Highlights

FOR THE YEAR TO 28 JUNE 1997

- *Profit before tax up 81% to £21.5 million (1996 - £11.9 million)*
- *Turnover increased by 125% to £304 million (1996 - £135 million)*
- *Adjusted earnings per share increased by 68% to 38.8p (1996 - 23.1p)*
- *The Board has declared a final dividend of 5.85p making a total of 8p for the year, an increase of 44%*
- *Interest of £2.4 million covered by operating profit 9.8 times*
- *Gearing reduced to 45% from 240%*
- *183 new buses and coaches committed*
- *Rail passenger revenue growth, at constant prices, over 12%*

FINANCIAL CALENDAR

Annual general meeting	*28 October 1997*
Record date	*7 November 1997*
Final dividend paid	*27 November 1997*
Half year end	*27 December 1997*
Interim results announced	*February 1998*
Interim dividend paid	*April 1998*
Next financial year end	*27 June 1998*
Full year results announced	*September 1998*
Annual general meeting	*October 1998*
Final dividend paid	*November 1998*

Chairman's Statement

The year to 28 June 1997 has again seen the group advance in its development as a major provider of urban public transport. Turnover for the year of £304 million has more than doubled from the previous year. Profit before tax of £21.5 million is up by 81%. Of the increases, the acquisitions of the Thames Trains and Thameslink rail franchises have contributed £111 million in turnover and £4.7 million in operating profit before exceptionals. The bus businesses have continued their development and the operating profit before exceptionals of £24.5 million represents an operating margin of 12.7%, up from 10.5% and represents very positive progress towards our stated medium term target of 15%.

The target profitability of 15% is reckoned by the industry to be a minimum necessary to provide the ongoing resources for reinvestment. In this year alone, capital investment of £32 million is anticipated, mainly for fleet renewal. Unless that target level of profitability is reached and maintained, the many exciting improvements in urban public transport, on which a consensus is beginning to emerge, will be difficult to deliver. Government and public opinion are moving to a view that urban public transport must be renewed and developed if our cities are to be saved from the tyranny of the motor-car. Profitable public transport suppliers which are able to offer a high quality service are essential to this renewal.

The deliberate concentration on London and the South East has paid off in the year. A full year of London General, largely merged with the continuing high-quality services from London Central, has shown an enhanced return. The Oxford margin has increased by a full ten percentage points, justifying the robust response to competition in that City; and Brighton has continued its upward trend. The rail franchises have shown very strong increases in patronage, Thames Trains up by 11.9% and Thameslink by 12.9%, fully justifying the group's stance on acquiring those franchises. Only the North East has shown continuing falls in patronage as car usage in that area grows from a lower base than most of the UK. In the North East, margin has again increased but only through strenuous management action to gain the benefits of the OK acquisition.

Earnings per share have increased by some 33% and, before exceptional items, 68%. The board is recommending a final dividend of 5.85p making 8p per share for the year as a whole, more in line with the sector.

The Go-Ahead Group welcomes the opportunity to participate in the debate on the future of public transport in the UK. Given that our group of autonomous companies is more evenly balanced between rail and bus, between regulated and deregulated markets and between London and the provinces than some others in the sector, the potential effect of increased regulation is likely to make less of an impact on The Go-Ahead Group. Furthermore, for the first time ever, the group is able to offer real bus-rail integration which will improve the quality of service in both road and rail. Many opportunities have already been realised and others are under development.

The future prospects for public transport look bright, but only if the public transport operators are allowed to flourish and thereby maintain a high quality service. Whereas all shades of political opinion seem to be in favour of encouraging public transport use, recent cost increases imposed on operators seem to be out of step with the mood. Fuel tax increases will proportionately affect the operators far more than the private motor-car competitor. The abolition of tax credits on pension fund dividends may have removed any buffer the operators had built up as a cushion against pension under-funding and could therefore lead to funding cost increases. Finally the abolition of Profit Related Pay tax breaks will only serve to heighten staff expectations of future pay increases to recover the loss of the tax advantages many staff in the industry currently enjoy. Despite these difficulties, management is taking steps to ensure the group results for the current year remain in line with expectations.

I would like to take this opportunity to thank our staff on behalf of the many customers who depend on them for their daily journeys to work, school, shops or whatever. And I do not forget the managing directors of our subsidiary companies who have given such excellent leadership and direction to their own companies. The commitment of the group's staff to public service is unquestioned. They are out there every day trying to do their best for the public, some of them with woefully inadequate resources inherited from nationalised days. I congratulate them and thank them warmly.

To flourish we must attract and hold top quality staff and make sure that we pay the 'going rate' to all employees - including directors - in the markets in which we operate. It is noteworthy that recent published TGWU research shows The Go-Ahead Group as paying in the upper end of the wage range in all of the markets in which it operates. It is also noteworthy that we have over 3,500 employee shareholders and share option holders. We believe wholeheartedly in employee participation in the prosperity of the group.

In conclusion, I would like to welcome Sir Fred Holliday, a noted environmentalist and a director of other service companies, to our board, joining Duncan Clegg and myself as a non-executive director. He is joining a small team of professionals dedicated to the development of The Go-Ahead Group as a leading provider of urban public transport. I would like to place on record my thanks to that small team of executive directors for the excellent results in 1996/97. Together, we look forward to the future with confidence.

Sir Michael Straker
Chairman
18 September 1997

FINANCIAL REVIEW

Trading results

The increase in turnover of 125% was achieved mainly through acquisitions as follows:

£million	
Turnover for the year to 29 June 1996 excluding discontinued business in 1996	**134**
Growth in turnover of businesses held for a full year in 1996	**7**
Increased turnover for London General Transport Services Limited acquired in 1996	**51**
Brighton Transport Limited acquired in the year	**1**
Rail operations acquired in the year	**111**
Turnover for the year to 28 June 1997	**304**

Operating profit, excluding exceptional operating costs, may be analysed as follows:

	1997 Turnover	**1997 Operating Profit**	**1997 Margin**	**1996 Turnover**	**1996 Operating Profit**	**1996 Margin**
	£million	**£million**	**%**	**£million**	**£million**	**%**
Road Passenger Transport:						
Regulated	**103**	**14.3**	**13.9**	*47*	*6.4*	*13.6*
Deregulated - north	**57**	**7.0**	**12.3**	*58*	*6.3*	*10.9*
Deregulated - south	**33**	**3.2**	**9.7**	*29*	*1.4*	*4.8*
	193	**24.5**	**12.7**	*134*	*14.1*	*10.5*
Rail Passenger Transport:	**111**	**4.7**	**4.2**	–	–	–
	304	**29.2**		*134*	*14.1*	

The above margins are stated after full absorption of all central costs and employee distributions. Road passenger transport (bus) margins would be 13.2% if central costs of £1,035 million were excluded, as is the case with some other companies in the sector.

The group medium term target remains an operating margin of 15% and very positive progress has been made in the year towards achieving this.

Continued cost rationalisation in the North East, as the OK Motor Services integration progresses, has yielded a significantly improved performance notwithstanding the background of a declining market.

The performance of the deregulated south market is explained by the return of stable market conditions in Oxford. Further progress can be anticipated in Oxford and also Brighton as the Brighton Transport integration is completed.

With extensive rationalisation of central costs in the regulated London operations, only modest progress was made. Margin stability can be expected in the medium term as the effects of competitive tenders and a tight labour market restrain further margin growth.

