THE GO-AHEAD GROUP PLC – ANNUAL REVIEW FOR THE YEAR ENDED 1 JULY 2006

UK travel solutions for today and tomorrow

Go-Ahead

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WHAT WE DO AND WHO WE ARE

Go-Ahead is one of the UK's leading providers of passenger transport management services operating in the bus, rail and aviation sectors. Employing over 24,000 staff across the country, over 800 million passenger journeys are undertaken on its services each year. In addition to the travelling public, customers include Transport for London, BAA, major airlines, local authorities and the Department for Transport.

VISION AND STRATEGY

The group seeks to add value for shareholders through a transparent and focused strategy within 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.

FIVE YEAR RECORD

Revenue (£m)

Year	Value
2006	**1,463.6**
2005	1,302.1
2004	1,244.0
2003	1,102.0
2002	948.8

Adjusted earnings per share (pence)

Year	Value
2006	**118.4**
2005	116.3
2004	110.3
2003	78.9
2002	59.7

Profit before tax (£m)*

Year	Value
2006	**91.9**
2005	95.5
2004	91.3
2003	65.5
2002	49.4

* Before exceptional items and amortisation

Dividend per share (pence)

Year	Value
2006	**56**
2005	48
2004	38
2003	25
2002	17

Figures for 2005 and 2006 are based upon International Accounting Standards, prior years are based upon UK GAAP as previously reported.

HIGHLIGHTS

- Award of Integrated Kent rail franchise
- Acquisition of Birmingham Coach Company and Probus Management
- Continued rail passenger volume growth
- Southern operating performance continues to improve
- Increased bus fuel costs of £9 million
- London bus contract wins
- Improved trading performance in aviation services division

FINANCIAL SUMMARY

	2006 £m	2005 £m	Increase %
Revenue	**1,463.6**	1,302.1	12.4
Total operating profit (before exceptional items and amortisation)	**97.8**	97.0	0.8
Profit before exceptional items, amortisation and tax	**91.9**	95.5	(3.8)
Adjusted earnings per share	**118.4p**	116.3p	1.8
Dividend paid and proposed per share	**56.0p***	48.0p	16.7

* Includes interim dividend paid and final proposed dividend

Against a challenging background, the group has delivered a creditable performance and made good progress in developing its operations for the future.

Sir Patrick Brown
Chairman

7 September 2006

Revenue increased to £1,464 million (2005 – £1,302 million), with profit before exceptional items, amortisation and tax of £91.9 million (2005 – £95.5 million). Adjusted earnings per share were 118.4p (2005 – 116.3p). The board proposes a final dividend of 38.0p (2005 – 33.0p) per share payable on 24 November 2006 to shareholders on the register at the close of business on 3 November 2006. This represents a total dividend for the year of 56.0p (2005 – 48.0p), an increase of 17%, reducing the dividend cover to 2.1 times (2005 – 2.4 times) adjusted earnings, in line with our stated policy of reducing dividend cover to 2.0 times by the year ending 2007.

Shortly after the year-end, events were overshadowed by the illness of Chris Moyes and his consequent resignation from the board and as chief executive. Chris has made a major contribution to the development of the group since privatisation and, indeed, to the transport industry as a whole. He is a liked and well-respected figure in the industry and will be missed. The group is fortunate, however, to have a strong executive team and the board is confident that, under the leadership of Keith Ludeman, formerly chief executive of our rail division, the strategy that has been so successful for the group will continue to deliver value.

The year started with rising fuel costs and the terrorism of 7 and 21 July in London which particularly affected demand for our rail services. The group has made good progress in dealing with these problems.

In our bus business, we have completed the integration of Southern Vectis with Wilts & Dorset, delivering significant cost and operational benefits. We have established a business base in Birmingham. The process of integrating and upgrading the businesses acquired, to provide further growth opportunity for the group, is underway. The depot infrastructure upgrade of our Metrobus subsidiary is now complete. First class operating performance in our London bus businesses, where we have consistently topped the Transport for London ('TfL') quality league tables, has provided the platform to increase market share. Other projects to improve efficiency are now producing benefits. The board is confident that the bus business will increase revenues and profit in the coming year, despite the continued pressure from fuel prices.

In rail, the group's success in winning the Integrated Kent franchise has established a platform for earnings growth in what is now called the Southeastern franchise. Operations commenced on 1 April 2006 and it has started well. Meanwhile, the Southern business, having quickly recovered from the events of July 2005, has pushed its quality standards to new heights, supporting passenger growth. The end of nine years of our ownership of the Thameslink franchise was marked by record levels of operating and financial performance. Looking beyond the current year, the main operating challenge for the rail business is likely to be the increasing cost of traction energy.

There are other opportunities to expand in rail and in June the group was short listed to bid for the TfL London Rail Concession. We also intend to enter the imminent competition for franchises in the Midlands.

In aviation, our cargo business was particularly successful in increasing both volume and profits during the year. General ground handling services have been restructured following the change of management last September. As well as reducing its cost base, the division has improved the quality of its business and shown encouraging growth at Heathrow. Recent high profile contract wins there, and other prospective developments, underpin an improving trading outlook for this division despite the recent terrorist threats.

During the year there have been several key management changes in our subsidiaries. These have strengthened the group's ability to deliver profitable growth, and I wish to thank all the management teams and their staff for their achievements in what was not an easy year.

The new financial year has started in line with the board's expectations. The group's strategy, focusing on organic growth and selective acquisitions in the UK, provides a firm basis for increasing returns in the years ahead. Strong cash flow will continue to support dividend growth and the share buy-back programme, the authority for which will be renewed at the forthcoming annual general meeting.■

FIVE YEAR FINANCIAL HISTORY

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
	IFRS		UK GAAP		
Revenue	**1,463.6**	1,302.1	1,244.0	1,102.0	948.8
Operating profit (before amortisation and exceptional items)	**97.8**	97.0	95.7	70.2	55.4
Operating margin	**6.7%**	7.4%	7.7%	6.4%	5.8%
Goodwill and intangible amortisation	**(5.1)**	(4.0)	(69.4)	(23.1)	(1.3)
Exceptional items	**(3.2)**	2.4	(2.2)	(6.9)	(3.6)
Share of post tax results of joint venture	**–**	0.3	–	–	–
Net finance costs	**(5.9)**	(1.8)	(4.4)	(4.7)	(6.0)
Profit on ordinary activities before taxation	**83.6**	93.9	19.7	35.5	44.5
Tax expense	**(19.4)**	(25.7)	(26.7)	(16.1)	(13.4)
Minority interests	**(10.5)**	(10.3)	(9.3)	(6.4)	(4.9)
Dividends	**–**	–	(19.3)	(12.7)	(8.6)
Retained profit/(loss)	**53.7**	57.9	(35.6)	0.3	17.6
Earnings/(loss) per share					
– basic	**108.1p**	113.8p	(32.1)p	25.5p	52.2p
– adjusted	**118.4p**	116.3p	110.3p	78.9p	59.7p
Dividends paid and proposed	**56.0p**	48.0p	38.0p	25.0p	17.0p
Operating cash flow	**116.9**	131.7	150.3	94.6	93.0
Free cash flow*	**55.8**	69.6	102.3	58.4	67.6
Net capital expenditure	**(67.9)**	(57.0)	(41.8)	(24.8)	(18.9)
Net borrowings (excluding restricted cash)	**199.5**	146.5	85.9	95.7	112.3

*Free cash flow excludes tax, interest and dividends

FIVE YEAR SHARE PRICE HISTORY

BUS

The group's bus division operates over 3,600 buses, providing over 505 million passenger journeys and covering around 236 million vehicle kilometres each year. Operations fall into four main geographical areas: deregulated services in north east; deregulated services in West Midlands; deregulated services in south east/southern England; and regulated services for Transport for London in the capital. The newest addition to this division is Go West Midlands (formerly the Birmingham Coach Company/Probus Management), acquired during this financial year.

Operating companies	Brighton & Hove	Go North East	Go West Midlands	London Central & London General	Metrobus	Oxford Bus Company	Wilts & Dorset, Solent Blue Line & Southern Vectis
Revenue (£m)	39.7	70.4	7.2	214.4	50.7	27.2	50.4
Business head	Roger French	Peter Huntley	Philip Kirk	John Trayner	Alan Eatwell	Philip Kirk	Alex Carter
Website (www.)	buses.co.uk	simplygo.com	gowestmidlands .com	londoncentral .com londongeneral .co.uk	metrobus.co.uk	oxfordbus.com	wdbus.co.uk islandbuses.info solentblueline .com
Geographical area	Brighton Hove Eastbourne Tunbridge Wells Newhaven Lewes Shoreham	Tyne & Wear County Durham	West Midlands	Central London South London	Greater London Kent Surrey East Sussex West Sussex	Oxfordshire routes to London, Heathrow & Gatwick	Dorset Wiltshire West Hampshire Isle of Wight Southampton
Date acquired	November 93 – May 97	May 87 – June 95	December 05 – March 06	October 94 – June 96	September 99	March 94	August 03 – June 05
Physical statistics	Buses 288	Buses 696	Buses 208	Buses 1,333	Buses 368	Buses 150	Buses 566
No. of employees at year end	1,032	2,030	501	4,018	1,183	562	1,477

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

Employees

Year	Employees
2006	10,803
2005	9,485
2004	9,565
2003	8,542
2002	8,222

Revenue (£m)

Year	Revenue (£m)
2006*	460.0
2005*	412.9
2004**	387.5
2003**	310.9
2002**	270.3

* IFRS
** UK GAAP

RAIL

The group's rail division operates a fleet of 630 trains on which over 280 million passenger journeys are undertaken. Concentrated in the south east of England both our franchises, Southern and Southeastern, 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 the domestic Channel Tunnel Rail Link into St Pancras from 2009.

AVIATION SERVICES

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 45 million passengers were handled as well as over half a million aircraft movements. The division includes Meteor Parking which is the second largest parking company in the UK, managing over 58,000 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	**Southeastern**	**Southern**	**aviance and Plane Handling**	**Meteor**
Revenue (£m)	**134.4**	**471.4**	**176.0**	**82.7**
Business head	**Charles Horton**	**Chris Burchell**	**Arthur Dodgson**	**Stephen Turner**
Website (www.)	**southeastern railway.co.uk**	**southernrailway .com**	**aviance.com**	**meteor-uk.com**
Geographical area	**South East London Kent East Sussex**	**London Surrey Sussex Hampshire Kent**	**Nationwide**	**Nationwide**
Date acquired	**April 06**	**August 01**	**October 98 – August 04**	**May 02 – June 04**
Physical statistics	Trains **350**	Trains **280**	Airports **17**	Parking spaces **58,537**
No. of employees at year end	**3,905**	**3,572**	**5,062**	**912**

Rail — Employees

Year	Employees
2006	**7,477**
2005	4,482
2004	4,360
2003	4,921
2002	4,883

Rail — Revenue (£m)

Year	Revenue
2006*	**744.9**
2005*	617.9
2004**	619.9
2003**	560.8
2002**	508.9

* IFRS
** UK GAAP

Aviation Services — Employees

Year	Employees
2006	**5,974**
2005	5,803
2004	5,084
2003	4,911
2002	4,347

Aviation Services — Revenue (£m)

Year	Revenue
2006*	**258.7**
2005*	271.3
2004**	217.5
2003**	211.7
2002**	150.0

* IFRS
** UK GAAP

"London is often quoted as the UK's leading example of successful growth in bus use, yet the truth is that even more impressive results have consistently been achieved in the city of Brighton and Hove for over a decade and where almost all bus routes are provided on a commercial basis requiring no direct public funding."

Roger French
Managing Director

The company's market share increased significantly during the year with the acquisition of Stagecoach's bus interests in the Lewes to Tunbridge Wells and Seaford to Eastbourne corridors. The opportunity was taken to improve coordination of services with better integration of tickets. This development along with more high profile marketing of the city's network of bus routes and continued partnership working with the local authorities led to further organic growth in the business.

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1 The Brighton & Hove Bus and Coach Company acquired the business interests of Stagecoach in Lewes and Seaford in September 2005. 15 buses were acquired and 65 staff transferred under TUPE together with the goodwill of three key bus routes.

2 In conjunction with Brighton and Hove City Council, real time bus information is now available for all the city's 2,000 bus stops on a special website.

With a full year of the Southeastern franchise, the continuing recovery of deregulated bus margins, the growth in aviation profitability and continuing solid results in the London regulated bus market, prospects for 2007 are encouraging.

SUMMARY

	2006 £m	2005 £m
Revenue	**1,463.6**	1,302.1
Operating profit*	**97.8**	97.0
Cash flow generated from operations	**116.9**	131.7
Profit before exceptional items, amortisation and tax	**91.9**	95.5
Earnings per share (adjusted)	**118.4p**	116.3p
Dividends paid and proposed	**56.0p**	48.0p

* Before exceptional items and amortisation

Underlying the lower profit before exceptional items, amortisation and tax compared with the previous year is a significant recovery in the second half of the year compared to the first. In the first six months, operating profits were down from £50.9 million in 2005 to £46.3 million this year. In the second half, operating profits increased to £51.5 million from £46.1 million last year.

The year started with the pressure of high fuel costs in our bus division and the events of July 7 and 21 putting pressure on rail division volumes. The group has recovered from these factors for the following reasons:

- The group was successful in winning the Integrated Kent railway franchise. The operation of the resulting Southeastern rail franchise in the final quarter of our financial year delivered a better than expected contribution.
- Rail volumes, particularly in Southern, recovered from the consequences of the July events, partly through the achievement of record operating performance, delivering the double benefits of improved performance regime payments and improved passenger volumes.
- Continuing progress in our aviation operations which showed particular improvement in the second half of the year.
- Cost management and restructuring in the deregulated bus division delivering benefits in the second half.

With a full year of the Southeastern franchise, the continuing recovery of deregulated bus margins, the growth in aviation profitability and continuing solid results in the London regulated bus market, prospects for 2007 are encouraging.

"In the year we consolidated the business with improved service quality, providing a springboard for development of the market and the reversal of long term decline."

Peter Huntley
Managing Director

Go North East provides a comprehensive network of urban, inter-urban and rural services in Tyne & Wear and Durham. We operate to all of the significant urban centres in the region including Newcastle, Sunderland, Middlesbrough, Durham, Gateshead, Stockton, Hartlepool and South Shields with a fleet of almost 700 buses. We work closely with stakeholders to contribute to the evolving economy of the area.

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1 The R19 is an example of an innovative partnership which has allowed us to provide new high quality services via new busway links in North Tyneside.

2 Passenger numbers have grown with investment in our prime inter-urban links between Durham, Sunderland and Washington such as X20 and X50.

The share buy-back programme and effective management of the group's tax exposure have delivered growth in adjusted earnings per share despite the fall in profits.

Risk factors remain, particularly the continuing pressure on energy prices and the effects of terrorist activities disrupting the flow of, and demand for, transport services. The group is, however, well positioned to meet these challenges.

DIVISIONAL REVIEW

Bus

	2006 £m	2005 £m
Revenue		
Continuing	**450.0**	412.9
Acquisitions	**10.0**	–
	460.0	412.9
Operating profit*		
Continuing	**47.2**	51.6
Acquisitions	**(0.5)**	–
	46.7	51.6
Margin		
Continuing	**10.5%**	12.5%
Acquisitions	**(5.0)%**	–
Overall	**10.2%**	12.5%
Revenue growth		
Regulated	**5.5%**	7.9%
Deregulated	**19.4%**	8.1%
Volume growth		
Regulated – miles operated	**1.3%**	0.6%
Deregulated – passenger journeys	**12.2%**	(1.0)%

* Before exceptional items and amortisation

Examples of benefits achieved to date are a 1% reduction in absenteeism levels over the year and improved rostering productivity.

On a like for like basis, compared to last year, the cost of fuel increased by £9 million on top of a £6 million increase last year, decreasing further the margins posted for this division since a peak was achieved in the first six months of 2004 when margins reached 14.4%. Excluding the acquisition of operations in Birmingham, however, margins increased from 10.3% in the first half to 10.9% in the second half of the year. Margin progression is expected to continue in the current financial year, including Birmingham.

A number of initiatives have been instigated to improve margins. As well as actions to address fuel consumption, mainly related to vehicle engineering, fuel technology and driver training, initiatives have been, and are being, put in place to reduce utility costs and improve labour productivity. Examples of benefits achieved to date are a 1% reduction in absenteeism levels over the year and improved rostering productivity.

"The acquisition of two Black Country based bus companies will give the group an excellent springboard into the expanding market that is the West Midlands. During the past six months we have concentrated on restoring a good level of operational robustness and moving towards integrating the two businesses."

Philip Kirk
Managing Director

Go West Midlands operate a fleet of over 200 buses throughout the West Midlands conurbation and in surrounding shire counties. Many bus route contracts are provided for Centro together with a small network of high frequency radial routes to and from Birmingham City Centre.

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1 The garage at Tividale near Dudley is one of two operational sites at which our local bus fleet is maintained. 12 coaches operated on behalf of National Express are also based at Tividale.

2 Birmingham City Centre is the hub of current operations. The redevelopment of the Bull Ring includes the futuristic Selfridges store seen here behind one of over 100 low floor easy access buses in the present fleet.

Growth prospects are further underpinned by recent acquisitions.

Specific actions have also been taken, particularly in the deregulated area of business, on a company by company basis:

- Integration of the group's South Coast operations following the acquisition of Southern Vectis in June 2005 saving over £1.3 million of overheads on an annualised basis.
- Network revisions on the South Coast, particularly the Isle of Wight, Southampton, Poole and Bournemouth, delivering volume growth on reduced mileage operated.
- Completion of the Metrobus Depot expansion programme delivering greater capacity with much reduced costs expected into the new financial year.
- Investment in new vehicles linked with network revisions in Oxford delivering passenger growth for the first time in several years.
- Quality improvements in the North East stabilising patronage linked with a new commercial strategy designed to deliver selective growth at lower cost in the current year.

During the year volumes have increased. Excluding acquisitions made in the current and prior years, like for like deregulated bus passenger journeys increased by 0.7%. Growth momentum was particularly strong towards the end of the year, the principal examples being as follows:

- During the last month of the year Southern Vectis achieved 16% volume growth on the Isle of Wight compared to the previous year, driven by the revised network and the new free concessionary fare scheme.
- Despite a 10% reduction in mileage in the Poole, Bournemouth and Christchurch conurbation, patronage was up 23% year on year.
- In Oxford the patronage increase, compared to the previous year, was 5.7% in the last quarter.

