



Creating value through quality

What we do and who we are

Go-Ahead is one of the UK's leading providers of passenger transport services operating in the bus, rail and aviation sectors. Employing approximately 25,000 staff across the country, over 875 million passenger journeys are undertaken on its services each year. In addition to the travelling public, customers include Transport for London (TfL), BAA, major airlines, local authorities and the Department for Transport (DfT).

Vision and strategy

The group seeks to add value for shareholders through a transparent and focused strategy based in the UK. In addition to adding value through organic development, the group actively seeks earnings enhancing acquisitions in the three sectors in which it operates. Strong cash flow provides the basis for a progressive dividend and share buy back policy to provide growing returns to shareholders.

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Highlights

Bus division continues to grow organically and by acquisition

Excellent performance in rail companies

Award of West Midlands rail franchise – to be known as London Midland – commencing on 11 November 2007

Gatwick Express to be incorporated into Southern Railway from May 2008

Challenging year for aviation services division

Five year record

Revenue (£m)

2007	1,826.9
2006	1,463.6
2005	1,302.1
2004	1,244.0
2003	1,102.0

Adjusted earnings per share (pence)

2007	140.7
2006	118.4
2005	116.3
2004	110.3
2003	78.9

Profit before amortisation, exceptional items and tax (£m)

2007	110.1
2006	91.9
2005	95.5
2004	91.3
2003	65.5

Dividend per share (pence)

2007	70
2006	56
2005	48
2004	38
2003	25

Figures for 2005 to 2007 are based upon International Accounting Standards, prior years are based upon UK GAAP, as previously reported.

Financial summary

	2007	2006	% Increase
Revenue (£m)	1,826.9	1,463.6	24.8
Operating profit before amortisation and exceptional items (£m)	118.1	97.8	20.8
Profit before amortisation, exceptional items and tax (£m)	110.1	91.9	19.8
Profit before tax (£m)	94.8	83.6	13.4
Adjusted earnings per share	140.7p	118.4p	18.8
Dividend paid and proposed per share	70.0p*	56.0p*	25.0

* Includes interim dividend paid and final proposed dividend

This has been a record year for the group and the new financial year has started in line with the board's expectations.



Patrick Brown
Sir Patrick Brown
Chairman
6 September 2007

Revenue increased to £1,826.9m (2006 – £1,463.6m) and operating profit* rose to £118.1m (2006 – £97.8m). Profit before tax* increased by 19.8%, from £91.9m to £110.1m. Adjusted earnings per share increased to 140.7p (2006 – 118.4p).

The board proposes a final dividend of 47.0p per share payable on 23 November 2007 to shareholders on the register at the close of business on 2 November 2007. Together with the interim dividend of 23.0p, the total dividend of 70.0p represents an increase of 25.0% year on year and results in a dividend cover* of 2.0 times. Returns to shareholders were further supplemented during the year by the share buy back programme, with 2.4 million shares purchased, at a cost of £55.6m.

The bus division performed strongly, both in the regulated operations in London and in deregulated services elsewhere. In London, we negotiated a number of contract extensions, increased services to match the western extension of the congestion charging zone, and won some significant route contracts from our competitors. We expanded our operations into East London with the acquisition of Docklands Minibuses in September 2006 and Blue Triangle at the end of June 2007. We continue to provide first class performance, often featuring at the top of the TfL quality tables and earning bonuses under the Quality Incentive Regime. Our deregulated bus operations also enjoyed a good year, with lower costs and buoyant revenue leading to higher operating profits across most of our businesses. By buying Marchwood Buses in October 2006, we extended the Go South Coast operations into the Southampton area. Our decentralised philosophy across these deregulated operations, supporting local brands for local communities, allows us to tailor our services to meet the specific needs of our customers.

The group's rail division did particularly well in the year. It benefited from a full year's contribution from the Southeastern franchise, which started operations on 1 April 2006 and has since performed strongly. During the year, our Southern business secured its existing franchise to September 2009 and won the contract to operate the Gatwick Express from May 2008 as part of the DfT Brighton Main Line Route Utilisation Strategy. In June 2007, we won a third franchise, this time to run the new West Midlands rail network. It will be branded London Midland and operations

will commence on 11 November 2007. Our goal in the rail division is to provide the highest quality of service combined with financial discipline. This has consistently led to strong passenger growth, well controlled costs, and higher operating profits.

The aviation services division has had a difficult year. Security disruption at all UK airports, particularly Heathrow and Gatwick, led to unrecoverable cost increases. This coincided with bad weather and the loss of some contracts, which led to a significant fall in profit. Overall, our strategy centres on a high quality of customer service, which enabled the division to win some valuable contracts towards the end of the year. The new contract with British Airways for the provision of ground handling services at Aberdeen, Edinburgh, Glasgow and Manchester airports should help the division to recovery.

The board started the year with Keith Ludeman, former chief executive of our rail division, taking over as group chief executive. The group is fortunate to have a successor to Christopher Moyes of such ability and wide experience of the bus and rail industries. At the end of the financial year, Ian Butcher, our group finance director, retired after 11 years with the group, and was succeeded by Nicholas Swift, who joined us on 17 July 2007. I thank Ian for his outstanding contribution to the group, and all of our employees for making the past year such a success.

The year has also been a sad one for the group. Martin Ballinger and Christopher Moyes, both former chief executives, passed away. From the beginnings of the buy-out of the Northern General Transport Company from the National Bus Company, they built the group into the dynamic company of today. We miss them, and their wisdom and humanity. "Si monumentum requiris, circumspecte."

The new financial year has started inline with the board's expectations. Our aim is to continue with our strategy which combines organic and acquisitive growth with financial discipline and improving returns to shareholders, including renewal of the authority for the share buy back programme at the forthcoming annual general meeting. We are well positioned to make further progress in the new year.

* Before amortisation and exceptional items

Five year financial history

		IFRS		UK GAAP	
	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Revenue	1,826.9	1,463.6	1,302.1	1,244.0	1,102.0
Operating profit*	118.1	97.8	97.0	95.7	70.2
Operating margin	6.5%	6.7%	7.4%	7.7%	6.4%
Goodwill and intangible amortisation	(8.4)	(5.1)	(4.0)	(69.4)	(23.1)
Exceptional items	(6.9)	(3.2)	2.4	(2.2)	(6.9)
Share of post tax results of joint venture	–	–	0.3	–	–
Net finance costs	(8.0)	(5.9)	(1.8)	(4.4)	(4.7)
Profit before taxation	94.8	83.6	93.9	19.7	35.5
Tax expense	(23.6)	(19.4)	(25.7)	(26.7)	(16.1)
Minority interests	(12.6)	(10.5)	(10.3)	(9.3)	(6.4)
Dividends	–	–	–	(19.3)	(12.7)
Reported profit/(loss)	58.6	53.7	57.9	(35.6)	0.3
Earnings/(loss) per share					
– basic	124.2p	108.1p	113.8p	(32.1)p	25.5p
– adjusted	140.7p	118.4p	116.3p	110.3p	78.9p
Dividends paid and proposed	70.0p	56.0p	48.0p	38.0p	25.0p
Cash flow generated from operations	191.2	116.9	131.7	150.3	94.6
Free cash flow*	128.0	55.8	69.6	102.3	58.4
Net capital expenditure	(53.7)	(67.9)	(57.0)	(41.8)	(24.8)
Adjusted net debt (excluding restricted cash)	237.2	199.5	146.5	85.9	95.7

* Free cash flow excludes tax, interest and dividends

Five year share price history



Go-Ahead at a glance

Bus

The group's bus division operates over 3,500 buses, providing over 540 million passenger journeys and covering around 238 million vehicle kilometres each year. Operations fall into four main geographical areas: deregulated services in the north east, the West Midlands, south east and southern England and regulated services for TfL in London. The newest additions to this division are Docklands Minibuses and Blue Triangle, acquired during this financial year, which operate as part of our London bus operations.

Operating companies	Brighton & Hove	Go North East	London Central London General Docklands Blue Triangle	Metrobus	Go South Coast	Oxford Bus Company	Go West Midlands
Revenue (£m)	42.7	71.9	238.0	56.0	61.3	28.4	15.7
Business head	Roger French	Peter Huntley	John Trayner	Alan Eatwell	Alex Carter	Philip Kirk	Philip Kirk
Website (www.)	buses.co.uk	simplygo.com	go-ahead-london.com	metrobus.co.uk	wdbus.co.uk islandbuses.info solentblueline.com	oxfordbus.co.uk	gowestmidlands.co.uk
Geographical area	Brighton Hove Eastbourne Tunbridge Wells Newhaven Lewes Shoreham	Tyne & Wear County Durham	Central London South London East London	Greater London Kent Surrey East Sussex West Sussex	Dorset Wiltshire West Hampshire Isle of Wight Southampton	Oxfordshire Routes to London, Heathrow and Gatwick	West Midlands
Date acquired	November 93 – May 97	May 87 – June 95	October 94 – June 07	September 99	August 2003 – October 2006	March 94	December 05 – March 06
Physical statistics	Buses 278	Buses 656	Buses 1,376	Buses 380	Buses 574	Buses 149	Buses 197
No. of employees at year end	1,049	2,011	4,160	1,176	1,577	541	494

Maps showing our national and south east operations can be found at www.go-ahead.com

Employees	
2007	11,008
2006	10,803
2005	9,485
2004	9,565
2003	8,542

Revenue (£m)	
2007**	514.0
2006**	460.0
2005**	412.9
2004*	387.5
2003*	310.9

** IFRS
* UK GAAP

Rail

The group's rail division operates a fleet of around 630 trains which provide over 280 million passenger journeys. Concentrated in the south east of England both our Southern and Southeastern franchises operate a mix of suburban commuter and mainline routes throughout south London, Kent, Surrey and Sussex. The Southeastern franchise will include the operation of new high speed trains on domestic services on the Channel Tunnel Rail Link into St Pancras from 2009.

Operating companies	Southern	Southeastern
Revenue (£m)	518.6	552.7
Business head	Chris Burchell	Charles Horton
Website (www.)	southern railway.com	southeastern railway.co.uk
Geographical area	London Surrey Sussex Hampshire Kent	South East London Kent East Sussex
Date acquired	August 01	April 06
Physical statistics	Trains 279	Trains 344
No. of employees at year end	3,622	3,828

Aviation

The group's aviation services division undertakes a wide range of support services for national and international airlines. Services provided include cargo handling, passenger check-in, baggage handling, information desks, executive lounges, ground handling and customs clearance. In the last year services covered around 44 million passengers as well as over 450,000 aircraft movements. The division includes Meteor Parking which is the second largest parking company in the UK, managing over 65,000 parking spaces predominantly at BAA airports, with a range of customers, including BAA, local authorities, retail outlets, NHS trusts, hotels and rail stations. Well known brands include Pink Elephant, Park 1 and eparking.

Operating companies	Aviance and Plane Handling	Meteor
Revenue (£m)	177.1	64.5
Business head	Arthur Dodgson	Stephen Turner
Website (www.)	aviance.com	meteor-uk.com
Geographical area	Nationwide	Nationwide
Date acquired	October 98 – August 04	May 02 – February 07
Physical statistics	Airports 17	Parking spaces 65,188
No. of employees at year end	5,397	1,128

Employees	
2007	7,450
2006	7,477
2005	4,482
2004	4,360
2003	4,921

Revenue (£m)	
2007**	1,071.3
2006**	744.9
2005**	617.9
2004*	619.9
2003*	560.8

** IFRS
* UK GAAP

Employees	
2007	6,525
2006	5,974
2005	5,803
2004	5,084
2003	4,911

Revenue (£m)	
2007**	241.6
2006**	258.7
2005**	271.3
2004*	217.5
2003*	211.7

** IFRS
* UK GAAP

The group has delivered significant growth this year and we expect to make further progress in the year to June 2008.



Keith Ludeman
Keith Ludeman
Group chief executive



Nick Swift
Nick Swift
Group finance director

Summary

Group review

	2007 £m	2006 £m
Revenue	1,826.9	1,463.6
Operating profit*	118.1	97.8
Profit before tax*	110.1	91.9
Profit before tax	94.8	83.6
Cash flow generated from operations	191.2	116.9
Earnings per share – basic	124.2p	108.1p
Earnings per share – adjusted*	140.7p	118.4p
Dividends paid and proposed	70.0p	56.0p

* Before exceptional items and amortisation

The group has delivered significant growth this year. Revenue increased by £363.3m, or 24.8%, to £1,826.9m. Operating profit* was £118.1m, up £20.3m or 20.8% compared to last year. Profit before tax* increased by £18.2m, or 19.8%, to £110.1m.

Our bus division delivered a strong set of results for the year, increasing revenue by £54.0m to £514.0m and operating profit* by £9.1m to £55.8m. Growth in operating profit came from both the regulated operations in London and improvement in most of the deregulated bus businesses.

The largest part of the group's revenue and operating profit growth was from the rail division. Here, revenue increased by £326.4m to £1,071.3m and operating profit* was up £23.6m to £66.1m. The increase consisted of the full year benefit from changes in franchises held by the group last year, and improved like for like performance, led by passenger income growth.

Results for the aviation services division were disappointing. Revenue fell by £17.1m to £241.6m. Operating profit* fell £12.4m to a loss of £3.8m, including £1.3m of restructuring costs. Most of the reduction was in the ground handling business, but cargo and car parking were also below last year.

Cash flow from operations remained strong at £191.2m, or 161.9% of operating profit*. Cash conversion is a key strength of the business.

Adjusted earnings per share increased by 18.8%, reflecting the rise in profit before tax* less an increase in the profit attributable to the 35% minority interest in our rail operations.

Outlook

Our bus operations are expected to continue to improve in the new year. Earnings from rail are anticipated to reduce due to lower government subsidies and ongoing cost pressures, partly offset by the new London Midland franchise starting in November. The aviation services division needs to restore profitability and should benefit from recently won contracts. Overall, we expect to make further progress in the year to June 2008.

Divisional review

Bus

	2007 £m	2006 £m
Revenue	514.0	460.0
Operating profit*	55.8	46.7
Margin	10.9%	10.2%
Revenue growth		
Regulated	11.6%	5.5%
Deregulated	12.0%	19.4%
Volume growth		
Regulated – miles operated	8.4%	1.3%
Deregulated – passenger journeys	6.8%	12.2%

* Before exceptional items and amortisation

Our bus operations performed strongly in the year. Revenue grew by £54.0m, or 11.7%, to £514.0m, and operating profit* increased by £9.1m, or 19.5%, to £55.8m. Margins improved by 0.7 percentage points to 10.9%.

Passenger and revenue growth more than offset cost increases primarily due to payroll and engineering materials. Insurance costs reduced by 27% as a result of continued focus in this area. Overall, fuel costs were similar to last year despite increases in volume consumption generated by operating 6% more miles. Acquisitions accounted for approximately £6.8m of the increase in revenue and £1.4m of the increase in operating profit*. Operating profits* improved in both our regulated and deregulated bus operations.

Regulated bus operations

This was another good year for our regulated bus operations in London where the group grew to become the largest operator of local bus services under contract to TfL. Regulated revenue increased by 11.6%, benefiting from an 8.4% increase in the number of miles operated. This reflects the net addition of a number of new contracts associated with the western extension of the congestion charging zone which added 17 peak vehicles, rail replacement services, and the acquisition of Docklands Minibuses in September 2006.



Performance

Providing a punctual and reliable service to customers, be they individual passengers, local and central government, international airlines, airports or NHS trusts, is key to the group's success. From our London bus business regularly topping the performance league tables for TfL, to Southern exceeding its public performance target for 'on-time' arrivals, Go-Ahead companies are at the forefront of delivering the high quality services that today's travelling public expect.

- 1 London General's Putney garage was crowned TfL garage of the year at the UK Bus Awards.
- 2 Improvements to Southeastern's timetable have catered for the ever increasing demand on the network, including additional services to London in the morning.
- 3 aviance continued to improve service delivery throughout the year, averaging 99% on time performance for our biggest ground handling customer bmi.
- 4 Strong performance of Southern services saw the company pass its Public Performance Measure (PPM) target of 88.74%, achieving 89.14% of services as arriving 'on-time'.

- 5 Recently completed bus lanes have improved Go North East journey times by an average of four to six minutes during peak hours in places such as the Felling bypass.
- 6 London Central/London General prides itself on being a high quality operation, regularly at the very top of the performance league tables produced by TfL. We are consistently London's best performing large operator for both high and low frequency services and score highly in other areas including both driver quality and engineering quality monitoring.

A key part of the success of our London bus division is the delivery of excellent operating performance. Our London Central and London General operations frequently top the TfL quality league tables. Mileage operated (before losses due to traffic) was 99.6% of the scheduled route maximum for the year and excess waiting time for passengers averaged one minute. This resulted in a new record level of quality incentive bonuses, reaching £13.0m this year compared to £11.9m last year. These high levels of performance allowed us to extend most of the eligible contracts from five to seven years, many of which entailed additional resources, summing to a further 16 peak vehicles overall.

Wage inflation was partly offset by productivity improvements during the year, with a strong focus on reducing absenteeism. Engineering material costs were up £2.6m overall reflecting the increasing age profile of the fleet. This required us to both refurbish buses entering a second contract term, and incur maintenance cost for vehicles falling outside of extended warranty packages. Investment in the bus fleet continued, with 66 new, environmentally friendly, Euro-4 compliant buses acquired during the year.