Costs generally in the bus sector are now under upward pressure. Recent Government tax legislation is a major influence: withdrawal of profit related pay will fuel staff pay expectations; withdrawal of the ability of pension funds to reclaim future tax credits on UK dividends are likely to increase staff pensions costs; the freezing of fuel duty rebate in recent years means an inflation rate on our second largest direct cost after labour of over 25%. In addition, prevailing labour market conditions are beginning to indicate the possibility of wages growing faster than inflation. Despite these issues, the medium term target operating margin referred to above remains the objective, though its achievement will undoubtedly now be more difficult.

Performance in the new rail division has exceeded our early expectations entirely because of more buoyant growth in passenger volumes than anticipated. Given the operational gearing of these businesses the operating profit is very sensitive to this factor. With the vast scope for further management action in improving services and communicating these to our customers, this is very encouraging. Much remains to be done in these businesses but the start has been good.

Exceptional costs are analysed in Note 4 to the accounts. All of these have been absorbed within total operating costs in arriving at the group operating profit. The costs associated with the acquired businesses in the year represent the whole of those foreseeable in future years and, in the absence of further acquisitions, no exceptional costs are envisaged in the current year.

Interest cost

Interest cover is a very healthy 9.8 times compared to 4.9 times last year. The key cash movements influencing this are described below but a further factor is the reorganisation of the group's banking arrangements during the year. Whilst this gave rise to the exceptional cost write off described in the accounts, it has enabled the net rate cost of floating bank borrowings to be much reduced.

Fixed interest rates continue to apply to the group's leasing and hire purchase finance. In the medium term this means that the recent increases in interest rates will have a positive rather than negative influence on group interest costs as we reap the benefits of better returns on floating rate bank deposits.

Taxation

The effective tax rate as a whole was 26% (1996: 24%). Excluding prior year tax credits, the effective underlying rate of tax is 30% (1996: 22%). The non-provision of deferred tax is the critical influence. The group is not providing for depreciation timing differences as last year, but the charge is also influenced this year by the assumed disallowance of certain exceptional costs, thereby increasing the tax rate in the absence of a deferred tax provision credit. The effective rate in the current year is, therefore, still expected to be below the standard rate before prior year items.

Earnings and dividends

Earnings per share show an increase of 33% on last year. Adjusted earnings per share, excluding tax and minority adjusted exceptional items, show an even more impressive 68% increase. The overall dividend increase proposed from 5.55p to 8.0p is 44% but this is still prudently covered 4.1 times (1996: 4.4) by earnings, the highest level of cover in our sector.

Acquisitions

Goodwill arising on the rail acquisitions was small being created entirely by fair value adjustments, reflecting more prudent accounting policies in this group, and some costs of acquisition. Other costs of acquiring rail franchises have been carried forward for amortisation over the lives of the respective rail franchises. The rail businesses cost a nominal £1 each and the majority of investment in the year was the injection of new loan, non-equity and equity capital through the respective intermediate holding companies, in each case the equity of which is held 65% by Go-Ahead.

The goodwill arising on the acquisition of Brighton Transport (1993) Limited was more material at £4.9 million, but the impact on group net assets was mitigated by the issue of shares valued at £1.9 million as partial consideration. It is pleasing to note that no reference is to be made to the Monopolies and Mergers Commission in respect of this acquisition.

Cash flow and borrowings

Cash flow from operating activities at £25.3 million is 16% up on last year. This figure is distorted by the effect of the rail acquisitions. Whilst these were acquired with £27.5 million of cash (cash flow statement note 2) they also contained high levels of creditors due for almost immediate settlement at the point of acquisition. The high level of cash outflow in settling creditors (£11.8 million - cash flow statement note 1) is largely attributable to this one off factor.

Free cash flow (after tax, interest and dividends) of £17.7 million was almost entirely spent on new net capital expenditure of £17.3 million (£18.5 million gross of sale proceeds), re-emphasising the group's commitment to invest heavily in updating its transport systems. Even greater investment is planned in the current year when the average age of the bus fleet is expected to drop to 8.5 years.
Despite this, the group will still be very cash generative in the current year and in the absence of further acquisitions, gearing will be further reduced.

Year end debt may be analysed as follows:

	1997 £million	1996 £million
Bank loans	**5.9**	*18.5*
Unsecured loan notes	**1.8**	*5.0*
Hire purchase and lease finance	**35.1**	*31.8*
Net cash balance including cash on deposit	**(26.9)**	*(10.9)*
	15.9	*44.4*

Based on total net assets, the gearing figures for 1997 and 1996 are 45% and 240% respectively. However, much of the net cash balances are restricted to use within the rail businesses, either because they are needed to collateralise bank season ticket bonds, or their transfer to the rest of the group is restricted to that cash which can be distributed by dividend. If such balances amounting to £29 million were excluded, gearing is increased to 127%, still a considerable reduction on last year's figures especially considering the amount of investment activity in the year.

Balance sheet

Net assets have nearly doubled as a consequence of retained profits (£11.6 million), the net proceeds of share issues (£8.8 million) less goodwill on acquisitions written off (£5.7 million), and the sharing of rail investment risk and opportunities with minority joint venture parties (£2.1 million). The increased scale of operations in the year through acquisitions explains the various increases in current assets and liabilities. Following the reorganisation of bank facilities during the year, bank loans over one year were largely repaid and replaced with revolving committed bank facilities, obviating the need to keep bank deposits as the source of banking headroom.

Accounting policies

These have been applied consistently with the group's previous prudent policies. As noted last year, the policy to provide for vehicle and property repairs has been retained. As the bus fleet is updated and properties, particularly in the North East, are planned to be rationalised, the provision required under this policy is reduced. The expected FRS on this subject will prompt the need for this policy to be revised, if the terms of the current exposure draft are retained, resulting in the further release of some or all of this provision.

OPERATING REVIEW

The past year has seen continued progress towards the group aim to become a leading operator of urban public transport services. Entry into the rail passenger business was achieved through success in bidding for a small number of carefully targeted franchises characterised by a high proportion of high frequency short distance services.

The further progress made throughout the group's bus operations in increasing operating margin has been achieved both through continuing cost reduction and through organic growth in bus use in some markets. The latter demonstrates what can be achieved in partnership with the local authorities and in particular where there have been consistent policies towards traffic management and bus priority.

Rail operations

Go-Ahead's first franchise, Thames Trains, operates a modern fleet of diesel turbo trains from London Paddington Station to Reading, Oxford and a number of other Thames Valley destinations. The franchise was won in October 1996 by Victory Railways in which Go-Ahead holds a 65% share, the balance being held by management and employees. Early performance has been encouraging with patronage growing strongly, and a high standard of reliability being achieved.

No rolling stock replacement is required during the franchise period but orders have been placed for a "state of the art" real time passenger information system to be installed at stations during the next year, and designed to further increase customer confidence in the system.

Operations of the Thameslink franchise, which runs through the City from Bedford and Luton to Gatwick Airport and Brighton commenced in March 1997. Go-Ahead holds a 65% stake in the successful joint venture company Govia through which the bid was submitted, the remaining shares being held by the French transport group, VIA GTI.

Thameslink also benefits from a modern fleet, this time of dual voltage electric units but, whilst no replacement is required, the units will be upgraded to better equip them for their role in the airport services market at both Luton and Gatwick. With only a 4% share of the Gatwick - London market at privatisation but frequencies and journey times which are competitive with other operators, the scope for growth in this area is considerable.