Growth prospects are further underpinned by recent acquisitions: a new operating base in Birmingham has been established with the acquisition of Birmingham Coach Company Limited in December 2005 and the business assets of Probus Management Limited in March 2006; the acquisition of Hants & Dorset Trim Limited in January 2006 in the Southampton area; and the acquisition from Stagecoach by the Brighton & Hove subsidiary of operations around Lewes. As part of the North East rationalisation programme the group also sold its operations in the South Durham area.

Other than in Birmingham, these actions have helped support the improvement in the division's second half profitability. In Birmingham, initial start-up issues, particularly in upgrading engineering standards to the quality requirements of the group, have been detrimental to profitability in the short term. These initial stages are now complete and plans are being developed to deliver profitable and growing operations in the key West Midlands conurbation, the biggest deregulated bus market in the country.

"The financial year has been a particularly good one for London Central & London General. We successfully retained all of our existing route contracts and won an additional six. The company now stands at its largest ever in terms of revenue, mileage operated and number of buses in service. It has also produced the best ever operating performance in terms of both mileage operated and quality standards."

John Trayner
Managing Director

London Central & London General operate bus route contracts on behalf of Transport for London. Under the Mayor's Transport Plan buses have been a success in London and this year there was further growth in passenger numbers of 5.4%. London Central & London General have contributed to this success with the delivery of good quality services. They have put quality of operation and an investment in training staff at the very heart of their business and as a consequence have dominated London Buses' quality league tables for the past year.

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1 Enviro 400 – First standard buses in the country to meet Euro 4 emission standards. Used on Routes 196 and 37, operating from Stockwell and Peckham Garages respectively, they reinforce London Central & London General's position at the vanguard of environmentally friendly operations

2 Diesel-electric hybrid buses trialled at London Central. Working in partnership with London Buses, it is hoped to minimise CO^2 emissions and lead the way to achieving environmental objectives.

Continuing property investment is being made to support growth. As well as for Metrobus, the group has built new depot facilities in Brighton and is about to start a project in the North East to develop a new 'super' depot replacing three existing depots, funded by property disposal proceeds. Property disposal proceeds have been realised on the Isle of Wight, allowing the development of a new bus station in Newport. Investment upgrades to the depots in Birmingham will take place this year, including expenditure to allow the re-opening of the Redditch depot, 'mothballed' by the previous Probus management. The Blandford site in Dorset, referred to last year, now has planning consent and will be developed shortly while expansion plans are in hand at the Eastleigh depot in Southampton.

By the end of the year, the group's London operations were at their largest scale to date. A major factor in this success had been the achievement of record operating performance.

The London regulated market has been the main beneficiary of the development of the Metrobus depot capacity. Whilst the table on page 7 shows volume growth in the regulated market of only 1.3%, this was much more marked in the second half of the year. By the end of the year the peak vehicle requirement of the group's overall London operations had increased by 7.5% compared to the start of the year and this growth in volume will be reflected in mileage operated in the coming year. This trend is in line with that predicted in last year's report and by the end of the year, the group's London operations were at their largest scale to date. A major factor in this success had been the achievement of record operating performance. This has been reflected for most of the year in London Central and London General generally being top of the TfL performance league tables in the critical areas of mileage operated (before losses due to traffic) and excess waiting time. The benefit not only underpins the group's credibility and ability to win contracts but has also delivered £11 million in quality incentive bonuses (2005 – £9 million). It has also allowed the group's businesses to take advantage, under the quality incentive regime, of extending all its eligible contracts for a further two years at the end of their normal five year period. The regulated market, however, remains competitive and management remains focused on the cost reduction measures noted above. As expected last year, operating margins continued to reduce in the year leading to a reduction in absolute profit despite the modest growth in volume. In the current year, growth in volume is expected to offset a further fall in margins to what is expected to be a sustainable level in the longer term.

The growth of overall bus operating margins in the current year is, therefore, expected to be delivered entirely by improvement in the deregulated bus market. The principal risk in achieving this growth is a further material escalation in the price of fuel. No hedging is in place for the current year. Every penny of movement in the cost of a litre of ULS diesel alters divisional costs by approximately £1 million per annum. The group constantly monitors the price of fuel and seeks opportunities to put in place appropriate instruments to provide a hedge against future fuel price volatility. Given the high fuel price and premium required for forward cover, however, the group has not entered into fuel hedges in the recent past.

"Metrobus not only relocated one depot and rebuilt another, it further expanded its activities by 1.5 million miles. In the year the emphasis will be firmly on building the quality of operation without the distraction of upgrading our infrastructure."

Alan Eatwell
Managing Director

Metrobus was established in 1983 with six vehicles at Orpington in Kent and had expanded to some 200 vehicles when acquired by the Go-Ahead Group plc in 1999. The company now operates a fleet of over 360 buses while employing over 1000 members of staff. Metrobus operates in large parts of Surrey, East Sussex and West Sussex and also operates bus contracts for Transport for London. Metrobus is the operator of the innovative Fastway Guided Bus System in Crawley.

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1 The second route of the Fastway Guided Bus System commenced operation on 28 August 2005. Building on the success of the first route approximately 5.5 million passenger journeys have been made on both routes.

2 Metrobus has invested around £5 million refitting the Croydon building to create a fully functioning depot complete with eight purpose built engineering bays allowing vehicles to be serviced efficiently.

Rail

	2006 £m	2005 £m
Revenue	**744.9**	617.9
Operating profit*	**42.5**	39.9
Margin	**5.7%**	6.5%
Passenger income growth**		
Southern	**7.1%**	6.1%
Thameslink	**5.3%**	2.2%
Volume growth**		
Southern	**2.8%**	4.6%
Thameslink	**8.8%**	(0.8)%

* Before exceptional items and amortisation

** The passenger income and volume growth figures for the three months of Southeastern operation are not included in the above table as comparable figures for last year are not available

It is indeed gratifying that Southern was recently awarded best rail company in the National Transport Awards. Passengers are clearly enjoying the improvements with the customer satisfaction rating reaching 81% from 71% last year.

This was a very successful year for the group's rail businesses, despite the initial difficulties following the events of July 7 and 21. The fate of Thameslink was already determined before the start of the year but transfer management has proved successful. In Southern, superb operating performance and consequent volume growth provided an excellent result. The Southeastern franchise has started well.

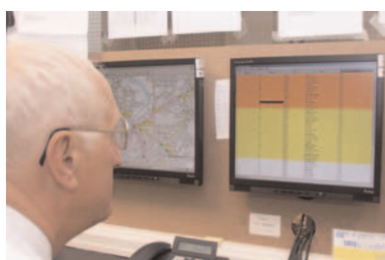
By the second half, Thameslink had recovered its volume growth pattern and this, combined with tight cost control, excellent operating performance, and the asset transfer values achieved at the end of the franchise, meant that the result for the period to the end of March was ahead of expectations this time last year.

"A year of significant improvement, as investment in new buses and AVL equipment paid off. In the last quarter, passenger numbers were up nearly 6% as service quality and reliability reached new heights."

Philip Kirk
Managing Director

Oxford Bus Company provides a network of high frequency local bus services in the central Oxfordshire sub-region, specifically in Oxford, Kidlington, Abingdon and Didcot. It operates Park & Ride services into Oxford city, and high frequency coach services to central London and Heathrow and Gatwick airports.

1



2

1 Investment in new technology has been a key element of the improved performance at Oxford Bus. A partnership with Oxfordshire County Council has brought Automatic Vehicle Location to every bus, enabling control staff to pro-actively manage services in a congested city.

2 Eleven new high specification Mercedes buses were added to the Oxford Bus fleet in 2006. There was a double-digit increase in use on service City2 following their introduction.

In Southern, record operating performance was achieved. The public performance measure was showing over 90% of trains running on time by the year-end. The huge investment in new rolling stock and support facilities is helping to deliver this and has had several benefits:

- The performance regime has delivered £10.7 million net benefit compared to the previous year.
- The 5% discount given to season ticket holders as compensation for the company's past underperformance was removed in the year for the first time since 2001.
- The quality of product now being delivered is supporting growth in passenger journeys.

The group continues to pursue opportunities when attractive franchises are up for re-tender.

Whilst the overall growth in passenger journeys was relatively modest, this reflects the initial effects of July 7 and 21. In the final third of the year, volume was up by 5%.

It is indeed gratifying that Southern was recently awarded best rail company in the National Transport Awards. Passengers are clearly enjoying the improvements with the customer satisfaction rating reaching 81% from 71% last year.

Both Southern and Thameslink were subject during the year, to profit sharing regimes with the Department for Transport ('DfT'). This mitigates the full benefit of the year's achievements being realised in these results. This does not apply to the new Southeastern franchise where a revenue share mechanism is in place, which has not been triggered to date.

The new Southeastern franchise has had a number of challenges. To date these have been robustly tackled and in the last quarter the business made a good contribution to the group's result beyond plan. Key issues being addressed are organisational structure, where significant cost benefits will be realised in the near future, and ensuring that customers can and do pay for travel. Investment in staff and equipment in the retail environment is moving at a pace.

The principal risk for Southern and Southeastern in the last quarter of the current year and beyond is the 65% prospective price increase for traction electricity. Compared to the current price the annualised cost of this increase to the division is £21 million. Discussions are taking place with industry and regulatory bodies to explore how this might be mitigated. Management actions to boost revenue and reduce costs in all areas are also being investigated to ensure that the effects of the traction electricity are mitigated as far as possible. This issue, together with other cost increases and subsidy changes, is expected to affect the results of the division in the current year. As seen in July 2005, terrorist action, or equivalent incidents affecting the rail network, can have a material impact on future results and the group remains vigilant.

The group continues to pursue opportunities when attractive franchises are up for re-tender. This approach has proved highly successful to date and has meant that third party costs expensed in the income statement for bidding in the year were limited to £1.4 million (2005 – £1.3 million). As well as the success in winning the Integrated Kent franchise, the group has been short listed for the TfL London Rail Concession. In the current year the group has also submitted pre-qualification submissions for new franchises in the Midlands region.

"Whilst each of the businesses in the Go South Coast grouping face ongoing challenges of cost pressures, we are encouraged by the growth in patronage which is being achieved where quality has been raised and services have been simplified to stimulate travel by new users."

Alex Carter
Managing Director

Go South Coast comprises six public transport businesses. Wilts & Dorset, Solent Blue Line and Southern Vectis provide local bus services throughout Wiltshire, Dorset and Hampshire, in the Southampton urban area and on the Isle of Wight. Damory and Tourist Coaches operate a mixture of coach and bus services whilst Hants & Dorset Trim's business is in the refurbishment, painting and trimming of vehicles.

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1 New Mercedes Citaro buses to 'more' specification, together with simpler timetables, have brought significant passenger growth to the Canford Heath routes.

2 Southampton is the main cruise port in the UK. During the summer Solent Blue Line provide a fascinating tour of the docks by open top buses.

3 The re-branding of Southern Vectis has added a refreshed image and simpler network, helping to increase passenger volumes on the Isle of Wight.

Aviation services

	2006 £m	2005 £m
Revenue	**258.7**	271.3
Operating profit*	**8.6**	5.5
Margin	**3.3%**	2.0%
Revenue growth		
General handling	**(2.9)%**	5.0%
Cargo	**10.4%**	6.0%
Car parking	**(7.0)%**	22.0%
Volume growth		
General handling – aircraft turnarounds	**(5.8)%**	4.0%
Cargo – tonnes	**6.8%**	4.0%
Car parking – transaction volume	**(3.1)%**	51.0%

* Before exceptional items and amortisation

In the general handling business, the reduction in turnarounds reflects the strategy to increase focus on the full service airline sector away from high volume but low margin charter and 'low cost' sector. The result has been that ground handling revenue has reduced but the value per turnaround has increased by 5%. This, combined with a strategy to improve efficiency by restructuring the cost base, has increased operating margins in general handling from 0.5% in 2005 to 1.75% in the last year. This modest success disguises the improving trend as the year progressed. Recent contract wins at Heathrow, where the group is the leading independent handler, of Emirates and South African Airways will further support the growth in profitability. The division is also well positioned to support airline outsourcing strategies. Current opportunities are being investigated with a number of major airlines. There have been further successes in establishing new contracts with airport authorities at Cardiff for baggage handling and Aberdeen and Durham/Tees Valley for new ramp operations. The group is also prominent as the first handling agent of the new A380 aircraft at Heathrow. The first airline expected to deploy these aircraft at Heathrow in the current year is an aviance customer.

The cargo area was the most rewarding activity in the last year. The large volume increase was a combination of organic growth from successful existing customers and new and recent customer wins. These include SAS at Heathrow and Etihad at Manchester. This has meant improved utilisation of operating infrastructure and margins have improved from 6.4% for 2005 to 9.4% in the last year. A new 65,000 sq. ft. warehouse is currently being built at Heathrow to start up operations in April 2007. Negotiations are nearing completion to pre-sell all this space.

The sector remains competitive and subject to volatility in customer strategy, world economy and events, including terrorism. In recent months customers have been trimming their schedules to optimise returns and cargo growth has slowed. Although the recent terrorist threat will put further pressure on consumer demand, the division is well placed to balance consequent losses with gains driven by continuous improvement of operational quality and efficiency.

“This franchise represents an opportunity to revitalise the railway in this part of the UK, to contribute to growth that Kent is set to experience over the next ten years, and to deliver a growing railway for a growing region.”

Charles Horton
Managing Director

Southeastern took over the operation of the Integrated Kent Franchise (IKF) on 1 April 2006. The IKF includes routes on the national rail network throughout Kent, parts of East Sussex and south east London. It will also include new high speed commuter services from St Pancras making use of the Channel Tunnel Rail Link (CTRL) from 2009. Hitachi-built trains designed for both the CTRL and conventional railway lines will bring greatly improved journey times in parts of Kent.

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1 Enhanced safety and security will be an important feature of the franchise. Rail Enforcement Officers provide a strong, visible, reassuring presence for passengers.

2 Improving communication with passengers and stakeholders is an area the company will focus on. A Stakeholder Advisory Board will be established in the coming year to ensure constructive engagement with passengers and employees.

The cargo area was the most rewarding activity in the last year. The large volume increase was a combination of organic growth from successful existing customers and new and recent customer wins.

The Meteor car parking business has held its own in profitability terms against the background of a declining airport business. Airports remain a dominant area of business for the company with over 80% of revenue being derived here. However, the landscape has been changing with airport authorities seeking to improve their revenue from car parking operations which, in most cases, is the leading source of airport revenue. This has resulted in lost business in Edinburgh, Newcastle and short-stay at Stansted and a change in arrangements at Heathrow to a management contract from the previous concession, all of which has contributed to the 7.0% fall in revenue.

The value of Meteor’s diversification, referred to last year, is now proving of benefit, if not in replacing volume, in replacing profits with higher margin business. In the current year this re-focusing will continue with growth of the airport valet parking product, rail contracts, retail parking, security, technology and other related activities around the core business.

The progress being made in the division, as a whole, is illustrated by comparing the financial performance of the respective half year results. In the first half profits were the same as the previous year at £3.7 million. In the second half profits increased to £4.9 million from £1.8 million in the previous year. The prospects for the division in the current year are encouraging.

ADDITIONAL FINANCIAL MATTERS

Exceptional items

The exceptional items recorded are mainly in respect of redundancy and reorganisation costs. As noted in the respective divisional reviews, significant reorganisations have taken place in the aviation division and the South Coast bus operations. Actual and planned redundancies on the new Southeastern rail franchise had either been completed by the year end or detailed plans had been communicated to the workforce in respect of redundancies to take place in September this year. All these costs have been provided for in these financial statements. In the Metrobus subsidiary significant additional costs were incurred during the depot restructuring programme referred to above and these costs have been treated as exceptional due to the infrequency of such a re-organisation. Separately, the group has concluded a number of property disposals in the year which yielded a net profit of £1.2 million. The sales were principally of former bus depot sites.

"The Southern team will continue to build on the business improvements made over the past few years to ensure that we become the natural choice to win the franchise in 2009."

Chris Burchell
Managing Director

The investment Southern is making in its infrastructure, its passengers and its people is being rewarded with measurable improvements in its business performance, which is contributing to Southern's growing reputation as one of the best train operators in the UK.

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1 The Mayor of Brighton and Hove, Bob Carden officially launches the new Brighton to Ashford direct service at the start of its inaugural journey. The journey time for the service has been reduced by 35 minutes.

2 The programme to increase cycle storage facilities at Southern stations continued with the majority now equipped with cycle shelters or racks.

Goodwill and intangible amortisation

Amortisation in the year is in respect of goodwill, and intangible assets associated with the Southern and Southeastern railway franchises, as well as amortisation on computer software costs. Amortisation also includes that of the intangible assets associated with pensions accounting in the railway companies.

Pensions

Pensions have been accounted for in accordance with IAS19. IAS19 has been applied to the rail schemes in accordance with the approach adopted by other railway operators. This accounting treatment applies a franchise adjustment to reduce the full actuarial deficit or surplus to recognise that individual train operating companies are exposed to pension deficits or surpluses only in so far as they are expected to be funded by the train operating companies over the anticipated period of franchise ownership. Any net liability or asset thereby recognised at the start of a franchise is matched by a corresponding intangible asset or deferred income balance so that the balance sheet effect is initially neutral. The respective balances are amortised over the period of the franchise and as a consequence, over the franchise as a whole, the net charge for pensions to the profit and loss account reflects the equivalent of employer cash contributions paid.

Under the terms of IAS19, the rate of net charge to profit is determined by actuaries at the commencement of the respective financial year. Material deviations from the actuarial assumptions used in calculating the charge are dealt with through the consolidated statement of recognised income and expense. In the last year, the particular feature consequently not recorded in the profit and loss account is the high returns on the group's non-rail pension assets over and above the return assumed in the actuarial calculations. In the year the additional return amounted to £29.9 million. This is the principal reason for the fall in the non-rail IAS19 pension deficit from £101.1 million to £87.5 million. The most material change in actuarial assumptions this year is to increase mortality rates.

Taxation

In comparison to last year, under IFRS, the tax charge has been materially reduced from 27.4% to 23.2%. Part of the reduced rate against the standard rate of 30% is due to settlement of outstanding issues at the end of last year with HMRC. The effective management of asset finance arrangements has also delivered benefit. In 2005, under UK GAAP, the tax rate was recorded at 23.4%. The principal reason for the difference is that last year the tax deduction available in respect of the group's share schemes was deemed a permanent tax difference. Under IFRS, the tax deductions for scheme costs recognised under IFRS2 are dealt with through deferred tax.