At Metrobus, with the garage redevelopment programme complete, the management team focused on improving service quality and operating profit. Performance on TfL contracts improved significantly and, coupled with significant additional rail replacement work, the business delivered better operating profits. By the end of the year Metrobus had also topped TfL quality league tables.

Deregulated bus operations

Our deregulated bus operations enjoyed a good year. Revenue growth totalled 12.0% and passenger journeys increased by 6.8%.

The growth in passenger journeys was due to a significant increase in the number of passengers benefiting from free concessionary travel, particularly in our Go North East, Go South Coast and Brighton & Hove operations. Fare paying passengers increased in Oxford, Go South Coast and Brighton & Hove.

Our Go North East operations performed well during the year, and we are starting to see the benefits of the significant changes underway in this operation. The new commercial strategy has comprehensively restructured the local bus network, generating operating cost savings, by focussing on a core commercial

network. Routes are clustered into a hierarchy, with the highest level of investment being channelled into the busiest routes. The restructuring has been supported by a significant investment in the bus fleet, with 50 new buses replacing 70 older vehicles and with a number undergoing refurbishment. The routes were strongly marketed with distinctive route branding, coupled with improvements in service quality. Total mileage operated improved to 99.8% in the year, with punctuality above 95% – the best levels achieved in the group.

In Brighton and Hove, we continued to deliver improvements in operating profit*. Service levels were enhanced driven by increased passenger growth, high profile service development and strong operating performance on busy Metro services. We invested in a new fleet of double decker buses for Metro 25 and extended to a 24 hour operation.

Our Oxford based business, which includes high frequency coach services from the city to central London, Heathrow and Gatwick, enjoyed a good year. Patronage increased following a comprehensive network review, supported by investment in 11 new Mercedes Citaro buses and 10 new Volvo coaches. These vehicles are Euro-5 compliant, reducing emissions ahead of the standard becoming mandatory in 2009. Oxford won the Corporate Social Responsibility (CSR) category at the 2006 UK Bus Awards. Passenger convenience was enhanced through the introduction of a smart card ticketing system during the year, which has proved very successful to date.

We have made progress in our new West Midlands operations, although the financial results were poor, in part due to start-up and restructuring costs continuing to impact during the year. The business was established through two acquisitions in 2006 and has been through a significant amount of change. The senior management team was replaced and virtually all aspects of the business were comprehensively overhauled. A new commercial strategy was put together to refocus the business on a core commercial network, and this began to be rolled out towards the end of the year. The operations, engineering and finance teams were reorganised and are now close to achieving the standard of service quality achieved elsewhere within the group. Relationships with local authorities have been transformed. We remain committed to establishing the group as a high quality bus operator in the West Midlands, and will look for synergies with our new rail business as the year progresses.

Our Go South Coast business benefited from both a full year contribution from two acquisitions and a rationalisation of management and administrative functions. This led to a strong underlying improvement in operating profit*. Hants and Dorset Trim was relocated to new and expanded premises at Eastleigh. The Southampton based Marchwood operations were acquired in October 2006 and were integrated into the Go South Coast operation. Both businesses are performing well. Network restructuring, coupled with investment in new buses and strong marketing, has generated strong passenger growth on the Isle of Wight, and in the Bournemouth, Poole and Southampton/Eastleigh conurbations. The business also includes a substantial coaching operation, which has benefited from new business such as serving cruise ships berthed at Southampton.

Metrobus deregulated operations, based at Crawley, achieved record levels of service quality and made a significant contribution to overall profitability.

Outlook

We expect our bus operations to make further progress in the new year. Our aim is to maintain our leading position in the regulated London market, strengthened by TfL contract wins of Route 24 and 453 from other operators, and the retention of Routes 36 and 436 with additional volume. The acquisition of Blue Triangle in East London in June 2007 further increases our market position north of the Thames. We also intend to improve our deregulated services, with benefits flowing from a cessation of one-off costs at Go West Midlands and Go North East, and further restructuring at Go South Coast. The policy of investing in new, environmentally friendly buses, network development and strong marketing will continue.

Risks

Operating profits are highly sensitive to the cost of fuel, with a 1 penny increase in fuel cost per litre adding around £1m to our costs. At the end of June 2007, approximately half of our fuel requirements were hedged for 2007/08. Other principal risks include an adverse outcome to 2007/08 concessionary fare negotiations, industrial relations, political risk arising from legislative change, terrorism, competitor behaviour and the loss of significant regulated contracts.



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Safety and environment

The safety of passengers, staff and the general public is the top priority for the group, closely followed by the protection of the natural environment in which we operate.

CCTV systems enhance security (and the sense of security) on bus and train services and within car parks. On our rail operations this is complemented with the presence of revenue protection/rail enforcement officers.

We were the first company to introduce Euro-5 standard diesel engines, almost two years before they are a legal requirement. Now 88% of the bus fleet operates with Euro-2 engines or better and research by an independent transport consultancy (TAS) highlights Go-Ahead as having the most environmentally friendly bus fleet in the country.

1 The newest additions to the Go North East fleet have been 9 Euro-5 Mercedes-Benz buses, the most environmentally friendly engine specification available. Branded as the company's Red Arrows, they were the first Euro-5 buses to operate in the region.

2 The Oxford Bus Company, believing that public transport should have a minimum effect on the environment, has adopted Euro-5 buses and coaches in the UK at a time when the Euro-4 standard is just beginning to be adopted elsewhere.

3 Southern's Brighton Lover's Walk train care depot's recycling team won the Network Rail Environment Team Award in June.

4 Metrobus investment continues on passenger safety initiatives, with 100% of the TfL contract fleet now fitted with CCTV.

5 As part of an on-going programme of investment in new fuel efficient equipment, aviance has increased the number of electric vehicles in operation, complementing a wider monitoring scheme to reduce fuel usage.

6 To improve passenger perception of safety of services, Southeastern employs rail enforcement officers to patrol trains and stations, particularly at night, talking to passengers and providing a reassuring physical presence.

Rail

	2007 £m	2006 £m
Revenue	1,071.3	744.9
Operating profit*	66.1	42.5
Margin	6.2%	5.7%
Passenger income growth**		
Southern	14.1%	7.1%
Southeastern	12.4%	n/a
Volume growth**		
Southern	9.1%	2.8%
Southeastern	7.0%	n/a

* Before exceptional items and amortisation

** Southeastern compares the three months to 30 June 2007 against the first three months of ownership to 1 July 2006

The rail division has had an excellent year. Revenue grew by £326.4m, or 43.8%, to £1,071.3m, and operating profit* increased by £23.6m, or 55.5%, to £66.1m. The margin improved by 0.5 percentage points to 6.2%.

The net impact of changes to the franchises held by the group accounted for approximately £284.0m of the increase in revenue and £13.2m of the increase in operating profit*. The prior year includes the last nine months of the Thameslink franchise, which finished on 31 March 2006, and the first three months of the Southeastern rail franchise which started on 1 April 2006. The current year includes bid costs charged to the income statement of £3.0m for new franchises, compared to £1.4m last year.

Southern

Operating performance reached record levels during the year. The public performance measure (PPM) showed that close to 90.0% of our trains arrived on time during the year. The performance regime, including compensation for delays caused by Network Rail, delivered increased income of £5.8m compared to last year. Our customer satisfaction rating was 81% for the year, up slightly from 80.0% last year. Ongoing security improvements included additional CCTV cameras on trains, and enhanced security at stations.

Passenger income increased by 14.1% compared to last year. Most of the increase was due to a rise in passenger journeys of 9.1% to over 135 million in the year, reflecting both the strong economic conditions and improved performance. At such levels, capacity remains a challenge for the industry. For our part, we continued to introduce new carriages into service and optimised train formations by use of passenger loading data information supplied from equipment on our rolling stock. Ticket price increases averaged 5.0% in accordance with the terms of the franchise.

Operating cost rises were largely confined to labour and electricity. Labour cost increases arose from routine wage negotiations and increased pension contributions, with the number of employees remaining relatively constant through the year. The cost of traction electricity, excluding the exceptional settlement which is described further below, was around £3.3m above last year. Engineering costs were slightly below last year. The depot refurbishment in Southern, completed in 2006, provides superb facilities to maintain the new train fleet to a high standard.

The net subsidy received from the DfT declines each year under the terms of the franchise and was approximately £5.1m below last year. The franchise is also subject to a profit sharing regime with the DfT. The strong financial performance this year triggered the maximum 80% threshold, resulting in an increased payment due to the DfT.

Southeastern

Our Southeastern operations also enjoyed improved operating performance, with PPM punctuality levels at close to 90.0% for the year. Performance regime payments, primarily from Network Rail, were some £5.0m above the levels assumed in the franchise plan. Passenger satisfaction ratings were 74.0% for the year.

We set ourselves an ambitious programme of change and improvement for this franchise, against a government subsidy which declines to a small premium over the course of the franchise. We are still at a relatively early stage of the franchise, but are pleased with progress. Our stated aim is to provide a growing railway for a growing region. This programme includes investment in new train timetables to optimise performance and to provide extra journeys. Elsewhere, the company is working hard to improve station facilities and to improve the quality and cleanliness of the existing train fleet. Carriages are being fitted with enhanced security and on board passenger information, whilst reliability improvements are being made to mid-life rolling stock.

Passenger journeys reached 147 million in the year. The last three months of this year compared to the first three months of ownership last year showed an increase in passenger income of 12.4% and in passenger journeys of 7.0%. Price increases averaged approximately 6% for the same period, based on an RPI + 3% pricing regime.

Operating costs were below the franchise plan for the year, with a reduction in lease costs offsetting increases in traction

electricity and higher labour costs. The lease cost savings arose from the delay of modifications to rolling stock. No payments were made in the year under the revenue sharing arrangement operated with the DfT.

Outlook

The passenger market is assumed to remain buoyant for the next year. However, DfT subsidies to the two franchises are scheduled to reduce significantly in the new financial year. This, together with ongoing cost pressure, is expected to offset the benefit from the London Midlands franchise, leading to an anticipated reduction in operating profit* next year.

In Southern, we will be implementing the Brighton Main Line Route Utilisation Strategy, which includes the integration of the Gatwick Express into our network from May 2008. We will also be preparing to tender for the next franchise period, due to start in October 2009.

Our Southeastern operations will look to progress our improvement plans across a wide range of performance and customer satisfaction areas. Work is underway to introduce enhanced timetables, including the high speed services into Kent, in 2009. The first of the new high speed trains arrived in August from Japan.

In November 2007, our new London Midland franchise begins operations, combining the operations of Silverlink County with the West Midlands regional services of Central Trains.

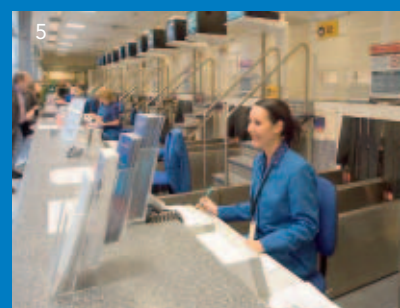
Risks

Key risks to the division include the potential loss of the Southern franchise in September 2009, the impact of terrorist incidents, or severe disruption affecting the network.

Aviation Services

	2007 £m	2006 £m
Revenue	241.6	258.7
Operating (loss)/profit*	(3.8)	8.6
Margin	(1.6)%	3.3%
Revenue growth		
General handling	(1.8)%	(2.9)%
Cargo	4.6%	10.4%
Car parking	(21.3)%	(7.0)%
Volume growth		
General handling – aircraft turnarounds	(4.8)%	(5.8)%
Cargo – tonnes	0.8%	6.8%
Car parking – transaction volume	(23.7)%	(3.1)%

* Before exceptional items and amortisation



People

Over 25,000 people work for Go-Ahead and some of our companies are among the largest local employers in their region.

With around three quarters of employees in customer facing roles and acting as the group's ambassadors to the travelling public, the training and development of our workforce is critical in equipping them with the skills needed in a customer service environment.

Training opportunities available include modern apprenticeships, health & safety qualifications, BETCs in customer service, equal opportunities/disability discrimination training and non work related 'life skills'.

1 Oxford Bus is an accredited trainer for Oxfordshire County Council in disability awareness training.

2 To build a competent, confident and empowered workforce, Southeastern have started several staff development programmes aimed at employees at all levels in the company, as well as working towards achieving Investors in People accreditation.

3 Wilts & Dorset place great importance on the training and development of employees. For example the top engineering apprentice is presented with the Warren Luxton Memorial Award for excellent results at both work and college.

4 As part of our London bus operations' drive to communicate the importance of health and safety to all employees, 'general' and 'engineering specific' guides were produced to highlight safe systems of work and risk control measures.

5 aviance continues to focus on developing employees through training and in the year the company launched a customer service refresher course. Encouraging existing employees to re-visit their customer service training, it also provides an opportunity to learn some new skills and techniques.

6 Meteor holds the Security Industry Authority's ACS (Approved Contractor Scheme) accreditation for its security guarding business.

The aviation division experienced a difficult year. From August 2006, new security measures introduced in response to terrorist threats caused delays and disruption, and led to unrecoverable cost increases which were most acute at London Heathrow Airport.

Revenue decreased by £17.1m across the division, or 6.6%, to £241.6m, and operating profit* decreased by £12.4m to a loss of £3.8m, which includes restructuring costs of £1.3m.

General Handling

The general handling operations accounted for the majority of the reduction in operating profit*.

Aircraft turnarounds were 4.8% below last year, with the impact of lost contracts at Heathrow and three regional airports more than offsetting growth under existing contracts. The new British Airways contracts started in June 2007 and had minimal impact on the turnarounds for the year. The value per turnaround improved by 3.0%, although this is heavily influenced by airport and contract mix. Net revenue reduced by 1.8%, including weather related decreases in de-icing income.

The year also saw a significant rise in operating costs. Labour costs were well in excess of last year and included additional employees to service a change in aircraft type by two carriers as they responded to competitive pressures. Security disruption through the year resulted in further cost increases.

Cargo operations

Results for the cargo operations were also challenging. Revenue growth of 4.6% was supported by an increase in cargo tonnage of 0.8%. Good underlying growth at Heathrow was partly offset by the withdrawal of a significant carrier from Gatwick.

As with ground handling, labour operating cost increases were significant in response to the new security measures, leading to an overall reduction in the operating profit* for the year.

Meteor car parking

It was also a difficult year for our Meteor car parking operations.

The decline in the level of transactions and revenue was largely due to changes to our contracts with airport operators from a concession basis to a management fee structure. This resulted in less involvement in the sales process and a different treatment of income. Our strategy remains to continue to operate and develop a wide range of airport related activities, balanced with parking and security business outside the sector. This was enhanced in December 2006 with the acquisition of PAS Direct, a provider of valet parking at Gatwick

airport, and the acquisition in February 2007 of Nikaro, a specialist nationwide keyholding and alarm response business.

Outlook

The aim of this division is to translate its reputation for excellent levels of quality and customer service into restored profitability. Ground handling should benefit from the new British Airways contracts at Aberdeen, Edinburgh, Glasgow and Manchester airports. Our cargo operations have recently won a significant new contract at Gatwick with American Airlines and will further expand through the commissioning of a large new cargo facility at Heathrow. Our car parking operations should benefit from a full year of operating profit contribution from acquisitions.

Risks

The division operates in a highly competitive environment. Key risks include the loss of significant contracts and disruption due to events such as terrorism.

Additional financial matters

Operating profit before depreciation, amortisation and exceptional items /EBITDA

Operating profit before amortisation and exceptional items was £118.1m (2006 – £97.8m) and the depreciation charge for the year was £44.6m (2006 – £38.0m), giving an EBITDA before exceptional items of £162.7m (2006 – £135.8m).

Exceptional items

The exceptional item of £6.9m represents the net settlement cost, after profit share, incurred in relation to traction electricity (EC4T) negotiations for our two rail franchises. This one-off compensation settlement allows the franchises to move onto new supply terms for EC4T with Network Rail.

There were no other exceptional items in the year (2006 – £3.2m). Further details of the exceptional items in 2006 are provided in note 8 to the financial statements.

Goodwill and intangible asset amortisation

The £8.4m (2006 – £5.1m) 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 main reason for the increase against last year is the impact of a full year of ownership of the Southeastern franchise.

Interest

The net finance cost for the year increased to £8.0m (2006 – £5.9m), largely due to the increase in net debt during the year. The average net interest rate was 5.9% for the year and the proportion of net debt held at fixed interest rates was 64.7% (2006 – 51.0%) at the end of the year.

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 £24.3m (2006 – £18.2m), consisting of a service cost of £31.9m (2006 – £23.3m) less a net financing benefit of £6.3m (2006 – £3.6m) and a franchise adjustment of £1.3m (2006 – £1.5m). The rail related charge increased to £18.8m (2006 – £10.9m) due to a full year of Southeastern. The non rail cost reduced to £5.5m (2006 – £7.3m) due to a higher assumed rate of expected return on assets.

The net deficit before taxation on the non rail defined benefit schemes reduced from £87.5m at the end of last year to £24.5m, reflecting the strong equity markets at the end of the year. Of the non-rail scheme assets 67.8% were held in equities at the year end (2006 – 69.5%).

The net deficit on the rail schemes was £2.3m (2006 – £16.3m). 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.

An additional cash contribution of £2.5m was made to the non rail schemes just before the year end in June 2007, with a further £7.5m paid in early July 2007.

Taxation

The effective tax rate for the year was in line with our half year expectations at 24.9% (2006 – 23.2%). The principal reason for the reduced rate compared to the UK tax rate of 30% relates to the effective management of asset finance arrangements. The reduction also includes a one-off decrease of approximately 2% for the change in the deferred tax rate to 28% from 1 April 2008. Due to the reduction in the pension deficit described above, deferred tax assets reduced by £22.5m.