Both operations benefit from experienced and professional rail staff who have succeeded in delivering significant cost reductions whilst continuing to improve both punctuality and reliability. The addition of bus operating expertise has brought about a number of bus-rail integration initiatives offering higher levels of service and new ticketing opportunities in a number of areas. Whilst Go-Ahead operation of both bus and rail services in Brighton and Oxford is helpful, these developments are by no means restricted to such towns, and opportunities have been taken wherever Go-Ahead has interests in either bus or rail services in the interests of growing the public transport market generally.

Deregulated provincial bus operations

The deregulated market has seen greater stability during the year with a continuing reduction in low quality competition and further progress in securing the traffic management measures which are necessary to enable bus services to offer the level of reliability sought by users.

Within the North East further progress in closer integration of the former OK business has extended magnetic card ticketing technology throughout the network and will lead to further overhead savings in the coming year through depot rationalisation. The highly successful super low floor bus services pioneered in this region by the group have been further extended and, where possible, all future vehicle investment will contain such features.

Low floor bus design is however only one part of the equation. Success in regenerating ridership depends in part upon the ability of local authorities to invest in roadside improvements and parking control, as North Tyneside have done in partnership with Go-Ahead subsidiary Coastline.

Partnership has also played a significant part in the Brighton & Hove company's success over the last four years in building ridership. A progressive local authority policy towards bus priority has enabled the company to improve both reliability and frequency and, through growth in bus use, to justify almost seven million pounds of investment in new high quality low emission buses.

The success achieved by management and staff at Brighton and Hove during the last four years earned recognition through success in winning the National Federation of Bus Users "Welcome Aboard" awards for the South East and Central South regions. The awards followed a poll amongst bus users throughout the *region and reflects great credit on all involved. Brighton Transport, now part of the group, earned an award for its successful introduction of low floor buses to a key route in the Brighton area, underlining the success that has been achieved in partnership.*

The acquisition in June of the former municipal Brighton Transport business from its management and employees will provide further opportunities to grow the market in Brighton and Hove whilst the positive attitude of the new unitary authority can only serve to enhance the provision of a genuinely integrated public transport network for the area.

Profitability in Oxford has in the past been adversely affected by intense competition. A return to more stable trading conditions has led to improving margins but the most encouraging feature has been the retention of significantly higher patronage in a number of areas. Fleet modernisation has contributed to the progress made with a continuing emphasis on the replacement of both minibuses and ageing double deck buses with modern single deck vehicles which have been well received by users.

Competition continues on five major routes in Oxford, and on each of these the company has made significant gains in market share during this year. These routes are operated by modern single deck buses at an average age of 2.2 years.

The popular Citylink coach service between Oxford and London celebrated its 70th year of operation in February, and this year was marked by a number of events to celebrate this achievement.

A number of rail integration initiatives have been introduced. Several frequent services were extended back from Oxford City Centre to start from Oxford Rail Station; this has provided a significant number of new travel opportunities through bus-rail interchange. A further step in integration has been taken jointly with Thames Trains and London Underground, to provide a single-purchase ticket bought on a bus or train which gives freedom of public transport in both cities for a day, and for rail travel between the two.

New innovative additions have been made to the popular 'Freedom' range of pre-purchase tickets; these include special Family tickets giving discounted rates for adults and children travelling together in Oxford and to London and Heathrow and Gatwick Airports. A direct debit system is being introduced to encourage long-term brand loyalty, and Freedom cards now account for 30% of all journeys made.

The company continues to support the Oxford Transport Strategy, a joint City and County Council initiative to improve the environment in the sensitive historic area of central Oxford. Under the Strategy, high quality bus priorities will be provided to balance the effect of restraining general traffic. A Public Enquiry will be held into the Strategy in early 1998.

The company's proposed innovative GTE guided bus concept has now been adopted as part of local authority policy and the scheme is now awaiting a feasibility and implementation study.

As part of the acquisition of the Oxford company in 1994, the group also acquired an operation in High Wycombe. This group of routes had changed hands several times in the past and had become more than a little neglected. Since acquisition however the fleet has been modernised and the urban network revitalised leading to increasing bus use. In addition, and in partnership with Buckinghamshire County Council, super low floor vehicles have been introduced to a core part of the network stimulating still further the growth in ridership. Once again the introduction of these vehicles has been complemented by local authority action in amendment to roadside infrastructure.

Joint ticketing initiatives were introduced with the second largest operator of local buses (after Wycombe Bus) in the area, and we are now able to market a strong joint network in and around Wycombe with discounted fares and strongly marketed, frequent services.

Bus-Rail integration started with an arrangement with Chiltern Railways and London Underground similar to that in Oxford, with a single purchase ticket sold on Wycombe Bus valid for rail travel to London and then onward travel on the Underground.

At the end of the year, the complex fares structure was simplified and severe restrictions removed to offer a more comprehensive and easy-to-use system.

Regulated London bus operations

The group's two London bus operations, London Central and London General, have continued to develop within the London Transport tendering regime. Both businesses have enjoyed considerable success in the retention of important route networks on re-tender which has been matched by significant investment in new double deck and low floor single deck buses. The scale of investment has contributed to improved environmental performance with all the new vehicles being fitted with the latest low emission engines whilst *older vehicles have not been neglected. A programme of refitting the latest traditional Routemaster double deckers with new Scania engines designed to improve both operational and environmental performance has commenced at London Central.*

The tendering regime within London means that pressure on margins remains tight but the group has during the year secured further cost reduction from the merger of the headquarters functions of the two London businesses. This merger, which was achieved on time and at less than the anticipated cost, will bring substantial savings in coming years and the management and staff of the two companies deserve much credit for the smooth way in which the changes were implemented.

As the London economy picks up staff recruitment and retention is becoming significantly harder and, whilst this results in the expenditure of considerable management time in ensuring continuing reliable operation, the one positive side effect is that the scope for low quality competition based upon poor driver terms and conditions is significantly reduced. During the year London General, which is the worse affected of the two companies, has carried out recruitment initiatives in the South West, North West and North East of England with some success in the South West in particular.

Staff development

The group has maintained a graduate recruitment programme throughout the period since first privatisation of the North East companies. That programme continues and has yielded a number of highly competent managers who are now actively involved at various levels within the management structure of the subsidiaries.

All companies are actively encouraged to pursue development programmes through NVQ's, Investors in People and through initiatives such as Opportunity 2000 aimed at increasing the role of women in the workplace. In an industry where a majority of customers are female, the small number of female staff has long been a concern of the group. It is particularly pleasing to see the award to the North East subsidiary, Coastline, of a regional Opportunity 2000 award marking the success of the company in continuing to develop the conditions for increased female participation in the workforce.

The group commitment to encouraging all members of staff to participate in the success of the group through share ownership continues and a further tranche of shares was made available during the year within the Share Option Scheme.

Over 3,500 members of staff, or almost 40%, are now shareholders or hold options in the group.

