

**Go-Ahead**



*Right time, right place*



## Who we are and what we do

Go-Ahead is one of the UK's leading providers of passenger transport services operating in the bus, rail and aviation services sectors. Employing over 27,500 people across the country, around 920 million passenger journeys are undertaken on our services each year. In addition to the travelling public, customers include the Department for Transport (DfT), Transport for London (TfL), local authorities, British Airports Authority (BAA) and major airlines.

## Why we are different

We are uniquely focused on the UK. Our companies operate in high density commuter markets where there is a strong need for public transport. We believe that transport services are best delivered at a local level with accessible managers who can respond to local needs. We empower our local managers and operate our companies as autonomous business units, whilst working together to share experience and expertise around our Group.

## Our strategy and vision

The Group's strategy is to create organic earnings growth and exercise strong cash management, supplemented by capital investment and value adding acquisitions and disposals. Our focus will remain on UK passenger transport, although we will not rule out investment in overseas operations where we believe they will add value. We are committed to being a leading operator of high quality public transport. Through our companies we aim to provide efficient, integrated and sustainable local public transport systems.

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Go-Ahead's Business Review is set out on pages 2 to 19 of this Report. UK company law requires the Board of Directors to produce a Business Review in which the Board provides a fair review of the business of the Group and a description of the principal risks and uncertainties it faces. Particular care should be taken when assessing elements of this Business Review that relate to future developments and the principal risks and uncertainties facing the Group. Whilst the Board has made every effort to identify, disclose and explain such matters, it cannot predict all events or circumstances that will actually affect the Group in the future.

Please also refer to the Legal Notice on page 85.

# Right time...

*We believe the fundamental strengths of UK public transport have never been stronger. Despite an uncertain economic outlook in the short-term, we believe the following factors will drive long-term growth in the public transport sector:*

## **Improved quality**

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*Sustained investment in public transport from operating companies and the Government has resulted in high quality vehicles and rolling stock and safer, more reliable, frequent and punctual services.*

## **Political support**

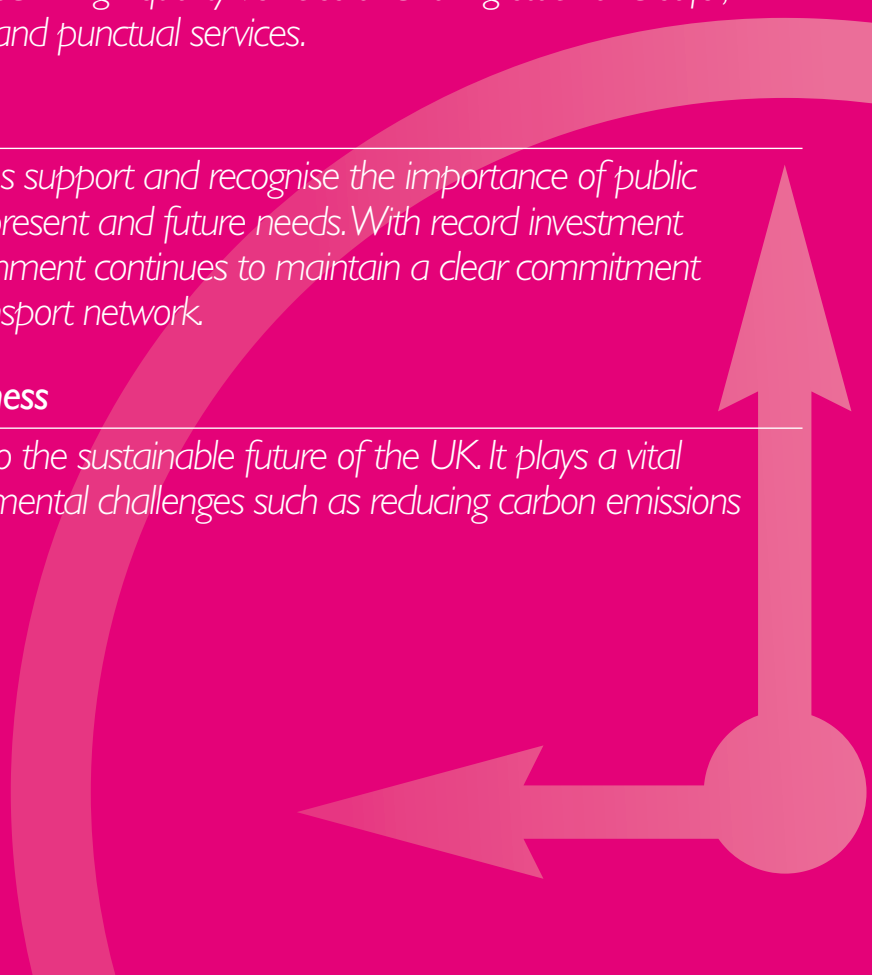
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*All major political parties support and recognise the importance of public transport for the UK's present and future needs. With record investment in the sector, the Government continues to maintain a clear commitment to a growing public transport network.*

## **Environmental awareness**

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*Public transport is key to the sustainable future of the UK. It plays a vital role in meeting environmental challenges such as reducing carbon emissions and traffic congestion.*



# Right place...

*We have focused our operations on the UK, favouring high density commuter markets which have a strong demand for local transport.*



## Bus (100% owned)

Go-Ahead is one of the UK's largest bus operators. With a fleet of over 3,400 buses, we carry, on average, around 1.6 million passengers every day. Our operations are focused on high density commuter markets. We have a strong presence in London, with around 20% market share, where we provide regulated services for Transport for London (TfL). We operate deregulated services in the north east; Oxford; the south east and southern England.

### Revenue

£557.7m

2007: £514.0m

### Operating profit\*

£66.2m

2007: £55.8m



## 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 all UK passenger rail journeys through its three rail companies: Southern (which includes the Gatwick Express), Southeastern and London Midland. The Southeastern franchise will include the operation of new high speed trains on the domestic Channel Tunnel Rail Link into St Pancras International from 2009, significantly reducing current journey times.

### Revenue

£1,378.4m

2007: £1,071.3m

### Operating profit\*

£77.2m

2007: £66.1m



## Aviation Services (100% owned)

The Group's aviation services division is one of the UK's largest providers of cargo services (primarily Plane Handling), ground handling (primarily Aviance UK) and car parking (Meteor). The division operates from 16 airports and services major airline operators such as British Airways (BA), Virgin and bmi. Market leading services within Meteor include 'Meet & Greet' and 'Pink Elephant' services.

### Revenue

£263.0m

2007: £241.6m

### Operating profit\*

£1.5m

2007: £(3.8)m

\* Before amortisation and exceptional items.



	Revenue (£m)	Operating profit (£m)*	Employees
2008	557.7	66.2	11,143
2007	514.0	55.8	11,008
2006	460.0	46.7	10,803
2005	412.9	51.6	9,485
2004	387.5	54.2	9,565

	Revenue (£m)	Operating profit (£m)*	Employees
2008	1,378.4	77.2	10,084
2007	1,071.3	66.1	7,450
2006	744.9	42.5	7,477
2005	617.9	39.9	4,482
2004	619.9	40.9	4,360

	Revenue (£m)	Operating profit (£m)*	Employees
2008	263.0	1.5	6,505
2007	241.6	-3.8	6,525
2006	258.7	8.6	5,974
2005	271.3	5.5	5,803
2004	217.5	0.6	5,084

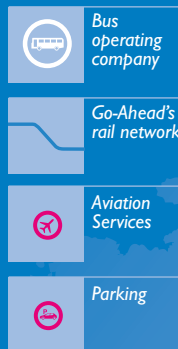
Figures for 2005 to 2008 are based upon International Accounting Standards, 2004 is based upon UK GAAP.

# Right place...

- Focused on high density commuter markets
- Local branding and focus supported by group scale and expertise

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Line with limited  
London Midland services,  
but other operators may  
serve more frequently

## Key

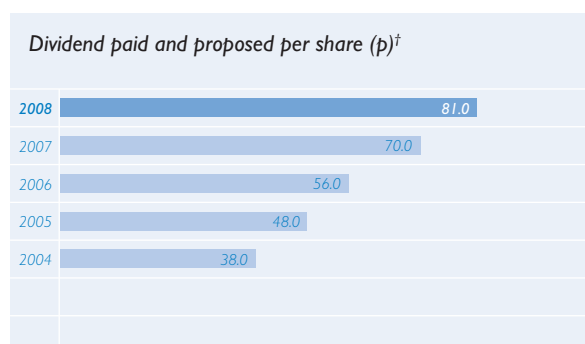
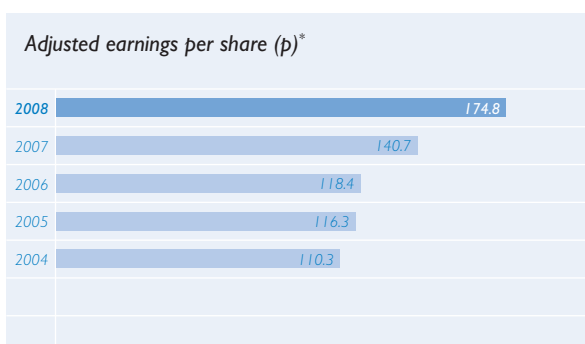
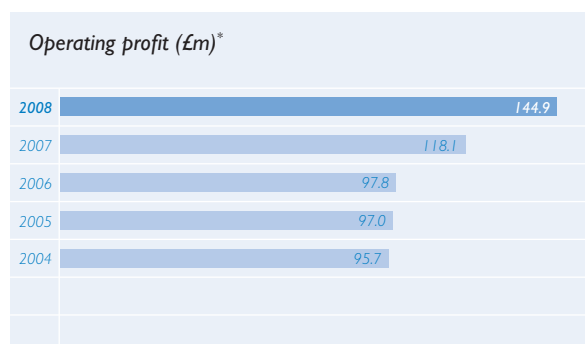
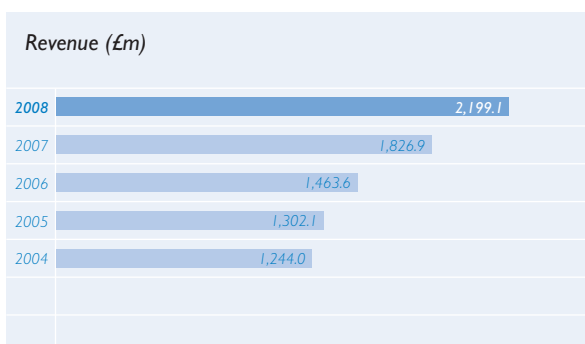


## Group highlights

### Operational

- Another year of record results
- Increase in operating profit\* across all three divisions
- Addition of London Midland and Gatwick Express rail franchises
- Strong demand for our services continues

Financial summary	2008	2007	Increase	Increase (%)
Revenue (£m)	2,199.1	1,826.9	372.2	20.4
Operating profit (£m)*	144.9	118.1	26.8	22.7
Profit before tax (£m)*	131.1	110.1	21.0	19.1
Profit before tax (£m)	103.1	94.8	8.3	8.8
Cashflow generated from operations (£m)	192.5	191.2	1.3	0.7
Basic earnings per share (p)	128.8	124.2	4.6	3.7
Adjusted earnings per share (p)*	174.8	140.7	34.1	24.2
Dividend paid and proposed per share (p)†	81.0	70.0	11.0	15.7



Figures for 2005 to 2008 are based upon International Accounting Standards, 2004 is based upon UK GAAP.

\* Before amortisation and exceptional items.

† Includes interim dividend paid and final proposed dividend.

# Delivering value



Sir Patrick Brown, Chairman

*“All three of our divisions increased operating profit\*, benefiting from strong demand for our services.”*

<b>Financial highlights</b>				
	2008 £m	2007 £m	Increase £m	Increase %
Revenue	<b>2,199.1</b>	1,826.9	372.2	20.4%
Operating profit*	<b>144.9</b>	118.1	26.8	22.7%
Profit before tax*	<b>131.1</b>	110.1	21.0	19.1%
Profit before tax	<b>103.1</b>	94.8	8.3	8.8%
Adjusted earnings per share*	<b>174.8p</b>	140.7p	34.1p	24.2%
Dividend paid and proposed†	<b>81.0p</b>	70.0p	11.0p	15.7%

\* Before amortisation and exceptional items.

† Includes interim dividend paid and final proposed dividend.

We are pleased to report another year of record results for the Group, significantly ahead of last year and above our expectations in June. We enjoyed a strong finish to the year due to further favourable cost settlements in rail, which totalled £7m for the year, and accelerated growth in bus and rail passenger numbers.

## **Business performance highlights**

Revenue increased by £372.2m, or 20.4%, to £2,199.1m (2007: £1,826.9m) and operating profit\* rose by £26.8m, 22.7%, to £144.9m (2007: £118.1m). Profit before tax\* was up £21.0m, 19.1%, to £131.1m (2007: £110.1m) and profit before tax, after amortisation and exceptional items, grew by £8.3m, or 8.8%, to £103.1m (2007: £94.8m). Adjusted earnings per share\* increased by 34.1p, 24.2%, to 174.8p (2007: 140.7p).

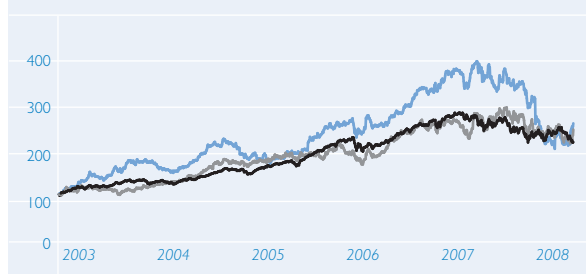
All three of our divisions increased operating profit\*, benefiting from strong demand for our services. Passenger growth in both bus and rail accelerated in the second half of the year. Our bus operating profit\* margin improved by 1.0 percentage point (ppt) and we have hedged all of next financial year's fuel requirements, which account for around 10% of our bus costs. We achieved record levels of punctuality and customer satisfaction in our rail operations and full year rail passenger growth rates were ahead of those achieved in the first half. Our Aviation Services division was returned to profitability through restructuring and improved financial focus.

We strengthened our portfolio of bus operations through four bolt-on acquisitions and the disposal of the under-performing Go West Midlands operation. Our rail operations expanded with the addition of the London Midland franchise in November 2007 and Gatwick Express in June 2008. We are now the busiest rail operator in the UK, providing nearly 30% of all UK passenger journeys.

## **Returns to shareholders**

The Board is proposing a final dividend of 55.5p per share, payable on 21 November 2008 to shareholders on the register at the close of business on 31 October 2008. Together with the interim dividend of 25.5p, the total dividend of 81.0p represents a year-on-year increase of 11.0p, or 15.7%, and provides a dividend cover\* of 2.16 times. Returns to shareholders were further supplemented during the year by the share buyback programme, with 3.6 million shares purchased at a cost of £87.3m.

Total shareholder return (rebased to 100)



— Go-Ahead TSR — Go-Ahead peers TSR<sup>†</sup> — FTSE 250 TSR

Our annual dividend has grown by 224% since 2003 and we will continue with our progressive dividend policy. Despite the recent fall in the equity markets, total shareholder return has been 192% since 2003.

### The Board of Directors and Governance

Nick Swift joined the Board as Group Finance Director on 17 July 2007. Christopher Collins will retire from the Board at the Annual General Meeting to be held on 23 October 2008, after nine years as a Non-Executive Director. We are very grateful for Christopher's significant contribution to the Group. Christopher will be succeeded by Andrew Allner who will join the Board as a Non-Executive Director from 24 October 2008. Andrew brings significant Executive and Non-Executive Director experience and will replace me as Chairman of the Audit Committee.

Corporate governance and risk management remain a priority for the Group. Our flat management structure enables us to manage these issues in a particularly effective manner. Each of our twelve operating companies meet with the Group's two Executive Directors on a monthly basis to monitor the performance and risks in that business. Operating management routinely undertake formal safety inspections at their managed sites to demonstrate the importance of a high quality health and safety culture.

We have reduced a number of risks in the Group this year. Improvements include increased fuel hedging, longer term secured finance and a lower risk pension investment allocation. As part of our continuous improvement of controls, we are also implementing new processes and systems to optimise procurement across the Group.

### 2008 Annual Report structure

The Group has always been committed to open and transparent reporting, and this year we have refined our approach to include the latest Companies Act 2006 requirements. Within our Business Review (formerly the Operating and Financial Review) is a section on the Key Performance Indicators (KPIs) that the Board uses to measure progress against strategy, as well as a section on the main risks facing the Group. We have also integrated the key aspects of our corporate responsibility performance into the Business Review.

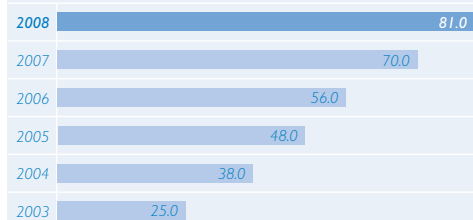
<sup>†</sup> TSR peer group consists of Arriva plc, FirstGroup plc, National Express Group plc and Stagecoach Group plc.

\* Before amortisation and exceptional items.

† Includes interim dividend paid and final proposed dividend.

# The third rail or conductor rail is the system by which some trains draw their power. The system is mainly found in the South of England.

Dividend paid and proposed per share (p)<sup>†</sup>



† Includes interim dividend paid and final proposed dividend.

### Corporate responsibility

Corporate responsibility is central to the way we run our business as a public transport operator. Our bus fleet is the youngest and most environmentally friendly of the major UK operators and we are improving our fuel efficiency through bus driver training and monitoring systems. We were the first operator to regenerate rail electricity on the third rail<sup>#</sup> system and, in partnership with the Carbon Trust, we have made significant investments to reduce our site energy consumption.

Our locally focused management structure means we stay close to our communities, building strong relationships and providing high quality and accessible services. We are convinced that this structure, supported by the commitment and dedication of our employees, is the best way for us to drive performance. I would like to thank our 27,500 employees for making the past year such a success.

### Outlook

We believe we are well placed for the year ahead, whilst mindful of the current economic uncertainty.

We have improved the composition of our business through the disposal of Go West Midlands, the addition of London Midland and Gatwick Express rail franchises and the restructuring of aviation services. We have also reduced risk in areas such as fuel hedging, pensions and financing. Demand for our bus and rail services continues to rise as people change the way they travel, and our balance sheet and cashflows remain strong.

Our strategy continues to focus on providing high quality public transport services in the UK. We will target growth organically and from value-adding capital investment and acquisitions, whilst maintaining our financial discipline and progressive dividend policy.

Retaining the Southern franchise is a high priority for us and we were pleased to have been shortlisted by the DfT to bid for the new franchise.

We have started the new year well and trading has been in line with the Board's expectations.

Sir Patrick Brown,  
Chairman  
4 September 2008

# Strategy drives growth



Keith Ludeman, Group Chief Executive

*“This year's results again demonstrate how we have translated our strategy into success.”*

This year's results again demonstrate how we have translated our strategy into success. We manage the Group through twelve operating companies in three divisions. All twelve companies increased their operating profit\* this year compared to last year.

## Overview of operating performance

Operating profit\* increased by £26.8m, or 22.7%, to £144.9m for the year (2007: £118.1m). The increase consisted of an improvement in bus of £10.4m, rail of £11.1m and aviation services of £5.3m. Organic growth accounted for £18.7m of the increase in operating profit\* across the divisions, equivalent to an increase of 15.8%. The balance of £8.1m was due to contributions from acquisitions with £1.5m in bus, £6.3m in rail and £0.3m in aviation services.

## Bus overview

We improved operating profit\* in both our regulated bus operations in London and in each of our five deregulated bus operations. Our operating profit\* margin increased by 1.0 ppt to 11.9%, despite cost pressure from the significant increases in fuel prices during the year.

In London, we achieved a material increase in the scale of our operations, adding 12.7% to the mileage we operate in the capital. As always, delivering a high quality of service is crucial to reputational and financial success. We were pleased to increase the amount of quality incentive bonus we earned in the year – not without its challenges at present given the high number of roadworks in the city.

We improved our portfolio of deregulated operations through the sale of our under-performing Go West Midlands operation in February 2008, following a strategic review of the options for this business.

Our remaining five deregulated operations recorded a total increase in passenger numbers of 2.9% compared to last year, including growth of 4.9% in the fourth quarter. We believe that this acceleration in passenger growth is due to both the expansion of the concessionary fare scheme across the country in April 2008 and modal shift from car to bus, prompted in part by the higher cost of fuel.

Operating profit* by division				
	2008 £m	2007 £m	Increase £m	Increase %
Bus	66.2	55.8	10.4	18.6%
Rail	77.2	66.1	11.1	16.8%
Aviation Services	1.5	(3.8)	5.3	n/a
<b>Total</b>	<b>144.9</b>	<b>118.1</b>	<b>26.8</b>	<b>22.7%</b>

\* Before amortisation and exceptional items.

## Our strategy

	1 Organic earnings growth	2 Cash management	3 Capital investment	4 Value adding acquisitions	5 Progressive dividend policy	6 Capital structure
KPIs	Year on year increase in operating profit* (excluding acquisitions or disposals) and adjusted earnings per share	Cashflow generated from operations to match operating profit* plus depreciation (EBITDA)	Capital investment to match depreciation through the cycle, except if additional spend adds value	Operating profit* contribution from transactions to exceed our post tax weighted average cost of capital	Dividend cover, based on adjusted earnings per share, to average 2x through the cycle	Maintain adjusted net debt / EBITDA at between 1.5x and 2.5x through the cycle
08 performance	Organic earnings growth of 15.8%, adjusted earnings per share up 24.2%	Cashflow generated from operations / EBITDA* of 99.0%	Net capital investment / depreciation of 111%	Operating profit* contribution of £8.1m on current and prior year transactions with a net acquisition cost of £33.9m	Dividend cover 2.16x	Share buybacks of £87.3m; adjusted net debt / EBITDA* of 1.65x

Cost control is an ongoing feature across all of our bus operations. Fuel accounts for around 10% of our costs and we have now hedged all of our requirements for the year to June 2009 and around half of the following year's requirements. In addition, we are making good progress with fuel efficiency savings through driver training and monitoring technology.

We continue to progress cost reductions through productivity initiatives, and to encourage high performance standards from our staff.

### Rail overview

Our rail division delivered an excellent performance. Operating profit\* increased in both our Southern and Southeastern franchises, and we took ownership of the London Midland franchise in November 2007 and of the Gatwick Express franchise in June 2008.

The quality of our services continued to strengthen, with improved punctuality and customer satisfaction ratings. We believe that quality of service is one of the causal factors behind the sustained growth in passenger numbers for the year, which amounted to 6.7% in Southern and 6.4% in Southeastern. This led to an increase in passenger revenue of 13.2% in Southern and 13.0% in Southeastern for the year, totalling £97.5m.

Revenue growth was also strong in London Midland, exceeding our bid assumptions and leading to an element of revenue share with the DfT for the period. We are pleased with the way this franchise has started.

This year's results include the favourable settlement of a number of commercial issues, which amounted to around £7m. This process is part of the routine resolution of cross-industry matters, but the outcome is uncertain each year, and we may not benefit to the same extent next year.

### Aviation Services overview

We achieved our aim of returning the division to an operating profit\* for the year following a difficult year in 2006/07.

Over 70% of the £5.3m improvement in operating profit\* was achieved in our ground handling operations. The year started with the mobilisation of the new British Airways (BA) contract, followed by significant restructuring of the ground handling operations. The improvement plans will continue to be implemented during the 2008/09 year.

Our cargo operation achieved a strong improvement in its operating profit\* in the year. We reduced capacity and costs at Gatwick, and improved the utilisation of our increased capacity at Heathrow in response to changes in the cargo market.

Our Meteor operations also enjoyed a good year, increasing operating profit\* by £0.4m, including the full year impact of acquisitions made last year. This was supplemented by tight control of costs and overtime.

### Our strategy

Our strategy is to provide high quality passenger transport services in the UK.

Measuring the delivery of our strategy consists of six broad objectives consistent with the delivery of shareholder value. The above table summarises the key performance indicators against each of these objectives, together with the current year results.

We seek organic earnings growth from all of our operations, measured before amortisation and exceptional items to provide more comparable year on year information, and manage payments and receipts closely to convert operating profit\* into operating cash. We support this growth through investment in capital to both maintain and enhance our operations. 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. In addition, we are prepared to make disposals if doing so adds value. Finally, we will maintain our financial discipline, returning value to shareholders through our progressive dividend policy whilst preserving an appropriately strong capital structure.

Our devolved management structure and local branding distinguishes us from the other large transport groups in the UK and supports our culture of customer care, social responsibility and performance ownership. Our aim is to maintain the value of this strong local culture whilst securing the benefits of scale and best practice transfer available to a Group of our size.



**Keith Ludeman,**  
Group Chief Executive  
4 September 2008



# Right time, right place



Keith Ludeman, Group Chief Executive

*“In our view, better services, increasing environmental awareness and the rising cost of fuel are driving a fundamental and positive shift in customer attitudes towards public transport.”*

Keith Ludeman, Group Chief Executive, reviews topical issues and talks about his plans for the Group.

***1. Why have you chosen “right time, right place” as the theme for this report?***

We believe that now is a great time to be a public transport operator. The quality of public transport has increased significantly as private companies, local authorities and the Government have invested heavily in improving the bus and rail network. In our view, better services, increasing environmental awareness and the rising cost of fuel are driving a fundamental and positive shift in customer attitudes towards public transport.

In terms of being in the ‘right place’ we believe Go-Ahead has the right strategy to benefit from these opportunities. We focus on operating in high density commuter markets which are ideal for public transport. Our devolved structure empowers our managers to make local decisions based on local needs. This is important as public transport is very much at the heart of local communities.

***2. Do you really think people are switching from cars to public transport?***

It is still early days, but I do believe that people are thinking twice before getting in their car for every journey. Petrol prices alone have increased dramatically over the last year and combined with road tax and insurance, the rising cost of motoring is hitting individuals hard, especially given the growing cost of living. This means there is a strong disincentive for private car use. With the frustration of driving on our congested road network, it makes sense for people to consider cheaper and more convenient alternatives.

Environmental awareness is also playing a part. Bus and rail have superior environmental credentials compared to private car use and are key to tackling carbon emissions and road congestion. Go-Ahead has always put environmental responsibility at the heart of its business and a decade long investment programme means we have the youngest and greenest bus fleet of the major UK operators. We aim to operate our services in a sustainable and environmentally responsible manner while at the same time ensuring we deliver high quality services that provide an attractive alternative to car travel.



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*“We feel that the combination of local autonomy and Group scale is the best way to maximise the organic growth from our operations.”*

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**3. How do you think a slowdown in the economy would affect demand for your services?**

We recognise that we are operating in an uncertain economic environment. However, we feel that we are in a better position than many if the economy does go through a significant downturn as public transport is typically a cheaper way to travel for both commuting and discretionary travel. In addition, the defensive strengths of public transport and the growth opportunities the industry is experiencing should help offset any reduction in demand from factors such as increasing unemployment.

To date, the demand for our services remains strong. As you can see from our results, we have experienced particularly high levels of growth in the number of rail passengers, especially off-peak travel, and demand for our buses continues to grow.