Dividends

The total dividend for the year of 56p, comprising this year's interim dividend paid and proposed final dividend, represents an increase of 17% over last year. The dividend cover is now 2.1 times adjusted earnings compared to 2.4 times last year. The board's stated intention remains to reduce cover to 2.0 times by the year ending 2007.

aviance

PLANE HANDLING LTD.

"Following the appointment of a new management team significant progress has been made during the year in the key business areas of health and safety, operations and financial performance."

Arthur Dodgson
Managing Director

We provide outsource service provisions to the airline and newspaper publishing industries including ground handling, passenger check in, lounges, ticket administration, cargo handling and newspaper distribution and administration.

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1 We have invested in the provision of a new state of the art occupational health centre for our staff at Heathrow to treat musculoskelatal injuries and improve employee welfare.

2 aviance and Plane Handling are at the forefront of technological investment in the industry with new equipment already in place to support their leading role as service providers for the new A380 aircraft at Heathrow.

Cash flow

Cash generated from operations was £116.9 million (2005 – £131.7 million). The result for the year is distorted by cash flow movements in connection with the transfer of the Southeastern rail franchise. In particular, cash has been absorbed by the rapid build-up of working capital from the date of transfer, as the transfer of franchise assets excluded debtors. This was somewhat compensated by cash that was received at the date of transfer of the franchise as compensation for the transfer of net creditors from the previous franchisee.

Capital expenditure was, again, high at £70.9 million (2005 – £72.3 million). New bus expenditure amounted to £50.2 million (2005 – £29.6 million). This was higher than expected at the start of the year because of the success in winning new regulated bus contracts in the London market.

A significant feature in the year has been the share buy-back programme in which the group has invested £52.6 million (2005 – £14.1 million) in acquiring 3,204,000 shares, representing 6.2% of the issued share capital. The programme has continued in the current year and shareholders will be asked to renew the authority at the forthcoming annual general meeting to enable the programme to be extended. Shares held in treasury as a consequence of buy-backs to date represent 9.3% of the issued share capital.

Over the year as a whole, the group has increased net borrowing by £75.4 million (2005 – £31.9 million). In addition to capital expenditure and share buy-backs, the group has continued to be active in its acquisition policy and has absorbed further cash through its dividend policy.

Balance sheet

Year end net debt amounts to £138.8 million (2005 – £63.4 million). Excluding restricted rail cash deposits, the figure is £199.5 million (2005 – £146.5 million). In addition, there are operating lease commitments, banking bonds and guarantees set out in note 19 to the financial statements, and the pension deficit, set out in note 22 which affect the group's effective debt capacity.

Other elements of the balance sheet have been materially affected by acquisitions and transfer of rail franchises, in the year. In particular, Southeastern has led to material increases in the carrying values of various categories of asset and liability, as referred to in note 25.

After recognising distributions to shareholders in the form of dividends of £25.3 million and share buy-back of £52.6 million, net assets have not materially changed in the year.

Treasury management policies

The group's policies in relation to funding and risk management are set out in note 23 to the financial statements.

Accounting policies and international financial reporting standards (IFRS)

As required under IFRS1, "First Time Adoption of International Financial Reporting Standards", note 26 to the financial statements sets out a reconciliation of net assets, profit and cash flow under UK GAAP to IFRS. As reported last year, the material issues affecting the group's profit are in relation to pensions (IAS19) and share based payments (IFRS2) both of which have resulted in increased charges to group profit compared to UK GAAP.

“ The delivery of profits in line with forecast, despite a challenging year, illustrates the value of the diverse portfolio. The airport sector continued to represent the main focus of activity.”

Stephen Turner
Managing Director

Meteor operates nationwide under a number of different brands, particularly at airports where it provides more than one service. Brands include Pink Elephant Parking, Park 1, eparking and Chauffeured Parking Services.

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1 Meteor was awarded the airside-bussing contract at London City Airport.

2 A major refit of Meteor Pink Elephant Business Car Park at Heathrow proved very successful.

CORPORATE RESPONSIBILITY

Taking a responsible approach to business is an established part of our group culture and has been since the earliest days of our formation.

A responsible approach to business makes business sense. It directly contributes to achieving our business objectives, but also reflects our commitment to operating in accordance with both our group values and in line with the principles of sustainable development.

Our performance on issues such as service reliability, safety and security are among the factors that help us grow patronage on our buses and trains. At the same time, concerns over environmental issues and changes to the global climate have never been more acute.

In a devolved group, we recognise the importance of shared values and principles of working. This is why we have adopted a common set of corporate values supported by a responsibility grid developed following a structured programme of consultation with passengers, employees and other stakeholders. The grid identified the key responsibility factors that influence the use of buses and train services and those issues that stakeholders expect us to manage and mitigate our impact:

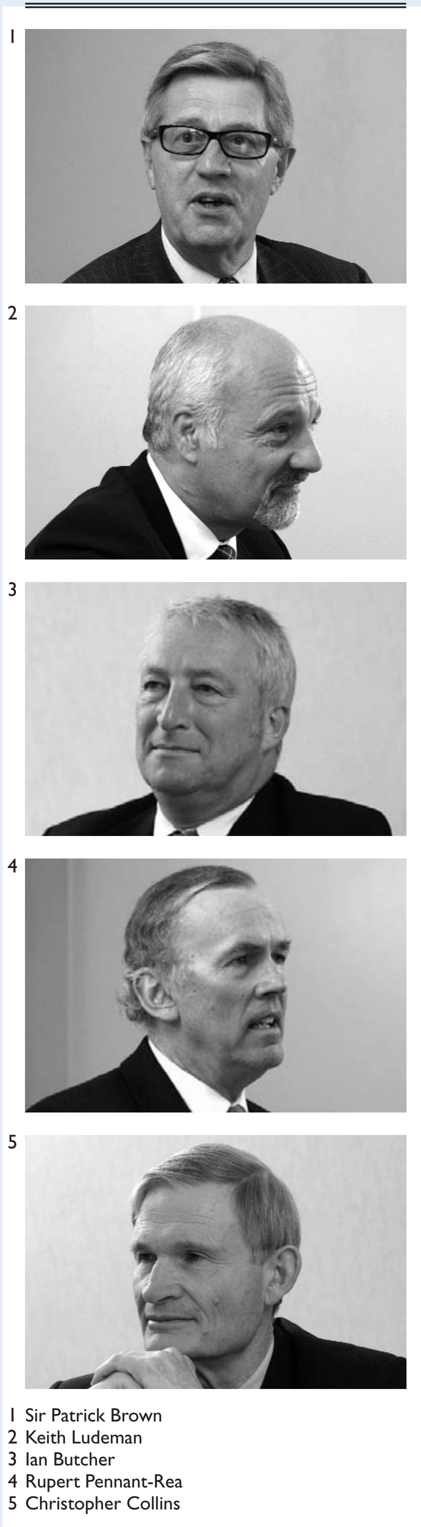
- Safety and security
- Reliability, convenience and punctuality
- Accessibility for all
- Affordability
- Local air pollution and congestion
- Emissions of greenhouse gases, particularly relating to fuel and electricity

We measure, manage and report against these factors and issues. This year, we have changed the way that we manage corporate responsibility by integrating the setting of targets for social and environmental performance into our wider business and financial planning process. The board also continues to review a common set of key business performance indicators at each company board meeting.

In line with our devolved structure, each of our operating companies sets its own corporate responsibility objectives and targets. For a second 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 range of ways. We commissioned an independent study from the TAS Partnership that confirmed that Go-Ahead leads in having the most environmentally friendly bus fleets in Britain. We also enjoyed external recognition by rising 15 places 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 second year, we were the highest ranked public transport company among those that participated. The group also retained its position in the FTSE4Good UK Index, which comprises companies that meet minimum corporate responsibility standards.

A hard copy 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.■



1 Sir Patrick Brown
2 Keith Ludeman
3 Ian Butcher
4 Rupert Pennant-Rea
5 Christopher Collins

DIRECTORS

Sir Patrick Brown (66)
Non-executive chairman

Sir Patrick Brown 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. He spent 10 years in industry and management consultancy before joining the Civil Service. He was permanent secretary of the Department of Transport (DoT) from 1991 to 1997. 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. In 1990 to 1991 he was second permanent secretary in the DoE before returning to the DoT.

Ian Butcher (55)
Group finance director

Ian Butcher is group finance director. He is a chartered accountant and joined the management team of Go-Ahead in 1996. Prior to this he spent 12 years, up to senior management level, with KPMG, including overseas, gaining extensive experience of corporate finance, insolvency and audit. This was followed by 11 years in a broad range of industries at group finance director level, the majority of which were spent with public companies, before joining Go-Ahead.

Christopher Collins (66)
Non-executive director

Christopher Collins is a non-executive director and joined the board in September 1999. He is non-executive chairman of Old Mutual plc and Forth Ports PLC. He was chairman of Hanson PLC until 2005, having previously been executive vice-chairman 1995 to 1997 and corporate development director 1991 to 1995. He is also a non-executive director of Alfred McAlpine PLC. He is a qualified chartered accountant.

Keith Ludeman (56)
Group chief executive

Keith Ludeman 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 (58)
Non-executive director

Rupert Pennant-Rea 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 and a director of various other companies.

ADVISORS

Stockbroker and Financial Advisor

Dresdner Kleinwort
PO Box 560
30 Gresham Street
London EC2P 2XY

Joint Stockbroker

Brewin Dolphin Securities Limited
Commercial Union House
39 Pilgrim Street
Newcastle Upon Tyne NE1 6RQ

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle Upon Tyne NE1 4JD

Solicitors

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle Upon Tyne NE99 1SB

Principal Banker

The Royal Bank of Scotland plc
Corporate Banking
8th Floor
135 Bishopsgate
London EC2M 3UR

The board is committed to maintaining high standards of corporate governance. The board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Combined Code published by the Financial Reporting Council in July 2003.

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 with the following exceptions:

Combined Code reference

A.3.2 Up to the year end, non-executive directors, excluding the chairman, did not comprise at least 50% of the board. Following the resignation of Christopher Moyes as an executive director, the board now complies with this code provision.

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 independence of the chairman and non-executives is subject to ongoing monitoring by the board at least annually.

A.3.3 In the board's opinion, 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 well known to investors and financial professionals in the UK. Shareholders should feel free to approach either of them in the event that their contacts with the chairman and executives are deemed unsatisfactory.

The board confirms that it has established the procedures necessary to comply with The Turnbull Report: 'Internal Control: Guidance for Directors on the Combined Code'. These controls have been reviewed in the light of the revised guidance published in October 2005 and applicable to financial years beginning on or after 1 January 2006.

The board

The board currently comprises three non-executive directors (including the chairman), all of whom are considered to be independent, and two executive directors, and is responsible to shareholders for the proper management of the group. It meets at least every two months, developing and monitoring group strategy and safety standards, setting objectives for the operating subsidiaries of the group, monitoring performance, ensuring adequate funding, examining major acquisition possibilities, formulating policy on key issues and reporting to shareholders. Day to day responsibility for the operation of group companies, implementation of group strategy and achievement of objectives is delegated to executive management.

Whilst non-executive directors are not appointed for a specified term, 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 2006.

The board has adopted a procedure for the evaluation of the performance of the board, its committees and individual directors, including the chairman. The review consists of a questionnaire completed by each of the directors in confidence and analysed by an external consultant. The findings were presented to 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 Chris Collins and Chris Moyes who each were unable to attend one meeting held during December 2005 and May 2006 respectively.

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 group management.

Re-election of directors

Sir Patrick Brown joined the board in 1999 as a non-executive director, becoming non-executive chairman in 2002. His industry wide experience and long-standing contribution to the board are well-recognised and the board believes that Sir Patrick Brown should be re-elected for a further term.

Rupert Pennant-Rea joined the board as a non-executive director in October 2002. The chairman believes that Rupert Pennant-Rea's performance continues to be effective and demonstrates commitment to the role in addition to providing a well qualified and independent contribution to the board. The board believes that Rupert Pennant-Rea should be re-elected for a further 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, and meets no less than four times annually. The committee provides a forum for reporting by the group's external and internal auditors, including health and safety auditors. Meetings are also attended, by invitation, by the executive directors. The committee also receives and reviews reports from management relating to the annual and half year profit figures and statements and monitors the controls which are in force to ensure the integrity of the financial information reported to the shareholders. It also advises the board on the appointment of external auditors and on 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 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 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 Chris Collins who was unable to attend one meeting held during December 2005.

Remuneration committee

The remuneration committee is chaired by Sir Patrick Brown. The committee comprises all the non-executive directors, with the recently appointed group company secretary in attendance. Prior to the year end the meetings were attended by the group chief executive, acting as secretary. 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 25.

During the year the committee met three times. All members of the committee attended each meeting.

Nomination committee

The nomination committee is chaired by Sir Patrick Brown. The committee comprises all of the non-executive directors. The group chief executive attends all meetings. 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. The nomination committee last met after the year-end in July 2006 to select Keith Ludeman as the new group chief executive following the retirement of Christopher Moyes due to illness.

The terms of reference of the audit, remuneration and nomination committees are available on request from the group company secretary.

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 for the independent investigation of such matters and the appropriate follow-up action.

Relations with shareholders

The executive directors meet the group's institutional investors after announcement of interim and final results and at other times as appropriate. The directors are also in regular contact with stockbrokers' analysts. All shareholders are invited to the annual general meeting. The group maintains a website and expects this to continue to be a growing medium for communication to individual shareholders.

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 shareholders have further opportunities to make their views known through follow up interviews by the company's brokers. Their views are documented and circulated to all directors.

Pension plan

The assets of the group's pension plan are totally separate from the assets of the group and are invested with independent fund managers. There are 30 trustees, all employees, chosen to reflect the geographic and functional spread of the group and including the two executive directors. The group chief executive is chairman of the trustees. The auditors and actuaries of the plan are both independent of the group.

Health, safety and environment

The board 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 board 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.

These policies are regularly monitored and the group's subsidiaries subjected 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 group's website.

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.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, 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 review 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;
- the company reports to shareholders twice a year;
- 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.

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.

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. The law requires the company's auditors to audit certain of the disclosures provided. Where disclosures have been subject to audit, they are indicated as such. The auditors opinion is included in their report on page 29.

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.

Remuneration committee procedures

Meetings

Details of the members, the number of meetings and attendees in the year are shown on page 19.

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-executives.

Support to the committee

At the meetings considering payments to the executive directors, the committee receives independent advice from Watson Wyatt Limited, a remuneration specialist. In addition to the advice to the committee, Watson Wyatt Limited are consulting actuaries to the group and advise on various pension issues. The committee receives recommendations from the chief executive on executive directors' remuneration other than his own. The committee considers the chief executive's remuneration in his absence. Information on the remuneration of senior managers in the group is available to the committee. The committee also considers executive directors' bonuses. Bonuses are dependent on the achievement of financial and other targets in the relevant financial year. Again, the committee is advised by Watson Wyatt Limited and again, the chief executive is absent while the committee considers his bonus.

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

Policy

The policies for the following 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.

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 dramatic. Chief among these 'corporate governance' issues are safety and the control of risk. But there are 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.

Executive directors' salaries

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 following changes in executive responsibility as a consequence of the retirement of the former group chief executive.

Executive directors' cash bonuses

Executive directors are paid an annual discretionary bonus in addition to salary. The bonus is paid in October/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 normally 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 2 July 2005 resulted in the maximum bonus entitlements of 30% of basic salary being confirmed in October and paid in November 2005. In respect of the year ended 1 July 2006, the remuneration committee has proposed, and the board has approved, maximum bonus entitlements of 30% of basic salary, as at 1 July 2006, to be paid in November 2006.

Following a review of executive directors' remuneration, the level of potential bonus for executive directors will increase to a maximum bonus entitlement of 100% of basic salary. The first year for eligibility will be in respect of the year ending 30 June 2007. The award will continue to be based on safety and governance for the first 20%; the next 10% will be earned on achievement of 95% of budgeted profits. Thereafter, the bonus earned will be on a straight line calculation up to a maximum of 100% on achievement of 115% of budget, designed to introduce stretch into the scheme.

Executive directors' Long Term Incentive Plan (LTIP)

Following the approval of a new Long-Term Incentive Plan 2005 ('LTIP') 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.

The LTIP was implemented as a result of a review in 2005. With the assistance of Watson Wyatt Limited, the remuneration committee considered a number of alternative arrangements, concluding that the LTIP was the preferred choice 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 plan, 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 dependant upon the satisfaction of initial performance conditions that are measured over a period of three years.

The remuneration committee concluded that the performance conditions that will apply to the initial grant of awards will be 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 initial 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 initial 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 Mid-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 its 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 at 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 recognise that if one company in the peer group performs very badly, an LTIP award could be payable for only marginally better performance. The remuneration committee have confirmed that they will not seek to reward poor performance and LTIP awards will not be automatically made on this basis where performance does not justify such an award.

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 Mid-250 index of companies is as follows:

- if the group's TSR would place it at the median position, the award will vest at 25% only;
- if the group's TSR would place it in the top quartile, the award will vest in full; 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% to 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 the initial performance conditions are relevant, challenging and designed to enhance shareholder value. Awards will vest in full only if exceptional performance has been achieved.

Executive directors' share bonus plan

The executive directors' share bonus plan has previously been used to grant shares to executive directors and senior executives in the group. This has now been replaced by the LTIP described above.

The last 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. These awards will remain in the trust for a period of three years from the purchase date, when title will be transferred to them, provided they are still employed by the group. If a participating executive director leaves employment before the expiry of the three years, transfer of title is subject to the discretion of the remuneration committee. The remuneration committee has determined that title of the awards granted to the senior executive referred to above who participated in the LTIP and the executive directors' share bonus scheme will not be transferred to the executive following his cessation from employment subsequent to the year-end.

Savings related share option scheme and share incentive plan

The company operates a savings related share option scheme and a share incentive plan and the group finance director participates in both. His eligibility and involvement in them is no different to the terms of any other participating group employee and is 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 motorcars to directors or other staff. Instead, personnel who would have been allocated a motorcar as part of their benefits, or to accomplish their work, are given a 'car replacement allowance'. Such allowances are non-pensionable.

Pension funds

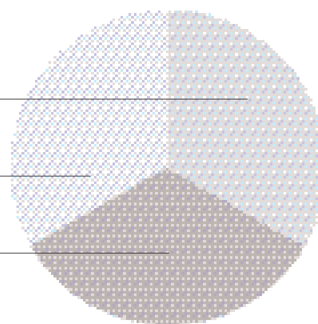
The executive directors, together with 5,377 other group employees, are members of The Go-Ahead Group Pension Plan. The remuneration committee has reviewed the implications of the new pensions regime effective from April 2006 and no changes were made to the current arrangements.