Minority interest

The minority interest in the income statement of £12.6m (2006 – £10.5m)



1



2



3



5



6



4

Investment

New buses have entered service to both drive patronage growth and to renew the fleet, including investment in high specification Mercedes buses designed to attract car drivers onto our services. On-going excellent performance within our regulated London bus business has seen contract renewals and new contract wins drive fleet investment.

Within rail, investment is being made to improve station facilities and the quality of the existing train fleet, in addition to the new high speed trains due to begin operation on the Channel Tunnel Rail Link in 2009.

1 This year Oxford Bus introduced the first wheelchair accessible coaches to Heathrow. The investment of £2.2m in ten Plaxton Panther Volvo buses with its 'Magic Floor' allows the wheelchair user ease of access to the front of the bus.

2 Investment in the London bus fleet continues, with 59 new vehicles introduced in the last year at a cost of over £8m. These vehicles utilise the latest Euro-4 engines, to reduce fuel consumption and minimise exhaust emissions, as well as being the first vehicles in the group to utilise wireless CCTV systems.

3 Balham MP Sadiq Khan endorses Southern's efforts to improve security at its stations in the London Metro area.

4 Metrobus invested in two new Euro-4 vehicles for the Fastway service, increasing the service frequency to every eight minutes.

5 Work is underway to ensure a successful start of the Southeastern high speed services from December 2008. 29 trains, currently being built by Hitachi in Japan, will provide services between St Pancras, Ashford and the Kent coast, travelling at up to 140 mph.

6 Plane Handling's cargo business made a significant investment in a new cargo facility which opened this year. The 70,000ft cargo shed is used to process Virgin Atlantic's import cargo, approximately 90,000 tonnes annually.

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.

Dividends

The total dividend for the year of 70p consists of the interim dividend paid of 23p and a proposed final dividend of 47p. This represents a total increase of 25.0%, resulting in a dividend cover (based on adjusted eps) of two times in line with our stated objective. We will look to continue our policy of progressive dividend growth whilst maintaining dividend cover of approximately two times earnings through the cycle.

Cash flow

Cash generated from operations before taxation was £191.2m, an increase of £74.3m against £116.9m last year. This increase consists of additional operating profit before depreciation, amortisation and net cash from a reduction in working capital of £41.5m. The majority of this reduction related to the reversal of temporary funding requirements last year for the new rail franchise and timing of payments to the DfT.

Net cash flow used in investing activities was £71.9m, similar to last year at £76.9m. Capital expenditure, net of sale proceeds, totalled £53.7m compared to £67.9m last year, including new bus expenditure of £28.8m (2006 – £50.2m). The cash used to purchase businesses totalled £22.9m (2006 – £11.6m).

Dividends paid to parent company shareholders totalled £28.9m (2006 – £25.3m), and to minority interests totalled £14.7m (2006 – £15.1m). We continued with our share buy back programme, investing £55.6m (2006 – £52.6m) to buy back 2.4 million (2006 – 3.2 million) of our own shares at an average price of £22.69 (2006 – £16.30) per share. At 30 June 2007, we held a total of 5.0 million shares in treasury, representing 9.8% of the issued share capital.

Balance sheet

Net debt increased by £5.7m, from £138.8m to £144.5m. Bank loans and loan notes were £223.0m and hire purchase and finance leases totalled £50.1m. This was partly offset by cash and short term deposits of £128.6m, which included restricted rail cash deposits of £92.7m. Excluding the restricted cash, adjusted net debt was £237.2m, equivalent to 1.46 times EBITDA before exceptional items (defined above). Our aim is to move to an adjusted net debt to EBITDA ratio of 1.5x to 2.5x through the cycle.

Net assets totalled £147.6m at the end of the year compared to £109.3m at 30 June 2006. The increase primarily reflects the profit attributable to equity holders of the parent of £58.6m and actuarial gains of the pension scheme of £75.0m, less acquisition of own shares of £55.6m and dividends paid of £43.6m.

Treasury management policies

The group's policies in relation to funding and risk management are set out in note 27 to the financial statements.

Principal group risk factors

Our business, financial condition and results of operations will be influenced by a range of factors, many of which are beyond our control. In addition to specific risks noted in the divisional reviews above, these risks include, but are not limited to: political and regulatory change; reduction in public funding, including an adverse outcome to concessionary bus fare negotiations; disruption or incidents, including those due to accidents or terrorism; adverse changes in the economy and levels of employment; competitor behaviour; loss of significant contracts or franchises; increase in costs, including labour, pensions and fuel; financial risks as outlined in note 27 to the financial statements and adverse changes in tax legislation.

Corporate responsibility

Integrating the principles of sustainable development into how we operate has been a feature of our group culture since the earliest days of our formation.

We recognised that adopting a responsible approach to business directly contributes to achieving our business objectives. Our performance on issues such as service punctuality, safety and ease of access both demonstrate a commitment to responsibility and are key factors which help us grow patronage on our buses and trains. At the same time, concerns over air quality and congestion have long been issues of local concern. Today, environmental issues and changes to the global climate are shaping the transport policy environment in which we operate.

In a devolved group, we have ensured that our commitment to responsibility is incorporated in our group values and in the way we manage the operating companies within the group. Underlying our common set of corporate values is a responsibility grid developed following a structured programme of consultation with passengers, employees and other stakeholders. The grid identifies the key responsibility factors that influence the use of bus and train services and those issues where stakeholders expect us

to have developed policies and methods of working:

- Safety and security
- Reliability, convenience and punctuality
- Accessibility for all
- Affordability
- Local air pollution and congestion
- Emissions of greenhouse gases, particularly relating to fuel and electricity

We measure, manage, innovate and report against these issues. Corporate responsibility is integrated into our wider business and financial planning process and our businesses are expected to set improvement targets for social and environmental performance as part of the business planning process. The executive board also continues to review a common set of key business performance indicators at each company board meeting that include responsibility measures.

Within this group framework, in line with our devolved structure, each of our operating companies sets its own corporate responsibility objectives and targets. For a third year, each of our operating companies has also published a local report based on their performance against our responsibility grid. These operating company responsibility reports are a companion to the executive summary group report. We were the first group in the public transport sector to report directly to local stakeholders and continue to be committed to innovate and lead our sector across all aspects of the responsibility agenda.

We benchmark our performance in a number of different ways. We commissioned, for a second year, an independent study from the TAS Partnership which confirmed that Go-Ahead continues to lead in having the most environmentally friendly bus fleets in Britain. We also enjoyed external recognition by being ranked as a 'Gold Company' in the Business in the Community Corporate Responsibility Index, a voluntary initiative rating company effectiveness at measuring, managing and reporting on responsible business practice. For the third year, we were the highest ranked public transport company among those that participated. The group also retained its position in the FTSE4 Good UK Index, which comprises companies that meet minimum corporate responsibility standards.

An executive summary environmental and social report is available from the group or can be downloaded from our website. A detailed web-based companion report containing full details of the environmental and social responsibility performance of the group will be available later in the year on the group's website at: www.go-ahead.com/corporateresponsibility.



Innovation

The group is leading the introduction of innovative solutions to improve performance and service levels in the transport sector. From expanding real time information onto the web and via mobile phones, to route branding services to target local niche markets, our bus companies are at the forefront of new developments.

Within rail, Southern's train automatic performance analysis system is breaking new ground in train maintenance, while Meteor has introduced innovative 'feedback pods' to the car-parking sector, providing an easy non intrusive way for customers to register comments.

Looking to our ground handling sector, aviation UK is learning from passenger check-in psychology to optimise the deployment of resources to minimise check-in delays.

1 The Borough of Poole is launching a service that will enable bus passengers to access bus times on their mobile phones anytime, anywhere.

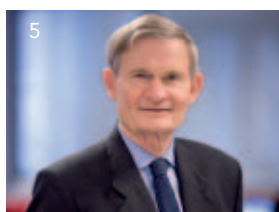
2 Southern's award winning train automatic performance analysis system (TAPAS) has transformed traditional train maintenance by introducing a remote condition based system which identifies potential failures on board trains before they happen.

3 Euro-5 compliant buses have recently come to the Isle of Wight. The seven new buses represent an investment of over £1m and now run on the 10 minute service between Newport and Ryde. The exhortation to 'Go to work in a Merc' for the cost of a bus fare has been taken up by many islanders.

4 Brighton & Hove continued its high profile campaign to encourage bus use in the city which features passengers on the side of each bus as well as staff who work for the company.

5 Go North East is continuing to theme its fleet to make them easily identifiable on any part of their route and to engender local pride. Around half of the company buses have their own branding.

Directors



- 1 Sir Patrick Brown
- 2 Keith Ludeman
- 3 Nicholas Swift
- 4 Rupert Pennant-Rea
- 5 Christopher Collins
- 6 Carolyn Sephton
Company Secretary

Sir Patrick Brown (67) joined the board in 1999 as a non-executive director, becoming non-executive chairman in 2002. He is also chairman of Amey plc and a non-executive director of Northumbrian Water Group plc and Mobility Choice. 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.

Christopher Collins (67) 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 and also non-executive director of Alfred McAlpine 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 qualified chartered accountant.

Keith Ludeman (57) is group chief executive. He 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 advisor 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.

Rupert Pennant-Rea (59) 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 plc, and a director of Gold Fields Ltd and First Quantum Minerals Ltd.

Nicholas Swift (43) is group finance director. He is a chartered accountant and joined the board on 17 July 2007. Prior to this, 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.

Company Secretary

Carolyn Sephton (35) is group company secretary. She is a chartered secretary and was appointed as company secretary in July 2006. Prior to this she worked for the group for five years in the role of assistant company secretary 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, she spent 12 years with Northern Electric where she gained extensive experience in pensions management.

The board is committed to maintaining high standards of corporate governance. In accordance with best practice, the board has already identified and addressed the new procedural and disclosure requirements included in the revised Combined Code published by the Financial Reporting Council in July 2006. Therefore the following statement also describes how the principles of corporate governance are applied to the company and the company's compliance in accordance with the revised code.

Statement by the directors on compliance with the provisions of the combined code

The company has been in full compliance with the provisions set out in Section 1 of the Combined Code published in July 2003 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 chairman being best placed to be the chairman of these committees. 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 non-executive director. Furthermore, both of the independent non-executive directors are known to investors and financial professionals in the UK. Shareholders should approach either of them if so required. |

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

The board currently comprises two executive directors and three non-executive directors including the chairman, all of whom the board considers to be independent. 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 is responsible to shareholders for the proper management of the group, developing and monitoring group strategy and safety standards, setting objectives for the operating companies within the group, monitoring performance, ensuring adequate funding, examining major acquisition 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.

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.

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, the timely provision of appropriate information to directors, standards of conduct, and the procedures for directors to take independent professional advice, if necessary, at the group's expense.

The group maintained Directors' and Officers' liability insurance cover throughout the year as permitted by section 310 of the Companies Act 1985. This cover was renewed on 30 June 2007.

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. All directors have access to the advice and services of the group company secretary.

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

During the year the board met seven times. All members of the board attended each meeting, with the exception of Rupert Pennant-Rea who was unable to attend one meeting held in February 2007.

The chairman and the chief executive

There is a clear division of responsibility between the chairman and the chief executive. The chairman is responsible for 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. The group chief executive has overall responsibility for leadership and day to day group management, in addition to the execution of strategy as approved by the board as a whole.

Appointment and re-election of directors

Keith Ludeman joined the board as an executive director in 2004, initially in his role as chief executive – rail, and then from July 2006, as group chief executive following the retirement of the former group chief executive, Christopher Moyes. Along with his industry-wide experience, Keith Ludeman has been a main board advisor since 1998 and, since his appointment as group chief executive, has brought a continuation of the management style synonymous with the success of the group. The board believe that he should be re-elected for a further term.

Christopher Collins joined the board as a non-executive director in 1999 and is regarded as robustly independent. The board's performance evaluation procedures reaffirm his effectiveness and confirm that he demonstrates commitment to the role. The board recognise the well qualified contribution he continues to demonstrate in his role as non-executive director to the company and believe that he should be re-elected for a further term.

Nicholas Swift was appointed to the position of group finance director on 17 July 2007 following the retirement of Ian Butcher. As a newly appointed director during the year, he now offers himself for election. Nicholas Swift is a chartered accountant with extensive experience in investor relations, tax and treasury gained from a number of senior corporate and operational finance roles. The board believe that he should be elected for a full term.

The board has appointed the following committees to deal with specific aspects of the group's affairs:

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 were 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 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 met four times. All members of the committee attended each meeting with the exception of Rupert Pennant-Rea who was unable to attend one meeting held during February 2007.

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 21 to 26.

During the year the committee met six times. All members of the committee attended each meeting, with the exception of Rupert Pennant-Rea who was unable to attend one meeting held during February 2007.

Nomination committee

The nomination committee is chaired by Sir Patrick Brown and comprises all the non-executive directors, with the group company secretary in attendance. 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 successor to the position of group finance director following Ian Butcher's stated intention to retire. The committee's unanimous decision to propose Nicholas Swift as the new group finance director was accepted by the board. Following his appointment, Nicholas Swift has undergone a comprehensive induction programme which has included, but has not been limited to, visits to all operating companies, one-to-one meetings with key senior managers within the group and external advisors, in addition to receiving a briefing on matters of corporate governance and board procedures.

During the year, the nomination committee met three times. All members of the committee attended each meeting, with the exception of Rupert Pennant-Rea, who was unable to attend one meeting held during February 2007.

The terms of reference of the audit, remuneration and nomination committees are available on request from the group company secretary or can be accessed by visiting the company's website www.go-ahead.com.

‘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 interim and financial 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 final 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. Last year this invitation was not accepted. 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 full annual and interim reports are made available via the website, in addition to presentations to the analysts, regulatory news, and share price and shareholder information.

Pension plans

The assets of the group’s pension plan 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 30 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 Railway Pensions Scheme. The auditors and actuaries of all pension plans are independent of the group. Further details on 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 risk. As part of the manual, an ongoing process in accordance with the Turnbull guidance on internal controls 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 board regularly reviews this process.

The key procedures which the directors have established with a view to providing effective internal controls 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;
- monthly financial reporting and review of results by group executives;
- quarterly trading updates/reporting to shareholders;
- defined capital expenditure approval procedures; and
- a commitment to best practice in external reporting.

The key processes used by the board to review the effectiveness of the system of internal control include the following:

- annual review of the group internal control document, which covers both financial and non-financial areas of internal control, and is certified by the respective operating company boards;
- monthly reporting of financial information to the board encompassing profit and loss, cash flow and balance sheet information and key operating ratios;
- regular reporting to the board on specific matters including safety, insurance and treasury management; and
- considering the outcome of the audit committee meetings and the relevant action determined in respect of any control issues raised by internal or external auditors.

As a result of these processes, a number of minor control weaknesses were identified during the year. These weaknesses were discussed with operating company management and any necessary actions agreed. 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 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 31.

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.

At the annual general meeting, a resolution will be put to shareholders to approve the Directors' Remuneration Report.

Remuneration committee procedures

Meetings

Details of the members, the number of meetings and attendees in the year are shown on page 18.

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

At the meetings considering executive director remuneration, the committee receives independent advice from Watson Wyatt Limited, a remuneration specialist appointed by the committee. In addition to the advice to 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. The committee also monitors the level and structure of remuneration for senior managers in the group. The committee considers executive directors' bonuses, which are dependent on the achievement of safety, corporate governance and financial targets in the relevant financial year. The committee considers the group chief executive's remuneration in his absence.

Acceptance by the board of remuneration committee proposals

Following the meetings, the committee recommends salary increases and bonus payments for the executive directors to the board. During the relevant period, the board accepted the recommendations of the committee 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 is informed of the pay, incentives and benefits packages of senior executives 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 last formal benchmarking exercise was conducted prior to the August 2006 salary review.

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.

The remuneration of the non-executive directors is a matter for the chairman and the executive members of the board. During the year, the fees of the non-executive directors were subject to an increase reflecting inflation effective from April 2007. The remuneration committee also considers the remuneration of the chairman in his absence and during the year, the committee proposed, and the board agreed, that the chairman's salary should increase from £125,000 p.a to £140,000 p.a with effect from April 2007, to reflect the fees of chairmen of companies of comparable size and complexity.

Executive directors' salaries

Base salaries are reviewed annually in April. 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. A special review was undertaken in August 2006 with remuneration specialists Watson Wyatt Limited, following changes in executive responsibility as a consequence of the resignation of the former group chief executive. As a result of this review, Keith Ludeman's salary, on appointment as group chief executive, was increased from £340,000 p.a to £450,000 p.a with effect from 10 July 2006 and a further increase was awarded in April 2007 bringing Keith Ludeman's salary to £470,250 p.a at the year-end. Ian Butcher's salary at the year-end, and also at his retirement on 1 July 2007, was £410,160 p.a. Nicholas Swift's salary upon appointment on 17 July 2007 was £250,000 p.a.

Executive directors' cash bonuses

Executive directors are paid an annual discretionary bonus in addition to salary. The bonus is paid in November 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. The bonus is non-pensionable and is paid in cash. Achievement of performance targets in the year ended 1 July 2006 resulted in the maximum bonus entitlements of 30% of basic salary being confirmed in September 2006 and paid in November 2006. For the achievement of safety and corporate governance targets, a maximum bonus of 20% was awarded, with a maximum of 10% awarded for the achievement of budgeted operating profit.