**4. How has the increase in fuel prices affected your bus operations?**

The increase in fuel price has been significant over the last twelve months, rising from less than 30 pence per litre to over 55 pence per litre at the end of June. However, fuel is a relatively small part of our bus cost base, accounting for around 10%. We are confident that we can recover these costs over time through a combination of increased fuel efficiency and fare increases. In the near term, we have hedged 100% of our requirements for the next financial year at an average of 43 pence per litre and 50% of the following year at 52 pence per litre.

**5. What are the other priorities for your UK operations?**

Effective management of costs in our bus operations is a key priority. Labour is a major part of our cost base and we need to remain efficient and competitive in this area. We will continue to invest in our bus fleet and infrastructure to maintain a high quality service.

Retaining the Southern franchise is clearly a priority for our rail division and we were pleased to hear in August that we had been shortlisted by the DfT to bid for the new franchise. In addition, there are at least nine other rail franchises which will expire by 2014, presenting opportunities for us to consolidate our strong position. The introduction of the UK's first high speed domestic rail service in our Southeastern franchise in 2009 is an important step for the Group, and I am pleased to say that we are making good progress.

Improving the performance of aviation services is another priority. Whilst conditions in this market are challenging, we are beginning to see the results of our turnaround plan and have restored profitability in this division.

And of course, the safety of our passengers, employees and the general public is always a top priority for the Group, as is our responsibility to run our services to timetable and ensure that passengers have a positive journey experience.

**6. How do you maximise shareholder return?**

We aim to fire on all cylinders in this regard through organic growth, focused investment and returns to shareholders.

We feel that the combination of local autonomy and Group scale is the best way to maximise the organic growth from our operations. Investment in capex and acquisitions is rigorous and disciplined, and we will dispose of operations which we feel are under-performing or are worth more to others than to us. We maintain a relatively conservative level of gearing, backed by a five year financing facility to 2012 and highly cash generative operations. Finally, we are committed to maintaining our progressive dividend policy which we know is valued by many of our shareholders.

**7. Will you consider investing in overseas operations?**

Go-Ahead is unique amongst the major UK public transport operators because of our UK focus. We are recognised as having significant expertise in the UK bus and rail market and this is welcomed by our shareholders and will remain our primary focus.

That said, we have looked at a number of opportunities overseas in the past and will continue to do so, but will only pursue these if we believe that they will add value for our shareholders.

**8. So in conclusion?**

We feel that public transport has never been in better shape. We are well placed to deal with any challenges that the next 12 months may bring and to benefit from a continuing shift towards public transport as people seek better, cheaper and greener transport alternatives. We believe that this is the right time and that we are in the right place.

# Bus

## 2008 highlights

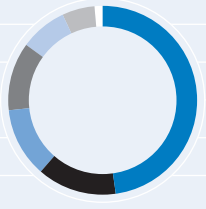
- Operating profit\* +18.6%, margin +1.0 ppt.
- Four bolt-on acquisitions and sale of Go West Midlands
- Fuel fully hedged for 2008/09 at an average of 43p per litre and 50% hedged for 2009/10 at 52p per litre

	2008	2007
Revenue (£m)	557.7	514.0
Operating profit* (£m)	66.2	55.8
Margin	11.9%	10.9%
<b>Revenue growth</b>		
Regulated	12.4%	11.6%
Deregulated**	8.2%	12.0%
<b>Volume growth</b>		
Regulated – miles operated	12.7%	8.4%
Deregulated – passenger journeys**	2.9%	6.8%

\* Before amortisation and exceptional items.

\*\* 2008 growth % excludes Go West Midlands.

## 2008 Bus revenue by operating company (£m)

	2008	2007
		
Go-Ahead London	267.0	238.0
Go North East	76.4	71.9
Go South Coast	66.8	61.3
Metrobus	64.8	56.0
Brighton & Hove	45.4	42.7
Oxford Bus	30.1	28.4
Go West Midlands*	7.2	15.7
<b>Total Bus</b>	<b>557.7</b>	<b>514.0</b>

\* Sold in February 2008.

**Our bus division performed well this year, with strong demand for our services and ongoing cost control more than offsetting the significant increase in fuel prices.**

Revenue increased by 8.5%, or £43.7m, to £557.7m (2007: £514.0m) and operating profit\* rose by 18.6%, or £10.4m, to £66.2m (2007: £55.8m). This resulted in an increase in operating profit\* margin of 1.0 ppt from 10.9% to 11.9%.

During the year we strengthened our bus portfolio through the addition of four bolt-on acquisitions and the disposal of our under-performing Go West Midlands operations.

We acquired FirstGroup's regulated bus operations in Orpington, which were transferred into our Metrobus operations in that area. The bus operations of Northumbria Coaches, Stanley Taxis and Redby Buses were incorporated into our North East operation. The total consideration for those acquisitions was £5.5m and they contributed £5.3m of revenue and £0.8m of operating profit\* to the current year's results. The incremental contribution from a full year of ownership of Blue Triangle, Docklands and Marchwood, which were acquired last year for a total of £19.5m, added a further £14.2m of revenue and £0.7m of operating profit\*.

Go West Midlands was sold for £2.0m in February 2008.

This year's results include revenue of £7.2m (2007: £15.7m) and an operating loss of £3.9m for the first eight months of this financial year prior to disposal (2007: £4.1m loss). The loss on sale was included in the exceptional item of £8.4m relating to impairment and onerous lease costs.

Excluding the impact of the above disposal and acquisitions, like for like revenue increased by 6.4%, or £32.6m, and operating profit\* rose by 15.6%, or £8.7m.

Ongoing cost control remained a priority across the division and increases in the overall like for like operating costs were held to 5.3%, or £24.4m, despite the significant increase in fuel prices.

The average underlying cost of fuel (before delivery, duty and duty rebate through the bus services operating grant) increased from 26.4p per litre last year to 33.7p this year. We consume around 110m litres of fuel each year, of which approximately 50% was hedged at 29p for 2007/8. This resulted in a net cost increase, including the benefit of the hedge, of £8.0m for the year.

Right time...

# Increasing demand for bus use continues

On average, around 1,600,000 people travel on our buses every day

## Better

Buses are increasingly seen as a quick, convenient and cheap way to travel. Investment by operating companies in modern fleets and technology has resulted in cleaner, safer and more punctual services. Transport for London (TfL) and local authorities around the UK have invested in dedicated bus routes and car restraint measures, such as congestion zone charges, which have led to increased bus usage. In fact, more journeys are made by bus than by any other means of public transport<sup>1</sup>.



87%

Installation of CCTV on buses has significantly increased safety. Over 87% of Go-Ahead's buses now have CCTV<sup>2</sup>.

## Cheaper

Bus is widely regarded as the cheapest mode of public transport. A month's bus pass can often be cheaper than filling up a car with a tank of petrol. In April 2008 the concessionary fare scheme was extended to allow anyone aged 60 or older to travel by bus for free anywhere in the UK. As a result, the number of passengers aged over 60 has more than doubled in some areas.



£1.50

Only £1.50 a day entitles you to unlimited bus travel around Oxford City, taking advantage of the Oxford City monthly bus pass.

## Greener

Encouraging more people to travel by bus is key to tackling increasing road congestion and greenhouse gas emissions. Technological advancements in 'greener' engines and energy sources mean that, compared with private car use, bus travel is an environmentally friendly way of getting around.



3.7%

Buses contribute just 3.7% of total UK transport CO<sub>2</sub> emissions, whereas the car contributes 52.5%<sup>3</sup>.

<sup>1</sup> Source: Department for Transport (DfT).

<sup>2</sup> Source: Group estimate – excludes Meteor's bus operations.

<sup>3</sup> Source: National Atmospheric Emissions Inventory 2006, data included in DfT's Carbon Pathway's Analysis July 2008.



*Right place...*

# *Well positioned in urban markets*

## *One of the largest operators in London*

We have around 20% of the London bus market which makes us one of the biggest operators in the capital. We have 16 strategically located London depots which means we are well placed to benefit from London's growing network, including the regeneration of East London and the 2012 Olympic developments. We have an excellent track record for delivering high quality services resulting in additional payments from TfL.

## *Strong position in urban markets*

Go-Ahead is one of the UK's largest bus operators. Outside of London our operations are focused on high density commuter markets where demand for bus travel is high. We believe the best public transport services are delivered at a local level. Our bus companies are locally branded, run by local managers and form an integral part of the communities in which they operate.

## *Quality operator*

We have heavily invested in our fleets, technology and training to ensure we deliver a quality service. We have recently made a significant investment in the latest driver monitoring technology to help our drivers achieve maximum fuel efficiency. We use state of the art GPS systems to ensure the right bus is in the right place at the right time and have invested in Smartcard technology to improve the convenience of bus travel.

*/ Source: The TAS Partnership – August 2008 (Analysis excludes regulated London operations).*

90%



We have a strong depot network in London with nearly 90% of our capacity owned as freehold.

50



Local identity is key to running a successful bus operation; Go North East operates 50 locally branded routes.

No. 1



Go-Ahead has the youngest and greenest bus fleet of the major UK operators and Oxford Bus Company has the lowest emissions of any bus operator in the UK<sup>1</sup>.

Thank you  
for  
giving  
way

240

EMERGENCY EXIT, BREAK GLASS

**A month's bus travel**  
**for the price of a**  
**tank of petrol**

**SAVER tickets from [www.buses.co.uk](http://www.buses.co.uk)**

EMERGENCY ENGINE STOP BEHIND DOOR

PULL TO OPEN

OS



# Right place...









With around 20% of the London bus market we are one of the capital's biggest operators.



Local identity is key to running a successful bus operation; Go North East operates 50 locally branded routes.



Oxford Bus Company has the lowest emissions of any bus operator in the UK.

Operating Company	1. 	2. 	3. 	4. 	5. 	6. 
Revenue (£m)	267.0	76.4	66.8	64.8	45.4	30.1
Managing Director	John Trayner	Peter Huntley	Alex Carter	Alan Eatwell	Roger French	Philip Kirk
Nature of business	Regulated	Deregulated	Deregulated	Regulated/deregulated	Deregulated	Deregulated
Geographical area	Central London South London East London	Tyne & Wear County Durham	Dorset Wiltshire Hampshire Isle of Wight Southampton	South East London Kent Surrey East Sussex West Sussex	Brighton Hove Eastbourne Tunbridge Wells Steyping/Shoreham	Oxfordshire Routes to: London, Heathrow and Gatwick
Approx passenger journeys*	360 million	70 million	35 million	55 million	45 million	20 million
Number of employees	4,611	2,076	1,569	1,261	1,052	574
Fleet size	1,466 buses	664 buses	519 buses	389 buses	263 buses	148 buses

\*Rounded to the nearest 5 million.

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*“We have started the new year with a stronger base than last year, following the disposal of Go West Midlands, the bolt-on acquisitions and the hedging of all of next year’s fuel requirements.”*

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Despite these increases, fuel remains a relatively small part of our cost base at around 10%. We have hedged all of our expected fuel consumption for the year to June 2009 at an average cost of 43p per litre and around half of the following year’s requirement at 52p per litre. Our hedging policy is to maintain this level of cover, rolling forward on a quarterly basis. We remain confident that we can recover these increases over time through a combination of fuel efficiency programmes and fare increases.

Two thirds of our operating costs consist of labour and our operating companies continue to progress productivity initiatives during annual wage negotiations. In addition, the division benefited from a net reduction in pension costs of £3.0m.

Total depreciation for the division was £30.9m (2007: £29.0m), and capital expenditure was £36.3m (2007: £36.1m). We have the youngest deregulated bus fleet in the sector with an average age of 6.4 years.

#### **Regulated bus operations**

Our London bus business achieved a significant increase in the scale of its operations during the year and delivered another strong performance.

Revenue increased by 12.4% and mileage operated increased by 12.7%. Around half of this increase was due to acquisitions, with the balance due to net contract wins and existing contract extensions.

Quality incentive bonuses totalled £13.7m (2007: £13.0m). This included a particularly strong performance from the regulated operations of Metrobus. We continue to frequently top the TfL quality league tables and operated 99.6% of our target mileage before losses due to traffic congestion.

We own around 90% of our depot capacity on a freehold basis, which provides a strong base for contract renewals. Nevertheless, the competitive nature of TfL route tendering means that there is usually some turnover of route operations and at this time we expect our peak vehicle requirements to reduce by around 4% during the course of next year as a result of recent tenders awards.

Overall, in our regulated operations, we increased operating profit\* and held margins at similar levels to last year despite the higher fuel costs.

#### **Deregulated bus operations**

Revenue, operating profit\* and margin improved in each of our five deregulated operations.

Demand for our deregulated bus services was strong in the year. Excluding Go West Midlands, growth in revenue was 8.2% and passenger numbers increased by 2.9% with a fourth quarter increase in passengers of 4.9%. This was led by an increase in concessionary passenger journeys. Concessionary schemes were extended nationally on 1 April 2008 and now represent some 30% of our passenger numbers and around 20% of revenue. We have agreed satisfactory reimbursement rates with local authorities for around two thirds of these schemes and are looking to agree the remainder at rates which give us a fair return for the services provided.

The overall number of fare paying passengers remained similar to last year, with the expected reduction from passengers switching to concessionary fares being offset by new fare paying passengers. The recent changes in the concessionary schemes have clouded visibility on these underlying trends, but we believe that the new passengers are due in part to modal shift, with customers switching from car to bus in response to recent increases in fuel prices.

#### **Outlook**

We have started the new year with a stronger base than last year, following the disposal of Go West Midlands, the bolt-on acquisitions and the hedging of all of next year’s fuel requirements.

We are pleased with the progress we have made to date to recover fuel price rises through a combination of fare increases and consumption efficiency. We are maintaining tight control over all of our costs, although our net pension costs for next year are likely to be around £3m higher than this year. We have a number of cost saving initiatives planned, supported by targeted capital investment. In London, we currently expect the negative impact of contract changes on operating profit\* to be limited to around £1m and we will continue to be competitive in tenders and maximise our quality incentive bonuses. In our deregulated operations, we will look to maximise the opportunity from modal shift by continuing to provide high quality services, supported by initiatives to encourage motorists to leave their cars and use our services.

# Rail

## 2008 highlights

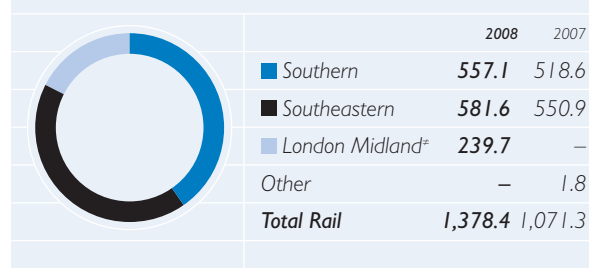
- Operating profit\* +16.8%
- Successful addition of London Midland and Gatwick Express franchises
- Continued strong passenger growth

	2008	2007
Revenue (£m)	<b>1,378.4</b>	1,071.3
Operating profit* (£m)	<b>77.2</b>	66.1
Margin	<b>5.6%</b>	6.2%
<i>Passenger income growth</i>		
Southern	<b>13.2%</b>	14.1%
Southeastern**	<b>13.0%</b>	12.4%
<i>Volume growth</i>		
Southern	<b>6.7%</b>	9.1%
Southeastern**	<b>6.4%</b>	7.0%

\* Before amortisation and exceptional items.

\*\* Southeastern acquired 31 March 2006. 2007 growth based on Q4 2007 v Q4 2006.

## 2008 Rail revenue by operating company (£m)



\* (part year)

## Our rail division delivered another excellent performance this year.

Revenue increased by 28.7%, or £307.1m, to £1,378.4m (2007: £1,071.3m) and operating profit\* rose by 16.8%, or £11.1m to £77.2m (2007: £66.1m). The operating profit\* margin reduced by 0.6 pts from 6.2% to 5.6% reflecting the addition of the lower margin London Midland franchise.

Our London Midland franchise commenced operations on 11 November 2007, and has subsequently performed well, contributing £239.7m of revenue, including £103.0m of passenger revenue and £113.1m of subsidy, and £6.3m of operating profit\* for the period.

The transfer of Gatwick Express into our Southern franchise on 22 June 2008 also went smoothly. There was no significant impact on the division's revenue or operating profit\* for the year to 28 June 2008.

This year's results include £0.3m of bid costs relating to the new Southern franchise. Last year included £1.9m of revenue and £1.0m of operating profit\* relating to end of franchise adjustments and bid costs for London Midland.

Excluding the above items, total revenue for the Southern and Southeastern franchises increased by 6.5%, or £69.2m, to £1,138.7m (2007: £1,069.5m) and operating profit\* increased by 9.4%, or £6.1m, to £71.2m (2007: £65.1m).

Like for like passenger revenue in our Southern and Southeastern franchises increased by 13.1%, or £97.6m, to £842.0m (2007: £744.4m). This was ahead of our expectations, and we believe that this reflects the structural improvements in rail, resulting from sustained investment coupled with operational improvements in punctuality, frequency and service quality, together with the impact of increased road congestion and higher fuel costs for motorists.

Subsidies from the DfT to these two franchises reduced by 13.7%, or £39.4m, to £247.7m in accordance with the terms of the franchises. Operating costs in the two franchises increased by 6.3%, or £63.2m, to £1,067.5m.

The integrated nature of the rail industry means that there are a number of complex operational allocation issues to resolve each year. As with last year, this year's operating profit\* includes a number of favourable settlements in respect of certain of these items, some of which were resolved close to the year end. The benefit of settlements for the year was approximately £7m.



Right time...

# Growth in rail travel

On average, around 950,000 people travel on our trains every day

## Better

Since privatisation the quality of rail travel has improved significantly. As a result, the number of rail passengers in the UK has increased by 45% in the past decade and in 2007 more people travelled by train than at any time since the second world war<sup>1</sup>. Sustained investment by train operating companies, coupled with a clear and financially underpinned political commitment to a growing railway, has resulted in high quality, frequent and reliable services.

**90%**



90% of trains in the UK now arrive on time<sup>2</sup>.

## Cheaper

Contrary to public perception, rail travel can be very economical for both commuting and discretionary travel, especially in light of the increasing cost of petrol. The cost of commuting between London and Brighton by rail is around 20% cheaper than the cost of petrol alone for the average driver<sup>3</sup>. In addition, real savings can be achieved by planning journeys in advance or travelling off-peak. With increased traffic congestion, rail can provide a convenient, quick and cheaper alternative to private car use.



**£2.89**

For only £2.89 per person per day, one adult plus two children are entitled to unlimited off-peak travel on Southeastern's Kent Rover Area for three days, including key routes such as London to Canterbury.

## Greener

Rail has superior environmental credentials to private car use and is one of the greenest forms of mass transit. Growth in rail is key to the sustainable development of the UK and plays a vital role in reducing carbon emissions and traffic congestion. Integrating rail with other forms of 'green' travel is important. We offer parking discounts for electric cars, integrate our buses with rail timetables and have increased secure cycle storage at our stations, by approximately 2,100 additional spaces on our Southern network.



**1.7%**

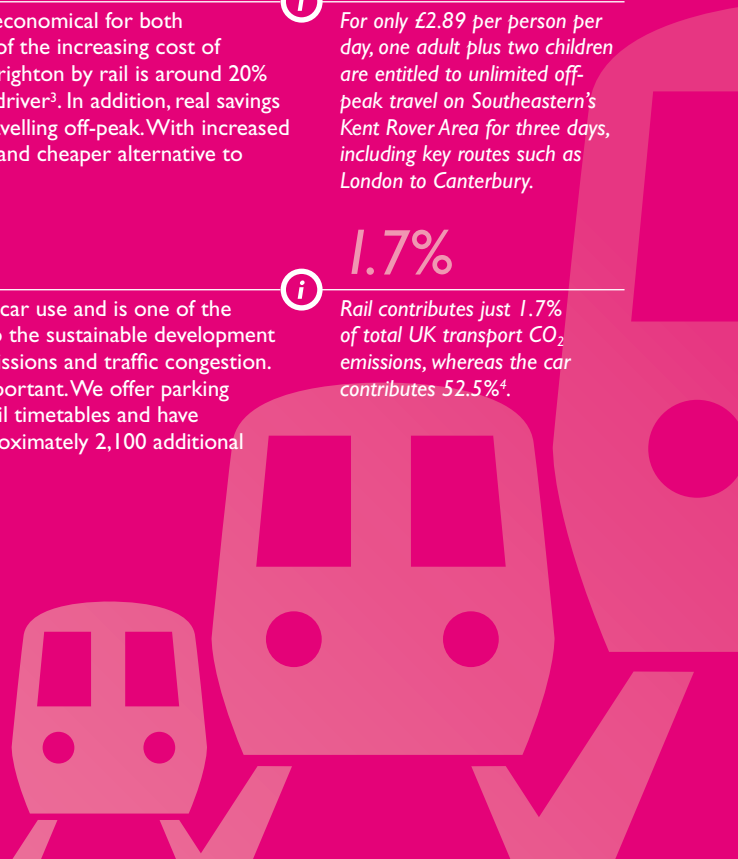
Rail contributes just 1.7% of total UK transport CO<sub>2</sub> emissions, whereas the car contributes 52.5%<sup>4</sup>.

<sup>1</sup> Source: Association of Train Operating Companies (ATOC).

<sup>2</sup> Source: Network Rail.

<sup>3</sup> Source: [www.theaa.com](http://www.theaa.com), [www.ford.co.uk](http://www.ford.co.uk), [www.petrolprices.com](http://www.petrolprices.com)  
Based on a Ford Mondeo 2.0 petrol fuel consumption 35.8mpg and a Southern London to Brighton annual season ticket.

<sup>4</sup> Source: National Atmospheric Emissions Inventory 2006, data included in DfT's Carbon Pathway's Analysis July 2008.



Right place...

# UK's busiest rail operator

## UK's busiest rail operator

Our operations make us the busiest rail operator in the UK. In 2007 we expanded our operations with the London Midland franchise connecting London, the Midlands and the North West. In June this year we began operating the Gatwick Express and we now carry more passengers on our rail operations than any other company.

## Significant investment

We have purchased new rolling stock, improved security at stations, introduced new timetabling and rigorous customer service programmes to ensure passengers have a positive journey experience. We were the first rail operator to implement regenerative braking technology on the 'third rail'\* system. This improves energy efficiency by generating and returning electricity to the railway network.

## Development opportunities

In addition to our Southern franchise bid, we are well positioned to bid for future franchise opportunities of which there are nine by 2014. We have established a strong and experienced bid team and have a proven track record of winning and improving franchises. In 2009 we will operate the UK's first high speed domestic rail service across Kent into St Pancras International, significantly reducing current journey times. This service will play a key role in the development of the 2012 Olympic site and drive significant regeneration in Kent.

\* The third rail or conductor rail is the system by which some trains draw their power. The system is mainly found in the South of England.

30%



Our rail operations are responsible for nearly 30% of all UK passenger rail journeys.

£1 billion



The Southern franchise included a total investment of £1 billion to transform rolling stock, depots, stations and customer services.

37mins



It will take only 37 minutes to travel from Ashford to London on our new high speed line. Currently it takes 1 hour 23 minutes.



Above: Southeastern launched a TV and radio campaign to promote cheap off-peak rail travel.

Opposite photo: Southern began operating the Gatwick Express in June 2008.



# Right place...



Southern have invested £1 billion in order to transform the franchise.



## SOUTHERN

Operating Company	1. <b>Gatwick EXPRESS</b>	2. <b>southeastern.</b>	3. <b>london midland</b>
Revenue (£m)	557.1	581.6	239.7 (part year)
Managing Director	Chris Burchell	Charles Horton	Steve Banaghan
Geographical area	London Surrey East / West Sussex Hampshire Kent	London Kent East Sussex	London Milton Keynes Northampton Birmingham / West Midlands Liverpool
Approx passenger numbers*	145 million	160 million	30 million
Number of employees	3,787	3,835	2,462
Fleet size	276 trains	344 trains	153 trains

\*Rounded to the nearest 5 million.



Southeastern will operate the UK's first domestic high speed line in 2009.



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*“Our rail operations start the new year with record levels of operational performance and high levels of customer satisfaction.”*

Total depreciation for the division was £11.3m (2007: £9.2m), and capital expenditure was £9.3m (2007: £4.9m). We were also shortlisted to provide services for the Pendolino Lengthening Project on the West Coast Main Line, although this work was ultimately awarded to the current franchise operator.

#### **Southern**

Our operating performance reached record levels in Southern with the public performance measure (PPM) demonstrating that 90.1% of our trains arrived on time. Our customer satisfaction rating remained at 81%, in line with last year.

Passenger revenue increased by 13.2% and growth in passenger numbers has remained particularly strong, with a full year increase of 6.7% following a first half increase of 6.1%.

Improvements to the network included a new timetable in December 2007, additional capacity on the south coast, and improvements to customer services such as ticketing and cycling facilities.

In February 2008, Southern agreed to procure a further 11 four-car Electrostar units for the DfT as part of the preparations for the Thameslink programme. Under this agreement, Southern paid a 40% deposit of £21.2m from restricted cash at the end of March 2008, with the balance due in March 2009. This confidential agreement also included a favourable reprofiling of the DfT's profit share in Southern from 1 January 2008 to September 2009.

#### **Southeastern**

Our operating performance also reached record levels in Southeastern, with a PPM of 91.1%. Some of this improvement is a result of reducing congestion between London Bridge and Lewisham through the introduction of a comprehensively revised timetable in December 2007. Our customer satisfaction rating increased to 79%, compared to 74% last year.

Passenger revenue increased by 13.0% compared to last year. Growth in passenger numbers was 6.4%, following a first half increase of 5.9%.

Preparations continue for the launch of significant timetable changes across the whole of Kent from December 2009, which includes the introduction of the new high speed services. These will result in significant journey time reductions, as well as providing new journey opportunities.

#### **London Midland**

Mobilisation of this new franchise was complex although the transition to new ownership was seamless. Despite some problems with the Network Rail led West Coast Route Modernisation Project, operating performance has been good. The franchise achieved a PPM of 88.6% and a customer satisfaction rating of 81% in line with our improvement plans. We have completed a number of key developments such as the integration of the Bletchley and Birmingham control centres, engineering depot consolidation and securing the Investor in People status two years in advance of our target. Further initiatives are underway, such as revenue protection through enhanced gating, and a significant timetable change in December 2008 involving the introduction of new trains.

Revenue growth has been above the franchise bid assumptions, triggering revenue share to the DfT of 50% for amounts above 102%, and 80% of the revenue in excess of 104%.

#### **Outlook**

Our rail operations start the new year with record levels of operational performance and high levels of customer satisfaction. We will benefit from a full year's contribution from London Midland and from the re-profiling of Southern's profit share. Gatwick Express is expected to add around £70m of revenue and be broadly neutral in operating profit\* contribution under the terms of the transfer.

We have benefited from particularly strong increases in passenger numbers over the last two years, as well as a number of favourable settlements. There is no certainty that we will continue to benefit to this extent in future years. Our aim is to continue improving operational performance, customer satisfaction and cost control while meeting, and exceeding, our franchise obligations.

A high priority for the Group is to retain our Southern rail operations. We have been shortlisted by the DfT to bid for the new franchise and we are mobilising our strong and experienced bid team to accelerate preparations for our bid to retain this important franchise. The new franchise will run for five years ten months from September 2009, with an optional two year extension. Costs associated with the bid will be expensed during the bid process, with the franchise expected to be awarded to the successful bidder by May 2009.