Five Year Summary

	1997 £M	1996 £M	1995 £M	1994 £M	1993 £M
TURNOVER	**303.8**	*134.8*	*111.7*	*61.4*	*49.3*
OPERATING PROFIT BEFORE EXCEPTIONALS	**29.2**	*14.1*	*12.2*	*4.5*	*2.9*
OPERATING MARGIN	**9.6%**	*10.5%*	*10.9%*	*7.3%*	*5.9%*
Exceptional items	**(5.3)**	*0.8*	*(1.9)*	*(1.0)*	*(2.3)*
Net interest payable	**(2.4)**	*(3.0)*	*(1.8)*	*(0.6)*	*(0.2)*
PROFIT BEFORE TAXATION	**21.5**	*11.9*	*8.5*	*2.9*	*0.4*
Taxation	**(5.6)**	*(2.8)*	*(1.0)*	*(0.9)*	–
Minority interests	**(0.3)**	–	–	–	–
Dividends	**(4.0)**	*(2.4)*	*(1.7)*	–	–
RETAINED PROFIT	**11.6**	*6.7*	*5.8*	*2.0*	*0.4*
CASH FLOW					
Operating cash flow	**25.3**	*21.8*	*11.2*	*9.0*	*3.5*
Returns on investments and servicing of finance	**(2.3)**	*(3.4)*	*(1.7)*	*(0.6)*	*(0.2)*
Dividends paid	**(2.8)**	*(1.9)*	*(0.6)*	–	–
Taxation	**(2.5)**	*(2.8)*	*(1.1)*	*(0.8)*	*(1.1)*
Free cash flow	**17.7**	*13.7*	*7.8*	*7.6*	*2.2*
Investing activities					
business acquisitions	**25.2**	*(21.8)*	*(22.6)*	*(13.8)*	–
net capital expenditure	**(17.3)**	*(10.2)*	*(10.8)*	*(7.0)*	*(4.4)*
Financing and management of liquid resources	**(23.8)**	*29.1*	*22.1*	*11.9*	*2.7*
Net cash movements	**1.8**	*10.8*	*(3.5)*	*(1.3)*	*0.5*
Increase in cash on deposit	**14.2**	–	–	–	–
Closing net cash including cash on deposit	**26.9**	*10.9*	*0.1*	*3.6*	*4.9*
EMPLOYMENT OF CAPITAL					
Fixed assets	**93.0**	*82.8*	*58.1*	*31.9*	*16.7*
Net liabilities (including provisions and deferred grants)	**(29.5)**	*(27.6)*	*(18.7)*	*(10.4)*	*(3.9)*
	63.5	*55.2*	*39.4*	*21.5*	*12.8*
CAPITAL EMPLOYED					
Leasing over one year	**26.2**	*20.9*	*10.2*	*6.2*	*4.5*
Long term loans	**2.0**	*15.8*	*18.7*	–	–
Capital, reserves and minority interests	**35.3**	*18.5*	*10.5*	*15.3*	*8.3*
	63.5	*55.2*	*39.4*	*21.5*	*12.8*
NET BORROWINGS					
Bank and cash balances including cash on deposit	**(26.9)**	*(10.9)*	*(0.1)*	*(3.6)*	*(4.9)*
Bank loans	**5.9**	*18.5*	*13.8*	–	–
Loan notes	**1.8**	*5.0*	*5.0*	–	–
Leasing	**35.1**	*31.8*	*15.6*	*9.3*	*6.5*
	15.9	*44.4*	*34.3*	*5.7*	*1.6*
STATISTICS					
Earnings per share (as adjusted for the scrip issue on 27 April 1994) - basic	**32.7p**	*24.6p*	*21.9p*	*8.2p*	*1.0p*
- adjusted	**38.8p**	*23.1p*	*25.7p*	*11.0p*	*8.7p*
Dividends per share	**8.0p**	*5.55p*	*4.80p*	–	–
Gearing ratio	**45%**	*240%*	*327%*	*37%*	*18%*
Net assets (including Goodwill) per share	**179p**	*148p*	*96p*	*72p*	*38p*

Directors, Advisors and Shareholder Information

Directors

Sir Michael Straker *(69) is non-executive chairman. He was chairman of Northumbria Water Group PLC throughout its privatisation and flotation. He is also a director of The Port of Tyne Authority.*

Martin Ballinger *(53) is managing director. He led Northern General through deregulation of the bus industry in 1986 and the management buy-out in 1987. Having qualified as a management accountant in 1968, he held various accounting posts before joining NBC in 1972. He is also a director of Northern Enterprise Limited.*

Ian Butcher *(46) is finance director and company secretary. He is a chartered accountant and has gained wide experience at finance director level in a number of industries, most recently with Casket plc, before joining The Go-Ahead Group PLC in March 1996.*

Duncan Clegg *(55) is a non-executive director. Many years merchant banking experience brings a City view to the board. He is also a non-executive director of a number of other companies.*

Christopher Moyes *(48) is commercial director. He has been responsible for the marketing and operational side of the business since 1983 having joined NBC in 1971. An engineering graduate, he holds post graduate qualifications in Transport Planning and Engineering.*

Professor Sir Frederick Holliday *(61) is a non-executive director. Most recently appointed director, he is a director of Compagnie Suez-Lyonnaise and is chairman of the board of their UK interests. He was formerly a main board director of British Rail.*

The audit committee consists of Sir Michael Straker, Duncan Clegg and Professor Sir Frederick Holliday with Martin Ballinger in attendance. The remuneration committee consists of Sir Michael Straker, Duncan Clegg and Professor Sir Frederick Holliday.

Advisors

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Lloyds Bank Registrar
The Causeway
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Shareholder Information

Range of holdings	No of holders	%	Shares held 000	%
1 - 10,000	1,682	86.66	2,136	4.36
10,001 - 100,000	171	8.81	6,017	12.28
100,001 - 500,000	73	3.76	17,906	36.54
500,001 - 1,000,000	9	0.46	7,056	14.40
Over 1,000,000	6	0.31	15,883	32.42
	1,941	100.00	48,998	100.00

Classification of shareholders	No of holders	%	Shares held 000	%
Directors' beneficial holdings	4	0.21	7,535	15.38
Other individuals	1,443	74.34	9,408	19.20
Institutional investors	494	25.45	32,055	65.42
	1,941	100.00	48,998	100.00

The company supports and complies with all the recommendations in the Cadbury Committee's code of best practice following the appointment of Professor Sir Frederick Holliday as a third non-executive director.

The Board

The board now comprises three non-executive directors and three executive directors, and is responsible to shareholders for the proper management of the group. It meets every two months, setting and monitoring group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition possibilities, formulating policy on key issues and reporting to shareholders.

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

Audit Committee

The audit committee, which is chaired by Sir Michael Straker, comprises all the non-executive directors, and meets not less than twice annually. The committee provides a forum for reporting by the group's external and internal auditors. Meetings are also attended, by invitation, by the managing director. It 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. The committee has unrestricted access to the auditors.

Remuneration Committee and its Report

The remuneration committee is made up of the non-executive directors and is chaired by Sir Michael Straker. It has the responsibility for determining the remuneration, contract terms and other benefits for executive directors, including performance-related bonus and share option schemes. These issues are considered on the basis of ensuring that they reflect current market practice and the responsibilities of the individuals concerned. The remuneration arrangements consist of basic salary, performance related bonus based on functional performance, contributions to the group pension plan, use of a car, healthcare insurance, professional subscriptions and other benefits in accordance with typical company practice. Share options are also granted, the condition for exercise of which is set out in Note 7 to the accounts. Details of remuneration, including share options, and contract terms are also set out in Note 7 to the accounts.

The constitution and operation of the remuneration committee complies with the best practice provisions of Section A of the Annex to the Stock Exchange Listing Rules. In implementing its policy, the Committee has given full consideration to the provisions of Section B of the Annex to the Listing Rules.

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 27 trustees, all employees chosen to reflect the geographic and functional spread of the group and including the three executive directors. Martin Ballinger is chairman of the trustees. The auditors and actuaries of the plan are both independent of the group.