Following the review of executive directors' remuneration last year, the level of bonus for executive directors was increased to a maximum bonus entitlement of 100% of basic salary, on a basis designed to introduce stretch into the scheme. For the year ended 30 June 2007, the first year for eligibility, the remuneration committee proposed, and the board approved, bonus awards of 96.4% of basic salary for the group chief executive and former 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 earned on the achievement of 115% of budget, 66.4% of bonus was earned after the achievement of 114.0% of budget. The cash bonus targets remain unchanged for the forthcoming financial year.

Executive directors' Long Term Incentive Plan (LTIP)

The Long Term Incentive Plan 2005 ('LTIP') was introduced following approval by shareholders at the October 2005 extraordinary general meeting. The first awards under the LTIP were granted to the executive directors and one senior executive in March 2006 in relation to the three year performance period commencing with the start of the 2005/06 financial period. Further awards under the LTIP were granted to the executive directors in September 2006 in relation to the three year performance period commencing with the start of the 2006/07 financial period. Awards in relation to the three year performance period commencing with the start of the 2007/08 financial period will be granted to the executive directors in September 2007.

It is the remuneration committee's opinion that the LTIP remains the preferred choice of share incentive arrangement for the following reasons:

- it rewards senior executives if they achieve substantial improvements in the group's underlying financial performance and perform well relative to other companies in the transport sector and with other companies in the FTSE 250;
- it aligns the rewards available to executives with the returns available to shareholders; and
- it will assist in the retention of the senior management team over the long term.

Under the rules of the LTIP, the market value of individual awards is limited to a maximum of 100% of basic salary at the date of the grant and awards will vest dependent upon the satisfaction of performance conditions that are measured over a period of three years. The performance conditions applied to each grant of awards is based on a comparison of the group's total shareholder return ('TSR') with the TSR of two peer groups and also an increase in the group's earnings per share ('EPS') in excess of an agreed target.

The performance condition applicable to one-half of each award is based on a comparison of the group's TSR with the TSR of a peer group comprising quoted companies within the transport sector – Arriva plc, FirstGroup plc, National Express Group plc and Stagecoach Group plc. The performance condition applicable to the other half of the award is based on a comparison of the group's TSR with the TSR of the companies (excluding investment trusts) in the FTSE 250 index of companies.

The extent to which awards will vest depends on the TSR of the group relative to the TSR of other companies within the applicable peer group. The position in relation to that part of the award based on a comparison of the group's TSR with the TSR of the companies in the transport sector peer group is as follows:

- if the group's TSR is midway between the TSR of the comparator companies with the highest and the lowest TSRs, the award will vest as to 25%;
- if the group's TSR is higher than the TSR of the comparator companies 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 awards will vest in full; and
- if the group'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 group.

The remuneration committee has recognised that if one company in the peer group performs very badly, an LTIP award could be payable for only marginally better performance. Accordingly, the remuneration committee has reserved the right to prevent awards vesting automatically if this is not justified by the group's performance.

The position in relation to that part of the award based on a comparison of the group's TSR with the TSR of companies (excluding investment trusts) that comprise the FTSE 250 index of companies is as follows:–

- if the group's TSR would place it at the median position, the award will vest as to 25% only;
- if the group's TSR would place it in the top quartile, 100% of the award will vest; and
- if the group'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% – 100%, the higher the position of the group.

In all cases, no part of the awards will vest unless the EPS has increased, during the performance period, in excess of the increase in the Retail Prices Index for the same period plus 3% per year. 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. The performance tests for each award are conducted by the remuneration committee's independent advisers, Watson Wyatt, in accordance with recognised methodology.

Following the death of the former group chief executive, Christopher Moyes, on 12 September 2006, the remuneration committee made a judgement, as required under the rules of the LTIP, on whether the award granted to him on 9 March 2006 should vest. Taking advice from Watson Wyatt on the extent to which the TSR and EPS tests had been met and then pro-rating the award for the period between 9 March 2006 and 12 September 2006, the committee determined that 3,347 of the shares should be allowed to vest.

Executive directors' share bonus plan

The executive directors' share bonus plan has previously been 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 only outstanding awards made under the plan that have not yet matured were those made to the current group chief executive in October 2004 and December 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. If the group chief executive leaves employment before the expiry of the three years, transfer of title is subject to the discretion of the remuneration committee.

During the year, and following the death of the former group chief executive, Christopher Moyes, in September 2006, his spouse, Mrs Janice Moyes, became absolutely entitled to the awards granted to him in December 2005. The awards granted to the former group finance director, Ian Butcher, in October 2004 and December 2005, in relation to the years ended 3 July 2004 and 2 July 2005 respectively, vested in full following his retirement with the agreement of the board.

Details of the shares held under the rules of the plan can be found on page 27.

Savings related share option scheme and share incentive plan

The company operates a savings related share option scheme and a share incentive plan; the former group finance director, Ian Butcher, participated in both until his retirement on 1 July 2007. His eligibility and involvement in them was no different from the terms of any other participating group employee and was not separately regulated by the remuneration committee.

There are no other share option or long term incentive schemes available to executive directors.

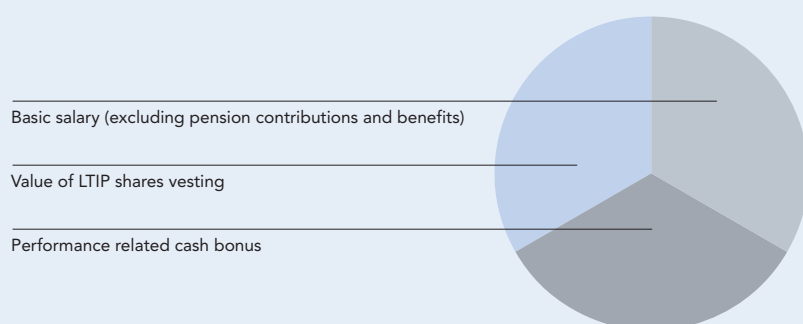
Other benefits

The group does not allocate motor cars to directors or other staff. 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 funds

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. 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.

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 LTIP.

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. All directors are expected to be shareholders in the group, but this is not a contractual commitment.

Each non-executive director has specific terms of appointment. 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.

Director	Date of contract	Notice period
Ian Butcher ¹	May 1996	1 year
Keith Ludeman	December 2006	1 year
Nicholas Swift ²	July 2007	1 year
Sir Patrick Brown	February 1999	6 months
Christopher Collins	April 2005	6 months
Rupert Pennant-Rea	October 2002	6 months

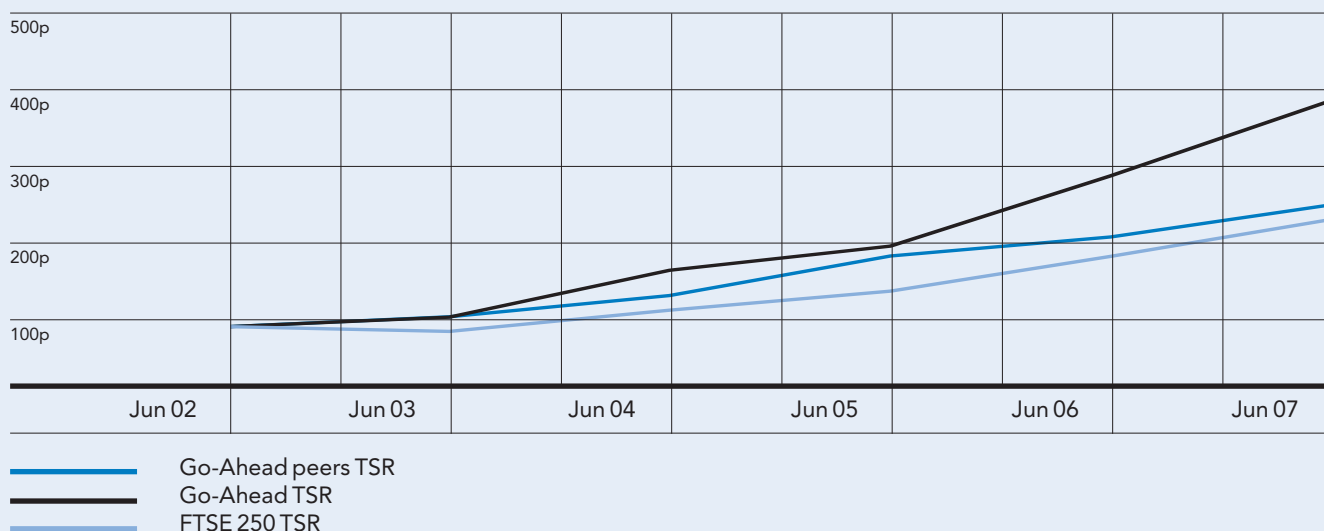
¹ Retired as an executive director on 1 July 2007

² Appointed as an executive director on 17 July 2007

Christopher Moyes resigned as an executive director on 8 July 2006.

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 for the last five financial years to 30 June 2007. 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.



Audited information

Emoluments and compensation

	Salary ¹ / fees		Performance related cash bonus		Car replacement		Benefit in kind		Total (exc. pension and LTIP)	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Sir Patrick Brown	129	106	–	–	–	–	–	–	129	106
Rupert Pennant-Rea	40	35	–	–	–	–	–	–	40	35
Christopher Collins	40	35	–	–	–	–	–	–	40	35
Christopher Moyes ²	111	426	–	134	4	17	–	1	115	578
Ian Butcher ³	425	376	395	118	17	15	2	1	839	510
Keith Ludeman ⁴	492	325	453	102	17	14	2	1	964	442
	1,237	1,303	848	354	38	46	4	3	2,127	1,706

1 Salary for the executive directors includes the notional pension contributions which are deducted as a result of participating in the pensions salary sacrifice arrangement.

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 his death in September 2006.

3 Retired as an executive director 1 July 2007. Salary includes £28,000 related to accrued holiday entitlement.

4 Salary includes £40,000 non-pensionable salary supplement in lieu of future pension benefits.

Directors' share options

	1 July 2006 No.	Exercised in year	30 June 2007 No.	Exercise price	Maturity date	Expiry date
Ian Butcher						
Savings related	234	–	234	1,210p	Jun 08	Dec 08

The market price of the group's ordinary shares at 30 June 2007 was 2,620p and the range during the year to 30 June 2007 was 1,773p to 2,702p. Following his retirement on 1 July 2007, the options awarded to Ian Butcher under the savings related share option scheme lapsed.

Long Term Incentive Plan

	Award Date	Balance at 1 July 2006 No.	Awards lapsed in year No.	Awards granted in year No.	Balance at 30 June 2007 No.	Share price at date of award	End of period when conditions must be met
Christopher Moyes ¹	9 March 06	23,351	20,004	–	3,347	1,822p	Sept 06
Ian Butcher ²	9 March 06	20,571	–	–	20,571	1,822p	Jun 08
Ian Butcher ²	11 Sept 06	–	–	21,354	21,354	1,861p	Jun 09
Keith Ludeman ³	9 March 06	17,791	–	–	17,791	1,822p	Jun 08
Keith Ludeman ⁴	11 Sept 06	–	–	24,514	24,514	1,861p	Jun 09

1 Resigned as an executive director 8 July 2006.

2 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 will consider the extent to which the awards granted to him in March 2006 and September 2006 will vest, taking advice from Watson Wyatt.

3 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 22 covering the period commencing with the start of the 2005/06 financial year and ending with the end of the 2007/08 financial year.

4 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 22, covering the period commencing with the start of the 2006/07 financial period and ending with the end of the 2008/09 financial period.

Directors' pension funds

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

Disclosures required under the Stock Exchange Listing Rules

	Ian Butcher	Keith Ludeman
Accrued pension – 1 July 2006 (£'000 p.a.)	94	182
Accrued pension – 30 June 2007 (£'000 p.a.)	113	258
Directors' notional contributions during the year (£'000)	30	13
Increase in the accrued pension during the year in excess of inflation (£'000 p.a.)	16	69
Transfer value of the increase in the accrued pension in excess of inflation and directors' notional contributions (£'000)	135	727

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

	Ian Butcher	Keith Ludeman
Increase in the accrued pension during the year (£'000 p.a.)	19	76
Transfer value of the accrued pension at 1 July 2006 (£'000)	820	1,715
Transfer value of the accrued pension at 30 June 2007 (£'000)	1,160	2,778
Increase in transfer value over the year net of directors' notional contributions (£'000)	310	1,050

Christopher Moyes resigned as group chief executive and as a director of The Go-Ahead Group plc on 8 July 2006. As at 8 July 2006 the accrued pension was unchanged from 1 July 2006 at £255,000 p.a. The year end transfer value figure, based on the accrued pension at 8 July 2006 but based on market conditions at the end of the financial year, was £3,309,000. This represents an increase in transfer value over the year net of notional contributions of £474,000.

Notes

- 1 The transfer values have been calculated in accordance with the guidance note 'GN11' published by the Board for Actuarial Standards.
- 2 Messrs Moyes, Butcher and Ludeman were all members of The Go-Ahead Group Pension Plan, the group's registered final salary pension plan, during the financial year.
- 3 Mr 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 which is provided separately through an individual unapproved unfunded pension arrangement. The figures in the table above relate to Mr Ludeman's benefits in both the approved and unapproved arrangements. In lieu of future pension benefits, Mr Ludeman receives a non-pensionable salary supplement of 15% of basic salary which amounted to £40,000 during the period from 1 December 2006 to 30 June 2007.
- 4 The directors participated in the pensions salary sacrifice arrangement operated by the group during the year. The notional contributions shown in the table above are those the directors would have paid had they not participated in the salary sacrifice arrangement.

Sir Patrick Brown

Chairman of Remuneration Committee

6 September 2007

The directors present their report and audited financial statements for the year ended 30 June 2007.

Principal activities

The principal activities of the group are 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 32. The directors propose that a final dividend of 47p be paid, making a total of 70p for the year (2006 – 56p). The proposed final dividend, if approved, will be payable on 23 November 2007 to shareholders on the register at the close of business on 2 November 2007.

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 Chairman's Statement on page 2 and the Operating and Financial Review on pages 6 to 15. A description of the group's funding and risk management policies can be found in note 27.

Directors and their interests

The names of the directors at the date of approval of this report appear on page 16. No director was interested in any contract or arrangement which was significant in relation to the group's business. Christopher Moyes resigned from the board and as group chief executive on 8 July 2006. Ian Butcher retired from the board and as group finance director on 1 July 2007.

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. One third of the directors or the nearest number to one third of the directors must retire from office at each annual general meeting. 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.

In accordance with these provisions, Keith Ludeman and Christopher Collins retire by rotation and, being eligible, offer themselves for re-election. Nicholas Swift, who was appointed by the board as group finance director on 17 July 2007, offers himself for election. Details of all of the directors can be found on page 16 with further information supplied on those seeking election/re-election on page 18.

The directors' interests in the share capital of the company at 30 June 2007, with comparative figures for the 2006 year-end, were as follows:

		2007 No.	2006 No.
Sir Patrick Brown	Beneficial	7,500	7,500
Ian Butcher	*Beneficial	51,764	61,111
Christopher Collins	Beneficial	10,000	10,000
Keith Ludeman	**Beneficial	22,027	31,442
Rupert Pennant-Rea	Beneficial	2,000	2,000

* Includes 21,640 (2006 – 31,055) shares held under the rules of the executive directors' share bonus scheme as described in the Directors' Remuneration Report. In addition, 406 (2006 – 338) shares are held in the group's share incentive plan.

** Includes 21,640 (2006 – 31,055) shares held under the rules of the executive directors' share bonus scheme as described in the Directors' Remuneration Report.

There were no changes in these interests up to 6 September 2007. Details of directors' interests in share options, including awards granted to the executive directors as participants in the Long Term Incentive Plan, can be found in the Directors' Remuneration Report on pages 21 to 26.

Substantial shareholdings

As at 24 August 2007 (being the latest practical date prior to the date of this report), the company has been notified of the following interests in its ordinary shares (excluding the directors above) which represent 3% or more of the voting rights in the company.

	No	%
J P Morgan & Co	4,034,786	8.98
The estate of Martin Ballinger deceased ¹	3,485,008	7.76
Barclays plc	2,396,953	5.34
Janice Rosalind Moyes	2,054,061	4.57
AEGON Asset Management	2,025,962	4.51
F&C Asset Management plc	2,001,540	4.46
Legal & General Group plc	1,950,793	4.34
Schroders Investment Management Ltd	1,916,027	4.27
Artemis Investment Management Ltd	1,852,524	4.12
Lloyds TSB Group plc	1,405,900	3.13

¹ These shares are held by John Flynn and Diana Ballinger as executors.

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

Directors' responsibilities in relation to the financial statements

The directors are responsible for preparing the annual review 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 cash flows 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.

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 share incentive schemes.

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 suitable applications for employment by disabled persons. 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 30 June 2007 the number of days' purchases outstanding for the company and the group were nil and 31 respectively (2006 – 15 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 is published separately and can be found on the company's website: www.go-ahead.com.

Charitable donations

Charitable donations, sponsorship and community support over the year amounted to £0.3m (2006 – £0.4m). No payments were made for political purposes (2006 – 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 25 October 2007 at 15:00 hours. The notice of meeting is contained in a separate letter from the Chairman accompanying the annual report.

Additional information for shareholders

Where not provided 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 30 June 2007, 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.

On a show of hands at a general meeting of the company every holder of shares present in person 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 the general meeting specifies deadlines for exercising voting rights either by proxy notice or present 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 after the meeting.

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

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and;
- 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.