# Aviation Services

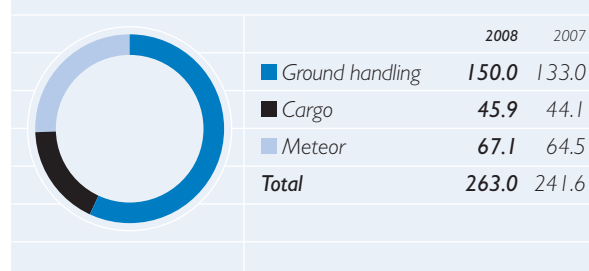
## 2008 highlights

- Restored division to profitability
- Good progress in restructuring ground handling
- Cargo capacity switch to Heathrow complete
- Profit improvement in Meteor

	2008	2007
Revenue (£m)	<b>263.0</b>	241.6
Operating profit / (loss)* (£m)	<b>1.5</b>	(3.8)
Margin	<b>0.6%</b>	(1.6)%
<b>Revenue growth</b>		
Ground handling	<b>12.7%</b>	(1.8)%
Cargo	<b>4.2%</b>	4.6%
Meteor	<b>4.0%</b>	(21.3)%
<b>Volume Growth</b>		
Ground handling – aircraft turnarounds	<b>13.4%</b>	(4.8)%
Cargo – tonnes	<b>4.7%</b>	0.8%
Meteor – parking transactions	<b>9.7%</b>	(23.7)%

\* Before amortisation and exceptional items.

## 2008 Aviation Services revenue by operating activity (£m)



**We are pleased to have achieved our aim of returning the division back to profitability this year.**

Revenue increased by 8.9%, or £21.4m, to £263.0m (2007: £241.6m) and operating profit\* rose by £5.3m to £1.5m (2007: £3.8m loss). The operating profit\* margin increased by 2.2 ppts from (1.6)% to 0.6%.

The above includes £67.1m (2007: £64.5m) of revenue and £2.2m (2007: £1.8m) of operating profit\* attributable to our Meteor parking and security operations.

Revenue for the ground handling and cargo operations totalled £195.9m (2007: £177.1m), of which around 75% was attributable to ground handling. Operating profit\* improved by £4.8m to a loss of £0.7m compared to a loss of £5.5m last year.

Total depreciation for the division totalled £6.9m (2007: £6.4m), and capital expenditure was £9.9m (2007: £16.6m), of which £1.4m (2007: £1.5m) was spent in Meteor.

The total cost of restructuring the ground handling and cargo operations is shown as an exceptional cost of £8.0m, and is expected to have a payback period of around one year.

## Ground handling

Revenue from our ground handling operations increased by 12.7%, supported by a 13.4% increase in the number of aircraft turnarounds. The majority of this increase was due to the new BA contract for services at Aberdeen, Edinburgh, Glasgow and Manchester airports which started in July 2007. Mobilisation of these contracts was difficult due to staff shortages and a terrorist incident at Glasgow. The first half operating profit\* includes an estimated £1.0m of additional costs related to this mobilisation and these contracts are now performing well.

The net changes to other contracts were favourable in the year and, towards the end of the year, we negotiated extensions to our contracts with bmi through to 2011.

Labour represents around 70% of the cost base and a significant amount of attention has been given to improving the management structure and focus of this operation. It now has a dedicated Managing Director and Finance Director to complement the Commercial Director. The Operations Director has been replaced by a number of regional general managers to enhance local profit responsibility in addition to service quality. Restructuring plans are being implemented for a number of

*Right time...*

# *A growing market*

*We serve around 50 million passengers each year through our aviation services*

## *Growing UK aviation market*

The UK remains one of the largest aviation markets in the world. 240 million passengers a year travel through UK airports and Heathrow is one of the world's busiest<sup>1</sup>. Whilst there are challenges for the aviation industry in the short-term, particularly from escalating fuel costs, the medium-term growth prospects are positive, driven by a rising population, globalisation and economic growth.



**79 million**

*Passenger numbers at Heathrow alone are projected to grow from around 70 million passengers in 2008 to 79 million by 2013<sup>1</sup>.*

## *Increasing cargo traffic*

International air freight traffic is forecast to grow. It forms a vital component of global supply chains as prosperity grows, trade is liberalised and the demand for just-in-time delivery increases.



**15%**

*UK air freight is forecast to grow by 15% between 2007 and 2011<sup>2</sup>.*

## *Car parks increasing in value*

The increase in UK passenger journeys has led to a rise in demand for parking at airports and railway stations. Combined with ongoing scarcity of available land the value of car parking spaces has increased. When integrated with public transport, car parks can help reduce city centre congestion, such as the successful park and ride centres around Oxford.



**3,000**

*London Midland has committed to provide more than 3,000 extra parking spaces across its stations.*

<sup>1</sup> Source: Civil Aviation Authority.

<sup>2</sup> Source: Business Monitor International – April 2008.



*Right place...*

# *Excellent coverage of UK airports*

## *Ground handling*

We are one of the UK's largest independent ground handlers. We have operations at 16 UK airports, with a particularly strong presence at Heathrow. Most of our ground handling activity is under the Aviance brand, complemented by Plane Handling activities at Heathrow's Terminal 3. We have a strong track record of winning, maintaining and developing long-term relationships with major airline operators such as British Airways (BA), Virgin and bmi. Aviance UK is well placed to benefit from the future growth of wide-bodied aircraft and was the first to handle the A380 at Heathrow.



**23%**

*We are Heathrow's largest independent handler, accounting for 23% of all turnarounds.*

## *Cargo*

We are the largest independent cargo handler in the UK. We have a significant presence at Heathrow, with dedicated cargo handling facilities. Other operations are at Gatwick, Stansted, Manchester and Glasgow. Our operations include dedicated services to major airlines including Virgin Atlantic and Cathay Pacific.



**18%**

*We have around 18% of the UK cargo market.*

## *Meteor*

Meteor is one of the UK's largest off-street parking operators. We have an established reputation in the airport parking sector, with a significant presence at Heathrow. We operate the market leading 'Meet & Greet' and 'Pink Elephant' services and have fully owned and operated facilities at Heathrow, Gatwick, Manchester and Birmingham. Meteor also manages car parking and security for train operating companies, retailers, hospital trusts, hotel groups, property companies and local authorities.



**70,000**

*Meteor manages over 70,000 parking spaces in the UK.*





# Right place...

## Key



Aviation  
Services  
(Aviance/Plane  
Handling)



Parking  
(Meteor)



Through our ground handling operations we are responsible for 23% of all Heathrow's turnarounds.



Meteor is one of the UK's largest parking companies with an established presence at many UK airports.



PLANE HANDLING LTD.



Operating Company	PLANE HANDLING LTD.	
Revenue (£m)	195.9	67.1
Managing Director	Patrick Verwer – Aviance UK Rob Williams – Plane Handling	Stephen Turner
Geographical area	Nationwide	Nationwide
Approx passengers served* / journeys	50 million	5.5 million
Number of employees	5,395	1,110
Physical statistics	16 airports	Over 70,000 parking spaces



We are the largest independent cargo handler in the UK.

\* Rounded to the nearest 5 million.

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*“We are pleased to have achieved our aim of returning the division back to profitability this year.”*

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underperforming airports, including the closure of our operations at Durham Tees airport in February and the potential closure of our operations at Gatwick in October 2008. This is a necessary part of securing the future for these operations and we acknowledge the support and constructive attitude of our employees through this process of significant change.

#### **Cargo**

Revenue from our cargo operations increased by 4.2%, supported by a 4.7% increase in tonnage handled. The overall increases continued the trend of significant growth at Heathrow more than compensating for weakness at Gatwick. Accordingly, over the last two years we have added 100,000 tonnes of capacity through a new cargo facility and additional equipment at Heathrow and we have reduced our facilities at Gatwick from 75,000 tonnes to 25,000 tonnes.

The additional revenue, supplemented by tight cost control in areas such as procurement and overtime, led to a further increase in the operating profit\* of our cargo operation for the year compared to last year:

#### **Meteor operations**

Revenue from our Meteor operations increased by 4.0%, supported by a 9.7% increase in transactions. Operating profit\* increased by £0.4m. The full year contribution of security services company Nikaro Limited, acquired in February 2007, added £1.7m of revenue and £0.3m of operating profit\*.

The improvement in like for like operating profit\* was due to the airport related businesses, which account for the majority of Meteor's operations, and the expanded rail services, which includes car parking and revenue protection. In the airport division, we extended the car parking contract at Heathrow for five years but did not retain the Stansted contract which now expires in September 2008. In the rail division, car park capacity is becoming a constraint at a number of railway stations, and Meteor has developed a cost effective way of constructing an additional level of decking for parking at these sites.

#### **Outlook**

We are expecting a challenging market for ground handling next year given the pressures facing the aviation industry. The restructuring of our operations should provide significant help towards mitigating the impact of these challenges. We will continue to prioritise service quality and tight cost control. Our cargo operations should continue to benefit from our extensive facilities at Heathrow. We will also continue to look for opportunities to grow our Meteor operations to compensate for the loss of the contract at Stansted.

# Financially strong



Nick Swift, Group Finance Director

Operating profit\* increased by 22.7%, leading to a 24.2% increase in adjusted earnings per share. Cashflow conversion remained strong, with cashflow generated from operations of £192.5m matching operating profit before depreciation, amortisation and exceptional items (EBITDA) of £194.0m. Adjusted net debt to EBITDA was 1.65x, comfortably within our 1.5x to 2.5x target range for our capital structure. Funding is supported by a five year syndicated loan facility, secured to December 2012, with £78.0m of headroom at 28 June 2008.

## EBITDA

Operating profit before amortisation and exceptional items was £144.9m (2007: £118.1m) and the depreciation charge for the year was £49.1m (2007: £44.6m), giving an EBITDA before exceptional items of £194.0m, up 19.2% compared to £162.7m achieved last year.

## Exceptional items

The exceptional loss of £16.4m before tax consists of £8.4m for Go West Midlands, relating to the impairment, onerous lease costs and disposal in February 2008, and £8.0m for the restructuring costs incurred in the second half in our aviation services division. Further details of the exceptional item in 2007 are provided in note 8 to the financial statements.

## Goodwill and intangible asset amortisation

The £11.6m (2007: £8.4m) charge for the year primarily represents the non cash cost of amortising goodwill and intangibles, including assets associated with pension accounting, relating to the rail franchises. Other items include the amortisation of non-rail intangibles and computer software costs.

The increase against last year is due primarily to the impact of a full year of ownership of last year's bus acquisitions and the addition of the London Midland rail franchise.

## Net finance costs

The net finance cost for the year increased to £13.8m (2007: £8.0m), largely due to the increase in net debt during the year to improve the Group's capital structure. The average net interest rate was 6.4% (2007: 5.9%) for the year and the proportion of net debt held at fixed interest rates was 30.2% (2007: 64.7%) at the end of the year.

## Summary income statement

	2008 £m	2007 £m	Increase £m	Increase %
Operating profit*	144.9	118.1	26.8	22.7%
Net finance costs	(13.8)	(8.0)	(5.8)	72.5%
Profit before tax*	131.1	110.1	21.0	19.1%
Amortisation	(11.6)	(8.4)	(3.2)	38.1%
Exceptional items	(16.4)	(6.9)	(9.5)	137.7%
Profit before tax	103.1	94.8	8.3	8.8%
Tax	(26.3)	(23.6)	(2.7)	11.4%
Profit for the year	76.8	71.2	5.6	7.9%
Minority interest	(20.8)	(12.6)	(8.2)	65.1%
Profit attributable to members	56.0	58.6	(2.6)	(4.4)%
Adjusted profit attributable to members*	76.0	66.4	9.6	14.5%
Weighted average number of shares (m)	43.5	47.2	(3.7)	(7.9)%
Adjusted earnings per share (p)	174.8	140.7	34.1	24.2%

\* Before amortisation and exceptional items.



### **Pensions**

Pensions have been accounted for in accordance with IAS19, including a franchise adjustment to recognise that our obligations under the rail schemes are limited to the term of the franchise.

The net pension cost of the Group's defined benefit pension plans for the year was £24.9m (2007: £24.3m), consisting of a service cost of £38.2m (2007: £31.9m) less a net financing benefit of £13.3m (2007: £6.3m) and a franchise adjustment of £Nil (2007: £1.3m). The rail related charge increased to £24.1m (2007: £18.8m) due to the addition of London Midland. The non rail cost reduced to £0.8m (2007: £5.5m) due to a higher than expected return on assets.

The net deficit before taxation on the non rail defined benefit schemes was £59.4m (2007: £24.5m), consisting of estimated liabilities of £436.2m (2007: £404.5m) less assets of £376.8m (2007: £380.0m). In the first half of the year we de-risked the asset allocation of the scheme by reducing the amount of scheme assets held in equities and increasing the amount held in duration matched bonds. As a result, 47.2% of our non rail assets were held in equities at the year end (2007: 67.8%) and 45.3% were held in bonds (2007: 15.6%).

The net deficit on the rail schemes was £Nil (2007: £2.3m). The nature of these schemes means that we only recognise the share of surplus or deficit expected to be funded/benefited from over the franchise period, and consequently we have not recognised any individual scheme surplus in the financial statements.

Company contributions to the schemes totalled £41.7m (2007: £26.3m). This was £16.8m higher than the net pension cost in the income statement and included an additional cash contribution of £7.5m paid to the non rail schemes in July 2007. In addition, a further £10.4m was paid to the London Midland scheme as part of the mobilisation of the franchise.

### **Taxation**

The effective tax rate for the year was in line with our half year expectations at 25.5% (2007: 24.9%). The principal reason for the reduced rate compared to the UK statutory tax rate for the period of 29.5% (2007: 30%) relates to the effective management of asset finance arrangements.

### **Minority interest**

The minority interest in the income statement of £20.8m (2007: £12.6m) arises from our 65% holding in Govia Limited, which owns 100% of the rail operations, and therefore represents 35% of the profit after tax from these operations.

### **Adjusted earnings per share**

Adjusted profit attributable to members\* was £76.0m (2007: £66.4m). This consisted of profit attributable to members of £56.0m (2007: 58.6m) adjusted to add back members' share of post tax amortisation (£6.4m, 2007: £4.7m) and exceptional items (£13.6m, 2007: £3.1m).

The weighted average number of shares reduced to 43.5 million (2007: 47.2 million) and the closing number of shares was 42.8 million (2007: 45.9 million) following our share buybacks in the year. We will seek renewal of the authority for the share buyback programme at the forthcoming Annual General Meeting.

Earnings per share\* increased by 24.2%, or 34.1p, to 174.8 pence per share (2007: 140.7p), with 20.3p of the increase due to the increase in adjusted profit attributable to members\* and 13.8p due to a lower weighted average number of shares.

### **Dividends**

The total dividend for the year of 81.0p (2007: 70p) consists of the interim dividend paid of 25.5p (2007: 23p) and a proposed final dividend of 55.5p (2007: 47p). This represents a total increase of 11.0p, or 15.7%, resulting in a dividend cover (based on adjusted eps) of 2.16 times. We will look to continue our policy of progressive dividend growth whilst maintaining dividend cover of approximately two times adjusted earnings through the cycle.

<b>Summary cashflow</b>	<b>2008 £m</b>	<b>2007 £m</b>	<b>Increase £m</b>
EBITDA*	<b>194.0</b>	162.7	31.3
Working capital/other	<b>(1.5)</b>	28.5	(30.0)
Cash flow generated from operations	<b>192.5</b>	191.2	1.3
Tax paid	<b>(18.1)</b>	(11.5)	(6.6)
Net interest paid	<b>(14.0)</b>	(8.1)	(5.9)
Net capital investment	<b>(54.7)</b>	(54.9)	0.2
Free cashflow	<b>105.7</b>	116.7	(11.0)
Franchise transfer and rolling stock prepayment	<b>(26.7)</b>	–	(26.7)
Net acquisitions (incl. acquired debt) less disposals	<b>(3.3)</b>	(27.2)	23.9
Dividends paid	<b>(48.1)</b>	(43.6)	(4.5)
Share buybacks, less share issues	<b>(80.9)</b>	(51.6)	(29.3)
(Increase)/ decrease in net debt	<b>(53.3)</b>	(5.7)	(47.6)
Closing net debt	<b>(197.8)</b>	(144.5)	n/a

### Cashflow

Cash generated from operations before taxation was £192.5m, an increase of £1.3m against £191.2m last year. This consists of an EBITDA\* of £194.0m (£162.7m) and a net reduction due to movements in working capital and other items of £1.5m (2007: increase £28.5m).

Tax paid of £18.1m (2007: £11.5m) was primarily the current portion of the tax charge of £16.8m (2007: £16.0m after a reduction of £3.1m in the current year) and net interest paid of £14.0m (2007: £8.1m) follows the net finance cost in the income statement of £13.8m (2007: £8.0m). Capital expenditure, net of sale proceeds, totalled £54.7m (2007: £54.9m), equivalent to 111% (2007: 123%) of depreciation.

Cash used to purchase businesses totalled £5.5m (2007: £22.9m, plus £4.3m of acquired debt), less £2.0m proceeds and less £0.2m of finance leases from the sale of Go West Midlands. The transfer of the London Midland and Gatwick Express franchises resulted in a net payment of £5.5m, consisting of a pension contribution of £10.4m and net cash received on the transfer of £4.9m. The prepayment of £21.2m was for 40% of the Electrostar train units paid by Southern out of restricted cash, and referred to in the rail division narrative.

Dividends paid to parent company shareholders increased to £31.4m (2007: £28.9m) and dividends to minority interests were £16.7m (2007: £14.7m). During the year we repurchased 3,571,000 shares (2007: 2,425,000) at a cost of £87.3m (2007: £55.6m) and issued 523,000 (2007: Nil) on exercise of share options for proceeds of £6.4m resulting in a net cash cost of £80.9m (2007: £51.6m).

<b>Capital structure</b>	<b>2008 £m</b>
Five year syndicated facility Dec 2012	<b>340.0</b>
Amount drawn down at 28 June 08	<b>262.0</b>
Balance available	<b>78.0</b>
Restricted cash	<b>122.9</b>
Net debt	<b>197.8</b>
Adjusted net debt	<b>320.7</b>
EBITDA*	<b>194.0</b>
Adjusted net debt / EBITDA*	<b>1.65x</b>

### Balance sheet

Net debt increased by £53.3m, from £144.5m to £197.8m. Bank loans and loan notes were £314.8m (2007: £223.0m), of which £262.0m was drawn down against a new five year syndicated loan facility of £340m completed in December 2007. Hire purchase and finance leases were £34.3m (2007: £50.1m), resulting in a gross debt figure of £349.1m (2007: £273.1m). This was partly offset by cash and short term deposits of £151.3m (2007: £128.6m), which included restricted rail cash deposits of £122.9m (2007: £92.7m). Adjusted net debt, consisting of net debt excluding restricted cash, was £320.7m (2007: £237.2m), equivalent to 1.65x (2007: 1.46x) EBITDA\* (defined above) in line with our aim to move to an adjusted net debt to EBITDA ratio of 1.5x to 2.5x through the cycle.

In December 2007, we changed our accounting policy of carrying land and buildings at valuation in favour of the cost model. This resulted in a reduction in fixed assets of £22.6m at 30 June 2007 and details are provided in Note 2 to the financial statements.

Net assets totalled £67.8 at the end of the year compared to £131.6m at 30 June 2007. The reduction includes the profit for the year of £76.8m and net gains on hedges of £26.6m, less an increase in the pension deficit of £44.6m, net acquisition of own shares of £87.3m and dividends paid of £48.1m.

### Risk management

The adjacent table summarises our assessment of the key risks and uncertainties facing the Group at present. The Group's policies in relation to funding and risk management are set out in note 27 to the financial statements.



**Nick Swift,**  
Group Finance Director  
4 September 2008

### Risks and uncertainties

We have acted to reduce a number of risks in the Group during the course of the year, including:

- 100% of bus fuel now hedged for 2008/9 and 50% for 2009/10
- medium term financing facilities secured until December 2012
- 40% of non rail pension scheme assets reinvested to reduce equity exposure and match liabilities

In our assessment, the key risks and uncertainties facing the Group at present are as follows:

<i>Risk description</i>	<i>Potential impact on KPIs</i>	<i>Mitigation</i>
<b>Group</b>		
Major accident or incident	Potential for serious injury, service disruption and lost earnings	<ul style="list-style-type: none"> <li>• Rigorous, high profile safety programme maintained and enhanced throughout the Group</li> <li>• Comprehensive insurance cover</li> </ul>
Inappropriate strategy or investment	Reduction in economic and shareholder value	<ul style="list-style-type: none"> <li>• Comprehensive strategic discussions with main board and advisers</li> <li>• Extensive valuation and due diligence, supported by appropriate external expertise</li> <li>• Discipline to 'walk away' from opportunities</li> <li>• Value adding investments are required to return in excess of the Group's post tax weighted average cost of capital</li> </ul>
Broad inflationary pressure feeds through to increased pay demands	A 1% increase in staff costs and salaries across the Group would increase costs by £8.1m	<ul style="list-style-type: none"> <li>• Experienced approach to wage negotiations and fostering of good relationships with employees and unions</li> </ul>
Financial market instability	Loss of access to funds, loss of investments, interest rate exposure	<ul style="list-style-type: none"> <li>• Five year financing secured to 2012</li> <li>• Comprehensive, low risk cash investment policy</li> <li>• 40-60% of net debt held at fixed interest rates</li> </ul>
<b>Bus</b>		
Bus fuel prices increase	An increase of ten pence per litre increases the cost of fuel by approximately £11m, equivalent to around 2% of revenue	<ul style="list-style-type: none"> <li>• 100% of next year's fuel hedged</li> <li>• Ability to partially recover in regulated operations through contract price adjustments</li> <li>• Ability to increase fares in deregulated operations</li> <li>• Consumption efficiency programmes</li> </ul>
Local implementation of concessionary fare schemes does not provide an adequate economic return	Concessionary fares accounted for around 20% of the current year's deregulated bus revenue	<ul style="list-style-type: none"> <li>• Two thirds of our schemes have been successfully agreed with local authorities for 2008/09</li> <li>• Discussions are continuing with the remaining schemes</li> </ul>
Economic downturn reduces demand for bus services	A 1% loss of revenue results in a reduction in operating profit of approximately £0.5m, assuming all costs are variable	<ul style="list-style-type: none"> <li>• Contingency plans to reduce costs in the event of a downturn</li> </ul>
<b>Rail</b>		
Lose Southern rail operations at the end of the current franchise in September 2009	Southern rail represents a significant amount of rail operating profit*	<ul style="list-style-type: none"> <li>• Strong and experienced team assembled to bid for the new Southern franchise</li> <li>• Nine further franchises due for renewal by 2014</li> </ul>
Economic downturn reduces demand for rail services	A 1% loss of revenue results in a reduction in operating profit of approximately £7m, assuming all costs are fixed	<ul style="list-style-type: none"> <li>• Contingency plans to reduce costs in the event of a downturn</li> </ul>
<b>Aviation Services</b>		
Cyclical downturn in aviation sector	Reduced earnings due to lower number of aircraft turnarounds and cargo volume, and pressure on prices from airlines	<ul style="list-style-type: none"> <li>• Significant restructuring to reduce the cost base of the operations</li> </ul>
Loss of key aviation services contracts	A significant amount of revenue is held through contracts which may be terminated with less than 90 days notice	<ul style="list-style-type: none"> <li>• Maintain high quality of service and competitive cost base</li> </ul>



Keith Ludeman, Group Chief Executive

*"We believe that a strong and growing public transport network is vital to the sustainable development of the UK."*

### Highlights

#### Greenest

Sustained investment means that Go-Ahead has the youngest and greenest bus fleet of the major UK operators.†

#### Improved efficiency

Across our bus operations we have made significant investments in driver monitoring technology and training schemes. Trials have suggested this should improve fuel efficiency by around 5%.

#### Energy saving

Southern and Southeastern achieved a significant engineering feat by introducing regenerative braking on the 'third rail'\* system. This saves energy by capturing electricity and returning it to the rail network.

#### 17% site energy reduction

We achieved a 17% reduction in site energy\* this full year and have embarked on a significant project with the Carbon Trust to further reduce our site energy. In addition, from November 2008 around 70% of our site electricity will be generated from renewable sources including hydro-power, wind-power and biomass fuels.

#### Gold award

Go-Ahead scored 90.5% in Business in the Community's (BITC) 2008 Corporate Responsibility index – the highest rating amongst comparable participating public transport operators. In addition we received an impressive 100% for the 'Emissions to Air' and 'Climate Change' categories.

#### Community commitment

We provided free transport themed teaching materials to over 900 teachers at schools nationwide. This initiative was commended by the Government.

#### First in sector

We will be the first in our sector to publish an Economic Impact Report which measures the significant contribution Go-Ahead makes to the towns and cities we operate in.

**As one of the UK's leading providers of transport services corporate responsibility is central to our business.**

We believe that a strong and growing public transport network is vital to the sustainable development of the UK. Investment in public transport strengthens the economy, creates jobs, reduces traffic congestion and air pollution, and helps tackle social exclusion.

We recognise that adopting a responsible approach directly contributes to the success of our business. Our performance on issues such as safety, service punctuality and ease of access are factors that help us grow patronage. At the same time, we must demonstrate our commitment to minimising our environmental impacts through a combination of innovation and investment.

#### Industry leadership

Corporate Responsibility has always been at the heart of Go-Ahead. We were the first in our sector to recognise the importance of being open about our performance and led the way by publishing our environmental data. This year we will be the first in our industry to publish an Economic Impact Report, measuring the significant contribution we make to the UK economy and the communities we service.

Reducing our energy consumption has always been important to Go-Ahead and in 2005 we were proud to be the first national transport operator to gain accreditation under the Energy Efficiency Scheme (EEAS), the UK's leading independent emission reduction award scheme.

This year, our train companies led the way by introducing regenerative braking technology on the third rail\* system. This achieves energy savings by capturing electricity generated through train braking and returning it to the rail network.

A decade-long investment programme means we have the most modern and environmentally friendly bus fleet among the major UK operators.

#### Tackling climate change

Climate change is the most pressing issue facing our generation. Buses and trains produce significantly less emissions per passenger journey than the equivalent journey by private car. We recognise that as a public transport operator we have a responsibility to operate our services in a sustainable and

\* The third rail or conductor rail is the system by which some trains draw their power. The system is mainly found in the South of England.

† TAS Partnership – August 2008 (Analysis excludes regulated London operations).

\* Please see our Environmental & Social Report 2008 for further details.



environmentally responsible manner; while at the same time ensuring we deliver high quality services that provide an attractive alternative to car travel.

Being a responsible operator is also important to the public. Increasingly we are seeing signs that they are prepared to leave their cars for greener public transport alternatives.

### **Our key responsibilities**

Through engagement with stakeholders we have identified our key responsibilities as:

#### **Reducing our carbon footprint**

You will see in our highlights the significant steps we have made to minimise the environmental impacts of our bus and rail operations through investment in driver training and monitoring technology and regenerative braking.

We have reduced our site energy by an impressive 17%\* and are committed to continue this further. In addition, from November 2008, 70% of our site electricity will be generated from renewable sources.

#### **Safety & security**

Our priority is to ensure the safety and security of our passengers, employees and the general public. This is a Board issue and we engage a specialist consultancy to measure, review and audit performance, reporting to the main Board.

