains and losses that would have been recognised in other comprehensive income before 3 July 2004.

Analysis of the change in the pension scheme liabilities over the financial year

	2010 £m	2009 £m
Employer's share of pension scheme liabilities – at start of year	**937.1**	1,026.5
Franchise adjustment	**(223.8)**	(156.8)
	713.3	869.7
Liability movement for members share of assets	**71.1**	(54.5)
Service cost	**38.1**	41.6
Interest cost	**40.8**	42.8
Interest on franchise adjustment	**(13.5)**	(9.8)
Actuarial loss /(gain)	**136.4**	(89.6)
Benefits paid	**(27.9)**	(29.6)
Disposal of New Southern Railway Limited	**(269.9)**	–
Addition of Southern Railway Limited	**269.9**	–
Franchise adjustment movement	**(100.6)**	(57.3)
	857.7	713.3
Franchise adjustment	**337.5**	223.8
Employer's share of pension scheme liabilities – at end of year	**1,195.2**	937.1

Analysis of the change in the pension scheme assets over the financial year

	2010 £m	2009 £m
Fair value of assets – at start of year	**705.8**	869.7
Expected return on assets	**34.5**	42.0
Actuarial gain/(loss) on assets	**41.9**	(152.9)
Company contributions	**32.3**	31.1
Benefits paid	**(27.9)**	(29.6)
Disposal of New Southern Railway Limited	**(269.9)**	–
Addition of Southern Railway Limited	**269.9**	–
Members share of movement of assets	**71.1**	(54.5)
Fair value of plan assets – at end of year	**857.7**	705.8

Estimated contributions for future

	£m
Estimated company contributions in financial year 2010	32.2
Estimated employee contributions in financial year 2010	21.5
Estimated total contributions in financial year 2010	53.7

IAS 19 would require the Group to account for its legal obligation under the formal terms of the RPS and its constructive obligation under the terms of each franchise agreement. Following industry practice, the Group has concluded that the appropriate accounting policy for the RPS to ensure that the financial statements present fairly the Group's financial position, financial performance and cashflows, is to recognise its constructive but not its legal RPS defined benefit obligations. In all other respects the Group's accounting policy is consistent with IAS 19 and the treatment adopted for non-rail defined benefit schemes. In doing so, the Group has applied the provisions of paragraph 17 of IAS 1 and departed from the requirements of IAS 19 in order to achieve a fair presentation of the Group's obligations regarding its rail schemes and prevent gains arising on transfer of the existing RPS deficits to a new franchise owner at exit.

The total surplus or deficit recorded is adjusted by way of a 'franchise adjustment', which is that portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from.

28. Pensions continued

If the Group had accounted for the rail schemes in accordance with the full provisions of IAS 19 the following adjustments would have been made to the financial statements:

	2010 £m	2009 £m
Balance sheet		
Defined benefit pension plan	**(337.5)**	(223.8)
Deferred tax asset	**89.7**	56.7
Intangible asset	**17.2**	21.2
	(230.6)	(145.9)
Other comprehensive income		
Actuarial losses	**100.6**	57.3
Tax on actuarial losses	**(28.2)**	(16.0)
	72.4	41.3
Income statement		
Operating costs – franchise adjustment	**(13.5)**	(9.8)
Intangible asset amortisation	**4.0**	4.1
Deferred tax charge	**2.7**	1.6
	(6.8)	(4.1)

IAS 19 disclosures

All of the above plans have been accounted for under IAS 19 covering employee benefits.

29. Related party disclosures and Group undertakings

The consolidated financial statements include the financial statements of The Go-Ahead Group plc and the following material group undertakings:

Name	Country of incorporation	% equity interest 2010	2009
Principal Subsidiaries			
Go-Ahead Holding Limited	United Kingdom*	**100**	100
Go North East Limited	United Kingdom	**100**	100
London General Transport Services Limited	United Kingdom	**100**	100
Metrobus Limited	United Kingdom	**100**	100
Brighton & Hove Bus and Coach Company Limited	United Kingdom	**100**	100
City of Oxford Motor Services Limited	United Kingdom	**100**	100
Go South Coast Limited	United Kingdom	**100**	100
Plymouth Citybus Limited	United Kingdom	**100**	–
Konectbus Limited	United Kingdom	**100**	–
New Southern Railway Limited	United Kingdom**	**65**	65
London and South Eastern Railway Limited	United Kingdom**	**65**	65
London and Birmingham Railway Limited	United Kingdom**	**65**	65
Southern Railway Limited	United Kingdom**	**65**	65
Govia Limited	United Kingdom**	**65**	65
Abingdon Bus Company Limited	United Kingdom	**100**	100
aviance UK Limited	United Kingdom	**100**	100
Reed Aviation Limited	United Kingdom	**100**	100
Meteor Parking Limited	United Kingdom	**100**	100
Nikaro Limited	United Kingdom	**100**	100
Go-Ahead Leasing Limited	United Kingdom	**100**	100
Go-Ahead Holding LLC	United States of America	**100**	–
Jointly controlled entities			
Go-Ahead North America LLC	United States of America	**50**	–