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 31 August 2007 and further to the authority given at the 2006 annual general meeting, the company has purchased a further 1,119,500 of its own shares for cancellation. Under the existing authority, which remains in place until the conclusion of the 2007 annual general meeting, the company may purchase a further 1,665,500 ordinary shares. As at 31 August 2007, the company held 4,902,500 shares in treasury.

Resolution 10, which will be proposed as a special resolution at the 2007 annual general meeting, will give the company authority to use its available cash resources to acquire up to 4,500,000 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 0.16% of the issued share capital of the company in trust for the benefit of the executive directors of the group and their dependents. This includes 0.04% which are beneficially owned by Keith Ludeman pursuant to the terms of the company's Deferred 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, 0.23% 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 25 October 2007, a resolution will be put to shareholders proposing amendments to the existing articles of association, in accordance with the provision of the new Companies Act 2006.

Auditors

Resolutions to re-appoint Ernst & Young LLP as the company's auditors and to authorise the directors to fix their remuneration will be put to members at the annual general meeting.

By order of the board

C Sephton

Company Secretary
6 September 2007

Registered office

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

Registered No. 2100855

Independent Auditors' report to the members of the Go-Ahead Group plc

We have audited the group financial statements of The Go-Ahead Group plc for the year ended 30 June 2007, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow 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 30 June 2007 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.

We also 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 2003 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 Highlights, the Financial Summary and Five Year Record, the Chairman's Statement, the Five Year Financial History, Go Ahead at a Glance, the Operating and Financial Review, Directors and Advisers, the Corporate Governance Statement, the Directors' Remuneration Report, the Directors' Report, 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 judgments 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 30 June 2007 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
6 September 2007

Consolidated income statement for the year ended 30 June 2007

	Notes	2007 £m	2006 £m
Group revenue	4	1,826.9	1,463.6
Operating costs (excluding amortisation and exceptional items)	5	(1,708.8)	(1,365.8)
Group operating profit (before amortisation and exceptional items)		118.1	97.8
Goodwill and intangible asset amortisation	13	(8.4)	(5.1)
Exceptional items	8	(6.9)	(3.2)
Group operating profit (after amortisation and exceptional items)		102.8	89.5
Finance revenue	7	6.1	4.9
Finance costs	7	(14.1)	(10.8)
Profit on ordinary activities before taxation		94.8	83.6
Analysed as:			
Before amortisation and exceptional items		110.1	91.9
Amortisation and exceptional items		(15.3)	(8.3)
Tax expense	9	(23.6)	(19.4)
Profit for the year from continuing operations		71.2	64.2
Attributable to:			
Equity holders of the parent		58.6	53.7
Minority interest		12.6	10.5
		71.2	64.2
Earnings per share from continuing operations			
– basic	10	124.2p	108.1p
– diluted	10	122.6p	107.0p
– adjusted	10	140.7p	118.4p
Dividends paid (pence per share)	11	61.0p	51.0p
Final dividend proposed (pence per share)	11	47.0p	38.0p

Consolidated balance sheet
as at 30 June 2007

	Notes	2007 £m	2006 £m
Assets			
Non-current assets			
Property, plant and equipment	12	447.3	425.2
Intangible assets	13	129.4	118.8
Trade and other receivables	17	1.8	1.7
Deferred tax assets	9	11.9	32.2
		590.4	577.9
Current assets			
Inventories	16	9.3	10.0
Trade and other receivables	17	171.7	179.3
Cash and short-term deposits	18	128.9	90.2
Financial assets	28	0.7	–
		310.6	279.5
Assets classified as held for sale	15	0.9	0.3
Total assets		901.9	857.7
Liabilities			
Current liabilities			
Trade and other payables	19	(365.3)	(337.1)
Interest-bearing loans and borrowings	20	(42.5)	(61.9)
Current tax liabilities		(14.0)	(6.6)
		(421.8)	(405.6)
Non-current liabilities			
Interest-bearing loans and borrowings	20	(230.4)	(167.1)
Retirement benefit obligations	26	(26.8)	(103.8)
Deferred tax liabilities	9	(66.3)	(57.6)
Other liabilities	19	(7.7)	(6.1)
Provisions	21	(1.3)	(8.0)
		(332.5)	(342.6)
Liabilities directly associated with assets classified as held for sale	15	–	(0.2)
Total liabilities		(754.3)	(748.4)
Net assets		147.6	109.3
Capital and reserves			
Share capital	24	65.4	65.6
Reserve for own shares	24	(80.6)	(67.1)
Revaluation reserve	24	24.0	12.4
Hedging reserve	24	0.5	–
Other reserves	24	1.6	1.6
Capital redemption reserve	24	0.2	–
Retained earnings	24	130.7	93.1
Total shareholders' equity		141.8	105.6
Minority interest	24	5.8	3.7
Total equity		147.6	109.3

Sir Patrick Brown
Chairman

Nicholas Swift
Group finance director

6 September 2007

Consolidated cash flow statement for the year ended 30 June 2007

	Notes	2007 £m	2006 £m
Profit for the year		71.2	64.2
Net finance costs	7	8.0	5.9
Tax expense	9	23.6	19.4
Depreciation of property, plant and equipment	12	44.6	38.0
Amortisation of goodwill and intangible assets	13	8.4	5.1
Loss/(profit) on sale of property, plant and equipment		0.6	(1.3)
Share based payments	6	2.0	0.7
Difference between pension contributions paid and amounts recognised in the income statement		(2.0)	5.4
Movement in provisions		(6.7)	–
Decrease in inventories		0.8	0.5
Decrease/(increase) in trade and other receivables		11.0	(31.6)
Increase in trade and other payables		29.7	10.6
Cash flow generated from operations		191.2	116.9
Taxation paid		(11.5)	(15.3)
Net receipt on transfer of rail franchises		–	7.9
Net cash flows from operating activities		179.7	109.5
Cash flows from investing activities			
Interest received		6.0	5.2
Proceeds from sale of property, plant and equipment		3.7	3.0
Purchase of property, plant and equipment		(57.4)	(70.9)
Purchase of intangible assets		(1.2)	(3.5)
Purchase of subsidiaries	14	(22.9)	(11.6)
(Overdraft)/cash acquired with subsidiaries		(0.1)	0.9
Net cash flows used in investing activities		(71.9)	(76.9)
Cash flows from financing activities			
Interest paid		(14.1)	(10.6)
Dividends paid to members of the parent	11	(28.9)	(25.3)
Dividends paid to minority interests		(14.7)	(15.1)
Proceeds from issue of shares	24	–	4.3
Payment to acquire own shares	24	(51.6)	(52.6)
Repayment of borrowings		(136.7)	(81.5)
Proceeds from borrowings		188.8	147.3
Proceeds from finance lease and hire purchase		21.2	13.5
Payment of finance lease and hire purchase liabilities		(23.4)	(18.4)
Repayment of loan notes	18	(0.2)	(0.1)
Net cash outflows on financing activities		(59.6)	(38.5)
Net increase/(decrease) in cash and cash equivalents		48.2	(5.9)
Cash and cash equivalents at 1 July 2006	18	80.4	86.3
Cash and cash equivalents at 30 June 2007	18	128.6	80.4

Consolidated statement of recognised income and expense for the year ended 30 June 2007

	Notes	2007 £m	2006 £m
Income and expense recognised directly in equity			
Share based payments		2.0	0.7
Actuarial gains on defined benefit pension plans	26	75.0	16.9
Revaluation of land and buildings	12	11.6	12.4
Recognition of IAS39 asset	28	0.7	–
Tax recognised directly in equity	9	(23.0)	(6.5)
Net income recognised directly in equity		66.3	23.5
Profit for the year		71.2	64.2
Total recognised income and expense for the year		137.5	87.7
Attributable to:			
Equity holders of the parent		120.7	77.5
Minority interest		16.8	10.2
		137.5	87.7

Notes to the consolidated financial statements for the year ended 30 June 2007

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 30 June 2007 were authorised for issue by the board of directors on 6 September 2007 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 incorporated and domiciled in England and Wales. The company's ordinary shares are traded on the London Stock Exchange.

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 30 June 2007, and applied in accordance with the provisions of the Companies Act 1985. The group is required to comply with international accounting requirements under IAS1 '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 IAS19, '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 30 June 2007 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 IAS19 'Employee Benefits' so as to present fairly its financial performance, position, and cash flows in respect of its obligation for the RPS.

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 of indefinite life intangible assets requires estimation of future cash flows 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 a 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 estimate of the cost of claims not yet reported to the group, as detailed below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of The Go-Ahead Group plc and its subsidiaries as at 30 June 2007.

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 (including parking revenues).

Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities. Aviation revenue represents funds 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, third party 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 payable.

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

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are recognised initially at cost and thereafter measured at fair value less depreciation on buildings and impairment subsequent to the date of valuation. Freehold land is not depreciated.

Valuations of land and buildings are performed by either the directors or by a qualified valuer, frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The assets' residual values and useful lives are reviewed and adjusted on a prospective basis if appropriate at each financial year end.

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

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

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

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

Any revaluation surplus is credited to the revaluation reserve except where it reverses a decrease in the carrying value of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement except to the extent of any existing surplus in respect of that asset in the revaluation reserve. An annual transfer is made from the revaluation reserve to revenue reserves for the depreciation relating to the revaluation surplus. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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 not amortised. 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.

2 Summary of significant accounting policies continued

Business combinations and goodwill continued

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 cash flows 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 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. Such reversal, on assets carried at a valuation, is treated as a valuation increase. 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 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 cash flow 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 cash flows are recognised in equity and the ineffective portion is recognised immediately in the income statement. When the cash flow 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 a significant portion 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 substantially 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 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, as described below, 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.

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 cash flow in respect of its obligations for the RPS.

Share-based payment transactions

The group has taken advantage of the transitional provisions of IFRS2 and has applied IFRS2 only to those options granted after 7 November 2002 that had not vested before 1 January 2005. 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.

2 Summary of significant accounting policies continued

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.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date
IFRS7 Financial Instruments: Disclosures	1 January 2007
Amendment to IAS1: Presentation of Financial Statements: Capital Disclosures	1 January 2007
IFRS8 Operating Segments	1 January 2009
Amendment to IAS23 Borrowing costs	1 January 2009
International Financial Reporting Interpretation Committee (IFRIC)	Effective date
IFRIC10 Interim Financial Reporting and Impairment	1 November 2006
IFRIC11 IFRS2 – Group and Treasury Share Transactions	1 March 2007
IFRIC12 Service Concession Arrangements	1 January 2008
IFRIC13 Customer Loyalty Programmes	1 July 2008
IFRIC14 IAS19 The Limit on Defined Benefit Assets, Minimum Funding Requirements	1 January 2008

The directors are currently reviewing the requirements of IFRIC 8, 12 and the amendment to IAS23 to determine whether there will be a material impact on the group's financial statements. Upon adoption of IFRS7 the group needs to disclose the fair value of its financial instruments and its risk exposures in greater detail. Apart from this the directors do not anticipate the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

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 divisional review in Go-Ahead at a glance on page 4.

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 30 June 2007 and 1 July 2006.

Year ended 30 June 2007

	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)
Group revenue	514.0	1,071.3	241.6	–	1,826.9
Group operating profit (before amortisation and exceptional items)	55.8	66.1	(3.8)	–	118.1
Goodwill and intangible amortisation	(0.7)	(7.5)	(0.2)	–	(8.4)
Exceptional items	–	(6.9)	–	–	(6.9)
Segment result	55.1	51.7	(4.0)	–	102.8
Net finance costs					(8.0)
Profit before tax and minority interest					94.8
Tax expense					(23.6)
Profit for the year					71.2
Assets and liabilities					
Segment assets	486.1	264.8	127.9	22.2	901.0
Assets classified as held for sale	0.9	–	–	–	0.9
Total assets	487.0	264.8	127.9	22.2	901.9
Segment liabilities	(87.6)	(258.8)	(40.2)	(367.7)	(754.3)
Net assets/(liabilities)	399.4	6.0	87.7	(345.5)	147.6
	Bus £m	Rail £m	Aviation services £m		Total £m
Other segment information					
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

3 Segmental analysis continued

Year ended 1 July 2006

	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Segment revenue	474.6	748.5	263.7	–	1,486.8
Inter-segment revenue	(14.6)	(3.6)	(5.0)	–	(23.2)
Group revenue	460.0	744.9	258.7	–	1,463.6
Group operating profit (before amortisation and exceptional items)	46.7	42.5	8.6	–	97.8
Goodwill and intangible amortisation	(0.5)	(4.4)	(0.2)	–	(5.1)
Exceptional items	0.1	(1.8)	(1.5)	–	(3.2)
Segment result	46.3	36.3	6.9	–	89.5
Net finance costs					(5.9)
Profit before tax and minority interest					83.6
Tax expense					(19.4)
Profit for the year					64.2
Assets and liabilities					
Segment assets	447.5	263.7	114.0	32.2	857.4
Assets classified as held for sale	0.3	–	–	–	0.3
Total assets	447.8	263.7	114.0	32.2	857.7
Segment liabilities	(83.4)	(257.5)	(36.2)	(371.3)	(748.4)
Net assets/(liabilities)	364.4	6.2	77.8	(339.1)	109.3
	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Other segment information					
Capital expenditure:					
Additions	62.3	1.6	7.0		70.9
Acquisitions	6.0	–	–		6.0
Acquired on franchise handover	–	25.4	–		25.4
Intangible fixed assets	1.1	17.3	0.4		18.8
Depreciation	25.0	7.2	5.8		38.0

Summary of unallocated assets and liabilities

		2007 £m	2006 £m
Assets			
Cash		10.3	–
Deferred tax assets		11.9	32.2
		22.2	32.2
Liabilities			
Interest-bearing loans and borrowings		272.6	219.2
Overdraft		0.3	9.8
Current tax liabilities		14.0	6.6
Deferred tax liabilities		66.3	57.6
Group retirement benefit obligations – The Go-Ahead Group Pension Plan		14.5	71.8
Other liabilities		–	6.3
		367.7	371.3

4 Revenue

	2007 £m	2006 £m
Rendering of services	1,532.6	1,288.3
Rental income	7.2	15.7
Franchise subsidy receipts	287.1	159.6
Group revenue	1,826.9	1,463.6
Finance revenue	6.1	4.9
Total revenue	1,833.0	1,468.5

5 Operating costs

	2007 £m	2006 £m
Staff costs (note 6)	704.2	577.6
Exceptional redundancy and reorganisation costs	–	3.8
Other operating income	(18.6)	(5.7)
Other external charges	375.2	355.7
Franchise premium payments	–	42.1
Depreciation of property, plant and equipment		
– owned assets	22.4	19.1
– leased assets	22.2	18.9
Total depreciation expense	44.6	38.0
Goodwill and intangible amortisation	8.4	5.1
Auditors' remuneration		
– audit of the financial statements	0.6	0.7
– taxation services	0.3	0.2
– other services	–	0.2
	0.9	1.1
Cost of inventories recognised as an expense	85.4	75.4
Write down of inventories to net realisable value	0.2	0.4
	85.6	75.8
Trade receivables not recovered	0.4	0.7
Operating lease payments		
– minimum lease payments	533.5	284.5
– sublease payments	(13.9)	(5.5)
Total lease and sublease payments recognised as an expense	519.6	279.0
Government grants	(3.7)	1.6
Loss/(gain) on disposal of property, plant and equipment	0.6	(1.3)
Net property relocation costs	–	0.6
Exceptional EC4T settlement (note 8)	6.9	–
Total operating costs	1,724.1	1,374.1

The fee relating to the audit of the financial statements can be analysed between audit of the company's financial statements of £0.1m (2006 – £0.2m) and audit of subsidiary's financial statements of £0.5m (2006 – £0.5m).

In addition to audit fees detailed above, £0.3m (2006 – £0.4m) of non-audit fees were capitalised as part of the cost of acquisitions and franchise bid costs during the year. During the year, £2.0m (2006 – £1.0m) was also paid to other 'Big 4' accounting firms for a variety of services.

6 Staff costs

	2007 £m	2006 £m
Wages and salaries	618.2	508.8
Social security costs	54.8	46.2
Other pension costs	29.2	21.9
Share based payments charge	2.0	0.7
	704.2	577.6

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

	2007 £m	2006 £m
Administration and supervision	2,726	2,114
Maintenance and engineering	1,826	1,758
Operations	19,826	17,758
	24,378	21,630

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' Remuneration Report on pages 21 and 26 headed 'audited information'.

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 30 June 2007 as follows:

Scheme maturity	1 June 2010	1 July 2009	1 June 2008	1 Jan 2006
Option price (£)	19.14	14.62	12.10	4.84
No. of options unexercised at 30 June 2007	562,007	666,054	619,794	–
No. of options exercised during the year	–	254	3,389	903
No. of options exercisable at 30 June 2007	–	1,221	764	–

The expense recognised for these schemes during the year to 30 June 2007 was £1.6m (2006 – £0.6m). The 2006 scheme was not recognised in accordance with IFRS2 as the options were granted before 7 November 2002.

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

	No.	2007 WAEP £	No.	2006 WAEP £
Outstanding at the beginning of the year	1,440,697	13.27	1,750,362	8.15
Granted during the year	565,945	19.14	735,905	14.62
Forfeited during the year	(154,241)	12.33	(166,113)	9.55
Exercised during the year	(4,546)	10.80	(879,457)	4.9
Outstanding at the end of the year	1,847,855	15.15	1,440,697	13.27

The weighted average share price at the date of exercise for the options exercised in the period was £22.18 (2006 – £16.97).