#### **Reliability, convenience, punctuality**

Our responsibility is to run our services to timetable and ensure that passengers have a positive journey experience.

#### **Accessibility for all**

Our responsibility is to help as many people as possible to use our services. When our companies invest in new buses and trains, we make sure that the design takes into account ease of access for everyone.

#### **Affordability**

Our responsibility is to help as many people as possible to use our services. Our companies run a range of schemes that offer reduced rate services for particular groups – older people, off-peak travellers and young people.

#### **Community relationships**


Understanding and support from stakeholders is a basic requirement for running and expanding our services. We aim to be active participants in local communities and this is supported by the Group's devolved structure.

#### **Role as an employer**

Our responsibility is to provide a positive work environment conducive to the recruitment and retention of staff. We know that through retaining good people, we can build our reputation for good customer service among passengers and customers.

#### **More information**

For more information and in-depth analysis of our corporate responsibility performance please visit the 'Our Responsibility' section of our website:

 [www.go-ahead.com](http://www.go-ahead.com)

**87%**

**of bus fleet fitted with CCTV**

(excludes Meteor's bus operations)

**87%**

**of bus fleet has low floor access**

(excludes Meteor's bus operations)

**c.80%**

**of our rail passengers are satisfied with their service**

(Southern 81%, Southeastern 79%, London Midland 81%)

**c.90%**

**of our trains arrived on time**

(Public performance measure (PPM): Southern 90.1%, Southeastern 91.1%, London Midland 88.6%)



Oxford Bus Company has the greenest fleet in the UK†.

#### **The local approach**

We believe passionately in empowerment: letting local management make local decisions based on local needs.

Our companies form an integral part of the communities in which they operate and we continue to be the only company in our sector that produces a separate environmental and social report for each of our operating businesses.



Campaign by Southern to promote consideration for others.



We are proud to be affiliated with these organisations.



**Sir Patrick Brown**

*Chairman*

Patrick joined the Board in 1999 as a Non-Executive Director, becoming Non-Executive Chairman in 2002. He is a Non-Executive Director of Northumbrian Water Group plc. He spent 10 years in industry and management consultancy before joining the Civil Service. From 1991 to 1997, he was Permanent Secretary of the Department of Transport (DoT). Involved in privatisation in the DoT during the 1980s, he then moved to the Department of the Environment (DoE) to manage the privatisation of the water industry in England and Wales. From 1990 to 1991 he was second Permanent Secretary in the DoE before returning to the DoT.



**Keith Ludeman**

*Group Chief Executive*

Keith joined Go-Ahead in 1996, following the sale of London General to the Group. 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. He has been a main Board adviser since 1998, a Director since September 2004, and was appointed as Group Chief Executive in July 2006. A postgraduate transport planner, he is a fellow of the Institute of Logistics and Transport, and a fellow of the Institute of Railway Operators. He was also Chairman of the Association of Train Operating Companies (ATOC) until 2005.



**Nicholas Swift**

*Group Finance Director*

Nick joined the Board on 17 July 2007. Prior to Go-Ahead, he 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.



**Christopher Collins**

*Non-Executive Director*

Christopher is a Non-Executive Director and joined the Board in September 1999. He is Non-Executive Chairman of Old Mutual plc and Forth Ports plc. He was Chairman of Hanson plc until 2005, having previously been Executive Vice-Chairman from 1995 to 1997 and Corporate Development Director from 1991 to 1995. He is a Chartered Accountant.



**Rupert Pennant-Rea**

*Non-Executive Director*

Rupert is a Non-Executive Director and joined the Board in October 2002. He has been Editor of The Economist and Deputy Governor of the Bank of England. He is Chairman of Henderson Group plc and PGI Group plc, and a Director of Gold Fields Ltd and First Quantum Minerals Ltd.



**Carolyn Sephton**

*Group Company Secretary*

Carolyn joined Go-Ahead in 2001 and was appointed Company Secretary in July 2006. Prior to this she was Assistant Company Secretary for the Group with responsibility for pensions and a wide range of company secretariat functions including legislative compliance, corporate governance and codes of conduct specific to the Group's business activities. Prior to working for Go-Ahead, Carolyn spent 12 years with Northern Electric. She is a Chartered Secretary.

## 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.



### Martin Dean

### Go-Ahead

*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.



### Alan Eatwell



*Managing Director, Metrobus*  
Alan has been Managing Director since 2001 and was previously the Group's Engineering Director. Alan has almost 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 30 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, and is chair of the Oxford City Centre Management Company.



### 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/General having previously held senior positions at Arriva London. He has been in the transport industry for 30 years.



### Steve Banaghan



*Managing Director, London Midland*  
Steve has been Managing Director since 2007. Previously, he was Managing Director of Central Trains at National Express. Steve has held a number of senior roles in UK train operating companies and has almost 30 years of experience in rail.



### Chris Burchell



*Managing Director, Southern*  
Chris has been Managing Director of Southern since April 2006, having previously been Operations Director for two years. He has also worked at Thames Trains, the Foreign & Commonwealth Office and Railtrack, accumulating over 10 years of railway experience.



### Tom Smith

### Go-Ahead

*Managing Director, Rail Development*  
Tom has been Managing Director since 2001. He leads the rail division's business development and franchise bidding activity. 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.



### 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 22 years on National Rail and London Underground.



### Stephen Turner



*Managing Director, Meteor*  
Stephen has been Managing Director since 1993 when the company was founded and was part of a management buy-out in 1994 along with three other private shareholders. Previously, he spent 20 years in the property industry, involved in both commercial property letting and management.



### Patrick Verwer



*Managing Director, Aviance UK*  
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.



### Rob Williams



*Managing Director, Plane Handling*  
Rob has been Managing Director since 2007. Previously, he was director of cargo for Aviance UK, working in the aviation division of Go-Ahead for a total of seven years. His career to date has spanned 30 years in both the aviation and shipping industry, holding numerous senior positions within these sectors.

## Corporate governance

The Board is committed to maintaining high standards of corporate governance. The Board is accountable to the Company's shareholders for maintaining good practices in corporate governance. The purpose of this report is to describe how the Company applies the principles of corporate governance and the Combined Code published by the Financial Reporting Council in July 2006.

### Compliance Statement

The Company has been in full compliance with the provisions set out in Section I of the Combined Code published in July 2006 throughout the year with the following exceptions:

#### Combined Code provisions:

B.2.1 & C.3.1 Given the size of the Board, the Audit and Remuneration Committees consist of the Non-Executive Chairman and the two Non-Executive Directors, and not three Non-Executive Directors as required by the Code provisions. The Board believes that these arrangements remain appropriate, with the Company's Chairman being best placed to be the Chairman of these Committees. However, it is intended that Andrew Allner, whose appointment as Non-Executive Director will be effective from 24 October 2008, will replace the Company's Chairman as Chairman of the Audit Committee. The Non-Executive Chairman and the Non-Executive Directors are all considered to be robustly independent by the Board and their independence is subject to ongoing monitoring by the Board at least annually.

A.3.3 It remains the Board's opinion that its size does not justify the appointment of a formally recognised Senior Independent Director. Furthermore, both of the independent Non-Executive Directors are well known to investors and financial professionals in the UK. Shareholders should approach either of them in the event that their contacts with the Chairman and Executive Directors are deemed unsatisfactory.

The Board confirms that it has established the procedures necessary to comply with the Turnbull Report: 'Internal Control: Guidance for Directors on the Combined Code'.

### The Board

Throughout the year the Board comprised two Executive Directors, the Non-Executive Chairman and two Non-Executive Directors, each of whom the Board considers to be independent in accordance with the criteria for determining independence as suggested by the Combined Code. The Directors' biographies appear on page 20. This composition was maintained throughout the whole period of review. The Board meets at least every two months, with the Group Company Secretary in attendance, and has a formal schedule of matters reserved to it for decision. The Board receives detailed papers on the business to be conducted at each meeting well in advance and individual Board members have direct access to the Executive Directors should they wish to receive additional information on any of the items for discussion. Key senior managers and advisers attend Board meetings as required to ensure that the Board is properly informed about the current issues facing the business.

The Board is responsible to shareholders for the proper management of the Group, developing and monitoring Group strategy and safety standards, setting plans for the operating companies within the Group, monitoring performance, ensuring adequate funding, examining major investment possibilities, formulating policy on key issues and reporting to shareholders.

Responsibility for the operation of Group companies, implementation of Group strategy and achievement of objectives is delegated to executive management. The Executive Directors meet regularly with the Directors, senior managers and staff in the Group's operating companies.

The Board maintains a Group Board procedures manual prepared in response to the Combined Code. It 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 Group Company Secretary, whose appointment and removal is a matter for the Board, is responsible to the Board for ensuring that Board procedures are complied with and that the Board is regularly updated on matters of corporate governance, legislative changes and regulatory regimes affecting the Group. 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, for the proper discharge of their duties as Directors.

During the year the Board met nine times, with one of the meetings including a review of the Group's strategy. All members of the Board attended each meeting.

### Performance evaluation

The Board has adopted a procedure for the evaluation of the performance of the Board, its Committees and individual Directors, including the Chairman, carried out by an external consultant. During the year, the review consisted of an interview and a questionnaire completed by each of the Directors in confidence and analysed by the external consultant. The findings were presented and discussed at a meeting of the Board where no significant issues were raised.

### Roles of the Chairman and Chief Executive

The offices of the Chairman and Chief Executive are held separately. The Chairman of the Company is Sir Patrick Brown and the Chief Executive is Keith Ludeman. There is a clear division of responsibility between the Chairman and the Chief Executive, with the division of key responsibilities shown below:

#### 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 Committees;
- facilitating the effective contribution of Non-Executive Directors;
- encouraging active engagement by all members of the Board.



#### **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;
- ensuring that the Chairman is kept updated in a timely manner of issues, events and developments.

#### **Appointment and re-election of Directors**

Non-Executive Directors are not appointed for a specified term, however, all Directors are subject to re-election by shareholders following appointment and subsequently at intervals of not more than three years.

Sir Patrick Brown joined the Board in 1999 as a Non-Executive Director, becoming Non-Executive Chairman in 2002. His industry-wide experience and long-standing contribution to the Board are well recognised and the Board's performance evaluation procedures reaffirm his continued effectiveness and contribution in his office as Chairman. Sir Patrick Brown has now served on the Board for more than nine years and therefore, in accordance with best practice, submits himself for annual re-election. The Board believe that he should be re-elected for a further year.

After nine years as a Non-Executive Director, Christopher Collins will retire from the Board at the conclusion of the Annual General Meeting on 23 October 2008. Christopher Collins will be succeeded by Andrew Allner, whose appointment as a Non-Executive Director and Chairman of the Audit Committee will be effective from 24 October 2008. Andrew Allner is a Chartered Accountant with significant Executive and Non-Executive Director experience. The Board believe that Andrew Allner is independent in character and judgement, with both relevant and financial experience.

#### **Directors' and officers' liability insurance**

The Group maintained Directors' and Officers' liability insurance cover throughout the year as permitted by the Company's Articles of Association. This cover was renewed on 30 June 2008.

#### **Committees of the Board**

The Board has established a number of Committees to deal with specific aspects of the Group's affairs. The full terms of reference of all Committees are available on request from the Group Company Secretary or can be accessed by visiting the Company's website [www.go-ahead.com](http://www.go-ahead.com).

#### **Audit Committee**

The Audit Committee is chaired by Sir Patrick Brown. The Committee comprises all the Non-Executive Directors, with the Group Company Secretary in attendance, and meets no less than four times annually. Meetings are also attended, by invitation, by the Executive Directors. The agenda reflects the duties delegated to the Committee by its terms of reference. During the year the Committee provided a forum for reporting by the Group's external and internal auditors, including health and safety auditors. The Committee also received and reviewed reports from management relating to the annual

and half year profit figures and statements and monitored the controls in force to ensure the integrity of the financial information reported to the shareholders. The Committee also considered the risk management processes and controls.

The Committee advises the Board on the appointment of external auditors and, during the year, considered their remuneration both for audit and non-audit work. 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) is subject to approval by the Audit Committee. The Audit Committee has specified that the external audit firm may not provide certain categories of non-audit services to the Group. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external and internal auditors. The Audit Committee has unrestricted access to the auditors.

During the year the Committee held five meetings and all members of the Committee attended each meeting.

#### **Remuneration Committee**

The Remuneration Committee is chaired by Sir Patrick Brown. The Committee comprises all the Non-Executive Directors, with the Group Chief Executive and Group Company Secretary in attendance. The Group Chief Executive is absent from all meetings considering his own remuneration. The Committee has the responsibility for determining the remuneration, contract terms and other benefits of Executive Directors, including performance-related bonus and share schemes. Details of policy and Directors' remuneration, including share options and contract terms, are set out in the Directors' Remuneration Report on pages 25 to 30.

During the year the Committee met five times and all members of the Committee attended each meeting.

#### **Nomination Committee**

The Nomination Committee is chaired by Sir Patrick Brown and comprises all the Non-Executive Directors. Meetings are also attended, by invitation, by the Executive Directors. The Nomination 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 the Group Chief Executive and an external search consultancy, the Committee met to discuss the appointment of a Non-Executive Director following Christopher Collin's stated intention to retire from the Board at the conclusion of the Annual General Meeting on 23 October 2008. After interviewing a number of potential candidates, the Committee unanimously proposed, and the Board accepted, that Andrew Allner be appointed as Non-Executive Director with effect from 24 October 2008. Following his appointment, Andrew Allner will undertake an induction process which will include, but will not be limited to, meetings with senior management and relevant external advisors and a briefing on his responsibilities and obligations under law, regulation and corporate governance guidelines.

During the year, the Nomination Committee held two meetings. This excluded interviews with potential candidates for the position of Non-Executive Director. All members of the Committee attended each meeting.

**'Whistle blowing' policy**

A 'whistle blowing' policy has been issued to all operating companies to ensure a consistent approach across the Group. The arrangements allow employees to raise concerns confidentially and for the independent investigation of such matters and the appropriate follow-up action which is overseen by the Audit Committee.

**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 interim and annual results each year, when the Board provides shareholders with a clear and balanced understanding of the Group's operational performance, its financial results and prospects.

The Executive Directors meet with the Group's institutional investors after announcement of the interim and annual results and at other times as appropriate including site visits and management presentations. In addition to the meetings with Executive Directors, institutional shareholders are offered the opportunity of additional meetings with the Non-Executive Directors. The institutional shareholders have further opportunities to make their views known through follow up interviews by the Company's brokers which are then documented and circulated to the Board. The Executive Directors also provide feedback to the Board following presentations to investors.

The Executive Directors are in regular contact with stockbrokers' analysts. All shareholders are invited to the Annual General Meeting which provides an opportunity for communication with both private and institutional investors and the Board encourages all shareholders to attend.

The Group maintains a website which continues to be a growing medium for communication to individual shareholders. The annual and interim reports are made available via the website, in addition to presentations to the analysts, regulatory news which includes interim management and trading statements and share price and shareholder information.

**Pension plans**

The assets of the Group's pension plans are totally separate from the assets of the Group and are invested with independent fund managers. At the year end, the Group's main non rail pension plan, the Go-Ahead Group Pension Plan, had 16 trustees, all of whom were employees, chosen to reflect the geographic and functional spread of the Group. The two Executive Directors are also trustees. The Group Chief Executive is Chairman of the trustees and the Group Company Secretary is Secretary to the trustees. There are also two small stand-alone non rail pension plans for employees of Wilts and Dorset Limited and the Southern Vectis Group of companies. The majority of rail employees are members of the respective sections of the Railways Pension Scheme. The auditors and actuaries of all pension plans are independent of the Group. Further details of all pension arrangements can be found in note 26 to the financial statements.

**Internal controls**

The Board is responsible for establishing and maintaining the Group's system of internal controls and for reviewing its effectiveness. Internal controls 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.

The Board maintains a Group policies and procedures manual, which is designed to strengthen the Group's corporate governance and internal control processes and manage risk. As part of the manual, and in accordance with the Turnbull guidance on internal controls, an ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the Annual Report and Financial Statements.

The key elements of the control framework, which the Board has established and which are regularly reviewed by the Board with a view to providing effective internal controls, in accordance with the Turnbull guidance, are as follows:

- a decentralised organisation structure with defined limits of responsibility and authority in accordance with the Group's policy and procedures manual;
- an annual budgeting process with regular re-forecasting of results, identifying key risks and opportunities;
- defined investment approval procedures which include due diligence where businesses are being acquired or divested;
- monthly reporting of financial information to the Board encompassing profit and loss, cashflow and balance sheet information and key operating ratios;
- annual review of the Group internal control document which covers both the financial and non-financial areas of internal controls, and is certified by the respective operating Company Boards;
- regular review of top down risk assessment and risk reduction plans;
- regular reporting to the Board on specific matters including safety, insurance and treasury management;
- considering the outcome of the Audit Committee meetings and the relevant action determined in respect of any control issues raised by internal and external auditors;

This framework is considered to be an integral part of the Group's risk management processes and is reviewed regularly by the Board to ensure that it accords with the Turnbull guidance. During the year, the Board continued to strengthen the ongoing process for identifying, evaluating and managing the key business risks faced by the Group. As a result of these processes, a number of minor control weaknesses were identified during the year which are being addressed and monitored. There have been no weaknesses that would require specific disclosure in the Group's Annual Report.

**Going concern**

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing its financial statements.



## Directors' remuneration report

This report has been prepared in accordance with the requirements of Schedule 7A of the Companies Act 1985 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 73.

The Board supports the principles of good corporate governance relating to Directors' remuneration and, in preparing this remuneration 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 23 October 2008.

### Remuneration Committee procedures

#### Meetings

Details of the members, the number of meetings and attendees in the year are shown on page 23.

The Board continues to believe that, in the circumstances of this Group, the Chairman of the Board is the proper person to be Chairman of the Remuneration Committee as he has more direct lines of communication with the business than the other Non-Executive Directors.

#### Support to the Committee

The Committee has appointed Watson Wyatt Limited, independent remuneration specialists, to advise on all aspects of Board remuneration. In addition to advising the Committee, Watson Wyatt Limited are also consulting actuaries to the Group and advise on various pension issues. The Committee receives recommendations from the Group Chief Executive on Executive Directors' remuneration, other than his own.

#### Role of the Committee

The key responsibilities and activities of the Committee during the year included:

- determining the remuneration and conditions of employment (including any termination arrangements) of the Executive Directors;
- determining the fees of the Chairman;
- reviewing the remuneration of senior managers' within the Group;
- reviewing the operation and continued appropriateness of the Long Term Incentive Plan;
- determining the contractual entitlements of the former Group Finance Director following his retirement;
- reviewing the terms of reference for the Remuneration Committee.

### Acceptance by the Board of Remuneration

#### Committee proposals

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

### Policy on Directors' remuneration

The policies for the next financial year are detailed below. In subsequent years the policies will be kept under review to ensure that they reflect changing circumstances.

The overall policy adopted by the Remuneration Committee is to ensure that the Group is paying sufficient to attract, retain and motivate Executive Directors of the desired calibre. The Committee considers Executive Directors' cash bonuses, which are dependent on the achievement of safety, corporate governance and financial targets in the relevant financial year. The Committee is informed of the pay, incentives and benefits packages of senior managers in the Group and its operating companies.

In considering the Executive Directors' remuneration, the Committee takes into account the pay practices of its major commercial competitors. The Committee also has regard to other factors specific to the Group and to each Director and his role and to the wider pay market in the FTSE 250.

The Remuneration Committee recognises that, for this 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 corporate governance issues 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. Executives in the Group are encouraged to take corporate governance and strategy extremely seriously and always to consider the long-term implications of their decision-making. The Remuneration Committee has regard to these factors, as well as the annual reported financial statements, in arriving at the Directors' overall remuneration and in considering the mix between fixed and variable pay.

### Remuneration of Non-Executive Directors

The remuneration of the Non-Executive Directors is a matter for the Chairman and the Executive members of the Board. During 2008 a review of the level of fees paid to the Non-Executive Directors was undertaken. Taking advice from Watson Wyatt Limited, the Committee considered the fees paid for similar positions in the market and the time commitment required from the Non-Executive Directors. With effect from 1 April 2008, the Non-Executive Directors' fees increased from £41,800 p.a. to £44,000 p.a.

The Remuneration Committee also considers the remuneration of the Chairman, in his absence. During the year, and taking advice from Watson Wyatt Limited, the Committee proposed and the Board agreed that the Chairman's fees would increase from £140,000 p.a. to £150,000 p.a. with effect from 1 April 2008, to reflect the fees of chairmen of companies of comparable size and complexity.

	Fees 1 April 2008 £'000 pa	Fees 1 April 2007 £'000 pa
Sir Patrick Brown	150	140
Christopher Collins	44	42
Rupert Pennant-Rea	44	42

The Non-Executive Directors and the Chairman cannot participate in any of the Company's share incentive or pension plan arrangements.

**Directors' remuneration report continued****Executive Directors' salaries**

Each of the Executive Directors is paid an annual basic salary which is reviewed in April each year. Salaries may be increased beyond inflation if justified by reference to the performance of the individual and if there is clear evidence that the existing salaries are not competitive.

	Basic Salary 1 April 2008 £'000 pa	Basic Salary 1 April 2007* £'000 pa
Keith Ludeman	500	470
Nicholas Swift	275	250

\* Nicholas Swift was appointed as Group Finance Director 17 July 2007. Basic salary effective from 17 July 2007.

**Executive Directors' cash bonuses**

Each of the Executive Directors are also eligible to earn an annual discretionary cash bonus of up to 100% of basic annual salary. The bonus is paid in November each year, on the basis of achievement of financial and non-financial targets in the financial year ended in the previous June/July. The targets are notified to the Executive Directors before the start of the year in question and are on a basis designed to introduce stretch into the performance assessment.

For the year ended 28 June 2008, the Remuneration Committee proposed, and the Board approved, bonus awards of 67.5% of basic salary to the Group Chief Executive and the Group Finance Director. A maximum bonus of 20% was awarded for the achievement of safety and corporate governance targets. A further maximum of 10% was earned after achieving 95% of budgeted profits. Out of a potential maximum of 70% of bonus payable on the achievement of 115% of budget, 37.5% of bonus was earned after achieving 105.4% of budget. The cash bonus targets remain unchanged for the forthcoming financial year. The bonus is non-pensionable and is paid in cash.

	Cash Bonus 28 June 2008 £'000	Cash Bonus 30 June 2007 £'000
Keith Ludeman	338	492
Nicholas Swift*	186	—

\* Appointed as Group Finance Director 17 July 2007. First eligibility for cash bonus year ended 28 June 2008.

**Executive Directors' Long-Term Incentive Plan (LTIP)**

The Go-Ahead Group Long-Term Incentive Plan 2005 ('LTIP') was introduced with the approval of shareholders in October 2005. Under the LTIP, Executive Directors are eligible to be granted awards whereby, subject to the satisfaction of performance conditions over a three-year period, they are entitled to acquire a specified number of ordinary shares in the Company. The rules of the LTIP include, amongst other provisions, limits on the number of shares over which a participant can be granted awards in any financial year (the 'individual limit'). Currently, that limit (which is determined by reference to the average closing mid-market price of the shares the subject of the awards on each dealing day falling in the four-week period ending with the dealing day immediately preceding their date of grant) is 100% of the participant's basic salary. (As disclosed when the LTIP was introduced, the rules allow awards to be made of up to 200% of a participant's basic salary however, this is only in exceptional circumstances and there is currently no intention of doing so).

The performance conditions that have, so far, applied to all grants of awards have been based on a comparison of the Company's total shareholder return ('TSR') with the TSR of companies comprised in two peer groups.

The performance conditions applicable to one-half of each award is based on a comparison of the Company's TSR with the TSR of a peer group comprising four quoted companies within the transport sector (Arriva plc, FirstGroup plc, National Express Group plc and Stagecoach Group plc), and operates as follows:

- if the Company's TSR is midway between the TSR of the comparator companies with the highest and the lowest TSRs, the award will vest as to 25%;
- if the Company'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 will vest in full; and
- if the Company's TSR falls between those two positions, the proportion of the award that will vest will increase, on a straight-line basis, from 25% to 100%, the higher the TSR of the Company.

The Remuneration Committee has, however, recognised that if one company in the peer group were to perform very badly, an award could vest notwithstanding that the performance of the Group were only marginally better. Accordingly, the Remuneration Committee has reserved the right to prevent awards vesting automatically if this is not justified by the Group's performance.

The performance condition applicable to the other half of the award is based on a comparison of the Company's TSR with the TSR of the companies (excluding investment trusts) in the FTSE 250 index of companies, as follows:

- if the Company's TSR would place it at the median position, the award will vest as to 25% only;
- if the Company's TSR would place it in the top quartile, the award will vest in full; and
- if the Company's TSR would place it between those two positions, the proportion of the award that will vest will increase, on a straight-line basis, from 25% to 100%, the higher the position of the Company.

In both cases, no part of the awards will vest unless the Company's earnings per share has increased, during the performance period, in excess of the increase in the Retail Prices Index for the same period plus 3% per year (compounded annually).

**Long-Term Incentive Plan (LTIP) Proposals for 2008/09**

The Remuneration Committee has a responsibility to review regularly the operation and appropriateness of the LTIP within the overall remuneration arrangements and, during the year, such a review was undertaken. With advice from Watson Wyatt Limited, the Remuneration Committee concluded that the LTIP remained its preferred method of providing share incentives to Executive Directors. However, the Committee also concluded that it needed to make some changes to the way in which the Plan was operated in order to keep it in line with best practice and to increase its motivational effect for the Executive Directors.

It is the Committee's view that the changes to the LTIP will ensure that senior executives 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 transport sector and other companies in the FTSE 250.

Details of the changes, which the Company has discussed with its major shareholders and which it intends to apply to awards granted for the 2008/9 financial period, are set out below, but, in summary, involve:

- altering the performance conditions that will apply to future grants of awards; and
- subject to obtaining shareholder approval, increasing the individual limit.

#### a. Performance conditions

The Remuneration Committee has had some concerns over the use of comparative TSR as the sole measure of performance. Detailed research carried out by Watson Wyatt Limited, on behalf of the Committee, has shown that it does not always provide a fair reflection of performance. In view of this, the Committee has recommended that the existing performance conditions will continue to apply to one-half of the award. In the case of the other half of the award, no part will vest unless the Company's earnings per share has increased, during a three-year performance period, in excess of the increase in the Retail Prices Index for the same period plus 3% per year (compounded annually). In that case, the award will vest as to 25% only. This will increase to full vesting, on a straight line basis, if the Company's earnings per share has increased, during the performance period, in excess of the increase in the Retail Prices Index for the same period plus 6% per year (compounded annually).

The Remuneration Committee considers that these performance conditions are relevant, challenging and designed to enhance shareholder value and that awards will vest in full only if exceptional performance has been achieved.

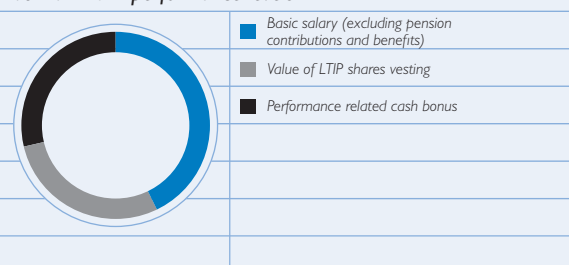
#### b. Individual limit

Following a review of market practice of companies within the transport sector and the wider FTSE 250 index and because the Company does not offer any other form of share incentive to Executive Directors (other than those available to all employees), it is the Committee's view that the maximum size of award should increase from 100% to 150% of salary. This will improve the balance between fixed and variable pay and between short and long-term incentives as well as maintaining competitiveness.