* Held by The Go-Ahead Group plc. All other companies are held through subsidiary undertakings.

** The rail companies are 65% owned by The Go-Ahead Group plc and 35% owned by Keolis S.A. and held through Govia Limited.

Transactions with other related parties

The Group meets certain costs of administering the Group's retirement benefit plans, including the provision of meeting space and office support functions to the trustees. Costs borne on behalf of the retirement benefit plans amounted to £0.3m (2009: £0.3m).

Compensation of key management personnel of the Group

The key management are considered to be the Directors of the Group.

	2010 £m	2009 £m
Salaries	**1.1**	1.0
Bonus	**1.0**	0.6
Pension contributions	**0.1**	0.1
Share based payments	**–**	–
	2.2	1.7

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE GO-AHEAD GROUP PLC

We have audited the parent company financial statements of The Go-Ahead Group plc for the year ended 3 July 2010, which comprise the parent company balance sheet and related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, set out on page 126, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 3 July 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of The Go-Ahead Group plc for the year ended 3 July 2010.

Ernst & Young LLP

Debbie O' Hanlon (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne

1 September 2010

FINANCIAL STATEMENTS

PARENT COMPANY BALANCE SHEET

as at 3 July 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	2	**83.3**	81.7
Investments	3	**151.9**	151.9
Financial assets		**4.3**	3.1
		239.5	236.7
Current assets			
Debtors: amounts falling due within one year	4	**559.4**	367.1
Cash on deposit		**–**	10.8
Financial assets		**3.3**	0.6
		562.7	378.5
Creditors: amounts falling due within one year	5	**(134.9)**	(140.1)
Net current assets		**427.8**	238.4
Total assets less current liabilities		**667.3**	475.1
Creditors: amounts falling due after more than one year	5	**(200.6)**	(8.5)
Provisions for liabilities: deferred taxation	6	**(0.1)**	(0.4)
Net assets		**466.6**	466.2
Capital and reserves			
Share capital	8, 9	**4.7**	4.7
Share premium	9	**67.4**	67.2
Revaluation reserve	9	**10.3**	10.3
Other reserve	9	**8.8**	8.8
Capital redemption reserve	9	**0.7**	0.7
Reserve for own shares	9	**(69.0)**	(68.8)
Profit and loss account	9	**443.7**	443.3
Equity shareholders' funds		**466.6**	466.2

Nick Swift, Group Finance Director
1 September 2010

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

1. Parent company accounting policies

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006 and were approved for issue on 1 September 2010. They have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006 and the Company has taken the exemptions under FRS 1 to not present a cashflow statement.

The Company has taken advantage of the exemption available to parent companies under FRS 29 'Financial Instruments: Disclosures' so as not to provide the information otherwise required by the standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 'Financial Instruments: Disclosures'.

Tangible fixed assets

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated.

Assets held under finance leases are depreciated over the shorter of their expected useful lives and the lease terms.

Depreciation is charged to the profit and loss account based on cost or valuation, less estimated residual value of each asset evenly over its expected useful life as follows:

Short leasehold land and buildings	The life of the lease
Freehold buildings and long leasehold land and buildings	Over 10 to 100 years
Plant and equipment	Over 3 to 15 years

The carrying values of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists the assets are written down to their recoverable amount.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

Pension benefits

The Company is a member of The Go-Ahead Group Pension Plan operated by The Go-Ahead Group plc for the majority of its employees. This defined benefit scheme is a multi-employer scheme for which the individual employer's share of the underlying assets and liabilities cannot be identified and accordingly the Company accounts for them as defined contribution schemes.