The options outstanding at the end of the year have a weighted average remaining contracted life of 1.9 years (2006 – 2.4 years). These options are exercisable between £12.10 and £19.14 (2006 – between £4.84 and £14.62).

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 used for the options granted in the year to 30 June 2007 were:

	2007 % per annum	2006 % per annum
Future share price volatility	20.0	20.0
Future dividend yield	2.5	2.5
Future risk-free interest rate	5.4	5.4
Forfeiture rate	10.0	10.0
Option life	3 years	3 years

The future share price volatility assumption is based on the daily share price movements over the three year period preceding the award date, rounded to the nearest 5%.

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 Go-Ahead Group Long Term Incentive Plan 2005 (the 'LTIP') was introduced, with the approval of the shareholders, at an extraordinary general meeting of the company held on 27 October 2005. The LTIP provides for executive directors and certain other senior employees to be awarded shares in the company conditional on specified performance conditions being met over a period of three years. Refer to the Directors' Remuneration Report on pages 21 to 26 for further details of the LTIP.

The expense recognised for the LTIP during the year to 30 June 2007 was £0.4m (2006 – £0.1m).

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 30 June 2007 were:

	2007 % per annum	2006 % per annum
The Go-Ahead Group		
Future share price volatility	21.0	20.0
Transport Sector comparator		
Future share price volatility	20.0 – 27.0	21.0 – 32.0
Correlation between companies	40.0	30.0
FTSE Mid-250 index comparator		
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:

	2007 No.	2006 No.
Outstanding at the beginning of the year	61,713	–
Granted during the year	45,868	72,943
Forfeited during the year	(20,004)	(11,230)
Outstanding at the end of the year	87,577	61,713

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

	2007 £m	2006 £m
Bank interest receivable on bank deposits	5.4	4.7
Other interest receivable	0.7	0.2
Finance revenue	6.1	4.9
Bank loans and overdrafts	10.4	8.2
Other loans	1.2	0.2
Interest payable under finance leases and hire purchase contracts	2.5	2.4
Finance costs	14.1	10.8

8 Exceptional items

	2007 £m	2006 £m
Redundancy and reorganisation costs	–	(3.8)
Property relocation costs	–	(0.6)
Profit on sale of properties	–	1.2
EC4T	(6.9)	–
	(6.9)	(3.2)

EC4T is electricity purchased by the train companies to operate electric trains from Network Rail. During the year our TOC's have 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 during the year. This cost has been 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.

The redundancy and re-organisation costs in 2006 were as a result of significant re-organisations in the aviation division and the South Coast bus operations, plus actual and planned redundancies following the handover of the Southeastern rail franchise.

Property relocation costs were costs incurred during the major depot restructuring programme at Metrobus in 2006.

The profit on sale of properties related to disposals of various bus depots in 2006.

9 Taxation**a Tax recognised in the income statement and in equity**

	2007 £m	2006 £m
Current tax charge	19.1	19.2
Adjustments in respect of current tax of previous years	–	(1.3)
	19.1	17.9
Deferred tax relating to origination and reversal of temporary differences	6.9	2.2
Impact of deferred tax rate change 30% to 28%	(1.7)	–
Previously unrecognised deferred tax of a prior period	(0.7)	(0.7)
Tax reported in consolidated income statement	23.6	19.4
Corporation tax on share based payments	(0.1)	(3.2)
Deferred tax on share based payments	(1.4)	1.5
Tax on actuarial gains on defined benefit pension plans	23.1	5.0
Tax on IAS39 asset	0.2	(0.1)
Revaluation of land and buildings	1.2	3.3
Tax reported in equity	23.0	6.5

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 30 June 2007 and 1 July 2006 is as follows:

	2007 £m	2006 £m
Profit on ordinary activities before taxation	94.8	83.6
At United Kingdom tax rate of 30% (2006 – 30%)	28.4	25.1
Adjustments in respect of current tax of previous years	(0.7)	(2.0)
Expenditure not allowable for tax purposes	1.1	0.4
Goodwill amortisation	0.8	0.7
Differences re: tax efficient financing	(4.3)	(4.8)
Deferred tax rate change 30% to 28%	(1.7)	–
Tax reported in consolidated income statement at effective tax rate of 24.9% (2006 – 23.2%)	23.6	19.4

c Deferred tax

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

	2007 £m	2006 £m
Deferred tax liability		
Accelerated capital allowances	(18.6)	(10.6)
Intangible assets	(3.9)	(4.3)
Other temporary differences	(13.9)	(13.4)
Revaluation of land and buildings	(29.9)	(29.3)
	(66.3)	(57.6)
Deferred tax asset		
Retirement benefit obligations	7.5	31.1
Share based payments	2.6	0.8
Losses carried forward	1.8	0.3
	11.9	32.2

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

	2007 £m	2006 £m
Accelerated capital allowances	7.7	(3.4)
Share based payments	(0.4)	(0.2)
Tax losses	(1.4)	(0.2)
Retirement benefit obligations	0.1	(1.9)
Revaluation of land and buildings	0.1	(0.2)
Other temporary differences	(2.6)	8.1
Adjustments in respect of prior years	(0.7)	(0.7)
Rate change 30% to 28%	1.7	–
Deferred income tax expense	4.5	1.5

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 (IBAs). As of 30 June 2007, this change was not substantively enacted. Had the change been substantively 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

	2007	2006
Net profit attributable to equity holders of the parent (£m)	58.6	53.7
Weighted average number of shares in issue (£'000)	47,188	49,674
Basic earnings per share (pence per share)	124.2	108.1

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

	2007	2006
Net Profit attributable to equity holders of the parent (£m)	58.6	53.7
Weighted average number of shares in issue (£'000)	47,188	49,674
Effect of dilution:		
Dilutive potential ordinary shares under share option schemes (£'000)	601	491
Adjusted weighted average number of shares (£'000)	47,789	50,165
Diluted earnings per share (pence per share)	122.6	107.0

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 non-recurring 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	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)
Adjusted profit attributable to equity holders of the parent	58.6	3.1	4.7	66.4
Adjusted earnings per share (pence per share)				140.7p
	Profit for the year £m	Exceptional items £m	Amortisation £m	2006 Total £m
Profit before taxation	83.6	3.2	5.1	91.9
Less: Taxation	(19.4)	(0.9)	(0.3)	(20.6)
Less: Minority Interest	(10.5)	(0.5)	(1.5)	(12.5)
Adjusted profit attributable to equity holders of the parent	53.7	1.8	3.3	58.8
Adjusted earnings per share (pence per share)				118.4p

From 1 July 2007 to 31 August 2007 the group has bought back and cancelled 1,120,000 shares.

11 Dividends paid and proposed

	2007 £m	2006 £m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2006: 38p per share (2005 – 33p)	18.1	16.4
Interim dividend for 2007: 23p per share (2006 – 18p)	10.8	8.9
	28.9	25.3
	2007 £m	2006 £m
Proposed for approval at AGM (not recognised as a liability as at 30 June)		
Equity dividends on ordinary shares:		
Final dividend for 2007: 47p per share (2006 – 38p)	21.6	18.8

12 Property, plant and equipment

	Freehold land and buildings £m	Leasehold properties £m	Rolling stock £m	Plant and equipment £m	Total £m
Cost:					
At 2 July 2005	139.1	13.3	263.4	134.6	550.4
Additions	7.1	2.0	50.2	11.6	70.9
Acquisitions	2.3	–	5.8	0.3	8.4
Disposals	–	–	(13.1)	(8.2)	(21.3)
Acquired on franchise handover	–	–	–	25.4	25.4
Revaluations	12.2	0.2	–	–	12.4
At 1 July 2006	160.7	15.5	306.3	163.7	646.2
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)
Revaluations	11.9	(0.3)	–	–	11.6
Transfer to assets held for resale	(0.9)	–	–	–	(0.9)
At 30 June 2007	171.1	17.2	335.8	180.0	704.1
Depreciation and impairment:					
At 2 July 2005	5.0	3.3	109.6	82.4	200.3
Charge for the year	0.6	1.7	21.4	14.3	38.0
Acquisitions	–	–	2.3	0.1	2.4
Disposals	–	–	(13.0)	(6.7)	(19.7)
At 1 July 2006	5.6	5.0	120.3	90.1	221.0
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	5.9	3.1	141.0	106.8	256.8
Net book value					
At 30 June 2007	165.2	14.1	194.8	73.2	447.3
At 1 July 2006	155.1	10.5	186.0	73.6	425.2
At 2 July 2005	134.1	10.0	153.8	52.2	350.1

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

	2007 £m	2006 £m
Rolling stock	166.0	129.3
Plant and equipment	4.8	7.7
	170.8	137.0

Additions during the year included £14.5m (2006 – £15.4m) of rolling stock and £nil (2006 – £0.3m) of plant and equipment held under finance leases and hire purchase contract.

The freehold and leasehold properties occupied by the group were valued by Doherty Baines as external valuers, as at 1 July 2006, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. Properties have been revalued under a director's valuation on a market value basis as at 30 June 2007.

If the properties had not been revalued the historic cost and accumulated depreciation would have been:

	2007 £m	2006 £m
Historic cost		
Freehold land and buildings	145.6	147.1
Leasehold property	17.3	15.3
	162.9	162.4
Accumulated depreciation		
Freehold land and buildings	4.5	4.2
Leasehold property	3.1	5.0
	7.6	9.2

13 Intangible assets

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Customer contracts £m	Total £m
Cost						
At 2 July 2005	82.8	3.9	2.4	2.7	–	91.8
Additions	0.2	1.5	2.0	15.1	–	18.8
Disposals	–	(0.1)	–	–	–	(0.1)
Acquired on franchise handover	–	0.7	–	17.9	–	18.6
Acquisitions	10.0	–	–	–	–	10.0
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
Amortisation and impairment						
At 2 July 2005	11.5	2.1	0.9	0.8	–	15.3
Charge for the year	2.4	0.7	0.5	1.5	–	5.1
Disposals	–	(0.1)	–	–	–	(0.1)
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
Net book value						
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
At 2 July 2005	71.3	1.8	1.5	1.9	–	76.5

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 £17.8m relating to the opening deficit in the RPS pension schemes and £17.9m relating to the best estimate of 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 seven years and eight years respectively). The franchise intangible for the Southeastern franchise was initially recognised at £17.9m and has a carrying value of £14.1m as at 30 June 2007. During the year, the final cost of the Southeastern acquired intangible asset has been ascertained and agreed with the DfT and the adjustment in the year reflects this.

Software costs

Software costs capitalised exclude software that is not integral to the related hardware. There are no internally generated costs that have been capitalised.

Customer contracts

The addition relates to the value attributed to customer contracts and relationships purchased as part of the group's acquisitions during the year. The value is calculated based on the unexpired term of the contracts at the date of acquisition and is amortised over that period.

Goodwill

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

The goodwill charge of £2.4m (2006 – £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:

	2007 £m	2006 £m
Plane Handling	16.1	16.1
Meteor Parking	19.7	15.1
New Southern Railway	5.8	8.2
Metrobus	6.5	6.5
Go South Coast	28.6	27.0
Brighton & Hove	2.1	2.1
Go West Midlands	3.8	4.1
London Bus	9.6	–
	92.2	79.1

13 Intangible assets continued

The recoverable amount of goodwill has been determined based on a value in use calculation for each cash-generating unit, using cash flow 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 director's view of long term growth rates in each business:

	2007 %	2006 %
Plane Handling	2.25	2.25
Meteor Parking	–	–
New Southern Railway	3.00	3.00
Bus companies	3.00	3.00

The cash flows for all cash-generating units have been discounted using a discount rate of 10.6% (2006 – 10.7%), based on the group's weighted average cost of capital, plus an appropriate risk premium for each cash generating unit of 0-2% (2006 – 0-2%).

The calculation of value in use for each cash-generating unit is most sensitive to the forecast operating cash flows, the discount rate and the growth rate used to extrapolate cash flows beyond the budget period. The operating cash flows 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 and have therefore not presented any sensitivity analysis.

14 Business combinations

The £15.5m goodwill acquired in the year comprises £15.8m relating to current year acquisitions and a £0.3m adjustment in respect of a prior year acquisition detailed below.

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. Docklands Minibuses Limited operates a fleet of approximately 30 vehicles on four TfL contracts. Docklands is a company incorporated within the United Kingdom with a principal activity of bus passenger transport.

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. Marchwood Buses operates a fleet of approximately 51 vehicles and is a franchisee of Solent Blue Line. Marchwood Motorways (Southampton) Limited and Marchwood Motorways (Services) Limited are companies incorporated within the United Kingdom with a principal activity of bus passenger transport.

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. PAS operates under two principal brands, PAS and Boomerang, and will be integrated with Meteor's existing valet parking business at Gatwick. PAS Direct Limited and PAS Gatwick Limited are companies incorporated within the United Kingdom with a principal activity of aviation services.

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. Nikaro will operate alongside Meteor's existing security services business extending both the geographic coverage and range of services provided. Nikaro Limited is a company incorporated within the United Kingdom with a principal activity of security services.

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. Blue Triangle operates a fleet of approximately 60 vehicles on a variety of contracts. Blue Triangle is a company incorporated within the United Kingdom with a principal activity of bus passenger transport.

The above acquisitions 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 £3.9m.

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 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
Cash at bank/(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, the acquisitions have contributed an operating profit of £1.2m to the group and revenue of £8.4m. The group is unable to determine the profit and cash flow that would have been contributed if the combinations had taken place at the beginning of the year, from available information.

On 25 September 2005, Brighton & Hove Bus and Coach Company Limited, a 100% owned subsidiary of the group, acquired the business interests of Stagecoach in Lewes and Seaford for £2.8 million (including expenses). 15 buses were acquired and 65 staff transferred under TUPE, together with goodwill relating to three key bus routes.

On 2 December 2005, the group acquired 100% of the share capital of Birmingham Passenger Transport Services Limited, the holding company of Birmingham Coach Company Limited, for a total consideration of £2.2m (including expenses), satisfied by the issue of 64,020 10 pence ordinary shares at £15.62 each being the fair value of the shares on 2 December 2005, deferred loan notes of £0.5m, and cash of £0.7m. Birmingham Coach Company Limited is a company incorporated within the United Kingdom providing bus and coach services in the West Midlands.

On 6 February 2006, the group acquired 100% of the share capital of Hants & Dorset Trim Limited, a company providing bus refurbishment, accident repair and seat re-trimming services to bus and coach operators, for a total cash consideration of £5.5m (including expenses) on a debt free/cash free basis.

On 22 February 2006, Birmingham Passenger Transport Services Limited, a 100% owned subsidiary of the group, acquired the trade and assets of Probus Management Limited, a bus operator in the Birmingham area, for a total consideration of £2.5m (including expenses).

A summary of the transactions is detailed below:

Net assets at date of acquisition:

	Book value 2006	Fair value to group 2006
Tangible fixed assets	6.7	6.0
Inventories	0.2	0.2
Receivables	1.3	1.3
Cash at bank and on deposit	0.9	0.9
Payables falling due within one year	(3.6)	(4.0)
Payables falling due over one year	(1.3)	(1.3)
Deferred taxation	(0.2)	(0.1)
	4.0	3.0
Goodwill capitalised		9.7
		12.7
Cash		10.9
Original deferred consideration		0.5
Adjustment to deferred consideration		(0.3)
Expenses		0.5
Shares		1.0
Loan notes		0.1
		12.7

During the year ended 1 July 2006 these acquisitions contributed a loss of £0.5m to the group and did not contribute materially to the group's net operating cash flows, taxation payments, or cash utilised for capital expenditure and in financing. The exact value of deferred consideration to be paid was established in the year ended 30 June 2007. The goodwill has been adjusted accordingly, however, the prior year comparatives have not been adjusted to reflect this, due to the immaterial size.

15 Assets classified as held for sale

Assets held for sale, with a carrying amount of £0.9m (2006 – £0.3m), 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 (2006 – £0.2m).

16 Inventories

	2007 £m	2006 £m
Raw materials and consumables	9.3	10.0

The provision for slow moving and obsolete inventory is immaterial.

17 Trade and other receivables

	2007 £m	2006 £m
Current		
Trade receivables	88.6	89.1
Less: Provision for impairment of receivables	(1.7)	(2.6)
Trade receivables – net	86.9	86.5
Other receivables	8.2	13.4
Prepayments and accrued income	53.8	53.6
Receivable from central government	22.8	25.8
	171.7	179.3
	2007 £m	2006 £m
Non-current		
Other receivables	1.8	1.7
	1.8	1.7

18 Cash and short term deposits

	2007 £m	2006 £m
Cash at bank and in hand	17.7	37.4
Short term deposits	111.2	52.8
	128.9	90.2

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 six 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 30 June 2007, balances amounting to £92.7m (2006 – £60.7m) were restricted.