#### *Fixed and performance related pay at maximum performance levels*

A substantial proportion of the Executive Directors' pay is performance related. The chart above shows the balance between fixed and performance related pay at maximum performance levels. Maximum performance assumes achievement of maximum bonus and full vesting of shares under the proposed LTIP rules which are subject to shareholders' acceptance at the forthcoming Annual General Meeting.

#### *Fixed & performance related pay at maximum performance levels*



#### *Shareholding requirements proposals*

Historically it has been the Committee's opinion that there has been no need for formal shareholding requirements because each Executive Director had a substantial personal shareholding. Following the appointment of a new Group Chief Executive in 2006 and a new Group Finance Director in 2007, the Committee has also reviewed the requirement for the Executive Directors to hold shares in the Group. As a result of this review, it was agreed that the Executive Directors would be required to build up a personal shareholding equal to one year's base salary over a period of five years.

#### *Executive Directors' share bonus plan*

Until 2005, the Executive Directors' share bonus plan was used to make share based awards to Executive Directors and Senior Executives in the Group. This has now been replaced by the LTIP described previously.

The final grant of shares under the Executive Directors' share bonus plan was made to the Executive Directors and one Senior Executive in December 2005, in relation to the year ended 2 July 2005. The award granted to the Group Chief Executive in October 2004, in relation to the year ended 3 July 2004, matured and vested in full on 20 October 2007. The only outstanding awards made under the plan that have not yet matured are those made to the Group Chief Executive in December 2005 in relation to the year ending 2 July 2005. These will remain in the trust for a period of three years from the award date, when title will be transferred to the Group Chief Executive, provided he is still employed by the Group or leaves for a permitted reason under the rules of the plan.

Details of the shares held under the rules of the plan can be found on page 31.

**Directors' remuneration report continued****Savings related share option scheme and share incentive plan**

The Company operates a savings related share option scheme and a share incentive plan. The Executive Directors are eligible to participate in these under terms identical to any other participating Group employee, if they so choose, and any such participation would not be separately regulated by the Remuneration Committee.

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

**Other benefits**

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

**Pension plan**

The Executive Directors are entitled to become members of The Go-Ahead Group Pension Plan, a registered pension plan. Following his accession to Group Chief Executive in July 2006, Keith Ludeman opted out of The Go-Ahead Group Pension Plan with effect from 1 December 2006, but retains a salary link in relation to his accrued benefit which is provided separately through an individual non-registered unfunded pension arrangement. In lieu of future benefits, Keith Ludeman 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 long-term incentive plan awards. Following his appointment as Group Finance Director in July 2007, Nicholas Swift joined The Go-Ahead Group Pension Plan with effect from 1 August 2007.

**Directors' contracts**

The Executive Directors have rolling contracts. The Group does not have any service agreements that provide special pension benefits (such as beneficial early retirement terms) to Executive Directors. Other than the notice periods specified, Directors are not due any contractual compensation payments in the event of loss of office.

Each Non-Executive Director has a letter of appointment and their fees are determined by the Board based on surveys of fees paid to Non-Executive Directors of comparable companies. There is no fixed term of appointment. Apart from salary and benefits in relation to the notice period for the relevant appointment, these terms contain no entitlement to compensation for early termination. These letters of appointment are available for inspection at the Company's registered office during normal business hours and will also be available for inspection at the Annual General Meeting.

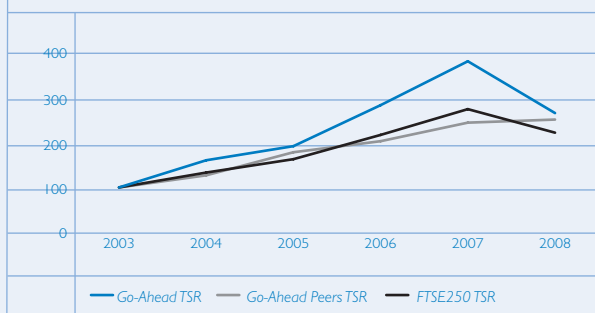
Director	Date of contract	Notice period
Sir Patrick Brown	February 1999	6 months
Christopher Collins	April 2005	6 months
Keith Ludeman	December 2006	1 year
Rupert Pennant-Rea	October 2002	6 months
Nicholas Swift*	July 2007	1 year

\* Appointed as an Executive Director on 17 July 2007.

**Performance graph**

The following graph shows a comparison of The Go-Ahead Group plc total cumulative shareholder return against that achieved by our peers and the FTSE 250 Index for the last five financial years to 30 June 2008. In assessing the performance of the Group's TSR the Board believes the comparator groups it has chosen represent an appropriate and fair benchmark upon which to measure the Group's performance for this purpose.

**Total shareholder return (rebased to 100)**



## Audited information

### Emoluments and compensation

	Salary/Fees		Non-pensionable salary supplement		Performance related cash bonus		Car replacement allowance		Benefits in kind		Total (exc. Pension and LTIP)	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Sir Patrick Brown	143	129	—	—	—	—	—	—	—	—	143	129
Ian Butcher <sup>(1)</sup>	—	425	—	—	—	395	—	17	—	2	—	839
Christopher Collins	42	40	—	—	—	—	—	—	—	—	42	40
Keith Ludeman	478	452	72	40	338	453	18	17	4	2	910	964
Christopher Moyes <sup>(2)</sup>	—	111	—	—	—	—	—	4	—	—	—	115
Rupert Pennant-Rea	42	40	—	—	—	—	—	—	—	—	42	40
Nicholas Swift <sup>(3)</sup>	246	—	—	—	186	—	16	—	3	—	451	—
	<b>951</b>	<b>1,197</b>	<b>72</b>	<b>40</b>	<b>524</b>	<b>848</b>	<b>34</b>	<b>38</b>	<b>7</b>	<b>4</b>	<b>1,588</b>	<b>2,127</b>

1 Retired as an Executive Director 1 July 2007. Salary in 2007 includes £28,000 related to accrued holiday entitlement.

2 Resigned as an Executive Director 8 July 2006. Under the terms of the former Group Chief Executive's service agreement, contractual sick pay, car replacement allowance and benefits in kind were paid until death in September 2006.

3 Appointed as an Executive Director 17 July 2007. Salary in 2007 includes the notional pension contributions which are deducted as a result of participating in the pensions salary sacrifice arrangement.

### Directors' share options

Following his retirement on 1 July 2007, the 234 options at 1,210p awarded to Ian Butcher under the savings related share option scheme lapsed. No further options have been granted to the Executive Directors.

### Long Term Incentive Plan

	Award Date	Balance at 30 June 2007	Awards lapsed in year	Awards granted in year	Share price at date of award	Awards vested in year	Share price at date of vesting	Balance at 28 June 2008	End of period when conditions must be met
		No.	No.	No.		No.		No.	
Ian Butcher <sup>(1)</sup>	9 March 06	20,571	11,520	—	1,822p	9,051	2,490p	0	June 07
Ian Butcher <sup>(1)</sup>	11 Sep 06	21,354	18,364	—	1,861p	2,990	2,519p	0	June 07
Keith Ludeman <sup>(2)</sup>	9 March 06	17,791	—	—	1,822p	—	—	17,791	June 08
Keith Ludeman <sup>(3)</sup>	11 Sep 06	24,514	—	—	1,861p	—	—	24,514	June 09
Keith Ludeman <sup>(4)</sup>	10 Sep 07	—	—	17,974	2,548p	—	—	17,974	June 10
Nicholas Swift <sup>(4)</sup>	10 Sep 07	—	—	9,556	2,548p	—	—	9,556	June 10

1 Following the retirement of the former Group Finance Director, Ian Butcher, on 1 July 2007, as required under the rules of the LTIP, the Committee considered the extent to which the awards granted to him in March 2006 and September 2006 should vest. Taking advice from Watson Wyatt Limited on the extent to which the TSR and EPS tests had been met and then pro-rating the award for the periods 9 March 2006 to 30 June 2007 and 11 September 2006 to 30 June 2007, the Committee determined that 9,051 and 2,990 of the shares should be allowed to vest respectively.

2 The awards granted on 9 March 2006 will vest following a period of three years from the award date and will be dependent upon the satisfaction of performance conditions as set out on page 26 covering the period commencing with the start of the 2005/06 financial year and ending with the end of the 2007/08 financial year.

3 The awards granted on 11 September 2006 will vest following a period of three years from the award date and will be dependent upon the satisfaction of performance conditions as set out on page 26, covering the period commencing with the start of the 2006/07 financial period and ending with the end of the 2008/09 financial period.

4 The awards granted on 10 September 2007 will vest following a period of three years from the award date and will be dependent upon the satisfaction of performance conditions as set out on page 26, covering the period commencing with the start of the 2007/08 financial period and ending with the end of the 2009/10 financial period.

**Directors' remuneration report** continued**Directors' pension funds**

The following information relates to the Directors' final salary pension benefits.

**Disclosures required under the Stock Exchange Listing Rules**

	Keith Ludeman	Nicholas Swift
Accrued pension – 1 July 2007 (£'000 p.a.)	258	0
Accrued pension – 28 June 2008 (£'000 p.a.)	272	4
Directors' notional contributions during the year (£'000)	0	19
Increase in the accrued pension during the year in excess of inflation (£'000 p.a.)	4	4
Transfer value of the increase in the accrued pension in excess of inflation and Directors' notional contributions (£'000)	46	-3

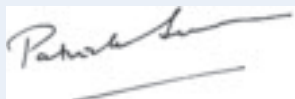
**Additional disclosures in accordance with the Directors' Remuneration Report Regulations 2002**

	Keith Ludeman	Nicholas Swift
Increase in the accrued pension during the year (£'000 p.a.)	14	4
Transfer value of the accrued pension at 1 July 2007 (£'000)	2,778	0
Transfer value of the accrued pension at 28 June 2008 (£'000)	2,776	16
Increase in transfer value over the year net of Directors' notional contributions (£'000)	-2	-3

**Notes**

- 1 The transfer values have been calculated in accordance with the guidance note 'GN11' published by The Board of Actuarial Standards. In light of new legislation, changes in market conditions and 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 1 February 2008.
- 2 Nicholas Swift and Keith Ludeman were members of the Group's approved final salary pension plan during the financial year. In addition, part of Keith Ludeman's benefit is provided separately through an individual unapproved unfunded pension arrangement. The figures in the table above relate to Keith Ludeman's benefits in both the approved and unapproved arrangements.
- 3 Ian Butcher resigned as Group Finance Director and as a Director of The Go-Ahead Group plc on 1 July 2007 and is consequently not included in the above table. Mr Butcher took immediate early retirement from The Go-Ahead Group Pension Plan on 2 July 2007 on standard Plan terms. As at 1 July 2007 his immediate early retirement pension, before commutation for a cash lump sum on retirement, was £80,000p.a. The transfer value figure, based on his immediate pension on retirement but based on market conditions and assumptions at the end of the financial year, was £1,926,000.
- 4 Keith Ludeman opted out of the Group's approved final salary arrangement from 1 December 2006 but retains a salary link in relation to his accrued benefit. In lieu of future pension benefits, Keith Ludeman receives a non-pensionable salary supplement of 15% of basic salary which amounted to £71,655 during the financial year.
- 5 Nicholas 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 the salary sacrifice arrangement.

For and on behalf of the Board



**Sir Patrick Brown,**  
Chairman of Remuneration Committee  
4 September 2008



The Directors present their report and audited financial statements for the year ended 28 June 2008.

#### Principal activities

The principal activities of the Group throughout the course of the year have been the provision of passenger transport and aviation services.

#### Results and dividends

The results for the year are set out in the consolidated income statement on page 36. The Directors propose that a final dividend of 55.5p be paid, making a total of 81.0p for the year (2007 – 70p). The proposed final dividend, if approved, will be payable on 21 November 2008 to shareholders on the register at the close of business on 31 October 2008.

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 Directors' Report: Business Review from pages 2 to 19. A description of the Group's funding and risk management policies can be found in note 26.

#### 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, Christopher Collins, Keith Ludeman, Rupert Pennant-Rea and Nicholas Swift. In addition, Ian Butcher retired from the Board on 1 July 2007.

Nicholas Swift was appointed to the Board as Group Finance Director on 17 July 2007 and then appointed by ordinary resolution at the 2007 Annual General Meeting. Christopher Collins will retire from the Board as a Non-Executive Director following the close of the Annual General Meeting on 23 October 2008 and will be replaced by Andrew Allner whose appointment will be effective on 24 October 2008.

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 shall hold office only until the next Annual General Meeting and is then eligible for appointment by ordinary resolution at that meeting. Under the Company's Articles of Association, one third of the Directors or the nearest number to one third of the Directors must retire from office at each Annual General Meeting. Under the Combined Code published in July 2006, any Director who has held office for three years or more since their last appointment must offer themselves up for reappointment at the Annual General Meeting and a Non-Executive Director may serve longer than nine years, subject to annual re-election.

In accordance with the Company's Articles of Association and the Combined Code, Sir Patrick Brown, who was first elected to the Board in October 1999, will retire at the forthcoming Annual General Meeting and being eligible will now offer himself for annual re-election. Further information supporting the re-election of Sir Patrick Brown can be found on page 23. Christopher Collins, who has served for nine years on the Board, will retire with effect from the conclusion of the Annual General Meeting and will not stand for re-election. To fill this vacancy, Andrew Allner has been appointed as a Non-Executive Director effective from 24 October 2008 and therefore will stand for election at the 2009 Annual General Meeting in accordance with the Combined Code.

The Directors' interests in the share capital of the Company at 28 June 2008, with comparative figures for the 2007 year-end, were as follows:

		2008 No.	2007 No.
Sir Patrick Brown	Beneficial	10,149	7,500
Christopher Collins	Beneficial	10,000	10,000
Keith Ludeman	Beneficial*	22,027	22,027
Rupert Pennant-Rea	Beneficial	2,000	2,000
Nicholas Swift		—	—

\* Includes 9,569 (2007 : 21,640) shares held under the rules of the Executive Directors' share bonus plan as described in the Directors' Remuneration Report.

There were no changes in these interests up to 4 September 2008. 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 pages 25 to 30.

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

#### Substantial shareholdings

As at 4 September 2008, the Company had been notified of the following interests in its shares which represent 3% or more of the voting rights in the Company:

	No.	%
Artemis Investment Management Ltd	3,968,988	9.31
Newton Investment Management Ltd	3,432,170	7.99
DS Ballinger	2,525,580	5.80
JP Morgan Chase and Co.	2,110,118	4.85
JR Moyes	2,054,061	4.57
F&C Management Ltd	2,001,540	4.46
Schroders Investment Management Ltd	1,916,027	4.27
Legal & General Group plc	1,777,606	4.01

These holdings include, where applicable, the aggregate of investment management clients interests within the respective asset management companies.

### **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 United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and 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 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 estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 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**

We confirm that to the best of our 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' declaration**

As far as each Director is aware, at the date when this report was approved, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Management and staff**

The Group places considerable value on the involvement of its employees in the business and has continued its practice of keeping them informed on matters affecting them as employees. Employees are encouraged to participate directly in the prosperity of the Group through the Group's approved share option and incentive schemes.

The Group's savings related share option scheme (sharesave) is approved by HM Revenue & Customs. Currently, there are two schemes in operation, whereby eligible employees were invited to enter into three-year savings contracts maturing in July 2009 and June 2010. Subsequent launches will be at the discretion of the Board and in accordance with guidelines issued by institutional investor bodies. In particular, the Board confirms that on a rolling ten-year basis the total number of share options utilised under the scheme, either exercised or outstanding, will not exceed 10% of the issued share capital (excluding treasury shares).

The Group also operates a HM Revenue & Customs approved Share Incentive Plan (SIP). This is an ongoing plan whereby eligible employees can purchase partnership shares in the market each month. Deductions from salary for purchase of partnership shares are made before tax and national insurance (NI) is calculated and employees retain the full tax and NI benefit for all shares that remain in the SIP for five years or more from their purchase.

The Group is committed to providing equality of opportunity to all employees. Appropriate training, career development and promotion opportunities are provided for all employees regardless of gender, physical disability, religion, belief, race or ethnic origin.

It is the Group's policy to give full consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the Group.

The Group is committed to involving all employees in the performance and development of the Group. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting day to day operations of the Group. Discussions take place regularly with trade unions representing the employees in operating companies on a wide range of issues.

### **Suppliers**

Each Group company 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. At 28 June 2008 the number of days' purchases outstanding for the Company and the Group were nil and 33 respectively (2007: nil and 31).

### **Health, safety and environment**

The Group is fully committed to delivering the highest standards of health, safety and welfare for all of its employees and customers and acknowledges its responsibility for other persons who may be affected by the Group's activities. The Group is committed to minimising any detrimental effect that the Group's activities may have upon the environment and acknowledges its responsibility to take reasonable measures to safeguard the environment for both present and future generations.

The Board takes all necessary steps to ensure that its statutory duties are met in relation to health, safety and the environment. The Group's internal policies in relation to health, safety and the environment are regularly monitored and the Group's operating companies are subject to independent audit to ensure that the relevant objectives are achieved.

The Group's Environmental and Social Report and Economic Impact Report are published separately and can be found on the Company's website [www.go-ahead.com](http://www.go-ahead.com).

### **Charitable donations**

Charitable donations, sponsorship and community support over the year amounted to £0.3 million (2007: £0.3million). No payments were made for political purposes (2007: nil).

### **Annual General Meeting**

The Annual General Meeting of the Company will be held at the Hilton Newcastle Gateshead, Bottle Bank, Gateshead, NE8 2AR on Thursday 23 October 2008 at 15:00 hours. Details of the business to be considered can be found in the Notice of Meeting which has been sent to all shareholders with the Annual Report and Accounts 2008, and will be available on the Company's website [www.go-ahead.com](http://www.go-ahead.com) from 26 September 2008.

### **Authorities passed by special resolution at the 2007 Annual General Meeting**

The authorities for the Company to allot relevant securities and for the disapplication of pre-emption rights on the allotment of equity securities, as passed by special resolution at the 2007 Annual General Meeting, were not utilised in the financial year. In the last three years shares amounting to 0.1% of the issued share capital were issued on a non-pre-emptive basis.

The authority for the Company to make market purchases of its own ordinary shares, as passed by special resolution at the 2007 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. Under the authority the maximum aggregate number of shares that can be purchased is 4,500,000. 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 / maximum prices payable for shares purchased under the authority.

During the financial year 3,571,000 shares (with a nominal value of £0.4m and representing 8.3% of the issued share capital) were purchased under the authority for a total consideration of £86.6m. These purchases were in accordance with the Company's share buyback policy in order to provide growing returns to shareholders. During the year a total of 4,571,000 shares (with a nominal value of £0.5m and representing 10.6% of the issued share capital) were cancelled (including the cancellation of one million shares held in treasury).

### **Additional information for shareholders**

Where not stated previously in this Directors' Report, the following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

At 28 June 2008, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital and shares purchased and cancelled in the year can be found in note 24 to the consolidated financial statements.

Details of the changes in share capital, including purchases by the Company of its own shares, are set out in note 24 to the consolidated financial statements. As at 4 September 2008, the Company had not made any further purchases of its own shares for cancellation. Under the existing authority, which remains in place until the conclusion of the 2008 Annual General Meeting, the Company may purchase a further 3,302,000 ordinary shares. As at 4 September, the Company held 3,902,230 shares in treasury.

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.

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 and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The Notice of Meeting specifies deadlines for exercising voting rights either by proxy notice in person or by proxy in relation to resolutions to be passed at 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](http://www.go-ahead.com) after the meeting.

Resolution 9, which will be proposed as a special resolution at the Annual General Meeting, will seek renewal of the authority to give the Company authority to use its available cash resources to acquire up to 4,297,829 of its own shares in the market for either cancellation or to hold them as treasury shares. The Directors will continue to use this authority only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, and the overall position of the Company. The Directors only purchase such shares after taking into account the effects on earnings per share and the benefits for shareholders.

Lloyds TSB Offshore Trust Company Limited, as trustee of The Go-Ahead Group Employee Trust, holds 0.12% of the issued share capital of the Company in trust for the benefit of the Executive Directors of the Group and their dependants. This includes 0.02% which are beneficially owned by Keith Ludeman pursuant to the terms of the Company's share bonus plan (under which no further awards will be made). The voting rights in relation to these shares are exercised by the trustees.

Under the rules of The Go-Ahead Group plc Share Incentive Plan, employees of the Group are entitled to acquire shares in the Company. In order to preserve certain tax benefits these shares (the 'partnership shares') are held in a trust by Halifax Corporate Trustees Limited for employees. Whilst the partnership shares are held in trust, the voting rights attached to them will not be exercised whether by the trustee or the employees for whom they are held. As at the date of this report, 0.35% of the issued share capital of the Company is held by Halifax Corporate Trustees Limited. In the event of an offer being made to acquire the partnership shares the employees are entitled to direct Halifax Corporate Trustees Limited to accept an offer in respect of the partnership shares held on their behalf.

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

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.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. At the Company's Annual General Meeting to be held on 23 October 2008, a resolution will be put to shareholders proposing amendments to the existing Articles of Association, in accordance with the provisions of the new Companies Act 2006. Further details are set out in the Notice of Meeting accompanying this document.

**Auditors**

Resolutions to re-appoint Ernst & Young LLP as the Company's auditors and to authorise the Directors to determine their remuneration will be put to members at the Annual General Meeting.

By Order of the Board



**C Sephton,**  
Company Secretary  
4 September 2008

**Registered office**

3rd Floor  
41–51 Grey Street  
Newcastle Upon Tyne  
NE1 6EE

Registered No. 2100855

We have audited the Group financial statements of The Go-Ahead Group plc for the year ended 28 June 2008, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cashflow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 29. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of The Go-Ahead Group plc for the year ended 28 June 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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**

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Operating and Financial Review that is cross-referenced from the results and dividends section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Group Highlights, the Directors' Report and Shareholder Information and financial calendar. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

#### **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 June 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.



**Ernst & Young LLP,**  
Registered auditor  
Newcastle Upon Tyne  
4 September 2008

**Consolidated income statement**

for the year ended 28 June 2008

	Notes	2008 £m	2007 £m
<b>Group revenue</b>	4	<b>2,199.1</b>	1,826.9
Operating costs (excluding amortisation and exceptional items)	5	<b>(2,054.2)</b>	(1,708.8)
<b>Group operating profit (before amortisation and exceptional items)</b>		<b>144.9</b>	118.1
Goodwill and intangible asset amortisation	13	<b>(11.6)</b>	(8.4)
Exceptional items	8	<b>(16.4)</b>	(6.9)
<b>Group operating profit (after amortisation and exceptional items)</b>		<b>116.9</b>	102.8
Finance revenue	7	<b>8.8</b>	6.1
Finance costs	7	<b>(22.6)</b>	(14.1)
<b>Profit on ordinary activities before taxation</b>		<b>103.1</b>	94.8
Analysed as:			
Before amortisation and exceptional items		<b>131.1</b>	110.1
Amortisation and exceptional items		<b>(28.0)</b>	(15.3)
Tax expense	9	<b>(26.3)</b>	(23.6)
<b>Profit for the year from continuing operations</b>		<b>76.8</b>	71.2
Attributable to:			
Equity holders of the parent		<b>56.0</b>	58.6
Minority interest		<b>20.8</b>	12.6
		<b>76.8</b>	71.2
<b>Earnings per share from continuing operations</b>			
– basic	10	<b>128.8p</b>	124.2p
– diluted	10	<b>127.3p</b>	122.6p
– adjusted	10	<b>174.8p</b>	140.7p
Dividends paid (pence per share)	11	<b>72.5p</b>	61.0p
Final dividend proposed (pence per share)	11	<b>55.5p</b>	47.0p



Financial Statements  
**Consolidated balance sheet**  
as at 28 June 2008

	Notes	2008 £m	Restated 2007 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	426.6	424.7
Intangible assets	13	136.2	129.4
Trade and other receivables	17	1.5	1.8
Other financial assets	28	8.7	—
Deferred tax assets	9	17.2	11.9
		590.2	567.8
<b>Current assets</b>			
Inventories	16	12.0	9.3
Trade and other receivables	17	238.2	171.7
Cash and short-term deposits	18	157.1	128.9
Other financial assets	28	18.6	0.7
		425.9	310.6
<b>Assets classified as held for sale</b>	15	2.6	0.9
<b>Total assets</b>		<b>1,018.7</b>	<b>879.3</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	19	(444.0)	(365.3)
Interest-bearing loans and borrowings	20	(38.6)	(42.5)
Current tax liabilities		(6.0)	(14.0)
		(488.6)	(421.8)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	20	(314.6)	(230.4)
Retirement benefit obligations	26	(59.4)	(26.8)
Deferred tax liabilities	9	(77.9)	(59.7)
Other liabilities	19	(9.8)	(7.7)
Provisions	21	(0.9)	(1.3)
		(462.6)	(325.9)
<b>Total liabilities</b>		<b>(951.2)</b>	<b>(747.7)</b>
<b>Net assets</b>		<b>67.5</b>	<b>131.6</b>
<b>Capital &amp; reserves</b>			
Share capital	24	71.3	65.4
Reserve for own shares	24	(68.8)	(80.6)
Hedging reserve	24	17.5	0.5
Other reserves	24	1.6	1.6
Capital redemption reserve	24	0.7	0.2
Retained earnings	24	31.9	138.7
<b>Total shareholders' equity</b>		<b>54.2</b>	<b>125.8</b>
Minority interest	24	13.3	5.8
<b>Total equity</b>		<b>67.5</b>	<b>131.6</b>



Sir Patrick Brown,  
Chairman  
4 September 2008



Nick Swift,  
Group Finance Director  
4 September 2008

**Consolidated cashflow statement**

for the year ended 28 June 2008

	Notes	2008 £m	2007 £m
<b>Profit for the year</b>		<b>76.8</b>	71.2
Net finance costs	7	13.8	8.0
Tax expense	9	26.3	23.6
Depreciation of property, plant and equipment	12	49.1	44.6
Amortisation of goodwill and intangible assets	13	11.6	8.4
Impairment of goodwill	13	3.8	—
Loss on sale of property, plant and equipment		1.7	0.6
Share based payments	6	2.5	2.0
Loss on sale of subsidiary		1.8	—
Difference between pension contributions paid and amounts recognised in the income statement		(16.8)	(2.0)
Movement in provisions		(0.4)	(6.7)
Decrease in inventories		1.3	0.8
(Increase)/decrease in trade and other receivables		(45.4)	11.0
Increase in trade and other payables		66.4	29.7
<b>Cashflow generated from operations</b>		<b>192.5</b>	191.2
Taxation paid		(18.1)	(11.5)
<b>Net cashflows from operating activities</b>		<b>174.4</b>	179.7
<b>Cashflows from investing activities</b>			
Interest received		8.5	6.0
Proceeds from sale of property, plant and equipment		6.2	3.7
Purchase of property, plant and equipment		(55.5)	(57.4)
Purchase of intangible assets		(5.4)	(1.2)
Purchase of subsidiaries	14	(5.5)	(22.9)
Overdraft acquired with subsidiaries		—	(0.1)
Proceeds from sale of subsidiaries		2.0	—
Net receipt on transfer of rail franchises		4.9	—
Additional contribution to railways pension scheme		(10.4)	—
Deposit paid on rolling stock		(21.2)	—
<b>Net cashflows used in investing activities</b>		<b>(76.4)</b>	(71.9)
<b>Cashflows from financing activities</b>			
Interest paid		(22.5)	(14.1)
Dividends paid to members of the parent	11	(31.4)	(28.9)
Dividends paid to minority interests		(16.7)	(14.7)
Proceeds from issue of shares	24	6.4	—
Payment to acquire own shares	24	(87.3)	(51.6)
Repayment of borrowings		(259.0)	(136.7)
Proceeds from borrowings		351.2	188.8
Proceeds from finance lease and hire purchase		4.5	21.2
Payment of finance lease and hire purchase liabilities		(20.1)	(23.4)
Repayment of loan notes		(0.4)	(0.2)
<b>Net cash outflows on financing activities</b>		<b>(75.3)</b>	(59.6)
Net increase in cash and cash equivalents		22.7	48.2
<b>Cash and cash equivalents at 30 June 2007</b>	18	<b>128.6</b>	80.4
<b>Cash and cash equivalents at 28 June 2008</b>	18	<b>151.3</b>	128.6

**Consolidated statement of recognised income and expense**

for the year ended 28 June 2008

	Notes	2008 £m	Restated 2007 £m
<b>Income and expense recognised directly in equity</b>			
Actuarial (losses)/gains on defined benefit pension plans	26	(44.6)	75.0
Unrealised gains on cashflow hedges	28	33.3	0.7
Gains on cashflow hedges taken to income statement – operating costs	28	(6.7)	–
Tax recognised directly in equity	9	5.1	(19.8)
Net expense / (income) recognised directly in equity		(12.9)	55.9
Profit for the year		76.8	71.2
<b>Total recognised income and expense for the year</b>		<b>63.9</b>	<b>127.1</b>
Attributable to:			
Equity holders of the parent		39.5	110.3
Minority interest		24.4	16.8
		<b>63.9</b>	<b>127.1</b>
<b>Effect of change in accounting policy</b>			
Decrease in revaluation reserve		–	(24.0)
Reversal of impairment charges		–	1.4
Deferred tax on the above		–	6.6
		–	(16.0)

# Notes to the consolidated financial statements

for the year ended 28 June 2008

## 1. Authorisation of financial statements and statement of compliance with IFRS

The consolidated financial statements of The Go-Ahead Group plc (the 'Group') for the year ended 28 June 2008 were authorised for issue by the Board of Directors on 4 September 2008 and the balance sheet was signed on the Board's behalf by Sir Patrick Brown and Nicholas 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 (IFRS) as adopted by the European Union (EU) as they apply to the consolidated financial statements of the Group for the year ended 28 June 2008, and applied in accordance with the provisions of the Companies Act 1985. 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 26.