Internal Controls

The board is responsible for establishing and maintaining the group's system of internal controls. Internal financial control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the directors have established with a view to providing effective internal financial controls are as follows:

- *a decentralised organisation structure with defined limits of responsibility and authority;*
- *an annual budgeting process with regular re-forecasting of results, identifying key risks and opportunities;*
- *monthly reporting of financial information to the board encompassing profit and loss, cashflow and balance sheet information and key operating ratios; all results are monitored by group executives; the company reports to shareholders twice a year;*
- *regular board reporting of specific matters including insurance and treasury management;*
- *defined capital expenditure approval procedures;*
- *each group company maintains controls and procedures appropriate to its business and they are reviewed on an annual basis; and*
- *a commitment to best practice in external reporting.*

The directors confirm that they have reviewed the effectiveness of the system of internal financial control of the group during the year.

Report by the Auditors to The Go-Ahead Group PLC on Corporate Governance matters

In addition to our audit of the accounts, we have reviewed the directors' statements on pages 12 and 15 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the company's system of internal financial control or its corporate governance procedures nor on the ability of the group to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control on page 12 and going concern on page 15, in our opinion the directors have provided the disclosure required by the Listing Rules referred to above, and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 12 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young
Chartered Accountants
Newcastle upon Tyne
18 September 1997

The directors present their report and audited accounts for the year to 28 June 1997.

ACTIVITIES

The principal activity of the group is the provision of passenger transport services in the United Kingdom.

TRADING

The profit and loss account appears on page 17. The directors propose that a final dividend of 5.85p be paid (making a total of 8.0p for the year).

A review of the business of the group during the year and its prospects for the future can be found in the Chairman's Statement and the Financial & Operating Review on pages 2 to 9.

FIXED ASSETS

In the opinion of the directors, the market value of the group's properties was not materially different from their net book value.

DIRECTORS

The names of the directors appear on page 11.

Douglas Adie was a director until his resignation on 13 March 1997. Professor Sir Frederick Holliday was appointed on 11 September 1997.

Ian Butcher, Duncan Clegg and Professor Sir Frederick Holliday retire and, being eligible, offer themselves for re-election.

The directors' interests in the share capital of the company at the respective year ends, or later date of appointment, were as follows:

		1997 No	1996 No
Sir Michael Straker	*Beneficial*	**164,256**	*164,256*
Martin Ballinger	*Beneficial*	**3,637,712**	*3,877,712*
	Non-beneficial	**160,000**	–
Ian Butcher		–	–
Duncan Clegg	*Beneficial*	**6,000**	*6,000*
Sir Frederick Holliday		–	
Christopher Moyes	*Beneficial*	**3,512,452**	*3,516,052*
	Non-beneficial	**54,400**	*54,400*

There were no changes in these interests up to 18 September 1997. Details of directors' interests in share options appear in Note 7 to the accounts.

SUBSTANTIAL SHAREHOLDINGS

As at 10 September 1997 the company has been notified of the following interests in its ordinary shares which represent 3% or more of the issued shares of the company:

	No	%
T H Shears	*3,300,000*	*6.73*
Gartmore Investment Management	*3,739,889*	*7.63*
F P Asset Management	*3,215,844*	*6.56*
Mercury Asset Management	*2,192,289*	*4.47*
Aberforth Investment Managers	*1,704,000*	*3.48*

The last four holdings are in respect of the aggregate of investment management clients' interests within the respective asset management companies.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these accounts, the directors are required to:

- *select suitable accounting policies and then apply them consistently;*
- *make judgements and estimates that are reasonable and prudent; and*
- *state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.*

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS AND THEIR

RESPONSIBILITIES

The company's registered auditors, Ernst & Young, are responsible for forming an independent opinion on the accounts of the group presented by the directors, and for reporting their opinion to the shareholders. The auditors are required to report to the shareholders if the following are not met:

- *that the group has maintained proper accounting records;*
- *that the accounts are in agreement with the accounting records;*
- *that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and*
- *that they have obtained all information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.*

The auditors' opinion does not encompass the Directors' Report on pages 14 and 15. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the Directors' Report are inconsistent with the accounts.

A resolution to re-appoint Ernst & Young as auditors of the company will be proposed at the Annual General Meeting.

MANAGEMENT AND STAFF

There are three active approved share option schemes in existence intended to enable managers and 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 involve 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.

The group supports local communities' events in which its employees participate. The group is a member of the Per Cent Club in the north east and commits a proportion of its pre-tax profits to community activities, principally in the fields of education and training. Charitable donations, sponsorship and community support over the year amounted to £107,000 (1996 - £66,000).

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 28 June 1997 the group had 27 days' purchases outstanding.

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 accounts.

By Order of the Board

I P Butcher
Secretary
Registered office:
Cale Cross House
Pilgrim Street
NEWCASTLE UPON TYNE
NE1 6SU
18 September 1997
Registered No. 2100855

Report of the Auditors

TO THE MEMBERS OF THE GO-AHEAD GROUP PLC

ERNST & YOUNG

We have audited the accounts on pages 17 to 40 which have been prepared under the historical cost convention (as modified by the revaluation of certain properties) and on the basis of the accounting policies set out on page 23.

Respective responsibilities of directors and auditors

As described on page 14 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the group as at 28 June 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
Newcastle upon Tyne
18 September 1997

Consolidated Profit and Loss Account

FOR THE YEAR TO 28 JUNE 1997

	NOTES	1997 £000	1996 £000
TURNOVER	*2*		
Continuing operations		**191,777**	*133,860*
Acquisitions		**112,008**	*–*
		303,785	*133,860*
Discontinued operation		**–-**	*962*
		303,785	*134,822*
Operating costs		**(274,569)**	*(120,712)*
Exceptional items	*4*	**(5,297)**	*638*
	3	**(279,866)**	*(120,074)*
OPERATING PROFIT	*2*		
Continuing operations		**23,459**	*14,728*
Acquisitions		**460**	*–*
		23,919	*14,728*
Discontinued operation		**–**	*20*
		23,919	*14,748*
Profit on sale of assets in discontinued operation		**–**	*148*
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		**23,919**	*14,896*
Net interest payable	*5*	**(2,429)**	*(3,027)*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**21,490**	*11,869*
Taxation	*9*	**(5,633)**	*(2,827)*
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**15,857**	*9,042*
Minority interests - including non-equity	*22*	**(281)**	*–*
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		**15,576**	*9,042*
Dividends	*10*	**(4,005)**	*(2,359)*
RETAINED PROFIT FOR THE FINANCIAL YEAR		**11,571**	*6,683*
EARNINGS PER SHARE - basic	*11*	**32.7p**	*24.6p*
- adjusted		**38.8p**	*23.1p*

There are no recognised gains & losses other than the profit for the financial year shown above.