For the defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share based payments

The Company has taken advantage of the transitional provision of FRS 20 and has applied FRS20 only to those options granted after 7 November 2002. The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In valuing equity-settled options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of The Go-Ahead Group plc ('market conditions'), to conditions not related to performance or service ('non-vesting conditions') and to earnings per share criteria.

The cost of options is recognised in the profit and loss account over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in equity. The cumulative expense recognised, at each reporting date, reflects the extent to which the period to vesting has expired and the Directors' best estimate of the number of options that will ultimately vest or, in the case of an instrument subject to a market or non-vesting condition, be treated as vesting as described above. This includes any award where non-vesting conditions within the control of the Group or the employee are not met.

No cost is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

1. Parent company accounting policies continued

Deferred tax

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided on all timing differences which have originated but not reversed at the balance sheet date. Except where otherwise required by accounting standards, no timing differences are recognised in respect of:

- property revaluation surpluses where there is no commitment to sell the asset;
- gains on sale of assets where those gains have been rolled over into replacement assets;
- deferred tax assets except to the extent that it is more likely than not that they will be recovered.

Deferred tax is calculated at the enacted rates at which it is estimated the tax will be payable. The deferred tax provision is not discounted to net present value.

Uninsured liabilities

The Company limits its exposure to the cost of motor, employer and public liability claims through insurance policies issued by third parties. These provide individual claim cover, subject to high excess limits and an annual aggregate stop loss for total claims within the excess limits. An accrual is made within current liabilities for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss. On the basis that the Company does not have an unconditional right to defer settlement for at least twelve months after the balance sheet date, these uninsured liabilities are classified as current.

The estimation of the balance sheet uninsured claims accrual is made after taking appropriate professional advice and is based on an assessment of the expected settlement on known claims, together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but that have not yet been reported to the Company.

Treasury shares

Re-acquired shares in the Company, which remain uncancelled, are deducted from equity. Consideration paid and the associated costs are also recognised in shareholders' funds as a separate reserve for own shares. Any gain or loss on the purchase, sale, issue or cancellation of the Company's shares is transferred from the reserve for own shares to profit and loss.

Financial assets

Financial assets are accounted for in accordance with FRS 26. Financial assets are initially recognised at fair value, being the transaction price plus directly attributable transaction costs.

The Company uses energy derivatives to hedge its risks associated with fuel price fluctuations. Such derivatives are initially recognised at fair value by reference to market values for similar instruments, and subsequently remeasured at fair value at each balance sheet date.

Changes in the fair value of financial instruments that are designated and effective as hedges of future cashflows are recognised in other comprehensive income and the ineffective portion is recognised immediately in the profit and loss account. When the cashflow hedge results in the recognition of a non-financial asset or a liability, then at the time that asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of that non-financial asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the profit and loss account in the period which the hedged item affects net profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account as they arise.

Hedge accounting is discontinued when the derivative expires or is sold, terminated or exercised without replacement or rollover, or otherwise no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs, at which point it is taken to the profit and loss account or included in the initial carrying amount of the related non-financial asset as described above. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the profit and loss account.

Leasing commitments

Leases where a significant portion of all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases, and the amortisation of lease incentives and initial direct costs in securing leases, are charged to the profit and loss account on a straight-line basis over the lease term.

Debt

Debt is initially stated at the amount of the net proceeds, being the fair value of the consideration received after deduction of issue costs. Following initial recognition the carrying amount is measured at amortised cost using the effective interest method. Amortisation of liabilities and any gains and losses arising on the repurchase, settlement or other derecognition of debt are recognised directly in the profit and loss account.

2. Tangible fixed assets

	Freehold land and buildings £m	Leasehold properties £m	Plant and equipment £m	Total £m
Cost or valuation:				
At 27 June 2009	75.2	6.0	10.8	92.0
Additions	3.5	–	2.3	5.8
Disposals	(0.2)	(0.2)	(1.8)	(2.2)
At 3 July 2010	**78.5**	**5.8**	**11.3**	**95.6**
Depreciation:				
At 27 June 2009	7.0	1.0	2.3	10.3
Charge for the year	0.5	0.3	2.0	2.8
Disposals	**–**	**–**	**(0.8)**	**(0.8)**
At 3 July 2010	**7.5**	**1.3**	**3.5**	**12.3**
Net book value:				
At 3 July 2010	**71.0**	**4.5**	**7.8**	**83.3**
At 27 June 2009	68.2	5.0	8.5	81.7

Freehold land and buildings include non-depreciable land amounting to £27.8m (2009: £27.9m).