Fixed and performance related pay at maximum performance levels

Basic salary (excluding pension contributions and benefits)

Value of LTIP shares vesting

Performance related cash bonus



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.

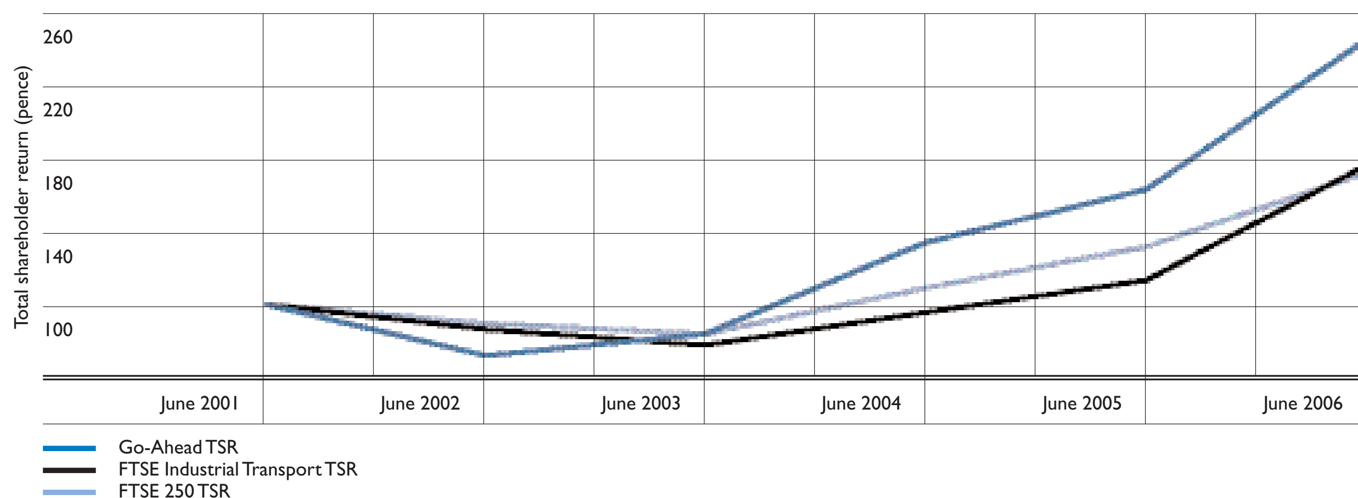
Directors' contracts

Director	Date of contract	Notice period
Christopher Moyes	January 2005	1 year
Ian Butcher	May 1996	1 year
Keith Ludeman	May 2005	1 year
Sir Patrick Brown	February 1999	6 months
Christopher Collins	April 2005	6 months
Rupert Pennant-Rea	October 2002	6 months

The executive directors have rolling contracts. Other than the notice periods specified, directors are not due any contractual compensation payments in the event of loss of office.

Performance graph

The following graph shows a comparison of The Go-Ahead Group plc total cumulative shareholder return against that achieved by the Transport All-Share Index and the FTSE Mid-250 Index for the last five financial years to 30 June 2006. The graph is included to meet the relevant legislative requirements and is not directly relevant to the performance criteria used for the group's LTIP. 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.



Information subject to audit

Emoluments and compensation

	Salary/ fees		Performance related cash bonus		Car replacement		Benefit in kind		Total (exc. pension and LTIP)	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Sir Patrick Brown	**106**	85	**–**	–	**–**	–	**–**	–	**106**	85
Rupert Pennant-Rea	**35**	33	**–**	–	**–**	–	**–**	–	**35**	33
Christopher Collins	**35**	33	**–**	–	**–**	–	**–**	–	**35**	33
Martin Ballinger[1]	**–**	155	**–**	–	**–**	8	**–**	1	**–**	164
Christopher Moyes[2]	**426**	358	**134**	126	**17**	16	**1**	1	**578**	501
Ian Butcher	**376**	319	**118**	111	**15**	14	**1**	1	**510**	445
Keith Ludeman[3]	**325**	247	**102**	96	**14**	10	**1**	1	**442**	354
	1,303	1,230	**354**	333	**46**	48	**3**	4	**1,706**	1,615

1 Retired 31 December 2004
2 Retired as an executive director 8 July 2006
3 Appointed 7 September 2004

Executive directors' share bonus plan

In addition to the emoluments above, the following bonuses were awarded under the executive share bonus plan:

	2006 £'000	2005 £'000
Christopher Moyes	**–**	180
Ian Butcher	**–**	150
Keith Ludeman	**–**	150
	–	480

Directors' share options

	2 July 2005 No.	Exercised in year No.	1 July 2006 No.	Exercise Price No.	Maturity	Expiry Date
Ian Butcher						
Savings related	390	(390)	–	484p	Jan 06	Jun 06
Savings related	234	–	234	1210p	Jun 08	Dec 08

The market price of the group's ordinary shares at 1 July 2006 was 1,966p and the range during the year to 1 July 2006 was 1,220p to 1,970p.

Mr Butcher exercised 390 share options on 3 January 2006, as part of the maturity of the savings related share option scheme. On that date, based on the mid market value per share of 1,695p, the gain arising before tax was £4,723.

Long Term Incentive Plan

	Award Date	At 2 July 2005 No.	Award in year No.	At 1 July 2006 No.	Share price at date of award	End of period when conditions must be met
Christopher Moyes	9 March 06	–	23,351	23,351	1,822p	Jun 08
Ian Butcher	9 March 06	–	20,571	20,571	1,822p	Jun 08
Keith Ludeman	9 March 06	–	17,791	17,791	1,822p	Jun 08

The awards granted on 9 March 2006 will vest dependent upon the satisfaction of performance conditions as set out on page 22, during the period commencing with the start of the 2005 – 2006 financial period and ending with the end of the 2007 – 2008 financial period.

Directors' pension funds

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

Disclosures in accordance with the UKLA Listing Rules

	Christopher Moyes	Ian Butcher	Keith Ludeman
Accrued pension – 2 July 2005 (£000 p.a.)	206	74	165
Accrued pension – 1 July 2006 (£000 p.a.)	255	94	182
Increase in the accrued pension during the year in excess of inflation (£000 p.a.)	43	18	13
Transfer value of the increase in the accrued pension in excess of inflation and directors' contributions (£000)	396	128	101

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

	Christopher Moyes	Ian Butcher	Keith Ludeman
Increase in the accrued pension during the year (£000)	46	20	17
Transfer value of the accrued pension at 2 July 2005 (£000)	2,231	628	1,493
Transfer value of the accrued pension at 1 July 2006 (£000)	2,827	820	1,715
Increase in transfer value over the year net of directors' contributions (£000)	566	166	199

Notes

1 The transfer values have been calculated in accordance with the guidance note "GN11" published by the Institute of Faculty of Actuaries.
2 Messrs Moyes, Butcher and Ludeman were all members of the group's final salary pension scheme during the financial year.
3 Christopher Moyes resigned as an executive director on 8 July 2006

Sir Patrick Brown
Chairman of Remuneration Committee
7 September 2006

The directors present their report and audited financial statements for the year ended 1 July 2006.

Activities

The principal activities of the group are the provision of passenger transport and aviation services.

Trading

The income statement appears on page 30. The directors propose that a final dividend of 38p be paid (making a total of 56p for the year).

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 and the Operating and Financial Review on pages 6 to 16. A description of the group's funding and risk management policies can be found in note 23.

Directors

The names of the directors at the year end appear on page 17. Christopher Moyes retired from the board and as group chief executive after the year end on 8 July 2006.

In accordance with the provisions of the articles of association, Sir Patrick Brown and Rupert Pennant-Rea retire by rotation and, being eligible, offer themselves for re-election.

At the annual general meeting, a resolution will be put to shareholders to approve the Directors' Remuneration Report on pages 21 to 25. The shareholder vote will be advisory only.

The directors' interests in the share capital of the company at the respective year ends, with comparative figures for the 2005 year end, were as follows:

		2006 No.	2005 No.
Sir Patrick Brown	Beneficial	**7,500**	7,500
Ian Butcher	*Beneficial	**61,111**	53,142
Christopher Collins	Beneficial	**10,000**	10,000
Keith Ludeman	**Beneficial	**31,442**	23,612
Christopher Moyes	***Beneficial	**1,959,161**	1,947,678
	Non-beneficial	**37,400**	37,400
Rupert Pennant-Rea	Beneficial	**2,000**	2,000

* Includes 31,055 (2005 – 23,572) shares held under the rules of the executive directors' share bonus scheme as described in the Directors' Remuneration Report. In addition, 338 (2005 – 242) shares are held in The Go-Ahead Group plc Share incentive plan.

** Includes 31,055 (2005 – 23,225) shares held under the rules of the executive directors' share bonus scheme as described in the Directors' Remuneration Report.

*** Includes 11,483 (2005 – 0) shares held under the rules of the executive directors' shares bonus scheme as described in the Directors' Remuneration Report.

There were no changes in these interests up to 7 September 2006. 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 25.

Substantial shareholdings

As at 25 August 2006 the company has been notified of the following interests in its ordinary shares (excluding the directors above) which represent 3% or more of the issued share capital of the company.

	No.	**%**
J P Morgan Asset Management	3,852,345	8.08
Mr M S A Ballinger	3,481,008	7.30
Schroder Investment Management	2,493,157	5.23
Threadneedle Asset Management	2,148,429	4.50
F&C Asset Management	1,947,030	4.08
Legal & General Investment Management	1,812,842	3.80
AEGON Asset Management	1,806,956	3.79
Lloyds TSB Group	1,753,050	3.68

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 Report and the 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 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 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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

In accordance with the Companies Audit, Investigations and Enterprise Act 2004, as far as each director is aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Management and staff

There are approved share option and share incentive schemes in existence intended to enable all staff to share in the prosperity of the group.

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 trades unions representing the employees on a wide range of issues.

Suppliers

Each 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 1 July 2006 the number of days' purchases outstanding for the company and the group were 15 and 31 respectively (2005 – 12 and 29).

Charitable donations

Charitable donations, sponsorship and community support over the year amounted to £400,000 (2005 – £552,000). No payments were made for political purposes.

Special business at the annual general meeting

Resolution 8 set out in the notice of annual general meeting, which will be proposed as a special resolution, will empower the directors to allot shares in the company. Specific shareholder authority pursuant to section 80 of the Companies Act 1985 is required before the directors can allot shares.

This authority shall expire on the conclusion of the next annual general meeting of the company or, if earlier, fifteen months after the passing of the resolution.

Resolution 9 set out in the notice of annual general meeting, which will be proposed as a special resolution, will supplement the directors' authority to allot shares in the company.

Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash to offer them first to existing shareholders in proportion to their existing shareholdings. Equity securities includes ordinary shares (the only class of share capital the company has at present) but does not include shares issued under employee share schemes. If this resolution is passed, the requirement imposed by section 89 will not apply to allotments by the directors in three cases:

1. in connection with a rights (or similar) issue, where strict application of the principle in section 89 could (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local legal or regulatory requirements in any given overseas jurisdiction;
2. allotments of shares for cash up to a total nominal value of £242,041 (representing 5% of the company's issued share capital at 1 July 2006). This gives the directors flexibility to take advantage of business opportunities as they arise, whilst the 5% limit ensures that existing shareholders' interests are protected in accordance with guidelines issued by institutional investors' bodies; and
3. in connection with the sale by the company of shares held by it in treasury. Whilst shares are held in treasury they will not be entitled to vote or receive dividends declared by the company. Section 89 pre-emption rights would normally apply to the subsequent sale of the shares held in treasury in the same way as they apply to an issue of new shares for cash. This resolution disapplies section 89 pre-emption rights in the event of sales of treasury shares. Any acquisition of shares to be held in treasury by the company and any subsequent disposals, will be subject to compliance with any applicable rules or guidelines issued by institutional investors' bodies.

The board also confirms its intention that (including any sales of shares held in treasury) equity securities equivalent to no more than 7.5% of the issued share capital of the company will be allotted for cash on a non pre-emptive basis during any rolling three-year period, again in line with institutional investor guidelines.

This authority will lapse on the conclusion of the next annual general meeting of the company or, if earlier, fifteen months after the passing of the resolution except in so far as commitments to allot shares have been entered into before that date.

Resolution 10 set out in the notice of annual general meeting, which will be proposed as a special resolution, gives the company authorisation to use its available cash resources to acquire its own shares in the market for either cancellation or to hold them as treasury shares. This resolution renews a similar authority given at the last annual general meeting. The directors 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.

This authority will lapse on the conclusion of the next annual general meeting of the company, or if earlier, fifteen months after the passing of the resolution. The extent of the authority sought is calculated in accordance with good corporate governance practice.

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 the forthcoming annual general meeting.

By order of the board

C Sephton
Secretary

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

7 September 2006

Registered No. 2100855

We have audited the group financial statements of The Go-Ahead Group plc for the year ended 1 July 2006 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 26. 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 1 July 2006 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 are responsible 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 as 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, the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether 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 referred from the Trading 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 company's compliance with the nine provisions of the 2003 FRC 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 company'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, the Group at a Glance, the Operating and Financial Review, Directors and Advisors, the Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, Directors' Report and Notice of Meeting. 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 1 July 2006 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

7 September 2006

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 1 JULY 2006

	Notes	**2006 £m**	2005 £m
Group revenue	4(a)	**1,463.6**	1,302.1
Operating costs (excluding amortisation and exceptional items)	4(b)	**(1,365.8)**	(1,205.1)
Group operating profit (before amortisation and exceptional items)		**97.8**	97.0
Goodwill and intangible amortisation		**(5.1)**	(4.0)
Exceptional items	4(d)	**(3.2)**	2.4
Share of post tax results of joint venture		**–**	0.3
Group operating profit (after amortisation and exceptional items)		**89.5**	95.7
Finance revenue	4(c)	**4.9**	4.3
Finance costs	4(c)	**(10.8)**	(6.1)
Profit on ordinary activities before taxation		**83.6**	93.9
Analysed as:			
Before amortisation and exceptional items		**91.9**	95.5
Amortisation and exceptional items		**(8.3)**	(1.6)
Tax expense	5	**(19.4)**	(25.7)
Profit for the year from continuing operations		**64.2**	68.2
Attributable to:			
Equity holders of the parent		**53.7**	57.9
Minority interest		**10.5**	10.3
		64.2	68.2
Earnings per share from continuing operations			
– basic	6	**108.1p**	113.8p
– diluted	6	**107.0p**	111.5p
– adjusted	6	**118.4p**	116.3p
Dividends paid (pence per share)	7	**51.0p**	42.0p
Final dividend proposed (pence per share)	7	**38.0p**	33.0p

CONSOLIDATED BALANCE SHEET
AS AT 1 JULY 2006

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**425.2**	350.1
Intangible assets	9	**118.8**	76.5
Retirement benefit asset	22	**–**	0.9
Trade and other receivables	13	**1.7**	2.4
Deferred tax assets	5	**32.2**	32.2
		577.9	462.1
Current assets			
Inventories	12	**10.0**	6.3
Trade and other receivables	13	**179.3**	138.8
Cash and short-term deposits	14	**90.2**	98.7
		279.5	243.8
Assets classified as held for sale	11	**0.3**	2.3
Total assets		**857.7**	708.2
Liabilities			
Current liabilities			
Trade and other payables	15	**(337.1)**	(264.9)
Interest-bearing loans and borrowings	16	**(61.9)**	(38.2)
Current tax liabilities		**(6.6)**	(8.4)
		(405.6)	(311.5)
Non-current liabilities			
Interest-bearing loans and borrowings	16	**(167.1)**	(123.9)
Retirement benefit obligations	22	**(103.8)**	(101.1)
Deferred tax liabilities	5	**(57.6)**	(45.8)
Other liabilities	15	**(6.1)**	(8.0)
Provisions	17	**(8.0)**	(8.0)
		(342.6)	(286.8)
Liabilities directly associated with assets classified as held for sale	11	**(0.2)**	–
Total liabilities		**(748.4)**	(598.3)
Net assets		**109.3**	109.9
Capital and reserves			
Share capital	20	**65.6**	61.3
Reserve for own shares	20	**(67.1)**	(14.5)
Revaluation reserve	20	**12.4**	–
Other reserves	20	**1.6**	0.6
Retained earnings	20	**93.1**	53.6
Total shareholders' equity		**105.6**	101.0
Minority interest	20	**3.7**	8.9
Total equity		**109.3**	109.9

Sir Patrick Brown
Chairman

I P Butcher
Group Finance Director

7 September 2006

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 1 JULY 2006

	Notes	**2006 £m**	2005 £m
Group operating profit (after amortisation and exceptional items)		**89.5**	95.7
Depreciation of property, plant and equipment	8	**38.0**	35.2
Amortisation of goodwill and intangible assets	9	**5.1**	4.0
Profit on sale of property, plant and equipment		**(1.3)**	(3.3)
Share based payments	4(e)	**0.7**	–
Difference between pension contributions paid and amounts recognised in the income statement		**5.4**	1.9
Decrease/(increase) in inventories		**0.5**	(0.3)
Increase in trade and other receivables		**(31.6)**	(43.4)
Increase in trade and other payables		**10.6**	42.2
Share of post tax results of joint venture		**–**	(0.3)
Cash flow generated from operations		**116.9**	131.7
Taxation paid		**(15.3)**	(28.0)
Net receipt on transfer of rail franchises	25	**7.9**	–
Net cash flows from operating activities		**109.5**	103.7
Cash flows from investing activities			
Interest received		**5.2**	4.0
Proceeds from sale of property, plant and equipment		**3.0**	15.3
Purchase of property, plant and equipment		**(70.9)**	(72.3)
Acquisition of intangible assets		**(3.5)**	–
Purchase of businesses		**(11.6)**	(34.2)
Cash acquired with subsidiaries	10	**0.9**	5.6
Net cash flows used in investing activities		**(76.9)**	(81.6)
Cash flows from financing activities			
Interest paid		**(10.6)**	(6.4)
Dividends paid to members of the parent		**(25.3)**	(21.5)
Dividends paid to minority interests		**(15.1)**	(10.2)
Proceeds from issue of shares	20	**4.3**	4.7
Payment to acquire own shares	20	**(52.6)**	(14.1)
Repayment of borrowings		**(81.5)**	(22.0)
Proceeds from borrowings		**147.3**	102.8
Proceeds from finance lease and hire purchase		**13.5**	31.2
Payment of finance lease and hire purchase liabilities		**(18.4)**	(73.1)
Repayment of loan notes		**(0.1)**	–
Net cash outflows on financing activities		**(38.5)**	(8.6)
Net (decrease)/increase in cash and cash equivalents		**(5.9)**	13.5
Cash and cash equivalents at 2 July 2005	14	**86.3**	72.8
Cash and cash equivalents at 1 July 2006	14	**80.4**	86.3

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 1 JULY 2006

	Notes	**2006 £m**	2005 £m
Income and expense recognised directly in equity			
Share based payments		**0.7**	–
Actuarial gains/(losses) on defined benefit pension plans	22	**16.9**	(39.5)
Revaluation of land and buildings	8	**12.4**	–
Tax recognised directly in equity	5	**(6.5)**	14.5
Net income/(expense) recognised directly in equity		**23.5**	(25.0)
Profit for the year		**64.2**	68.2
Total recognised income and expense for the period		**87.7**	43.2
Attributable to:			
Equity holders of the parent		**77.5**	31.9
Minority interest		**10.2**	11.3
		87.7	43.2

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 1 July 2006 were authorised for issue by the board of directors on 7 September 2006 and the balance sheet was signed on the board's behalf by Sir Patrick Brown and Ian Butcher. 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 1 July 2006, 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 22, including the impact on the group's reported financial performance and position of adopting this accounting treatment as required by IAS1.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The group is required to adopt IFRS in its consolidated financial statements with effect from 3 July 2005. The results for the year ended 1 July 2006 represent the group's first annual review prepared in accordance with its accounting policies under IFRS. Previously the group reported under UK generally accepted accounting principles (UK GAAP). UK GAAP to IFRS reconciliations of equity for 3 July 2004 and 2 July 2005, and of profit for the year ended 2 July 2005 are summarised in note 26.