Consolidated Balance Sheet

AS AT 28 JUNE 1997

	NOTES	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	*12*	**92,994**	*82,621*
Investments	*14*	**2**	*201*
		92,996	*82,822*
CURRENT ASSETS			
Stocks		**4,463**	*2,839*
Debtors	*15*	**33,708**	*17,049*
Investments	*14*	**200**	–
Cash on deposit		**14,291**	–
Cash at bank and in hand		**16,955**	*11,152*
		69,617	*31,040*
CREDITORS: amounts falling due within one year	*16*	**(97,631)**	*(56,407)*
NET CURRENT LIABILITIES		**(28,014)**	*(25,367)*
TOTAL ASSETS LESS CURRENT LIABILITIES		**64,982**	*57,455*
CREDITORS: amounts falling due after more than one year	*17*	**(28,342)**	*(36,970)*
PROVISIONS FOR LIABILITIES AND CHARGES	*19*	**(1,330)**	*(1,968)*
NET ASSETS		**35,310**	*18,517*
CAPITAL AND RESERVES			
Called up share capital	*20*	**4,900**	*4,554*
Share premium	*21*	**42,299**	*35,608*
Revaluation reserve	*21*	**763**	*777*
Other reserves	*21*	**(43,236)**	*(39,296)*
Profit and loss account	*21*	**28,459**	*16,874*
EQUITY SHAREHOLDERS' FUNDS		**33,185**	*18,517*
MINORITY INTERESTS - equity		**(150)**	–
- non equity	*22*	**2,275**	–
		35,310	*18,517*

M I B Straker
Chairman

I P Butcher
Finance Director
18 September 1997

Balance Sheet

AS AT 28 JUNE 1997

	NOTES	1997 £000	1996 £000
FIXED ASSETS			
Tangible Assets	*12*	**20,707**	*12,438*
Investments	*14*	**75,902**	*65,424*
		96,609	*77,862*
CURRENT ASSETS			
Debtors	*15*	**21,127**	*20,100*
Cash at bank and in hand		**347**	*8,735*
		21,474	*28,835*
CREDITORS: amounts falling due within one year	*16*	**(55,395)**	*(39,485)*
NET CURRENT LIABILITIES		**(33,921)**	*(10,650)*
TOTAL ASSETS LESS CURRENT LIABILITIES		**62,688**	*67,212*
CREDITORS: amounts falling due after more than one year	*17*	**(2,006)**	*(15,816)*
NET ASSETS		**60,682**	*51,396*
CAPITAL AND RESERVES			
Called up share capital	*20*	**4,900**	*4,554*
Share premium	*21*	**42,299**	*35,608*
Revaluation reserve	*21*	**763**	*777*
Other reserves	*21*	**7,212**	*5,400*
Profit and loss account	*21*	**5,508**	*5,057*
EQUITY SHAREHOLDERS' FUNDS		**60,682**	*51,396*

M I B Straker
Chairman

I P Butcher
Finance Director
18 September 1997

Consolidated Cash Flow Statement

FOR THE YEAR TO 28 JUNE 1997

	NOTES TO CASH FLOW	1997 £000	1996 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	*1*	**25,250**	*21,819*
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**1,452**	*347*
Interest paid		**(1,223)**	*(1,704)*
Interest element of hire purchase and lease finance		**(2,490)**	*(2,068)*
Preference dividends paid to minority shareholder		**(17)**	–
Dividends paid by subsidiary to former shareholders		–	*(93)*
Net cash outflow for returns on investments and servicing of finance		**(2,278)**	*(3,518)*
TAXATION			
Corporation tax paid		**(2,535)**	*(2,787)*
CAPITAL EXPENDITURE			
Purchase of tangible assets		**(18,488)**	*(13,958)*
Sale of tangible assets		**1,218**	*3,792*
Net cash outflow for capital expenditure		**(17,270)**	*(10,166)*
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings	*2*	**25,181**	*(21,827)*
EQUITY DIVIDENDS PAID		**(2,824)**	*(1,841)*
MANAGEMENT OF LIQUID RESOURCES			
Increase in cash on deposit		**(14,291)**	–
FINANCING			
Issue of ordinary share capital		**7,109**	*21,142*
Share issue costs		**(111)**	*(814)*
Redemption of preference shares by subsidiary		–	*(2,390)*
Receipts from bank loans		**3,000**	*19,829*
Repayment of bank loans		**(15,804)**	*(15,117)*
Loan notes redeemed		**(5,023)**	–
Receipts from hire purchase and lease finance		**14,980**	*15,105*
Repayments of hire purchase and lease finance		**(13,632)**	*(8,656)*
Net cash (outflow)/inflow from financing		**(9,481)**	*29,099*
INCREASE IN CASH		**1,752**	*10,779*

Notes to the Cash Flow Statement

1 RECONCILIATION OF GROUP OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £000	1996 £000
Group operating profit	**23,919**	*14,748*
Exceptional charges/(credits)	**5,297**	*(638)*
Cash flow on exceptional (charges)/credits	**(1,782)**	*638*
Profit on sale of assets in discontinued operation	–	*148*
Depreciation	**10,944**	*7,303*
Movement on provisions	**(737)**	*(415)*
Profits on disposal of tangible fixed assets	**(552)**	*(399)*
Decrease/(increase) in stocks	**56**	*(16)*
Increase in debtors	**(133)**	*(2,246)*
(Decrease)/increase in creditors	**(11,762)**	*2,696*
Net cash inflow from operating activities	**25,250**	*21,819*

2 PURCHASE OF SUBSIDIARY UNDERTAKINGS

The cash flows in respect of the purchase of the subsidiary undertakings are as follows:

	1997				1996
	Thames Trains Limited £000	Thameslink Rail Limited £000	Brighton Transport (1993) Ltd £000	Total £000	Total £000
Consideration (Note 14)	–	–	**5,760**	**5,760**	*24,614*
Shares issued	–	–	**(1,851)**	**(1,851)**	*(5,580)*
Loan notes	–	–	**(1,778)**	**(1,778)**	–
	–	–	**2,131**	**2,131**	*19,034*
Cash at bank and in hand acquired	**(6,599)**	**(20,853)**	**(223)**	**(27,675)**	*(1,525)*
Bank overdraft acquired	–	–	–	–	*3,860*
	(6,599)	**(20,853)**	**1,908**	**(25,544)**	*21,369*
Expenses of acquisition	**46**	–	**317**	**363**	*458*
	(6,553)	**(20,853)**	**2,225**	**(25,181)**	*21,827*

Of the subsidiary undertakings acquired during the year only Thames Trains Limited and Thameslink Rail Limited had a material impact on cash flows. The impact of each can be summarised as follows:

	Thames Trains Limited 1997 £000	Thameslink Rail Limited 1997 £000
Operating cash flow	**(3,173)**	**(3,872)**
Net returns on investment and servicing of finance	**229**	**366**
Capital expenditure	**(220)**	**(24)**
Management of liquid resources	**(2,575)**	**(11,716)**
Financing	**130**	**4,225**
	(5,609)	**(11,021)**

Notes to the Cash Flow Statement
CONTINUED

3 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (CASH FLOW NOTE 4)

	1997 £000	1996 £000
Increase in cash in year	**1,752**	*10,779*
Cashflow from decrease/(increase in debt and leasing/hire purchase obligations)	**16,524**	*(11,161)*
Increase in cash on deposit	**14,291**	–
Change in net debt resulting from cash flows	**32,567**	*(382)*
Leasing obligations of subsidiaries acquired in year	**(1,997)**	*(9,701)*
Loan notes issued on acquisition of subsidiary	**(1,778)**	–
Other non-cash movements in net debt	**(328)**	–
Change in net debt resulting from non-cash flows	**(4,103)**	*(9,701)*
Movement in net debt in the period	**28,464**	*(10,083)*
Net debt at 29 June 1996	**(44,381)**	*(34,298)*
Net debt at 28 June 1997	**(15,917)**	*(44,381)*

4 ANALYSIS OF CHANGES IN NET DEBT

	At 29 June 1996 £000	Cash flows £000	Acquisitions (exc. cash & overdrafts) £000	Other non-cash movements £000	At 28 June 1997 £000
Cash					
Overnight deposits	9,648	5,776	–	–	15,424
Cash at bank and in hand	1,504	27	–	–	1,531
Bank overdraft	(298)	(4,051)	–	–	(4,349)
	10,854	1,752	–	–	12,606
Debt due within one year					
Bank loans	(2,611)	(151)	–	(1,138)	(3,900)
Loan notes	(5,023)	5,023	(1,778)	–	(1,778)
	(7,634)	4,872	(1,778)	(1,138)	(5,678)
Debt due after one year					
Bank loans	(15,816)	13,000	–	810	(2,006)
Finance lease and hire purchase obligations	(31,785)	(1,348)	(1,997)	–	(35,130)
Cash on short term deposit	–	14,291	–	–	14,291
Net debt	(44,381)	32,567	(3,775)	(328)	(15,917)

5. RESTRICTED CASH

Included in overnight deposits and cash on short term deposit is cash collateral for Railway season ticket bonds amounting to £14,291,000 (1996: £NIL).