The net book value of leasehold properties comprises:

	2010 £m	2009 £m
Leases with 50 or more years unexpired	**1.2**	1.3

3. Fixed asset investments

	Shares in Group companies £m
Cost or valuation:	
At 27 June 2009 & 3 July 2010	151.9
Provisions:	
At 27 June 2009 & 3 July 2010	–
Net carrying amount:	
At 27 June 2009 & 3 July 2010	**151.9**

For details of the principal operating subsidiary undertakings as at 3 July 2010, refer to note 30 of The Group financial statements. As permitted under Section 410 (1) and (2) of the Companies Act 2006, the information is given only for the undertakings whose results or financial position, in the opinion of the Directors, principally affect the figures shown in the financial statements.

4. Debtors

Amounts falling due within one year

	2010 £m	2009 £m
Amounts owed by Group companies	**555.4**	351.3
Corporation tax	**0.5**	3.9
Other debtors	**3.5**	11.9
	559.4	367.1

5. Creditors

Amounts falling due within one year

	2010 £m	2009 £m
Bank loans and overdrafts	**5.1**	4.2
Amounts owed to Group undertakings	**103.5**	103.7
Other creditors	**9.7**	8.6
Uninsured claim accrual	**8.5**	7.2
Other financial liabilities	**8.1**	16.4
	134.9	140.1

Amounts falling due after more than one year

	2010 £m	2009 £m
Sterling 7.5 year bond repayable:		
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**–**	–
In more than 5 years	**196.6**	–
Other financial liabilities	**4.0**	8.5
	200.6	8.5

The Company has no security over its liabilities.

6. Deferred taxation

	Deferred tax £m
At 27 June 2009	(0.4)
Provided during the year	0.3
Provided directly to equity	–
At 3 July 2010	**(0.1)**

Deferred taxation provided at the enacted rate is as follows:

	2010 £m	2009 £m
Capital allowances in advance of depreciation	**(0.2)**	(0.5)
Other timing differences	**0.1**	0.1
	(0.1)	(0.4)

7. Pension commitments

Defined contribution:
The Company participates in the defined contribution scheme of The Go-Ahead Group Pension Plan. This scheme is not contracted-out of the State Second Pension Scheme and is open to new entrants. The expense recognised in these accounts for the year is £0.1m (2009: £0.1m) being the contributions paid and payable.

Defined benefit:
The Company participates in a scheme which is part of The Go-Ahead Group Pension Plan. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The most recent actuarial valuation of the scheme was at 31 March 2009 and was updated by Watson Wyatt LLP to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 3 July 2010 and 27 June 2009. The contributions paid to the scheme are paid in line with the schedule of contributions, being 13.3% and 11.2% of pensionable salaries paid to upper and lower tier sections respectively.

The defined benefit scheme is effectively closed to new entrants. As a result it can be expected that the service cost will increase in future, as a percentage of payroll. However, this percentage is likely to be applied to a reducing total pensionable payroll.

The scheme is a multi-employer scheme and in accordance with FRS 17, the Company has accounted for its contributions to the scheme as if it were a defined contribution scheme because it is not possible to identify the Company's share of the net assets and liabilities in the scheme on a consistent and reasonable basis due to the high volume of members/pensioners and the historic interaction between Group companies. The following disclosures provide details of the entire defined benefit scheme.

The main assumptions are:

	2010 %	2009 %
Rate of increase in salaries	**4.3**	4.4
Rate of increase in deferred pensions	**3.3**	3.4
Discount rate	**5.3**	6.3
Inflation assumption	**3.3**	3.4

The fair value of the scheme assets and the expected rate of return, the present value of the scheme liabilities and the resulting deficit are:

	Long term rate of return expected %	**2010 Value £m**	Long term rate of return expected %	2009 Value £m
Equities	**7.9**	**147.8**	8.5	138.8
Bonds	**5.3**	**190.4**	6.2	150.4
Properties	**7.4**	**32.3**	6.7	17.6
Cash	**3.9**	**0.7**	4.4	5.3
Total market value of assets		**371.2**		312.1
Present value of scheme liabilities		**(444.3)**		(368.4)
Pension liability before deferred tax		**(73.1)**		(56.3)
Related deferred tax asset		**20.5**		15.8
Net pension liability		**(52.6)**		(40.5)

8. Called up share capital

			Allotted, called up and fully paid	
	Millions	**2010 £m**	Millions	2009 £m
As at 27 June 2009	**46.9**	**4.7**	46.8	4.7
Issued on exercise of share options	**–**	**–**	0.1	–
Cancelled shares	**–**	**–**	–	–
As at 3 July 2010	**46.9**	**4.7**	46.9	4.7

The Company has one class of ordinary shares which carry no right to fixed income.