A summary of the group's accounting policies applied in preparing the financial statements for the year ended 1 July 2006 are set out below. The most significant accounting policy changes arising on the transition to IFRS, along with the policies applied on the transition to IFRS on 3 July 2004 are set out in note 26.

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.

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 (including goodwill (see note 9)) and the measurement of defined benefit pension obligations, as set out in note 22.

As noted above, the group has taken the decision to depart from the requirements of IAS19 "Retirement Benefits" so as to present fairly its financial performance, position, and cash flows in respect of its obligation for the RPS.

Basis of consolidation

The consolidated financial statements comprise the financial statements of The Go-Ahead Group plc and its subsidiaries as at 1 July 2006.

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.

The group's interests in jointly controlled entities are accounted for under the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the group's share of its net assets, less distributions received and less any impairment in value of individual investments. The group income statement reflects the share of the jointly controlled entity's results after tax. The group statement of recognised income and expense reflects the group's share of any income and expense recognised by the jointly controlled entity outside profit and loss.

Minority interests represent the interests not held by the group in GOVIA Limited, a 65% owned subsidiary, and is 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 includes amounts receivable generated from contracts in place with Airport authorities. Parking revenue is generated through the operation and management of car parks and associated services which include security and bus transportation.

Rail revenue includes 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. In addition, franchise agreement receipts from the Department for Transport (DfT) and local Passenger Transport Executives (PTEs) are treated as revenue, and franchise agreement payments to DfT are recognised in operating costs.

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.

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 twelve months after the balance sheet date, these uninsured liabilities are classified as current.

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

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.

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 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. Additionally, accumulated deprecation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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 cost over the 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.

Some fair value accounting adjustments are made using provisional estimates, based on information available, and amendments are sometimes necessary in the twelve 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.

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.

IFRS3 does not permit the annual amortisation of goodwill, but does require an annual impairment review of carrying values. This is the approach taken previously by the group, and so the group's accounting policy for goodwill remains unchanged under IFRS3, with the following exception. Rail businesses are obtained to run rail franchises, which have a finite life. An annual impairment charge is made on this goodwill to represent its finite nature.

Intangible assets

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 (7 to 8 years).

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.

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 an asset or liability representing the fair value of the related net pension surplus or 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.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment of assets – continued

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.

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.

Financial assets

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 has not restated comparative amounts on first applying IAS32 and IAS39, as permitted in IFRS1. See note 26: "Explanation of key UK GAAP to IFRS differences".

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 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 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.

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.

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 derecognition of debt, are recognised directly in the income statement.

Assets held under finance leases, which are leases where substantially all 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.

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 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 group has early adopted the amendment to IAS19 to recognise actuarial gains and losses in full in the statement of recognised income and expense in the period in which they occur in line with the recent amendment to IAS19 "Retirement benefits".

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 TOCs participate in the RPS, a defined benefit scheme which covers the whole of the UK Rail Industry. This is partitioned into sections and the group is responsible for the funding of these schemes whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. A liability 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 represents the deficit that the group expects to fund 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 operates equity-settled share option schemes under which options have been granted to employees (including directors). The group has taken advantage of the transitional provisions of IFRS2 and has applied IFRS2 only to 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 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.

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 and interests in joint ventures, 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.

Treasury shares

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

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.

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.

New Standards and interpretations not applied

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

	Effective date
International Accounting Standards (IAS/IFRS's)	
IFRS1 Amendment relating to IFRS6	1 January 2006
IFRS4 Amendment to IAS39 and IFRS4- Financial Guarantee Contracts	1 January 2006
IFRS6 Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS7 Financial Instruments: Disclosures	1 January 2007
IAS1 Amendment to IAS1: Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS21 Amendments to IAS21 The Effects of Changes in Foreign Exchange Rates	1 January 2006
IAS39 Fair value option, cash flow hedge accounting	1 January 2006

	Effective date
International Financial Reporting Interpretation Committee (IFRIC)	
IFRIC4 Determining whether an Arrangement contains a Lease	1 January 2006
IFRIC5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment	1 January 2006
IFRIC7 Applying IAS29 Financial Reporting in Hyperinflationary Economies for the First Time	1 March 2006
IFRIC8 Scope of IFRS2	1 May 2006
IFRIC9 Reassessment of Embedded Derivatives	1 June 2006
IFRIC10 Interim Financial Reporting and Impairment	1 November 2006

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application. Upon adoption of IFRS7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

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 the Operating and Financial Review.

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 1 July 2006 and 2 July 2005.

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)
Group operating profit (after amortisation and exceptional items)	**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	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
Goodwill and intangible amortisation	0.5	4.4	0.2	5.1
Depreciation	25.0	7.2	5.8	38.0

Year ended 2 July 2005

	Bus £m	Rail £m	Aviation services £m	Unallocated £m	Total £m
Segment revenue	415.4	617.9	273.1	–	1,306.4
Inter-segment revenue	(2.5)	–	(1.8)	–	(4.3)
Group revenue	**412.9**	**617.9**	**271.3**	**–**	**1,302.1**
Group operating profit (before amortisation and exceptional items)	**51.6**	**39.9**	**5.5**	**–**	**97.0**
Goodwill and intangible amortisation	(0.5)	(3.3)	(0.2)	–	(4.0)
Exceptional items	2.4	–	–	–	2.4
Share of post tax results of joint venture	–	–	0.3	–	0.3
Group operating profit (after amortisation and exceptional items)	**53.5**	**36.6**	**5.6**	**–**	**95.7**
Net finance costs					(1.8)
Profit before tax and minority interest					**93.9**
Tax expense					(25.7)
Profit for the year					**68.2**
Assets and liabilities					
Segment assets	370.7	194.8	108.2	32.2	705.9
Assets classified as held for sale	2.3	–	–	–	2.3
Total assets	373.0	194.8	108.2	32.2	708.2
Segment liabilities	(83.2)	(177.8)	(32.7)	(304.6)	(598.3)
Net assets/(liabilities)	**289.8**	**17.0**	**75.5**	**(272.4)**	**109.9**

	Bus £m	Rail £m	Aviation services £m	Total £m
Other segment information				
Capital expenditure:				
Additions	50.5	14.5	7.3	72.3
Acquisitions	11.3	–	5.5	16.8
Intangible fixed assets	12.6	–	16.4	29.0
Goodwill and intangible amortisation	0.5	3.3	0.2	4.0
Depreciation	21.0	8.2	6.0	35.2

Summary of unallocated assets and liabilities

	2006 £m	2005 £m
Assets		
Deferred tax assets	**32.2**	32.2
Liabilities		
Interest-bearing loans and borrowings	**219.2**	149.7
Overdraft	**9.8**	12.4
Current tax liabilities	**6.6**	8.4
Deferred tax liabilities	**57.6**	45.8
Group retirement benefit obligations – The Go-Ahead Group Pension Plan	**71.8**	83.3
Other liabilities	**6.3**	5.0
	371.3	304.6

4 REVENUE AND OPERATING COSTS

a Group revenue

	2006 £m	2005 £m
Rendering of services	**1,288.3**	1,199.5
Rental income	**15.7**	11.9
Franchise Agreement receipts	**159.6**	90.7
Revenue	**1,463.6**	1,302.1
Finance revenue	**4.9**	4.3
Total revenue	**1,468.5**	1,306.4

b Operating costs

	2006 £m	2005 £m
Staff costs (note 4(e))	**577.6**	513.6
Other operating income	**(5.7)**	(6.6)
Other external charges	**355.7**	320.9
Franchise payments to DfT	**42.1**	49.7
Gain on disposal of property, plant and equipment	**(0.1)**	(0.2)
Depreciation of property, plant and equipment		
– owned assets	**19.1**	18.2
– leased assets	**18.9**	17.0
Total depreciation expense	**38.0**	35.2
Auditors' remuneration		
– Audit fees	**0.7**	0.5
– Taxation services	**0.2**	0.3
– Other non-audit services	**0.2**	0.1
	1.1	0.9
Cost of inventories recognised as an expense	**75.4**	60.7
Write down of inventories to net realisable value	**0.4**	1.0
	75.8	61.7
Trade receivables not recovered	**0.7**	0.7
Operating lease payments		
– minimum lease payments	**284.5**	232.7
– sublease payments	**(5.5)**	(4.0)
Total lease and sublease payments recognised as an expense	**279.0**	228.7
Government grants	**1.6**	0.5
Total operating costs before amortisation and exceptional items	**1,365.8**	1,205.1
Goodwill and intangible amortisation	**5.1**	4.0
Exceptional items	**3.2**	(2.4)
Total operating costs	**1,374.1**	1,206.7

In addition to audit fees detailed above, £0.4m (2005 – £0.1m) of non-audit fees were capitalised as part of the cost of acquisitions and franchise bid costs during the year. During the year, £1.0m was also paid to other "Big 4" accounting firms for a variety of services.

c Net finance revenue and costs

	2006 £m	2005 £m
Bank interest receivable on bank deposits	**4.7**	3.6
Other interest receivable	**0.2**	0.7
Interest income	**4.9**	4.3
Bank loans and overdrafts	**8.2**	1.6
Other loans	**0.2**	0.9
Interest payable under finance leases and hire purchase contracts	**2.4**	3.6
Interest expense	**10.8**	6.1

d Exceptional items

	2006 £m	2005 £m
Redundancy and reorganisation costs	**(3.8)**	–
Property relocation costs	**(0.6)**	–
Profit on sale of properties	**1.2**	3.1
Loss on transfer of Thames Trains franchise	**–**	(0.7)
	(3.2)	2.4

The redundancy and reorganisation costs are as a result of significant reorganisations 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 are costs incurred during the major depot restructuring programme at Metrobus.

The profit on sale of properties relates to disposals of various bus depots.

e Staff costs

	2006 £m	2005 £m
Wages and salaries	**509.5**	453.7
Social security costs	**46.2**	41.9
Other pension costs	**21.9**	18.0
	577.6	513.6

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

	2006 No.	2005 No.
Administration and supervision	**2,114**	2,265
Maintenance and engineering	**1,758**	1,581
Operations	**17,758**	16,223
	21,630	20,069

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 24 and 25 headed "information subject to audit".

Sharesave Scheme

The group operates an HM Revenue & Customs ("HMRC") approved savings-related share option scheme, known as The Go-Ahead Group plc Savings-Related Share Option Scheme 2003 (the "Sharesave Scheme"). The Sharesave Scheme is open to all group employees (including executive directors) who have completed at least six month's 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 £250 per month for a period of three to five 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 1 July 2006 as follows:

Scheme maturity	1 Jul 2009	1 Jun 2008	1 Jan 2006	1 Feb 2005
Option price (£)	14.62	12.10	4.84	4.90
No. of options unexercised at 1 July 2006	732,264	685,767	22,666	–
No. of options exercised during the year	–	9,836	866,966	2,655
No. of options exercisable at 1 July 2006	318	7,826	22,666	–

The expense recognised for these schemes during the year to 1 July 2006 was £0.6m (2005: nil). The 2005 and 2006 schemes have not been 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:

	2006 No.	2006 WAEP pence	2005 No.	2005 WAEP pence
Outstanding at the beginning of the year	**1,750,362**	**8.15**	1,967,775	4.87
Granted during the year	**735,905**	**14.62**	802,975	12.10
Forfeited during the year	**(166,113)**	**10.55**	(127,747)	5.12
Exercised during the year	**(879,457)**	**4.92**	(892,641)	4.90
Outstanding at the end of the year	**1,440,697**	**13.27**	1,750,362	8.15

The weighted average share price at the date of exercise for the options exercised in the period was 16.97p (2005 – 15.78p).

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 1 July 2006 were:

	% per annum
Future share price volatility	20.0
Future dividend yield	3.0
Future risk-free interest rate	4.7
Forfeiture rate	10.0
Option life	3 years

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 month's 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.

4 REVENUE AND OPERATING COSTS – CONTINUED

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 25 for further details of the LTIP.

The expense recognised for the LTIP during the year to 1 July 2006 was £0.1m (2005: nil).

The fair value of LTIP options granted is estimated as at the date of grant using a Monte-Carlo model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the options granted in the year to 1 July 2006 were:

	% per annum
The Go-Ahead Group	
Future share price volatility	20.0
Future dividend yield	3.0
Transport Sector comparator	
Future share price volatility	21.0 – 32.0
Correlation between companies	30.0
FTSE Mid-250 Index comparator	
Future share price volatility	25.0
Correlation between companies	20.0

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

	2006 No.
Outstanding at the beginning of the year	–
Granted during the year	72,943
Forfeited during the year	(11,230)
Outstanding at the end of the year	**61,713**

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

5 TAXATION

a Tax recognised in the income statement and in equity

	2006 £m	2005 £m
Current tax charge	**19.2**	22.9
Adjustments in respect of current tax of previous years	**(1.3)**	(2.1)
	17.9	20.8
Deferred tax relating to origination and reversal of temporary differences	**2.2**	4.2
Previously unrecognised deferred tax of a prior period	**(0.7)**	0.7
Tax reported in consolidated income statement	**19.4**	25.7

Tax relating to items charged or credited to equity

	2006 £m	2005 £m
Corporation tax on share based payments	**(3.2)**	(3.0)
Deferred tax on share based payments	**1.5**	0.4
Tax on actuarial losses on defined benefit pension plans	**5.0**	(11.9)
Revaluation of fuel hedge	**(0.1)**	–
Revaluation of properties	**3.3**	–
Tax reported in equity	**6.5**	(14.5)

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 1 July 2006 and 2 July 2005 is as follows:

	2006 £m	2005 £m
Profit on ordinary activities before taxation	**83.6**	93.9
At United Kingdom tax rate of 30% (2005 – 30%)	**25.1**	28.2
Adjustments in respect of current tax of previous years	**(2.0)**	(1.4)
Expenditure not allowable for tax purposes	**0.4**	0.8
Goodwill amortisation	**0.7**	0.7
Other permanent differences	**(4.8)**	(2.6)
Tax reported in consolidated income statement at effective tax rate of 23% (2005 – 27%)	**19.4**	25.7

c Deferred tax

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

	2006 £m	2005 £m
Deferred tax liability		
Accelerated capital allowances	**(10.6)**	(14.3)
Intangible assets	**(4.3)**	(0.2)
Other temporary differences	**(13.4)**	(5.0)
Revaluation of land and buildings	**(29.3)**	(26.3)
	(57.6)	(45.8)
Deferred tax asset		
Pensions	**31.1**	30.1
Share based payments	**0.8**	2.1
Losses	**0.3**	–
	32.2	32.2

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

	2006 £m	2005 £m
Accelerated capital allowances	**(3.4)**	(6.3)
Share based payments	**(0.2)**	–
Tax losses	**(0.2)**	–
Pensions	**(1.9)**	0.3
Revaluation of properties	**(0.2)**	(0.1)
Other temporary differences	**8.1**	10.3
Adjustments in respect of prior years	**(0.7)**	0.7
Deferred income tax expense	**1.5**	4.9

6 EARNINGS PER SHARE

Basic earnings per share

	2006	2005
Net profit attributable to equity holders of the parent (£m)	**53.7**	57.9
Weighted average number of shares in issue (thousands)	**49,674**	50,901
Basic earnings per share (pence per share)	**108.1**	113.8

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

	2006	2005
Net profit attributable to equity holders of the parent (£m)	**53.7**	57.9
Weighted average number of shares in issue (thousands)	**49,674**	50,901
Effect of dilution:		
Dilutive potential ordinary shares under share option schemes (thousands)	**491**	1,018
Adjusted weighted average number of shares (thousands)	**50,165**	51,919
Diluted earnings per share (pence per share)	**107.0**	111.5

The dilution calculation assumes conversion of all potentially dilutive ordinary shares. There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date or before the completion of these financial statements.