1. ACCOUNTING POLICIES

Accounting Convention

The accounts are prepared under the historical cost convention modified by the revaluation of certain properties and in accordance with applicable accounting standards.

Basis of Consolidation

The consolidated accounts incorporate the accounts of the company and each of its subsidiary undertakings made up to 28 June 1997.

The results of subsidiary undertakings acquired in the year are consolidated from the date of acquisition.

Capital Grants

Grants received in respect of new bus grants under S32 Transport Act 1965 and ERDF grants were deducted from the costs of the assets, giving the cost for depreciation purposes.

Other capital grants received are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets.

Leasing and Hire Purchase Commitments

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 and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Depreciation

Land is not depreciated. The cost (after deducting certain capital grants) or valuation of other tangible assets including assets held under finance leases and hire purchase contracts is depreciated evenly over the expected useful lives of the assets as follows:

Freehold buildings and long leasehold property	*50 years*
Short leasehold property	*The remainder of the lease*
Rolling stock	*8 to 15 years*
Plant & equipment	*5 to 10 years*

Goodwill

The excess of the purchase consideration over the fair value of net assets acquired in subsidiary undertakings is written off against reserves.

Stocks

Stocks of fuel and engineering spares are valued at the lower of cost and net realisable value.

Building & Vehicle Repairs

Provision is made for major repairs identified as being necessary but not carried out by the period end particularly recognising the group's vehicle replacement programme and likely future operational property requirements. This is based on bi-annual assessments by the directors.

Deferred Taxation

Deferred taxation is provided, using the liability method, on all timing differences, including those in respect of pension benefits, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate which it is anticipated the timing differences will reverse.

Pension Benefits

Pension benefits are funded over the employees' average period of service. The net pension cost to the group as determined from the latest triennial actuarial valuation and subsequent actuarial reviews is charged to the profit and loss account.

2. SEGMENTAL ANALYSIS

The turnover of the group is revenue from road passenger transport, rail passenger transport and related activities. Rail passenger transport turnover includes financial support receivable from the Office of Passenger Rail Franchising.

	1997 £000	1996 £000
Turnover		
Road passenger transport		
Continuing	**191,777**	*133,860*
Acquisition: Brighton Transport (1993) Limited	**859**	–
	192,636	*133,860*
Rail passenger transport		
Acquisitions: Thames Trains Limited	**75,912**	–
Thameslink Rail Limited	**35,237**	–
	111,149	–
Discontinued operation	–	*962*
Group turnover	**303,785**	*134,822*
Operating Profit		
Road passenger transport		
Continuing	**24,345**	*14,090*
Acquisition: Brighton Transport (1993) Limited	**176**	–
	24,521	*14,090*
Rail passenger transport		
Acquisitions: Thames Trains Limited	**2,789**	–
Thameslink Rail Limited	**1,906**	–
	4,695	–
Discontinued operation	–	*20*
Exceptional items (Note 4)	**(5,297)**	*638*
Group operating profit	**23,919**	*14,748*
Net Assets/(Liabilities)		
Road passenger transport (including acquisition)	**84,238**	*69,717*
Rail passenger transport (being acquisitions)	**(22,012)**	–
	62,226	*69,717*
Unallocated net liabilities:		
Taxation	**(8,063)**	*(5,134)*
Dividends proposed and payable	**(2,936)**	*(1,685)*
Interest bearing net liability	**(15,917)**	*(44,381)*
Total net assets	**35,310**	*18,517*

All operations are of U.K. origin.

3. OPERATING COSTS

	1997			
	Continuing £000	Acquisitions £000	Discontinued £000	Total £000
Materials and external charges	**46,131**	**66,796**	–	**112,927**
Staff costs	**110,980**	**18,875**	–	**129,855**
Depreciation of tangible assets	**10,767**	**177**	–	**10,944**
Other operating charges	**3,868**	**25,712**	–	**29,580**
Other operating income	**(3,428)**	**(12)**	–	**(3,440)**
	168,318	**111,548**	–	**279,866**

	1996			
	Continuing £000	Acquisitions £000	Discontinued £000	Total £000
Materials and external charges	*34,824*	–	*911*	*35,735*
Staff costs	*80,024*	–	*30*	*80,054*
Depreciation of tangible assets	*7,279*	–	*24*	*7,303*
Other operating charges	*151*	–	–	*151*
Other operating income	*(3,146)*	–	*(23)*	*(3,169)*
	119,132	–	*942*	*120,074*

4. EXCEPTIONAL ITEMS

		1997 £000	1996 £000
Continuing			
Costs of restructuring banking arrangements		**400**	–
Prior year rates refunds		–	*(638)*
Redundancy payments for London bus reorganisation		**486**	–
Acquisitions			
Redundancy:	*Thames Trains Limited*	**2,118**	–
	Thameslink Rail Limited	**1,800**	–
	Brighton Transport (1993) Limited	**252**	–
Re-organisation:	*Brighton Transport (1993) Limited*	**241**	–
		5,297	*(638)*

5. NET INTEREST PAYABLE

	1997 £000	1996 £000
On bank loans and overdrafts	**1,222**	*1,014*
Finance lease and hire purchase interest	**2,507**	*2,068*
Other interest payable	–	*292*
	3,729	*3,374*
Interest receivable on bank deposits	**(1,300)**	*(347)*
	2,429	*3,027*

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):	1997 £000	1996 £000
Auditors remuneration -		
Audit fees	**110**	*102*
Non-audit services	**95**	*116*
Depreciation -		
Owned assets	**2,749**	*4,659*
Leased assets	**8,195**	*2,644*
Operational lease and rental charges -		
Property	**2,405**	*119*
Plant and equipment	**7,404**	*12*
Profit on sale of assets in discontinued operation	–	*(148*
Other profits on disposal of tangible assets	**(552)**	*(251)*

Non-audit costs of £36,000 (1996 - £146,000) are also reflected in acquisition expenses and deferred expenses included in other debtors.