9. Share capital and reserves

	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserve £m	Capital redemption reserve £m	Reserve for own shares £m	Profit and loss reserve £m	Total capital & reserves £m
At 28 June 2008	4.7	66.6	10.3	8.8	0.7	(68.8)	446.0	468.3
Retained profit for the year	–	–	–	–	–	–	58.9	58.9
Dividends	–	–	–	–	–	–	(34.8)	(34.8)
Other recognised gains	–	–	–	–	–	–	(26.6)	(26.6)
Acquisition of own shares	–	–	–	–	–	(0.2)	–	(0.2)
Reserve transfer	–	–	–	–	–	0.2	(0.2)	–
Arising on shares issued for share options	–	0.6	–	–	–	–	–	0.6
At 27 June 2009	4.7	67.2	10.3	8.8	0.7	(68.8)	443.3	466.2
Retained profit for the year	–	–	–	–	–	–	34.0	34.0
Dividends	–	–	–	–	–	–	(45.7)	(45.7)
Other recognised losses	–	–	–	–	–	–	12.2	12.2
Acquisition of own shares	–	–	–	–	–	(0.3)	–	(0.3)
Reserve transfer	–	–	–	–	–	0.1	(0.1)	–
Arising on shares issued for share options	–	0.2	–	–	–	–	–	0.2
At 3 July 2010	**4.7**	**67.4**	**10.3**	**8.8**	**0.7**	**(69.0)**	**443.7**	**466.6**

The cumulative amount of goodwill written off to the profit and loss reserve of the Company at 3 July 2010 is £0.2m (2009: £0.2m).

The reserve for own shares is in respect of 3,976,025 ordinary shares (8.5% of total share capital), of which 73,795 are held for Directors' bonus plans. The remaining shares were purchased in order to enhance shareholders' returns and are being held as treasury shares for re-issue in appropriate circumstances.

The information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is provided in the Directors' Report.

The audit fee payable in respect of the Company was £0.1m (2009: £0.2m).

10. Operating lease commitments

The Company's annual commitments under non-cancellable operating leases are as follows:

	2010 £m	Property 2009 £m
Within one year	**0.9**	–
In second to fifth years	**1.2**	2.1
Over five years	**–**	–
	2.1	2.1

11. Capital commitments

At 3 July 2010 £nil was contracted but not provided in the financial statements for the development of a Go-Ahead London property (2009: £3.2m).

12. Contingent liabilities

The Company provides guarantees in respect of bank and equipment finance borrowings of the subsidiaries of The Go-Ahead Group plc.

The Company has issued guarantees dated 30 March 2006 to participating subsidiaries of The Go-Ahead Group Pension Plan, Southern Vectis Group Pension Plan, and Wilts & Dorset Pension Scheme in respect of scheme liabilities arising. Total liabilities in respect of these guaranteed schemes were £69.8m as at 3 July 2010 (2009: £54.7m).

At 3 July 2010 letters of credit amounting to £35.0m (2009: £35.0m) were provided by a Company banker, guaranteed by the Company, in favour of one of the Group's insurers, to cover liabilities of the Company and its subsidiaries.

13. Share based payments

Sharesave Scheme

Full disclosures of the Group's sharesave scheme, SIP and LTIP are given in note 6 to the Group financial statements.

14. Related party transactions

The Company has taken advantage of the exemption under FRS 8, 'Related party disclosures', and transactions with 100% subsidiaries of The Go-Ahead Group plc have not been disclosed.

The Company owns 65% of the ordinary shares in Govia Limited. Thameslink Rail Limited, New Southern Railway Limited ('Southern'), London and Southeastern Railway Limited ('Southeastern') and London and Birmingham Railway Limited ('London Midland') are 100% owned by Govia Limited and hence the Company owns a 65% interest.