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

	2007 £m	2006 £m
Cash at bank and in hand	17.7	37.4
Short term deposits	111.2	52.8
Bank overdrafts (note 20)	(0.3)	(9.8)
	128.6	80.4

19 Trade and other payables

	2007 £m	2006 £m
Current		
Trade payables	100.7	108.5
Other taxes and social security costs	21.4	21.5
Other payables	28.1	16.9
Deferred season ticket income	66.2	61.4
Accruals and deferred income	76.0	72.0
Uninsured claims accrual	28.9	27.2
Payable to central government	41.5	23.0
Government grants	2.5	6.6
	365.3	337.1
Non-current		
Government grants	6.1	3.5
Other liabilities	1.6	2.6
	7.7	6.1

20 Interest-bearing loans and borrowings

	2007 £m	2006 £m
Current		
Bank overdrafts	0.3	9.8
Current obligations under finance leases and hire purchase contracts (note 22)	17.9	14.6
Current instalments due on bank loans	24.3	37.5
	42.5	61.9
Non-current		
Non-current obligations under finance leases and hire purchase contracts (note 22)	32.2	33.5
Non-current instalments due on bank loans	197.8	133.0
Loan notes	0.4	0.6
	230.4	167.1

Bank loans

Bank loans are stated net of debt issue costs of £0.5m and comprise the following:

Revolving floating rate credit facilities

	Facility £m	Maturity	2007 Drawn-down £m		Facility £m	Maturity	2006 Drawn-down £m
	25.0	4 Apr 08	20.0		–	–	–
	25.0	6 Aug 08	20.0		25.0	9 Aug 08	25.0
	40.0	8 Mar 08	40.0		20.0	10 Mar 08	20.0
	50.0	12 Feb 08	30.0		40.0	13 Feb 08	25.0
	40.0	18 Jan 08	27.0		40.0	18 Jan 08	30.0
	20.0	12 Feb 08	20.0		20.0	14 Feb 07	20.0
	200.0		157.0		145.0		120.0

These facilities are 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 assume these options will be exercised and on these dates the facilities are repayable in full.

The debt is unsecured and interest is chargeable at LIBOR + 0.3% (2006 – LIBOR + 0.3%).

Medium term loans

	2007 £m	2006 £m
Fixed rate term loan	43.1	22.4
Floating rate term loans	22.5	28.1
	65.6	50.5

There are two fixed rate term loans which are both unsecured. £11.5m is subject to interest of 5.43% and is repayable in full on 10 March 2008. The other is subject to interest of 5.71% and is repayable in five annual installments including interest, commencing 22 September 2007 of £7.5m, £7.2m, £6.8m, £6.5m and £7.6m.

The floating rate term loan is unsecured, and subject to interest at LIBOR + 0.3%, and is repayable in four equal annual instalments of £5.6m on 22 August each year.

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 minimum net worth and maximum 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 1 July 2006	8.0
Utilised	(6.7)
At 30 June 2007	1.3

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 was a risk that the group would need to fund part of the final total cost of the project. On that basis a provision existed as at 1 July 2006 to cover the element that the group anticipated it would be required to fund. The majority of this has been settled in the year and the remaining element of the provision is expected to be settled in the next two years.

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	2007 Present value of payments £m	Minimum payments £m	2006 Present value of payments £m
Within one year	19.6	17.9	16.2	15.7
After one year but not more than five years	33.2	32.2	34.1	31.0
After more than five years	–	–	1.8	1.4
Total minimum lease payments	52.8		52.1	
Less amounts representing finance charges	(2.7)		(4.0)	
Present value of minimum lease payments	50.1	50.1	48.1	48.1

23 Commitments and contingencies

Capital commitments

	2007 £m	2006 £m
Contracted for but not provided	13.9	9.0

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 30 June 2007 are as follows:

	Land and buildings £m	2007 Plant and equipment £m	Land and buildings £m	2006 Plant and equipment £m
Within one year	9.9	6.6	8.3	17.9
After one year but not more than five years	36.7	18.0	25.0	19.5
More than five years	75.0	0.6	69.8	
	121.6	25.2	103.1	37.4

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 30 June 2007 are as follows:

	2007 £m	2006 £m
Within one year	358.9	398.0
In the second to fifth years inclusive	858.0	1,072.1
Over five years	–	–
	1,216.9	1,470.1

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 two 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 30 June 2007 are as follows:

	Land and Buildings £m	2007 Rail Agreements £m	Land and Buildings £m	2006 Rail Agreements £m
Within one year	3.0	12.6	2.7	6.4
After one year but not more than five years	3.7	33.1	7.1	16.5
	6.7	45.7	9.8	22.9

Performance bonds

The group has provided bank guaranteed performance bonds of £73.4m (2006 – £48.0m), and season ticket bonds of £77.7m (2006 – £73.5m) 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 £49.0m (2006 – £44.0m).

24 Issued capital and reserves

		2007 £m	Authorised 2006 £m
61 million 10p ordinary shares		6.1	6.1
	Millions	2007 £m	Allotted, called up and fully paid 2006 £m
As at 1 July 2006	52.6	5.3	51.6
Issued on exercise of share options	–	–	0.9
Issued on acquisitions	–	–	0.1
Cancelled during the year	(1.7)	(0.2)	–
As at 30 June 2007	50.9	5.1	52.6

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	Revalu- ation reserve £m	Hedging reserve £m	Other reserve £m	Capital redemp- tion reserve £m	Retained earnings £m	Total equity £m	Minority interests £m	Total £m
At 3 July 2005	61.3	(14.5)	–	–	0.6	–	53.3	100.7	8.6	109.3
Total recognised income and expense	–	–	12.4	–	–	–	65.1	77.5	10.2	87.7
Dividends	–	–	–	–	–	–	(25.3)	(25.3)	(15.1)	(40.4)
Arising on shares issued for acquisitions	–	–	–	–	1.0	–	–	1.0	–	1.0
Arising on shares issued for share options	4.3	–	–	–	–	–	–	4.3	–	4.3
Acquisition of own shares	–	(52.6)	–	–	–	–	–	(52.6)	–	(52.6)
At 1 July 2006	65.6	(67.1)	12.4	–	1.6	–	93.1	105.6	3.7	109.3
Total recognised income and expense	–	–	11.6	0.5	–	–	108.6	120.7	16.8	137.5
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)	24.0	0.5	1.6	0.2	130.7	141.8	5.8	147.6

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 5,003,926 ordinary shares (9.8% of share capital), of which 101,696 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 30 June 2007 the company has repurchased 2,425,000 shares (2006 – 3,204,000 shares) for a consideration of £55.6m (2006 – £52.6m). Following purchase 1,715,000 shares were cancelled.

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	
		2007	2006
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	–
Blue Triangle Buses Limited	United Kingdom*	100	–
Go Northern Limited	United Kingdom	100	100
Metrobus Limited	United Kingdom	100	100
Thameslink Rail Limited	United Kingdom*	65	65
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	–
Nikaro Limited	United Kingdom*	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	–
Marchwood Motorways (Southampton) Limited	United Kingdom*	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
Go West Midlands Limited	United Kingdom	100	100
Go-Ahead Leasing Limited	United Kingdom	100	100
London and Birmingham Railway Limited	United Kingdom*	65	–

* Subsidiary undertakings held indirectly.

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 (2006 – £0.2m).

Compensation of key management personnel of the group

The key management are considered to be the directors of the group.

	2007 £m	2006 £m
Salaries	1.2	1.1
Bonus	0.9	0.4
Pension contributions	0.1	0.1
Share based payments	0.4	0.1
	2.6	1.7

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 £3.8m (2006 – £3.2m) 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 Go-Ahead Group plc accounts for the difference between the aggregate IAS19 cost of the scheme and the aggregate contributions paid.

Wilts & Dorset Pension Scheme

Employees of Wilts & Dorset Limited participate in the Wilts & Dorset Pension Scheme. This is a defined benefit scheme which is externally funded and contracted-out of the State Second Pension Scheme. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary. The plan is open to new entrants.

Southern Vectis Group Pension Scheme

Employees of the Southern Vectis group of companies participate in the Southern Vectis Group Pension Scheme. This is a defined benefit scheme which is externally funded and contracted-out of the State Second Pension Scheme. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary. The plan is open to new entrants.

Other pension arrangements

Employees of Meteor Parking and Aviance have access to separate defined contribution pension arrangements. The expense recognised for this is £0.4m (2006 – £0.2m), being the contributions paid.

The Railways Pension Scheme

The majority of employees of New Southern Railway Limited and London and South Eastern Railway Limited 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 (2006 – £0.4m) 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 cash flows, 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.

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:

	2007 £m	2006 £m
Balance sheet		
Defined benefit pension plan	(6.0)	(23.4)
Deferred tax asset	2.9	11.4
Deferred income – government grant	(9.2)	(13.2)
Intangible asset	(1.1)	(1.5)
	(13.4)	(26.7)
Statement of recognised income and expense		
Actuarial losses	15.2	6.2
Tax on actuarial losses	(4.3)	(1.9)
	10.9	4.3
Income statement		
Operating costs – franchise adjustment	(1.3)	(1.5)
Intangible asset amortisation	0.3	(0.4)
Release of deferred income – government grant	4.1	4.1
Curtailed gain	–	2.5
Deferred tax charge	(0.9)	(1.5)
	2.2	3.2

IAS19 disclosures

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

Summary of year-end assumptions

	2007	2006
Price inflation	3.2%	2.8%
Discount rate	5.9%	5.4%
Rate of increase in salaries	4.7%	4.3%
Rate of increase of pensions in payment and deferred pension*	3.2%	2.8%

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

26 Pensions continued

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

	2007 Years	2006 Years
Pensioner	18	18
Non-Pensioner	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.

Category of assets at the year-end

Rail	£	2007 %	£	2006 %
Equities	443.2	68.0	386.2	72.6
Bonds	65.2	10.0	91.5	17.2
Property	78.2	12.0	52.7	9.9
Cash	65.2	10.0	1.6	0.3
	651.8	100.0	532.0	100.0
Non-rail	£	2007 %	£	2006 %
Equities	257.6	67.8	230.3	69.5
Bonds	59.3	15.6	55.3	16.7
Property	26.6	7.0	23.2	7.0
Cash	36.5	9.6	22.5	6.8
	380.0	100.0	331.3	100.0

The weighted average expected long term rates of return were:

	2007 % p.a.	2006 % p.a.	Rail 2005 % p.a.	2007 % p.a.	2006 % p.a.	Non-rail 2005 % p.a.
Weighted average rate of return	7.7	7.6	7.6	7.7	7.5	7.2

Funding position of the group's pension arrangements

	2007 £m	2006 £m	Rail 2005 £m	2007 £m	2006 £m	Non-rail 2005 £m
Employer's share of pension scheme:						
Liabilities at the end of the year	(652.0)	(571.7)	(264.9)	(404.5)	(418.8)	(379.9)
Assets at fair value	651.8	532.0	235.2	380.0	331.3	278.8
Gross deficit	(0.2)	(39.7)	(29.7)	(24.5)	(87.5)	(101.1)
Franchise adjustment	(2.1)	23.4	30.6	—	—	—
Pension scheme (liability)/asset	(2.3)	(16.3)	0.9	(24.5)	(87.5)	(101.1)

Pension cost for the financial year

	2007 £m	2006 £m	Rail 2005 £m	2007 £m	2006 £m	Non-rail 2005 £m
Service cost	24.4	15.5	9.9	7.5	7.8	6.2
Interest cost on liabilities	20.5	10.8	7.9	22.5	19.7	16.7
Expected return on assets	(24.8)	(13.9)	(9.3)	(24.5)	(20.2)	(15.5)
Interest on franchise adjustments	(1.3)	(1.5)	(0.7)	—	—	—
Pension cost	18.8	10.9	7.8	5.5	7.3	7.4

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

	2007 £m	2006 £m	Rail 2005 £m	2007 £m	2006 £m	Non-rail 2005 £m
Gain/(loss) on pension scheme liabilities	4.8	1.0	(7.2)	35.0	(14.0)	(54.9)
Experience gains on assets	36.4	5.7	10.2	25.6	29.9	12.4
Franchise adjustment movement	(26.8)	(5.7)	—	—	—	—
Total gain/(loss) recognised in SORIE during the year	14.4	1.0	3.0	60.6	15.9	(42.5)

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

	2007 £m	Rail 2006 £m	2007 £m	Non-rail 2006 £m
Employer's share of pension scheme liabilities – at start of year	571.7	264.9	418.8	379.9
Franchise adjustment	(23.4)	(30.6)	–	–
	548.3	234.3	418.8	379.9
Liability movement for members share of assets	53.4	19.3	–	–
Service cost	24.4	15.5	14.1	14.3
Interest cost	20.5	10.8	22.5	19.7
Interest on franchise adjustment	(1.3)	(1.5)	–	–
Actuarial (gain)/loss	(4.8)	(1.0)	(35.0)	14.0
Benefits paid	(13.2)	(6.1)	(15.9)	(9.1)
Adjustment for start of Southeastern franchise	–	327.9	–	–
Adjustment for end of Thameslink franchise	–	(59.6)	–	–
Franchise adjustment movement	26.8	8.7	–	–
	654.1	548.3	404.5	418.8
Franchise adjustment	(2.1)	23.4	–	–
Employer's share of pension scheme liabilities – at end of year	652.0	571.7	404.5	418.8

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

	2007 £m	Rail 2006 £m	2007 £m	Non-rail 2006 £m
Fair value of assets – at start of year	532.0	235.2	331.3	278.8
Expected return on assets	24.8	13.9	24.5	20.2
Actuarial gain on assets	36.4	5.7	25.6	29.9
Company contributions	18.4	7.8	7.9	5.0
Employee contributions (including age related rebates)	–	–	6.6	6.5
Benefits paid	(13.2)	(6.1)	(15.9)	(9.1)
Adjustment for start of Southeastern franchise	–	312.9	–	–
Adjustment for end of Thameslink franchise	–	(56.7)	–	–
Members share of movement of assets	53.4	19.3	–	–
Fair value of plan assets – at end of year	651.8	532.0	380.0	331.3

Estimated contributions for future

	Rail £m	Non-Rail £m
Estimated company contributions in financial year 2008	21.1	16.2
Estimated employee contributions in financial year 2008	13.1	6.9
Estimated total contributions in financial year 2008	34.2	23.1

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.

Interest rate risk

The main risk arising from the group's financial instruments is changes in interest rates. The board's policy toward cash deposits is to deposit cash short term on UK money markets. Interest payable on bank borrowings is based on re-fixing the rate of interest over short periods of time of up to six months. 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.

Liquidity risk

The group has bilateral arrangements, totalling £200m at 30 June 2007 (2006 – £145m) with prevailing interest rates and dates of maturity as 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 five year primary borrowing periods. This provides a regular inflow of funding to cover expenditure as it arises.

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 (2006 – £0.9m) 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 £10.1m (2006 – £21.1m).

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 guarantees.

27 Financial risk management objectives and policies continued**Derivative instruments**

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 30 June 2007 the group had derivatives in place for 60,000,000 litres of fuel, representing approximately half of the current year's anticipated fuel usage in our bus businesses.

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 exchange risk.

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 cash flows.

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.

Managing capital

The group aims to optimize its capital structure by holding an appropriate level of debt relative to equity. The appropriate level of debt is set with reference to a number of factors and financial ratios. These include expected operating and capital expenditure cash flows, dividend policy, contingent liabilities and restricted rail cash, and the level and likelihood of potential acquisition and disposal opportunities. The group uses an on-market share buy back programme as the principal means of increasing the level of debt relative to equity.

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 30 June 2007 and are as follows:

	Carrying value £m	2007 Fair value £m	Carrying value £m	2006 Fair value £m
Fuel price derivatives	0.7	0.7	–	–
Fixed rate debt	(43.1)	(40.7)	(22.4)	(22.0)
	(42.4)	(40.0)	(22.4)	(22.0)

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 cash flows at prevailing rates.

b Hedging activities

At the year end, the group had various fuel price swaps in place. Cash flow hedges were placed over 60m litres of fuel for the year ended 28 June 2008, and 17m litres of fuel for the period 1 July 2010 to 31 October 2012. 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. There are no net unrecognised gains/losses as at 30 June 2007. The movement in the period is shown below:

	2007 £m	2006 £m
Unrecognised gains on hedges at start of year	–	0.3
Gains arising in the year	0.7	0.3
Recognised gains in the year	–	(0.6)
Unrecognised gain on hedges at the end of the year	0.7	–
Gains expected to be recognised within one year	0.7	–

c Interest rate risk

The interest rate profile of the financial assets and liabilities of the group as at 30 June 2007 is as follows:

	Average rate %	Within 1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	4 – 5 years £m	More than 5 years £m	Total £m
Year ended 30 June 2007								
Floating rate liabilities/(assets)								
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
Medium term floating rate term loan	6.10	5.8	5.6	5.6	5.5	–	–	22.5
		(122.8)	142.6	25.6	5.5	–	–	50.9
Fixed rate liabilities								
Medium term fixed rate term 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

	Average rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Year ended 1 July 2006								
Floating rate liabilities/(assets)								
Revolving credit facilities	4.99	20.0	100.0	–	–	–	–	120.0
Cash assets	4.55	(90.2)	–	–	–	–	–	(90.2)
Bank overdrafts	5.50	9.8	–	–	–	–	–	9.8
Medium term floating rate term loan	5.05	5.6	5.6	5.6	5.6	5.7	–	28.1
		(54.8)	105.6	5.6	5.6	5.7	–	67.7
Fixed rate liabilities								
Medium term fixed rate term loan	5.43	11.9	10.5	–	–	–	–	22.4
Obligations under finance lease and hire purchase contracts	5.52	14.6	12.7	9.5	6.4	3.2	1.7	48.1
		26.5	23.2	9.5	6.4	3.2	1.7	70.5

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 cash flow statement

Analysis of group net debt

	Cash and cash equivalents £m	Loans £m	Hire purchase/ finance leases £m	Loan notes £m	Total £m
2 July 2005	86.3	(104.0)	(45.1)	(0.6)	(63.4)
Cash flow	(5.0)	(65.8)	4.9	0.1	(65.8)
Non-cash movements	–	–	(5.6)	–	(5.6)
Acquisitions	(0.9)	(0.7)	(2.3)	(0.1)	(4.0)
1 July 2006	80.4	(170.5)	(48.1)	(0.6)	(138.8)
Cash flow	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)

In 2006 the group transferred in certain assets and liabilities relating to the Southeastern franchise. The £5.6m non-cash flow movement above is the transfer in of debt.