## 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 28 June 2008 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 'Employee Benefits' so as to present fairly its financial performance, position, and cashflows in respect of its obligation for the RPS.

### Change of accounting policy

#### Valuation of property

The Group has elected to change its accounting policy of carrying land and buildings at valuation and apply the cost model under IAS 16 'Property, Plant and Equipment'. On first time adoption of IAS 16 on 3 July 2004, the Group elected to measure properties at their fair value and use those fair values as deemed cost as at that date. The Directors still believe that the use of this election was appropriate, since it allowed properties (that under UK GAAP had been carried at either cost, acquisition fair value or using a 1998 valuation) to be measured on a consistent basis under IFRS. In addition, the Group determined at that time to apply the revaluation model in IAS 16, with property recognised initially at cost and thereafter measured at fair value less any subsequent depreciation and impairment.

This policy of revaluation was adopted in part because it seemed to reflect better the underlying value of these properties to the business and also because it was believed that other transport companies would move to a revaluation model. However, this has not proved to be the case, with all our major peers adopting the cost model. After consideration, the Group has decided that the use of the cost model improves the comparability with other

major transport companies and thereby provides more reliable and relevant information on the financial position and performance of the Group. Accordingly prior year comparatives have been restated to reflect this change in policy, as required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The impact of this change is set out in note 24. As a result of the change in the accounting policy the carrying value of fixed assets has decreased by £111.0m at 1 July 2006 and a further £111.6m at 30 June 2007 with a corresponding decrease in the revaluation reserve at that date. The deferred tax liability has reduced by £3.4m at 1 July 2006 and £6.6m at 30 June 2007. Revenue reserves have increased by £4.8m at 1 July 2006 and £8.0m at 30 June 2007. The impact of the change on the income statement is not material.

### New standards

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies.

#### IFRS 7 Financial instruments: disclosures

This standard requires disclosure of information that enables users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

#### IAS 1 Presentation of financial statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in the Directors' Report and note 27.

IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivatives, IFRIC 10 Interim Financial Reporting and Impairment, and transactions had no impact on the financial position or performance of the Group.

### 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 13;
- 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 26; 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, as detailed as follows:

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of The Go-Ahead Group plc and its subsidiaries as at 28 June 2008.

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 Group and are based on consistent accounting policies. All intergroup 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.

#### **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. Aviation revenue represents income receivable generated from contracts in place with airlines and other aviation businesses. It 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 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.

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.

#### **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.

#### **Profit/revenue sharing agreements**

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 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 IFRS 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.

**2. Summary of significant accounting policies continued**

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 IFRS3 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 IFRS3 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 IFRS 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 full 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 3 to 5 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.

#### **Financial assets and derivatives**

Financial assets are accounted for in accordance with IAS39. 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. 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 equity 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 equity 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 equity 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 equity 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 uncanceled, 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 IAS1 'Presentation of Financial Statements' and has departed from the requirements of IAS19 in respect of the rail pension schemes.

#### **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 IAS19 to recognise actuarial gains and losses in the Statement of Recognised Income and Expense 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.

**2. Summary of significant accounting policies continued**

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 profit or loss 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 Railways Pension Scheme (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 IAS19 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 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').

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 condition, be treated as vesting as described above.

No cost is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market 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 directly in equity is recognised in equity and not in the income statement. Otherwise, tax is recognised in the income statement.

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***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:

<b>International Accounting Standards (IAS / IFRS)</b>	Effective date (periods beginning on or after)
IFRS 8 Operating segments	1 January 2009
IAS 23 Borrowing costs (revised)	1 January 2009
IFRS 2 Share-based payments – vesting conditions and cancellations	1 January 2009
IFRS 3 Business combinations (revised)	1 July 2009
IAS 27 Consolidated and separate financial statements (revised)	1 July 2009
IAS 1 Presentation of financial statements (revised)	1 January 2009
Amendment to IAS 32 and IAS 31 Puttable financial instruments and obligations arising on liquidations	1 January 2009
Amendment to IFRS 1 and IAS 27 Amendments for determining the cost of an investment in separate financial statements	1 January 2009
Amendment to IAS 39 Eligible hedged items	1 January 2009
<b>International Financial Reporting Interpretation Committee (IFRIC)</b>	
IFRIC 13 Customer loyalty programmes	1 July 2008
IFRIC 14 IAS 19 The limit on defined benefit assets, minimum funding requirements	1 January 2008
IFRIC 12 Service concession arrangements	1 January 2008
IFRIC 15 Agreements for the construction of real estate	1 January 2009
IFRIC 16 Hedges of a net investment in a foreign operation	1 October 2008

At present the Directors are reviewing the requirements of the above standards. However, they do not anticipate adoption of these standards and interpretations will have a material impact on the Group's financial statements.

### 3. Segmental Analysis

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets, as detailed in the Directors' Report.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The Group has only one reportable geographical segment, being the United Kingdom.

#### Business segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the years ended 28 June 2008 and 30 June 2007.

#### Year ended 28 June 2008

	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Segment revenue	578.5	1,381.4	267.0		2,226.9
Inter-segment revenue	(20.8)	(3.0)	(4.0)		(27.8)
<b>Group revenue</b>	<b>557.7</b>	<b>1,378.4</b>	<b>263.0</b>		<b>2,199.1</b>
<b>Group operating profit (before amortisation and exceptional items)</b>	<b>66.2</b>	<b>77.2</b>	<b>1.5</b>		<b>144.9</b>
Goodwill and intangible amortisation	(1.9)	(9.3)	(0.4)		(11.6)
Exceptional items	(8.4)	—	(8.0)		(16.4)
<b>Segment result</b>	<b>55.9</b>	<b>67.9</b>	<b>(6.9)</b>		<b>116.9</b>
Net finance costs					(13.8)
<b>Profit before tax and minority interest</b>					<b>103.1</b>
Tax expense					(26.3)
<b>Profit for the year</b>					<b>76.8</b>

#### Assets and liabilities

Segment assets	479.0	376.8	129.3	31.0	1,016.1
Assets classified as held for sale	2.6	—	—	—	2.6
<b>Total assets</b>	<b>481.6</b>	<b>376.8</b>	<b>129.3</b>	<b>31.0</b>	<b>1,018.7</b>
Segment liabilities	(92.3)	(333.1)	(44.3)	(481.5)	(951.2)
<b>Net assets/(liabilities)</b>	<b>389.3</b>	<b>43.7</b>	<b>85.0</b>	<b>(450.5)</b>	<b>67.5</b>

	Bus £m	Rail £m	Aviation services £m	Total £m
<b>Other segment information</b>				
Capital expenditure:				
Additions	36.3	9.3	9.9	55.5
Acquisitions	3.5	4.6	—	8.1
Intangible fixed assets	2.0	3.4	—	5.4
Depreciation	30.9	11.3	6.9	49.1

*Year ended 30 June 2007 (restated)*

	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Segment revenue	520.2	1,073.4	244.8	—	1,838.4
Inter-segment revenue	(6.2)	(2.1)	(3.2)	—	(11.5)
<b>Group revenue</b>	<b>514.0</b>	<b>1,071.3</b>	<b>241.6</b>	<b>—</b>	<b>1,826.9</b>
<b>Group operating profit (before amortisation and exceptional items)</b>	<b>55.8</b>	<b>66.1</b>	<b>(3.8)</b>	<b>—</b>	<b>118.1</b>
Goodwill and intangible amortisation	(0.7)	(7.5)	(0.2)	—	(8.4)
Exceptional items	—	(6.9)	—	—	(6.9)
<b>Segment result</b>	<b>55.1</b>	<b>51.7</b>	<b>(4.0)</b>	<b>—</b>	<b>102.8</b>
Net finance costs					(8.0)
<b>Profit before tax and minority interest</b>					<b>94.8</b>
Tax expense					(23.6)
<b>Profit for the year</b>					<b>71.2</b>

**Assets and liabilities**

Segment assets	463.5	264.8	127.9	22.2	878.4
Assets classified as held for sale	0.9	—	—	—	0.9
<b>Total assets</b>	<b>464.4</b>	<b>264.8</b>	<b>127.9</b>	<b>22.2</b>	<b>879.3</b>
Segment liabilities	(87.6)	(258.8)	(40.2)	(361.1)	(747.7)
<b>Net assets/(liabilities)</b>	<b>376.8</b>	<b>6.0</b>	<b>87.7</b>	<b>(338.9)</b>	<b>131.6</b>

	Bus £m	Rail £m	Aviation services £m	Total £m
<b>Other segment information</b>				
Capital expenditure:				
Additions	36.1	4.9	16.6	57.6
Acquisitions	7.9	—	0.6	8.5
Intangible fixed assets	16.2	0.7	3.7	20.6
Depreciation	29.0	9.2	6.4	44.6

**Summary of unallocated assets and liabilities**

	2008 £m	Restated 2007 £m
<b>Assets</b>		
Cash	13.8	10.3
Deferred tax assets	17.2	11.9
	<b>31.0</b>	<b>22.2</b>
<b>Liabilities</b>		
Interest-bearing loans and borrowings	347.4	272.6
Overdraft	5.8	0.3
Current tax liabilities	6.0	14.0
Deferred tax liabilities	77.9	59.7
Group retirement benefit obligations – The Go-Ahead Group Pension Plan	44.4	14.5
Other liabilities	—	—
	<b>481.5</b>	<b>361.1</b>

**4. Revenue**

	2008 £m	2007 £m
Rendering of services	1,828.6	1,532.6
Rental income	18.4	7.2
Franchise subsidy receipts	352.1	287.1
<b>Group revenue</b>	<b>2,199.1</b>	<b>1,826.9</b>
Finance revenue (note 7)	8.8	6.1
<b>Total revenue</b>	<b>2,207.9</b>	<b>1,833.0</b>

**5. Operating costs**

	2008 £m	2007 £m
Staff costs (note 6)	813.7	704.2
Other operating income	(20.3)	(18.6)
Other external charges	446.6	375.2
Depreciation of property, plant and equipment		
– owned assets	27.7	22.4
– leased assets	21.4	22.2
<b>Total depreciation expense</b>	<b>49.1</b>	<b>44.6</b>
Goodwill and intangible amortisation	11.6	8.4
Auditors' remuneration		
– audit of the financial statements	0.6	0.6
– taxation services	0.2	0.3
– other services	0.1	–
	<b>0.9</b>	<b>0.9</b>
Cost of inventories recognised as an expense	108.5	85.4
Write down of inventories to net realisable value	0.3	0.2
	<b>108.8</b>	<b>85.6</b>
Trade receivables not recovered	1.7	0.4
Operating lease payments		
– minimum lease payments	666.9	533.5
– sublease payments	(9.2)	(13.9)
<b>Total lease and sublease payments recognised as an expense</b>	<b>657.7</b>	<b>519.6</b>
Government grants	(3.6)	(3.7)
(Gain)/loss on disposal of property, plant and equipment	(0.4)	0.6
Exceptional items (note 8)	16.4	6.9
<b>Total operating costs</b>	<b>2,082.2</b>	<b>1,724.1</b>

The fee relating to the audit of the financial statements can be analysed between audit of the Company's financial statements of £0.1m (2007 – £0.1m) and audit of subsidiaries' financial statements of £0.5m (2007 – £0.5m).

In addition to audit fees detailed above, £nil (2007 – £0.3m) of non-audit fees were capitalised as part of the cost of acquisitions and franchise bid costs during the year. During the year, £1.2m (2007 – £2.0m) was also paid to other 'Big 4' accounting firms for a variety of services.



## 6. Staff costs

	2008 £m	2007 £m
Wages and salaries	717.3	618.2
Social security costs	63.4	54.8
Other pension costs	30.5	29.2
Share based payments charge	2.5	2.0
	<b>813.7</b>	<b>704.2</b>

The average monthly number of employees during the year, including Directors, was:

	2008 No.	2007 No.
Administration and supervision	2,676	2,726
Maintenance and engineering	2,188	1,826
Operations	22,763	19,826
	<b>27,627</b>	<b>24,378</b>

The information required by Schedule 6 (1) of the Companies Act 1985 and details regarding compensation of key management personnel of the Group is provided in the Directors' Report.

### Sharesave Scheme

The Group operates a 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 28 June 2008 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 28 June 2008	488,953	588,742	73,046
No. of options exercised during the year	129	1,955	521,094
No. of options exercisable at 28 June 2008	5,657	6,135	72,266

The expense recognised for these schemes during the year to 28 June 2008 was £2.3m (2007 – £1.6m).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options for the SAYE:

	No.	2008 WAEP £	No.	2007 WAEP £
Outstanding at the beginning of the year	1,847,855	15.15	1,440,697	13.27
Granted during the year	–	–	565,945	19.14
Forfeited during the year	(173,936)	16.14	(154,241)	12.33
Exercised during the year	(523,178)	12.11	(4,546)	10.80
Outstanding at the end of the year	1,150,741	16.38	1,847,855	15.15

The weighted average share price at the date of exercise for the options exercised in the period was £15.34 (2007 – £22.18).

The options outstanding at the end of the year have a weighted average remaining contracted life of 1.3 years (2007 – 1.9 years). These options are exercisable between £12.10 and £19.14 (2007 – between £12.10 and £19.14).

**6. Staff costs continued**

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 plan**

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 plan (LTIP)**

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' Report for further details of the LTIP.

The expense recognised for the LTIP during the year to 28 June 2008 was £0.2m (2007 – £0.4m).

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 28 June 2008 were:

	2008 % per annum	2007 % per annum
<b>The Go-Ahead Group</b>		
Future share price volatility	22.0	21.0
<b>Transport Sector comparator</b>		
Future share price volatility	21.0 – 27.0	20.0 – 27.0
Correlation between companies	40.0	40.0
<b>FTSE Mid-250 index comparator</b>		
Future share price volatility	25.0	25.0
Correlation between companies	20.0	20.0

The following table illustrates the number of share options for the LTIP:

	2008 No.	2007 No.
Outstanding at the beginning of the year	87,577	61,713
Granted during the year	27,530	45,868
Forfeited during the year	(29,884)	(20,004)
Vested during the year	(15,388)	–
Outstanding at the end of the year	69,835	87,577

None of the options were exercisable at the year end and the weighted average exercise price of the options is nil.

## 7. Finance revenue and costs

	2008 £m	2007 £m
Bank interest receivable on bank deposits	8.0	5.4
Other interest receivable	0.8	0.7
Finance revenue	8.8	6.1
Interest payable on bank loans and overdrafts	18.3	10.4
Other interest payable	1.7	1.2
Interest payable under finance leases and hire purchase contracts	2.6	2.5
Finance costs	22.6	14.1

## 8. Exceptional items

	2008 £m	2007 £m
Redundancy and reorganisation costs	(8.0)	—
Impairment charges and loss on sale of business	(8.4)	—
EC4T	—	(6.9)
	(16.4)	(6.9)

The redundancy and reorganisation costs relate to the closure and restructuring of a number of our operations within our aviation business.

The impairment charges and loss on sale of business relates to the sale of The Birmingham Omnibus Company Ltd (formerly known as Go West Midlands and The Birmingham Coach Company Ltd) on 29 February 2008.

EC4T is electricity purchased by the train companies to operate electric trains from Network Rail. During the prior year our rail companies negotiated a new basis for determining the cost of electricity going forward. In return for agreeing to revise the terms of the related track access agreements to reflect this new basis, Network Rail required the Group to make a one-off compensation payment. This cost was identified as an exceptional item, given the size of this payment and the fact that it was made to secure a fundamental change to the basis on which the Group is charged for EC4T.

## 9. Taxation

### a. Tax recognised in the income statement and in equity

	2008 £m	2007 £m
Current tax charge	16.8	19.1
Adjustments in respect of current tax of previous years	(3.1)	—
	13.7	19.1
Deferred tax relating to origination and reversal of temporary differences	9.6	6.9
Impact of deferred tax rate change 30% to 28%	—	(1.7)
Previously unrecognised deferred tax of a prior period	3.0	(0.7)
<b>Tax reported in consolidated income statement</b>	<b>26.3</b>	<b>23.6</b>

Tax relating to items charged or credited to equity

	2008 £m	Restated 2007 £m
Corporation tax on share based payments	(0.7)	(0.1)
Deferred tax on share based payments	2.3	(1.4)
Tax on actuarial gains on defined benefit pension plans	(12.5)	23.1
Tax on IAS39 asset	7.4	0.2
Revaluation of land and buildings	—	(3.5)
<b>Tax reported in equity</b>	<b>(3.5)</b>	<b>18.3</b>

**9. Taxation continued****b. Reconciliation**

A reconciliation of income tax applicable to accounting profit before tax at the statutory tax rate to tax at the Group's effective tax rate for the years ended 28 June 2008 and 30 June 2007 is as follows:

	2008 £m	2007 £m
Profit on ordinary activities before taxation	103.1	94.8
At United Kingdom tax rate of 29.5% (2007 – 30%)	30.4	28.4
Adjustments in respect of current tax of previous years	(3.1)	–
Previously unrecognised deferred tax of a prior period	3.0	(0.7)
Expenditure not allowable for tax purposes	2.5	1.1
Goodwill amortisation and impairment charges	1.4	0.8
Differences re: tax efficient financing	(7.4)	(4.3)
Rate change due to timing differences 29.5% to 28%	(0.5)	–
Deferred tax rate change 30% to 28%	–	(1.7)
Tax reported in consolidated income statement at effective tax rate of 25.5% (2007 – 24.9%)	26.3	23.6

**c. Deferred tax**

The deferred tax included in the balance sheet is as follows:

	2008 £m	Restated 2007 £m
<b>Deferred tax liability</b>		
Accelerated capital allowances	(25.9)	(18.6)
Intangible assets	(7.1)	(3.9)
Other temporary differences	(20.6)	(13.9)
Revaluation of land and buildings	(24.3)	(23.3)
	(77.9)	(59.7)
<b>Deferred tax asset</b>		
Retirement benefit obligations	16.6	7.5
Share based payments	0.5	2.6
Losses carried forward	0.1	1.8
	17.2	11.9

The deferred tax included in the Group income statement is as follows:

	2008 £m	2007 £m
Accelerated capital allowances	5.4	7.7
Share based payments	(0.2)	(0.4)
Tax losses	–	(1.4)
Retirement benefit obligations	3.6	0.1
Revaluation of land and buildings	–	0.1
Other temporary differences	0.8	(2.6)
Adjustments in respect of prior years	3.0	(0.7)
Rate change 30% to 28%	–	1.7
Deferred income tax expense	12.6	4.5

**d. Factors that may affect future tax charges**

In the 2007 budget the UK government announced its intention to legislate to abolish industrial buildings allowances. As of 28 June 2008, this change was not substantially enacted. Had the change been substantially enacted as of the balance sheet date, the estimated impact on the balance sheet would be an increase in the deferred tax liability of £7.8m.

## 10. Earnings per share

### Basic earnings per share

	2008	2007
Net profit attributable to equity holders of the parent (£m)	56.0	58.6
Weighted average number of shares in issue (000)	43,481	47,188
Basic earnings per share (pence per share)	128.8	124.2

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

### Diluted earnings per share

	2008	2007
Net Profit attributable to equity holders of the parent (£m)	56.0	58.6
Weighted average number of shares in issue (000)	43,481	47,188
Effect of dilution:		
Dilutive potential ordinary shares under share option schemes (000)	505	601
Adjusted weighted average number of shares (000)	43,986	47,789
Diluted earnings per share (pence per share)	127.3	122.6

The dilution calculation assumes conversion of all potentially dilutive ordinary shares.

### 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. This is analysed as follows:

	Profit for the year £m	Exceptional items £m	Amortisation £m	2008 Total £m
Profit before taxation	103.1	16.4	11.6	131.1
Less: Taxation	(26.3)	(2.8)	(2.7)	(31.8)
Less: Minority Interest	(20.8)	—	(2.5)	(23.3)
<b>Adjusted profit attributable to equity holders of the parent</b>	<b>56.0</b>	<b>13.6</b>	<b>6.4</b>	<b>76.0</b>
<b>Adjusted earnings per share (pence per share)</b>				<b>174.8</b>

	Profit for the year £m	Exceptional items £m	Amortisation £m	2007 Total £m
Profit before taxation	94.8	6.9	8.4	110.1
Less: Taxation	(23.6)	(2.1)	(1.7)	(27.4)
Less: Minority Interest	(12.6)	(1.7)	(2.0)	(16.3)
<b>Adjusted profit attributable to equity holders of the parent</b>	<b>58.6</b>	<b>3.1</b>	<b>4.7</b>	<b>66.4</b>
<b>Adjusted earnings per share (pence per share)</b>				<b>140.7</b>

## 11. Dividends paid and proposed

	2008 £m	2007 £m
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2007: 47p per share (2006 – 38p)	20.5	18.1
Interim dividend for 2008: 25.5p per share (2007 – 23p)	10.9	10.8
	<b>31.4</b>	<b>28.9</b>

	2008 £m	2007 £m
<b>Proposed for approval at AGM (not recognised as a liability as at 28 June)</b>		
Equity dividends on ordinary shares:		
Final dividend for 2008: 55.5p per share (2007 – 47p)	23.2	21.6

**12. Property, plant and equipment**

	Freehold land and buildings £m	Leasehold properties £m	Rolling stock £m	Plant and equipment £m	Total £m
<b>Cost:</b>					
At 1 July 2006 as previously reported	160.7	15.5	306.3	163.7	646.2
Impact of prior year adjustment	(12.1)	(0.3)	—	—	(12.4)
At 1 July 2006 (as restated)	148.6	15.2	306.3	163.7	633.8
Reclassification	(2.1)	7.9	—	(5.8)	—
Additions	1.6	2.1	28.8	25.1	57.6
Acquisitions	1.6	—	10.0	0.8	12.4
Disposals	(1.7)	(8.0)	(9.3)	(3.8)	(22.8)
Transfer to assets held for resale	(0.9)	—	—	—	(0.9)
At 30 June 2007 (as restated)	147.1	17.2	335.8	180.0	680.1
Additions	0.2	1.4	32.6	21.3	55.5
Acquisitions	1.6	—	2.0	4.5	8.1
Disposals	(1.6)	(0.3)	(21.4)	(16.8)	(40.1)
Transfer to assets held for resale	(2.7)	—	—	—	(2.7)
<b>At 28 June 2008</b>	<b>144.6</b>	<b>18.3</b>	<b>349.0</b>	<b>189.0</b>	<b>700.9</b>
<b>Depreciation and impairment:</b>					
At 1 July 2006 as previously reported	5.6	5.0	120.3	90.1	221.0
Impact of prior year adjustment	(1.4)	—	—	—	(1.4)
At 1 July 2006 (as restated)	4.2	5.0	120.3	90.1	219.6
Charge for the year	0.6	0.7	24.7	18.6	44.6
Reclassification	—	(0.3)	—	0.3	—
Acquisitions	—	—	3.4	0.5	3.9
Disposals	(0.3)	(2.3)	(7.4)	(2.7)	(12.7)
At 30 June 2007 (as restated)	4.5	3.1	141.0	106.8	255.4
Charge for the year	0.4	1.0	26.5	21.2	49.1
Disposals	—	—	(15.3)	(14.8)	(30.1)
Transfer to assets held for resale	(0.1)	—	—	—	(0.1)
<b>At 28 June 2008</b>	<b>4.8</b>	<b>4.1</b>	<b>152.2</b>	<b>113.2</b>	<b>274.3</b>
<b>Net book value</b>					
<b>At 28 June 2008</b>	<b>139.8</b>	<b>14.2</b>	<b>196.8</b>	<b>75.8</b>	<b>426.6</b>
At 30 June 2007 (as restated)	142.6	14.1	194.8	73.2	424.7
At 1 July 2006 (as restated)	144.4	10.2	186.0	73.6	414.2

The net book value of leased assets and assets acquired under hire purchase contracts is:

	2008 £m	2007 £m
Rolling stock	156.9	166.0
Plant and equipment	3.1	4.8
	<b>160.0</b>	<b>170.8</b>

Additions during the year included £1.8m (2007 – £14.5m) of rolling stock and £nil (2007 – £nil) of plant and equipment held under finance leases and hire purchase contracts.