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:

	2006 £m	2005 £m
Net profit attributable to equity holders of the parent	**53.7**	57.9
Adjustment in respect of exceptional items	**3.2**	(2.4)
Adjustment in respect of amortisation of goodwill and intangible assets	**5.1**	4.0
Adjustment in respect of minority interest element of the above	**(2.0)**	(1.3)
Adjustment in respect of taxation of the above	**(1.2)**	1.0
Adjusted profit attributable to equity holders of the parent	**58.8**	59.2
Adjusted earnings per share (pence per share)	**118.4**	116.3

7 DIVIDENDS PAID AND PROPOSED

	2006 £m	2005 £m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2005: 33p per share (2004 – 27p)	**16.4**	13.8
Interim dividend for 2006: 18p per share (2005 – 15p)	**8.9**	7.7
	25.3	21.5

	2006 £m	2005 £m
Proposed for approval at AGM (not recognised as a liability as at 1 July)		
Equity dividends on ordinary shares:		
Final dividend for 2006: 38p per share (2005 – 33p)	**18.8**	16.6

8 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Leasehold properties £m	Rolling stock £m	Plant and equipment £m	Total £m
Cost:					
At 3 July 2004	126.2	2.4	237.8	106.8	473.2
Additions	15.4	8.4	29.6	18.9	72.3
Acquisitions	4.7	2.6	14.4	12.2	33.9
Disposals	(7.2)	–	(18.4)	(1.1)	(26.7)
Reclassified to assets held for resale	–	(0.1)	–	(2.2)	(2.3)
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 (note 25)	–	–	–	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**
Depreciation and impairment:					
At 3 July 2004	3.3	0.6	98.6	60.2	162.7
Provided during the year	0.4	1.6	17.9	15.3	35.2
Acquisitions	0.3	1.1	7.9	7.8	17.1
Disposals	(0.4)	–	(14.8)	(0.9)	(16.1)
Impairment	1.4	–	–	–	1.4
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**
Net book value					
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
At 3 July 2004	122.9	1.8	139.2	46.6	310.5

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

	2006 £m	2005 £m
Rolling stock	**129.3**	119.5
Plant and equipment	**7.7**	5.8
	137.0	125.3

Additions during the year included £15.4m (2005 – £20.0m) of rolling stock and £0.3m (2005 – £1.4m) of plant and equipment held under finance leases and hire purchase.

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 valued on the Market Value basis.

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

	2006 £m	2005 £m
Historic cost		
Freehold land and buildings	**147.1**	137.7
Leasehold property	**15.3**	13.3
	162.4	151.0
Accumulated depreciation		
Freehold land and buildings	**4.2**	3.6
Leasehold property	**5.0**	3.3
	9.2	6.9

Included in Freehold land and buildings at 1 July 2006 was an amount of £nil (2005 – £5.8m) relating to expenditure on buildings in the course of construction.

9 INTANGIBLE ASSETS

	Goodwill £m	Software costs £m	Franchise bid costs £m	Rail franchise asset £m	Total £m
Cost					
At 3 July 2004	54.4	3.3	2.4	2.7	62.8
Additions	28.4	0.6	–	–	29.0
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**
Amortisation and impairment					
At 3 July 2004	9.1	1.8	0.4	–	11.3
Charge for the year	2.4	0.3	0.5	0.8	4.0
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**
Net book value					
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
At 3 July 2004	45.3	1.5	2.0	2.7	51.5

Rail franchise

As discussed in the group's accounting policies note, the rail franchise asset arises when the conditions of the franchise award require the group to assume certain liabilities, including for retirement benefits. As such this reflects the cost of the right to operate a rail franchise. The brought forward element of the franchise intangible relating to New Southern Railway Limited is being amortised on a straight-line basis over seven years.

The addition in the year comprises £15.1m relating to the opening deficit in the RPS pension scheme 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 element of the franchise relating to London and South Eastern Railway Limited is being amortised on a straight-line basis over eight years. The franchise intangible was initially recognised at £17.9m and has a carrying value of £17.4m as at 1 July 2006.

Software

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

Goodwill

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

The goodwill charge of £2.4m (2005 – £2.4m) is in respect of rail businesses, which due to the finite nature of the franchises, require the goodwill to be impaired.

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:

	2006 £m	2005 £m
Plane Handling	**16.1**	16.1
Meteor	**15.1**	15.1
Southern Vectis	**12.6**	12.4
Southern	**8.2**	10.6
Metrobus	**6.5**	6.5
Wilts & Dorset	**14.4**	10.6
Brighton & Hove	**2.1**	–
Birmingham Coach Company	**4.1**	–
	79.1	71.3

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 a range of growth rates between 2.25% and 3.0% (2005 – 3.0%). The cash flows have been discounted using a discounted rate of 10.7% (2005 – 9.9%), based on the group's weighted average cost of capital.

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 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.

10 BUSINESS COMBINATIONS

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).

The above transactions have been accounted for as acquisitions in accordance with IFRS3. The acquisition balance sheet has been adjusted to reflect fair values and the goodwill arising has been capitalised as an intangible asset. 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 2006 £m	**Fair value to group 2006 £m**
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		**10.0**
		13.0
Cash		**10.9**
Deferred consideration		**0.5**
Expenses		**0.5**
Shares		**1.0**
Loan notes		**0.1**
		13.0

From the date of acquisition, the acquisitions have contributed a loss of £0.5m to the group and revenue of £10.0m. We are unable to determine the profit that would have been contributed if the combinations had taken place at the beginning of the year. During the year, the subsidiary undertakings acquired did not contribute materially to the group's net operating cash flows, paid taxation payment, or cash utilised for capital expenditure and in financing.

During the year ended 2 July 2005 the group acquired Southern Vectis plc, and aviance Limited (a wholly owned subsidiary of the group) acquired full ownership of Plane Handling Limited, its cargo handling joint venture, by acquisition of the remaining 50% shareholding. A summary of the transactions is detailed below.

Net assets at date of acquisition:

	Book value 2005 £m	Fair value to group 2005 £m
Tangible fixed assets	13.8	16.8
Inventories	0.4	0.4
Receivables	10.2	10.2
Cash at bank and on deposit	5.6	5.6
Retirement benefit obligations	–	(7.5)
Payables falling due within one year	(12.7)	(12.7)
Payables falling due over one year	(3.6)	(4.4)
Deferred taxation	(0.1)	1.3
	13.6	9.7
Goodwill capitalised		28.5
		38.2
Cash		33.6
Expenses		0.6
Net assets previously held		4.0
		38.2

In the year ended 2 July 2005 these acquisitions contributed a profit of £1.0m and the subsidiary undertakings acquired did not contribute materially to the group's net operating cash flows, paid taxation payment, or cash utilised for capital expenditure and in financing.

11 ASSETS CLASSIFIED AS HELD FOR SALE

Assets held for sale, with a carrying amount of £0.3m (2005 – £2.3m), 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 associated liabilities of £0.2m (2005 – £nil).

12 INVENTORIES

	2006 £m	2005 £m
Raw materials and consumables	**10.0**	6.3

The provision for slow moving and obsolete inventory is immaterial.

13 TRADE AND OTHER RECEIVABLES

	2006 £m	2005 £m
Current		
Trade receivables	**89.1**	71.3
Less: Provision for impairment of receivables	**(2.6)**	(2.3)
Trade receivables – net	**86.5**	69.0
Other receivables	**13.4**	16.2
Prepayments and accrued income	**53.6**	37.6
Central government debtor	**25.8**	16.0
	179.3	138.8

	2006 £m	2005 £m
Non current		
Other receivables	**1.7**	2.4
	1.7	2.4

14 CASH AND SHORT-TERM DEPOSITS

	2006 £m	2005 £m
Cash at bank and in hand	**37.4**	23.4
Short-term deposits	**52.8**	75.3
	90.2	98.7

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the group, and earn interest at the respective deposit rates. The fair value of cash and cash equivalents is not materially different to book value.

Amounts held by rail companies included in cash at bank and on short-term deposit, can be distributed subjected to DfT dispensation, up to the value of revenue reserves. As at 1 July 2006, balances amounting £60.7m (2005 – £83.1m) were restricted.

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

	2006 £m	2005 £m
Cash at bank and in hand	**37.4**	23.4
Short-term deposits	**52.8**	75.3
Bank overdrafts (note 16)	**(9.8)**	(12.4)
	80.4	86.3

15 TRADE AND OTHER PAYABLES

	2006 £m	2005 £m
Current		
Trade payables	**108.5**	81.4
Other taxes and social security costs	**21.5**	21.6
Other payables	**16.9**	29.4
Deferred season ticket income	**61.4**	37.4
Accruals and deferred income	**72.0**	50.6
Uninsured claim accrual	**27.2**	25.5
Central government debtor	**23.0**	18.0
Government grants	**6.6**	1.0
	337.1	264.9

	2006 £m	2005 £m
Non current		
Government grants	**3.5**	3.6
Other liabilities	**2.6**	4.4
	6.1	8.0

16 INTEREST-BEARING LOANS AND BORROWINGS

	2006 £m	2005 £m
Current		
Bank overdrafts	**9.8**	12.4
Current obligations under finance leases and hire purchase contracts (note 18)	**14.6**	15.0
Current instalments due on bank loans	**37.5**	10.8
	61.9	38.2
Non-current		
Non-current obligations under finance leases and hire purchase contracts (note 18)	**33.5**	30.1
Non-current instalments due on bank loans	**133.0**	93.2
Loan notes	**0.6**	0.6
	167.1	123.9

Bank loans comprise the following:

Revolving floating rate credit facilities

		2006				2005
	Facility £m	Maturity	Drawn-down £m	Facility £m	Maturity	Drawn-down £m
	25.0	**9 Aug 08**	**25.0**	40.0	15 Feb 07	25.0
	20.0	**10 Mar 08**	**20.0**	20.0	14 Feb 07	20.0
	40.0	**13 Feb 08**	**25.0**	40.0	20 Feb 07	25.0
	40.0	**18 Jan 08**	**30.0**	20.0	10 Mar 06	–
	20.0	**14 Feb 07**	**20.0**			
	145.0		**120.0**	120.0		70.0

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 prior year balances have similarly been reclassified to debt due in more than one year.

The debt is unsecured and interest is chargeable at LIBOR + 0.3% (2005 – LIBOR +0.3%-0.4%).

Medium-term loans

	2006 £m	2005 £m
Fixed rate term loan	**22.4**	34.0
Floating rate term loan	**28.1**	–
	50.5	34.0

The fixed rate term loan is unsecured, is subject to interest of 5.43% and is repayable in 2 equal annual instalments of £11.9m (including interest) on 10 March 2007 and 10 March 2008.

The floating rate term loan is unsecured, is subject to interest at LIBOR +0.3%, and is repayable in 5 equal instalments of £5.6m commencing 22 August 2006.

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 23.

17 PROVISIONS

	Depots provision £m
At 2 July 2005	8.0
Arising during the year	–
Utilised	–
At 1 July 2006	**8.0**

A significant redevelopment of the depots facilities at one of the group's rail subsidiaries is in progress. Whilst the majority of the project will be funded by the DfT, there is a risk that the group will need to find part of the final total cost of the project. On that basis a provision exists to cover the element that the group currently anticipates it will be required to fund. It is expected that this matter will be finalised in either 2008 or 2009 before the end of this rail franchise.

18 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:

	2006 Minimum payments £m	**2006 Present value of payments £m**	2005 Minimum payments £m	2005 Present value of payments £m
Within one year	**16.2**	**15.7**	16.5	15.9
After one year but not more than five years	**34.1**	**31.0**	30.4	27.5
After more than five years	**1.8**	**1.4**	2.1	1.7
Total minimum lease payments	**52.1**		49.0	
Less amounts representing finance charges	**(4.0)**		(3.9)	
Present value of minimum lease payments	**48.1**	**48.1**	45.1	45.1

19 COMMITMENTS AND CONTINGENCIES

Capital commitments

	2006 £m	2005 £m
Contracted for but not provided	**9.0**	21.3

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 1 July 2006 are as follows:

	2006 Land and buildings £m	**2006 Plant and equipment £m**	2005 Land and buildings £m	2005 Plant and equipment £m
Within one year	**8.3**	**17.9**	8.2	18.8
After one year but not more than five years	**25.0**	**19.5**	26.3	31.3
More than five years	**69.8**	**–**	73.8	0.3
	103.1	**37.4**	108.3	50.4

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 1 July 2006 are as follows:

	2006 £m	2005 £m
Within one year	**217.4**	180.7
In the second to fifth years inclusive	**575.5**	779.1
Over five years	**677.2**	–
	1,470.1	959.8

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 2 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 1 July 2006 are as follows:

	2006 Land and buildings £m	**2006 Rail agreements £m**	2005 Land and buildings £m	2005 Rail agreements £m
Within one year	**2.7**	**6.4**	2.4	5.9
After one year but not more than five years	**7.1**	**16.5**	9.8	22.9
More than five years	**–**	**–**	–	–
	9.8	**22.9**	12.2	28.8

Performance bonds

The group has provided bank guaranteed performance bonds of £48.0m (2005– £39.9m) 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 £44.0m (2005 – £44.0m).

20 ISSUED CAPITAL AND RESERVES

	Authorised 2006 £m	2005 £m
61 million 10p ordinary shares	**6.1**	6.1

	Allotted, called up and fully paid 2006 Millions	2006 £m	2005 Millions	2005 £m
As at 3 July 2005	**52.0**	**5.2**	51.0	5.1
Issued on exercise of share options	**0.9**	**0.1**	1.0	0.1
Issued on acquisitions	**0.1**	**–**	–	–
As at 1 July 2006	**53.0**	**5.3**	52.0	5.2

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	Other reserve £m	Retained earnings £m	Total equity £m	Minority interests £m	Total £m
At 3 July 2004	56.6	–	–	0.6	42.8	100.0	7.5	107.5
Arising on shares issued for share options	4.7	–	–	–	–	4.7	–	4.7
Acquisition of own shares	–	(14.1)	–	–	–	(14.1)	–	(14.1)
Transfer re: own shares	–	(0.4)	–	–	0.4	–	–	–
Issue of preference shares	–	–	–	–	–	–	0.3	0.3
Total recognised income and expense	–	–	–	–	31.9	31.9	11.3	43.2
Dividends	–	–	–	–	(21.5)	(21.5)	(10.2)	(31.7)
At 2 July 2005	61.3	(14.5)	–	0.6	53.6	101.0	8.9	109.9
Effect of implementing IAS32/39	–	–	–	–	(0.3)	(0.3)	(0.3)	(0.6)
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**

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 4,229,000 ordinary shares (8.3% of share capital). The 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 1 July 2006 the company has repurchased 3,204,000 shares (2005 – 1,025,000 shares) for a consideration of £52.6m (2005 – £14.1m).

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.

21 RELATED PARTY DISCLOSURES AND PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

Name	Country of incorporation	% equity interest 2006	2005
Brighton & Hove Bus and Coach Company Limited	United Kingdom	**100**	100
City of Oxford Motor Services Limited	United Kingdom	**100**	100
Go Gateshead Limited	United Kingdom	**100**	100
London Central Bus Company Limited	United Kingdom	**100**	100
London General Transport Services Limited	United Kingdom*	**100**	100
Go Northern Limited	United Kingdom	**100**	100
Go Wear Buses Limited	United Kingdom	**100**	100
Metrobus Limited	United Kingdom	**100**	100
Thameslink Rail Limited	United Kingdom*	**65**	65
New Southern Railway Limited	United Kingdom*	**65**	65
London and South Eastern Railway Limited	United Kingdom*	**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
Wilts and Dorset Bus Company Limited	United Kingdom*	**100**	100
Chauffeured Parking Services Limited	United Kingdom*	**100**	100
Plane Handling Limited	United Kingdom*	**100**	100
Solent Blue line Limited (formerly Musterphantom Limited)	United Kingdom*	**100**	100
The Southern Vectis Omnibus Company Limited	United Kingdom*	**100**	100
Southern Vectis Transport Limited	United Kingdom*	**100**	100
Southern Vectis plc	United Kingdom	**100**	100
Birmingham Passenger Transport Services Limited	United Kingdom	**100**	–
Hants & Dorset Trim	United Kingdom*	**100**	–

* 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 £227,000 (2005 – £198,000).

Compensation of key management personnel of the group

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

	2006 £m	2005 £m
As disclosed in directors' remuneration report	**1.5**	1.9
Pension contributions	**0.1**	0.1
Share-based payments	**0.1**	–
	1.7	2.0

22 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 £3.2m (2005 – £2.4m) 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.

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 Southern Vectis group of companies participate in the Southern Vectis Group Pension Plan. 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 non-rail Companies
Employees of Meteor Parking, Plane Handling and Metrobus have access to separate defined contribution pension arrangements. The expense recognised for these is £0.5m (2005: £0.4m) being the contributions paid.

The Railways Pension Scheme
Employees of New Southern Railway Limited, Thameslink Rail Limited (prior to franchise handover) and London and South Eastern Railway Limited participate in defined benefit sections of the Railways Pension Scheme (RPS). The RPS sections are all open to new entrants. The assets and liabilities of each company's section are separately identifiable and segregated for funding purposes.

The group ceased to operate the Thameslink rail franchise and started to operate the London and South Eastern Rail franchise on 31 March 2006. There is an adjustment to the balance sheet items as at 31 March to reflect this (in line with the terms of the franchise arrangements).

The RPS is a shared costs scheme, with assets and liabilities split 60%/40% between the franchise holder/employee respectively.

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. The total surplus or deficit is adjusted by way of a "franchise adjustment". 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 franchise adjustment applied to reduce the group's total obligations under IAS19, is in respect of the deficit projected to exist at the end of each current franchise term and which the group will not be required to fund.

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:

	2006 **£m**	2005 £m
Balance sheet		
Defined benefit pension plan	**(23.4)**	(30.6)
Deferred tax asset	**11.4**	14.7
Deferred income – government grant	**(13.2)**	(17.3)
Intangible asset	**(1.5)**	(1.0)
	(26.7)	(34.2)
Statement of recognised income and expense		
Actuarial losses	**6.2**	(18.0)
Tax on actuarial losses	**(1.9)**	5.4
	4.3	(12.6)
Income statement		
Operating costs – franchise adjustment	**(1.5)**	(0.8)
Intangible asset amortisation	**(0.4)**	(0.7)
Release of deferred income – government grant	**4.1**	4.1
Curtailment gain	**2.5**	–
Deferred tax charge	**(1.5)**	(0.8)
	3.2	1.8

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

Summary of year end assumptions

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

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

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

	Rail		**Non-Rail**	
	2006 **Years**	2005 Years	**2006** **Years**	2005 Years
Pensioner	**18**	16	**18**	16
Non-Pensioner	**19**	17	**19**	17

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes (ie 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.