	GOVIA		LSER		London Midland		Thameslink		New Southern		Southern	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Dividends paid by related party	**12.2**	22.9	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Interest paid to related party	**0.3**	1.4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Loans to related party	**(66.4)**	(41.0)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Repayment of loan from related party	**58.2**	67.0	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Management charges	**–**	–	**0.7**	0.7	**0.8**	0.7	**–**	–	**0.2**	0.6	**0.7**	–
Amounts owed from related party	**42.8**	56.5	**–**	–	**24.8**	–	**–**	–	**–**	–	**2.3**	–
Amounts owed to related party	**–**	–	**37.1**	46.1	**–**	0.8	**0.7**	4.5	**31.9**	27.7	**–**	–

During the year New Southern, Southern, Southeastern and London Midland have traded with wholly owned subsidiaries of the Company; £8.2m (2009: £5.6m) of costs were incurred by New Southern, Southern, Southeastern and London Midland on an arm's length basis. The New Southern franchise ceased on 19 September 2009 and the Southern franchise commenced on 20 September 2009.

SHAREHOLDER INFORMATION

MANAGING YOUR SHARES

The Company's registrar, Equiniti, is responsible for maintaining the Company's register of members. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details on page 136.

Shareholders can sign up for a Shareview portfolio which enables you to view information regarding your holding, change your address and bank details online, and even sell or purchase shares in the Company. Go to www.shareview.co.uk and click on 'Register' in the top left corner. When completing your details you will need your shareholder reference number which is the eleven digit number found on your latest tax voucher or share certificate. (Please note that your share certificate may state an eight digit shareholder reference number which is now invalid).

CORPORATE WEBSITE: WWW.GO-AHEAD.COM

Our corporate website provides a wealth of information on the Company and its activities. Information available on the site includes half year results and interim management statements, which are not sent to shareholders, as well as share price data, dividend information and the financial calendar. You can also register to receive email alerts when new items are added to the website.

ELECTRONIC COMMUNICATIONS

As far as possible, Go-Ahead provides shareholder documents via the Company's website www.go-ahead.com. Receiving the Company's communications electronically offers advantages in terms of speed and convenience; it is a secure method of delivering shareholder documentation and allows the Company to communicate with its shareholders in a more environmentally and cost effective way.

If you have not done so already, and now wish to register to receive future shareholder communications electronically, please sign up via Shareview (details under 'Managing your shares' above). The default option during this online registration is that your preferred method of delivery of Company communications is electronic.

DIVIDEND PAYMENTS

Dividends are paid in April and November each year. We recommend that all shareholders have their dividends paid directly into their bank or building society account. This is more secure than receiving your dividend by cheque which could be slow to arrive or get lost in the post. The dividend is paid into your account on the payment date which means you do not have to wait for a cheque to clear before the funds are available. We will send you a tax voucher following each dividend payment. To select this method of dividend payment, please contact Equiniti.

DUPLICATE DOCUMENTS

Many of our shareholders have more than one account on the share register, which means they receive duplicate documentation and split dividend payments. To request that your accounts be combined, please contact Equiniti.

SHAREHOLDER SECURITY

Shareholders are advised to be extremely cautious of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. The Company does not endorse any specific share dealing facilities and will not pass on shareholder information to any third party, however, the Company's register is, by law, open to public inspection. Any requests for access to the register are subject to 'proper purpose' requirements to ensure that the information is not used unlawfully.

SHAREHOLDER INFORMATION

Shareholder profile by size of holding as at 3 July 2010

	No. of holdings	%	Shares held	%
1 – 10,000	3,423	93.4	2,083,101	4.4
10,001 – 100,000	167	4.6	6,314,917	13.5
100,001 – 500,000	53	1.5	11,081,433	23.6
500,001 – 1,000,000	9	0.2	6,825,142	14.6
Over 1,000,001	11	0.3	20,601,385	43.9
Total	**3,663**	**100.0**	**46,905,978**	**100.0**

Shareholder profile by category as at 3 July 2010

	No. of holdings	%	Shares held	%
Treasury shares	1	0.0	3,902,230	8.3
Directors	4	0.1	52,568	0.1
Other individuals	3,096	84.6	4,996,864	10.7
Institutional investors	562	15.3	37,954,316	80.9
Total	**3,663**	**100.0**	**46,905,978**	**100.0**

It should be noted that many private investors hold their shares through nominee companies, therefore the percentage of shares held by private holders is higher than that shown.