### 13. Intangible assets

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Customer contracts £m	Total £m
<b>Cost</b>						
At 1 July 2006	93.0	6.0	4.4	35.7	—	139.1
Additions	—	0.8	0.4	—	—	1.2
Disposals	—	(0.6)	—	—	—	(0.6)
Finalisation of franchise payment	—	—	—	(1.3)	—	(1.3)
Acquisitions	15.5	—	—	—	3.9	19.4
At 30 June 2007	108.5	6.2	4.8	34.4	3.9	157.8
Additions	—	3.0	2.4	—	—	5.4
Reclassification	(0.4)	—	—	—	0.4	—
Disposals	(3.8)	(0.4)	—	—	—	(4.2)
Acquisitions	0.8	—	—	15.2	1.2	17.2
<b>At 28 June 2008</b>	<b>105.1</b>	<b>8.8</b>	<b>7.2</b>	<b>49.6</b>	<b>5.5</b>	<b>176.2</b>
<b>Amortisation and impairment</b>						
At 1 July 2006	13.9	2.7	1.4	2.3	—	20.3
Charge for the year	2.4	0.9	0.6	4.3	0.2	8.4
Disposals	—	(0.3)	—	—	—	(0.3)
At 30 June 2007	16.3	3.3	2.0	6.6	0.2	28.4
Charge for the year	2.4	1.2	0.8	5.8	1.4	11.6
<b>At 28 June 2008</b>	<b>18.7</b>	<b>4.5</b>	<b>2.8</b>	<b>12.4</b>	<b>1.6</b>	<b>40.0</b>
<b>Net book value</b>						
<b>At 28 June 2008</b>	<b>86.4</b>	<b>4.3</b>	<b>4.4</b>	<b>37.2</b>	<b>3.9</b>	<b>136.2</b>
At 30 June 2007	92.2	2.9	2.8	27.8	3.7	129.4
At 1 July 2006	79.1	3.3	3.0	33.4	—	118.8

#### 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 £13.8m relating to the opening deficit in the Rail Pension Schemes and £14.0m 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 six and seven years).

During the year the London Midland franchise was awarded and an intangible of £15.2m relating to the Railways Pension Scheme was recognised. £11.1m was created on franchise handover corresponding to the associated pension liability, and £4.1m was created on the payment of a £10.4m lump sum to the London Midland pension scheme representing the members' share of the payment at 40%.

#### Software costs

Software costs capitalised exclude software that is not 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.

**13. Intangible assets continued****Goodwill**

As from 3 July 2004, goodwill is no longer amortised and is annually tested for impairment.

The goodwill charge of £2.4m (2007 – £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:

	2008 £m	Restated 2007 £m
Aviance and Plane Handling	16.1	16.1
Meteor Parking	18.4	18.4
New Southern Railway	3.4	5.8
Metrobus	6.5	6.5
Go South Coast	28.6	28.6
Brighton & Hove	2.1	2.1
Go West Midlands	–	3.8
London Bus	10.5	10.9
Go North East	0.8	–
	<b>86.4</b>	<b>92.2</b>

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 the following growth rates which reflect the Directors' view of long-term growth rates in each business:

	2008 %	2007 %
Aviance and Plane Handling	2.25	2.25
Meteor Parking	–	–
New Southern Railway	3.00	3.00
London Bus	–	3.00
Other bus businesses	3.00	3.00

The cashflows for all cash-generating units have been discounted using a discount rate of 12.1% (2007 – 10.6%), based on the Group's weighted average cost of capital, plus an appropriate risk premium for each cash-generating unit of 0-2% (2007 – 0-2%).

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 factors both internally and externally.

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. It is believed that any reasonably possible movement on assumptions will not lead to an impairment and we have therefore not presented any sensitivity analysis.

**14. Business combinations****Year ended 28 June 2008**

On 10 September 2007, Go North East Limited, a wholly owned subsidiary of the Group, acquired the commercial bus operations and associated assets of Northumbria Coaches, a small independent Northumberland bus operator. On 15 October 2007, Go North East Limited acquired the commercial bus operations and associated assets of Stanley Taxis, a small independent Durham bus operator. On 28 January 2008 Go North East Limited acquired the commercial bus operations and associated assets of Redby Buses, a small independent Sunderland bus operator. On 8 December 2007 Metrobus Limited, a wholly owned subsidiary of the Group, acquired FirstGroup's regulated bus operations in Orpington.

The total cash consideration for the above acquisitions was £5.5m. They have been accounted for as acquisitions in accordance with IFRS3. The acquisition balance sheets have been adjusted to reflect provisional fair values and the goodwill arising has been capitalised as an intangible asset.

Intangible assets acquired represent customer contracts of £1.2m.

Management believes that the goodwill represents future growth opportunities and created value to the Group in respect of non-contractual relationships, customer loyalty, and an assembled workforce, for which the recognition of a discrete intangible asset is not permitted. A property valuation has been completed.

A summary of the transactions is detailed below:

**Net assets at date of acquisition:**

	Book value 2008 £m	Provisional fair value to Group 2008 £m
Intangible assets	—	1.2
Tangible fixed assets	4.0	3.5
	4.0	4.7
Goodwill capitalised		0.8
		5.5
Cash		5.5
		5.5

From the date of acquisition, the acquisitions have contributed an operating profit of £0.8m to the Group and revenue of £5.3m. The Group is unable to determine, from available information, the profit and cashflow that would have been contributed if the combinations had taken place at the beginning of the year, from available information.

**Year ended 30 June 2007**

On 18 September 2006, London General Transport Services Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Docklands Minibuses Limited, a small independent London bus operator, for a total cash consideration of £2.8m, including expenses.

On 24 October 2006, Solent Blue Line Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Marchwood Motorways (Southampton) Limited and Marchwood Motorways (Services) Limited (Marchwood Buses), an independent bus and coach operator in the Southampton conurbation, for a total cash consideration of £3.7m, including expenses.

On 21 December 2006, Meteor Parking Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of PAS Direct Limited and PAS Gatwick Limited (PAS) providers of valet parking services at Gatwick airport, for a total cash consideration of £1.5m, including expenses.

On 26 February 2007, Meteor Parking Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Nikaro Limited, a company providing national specialist keyholding and alarm response services, for a total consideration of £2.4m, including expenses and deferred consideration of £0.3m.

On 28 June 2007, London General Transport Services Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Blue Triangle Buses Limited, a small independent bus operator in East London, for a total cash consideration of £12.8m, including expenses.

A summary of the transactions is detailed below:

**Net assets at date of acquisition:**

	Book value 2007 £m	Fair value to Group 2007 £m
Intangible assets	—	3.9
Tangible fixed assets	9.9	8.5
Inventories	0.2	0.1
Receivables	4.7	4.5
Overdraft	(0.1)	(0.1)
Payables falling due within one year	(7.5)	(7.7)
Deferred taxation	(0.8)	(1.8)
	6.4	7.4
Goodwill capitalised		15.8
		23.2
Cash		22.5
Deferred consideration		0.3
Expenses		0.4
		23.2

From the date of acquisition, in the year ended 30 June 2007, the acquisitions contributed an operating profit of £1.2m to the Group and revenue of £8.4m. The Group is unable to determine, from available information, the profit and cashflow that would have been contributed if the combinations had taken place at the beginning of the year.

**15. Assets classified as held for sale**

Assets held for sale, with a carrying amount of £2.6m (2007 – £0.9m), represent property, plant and equipment which are no longer 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 (2007 – £nil).

**16. Inventories**

	2008 £m	2007 £m
Raw materials and consumables	12.0	9.3

The provision for slow moving and obsolete inventory is immaterial.

**17. Trade and other receivables**

	2008 £m	2007 £m
Current		
Trade receivables	111.7	88.6
Less: Provision for impairment of receivables	(3.0)	(1.7)
Trade receivables – net	108.7	86.9
Other receivables	26.7	8.2
Prepayments and accrued income	64.4	53.8
Receivable from central government	38.4	22.8
	238.2	171.7
Non-current		
Other receivables	1.5	1.8
	1.5	1.8

Included within other receivables is £21.2m deposit paid on rolling stock.

As at 28 June 2008, trade receivables at nominal value of £3.0m (2007 – £1.7m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Individually impaired £m	Collectively impaired £m	Total £m
At 2 July 2006	2.5	0.1	2.6
Charge for the year	0.4	–	0.4
Utilised	(0.2)	–	(0.2)
Unused amounts reversed	(1.1)	–	(1.1)
At 30 June 2007	1.6	0.1	1.7
Charge for the year	1.7	–	1.7
Utilised	(0.3)	–	(0.3)
Unused amounts reversed	(0.1)	–	(0.1)
<b>At 28 June 2008</b>	<b>2.9</b>	<b>0.1</b>	<b>3.0</b>

As at 28 June 2008, 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
2008	108.7	74.7	24.9	5.2	2.6	1.3	–
2007	86.9	54.3	21.4	4.0	3.3	0.8	3.1

## 18. Cash and short-term deposits

	2008 £m	2007 £m
Cash at bank and in hand	21.1	17.7
Short-term deposits	136.0	111.2
	157.1	128.9

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 DfT, up to the value of revenue reserves. As at 28 June 2008, balances amounting to £122.9m (2007 – £92.7m) were restricted.

For the purposes of the consolidated cashflow statement, cash and cash equivalents comprise the following:

	2008 £m	2007 £m
Cash at bank and in hand	21.1	17.7
Short-term deposits	136.0	111.2
Bank overdrafts (note 20)	(5.8)	(0.3)
	151.3	128.6

## 19. Trade and other payables

	2008 £m	2007 £m
<b>Current</b>		
Trade payables	169.4	100.7
Other taxes and social security costs	18.6	21.4
Other payables	39.2	28.1
Deferred season ticket income	84.9	66.2
Accruals and deferred income	67.8	76.0
Uninsured claims accrual	34.8	28.9
Payable to central government	27.2	41.5
Government grants	2.1	2.5
	444.0	365.3
<b>Non-current</b>		
Government grants	7.0	6.1
Other liabilities	2.8	1.6
	9.8	7.7

Terms and conditions of the above financial liabilities:

- 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.
- Interest payable is normally settled monthly.
- For terms and conditions relating to related parties, refer to note 25.

**20. Interest-bearing loans and borrowings**

	Effective interest rate %	Maturity	2008 £m	2007 £m
<b>Current</b>				
Bank overdrafts	6.00	On demand	5.8	0.3
Current obligations under finance leases and hire purchase contracts (note 22)	5.64	Less than 3 months	16.0	17.9
Current instalments due on bank loans	5.55	2 to 9 months	16.8	24.3
			<b>38.6</b>	<b>42.5</b>
<b>Non-current</b>				
Non-current obligations under finance leases and hire purchase contracts (note 22)	5.64	1 to 6 years	18.3	32.2
Non-current instalments due on bank loans	5.52	1 to 5 years	296.3	197.8
Loan notes	n/a	n/a	—	0.4
			<b>314.6</b>	<b>230.4</b>

**Bank loans**

Bank loans are stated net of debt issue costs of £1.7 (2007 – £0.5m) and comprise the following:

**Syndicated loan facility**

On 23 November 2007 the Group entered into a new £340m 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.

As at 28 June 2008, £262.0m of the facility was drawn down.

**Revolving floating rate credit facilities**

2008 Facility £m	Maturity	Drawn-down £m	2007 Facility £m	Maturity	Drawn-down £m
—	—	—	25.0	4 Apr 08	20.0
—	—	—	25.0	6 Aug 08	20.0
—	—	—	40.0	8 Mar 08	40.0
—	—	—	50.0	12 Feb 08	30.0
—	—	—	40.0	18 Jan 08	27.0
—	—	—	20.0	12 Feb 08	20.0
—	—	—	200.0		157.0

These facilities were 364 day revolving with one-year term out option in favour of the Group. The maturity dates of the facilities and the classification of the debt as due in more than one year assumed these options would be exercised and the facilities would be repayable in full on these dates. These facilities were repaid and cancelled on 10 December 2007.

The debt was unsecured and interest was chargeable at LIBOR +0.3%.

**Medium-term loans**

The Group has a number of medium-term loans, all of which are unsecured.

	Effective interest rate %	2008 £m	2007 £m
Fixed rate term loan	5.71	25.5	43.1
Floating rate term loans	5.90	27.3	22.5
		<b>52.8</b>	<b>65.6</b>

The fixed rate term loan is unsecured, and subject to interest of 5.71%. It is repayable in four annual instalments, commencing on 22 September 2008 of £6.8m, £5.8m, £5.7m and £7.2m.

There are two floating rate loans which are both unsecured. £16.7m is subject to interest at LIBOR + 0.3%, and is repayable in three annual instalments of £5.56m on 22 August each year. £10.6m is subject to interest of £5.94% refixed annually, and is repayable in instalments on 6 March 2009 and 6 March 2010.



### **Maturity**

The maturity of bank loans is as follows:

	2008 £m	2007 £m
Within one year	16.8	24.3
After one year but not more than five years	15.4	147.9
After more than five years	280.9	49.9
	313.1	222.1

The Group is subject to a number of covenants in relation to its borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants specify maximum adjusted net debt to EBITDA, minimum EBITDA to interest and EBITDA plus fixed charges to interest payable and fixed charges ratio. At the year end the Group was not in breach of any bank covenants.

Details of the Group's treasury policies are included in note 27.

### **21. Provisions**

	Depots £m
At 30 June 2007	1.3
Utilised	(0.4)
<b>At 28 June 2008</b>	<b>0.9</b>

A significant redevelopment of the depot facilities at one of the Group's rail subsidiaries is virtually complete. Whilst the majority of the project has been funded by the DfT, there is a risk that the Group will need to fund part of the final total cost of the project. On that basis a provision exists as at 28 June 2008 to cover the outstanding element that the Group anticipates it will be required to fund. The remaining element of the provision is expected to be settled in the next financial year.

### **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:

	Minimum payments £m	2008 Present value of payments £m	Minimum payments £m	2007 Present value of payments £m
Within one year	17.3	16.0	19.6	17.9
After one year but not more than five years	19.1	18.1	33.2	32.2
After more than five years	0.2	0.2	—	—
Total minimum lease payments	36.6		52.8	
Less amounts representing finance charges	(2.3)		(2.7)	
Present value of minimum lease payments	34.3	34.3	50.1	50.1

### **23. Commitments and contingencies**

#### **Capital commitments**

	2008 £m	2007 £m
Contracted for but not provided	31.4	13.9

#### **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 28 June 2008 are as follows:

	Land and buildings £m	2008 Plant and equipment £m	Land and buildings £m	2007 Plant and equipment £m
Within one year	13.1	11.1	9.9	6.6
After one year but not more than five years	46.9	27.7	36.7	18.0
More than five years	88.4	3.8	75.0	0.6
	148.4	42.6	121.6	25.2

**23. Commitments and contingencies continued****Operating lease commitments – Group as lessee continued**

In addition, as part of the rail franchises, the Group holds agreements under which they lease rolling stock, and agreements with Network Rail for access to the railway infrastructure (track, stations and depots).

Future minimum rentals payable under these operating leases as at 28 June 2008 are as follows:

	2008 £m	2007 £m
Within one year	747.8	358.9
In the second to fifth years inclusive	1,811.9	858.0
Over five years	245.9	—
	2,805.6	1,216.9

**Operating lease commitments – Group as lessor**

The Group holds surplus properties which are let to third parties. These non-cancellable leases have remaining terms of up to seven years. 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 28 June 2008 are as follows:

	Land and buildings £m	2008 Rail agreements £m	Land and buildings £m	2007 Rail agreements £m
Within one year	4.5	5.8	3.0	12.6
After one year but not more than five years	6.8	1.0	3.7	33.1
More than five years	0.2	—	—	—
	11.5	6.8	6.7	45.7

**Performance bonds**

The Group has provided bank guaranteed performance bonds of £96.5m (2007 – £73.4m), and season ticket bonds of £97.9m (2007 – £77.7m) 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 the end of the financial year is £35.0m (2007 – £49.0m).

**24. Issued capital and reserves**

	2008 £m	Authorised 2007 £m
62.5 million 10p ordinary shares	6.3	6.3

	Millions	2008 £m	Allotted, called up and fully paid Millions	2007 £m
As at 30 June 2007	50.9	5.1	52.6	5.3
Issued on exercise of share options	0.5	0.1	—	—
Cancelled during the year	(4.6)	(0.5)	(1.7)	(0.2)
As at 28 June 2008	46.8	4.7	50.9	5.1

The Company has one class of ordinary shares which carry no right to fixed income.

### Statement of changes in equity

	Share capital £m	Reserve for own shares £m	Revaluation reserve £m	Hedging reserve £m	Other reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m	Minority interests £m	Total £m
At 1 July 2006	65.6	(67.1)	12.4	–	1.6	–	93.1	105.6	3.7	109.3
Impact of change in accounting policy	–	–	(12.4)	–	–	–	4.8	(7.6)	–	(7.6)
At 1 July 2006 (as restated)	65.6	(67.1)	–	–	1.6	–	97.9	98.0	3.7	101.7
Total recognised income and expense	–	–	–	0.5	–	–	109.8	110.3	16.8	127.1
Share based payment charge	–	–	–	–	–	–	2.0	2.0	–	2.0
Dividends	–	–	–	–	–	–	(28.9)	(28.9)	(14.7)	(43.6)
Acquisition of own shares	–	(55.6)	–	–	–	–	–	(55.6)	–	(55.6)
Share cancellation	(0.2)	42.3	–	–	–	0.2	(42.3)	–	–	–
Reserve transfer	–	(0.2)	–	–	–	–	0.2	–	–	–
At 30 June 2007	65.4	(80.6)	–	0.5	1.6	0.2	138.7	125.8	5.8	131.6
Total recognised income and expense	–	–	–	17.0	–	–	22.5	39.5	24.4	63.9
Share based payment charge	–	–	–	–	–	–	1.2	1.2	(0.2)	1.0
Dividends	–	–	–	–	–	–	(31.4)	(31.4)	(16.7)	(48.1)
Acquisition of own shares	–	(87.3)	–	–	–	–	–	(87.3)	–	(87.3)
Arising on shares issued for share options	6.4	–	–	–	–	–	–	6.4	–	6.4
Share cancellation	(0.5)	101.1	–	–	–	0.5	(101.1)	–	–	–
Reserve transfer	–	(2.0)	–	–	–	–	2.0	–	–	–
At 28 June 2008	71.3	(68.8)	–	17.5	1.6	0.7	31.9	54.2	13.3	67.5

#### 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 3,970,224 ordinary shares (8.5% of share capital), of which 67,994 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 28 June 2008 the Company has repurchased 3,571,000 shares (2007 – 2,425,000 shares) for a consideration of £87.3m including expenses (2007 – £55.6m). The Company cancelled 4,571,000 shares during the year.

#### 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 131 of the Companies Act.

#### 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.

**25. Related party disclosures and principal subsidiary undertakings**

The consolidated financial statements include the financial statements of The Go-Ahead Group plc and the following material subsidiaries:

Name	Country of incorporation	% equity interest	
		2008	2007
Brighton & Hove Bus and Coach Company Limited	United Kingdom	100	100
City of Oxford Motor Services Limited	United Kingdom	100	100
Go North East Limited	United Kingdom	100	100
London Central Bus Company Limited	United Kingdom	100	100
London General Transport Services Limited	United Kingdom	100	100
Docklands Minibuses Limited	United Kingdom	100	100
Blue Triangle Buses Limited	United Kingdom	100	100
Go Northern Limited	United Kingdom	100	100
Go Wear Buses Limited	United Kingdom	100	100
Metrobus Limited	United Kingdom	100	100
New Southern Railway Limited	United Kingdom	65	65
London and South Eastern 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
PAS Direct Limited	United Kingdom	100	100
Nikaro Limited	United Kingdom	100	100
Chauffeured Parking Services Limited	United Kingdom	100	100
Plane Handling Limited	United Kingdom	100	100
Go South Coast Limited	United Kingdom	100	100
Wilts & Dorset Bus Company Limited	United Kingdom	100	100
Solent Blue Line Limited	United Kingdom	100	100
The Southern Vectis Omnibus Company Limited	United Kingdom	100	100
Marchwood Motorways (Services) Limited	United Kingdom	100	100
Marchwood Motorways (Southampton) Limited	United Kingdom	100	100
Hants and Dorset Motor Services Limited	United Kingdom	100	100
Tourist Coaches Limited	United Kingdom	100	100
Hants & Dorset Trim Limited	United Kingdom	100	100
The Birmingham Omnibus Company Limited	United Kingdom	—	100
Go-Ahead Leasing Limited	United Kingdom	100	100
London and Birmingham Railway Limited	United Kingdom	65	65
Go-Ahead Holding Limited	United Kingdom*	100	—

\* Held by The Go-Ahead Group plc. All other companies are held through subsidiary undertakings.

**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 (2007 – £0.3m).

**Compensation of key management personnel of the Group**

The key management are considered to be the Directors of the Group.

	2008 £m	2007 £m
Salaries	1.0	1.2
Bonus	0.5	0.9
Pension contributions	0.1	0.1
Share based payments	0.2	0.4
	1.8	2.6

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## 26. Pensions

### *Non-rail 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 £4.5m (2007 – £3.8m) 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 IAS19. Each of the participating companies accounts on the basis of contributions paid by that company. The Group accounts for the difference between the aggregate IAS19 cost of the scheme and the aggregate contributions paid.

#### *Wilts & Dorset Pension Scheme and Southern Vectis Group Pension Scheme*

Employees of our Go South Coast operations participate in the Wilts & Dorset Pension Scheme or the Southern Vectis Group Pension Scheme. They 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 plans are open to new entrants.

#### *Other pension arrangements*

Employees of Meteor Parking and avian have access to separate defined contribution pension arrangements. The expense recognised for this is £0.4m (2007 – £0.4m), being the contributions paid.

#### *The Railways Pension Scheme*

The majority of employees in our train operating companies are members of sections of the Railways Pension Scheme (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 £0.7m (2007 – £0.7m) 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 IAS19 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 scheme 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.

IAS19 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 IAS19 and the treatment adopted for non-rail defined benefit schemes. In doing so, the Group has applied the provisions of paragraph 17 of IAS1 and departed from the requirements of IAS19 'Employee Benefits' 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/surplus projected to exist at the end of the franchise which the Group will not be required to fund/benefit from.

**26. Pensions continued**

If the Group had accounted for the rail schemes in accordance with the full provisions of IAS19 the following adjustments would have been made to the financial statements:

	2008 £m	2007 £m
<b>Balance sheet</b>		
Defined benefit pension plan	(156.8)	(6.0)
Deferred tax asset	36.8	2.9
Intangible asset	25.4	(10.3)
	(94.6)	(13.4)
<b>Statement of recognised income and expense</b>		
Actuarial losses	152.3	15.2
Tax on actuarial losses	(42.6)	(4.3)
	109.7	10.9
<b>Income statement</b>		
Operating costs – franchise adjustment	–	(1.3)
Intangible asset amortisation	3.7	4.4
Deferred tax charge	(1.1)	(0.9)
	2.6	2.2

**IAS19 disclosures**

All of the above plans have been accounted for under IAS19 covering employee benefits.

**Summary of year-end assumptions**

	2008 %	2007 %
Price inflation	3.8	3.2
Discount rate	6.2	5.9
Rate of increase in salaries	5.3	4.7
Rate of increase of pensions in payment and deferred pension*	3.8	3.2

\* in excess of any Guaranteed Minimum Pension (GMP) element.

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.

	2008 Years	Rail 2007 Years	2008 Years	Non-rail 2007 Years
Pensioner	20	18	18	18
Non-Pensioner	22	19	19	19

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.

**Sensitivity analysis**

In making the valuation, the above assumptions have been used. 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.

	Pension deficit £m	Non-rail 2009 Pension cost £m
Discount Factor – increase of 0.1%	(8.6)	(0.4)
Price Inflation – increase of 0.1%	7.3	0.3
Rate if increase in salaries – increase of 0.1%	2.7	0.3
Rate of increase of pensions in payment – increase of 0.1%	3.7	0.4
Increase in life expectancy of pensioners or non-pensioners by 1 year	16.3	1.6



*Category of assets at the year-end*

	£m	2008 %	£m	2007 %
<b>Rail</b>				
Equities	553.1	63.6	443.2	68.0
Bonds	87.8	10.1	65.2	10.0
Property	130.5	15.0	78.2	12.0
Cash	98.3	11.3	65.2	10.0
	<b>869.7</b>	<b>100.0</b>	<b>651.8</b>	<b>100.0</b>

	£m	2008 %	£m	2007 %
<b>Non-rail</b>				
Equities	177.8	47.2	257.6	67.8
Bonds	170.7	45.3	59.3	15.6
Property	21.9	5.8	26.6	7.0
Cash	6.4	1.7	36.5	9.6
	<b>376.8</b>	<b>100.0</b>	<b>380.0</b>	<b>100.0</b>

The weighted average expected long-term rates of return were:

	2008 % p.a.	2007 % p.a.	Rail 2006 % p.a.	2008 % p.a.	2007 % p.a.	Non-rail 2006 % p.a.
Weighted average rate of return	8.0	7.7	7.6	7.9	7.7	7.5

*Funding position of the Group's pension arrangements*

	2008 £m	2007 £m	Rail 2006 £m	2008 £m	2007 £m	Non-rail 2006 £m
<b>Employer's share of pension scheme:</b>						
Liabilities at the end of the year	(1,026.5)	(652.0)	(571.7)	(436.2)	(404.5)	(418.8)
Assets at fair value	869.7	651.8	532.0	376.8	380.0	331.3
Gross deficit	(156.8)	(0.2)	(39.7)	(59.4)	(24.5)	(87.5)
Franchise adjustment	156.8	(2.1)	23.4	—	—	—
<b>Pension scheme liability</b>	<b>—</b>	<b>(2.3)</b>	<b>(16.3)</b>	<b>(59.4)</b>	<b>(24.5)</b>	<b>(87.5)</b>

*Pension cost for the financial year*

	2008 £m	2007 £m	Rail 2006 £m	2008 £m	2007 £m	Non-rail 2006 £m
Service cost	31.5	24.4	15.5	6.7	7.5	7.8
Interest cost on liabilities	30.4	20.5	10.8	23.8	22.5	19.7
Expected return on assets	(37.8)	(24.8)	(13.9)	(29.7)	(24.5)	(20.2)
Interest on franchise adjustments	—	(1.3)	(1.5)	—	—	—
<b>Pension cost</b>	<b>24.1</b>	<b>18.8</b>	<b>10.9</b>	<b>0.8</b>	<b>5.5</b>	<b>7.3</b>

*Experience recognised in the Statement of Recognised Income and Expense (SORIE)*

	2008 £m	2007 £m	2006 £m	Rail 2005 £m	2008 £m	2007 £m	2006 £m	Non-rail 2005 £m
(Loss) / gain on pension scheme liabilities	(65.3)	4.8	1.0	(25.3)	(10.5)	35.0	(14.0)	(54.9)
Experience (losses)/gains on assets	(81.5)	36.4	5.7	10.2	(39.6)	25.6	29.9	12.4
Franchise adjustment movement	152.3	(26.8)	(5.7)	18.1	—	—	—	—
<b>Total gain/(loss) recognised in SORIE during the year</b>	<b>5.5</b>	<b>14.4</b>	<b>1.0</b>	<b>3.0</b>	<b>(50.1)</b>	<b>60.6</b>	<b>15.9</b>	<b>(42.5)</b>

**26. Pensions continued**

The Directors were unable to determine how much of the pension scheme deficit recognised on transition to IFRS 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 the Group SORIE before 3 July 2004.