	Rail		**Non-Rail**	
	2006 **%**	2005 %	**2006** **%**	2005 %
Category of assets at the year-end				
Equities	**72.6**	77.3	**69.5**	67.8
Bonds	**17.2**	13.8	**16.7**	16.8
Property	**9.9**	8.1	**7.0**	8.1
Cash	**0.3**	0.8	**6.8**	7.3
	100.0	100.0	**100.0**	100.0

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

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

22 PENSIONS – CONTINUED

Funding position of the group's pension arrangements

	Rail		Non-Rail	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Employer's share of pension scheme:				
Liabilities at the end of the year	**(571.7)**	(264.9)	**(418.8)**	(379.9)
Assets at Fair Value	**532.0**	235.2	**331.3**	278.8
Gross deficit	**(39.7)**	(29.7)	**(87.5)**	(101.1)
Franchise adjustment	**23.4**	30.6	**–**	–
Pension scheme asset/(liability)	**(16.3)**	0.9	**(87.5)**	(101.1)

Pension cost for the financial year

	Rail		Non-Rail	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Service cost	**15.5**	9.9	**7.8**	6.2
Interest cost on liabilities	**10.8**	7.9	**19.7**	16.7
Expected return on assets	**(13.9)**	(9.3)	**(20.2)**	(15.5)
Interest on franchise adjustment	**(1.5)**	(0.7)	**–**	–
Pension cost	**10.9**	7.8	**7.3**	7.4

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

	Rail		Non-Rail	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Experience loss on pension scheme liabilities (after the franchise adjustment)	**(4.7)**	(7.2)	**(14.0)**	(54.9)
Experience gains on assets	**5.7**	10.2	**29.9**	12.4
Total gain/(loss) recognised in SORIE during the year	**1.0**	3.0	**15.9**	(42.5)
Cumulative actuarial gains/(losses) recognised at beginning of year	**3.0**	–	**(42.5)**	–
Cumulative actuarial gains/(losses) recognised at end of year	**4.0**	3.0	**(26.6)**	(42.5)

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since 3 July 2004 is a £22.6m loss (2005 – £39.5m loss). The directors are 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

	Rail		Non-Rail	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Employer's share of pension scheme liabilities – at start of year	**264.9**	207.9	**379.9**	280.0
Members' share of pension scheme liabilities – at start of year	**19.7**	8.1	**–**	–
Total pension scheme liabilities – at start of year	**284.6**	216.0	**379.9**	280.0
Service cost (including members' share)	**25.8**	16.5	**14.3**	13.6
Interest cost (including members' share)	**18.3**	13.2	**19.7**	16.7
Actuarial (gain)/loss (before franchise adjustment)	**(1.5)**	42.2	**14.0**	54.9
Benefits paid	**(6.1)**	(3.3)	**(9.1)**	(9.6)
Southern Vectis acquisition	–	–	**–**	24.3
Adjustment for start of South Eastern franchise	**338.0**	–	**–**	–
Adjustment for end of Thameslink franchise	**(61.1)**	–	**–**	–
Total pension scheme liabilities – at end of year	**598.0**	284.6	**418.8**	379.9
Members' share of pension scheme liabilities – at end of year	**(26.3)**	(19.7)	**–**	–
Employer's share of pension scheme liabilities – at end of year	**571.7**	264.9	**418.8**	379.9

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

	Rail		Non-Rail	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Fair value of assets – at start of year	**235.2**	195.9	**278.8**	203.9
Expected return on assets (including members' share)	**23.2**	15.5	**20.2**	15.5
Actuarial gain on assets (including members' share)	**9.6**	17.0	**29.9**	12.4
Company contributions	**7.8**	5.9	**5.0**	32.4
Employee contributions (including Age Related Rebates)	**6.1**	4.2	**6.5**	7.4
Benefits paid	**(6.1)**	(3.3)	**(9.1)**	(9.6)
Southern Vectis acquisition	**–**	–	**–**	16.8
Adjustment for start of London and South Eastern franchise	**312.9**	–	**–**	–
Adjustment for end of Thameslink franchise	**(56.7)**	–	**–**	–
Fair value of plan assets – at end of year	**532.0**	235.2	**331.3**	278.8

Estimated contributions for future

	Rail £m	**Non-Rail £m**
Estimated company contributions in financial year 2007	18.8	5.3
Estimated employee contributions in financial year 2007	12.7	4.4
Estimated total contributions in financial year 2007	31.5	9.7

23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors and management

The group's principal financial instruments comprise bank loans, hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to provide working capital, funding for the share buy-back programme and investment funds for fixed assets and acquisitions. 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 liabilities and hence the present adverse risk is an increase in interest rates.

Details of interest rates are shown in note 24.

Liquidity risk

The group has bilateral arrangements, totalling £145m (2005 – £120m) with prevailing rates and dates of maturity as detailed per note 16. This gives flexibility and management of interest rates obtained.

The group purchases road passenger vehicles by means of hire purchase 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 some bus and coach purchases across the group where the purchases are made to service specific contracts. Leasing vehicle requirements on a back to back basis significantly mitigates the risk of ownership at the end of the contract. This has had the effect of incorporating £0.9m (2005 – £1.7m) 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 £21.1m (2005 – £34.6m).

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.

Derivative instruments

The group is exposed to commodity price risk as a result of fuel usage. The group closely monitors fuel prices and takes out fuel derivatives to hedge its risk to increases in fuel prices, when it deems appropriate. The group benefited from fuel derivatives in place during the year, but as at 1 July 2006 the group had no fuel derivatives in place.

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 (DfT, etc). 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.

24 DERIVATIVES AND FINANCIAL INSTRUMENTS

a Fair values

The fair values of the group's financial instruments carried in the financial statements have been reviewed as at 1 July 2006 and are as follows:

	2006		2005	
	Carrying Value £m	**Fair Value £m**	Carrying Value £m	Fair Value £m
Fuel price derivatives	**–**	**–**	–	0.3
Fixed rate debt	**22.4**	**22.0**	34.0	32.5
	22.4	**22.0**	34.0	32.8

The fair value of all other financial instruments 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

During the year, the group had a fuel price swap in place. £0.6m has been transferred from retained earnings, of which £0.3m was recognised in retained earnings as at 3 July 2005 and the remainder was generated during the year 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 1 July 2006. The movement in the period is shown below:

	2006 £m	2005 £m
Unrecognised gains on hedges at start of year	**0.3**	1.0
Gains arising in the year	**0.3**	0.5
Recognised gains in the year	**(0.6)**	(1.5)
Gains arising in the year that were not recognised in the year	**–**	0.3
Unrecognised gain on hedges at the end of the year	**–**	0.3
Gains expected to be recognised within one year	**–**	0.3

c Interest rate risk

The interest rate profile of the financial assets and liabilities of the group as at 1 July 2006 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 1 July 2006								
Floating rate liabilities/(assets)								
Revolving credit facilities	**4.99**	**20.0**	**75.0**	**25.0**	**–**	**–**	**–**	**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**
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**

	Average Rate %	Within 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 2 July 2005								
Floating rate liabilities/(assets)								
Revolving credit facilities	5.16	–	70.0	–	–	–	–	70.0
Cash assets	4.75	(98.7)	–	–	–	–	–	(98.7)
Bank overdrafts	5.75	12.4	–	–	–	–	–	12.4
Fixed rate liabilities								
Medium-term fixed rate term loan	5.43	10.8	11.9	11.3	–	–	–	34.0
Obligations under finance lease and hire purchase contracts	4.47	15.0	11.2	8.4	5.6	2.8	2.1	45.1

Interest on financial instruments classified as floating rate is repriced 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.

25 NOTES TO THE CASH FLOW STATEMENT

Analysis of group net debt

	Cash and cash equivalents £m	Loans £m	HP/Finance leases £m	Loan notes £m	Total £m
4 July 2004	72.8	(20.9)	(82.7)	(0.7)	(31.5)
Cash flow	9.5	(80.9)	41.9	0.1	(29.4)
Acquisitions	4.0	(2.2)	(4.3)	–	(2.5)
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)**

Non cash flow movements

On the handover of a rail franchise certain assets and liabilities are required to be transferred to the successor franchise holder. During the year the group transferred in certain assets and liabilities relating to the Southeastern franchise and transferred out certain assets and liabilities on the handover of the Thameslink franchise.

Cash was increased/(reduced) in the group balance sheet as a result of rail franchise handovers, as detailed below:

	LSER £m	Thameslink £m	Total £m
Intangible fixed assets	33.0	–	33.0
Software	0.7	–	0.7
Tangible fixed assets	25.4	(1.7)	23.7
Inventories	4.0	–	4.0
Retirement benefit obligation	(15.1)	–	(15.1)
Receivables	11.7	(3.8)	7.9
Payables	(81.4)	19.3	(62.1)
Cash	21.7	(13.8)	7.9
	–	–	–

26 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS

First time adoption of International Financial Reporting Standards

The group has applied IFRS1, 'First Time Adoption of International Financial Reporting Standards', to provide a starting point for reporting under IFRS. The group's date of transition to IFRS is 3 July 2004 and all comparative information in the financial statements is restated to reflect the group's adoption of IFRS, except where otherwise required or permitted under IFRS1.

IFRS1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. As a general principle, IFRS1 requires the standards effective at the reporting date to be applied retrospectively. However, retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of the particular transaction is already known. A number of optional exemptions from full retrospective application of IFRSs are granted where the cost of compliance is deemed to exceed the benefit to users of the financial statements. The group has taken the following exemptions:

- the group has elected to use fair value as deemed cost for land and buildings at the date of transition;
- the group has not applied IFRS3 'Business Combinations' retrospectively to business combinations that occurred before 3 July 2004;
- IFRS2 'Share-based Payment' has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005;
- the group has elected to recognise directly in equity all cumulative actuarial gains and losses, in respect of the defined benefit pension schemes, at the date of transition, subject to the franchise adjustment in respect of the Rail Pension Schemes;
- the group has elected to implement IAS32 'Financial Instruments: Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' from 3 July 2005.

The following tables and related notes summarise:

- the group reconciliation of total equity or net assets from that previously reported under UK GAAP to that reported under IFRS for the transitional balance sheet as at 3 July 2004 and the comparative balance sheet as at 2 July 2005; and
- the reconciliation of profit after tax from that previously reported under UK GAAP to that reported under IFRS for the year ended 2 July 2005.

Reconciliation of net assets

	Notes	2005 £m	2004 £m
Total net assets as reported under UK GAAP		143.1	112.2
Employee benefits – non rail	ii	(87.7)	(57.1)
Employee benefits – rail	ii	(5.9)	(7.6)
Property revaluation	iv	47.9	48.5
Adjustment to dividends	i	16.5	13.7
Share based payments	iii	2.0	2.5
Other adjustments to deferred tax	vii	(3.1)	(2.1)
Adjustments to deferred income	ix	(2.9)	(2.6)
Total net assets as restated under IFRS		109.9	107.5

Reconciliation of reported profit	Notes	2005 £m
Profit after tax as reported under UK GAAP		74.5
Employee benefits	ii	(1.3)
Property revaluation	iv	(0.8)
Share based payments	iii	(3.1)
Other adjustments to deferred tax	vii	(0.8)
Adjustments to deferred income	ix	(0.3)
Profit after tax as restated under IFRS		68.2

i IAS10 – Dividends

Under IAS10 'Events after the Balance Sheet Date' the liability in respect of dividend payments is only recognised when the dividend is approved. Therefore, dividends approved after the balance sheet date cannot be recognised as an accrual in those year-end financial statements.

The final dividend declared for the year which is typically approved in September, is required to be reversed. At 3 July 2004, net assets were increased on transition by £13.7m, and at 2 July 2005 by £16.5m.

ii IAS19 – Employee benefits: defined benefit pension plans

Non-rail pension schemes
In prior periods the group accounted for pensions under UK GAAP using SSAP24. IAS19 requires the recognition on the balance sheet of any surplus or deficit, of the group's defined benefit schemes as calculated in accordance with the standard. At 3 July 2004, for the group's non-rail pension schemes, this resulted in a reduction in net assets of £57.1m, (at 2 July 2005 – £87.7m), net of deferred tax.

The income statement is charged with the estimated cost of providing current service benefits, together with a pension finance charge or credit representing the difference between the expected return on the schemes' assets and the interest charged on the schemes' liabilities. Both the service cost and pension finance charge or credit has been reported within operating costs. For the year to 2 July 2005, the group's profit after tax was reduced by £1.3m.

Rail pension schemes
Employees in our rail businesses are members of the appropriate section of the Railways Pension Scheme ("RPS"). As explained in the group's accounting policies, the accounting for RPS schemes is on the basis that there is no recourse to the group for any over or under funding of their sections of the RPS at the end of the franchises. At 3 July 2004, for the rail pension schemes, this resulted in a reduction in net assets of £7.6m (at 2 July 2005 – £5.9m) and a reduction in the group profit after tax for the year to July 2005 of £0.5m.

iii IFRS2 – Share based payments

IFRS2 'Share Based Payments' requires the group to reflect in its income statement the effects of share based payments, based on the fair value at the date of the grant. In accordance with the transitional provisions, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005. The group has used the Black Scholes model to measure the fair value of options granted, and the cost has been taken to the income statement over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting. The impact on profit after tax for the year to 2 July 2005 was not significant.

In addition to the charge to the income statement under IFRS2, under IAS12 deferred tax has been provided on share-based payments. Due to an inconsistency in the rules, whereby tax is recovered on the excess of value at exercise date over the option price, we are required to bring on to the balance sheet at transition deferred tax in relation to all outstanding share save schemes, even though no charge has been taken in relation to some of these. As a result a £2.5m deferred tax asset has been brought on to the balance sheet as at 3 July 2004 (2 July 2005 – £2.0m) and although we will obtain the cash tax deduction, the majority of this asset will never be realised in the income statement as the cash benefit will be taken to the Statement of Recognised Income and Expense. This also had the impact of increasing the tax charge in the year to 2 July 2005 by £3.1m.

iv IAS16 – Property revaluation

The group has obtained a third party professional valuation and elected to use the fair value of the land and buildings at 3 July 2004 as deemed cost, resulting in an increase in net assets at the date of transition of £48.5m net of deferred tax (at 2 July 2005 – £47.9m). As set out the group accounting policies, on an ongoing basis the group has decided to adopt the revaluation option in IAS16 and in the year to 2 July 2005 a revaluation loss of £1.4m was required to be recognised. In addition it has performed a review of residual values and asset lives, resulting in a decrease in depreciation for the year ended 2 July 2005 of £0.3m. These two factors, net of tax, resulted in the reduction in profit before tax of £0.8m for the year to 2 July 2005.

v IFRS3 – Business combinations

The group has taken the option under the transitional arrangements not to apply IFRS3 'Business Combinations' retrospectively to acquisitions that occurred prior to 3 July 2004.

As required in IFRS3 the group has revisited the acquisition accounting for Plane Handling Limited and Southern Vectis plc, which were acquired after 3 July 2004. The only adjustments related to the recognition of the defined benefit pension deficit at Southern Vectis of £7.5m, the removal of the previous SSAP24 creditor of £0.6million, and related deferred tax asset of £2.1m, and an increase in the fair value of land and buildings at Southern Vectis of £3.1million and related deferred tax liability of £0.9m.

IFRS3 does not permit the annual amortisation of goodwill, but does require an annual impairment review of carrying values. This is the approach taken previously by the group, and so the group's accounting policy for goodwill remains unchanged under IFRS3, with the following exception. The New Southern Railway business was acquired to run the rail franchise, which has a finite life. Under UK GAAP the goodwill in relation to Southern is amortised over the life of the franchise. An annual impairment charge, anticipated to be equivalent to the goodwill amortisation charged under UK GAAP will continue to be charged on this goodwill to represent the finite nature of the goodwill.

vi IFRS5 – Assets and liabilities held for disposal

IFRS5 requires that any assets held for sale, and any related liabilities, should be separately classified on the balance sheet, and any non-current assets classified as being held for sale, should not be depreciated from the date they meet the criteria to be recognised as held for sale. As at 3 July 2004 £2.2m of properties have been disclosed as held for resale (2 July 2005 – £2.3m).

vii IAS12 – income taxes

Under UK GAAP deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax is not recognised when fixed assets are revalued unless there is a binding arrangement to sell the revalued asset at the balance sheet date. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Under IAS12, all taxable temporary differences give rise to deferred tax assets and liabilities and must be recognised in full in the financial statements. The tax effects of the other reconciling items from UK GAAP to IFRS have been included in the taxation charge in the income statement. The deferred tax adjustments for pensions, property and share based payments have been explained above. The impact of other deferred adjustments was to reduce net assets by £2.1m at 3 July 2004 (at 2 July 2005 – £3.1m) and to reduce profit after tax in the year to 2 July 2005 by £0.8m.

viii IAS16 – Software costs

Under IAS16 some items of software, which do not meet the criteria of fixed assets, have been reclassified as intangible assets. As at 3 July 2004 £1.7m was reclassified (2 July 2005 – £1.8m).

ix Deferred income

An adjustment has been made to defer certain types of revenue streams in the group's rail division. This has reduced net assets by £2.6m at 3 July 2004 (at 2 July 2005 – £2.9m) and profit after tax by £0.3m in the year to 2 July 2005.

x Cash flow

The transition to IFRS has not had a significant impact on the cash flow of the group.

Parent company financial statements

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61 Independent auditor's report on the parent company financial statements
62 Parent company balance sheet
63 Directors' responsibilities in relation to the parent company financial statements
64 Notes to the parent company financial statements

We have audited the parent company financial statements of The Go-Ahead Group plc for the year ended 1 July 2006 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 1 July 2006.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible 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) as 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, 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 that 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 Trading Section of the Director's Report.

We also 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 Operating and Financial Review, Directors and Advisors, the Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, the Directors' Report and the Notice of Meeting. 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 1 July 2006;
- 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

7 September 2006

PARENT COMPANY BALANCE SHEET
AT 1 JULY 2006

	Notes	**2006** **£m**	2005 (restated) £m
Fixed assets			
Tangible assets	2	**74.2**	60.7
Investments	3	**255.8**	253.3
		330.0	314.0
Current assets			
Debtors: amounts falling due within one year	4	**173.0**	91.7
Cash on deposit		**0.3**	–
		173.3	91.7
Creditors: amounts falling due within one year	5	**(136.4)**	(196.4)
Net current assets/(liabilities)		**36.9**	(104.7)
Total assets less current liabilities		**366.9**	209.3
Creditors: amounts falling due after more than one year	5	**(100.0)**	(70.0)
Net assets		**266.9**	139.3
Capital and reserves			
Called up share capital	8,9	**5.3**	5.2
Share premium	9	**60.3**	56.1
Revaluation reserve	9	**10.3**	10.6
Other reserves	9	**8.8**	7.8
Reserve for own shares	9	**(67.1)**	(14.5)
Profit and loss account	9	**249.3**	74.1
Equity shareholders' funds		**266.9**	139.3

I P Butcher
Group Finance Director

7 September 2006

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting practice.

Company law requires the directors to prepare financial statements for each financial year which 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 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 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.

1 PARENT COMPANY ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared in accordance with applicable United Kingdom generally accepted accounting practice. The company prepares its financial statements on the historic cost basis of accounting as modified by the revaluation of certain tangible fixed assets.

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 for disclosure available to parent companies under FRS25 "Financial Instruments" and FRS13 "Derivatives and other Financial Instruments" for 2006 and 2005 respectively.