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Independent auditors' report to the members of The Go-Ahead Group plc

We have audited the parent company financial statements of The Go-Ahead Group plc for the year ended 30 June 2007, 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 30 June 2007.

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 Director's 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 Highlights, Financial Summary and Five Year Record, the Chairman's Statement, the Five Year Financial History, Go-Ahead at a glance, the Operating and Financial Review, Directors and Advisors, the Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, the Directors' Report and shareholders' 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 judgments 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 30 June 2007;
- 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

6 September 2007

**Parent company balance sheet
at 30 June 2007**

	Notes	2007 £m	Restated 2006 £m
Fixed assets			
Tangible assets	2	173.4	160.1
Investments	3	234.1	255.8
		407.5	415.9
Current assets			
Debtors: amounts falling due within one year	4	293.3	173.0
Cash on deposit		10.2	0.3
Financial assets		0.7	–
		304.2	173.3
Creditors: amounts falling due within one year	5	(214.1)	(136.4)
Net current assets		90.1	36.9
Total assets less current liabilities		497.6	452.7
Creditors: amounts falling due after more than one year	5	(156.9)	(100.0)
Net assets		340.7	352.8
Capital and reserves			
Share capital	8,9	5.1	5.3
Share premium	9	60.3	60.3
Revaluation reserve	9	107.8	96.2
Other reserves	9	8.8	8.8
Capital redemption reserve	9	0.2	–
Reserve for own shares	9	(80.6)	(67.1)
Profit and loss account	9	239.1	249.3
Equity shareholders' funds		340.7	352.8

N Swift

Group finance director

6 September 2007

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 judgments 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 6 September 2007. 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 cash flow statement.

The company has taken advantage of the exemption available to parent companies under FRS 25 Financial Instruments: Disclosure and Presentation so as not to provide the information otherwise required by paragraphs 51 to 95 of the standard, as the group's consolidated financial statements, in which the company is included provide equivalent disclosures under IAS 32 Financial Instruments: Disclosure and Presentation.

Changes in accounting policy

Property revaluation

The company has decided to adopt the revaluation option in FRS15 in relation to the valuation of its land and buildings. This has been accounted for as a change in accounting policy and the company has restated the results for the prior year to reflect this change in policy. The company has made this change of accounting policy in accordance with paragraph 55(c) of FRS18 'Accounting policies' as this new policy is more appropriate because it is in line with the policy adopted by the group as well as reflecting the underlying value to the business of property held in the balance sheet of the company. The impact of this adjustment is set out in note 9, as a result of the change in the accounting policy the carrying value of fixed assets has increased by £73.5m at 2 July 2005 and a further £12.4m at 1 July 2006 with a corresponding increase in the revaluation reserve at that date.

Tangible fixed assets

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are recognised initially at cost and thereafter measured at market value less depreciation on buildings and impairment subsequent to the date of valuation. Freehold land is not depreciated.

Valuations of land and buildings are performed by either the directors or by a qualified valuer, frequently enough to ensure that the market value of a revalued asset does not differ materially from its carrying amount.

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.

Any revaluation surplus is credited to the revaluation reserve except where it reverses a decrease in the carrying value of the same asset previously recognised in the profit and loss account, in which case the increase is recognised in the profit and loss account. A revaluation deficit is recognised in the profit and loss account except to the extent of any existing surplus in respect of that asset in the revaluation reserve. An annual transfer is made from the revaluation reserve to the profit and loss reserve for the depreciation relating to the revaluation surplus. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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 these 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 director's 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 cash flows are recognised in equity and the ineffective portion is recognised immediately in the profit and loss account. When the cash flow 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 substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases, and the amortisation of lease incentives and initial direct costs in securing leases, are charged to the profit and loss account on a straight line basis over the lease term.

Debt

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

2 Tangible fixed assets

	Freehold land and buildings £m	Leasehold properties £m	Plant and equipment £m	Total £m
Cost or valuation:				
At 1 July 2006				
At 1998 valuation	26.7	0.6	–	27.3
At cost	47.6	2.3	2.6	52.5
	74.3	2.9	2.6	79.8
Prior year adjustment	87.0	–	–	87.0
At 1 July 2006 (as restated)	161.3	2.9	2.6	166.8
Reclassifications	(2.1)	2.1	–	–
Additions	2.7	1.4	0.9	5.0
Disposals	(1.7)	–	(0.8)	(2.5)
Revaluation	11.9	(0.3)	–	11.6
At 30 June 2007	172.1	6.1	2.7	180.9
Depreciation:				
At 1 July 2006	4.5	0.3	0.8	5.6
Prior year adjustment	1.1	–	–	1.1
At 1 July 2006 restated	5.6	0.3	0.8	6.7
Charge for the year	0.6	0.4	0.3	1.3
Disposals	(0.3)	–	(0.2)	(0.5)
Reclassification	–	–	–	–
At 30 June 2007	5.9	0.7	0.9	7.5
Net book value				
At 30 June 2007	166.2	5.4	1.8	173.4
At 1 July 2006 restated	155.7	2.6	1.8	160.1

Freehold land and buildings include non-depreciable land amounting to £132.1m (2006 – £131.5m).

The freehold and leasehold properties occupied by the company were valued by Doherty Baines as external valuers, as at 1 July 2006, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. Properties have been revalued under a director's valuation on a market value basis as at 30 June 2007.

If the properties had not been revalued the historic cost and accumulated depreciation would have been:

	2007 £m	2006 £m
Cost		
Freehold land and buildings	64.3	63.9
Leasehold property	5.8	3.4
	70.1	67.3
Accumulated depreciation		
Freehold land and buildings	5.6	4.4
Leasehold property	0.7	0.8
	6.3	5.2

The net book value of leasehold properties comprises:

	2007 £m	2006 £m
Leases with 50 or more years unexpired	3.0	3.0

3 Fixed asset investments

	Shares in group companies £m	Loans to group companies £m	Total £m
Cost or valuation:			
At 1 July 2006	173.6	82.2	255.8
Additions	16.3	–	16.3
Disposals	(38.0)	–	(38.0)
At 30 June 2007	151.9	82.2	234.1
Provisions:			
At 1 July 2006	–	–	–
At 30 June 2007	–	–	–
Net carrying amount:			
At 30 June 2007	151.9	82.2	234.1
At 1 July 2006	173.6	82.2	255.8

During the year certain investments were transferred between fellow group companies, as part of a group re-organisation. The resulting additions and disposals are shown above.

For details of the principal operating subsidiary undertakings as at 30 June 2007, 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

	2007 £m	2006 £m
Trade debtors	–	0.1
Amounts owed by group companies	288.7	169.6
Other debtors	4.2	1.0
Deferred taxation (note 6)	0.4	2.2
Prepayments and accrued income	–	0.1
	293.3	173.0

5 Creditors

Amounts falling due within one year

	2007 £m	2006 £m
Bank loans and overdrafts	–	20.0
Trade creditors	–	0.7
Amounts owed to group undertakings	192.1	83.0
Corporation tax	2.4	3.8
Other creditors	7.6	10.0
Accruals and deferred income	5.6	12.1
Uninsured claim accrual	6.4	6.8
	214.1	136.4

Amounts falling after more than one year

	2007 £m	2006 £m
Bank loans repayable:		
In more than one year but not more than two years	136.9	100.0
In more than two years but not more than five years	20.0	–
	156.9	100.0

The company has no security over its liabilities.

Certain of the company's borrowings are 364 day revolving facilities with a one year term out option in favour of the company. The classification of these borrowings as due in more than one year assumes that the term out options will be exercised.

6 Deferred taxation

	Deferred tax £m
At 1 July 2006	2.2
Provided during the year	(1.8)
Provided directly to equity	–
At 30 June 2007	0.4

Deferred taxation provided at the enacted rate is as follows:

	2007 £m	2006 £m
Capital allowances in advance of depreciation	(1.8)	(1.6)
Other timing differences	2.2	3.8
	0.4	2.2

7 Pension commitments

The company participates in The Go-Ahead Group Pension Plan (The 'Go-Ahead Plan'), which consists of a funded defined benefit section 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 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 last formal valuation of the Plan was performed at 5 April 2006 by a professionally qualified actuary. The next formal valuation is due to be made as at 5 April 2009. 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 company has paid contributions to its pension arrangements in line with the contribution schedules in force over the accounting year. The contributions paid to the defined benefit scheme were 7% and 6% of pensionable salaries to the Upper and Lower tier sections respectively.

Employer contributions to The Go-Ahead Plan are affected by any surplus or deficit in the scheme. However, as all the participating companies, including the parent company, pay the same net rate of contributions, the actuarial risks are shared and no participating company is able to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. Accordingly, the company accounts for its participation in the plan as contributions are payable and provides the following information on the deficit for the scheme as a whole.

FRS17

The financial assumptions used to calculate the Plan's liabilities under FRS17 are:

	2007 %	2006 %	2005 %
Rate of increase in salaries	4.7	4.3	4.1
Rate of increase in pensions in payment and deferred pension	3.2	2.8	2.6
Price inflation	3.2	2.8	2.6
Discount rate	5.9	5.4	5.2

The expected long term rates of return on the main asset classes were:

	2007 %	2006 %	2005 %
Equities	8.5	8.4	8.3
Cash	5.5	4.3	4.1
Property	6.9	6.6	6.5
Bonds (corporate)	5.9	5.4	5.2

The fair values of the assets were:

	2007 £m	2006 £m	2005 £m
Equities	223.7	201.6	164.2
Bonds (corporate)	43.6	41.6	40.5
Cash	38.3	23.3	17.9
Property	26.6	21.7	19.5
Total	332.2	288.2	242.1

History of experience gains and losses

	2007	2006	2005	2004	2003
(Gain)/loss on Plan assets (£m)	(23.9)	(27.2)	(11.2)	(3.6)	16.8
% of Plan assets at end of year	(7.2)%	(9.4)%	(4.6)%	(2.0)%	10.3%
Experience (gain)/loss on Plan liabilities (£m)	(25.0)	3.1	(0.9)	16.9	1.7
% of Plan liabilities at end of year	(7.2)%	0.9%	(0.3)%	6.6%	0.7%
Total actuarial (gain)/loss recognised in STRGL (£m)	(55.7)	(14.1)	39.2	(7.9)	33.9
% of Plan liabilities at end of year	(16.1)%	(3.9)%	12.0%	(3.1)%	14.2%

Pension scheme deficit

	2007 £m	2006 £m	2005 £m
Market value of assets	332.2	288.2	242.1
Present value of liabilities	(346.7)	(360.0)	(325.4)
Deficit in the scheme	(14.5)	(71.8)	(83.3)

8 Called up share capital

		2007 £m	Authorised 2006 £m
61 million 10p ordinary shares		6.1	6.1
	Millions	2007 £m	Allotted, called up and fully paid Restated Millions 2006 £m
As at 1 July 2006	52.6	5.3	51.6
Issued on exercise of share options	–	–	0.9
Cancelled shares	(1.7)	(0.2)	–
Issued on acquisition	–	–	0.1
As at 30 June 2007	50.9	5.1	52.6

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 and reserve £m
At 2 July 2005, as previously reported	5.2	56.1	10.6	7.8	–	(14.5)	74.1	139.3
Effect of prior year adjustment	–	–	73.5	–	–	–	–	73.5
At 2 July 2005 (restated)	5.2	56.1	84.1	7.8	–	(14.5)	74.1	212.8
Retained profit for the year	–	–	–	–	–	–	200.2	200.2
Dividends	–	–	–	–	–	–	(25.3)	(25.3)
Realised revaluation surplus on sale of property	–	–	(0.3)	–	–	–	0.3	–
Arising on shares issued for share acquisitions	0.1	4.2	–	1.0	–	–	–	5.3
Valuation	–	–	12.4	–	–	–	–	12.4
Acquisition of treasury shares	–	–	–	–	–	(52.6)	–	(52.6)
At 1 July 2006	5.3	60.3	96.2	8.8	–	(67.1)	249.3	352.8
Retained profit for the year	–	–	–	–	–	–	60.3	60.3
Dividends	–	–	–	–	–	–	(28.9)	(28.9)
Valuation	–	–	11.6	–	–	–	–	11.6
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	5.1	60.3	107.8	8.8	0.2	(80.6)	239.1	340.7

The cumulative amount of goodwill written off to the profit and loss reserve of the company at 30 June 2007 is £0.2m (2006 – £0.2m).

The reserve for own shares is in respect of 5,003,926 ordinary shares (9.8% of total share capital), of which 101,696 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' Remuneration Report on pages 25 and 26.

The audit fee payable in respect of the company was £0.1m (2006 – £0.2m).

10 Operating lease commitments

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

	2007 £m	Property 2006 £m
Within one year	0.3	–
In second to fifth years	0.9	–
Over five years	0.4	0.2
	1.6	0.2

11 Capital commitments

At 30 June 2007 there were no amounts contracted for but not provided in the financial statements for the acquisition of property (2006 – £1.6m).

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 £17.6m as at 30 June 2007 (2006 – £54.8m).

At 30 June 2007 letters of credit amounting to £35.0m (2006 – £29.8m) 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

The group operates an 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.

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

	No.	2007 WAEP pence	No.	2006 WAEP pence
Outstanding at the beginning of the year	4,056	14.38	4,485	5.47
Granted during the year	3,005	19.14	3,666	14.62
Forfeited during the year	(474)	13.79	–	–
Exercised during the year	–	–	(4,095)	4.84
Outstanding at the end of the year	6,587	16.59	4,056	14.38

The weighted average share price at the date of exercise for the options exercised in 2006 was 16.95p.

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 used for the options granted in the year to 30 June 2007 were:

	2007 % per annum	2006 % per annum
Future share price volatility	20.0	20.0
Future dividend yield	2.5	2.5
Future risk-free interest rate	5.4	5.4
Forfeiture rate	10.0	10.0
Option life	3 years	3 years

The future share price volatility assumption is based on the daily share price movements over the three year period preceding the award date, rounded to the nearest 5%.

Share Incentive Plan

The company participates in the group 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 month's service with a group company at the date they are invited to participate in the plan.

The SIP permits the Go-Ahead Group plc to make four different types of awards to employees (free shares, partnership shares, matching shares and dividend shares), although the group has, so far, made award of partnership shares only. Under these awarded, the group invites qualifying employees to apply between £10 and £125 per month in acquiring shares in the group at the prevailing market price. Under the terms of the scheme, certain tax advantages are available to the group and employees.

Long Term Incentive Plan (LTIP)

Details of the directors' interests in the Long Term Incentive Plan are 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.

	2007	GOVIA 2006	2007	LSER 2006	2007	Thameslink 2006	2007	Southern 2006
Dividends paid by related party	27.3	28.0	–	–	–	–	–	–
Interest paid to related party	1.7	0.7	–	–	–	–	–	–
Loans to related party	(16.0)	(48.0)	–	–	–	–	–	–
Repayment of loan from related party	16.5	12.0	–	–	–	–	–	–
Management charges	–	–	0.4	0.1	–	0.1	0.3	0.4
Amounts owed from related party	47.7	40.0	–	–	–	–	–	–
Amounts owed to related party	–	–	33.1	15.6	9.5	3.0	26.2	25.1

During the year, Thameslink, Southern and LSER have traded with wholly owned subsidiaries of the company; £1.7m (2006 – £4.9m) of costs were incurred by Thameslink, Southern and LSER on an arms' length basis. The Thameslink franchise ceased on 31 March 2006.

Shareholder information as at 30 June 2007

	No. of holders	%	Shares held	%
Range of holdings				
1 – 10,000	2,233	89.03	1,789,579	3.52
10,001 – 100,000	188	7.50	6,927,466	13.61
100,001 – 500,000	64	2.55	12,771,437	25.09
500,001 – 1,000,000	12	0.48	8,796,711	17.29
Over 1,000,001	11	0.44	20,604,972	40.49
	2,508	100.00	50,890,165	100.00
	No. of holders	%	Shares held	%
Classification of Shareholders				
Treasury shares	1	0.04	4,902,230	9.63
Directors	6	0.24	93,291	0.10
Other individuals	1,942	77.42	8,770,383	17.23
Institutional investors	559	22.30	37,124,261	73.04
	2,508	100.00	50,890,165	100.00

Financial calendar

Annual general meeting	25 October 2007
Record date	2 November 2007
Final dividend paid	23 November 2007
Half year-end	29 December 2007
Interim results announced	February 2008
Interim dividend paid	April 2008
Next financial year-end	28 June 2008
Full year results announced	September 2008
Annual general meeting	October 2008
Final dividend paid	November 2008

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Electronic communications

It is the Board's intention, subject to the passing of resolution 12, that in the future it will, as far as possible, except where shareholders have requested otherwise, provide all shareholder documents via the company's website. Shareholders receiving communications via the company's website will be notified either by post or, where they have provided an e-mail address, electronically whenever a document has been made available on the website. This will enable the company to improve its efficiency by reducing printing and postage costs, as well as reducing the company's environmental impact.

Please see the enclosed letter regarding electronic communications for further details and use the enclosed form to register for either electronic or paper communications.



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CarbonNeutral[®] print production

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