Financial calendar

Annual General Meeting	11.00am, 28 October 2010
Final dividend record date	5 November 2010
Final dividend payment date	19 November 2010
Half year end	2 January 2011
Half year results announcement	February 2011
Half year dividend	April 2011
Next financial year end	2 July 2011
Full year results announcement	September 2011

CORPORATE INFORMATION

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enquiries@go-ahead.com

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Joint Corporate Broker

Investec Bank plc
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London, EC2V 7QP

Joint Corporate Broker

RBS Hoare Govett Ltd
250 Bishopsgate
London, EC2M 4AA

Corporate Solicitors

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Principal Banker

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135 Bishopsgate
London, EC2M 3UR

Financial PR Advisers

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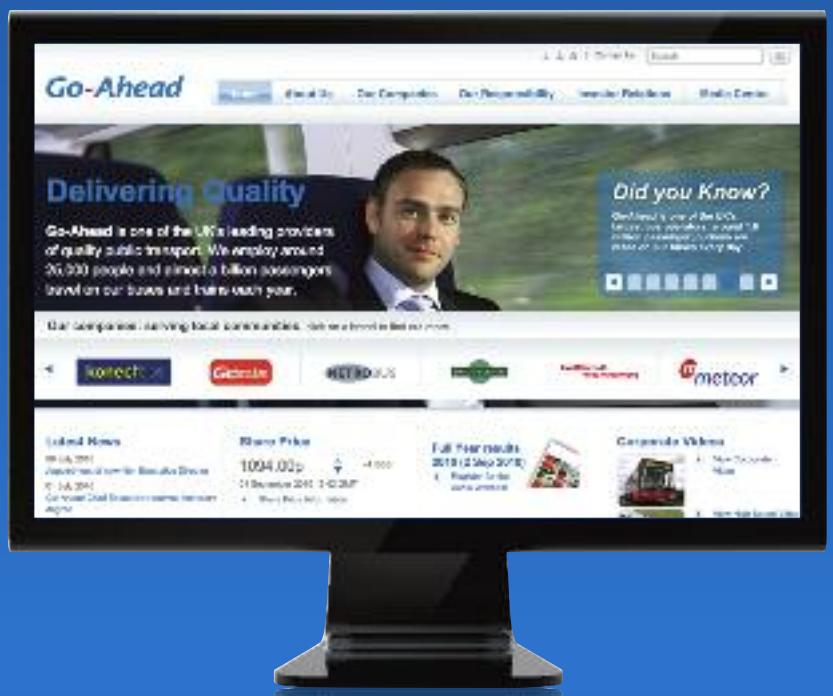
3 London Wall Buildings
London Wall
London, EC2M 5SY

* Calls to this number are charged at 8p per minute from a BT landline; other providers costs may vary. Lines are open 8.30am to 5.30pm Monday to Friday.

Cautionary Statement

Certain statements included in this Annual Report contain forward-looking information concerning the Group's strategy, operations, financial performance or condition, outlook, growth opportunities or circumstances in the sectors or markets in which the Group operates. By their nature, forward-looking statements involve uncertainty because they depend of future circumstances, and relate to events, not all of which are within the Company's control or can be produced by the Company. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Actual results could differ materially from those set out in the forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast and no part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in The Go-Ahead Group plc or any other entity, and must not be relied upon in anyway in connection with any investment decision. Except as required by law, the Company undertakes no obligation to update any forward-looking statement.

For more information visit: **www.go-ahead.com**



Online Annual Report

The 2010 Annual Report and Accounts can be found on our website in interactive and PDF formats. There are also Excel spreadsheets of the key financial statements available to download.

Links to further information

You can find other useful information within the Investor Relations Centre on our website, including share price data, dividend information, our latest presentations and useful factsheets.

Access the Notice of Meeting

The 2010 Notice of Annual General Meeting will be available online at the end of September.

Our Corporate Responsibility Report

You can access a PDF of the Group Corporate Responsibility Report on the website as well as additional information within Our Responsibility Centre.

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BUREAU VERITAS

Verification of Corporate Responsibility data

For the second year Bureau Veritas UK Ltd has worked with the Go-Ahead Group plc (Go-Ahead) to verify and to provide an independent opinion on selected corporate responsibility (CR) key performance indicators (KPI) data contained within the Go-Ahead Group's Corporate Responsibility Report 2010. The information and data reviewed for this verification process relates to the period of 28th June 2009 to 3rd July 2010. The verification incorporated site visits, interviews, document review and checking of Group and Operating Company data.

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