Changes in accounting policy

Post balance sheet events
In accordance with FRS21, 'Events after the Balance Sheet Date', the company now recognises dividends in the period they are declared. The prior year comparatives have been restated to comply with FRS21 resulting in an increase in net assets and reserves of £13.7m at 3 July 2004 and a further £2.9m at 2 July 2005.

Share based payments
In accordance with the transitional provisions in the standard, FRS20, 'Share-based Payments', has been applied to all grants made after 7 November 2002 that were unvested as of 3 July 2005. This has not had a significant impact on the operating profits in the current or prior year.

Financial instruments
In accordance with the transitional provisions in the standards, FRS25, 'Financial Instruments: Disclosure and Presentation' and FRS26, 'Financial Instruments: Measurement', have been adopted from 3 July 2005.

Under the previous UK GAAP accounting policies, gains and losses from derivative financial instruments used for hedging purposes were not recognised in earnings or as adjustments to carrying value until the underlying hedged transaction matured or occurred. FRS26 requires all derivatives to be fair valued in the balance sheet. As a result, net assets and reserves have been increased by £0.3m at 3 July 2005.

Pensions
The company has adopted FRS17, 'Retirement Benefits', in the year. With the exception of the removal of SSAP24 accounting balances, this has had no impact on the company which treats both its pension schemes as defined contribution schemes (see note 7). The removal of the SSAP24 prepayment and the related deferred tax has decreased net assets and reserves at 2 July 2005 by £23.6m and decreased profit for the prior year by £18.1m (2004 – decrease in net assets £5.5m).

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. The transitional arrangements of FRS15 have been adopted for properties which permit the previous valuation performed as at 27 June 1998 to be retained. Other fixed assets are shown at historic cost.

Depreciation is calculated using the straight-line method to allocate the cost or valuation of each asset to its residual value over its estimated useful life as follows:

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

Land is not depreciated.

The maximum estimated useful economic life in respect of freehold buildings and long leasehold land and buildings was increased from 50 to 100 years in the current year. The effect of this change was immaterial.

At each balance sheet date the company reviews the carrying amount of its tangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset is estimated.

If the recoverable amount of an asset is less than its carrying amount, the difference is recognised in the profit and loss account as an impairment loss.

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. The schemes are multi-employer schemes for which individual employer asset shares 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 operates equity-settled share option schemes under which options have been granted to employees (including directors). The group has taken advantage of the transitional provisions of FRS20 and has applied FRS20 only to options granted after 7 November 2002 that had not vested before 3 July 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 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 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 company 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 twelve months after the balance sheet date, these uninsured liabilities are classified as current.

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

Treasury shares

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

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 has not restated comparative amounts on first applying FRS25 and FRS26.

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. Prior to 3 July 2005, the accounting policy was that any energy derivatives were not revalued to fair value or included in the company's balance sheet at the year end.

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 2 July 2005				
At 1998 valuation	26.7	0.6	–	27.3
At cost	35.7	0.7	1.4	37.8
	62.4	1.3	1.4	65.1
Additions	8.5	1.6	1.2	11.3
Transfer from group undertakings	6.1	–	–	6.1
Disposals	(2.7)	–	–	(2.7)
At 1 July 2006	**74.3**	**2.9**	**2.6**	**79.8**
Depreciation:				
At 2 July 2005	3.7	0.2	0.5	4.4
Charge for the year	0.9	0.1	0.4	1.4
Disposals	(0.1)	–	(0.1)	(0.2)
At 1 July 2006	**4.5**	**0.3**	**0.8**	**5.6**
Net book value				
At 1 July 2006	**69.8**	**2.6**	**1.8**	**74.2**
At 2 July 2005	58.7	1.1	0.9	60.7

Freehold land and buildings include non-depreciable land amounting to £26.0m (2005 – £20.2m).

Some of the freehold and leasehold properties occupied by the company were valued by Knight Frank external valuers, as at 27 June 1998, on the basis of existing use value. Whilst the group accounting policy under IFRS is to carry their fixed assets at valuation, the company continues to carry land and buildings at historic revalued amounts or cost. If the valuation had not taken place the historic cost and accumulated depreciation would have been:

	2006 £m	2005 £m
Cost		
Freehold land and buildings	**63.9**	52.0
Leasehold property	**3.4**	1.8
	67.3	53.8
Accumulated depreciation		
Freehold land and buildings	**4.4**	3.9
Leasehold property	**0.8**	0.7
	5.2	4.6

The net book value of leasehold properties comprises:

	2006 £m	2005 £m
Leases with 50 or more years unexpired	**0.4**	0.5

3 FIXED ASSET INVESTMENTS

	Shares in group companies £m	Loans to group companies £m	Total £m
Cost or valuation:			
At 2 July 2005	171.1	82.2	253.3
Additions	2.5	–	2.5
At 1 July 2006	**173.6**	**82.2**	**255.8**
Provisions:			
At 2 July 2005	–	–	–
At 1 July 2006	**–**	**–**	**–**
Net carrying amount:			
At 1 July 2006	**173.6**	**82.2**	**255.8**
At 2 July 2005	171.1	82.2	253.3

For details of the principal operating subsidiary undertakings as at 1 July 2006, refer to note 21 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

	2006 £m	2005 (restated) £m
Trade debtors	**0.1**	–
Amounts owed by group companies	**169.6**	76.2
Other debtors	**1.0**	10.5
Deferred taxation (note 6)	**2.2**	4.7
Prepayments and accrued income	**0.1**	0.3
	173.0	91.7

5 CREDITORS

Amounts falling due within one year

	2006 **£m**	2005 (restated) £m
Bank loans and overdrafts	**20.0**	11.7
Trade creditors	**0.7**	0.9
Amounts owed to group undertakings	**83.0**	154.2
Corporation tax	**3.8**	3.5
Other taxes and social security costs	**–**	5.8
Other creditors	**10.0**	10.9
Accruals and deferred income	**12.1**	3.9
Uninsured claim accrual	**6.8**	5.5
	136.4	196.4

Amounts falling after more than one year

	2006 **£m**	2005 (restated) £m
Bank loans	**100.0**	70.0
	100.0	70.0

All loans are repayable in more than one year but not more than two years.

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. The prior year balances have been similarly reclassified from current liabilities to non current liabilities.

6 DEFERRED TAXATION

	Deferred tax **£m**
At 2 July 2005 (restated)	4.7
Provided during the year	(2.5)
At 1 July 2006	**2.2**

Deferred taxation provided at 30% is as follows:

	2006 **£m**	2005 (restated) £m
Capital allowances in advance of depreciation	**(1.6)**	(1.2)
Other timing differences	**3.8**	5.9
	2.2	4.7

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 expense recognised for the defined contribution section of The Go-Ahead Plan is the contributions paid.

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 2003 by a professionally qualified actuary. The next formal valuation is due to be made as at 5 April 2006. 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:

	2006	2005	2004
	%	%	%
Pay increases	**4.3**	4.1	4.1
Pension increases	**2.8**	2.6	2.6
Price inflation	**2.8**	2.6	2.6
Discount rate	**5.4**	5.2	6.0

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

	2006	2005	2004
	%	%	%
Equities	**8.4**	8.3	8.5
Bonds (government)	**4.7**	4.3	5.0
Bonds (corporate)	**5.4**	5.2	6.0
Cash	**4.3**	4.1	4.1
Property	**6.6**	6.5	N/A

The fair value of the assets were:

	2006	2005	2004
	£m	£m	£m
Equities	**201.6**	164.2	127.4
Bonds (Government)	**15.5**	14.2	17.5
Bonds (Corporate)	**26.1**	26.3	36.1
Cash	**23.3**	17.9	6.0
Property	**21.7**	19.5	–
Total	**288.2**	242.1	187.0%

History of experience gains and losses

	2006	2005	2004	2003	2002
(Gain)/loss on Plan assets (£m)	**(36.3)**	(11.2)	(3.6)	16.8	28.9
% of Plan assets at end of year	**(12.2)%**	(4.6)%	(2.0)%	10.3%	17.8%
Experience loss/(gain) on Plan liabilities (£m)	**3.1**	(0.9)	16.9	1.7	11.0
% of Plan liabilities at end of year	**0.9%**	(0.3)%	6.6%	0.7%	5.5%
Total actuarial (gain)/loss recognised in STRGL (£m)	**(23.2)**	39.2	(7.9)	33.9	64.0
% of Plan liabilities at end of year	**(6.4)%**	12.0%	(3.1)%	14.2%	31.8%

Pension scheme deficit

	2006	2005	2004
	£m	£m	£m
Market value of assets	**288.2**	242.1	187.0
Present value of liabilities	**(360.0)**	(325.4)	(256.2)
Deficit in the scheme	**(71.8)**	(83.3)	(69.2)

8 CALLED UP SHARE CAPITAL

	Authorised 2006 £m	2005 £m
61 million 10p ordinary shares	**6.1**	6.1

	Allotted, called up and fully paid			
	Millions	**2006 £m**	Millions	2005 £m
As at 3 July 2005	**52.0**	**5.2**	51.0	5.1
Issued on exercise of share options	**0.9**	**0.1**	1.0	0.1
Issued on acquisitions	**0.1**	**–**	–	–
As at 1 July 2006	**53.0**	**5.3**	52.0	5.2

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	Reserve for own shares £m	Profit and loss reserve £m	Total capital & reserves £m
At 3 July 2004 as previously stated	5.1	51.5	11.5	7.8	–	51.9	127.8
Effect of prior year adjustments	–	–	–	–	–	8.2	8.2
At 3 July 2004 as restated	5.1	51.5	11.5	7.8	–	60.1	136.0
Profit for the year (restated)	–	–	–	–	–	34.2	34.2
Dividends (restated)	–	–	–	–	–	(21.5)	(21.5)
Revaluation reserve amortisation	–	–	(0.1)	–	–	0.1	–
Realised revaluation surplus on sale of property	–	–	(0.8)	–	–	0.8	–
Arising on shares issued for share options	0.1	4.6	–	–	–	–	4.7
Acquisition of treasury shares	–	–	–	–	(14.1)	–	(14.1)
Transfer re: own shares	–	–	–	–	(0.4)	0.4	–
At 2 July 2005 (restated)	5.2	56.1	10.6	7.8	(14.5)	74.1	139.3
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 options	0.1	4.2	–	1.0	–	–	5.3
Acquisition of treasury shares	–	–	–	–	(52.6)	–	(52.6)
At 1 July 2006	**5.3**	**60.3**	**10.3**	**8.8**	**(67.1)**	**249.3**	**266.9**

The cumulative amount of goodwill written off to the profit and loss account of the company at 1 July 2006 is £0.2m (2005 – £0.2m).

The reserve for own shares is in respect of 4,228,702 ordinary shares (8.3% of total share capital). 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 24 and 25.

The audit fee payable in respect of the company was £0.2m (2005 – £0.1m)

10 OPERATING LEASE COMMITMENTS

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

	Property 2006 £m	2005 £m
Over five years	**0.2**	0.2
	0.2	0.2

11 CAPITAL COMMITMENTS

At 1 July 2006, amounts contracted for but not provided in the financial statements for the acquisition of property amounted to £1.6m (2005 – £5.8m).

12 CONTINGENT LIABILITIES

At 1 July 2006 letters of credit amounting to £29.8m (2005 – £29.8m) were provided by a group banker, guaranteed by the company, in favour of one of the group's insurers.

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 £54.8m as at 1 July 2006 (2005 – £70.7m).

13 SHARE-BASED PAYMENTS

The company's employees participate in the group's various share schemes. The details of the schemes including the key assumptions used to determine the accounting charge are set out in note 4(e) of the consolidated financial statements.

The number of options exercised in the year was 3,705 (2005 – 4,490).

14 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under FRS 8, 'Related party disclosures', and transactions with 100% subsidiaries of The Go-Ahead Group plc have not been disclosed.

The company owns 65% of the ordinary shares in GOVIA Limited. Thameslink Rail Limited, New Southern Railway Limited and London and Southeastern Railway Limited ("LSER") are 100% owned by GOVIA Limited and hence the company owns a 65% interest.

	GOVIA		LSER		Thameslink		Southern	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Dividends paid by related party	**28.0**	18.7	**–**	–	**–**	–	**–**	–
Interest paid to related party	**0.7**	0.4	**–**	–	**–**	–	**–**	–
Loans to related party	**(48.0)**	(24.9)	**–**	–	**–**	–	**–**	–
Repayment of loan from related party	**12.0**	10.0	**–**	–	**–**	–	**–**	–
Management charges	**–**	–	**0.1**	–	**0.1**	0.1	**0.4**	0.3
Amounts owed from related party	**40.0**	19.4	**–**	–	**–**	–	**–**	–
Amounts owed to related party	**–**	–	**15.6**	–	**3.0**	3.0	**25.1**	26.3

During the year, Thameslink, Southern and LSER have traded with wholly owned subsidiaries of the group; £4.9m of costs were incurred by Thameslink, Southern and LSER on an arms' length basis.

Notice is hereby given that the Nineteenth annual general meeting of the company will be held at the Hilton Newcastle Gateshead, Bottle Bank, Gateshead, Newcastle upon Tyne, NE8 2AR on Thursday 26 October 2006 at 15:00 hours for the following purposes:

Ordinary business

1 To receive and adopt the Directors' Report and Financial Statements for the year ended 1 July 2006, together with the Auditors' Report thereon.

2 To declare a final dividend of 38p per share in respect of the ordinary shares in the company payable on 24 November 2006 to all ordinary shareholders on the register at the close of business on 3 November 2006.

3 To re-elect Sir Patrick Brown as a non-executive director of the company.

4 To re-elect Rupert Pennant-Rea as a non-executive director of the company.

5 To consider and approve the Directors' Remuneration Report for the year ended 1 July 2006.

6 To re-appoint Ernst & Young LLP as auditors of the company.

7 To authorise the directors to fix the remuneration of Ernst & Young LLP.

Special business

To consider and, if thought fit, pass the following resolutions as special resolutions:

8 That in substitution for the authority granted to the directors pursuant to a special resolution passed at the annual general meeting of the company held on 27 October 2005, the directors be generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £839,938 provided that:

i (except as provided in paragraph (ii) below) this authority shall expire on the conclusion of the next annual general meeting of the company or, if earlier, fifteen months after the date of this resolution, but may be previously revoked or varied by an ordinary resolution of the company; and

ii the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement notwithstanding that the authority conferred by this resolution has expired.

9 That, subject to the passing of resolution 8 above, the directors, pursuant to the general authority conferred on them, be empowered pursuant to Section 95 of the Companies Act 1985 to allot for cash, either pursuant to the authority so conferred or where the equity securities are held by the company as treasury shares (within the meaning of section 162A(3) of the Act), to allot equity securities (within the meaning of Section 94 of the Act) as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

i made in connection with an offer of securities, open for acceptance for a fixed period, by the directors to ordinary shareholders of the company on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws or requirements of any recognised regulatory body or any stock exchange in any overseas territory or in connection with fractional entitlements); and/or

ii wholly for cash (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal value of £242,041 (being 5% of the issued share capital of the company on 1 July 2006); and

iii shall expire on the conclusion of the next annual general meeting of the company or, if earlier, fifteen months after the passing of this resolution, but the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such an offer or agreement as if the power conferred by this resolution had not expired;

10 That the company be generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 10p each in the capital of the company either for cancellation or to hold as treasury shares (within the meaning of Section 162A(3) of the Act) provided that:

i the maximum aggregate number of shares hereby authorised to be purchased is 4,500,000;

ii the maximum number of shares held in treasury will never exceed 10% of the issued share capital of the company;

iii the maximum price which may be paid for such ordinary shares shall not be more than 5% above the average of the market values for an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased;

iv the minimum price which may be paid for such shares is 10p per ordinary share;

unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the company's next annual general meeting or fifteen months from the date of this resolution (whichever is earlier); and

v the company may make a contract or contracts to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the board

C Sephton
Secretary

7 September 2006

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

Notes

i The company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 18:00 hours on 24 October 2006 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 18:00 hours on 24 October 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

ii A member may appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the company. A form of proxy is included with the Annual Review, or separately for members electing not to receive a hard copy Annual Review, if required. To be effective this must be deposited at, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZX not later than 48 hours before the meeting.

iii Completion and return of the proxy will not preclude shareholders from attending and voting at the meeting.

iv CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting to be held on 26 October 2006 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

v There will be available for inspection at the registered office of the company and during usual business hours (Saturdays, Sundays and public holidays excepted) from the date of this notice until the date of the annual general meeting:

a a statement of all transactions of each director and of his family interests, in the equity share capital of the company;

b copies of the contracts of service of the directors employed by the company and the letters of appointment of the non-executive directors.

These documents will also be available for inspection during the annual general meeting and for at least fifteen minutes before it begins.

vi If you have sold or transferred your Go-Ahead shares you should send this document and the enclosed Form of Proxy to the purchaser or to the stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

	No. of holders	%	Shares held	%
Range of holdings				
1 – 10,000	2,541	90.52	1,976,935	3.76
10,001 – 100,000	190	6.77	6,763,452	12.86
100,001 – 500,000	60	2.14	13,817,149	26.26
500,001 – 1,000,000	11	0.39	7,984,743	15.18
Over 1,000,001	5	0.18	22,058,340	41.94
	2,807	100.00	52,600,619	100.00

	No. of holders	%	Shares held	%
Classification of Shareholders				
Treasury shares	1	0.04	4,192,230	7.97
Directors	6	0.21	2,034,683	3.87
Other individuals	2,275	81.05	7,177,475	13.64
Institutional investors	525	18.70	39,196,231	74.52
	2,807	100.00	52,600,619	100.00

FINANCIAL CALENDAR

Annual general meeting	26 October 2006
Record date	3 November 2006
Final dividend paid	24 November 2006
Half year-end	30 December 2006
Interim results announced	February 2007
Interim dividend paid	April 2007
Next financial year-end	30 June 2007
Full year results announced	September 2007
Annual general meeting	October 2007
Final dividend paid	November 2007

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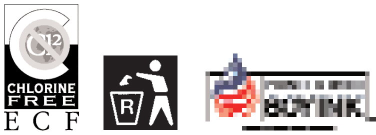

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When completing your details you will need to specify that future communications should be sent in 'email' format. You will need your account number/shareholder reference number which is the eight digit number found on your tax voucher or share certificate.

The Go-Ahead Group plc
3rd Floor
41 – 51 Grey Street
Newcastle upon Tyne
NE1 6EE

Telephone 0191 232 3123
Facsimile 0191 221 0315

www.go-ahead.com