**Analysis of the change in the pension scheme liabilities over the financial year**

	2008 £m	Rail 2007 £m	2008 £m	Non-rail 2007 £m
Employer's share of pension scheme liabilities – at start of year	652.0	571.7	404.5	418.8
Franchise adjustment	2.1	(23.4)	–	–
	654.1	548.3	404.5	418.8
Liability movement for members share of assets	(12.3)	53.4	–	–
Service cost	31.5	24.4	13.3	14.1
Interest cost	30.4	20.5	23.8	22.5
Interest on franchise adjustment	–	(1.3)	–	–
Actuarial loss/(gain)	65.3	(4.8)	10.5	(35.0)
Benefits paid	(26.4)	(13.2)	(15.9)	(15.9)
Addition of Gatwick Express	26.1	–	–	–
Addition of London Midland	253.3	–	–	–
Franchise adjustment movement	(152.3)	26.8	–	–
	869.7	654.1	436.2	404.5
Franchise adjustment	156.8	(2.1)	–	–
Employer's share of pension scheme liabilities – at end of year	1,026.5	652.0	436.2	404.5

**Analysis of the change in the pension scheme assets over the financial year**

	2008 £m	Rail 2007 £m	2008 £m	Non-rail 2007 £m
Fair value of assets – at start of year	651.8	532.0	380.0	331.3
Expected return on assets	37.8	24.8	29.7	24.5
Actuarial (loss)/gain on assets	(81.5)	36.4	(39.6)	25.6
Company contributions	25.7	18.4	16.0	7.9
Employee contributions (including age related rebates)	–	–	6.6	6.6
Benefits paid	(26.4)	(13.2)	(15.9)	(15.9)
Addition of Gatwick Express	26.1	–	–	–
Addition of London Midland	248.5	–	–	–
Members share of movement of assets	(12.3)	53.4	–	–
Fair value of plan assets – at end of year	869.7	651.8	376.8	380.0

**Estimated contributions for future**

	Rail £m	Non-rail £m
Estimated company contributions in financial year 2009	30.1	8.4
Estimated employee contributions in financial year 2009	19.2	6.6
Estimated total contributions in financial year 2009	49.3	15.0

## 27. 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, 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 assets expenditure, acquisitions, dividends and share buy backs. 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 2008 and 2007, the Group's policy that no trading in derivatives shall be undertaken and derivatives are only purchased for internal benefit.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and risks arising from fuel derivatives.

### 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 six 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.

Details of interest rates are shown in note 28.

### 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
2008		
GBP	50	(0.7)
GBP	(50)	0.7
2007		
GBP	50	(1.3)
GBP	(50)	1.3

### Liquidity risk

During the year the Group replaced its £200m bilateral arrangements with a £340m syndicated facility. This has increased the Group's liquidity to enable a higher level of gearing. The level of draw down and prevailing interest rates are detailed in note 20.

The majority of the Group's road passenger vehicles are 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.

### 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.

As at 28 June 2008 the Group had derivatives against bus fuel of 105.6 million litres for the year ending 27 June 2009, representing approximately 95% of the anticipated fuel usage in our bus business. As at 28 June 2008 the Group also had derivatives against bus fuel for the 2010, 2011 and 2012 financial years of 49.9, 28.9 and 0.2 million litres respectively.

As at 28 June 2008 the Group had derivatives against rail fuel of 11.1 million litres for the year ending 27 June 2009 representing the anticipated fuel usage in London Midland. As at 28 June 2008 the Group also had further derivatives for the 2010, 2011 and 2012 financial years of 10.7, 7.7 and 3.8 millions litres of rail fuel respectively.

The Group's hedging policy is to hedge 100%, 50% and 25% of anticipated bus fuel usage for the following year and two subsequent years. The Group has met this target at the year ended 28 June 2008.

### 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.

## 27. Financial risk management objectives and policies continued

### Credit risk

The Group's credit risk is primarily attributable to its trade receivables. 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.

### Contractual payments

The table below summarises the maturity profile of the Group's financial liabilities at 28 June 2008 based on contractual undiscounted payments.

#### Year ended 28 June 2008

	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	5.7	19.5	35.7	381.6	0.2	442.7
Trade and other payables	45.4	240.0	61.7	2.5	0.6	350.2
	51.1	259.5	97.4	384.1	0.8	792.9

#### Year ended 30 June 2007

	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	0.3	15.8	32.0	239.1	0.6	287.8
Trade and other payables	37.3	187.4	82.0	2.2	—	308.9
	37.6	203.2	114.0	241.3	0.6	596.7

### Managing capital

The Group manages its capital structure such that net debt (adjusted to exclude restricted cash), to EBITDA is within a range which retains an investment grade debt rating. Adjusted net debt at the year end was £320.7m (2007 – £237.2m), equivalent to 1.65x (2007 – 1.46x) EBITDA in line with the Group's aim to move 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 £0.4m (2007 – £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 £6.4m (2007 – £10.1m).

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.

## 28. 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 28 June 2008 and are as follows:

	2008 Carrying value £m	Fair value £m	2007 Carrying value £m	Fair value £m
Fuel price derivatives	27.3	27.3	0.7	0.7
Fixed rate debt	(25.5)	(23.9)	(43.1)	(40.7)
	1.8	3.4	(42.4)	(40.0)

The fair value of all other assets and liabilities in notes 18, 19 and 20 is not significantly different to their carrying amount. The fuel price derivatives 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.

### b. Hedging activities

At the year end, the Group had various fuel price swaps in place. For the 2009, 2010, 2011 and 2012 financial years cashflow hedges were placed over 116.7, 60.6, 36.6 and 4.0 million litres of fuel respectively. The fair value of the asset has been recognised on the balance sheet. The value has been generated since the date of the acquisition of the instruments due to the movement in market fuel prices.

The gains and losses on instruments used for hedging fuel price risk are not recognised until the exposure that is being hedged is itself recognised. The movement in the period is shown below.

During the year, the Group took out a variable interest rate swap on a £100m drawdown of the syndicated loan. This was designated as a cashflow hedge of the interest on the loan. The cashflow hedge did not meet the requirements for hedge accounting and the loss of £0.2m was recognised in the income statement. The swap was closed out on 10 June 2007.

	Interest rate hedge 2008 £m	2007 £m	Fuel swaps 2008 £m	2007 £m
Unrealised gains on hedges at start of year	—	—	0.7	—
Losses/(gains) arising in the year	(0.2)	—	33.3	0.7
Realised gains in the year	0.2	—	(6.7)	—
Unrealised gains on hedges at the end of the year	—	—	27.3	0.7
Gains expected to be recognised within one year	—	—	18.6	0.7

#### c. Interest rate risk

The interest rate profile of the financial assets and liabilities of the Group as at 28 June 2008 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
<b>Year ended 28 June 2008</b>								
<b>Floating rate liabilities/(assets)</b>								
Cash assets	5.59	(157.1)	—	—	—	—	—	(157.1)
Bank overdrafts	6.00	5.8	—	—	—	—	—	5.8
Variable rate loans	5.29	10.6	11.1	5.6	—	262.0	—	289.3
		(140.7)	11.1	5.6	—	262.0	—	138.0
<b>Fixed rate liabilities</b>								
Medium-term fixed rate loan	5.71	6.8	5.8	5.7	7.2	—	—	25.5
Obligations under finance lease and hire purchase contracts	5.64	16.0	9.2	6.8	1.7	0.4	0.2	34.3
		22.8	15.0	12.5	8.9	0.4	0.2	59.8

	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
<b>Year ended 30 June 2007</b>								
<b>Floating rate liabilities/(assets)</b>								
Revolving credit facilities	6.11	—	137.0	20.0	—	—	—	157.0
Cash assets	5.80	(128.9)	—	—	—	—	—	(128.9)
Bank overdrafts	6.50	0.3	—	—	—	—	—	0.3
Loans	6.10	5.8	5.6	5.6	5.5	—	—	22.5
		(122.8)	142.6	25.6	5.5	—	—	50.9
<b>Fixed rate liabilities</b>								
Medium-term fixed rate loan	5.64	18.5	5.8	5.8	5.8	7.2	—	43.1
Obligations under finance lease and hire purchase contracts	5.64	17.9	13.8	10.7	5.8	1.9	—	50.1
		36.4	19.6	16.5	11.6	9.1	—	93.2

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.

**29. Notes to the cashflow statement****Analysis of Group net debt**

	Cash and cash equivalents £m	Loans £m	Hire purchase/ finance leases £m	Loan notes £m	Total £m
1 July 2006	80.4	(170.5)	(48.1)	(0.6)	(138.8)
Cashflow	48.3	(52.1)	2.2	0.2	(1.4)
Acquisitions	(0.1)	—	(4.2)	—	(4.3)
30 June 2007	128.6	(222.6)	(50.1)	(0.4)	(144.5)
Cashflow	17.8	(92.2)	15.6	0.4	(58.4)
Acquisitions	4.9	—	—	—	4.9
Disposals	—	—	0.2	—	0.2
<b>28 June 2008</b>	<b>151.3</b>	<b>(314.8)</b>	<b>(34.3)</b>	<b>—</b>	<b>(197.8)</b>

**Significant non cash transactions**

On the handover of a rail franchise certain assets and liabilities are transferred to the successful franchise holder. During the year the Group transferred in certain assets and liabilities relating to the London Midland franchise and the Gatwick Express franchise. Initial cash received by the Group as a result of the rail franchise handover is detailed below:

	London Midland £m	Gatwick Express £m	Total £m
Intangible assets	11.1	—	11.1
Tangible fixed assets	4.5	0.1	4.6
Inventories	4.0	0.1	4.1
Retirement benefit obligations	(11.1)	—	(11.1)
Receivables	0.7	0.2	0.9
Payables	(13.7)	(0.8)	(14.5)
Cash	4.5	0.4	4.9
	—	—	—

We have audited the parent company financial statements of The Go-Ahead Group plc for the year ended 28 June 2008, which comprise the Company Balance Sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of The Go-Ahead Group plc for the year ended 28 June 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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**

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Parent Company Directors' Report is consistent with the financial statements.

The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Operating and Financial Review that is cross-referenced from the results and dividends section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Group Highlights, the Directors' Report and Shareholder Information and financial calendar. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

#### **Opinion**

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 June 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.



**Ernst & Young LLP,**

Registered auditor

Newcastle Upon Tyne

4 September 2008



**Parent company balance sheet**

at 28 June 2008

	Notes	2008 £m	Restated 2007 £m
<b>Fixed assets</b>			
Tangible assets	2	74.8	75.9
Investments	3	151.9	234.1
		<b>226.7</b>	310.0
<b>Non current assets</b>		<b>8.7</b>	—
<b>Current assets</b>			
Debtors: amounts falling due within one year	4	312.9	293.3
Cash on deposit		13.8	10.2
Financial assets		13.9	0.7
		<b>340.6</b>	304.2
Creditors: amounts falling due within one year	5	(104.3)	(214.1)
<b>Net current assets</b>		<b>236.3</b>	90.1
Total assets less current liabilities		<b>471.7</b>	400.1
Creditors: amounts falling due after more than one year	5	(3.4)	(156.9)
<b>Net assets</b>		<b>468.3</b>	243.2
<b>Capital and reserves</b>			
Share capital	8,9	4.7	5.1
Share premium	9	66.6	60.3
Revaluation reserve	9	10.3	10.3
Other reserves	9	8.8	8.8
Capital redemption reserve	9	0.7	0.2
Reserve for own shares	9	(68.8)	(80.6)
Profit and loss account	9	446.0	239.1
<b>Equity shareholders' funds</b>		<b>468.3</b>	243.2



**Nick Swift,**  
Group Finance Director  
4 September 2008

**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). The financial statements are required by law to 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 those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 which disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 1985 and were approved for issue on 4 September 2008. 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 230 of the Companies Act 1985 and the Company has taken the exemptions under FRS1 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 under IFRS7 Financial Instruments and Disclosure.

### Changes in accounting policy

#### Property revaluation

As explained in note 2 of the Group accounts, the Company has decided to change its accounting policy of carrying land and buildings at valuation and apply the cost model under FRS15 'Tangible fixed assets'. Accordingly, prior year comparatives have been restated to reflect this change in policy, as required by FRS18 'Accounting policies'. The impact of this adjustment is set out in note 2, as a result of the change in the accounting policy the carrying value of fixed assets has decreased by £85.9m at 30 June 2006 and by a further £11.6m at 1 July 2007 with a corresponding decrease in the revaluation reserve. The impact of the change on the income statement is not material.

### 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 Scheme operated by The Go-Ahead Group plc for the majority of its employees. This defined benefit scheme is a multi-employer scheme for which individual employer shares 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 FRS20 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').

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 condition, be treated as vesting as described above.

No cost is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market 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.

#### **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 12 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 uncanceled, 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 FRS26. 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 equity 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 equity 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 equity 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 equity 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
<b>Cost or valuation:</b>				
At 30 June 2007	172.1	6.1	2.7	180.9
Prior year adjustment	(98.9)	0.3	—	(98.6)
At 30 June 2007 (as restated)	73.2	6.4	2.7	82.3
Reclassifications	2.0	(0.9)	—	1.1
Additions	1.7	0.1	1.2	3.0
Disposals	(2.5)	(0.4)	—	(2.9)
<b>At 28 June 2008</b>	<b>74.4</b>	<b>5.2</b>	<b>3.9</b>	<b>83.5</b>
<b>Depreciation:</b>				
At 30 June 2007	5.9	0.7	0.9	7.5
Prior year adjustment	(1.1)	—	—	(1.1)
At 30 June 2007 (as restated)	4.8	0.7	0.9	6.4
Charge for the year	0.7	0.1	0.5	1.3
Disposals	(0.1)	—	—	(0.1)
Reclassification	1.1	—	—	1.1
<b>At 28 June 2008</b>	<b>6.5</b>	<b>0.8</b>	<b>1.4</b>	<b>8.7</b>
<b>Net book value:</b>				
<b>At 28 June 2008</b>	<b>67.9</b>	<b>4.4</b>	<b>2.5</b>	<b>74.8</b>
At 30 June 2007 (as restated)	68.4	5.7	1.8	75.9

Freehold land and buildings include non-depreciable land amounting to £27.9m (2007 – £29.1m (as restated)).

The net book value of leasehold properties comprises:

	2008 £m	Restated 2007 £m
Leases with 50 or more years unexpired	1.4	1.7

**3. Fixed asset investments**

	Shares in Group companies £m	Loans to Group companies £m	Total £m
<b>Cost or valuation:</b>			
At 30 June 2007	151.9	82.2	234.1
Additions	151.9	—	151.9
Repayment	—	(82.2)	(82.2)
Disposals	(151.9)	—	(151.9)
<b>At 28 June 2008</b>	<b>151.9</b>	<b>—</b>	<b>151.9</b>
<b>Provisions:</b>			
At 30 June 2007	—	—	—
<b>At 28 June 2008</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net carrying amount:</b>			
At 30 June 2007	151.9	82.2	234.1
<b>At 28 June 2008</b>	<b>151.9</b>	<b>—</b>	<b>151.9</b>

### 3. Fixed Assets Investments continued

On 26 October 2007 the Company purchased 800 million £1 ordinary shares in Go-Ahead Holding Limited, for consideration of £151.9m. On the same day the Company's investments in Group companies were transferred to Go-Ahead Holding Limited at net book value of £151.9m.

For details of the principal operating subsidiary undertakings as at 28 June 2008, refer to note 25 of The Go-Ahead Group plc consolidated financial statements. As permitted under Section 231(5) of the Companies Act, 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

	2008 £m	2007 £m
Amounts owed by Group companies	309.4	288.7
Corporation tax	2.2	—
Other debtors	1.3	4.2
Deferred taxation (note 6)	—	0.4
	312.9	293.3

### 5. Creditors

#### Amounts falling due within one year

	2008 £m	2007 £m
Bank loans and overdrafts	5.8	—
Amounts owed to Group undertakings	79.3	192.1
Corporation tax	—	2.4
Other creditors	4.2	7.6
Accruals and deferred income	2.2	5.6
Uninsured claim accrual	7.1	6.4
Deferred taxation (note 6)	5.7	—
	104.3	214.1

#### Amounts falling due after more than one year

	2008 £m	2007 £m
Bank loans repayable:		
In more than one year but not more than two years	3.4	136.9
In more than two years but not more than five years	—	20.0
	3.4	156.9

The Company has no security over its liabilities.

### 6. Deferred taxation

	Deferred tax £m
At 30 June 2007	0.4
Provided directly to equity	(6.1)
<b>At 28 June 2008</b>	<b>(5.7)</b>

Deferred taxation provided at the enacted rate is as follows:

	2008 £m	2007 £m
Capital allowances in advance of depreciation	0.4	(1.8)
Other timing differences	(6.1)	2.2
	(5.7)	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 (2007 – £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 5 April 2006 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 28 June 2008 and 30 June 2007. 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:

	2008 %	2007 %
Rate of increase in salaries	5.3	4.7
Rate of increase in deferred pensions	3.8	3.2
Discount rate	6.2	5.9
Inflation assumption	3.8	3.2

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 %	2008 Value £m	Long-term rate of return expected %	2007 Value £m
Equities	8.4	148.2	8.5	223.7
Bonds	6.7	155.7	5.9	43.6
Properties	6.8	22.0	6.9	26.6
Cash	5.3	6.0	5.5	38.3
Total market value of assets		331.9		332.2
Present value of scheme liabilities		(376.3)		(346.7)
Pension liability before deferred tax		(44.4)		(14.5)
Related deferred tax asset		12.4		4.3
Net pension liability		(32.0)		(10.2)

Analysis of movements in deficit during the year:

	2008 £m	2007 £m
At start of year	(14.5)	(71.8)
Current service cost	(5.7)	(6.6)
Net other finance income	5.7	2.0
Actuarial gains and losses	(44.2)	55.7
Contributions	14.3	6.2
At end of year	(44.4)	(14.5)



An analysis of the defined benefit cost for the year ended 28 June is as follows:

	2008 £m	2007 £m
Current service cost	(5.7)	(6.6)
Total operating charge	(5.7)	(6.6)
	2008 £m	2007 £m
Other finance income: expected return on assets in the scheme	26.1	21.4
Other finance cost: interest cost	(20.4)	(19.4)
Net other finance income	5.7	2.0
	2008 £m	2007 £m
STRGL: difference between expected and actual return on assets	(33.3)	23.9
STRGL: experience losses arising from scheme liabilities	(5.8)	25.0
STRGL: effect of changes in assumptions underlying the present value of scheme liabilities	(5.1)	6.8
Actuarial gains and losses	(44.2)	55.7

A history of experience gains and losses is shown below:

	2008	2007	2006	2005	2004
Difference between expected return and actual return on pension scheme assets					
– amount (£m)	(33.3)	23.9	27.2	11.2	3.6
– % of scheme assets	10.0	7.2	9.4	4.6	2.0
Experience gains/(losses) arising on scheme liabilities					
– amount (£m)	(5.8)	25.0	(3.1)	0.9	(16.9)
– % of the present value of scheme liabilities	(1.6)	7.2	(0.9)	0.3	(6.6)
Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses					
– amount (£m)	(44.2)	55.7	14.1	(39.2)	7.9
– % of the present value of scheme liabilities	(11.7)	16.1	3.9	(16.2)	3.1

## 8. Called up share capital

	2008 £m	Authorised 2007 £m
62.5 million 10p ordinary shares	6.3	6.3

	Millions	2008 £m	Allotted, called up and fully paid 2007 £m
As at 30 June 2007	50.9	5.1	52.6
Issued on exercise of share options	0.5	0.1	—
Cancelled shares	(4.6)	(0.5)	(1.7)
As at 28 June 2008	46.8	4.7	50.9

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 1 July 2006	5.3	60.3	96.2	8.8	—	(67.1)	249.3	352.8
Effect of prior year adjustments	—	—	(85.9)	—	—	—	—	(85.9)
At 1 July 2006 (as restated)	5.3	60.3	10.3	8.8	—	(67.1)	249.3	266.9
Retained profit for the year	—	—	—	—	—	—	60.3	60.3
Dividends	—	—	—	—	—	—	(28.9)	(28.9)
Valuation	—	—	—	—	—	—	—	—
Directors' share options	—	—	—	—	—	—	0.5	0.5
Acquisition of own shares	—	—	—	—	—	(55.6)	—	(55.6)
Share Cancellation	(0.2)	—	—	—	0.2	42.3	(42.3)	—
Reserve Transfer	—	—	—	—	—	(0.2)	0.2	—
At 30 June 2007 (as restated)	5.1	60.3	10.3	8.8	0.2	(80.6)	239.1	243.2
Retained profit for the year	—	—	—	—	—	—	321.1	321.1
Dividends	—	—	—	—	—	—	(31.4)	(31.4)
Other recognised gains	—	—	—	—	—	—	16.3	16.3
Acquisition of own shares	—	—	—	—	—	(87.3)	—	(87.3)
Share cancellation	(0.5)	—	—	—	0.5	101.1	(101.1)	—
Reserves transfer	—	—	—	—	—	(2.0)	2.0	—
Arising on shares issued for share options	0.1	6.3	—	—	—	—	—	6.4
<b>At 28 June 2008</b>	<b>4.7</b>	<b>66.6</b>	<b>10.3</b>	<b>8.8</b>	<b>0.7</b>	<b>(68.8)</b>	<b>446.0</b>	<b>468.3</b>

The cumulative amount of goodwill written off to the profit and loss reserve of the Company at 28 June 2008 is £0.2m (2007 – £0.2m).

The reserve for own shares is in respect of 3,970,224 ordinary shares (8.5% of total share capital), of which 67,994 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 6(i) of the Companies Act 1985 is provided in the Directors Report.

The audit fee payable in respect of the Company was £0.1m (2007 – £0.1m).

**10. Operating lease commitments**

The Company's annual commitments under non-cancellable operating leases are as follows:

	2008 £m	Property 2007 £m
Within one year	0.6	0.3
In second to fifth years	1.2	0.9
Over five years	—	0.4
	<b>1.8</b>	<b>1.6</b>

### 11. Capital commitments

At 28 June 2008 there were no amounts contracted for but not provided in the financial statements for the acquisition of property (2007 – £nil).

### 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 £42.7m as at 28 June 2008 (2007 – £17.6m).

At 28 June 2008 letters of credit amounting to £35.0m (2007 – £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 disclosure of the Group's sharesave scheme, share incentive plan and long term incentive plan is given in note 6 to the Group financial statements.

### 14. Related party transactions

The Company has taken advantage of the exemption under FRS8, '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 and London and Southeastern Railway Limited ('LSER') are 100% owned by GOVIA Limited and hence the Company owns a 65% interest.

	2008	GOVIA 2007	2008	LSER 2007	London Midland 2008	2007	Thameslink 2008	2007	Southern 2008	2007
Dividends paid by related party	30.8	27.3	—	—	—	—	—	—	—	—
Interest paid to related party	2.3	1.7	—	—	—	—	—	—	—	—
Loans to related party	(6.0)	(16.0)	—	—	—	—	—	—	—	—
Repayment of loan from related party	40.5	16.5	—	—	—	—	—	—	—	—
Management charges	0.2	—	0.2	0.4	—	—	—	—	0.2	0.3
Amounts owed from related party	47.7	47.7	—	—	—	—	—	—	—	—
Amounts owed to related party	—	—	23.7	38.1	0.4	—	4.6	9.5	27.1	26.2

During the year Southern, LSER and London Midland have traded with wholly owned subsidiaries of the Company; £8.7m (2007 – £1.7m) of costs were incurred by Southern, LSER and London Midland on an arms' length basis. The London Midland franchise commenced on 11 November 2007.

## Shareholder information and financial calendar

### Analysis of shareholders as at 28 June 2008

	No. of holders	%	Shares held	%
<b>Range of holdings</b>				
1 – 10,000	3,940	94.28	2,056,554	4.39
10,001 – 100,000	170	4.07	6,655,571	14.21
100,001 – 500,000	48	1.15	11,528,001	24.61
500,001 – 1,000,000	11	0.26	7,694,654	16.43
Over 1,000,001	10	0.24	18,907,863	40.36
	4,179	100.00	46,842,343	100.00

	No. of holdings	%	Shares held	%
<b>Classification of shareholders</b>				
Treasury shares	1	0.02	3,902,230	8.33
Directors	6	0.14	34,607	0.07
Other individuals	3,646	87.25	5,419,684	11.57
Institutional investors	526	12.59	37,485,822	80.03
	4,179	100.00	46,842,343	100.00

### Financial calendar

Annual General Meeting	23 October 2008
Record date	31 October 2008
Final dividend paid	21 November 2008
Half year end	27 December 2008
Half year results announced	February 2009
Half year dividend paid	April 2009
Next financial year end	27 June 2009
Full year results announced	September 2009
Annual General Meeting	October 2009
Final dividend paid	November 2009

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For more information visit:  
**www.go-ahead.com**

#### Online Annual Report

The 2008 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.

#### Access the Notice of Meeting

The 2008 Notice of Annual General Meeting is also available online.

#### Links to further information

In the Investor Centre on our website you can find other useful information, including share price data, dividend information and our financial calendar.

#### Download the latest presentations

Keep up to date with our presentations in the Financial Information section of our Investor Centre. We upload all presentations from our investor days, as well as our half year and full year results.



#### Electronic communications

As far as possible, except where shareholders have requested otherwise\*, The Go-Ahead Group plc provides shareholder documents via the Company's website. 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. Whenever a document has been made available on the Company's website, shareholders receiving communications electronically will be notified either by post or by email where an email address has been provided.

If you have not done so already, and now wish to register to receive future communications issued by The Go-Ahead Group plc electronically, please visit the website of our Registrars, Equiniti Limited, at [www.shareview.co.uk](http://www.shareview.co.uk) and click on 'Register' in the top left corner. By signing up for a Shareview portfolio, you will also be able to view information regarding your holding, change your address and bank details online, and even sell or purchase shares in the Company. When completing your details you will need your shareholder reference number which is either an eight or eleven digit number found on your tax voucher or share certificate. The default option during registration is that your preferred method of delivery of Company communications is electronic.

Please note that, notwithstanding any election by a shareholder to receive electronic communications, the Company may, at its sole and absolute discretion, send any notification or information to shareholders in hard copy form. Notwithstanding any prior request or deemed consent to receive communications electronically, a shareholder may at any time inform the Company that he or she wishes to receive information in hardcopy. To do so, please write to the Group Company Secretary, The Go-Ahead Group plc, 3rd Floor, 41-51 Grey Street, Newcastle Upon Tyne, NE1 6EE.

\*This will include shareholders who have elected to continue to receive documents in hard copy (i.e. paper form) and those shareholders who have become members of the Company since July 2008 and are not automatically deemed to receive shareholder documents electronically.

#### Legal notice

Certain statements included in the Annual Report and Accounts 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 operate. By their nature, forward-looking statements involve uncertainty because they depend on 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. For a detailed analysis of the factors that may affect our business, financial performance or results of operations, we urge you to look at the Risks and Uncertainties outlined on page 17 of this Annual Report and Accounts. Nothing in the Annual Report and Accounts 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 statements.

The Go-Ahead Group plc is subject to the regulatory requirements of the Financial Services Authority of the United Kingdom.



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