7. DIRECTORS' REMUNERATION

	Salary/Fees		Performance related		Benefits in kind		Total excluding pensions	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Sir Michael Straker	**20**	*18*	–	–	–	–	**20**	*18*
Douglas Adie	**61**	*70*	**18**	–	**4**	*5*	**83**	*75*
Martin Ballinger	**119**	*98*	**22**	*15*	**4**	*6*	**145**	*119*
Ian Butcher	**93**	*26*	**13**	–	**7**	*2*	**113**	*28*
Duncan Clegg	**16**	*15*	–	–	–	–	**16**	*15*
Christopher Moyes	**105**	*85*	**19**	*15*	**6**	*6*	**130**	*106*
Trevor Shears	–	*61*	–	*15*	–	*5*	–	*81*
	414	*373*	**72**	*45*	**21**	*24*	**507**	*442*

Messrs Adie, Ballinger and Moyes are members of the group's final salary pension scheme. The value of increases in their accrued pensions, calculated on the basis recommended by the Institute of Faculty of Actuaries, during the year were £1,317, £10,011 and £9,231 respectively (1996 - £2,000, £3,000 and £3,000). The equivalent increase in transfer values after deducting the directors' personal contributions were £6,495, £71,158 and £50,196 (1996 - £10,000, £21,000 and £14,000 plus £5,000 for Mr Shears). Their accrued pensions at 28 June 1997 were £3,640, £51,532 and £43,366. Mr Butcher is a member of the group money purchase scheme and company contributions of £5,143 (1996 - £1,210) were made on his behalf in the year. No other director benefits from a group pension scheme.

Directors' share options:

	Scheme	At 29.6.96	Granted	At 28.6.97	Exercise Price	Exercise Period
Ian Butcher	*Executive*	–	*100,000*	*100,000*	*285p*	*19.7.99-19.7.2006*
	Savings Related	–	*497*	*497*	*391p*	*2000*
Douglas Adie	*Executive*	–	*100,000*		*285p*	*19.7.99-19.7.2006*
	Savings Related	*468*			*128p*	*2000*
	Savings Related	*1,144*			*236p*	*2001*

7. DIRECTORS' REMUNERATION (Continued)

The market price of the group's ordinary shares at 28 June 1997 was 428p per share and the range during the year to 28 June 1997 was 281p to 531p.

Executive options are exercisable conditional upon the achievement of at least 6% real growth in earnings per share over any period of three consecutive years between grant date and final exercise date.

Details of directors' service contracts with notice periods of one year or more are as follows:

	Notice Period
Martin Ballinger	Two years
Ian Butcher	One year
Christopher Moyes	Two years

8. EMPLOYEES

	1997 £000	1996 £000
Staff costs:		
Wages, salaries and expenses	**116,113**	*72,229*
Social security costs	**9,342**	*5,573*
Other pension costs	**4,400**	*2,252*
	129,855	*80,054*

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

	1997	1996
Administration and supervision	**874**	*570*
Maintenance and engineering	**1,212**	*764*
Operations	**5,746**	*4,118*
	7,832	*5,452*

9. TAXATION

	1997 £000	1996 £000
The taxation charge is made up as follows:		
Corporation tax at 32.5% (1996 - 33%)		
On the profit for the year	**6,369**	*2,608*
Relating to prior years	**(736)**	*219*
	5,633	*2,827*

If full provision had been made for deferred tax in the year, the tax charge would have increased by £1,716,000 (1996 - £994,000).

There would be no liability to taxation in respect of capital gains on properties if these properties were to realise the value stated in the accounts.

10. DIVIDENDS

	1997 £000	1996 £000
Equity:		
Dividend of 3.70p per share for shares issued cum div on 24 September 1996	**93**	–
Interim dividend of 2.15p per share (1996: 1.85p per share)	**1,045**	*674*
Proposed final dividend of 5.85p per share (1996: 3.70p per share)	**2,867**	*1,685*
	4,005	*2,359*

11. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based upon earnings of £15,576,000 (1996 - £9,042,000) divided by the weighted average number of ordinary shares of 47,662,165 (1996 - 36,699,060).

An adjusted earnings per share is also presented to eliminate the impact of non-recurring costs and revenues. This is analysed as follows:

	1997 pence per share	1996 pence per share
Earnings per share - unadjusted	**32.7**	*24.6*
Exceptional items	**11.1**	*(1.7)*
Profit on sale of assets in discontinued operation	–	*(0.4)*
Taxation on exceptional items	**(2.7)**	*0.6*
Minority interests' share in exceptional items after tax	**(2.3)**	–
Adjusted earnings per share	**38.8**	*23.1*

12. TANGIBLE ASSETS

Group	Freehold Land and Buildings £000	Leasehold Properties £000	Rolling Stock £000	Plant & Equipment £000	Total £000
Cost or Valuation					
At 29 June 1996					
At 1985 valuation	2,341	139	–	–	2,480
At cost	17,728	2,352	137,119	14,169	171,368
	20,069	2,491	137,119	14,169	173,848
Additions	88	202	17,045	1,157	18,492
New subsidiary undertakings	–	67	4,290	2,343	6,700
Disposals	(4)	(31)	(3,812)	(460)	(4,307)
At 28 June 1997					
At 1985 valuation	2,341	139	–	–	2,480
At cost	17,812	2,590	154,642	17,209	192,253
	20,153	2,729	154,642	17,209	194,733
Depreciation					
At 29 June 1996	1,549	314	80,908	8,456	91,227
New subsidiary undertakings	–	11	1,943	1,250	3,204
Charge for the year	263	66	9,210	1,405	10,944
Disposals	–	(6)	(3,375)	(255)	(3,636)
At 28 June 1997	1,812	385	88,686	10,856	101,739
Net book value					
At 28 June 1997	18,341	2,344	65,956	6,353	92,994
At 29 June 1996	18,520	2,177	56,211	5,713	82,621

To ensure comparability with assets originally purchased by the group, it is appropriate to disclose cost and accumulated depreciation for assets acquired with subsidiary undertakings.

12. TANGIBLE ASSETS (Continued)

Company	Freehold Land and Buildings £000	Leasehold Properties £000	Plant & Equipment £000	Total £000
Cost or Valuation				
At 29 June 1996				
At 1985 valuation	**2,341**	**139**	**–**	**2,480**
At cost	**9,718**	**1,448**	**158**	**11,324**
	12,059	**1,587**	**158**	**13,804**
Additions	**88**	**198**	**178**	**464**
Transfers from/(to)subsidiary undertakings	**8,006**	**699**	**(10)**	**8,695**
Disposals	**–**	**(31)**	**(33)**	**(64)**
At 28 June 1997				
At 1985 valuation	**2,341**	**139**	**–**	**2,480**
At cost	**17,812**	**2,314**	**293**	**20,419**
	20,153	**2,453**	**293**	**22,899**
Depreciation				
At 29 June 1996	**1,067**	**220**	**79**	**1,366**
Charge for the year	**263**	**43**	**37**	**343**
Transfers from/(to) subsidiary undertakings	**482**	**45**	**(8)**	**519**
Disposals	**–**	**(6)**	**(30)**	**(36)**
At 28 June 1997	**1,812**	**302**	**78**	**2,192**
Net book value				
At 28 June 1997	**18,341**	**2,151**	**215**	**20,707**
At 29 June 1996	**10,992**	**1,367**	**79**	**12,438**

Freehold land and buildings includes non-depreciable land amounting to £6,955,000 (1996 - £6,914,000) in the group and £6,955,000 (1996 - £3,304,000) in the company.

Leasehold properties includes non-depreciable land amounting to £202,000 (1996 - £207,000) in the group and company.

12. TANGIBLE ASSETS (Continued)

The net book value of leased assets is:

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Rolling stock	**56,241**	–	*43,873*	–
Plant and equipment	**74**	–	*49*	–
	56,315	–	*43,922*	–

The cost or valuation amounts are after deducting government grants received of:

	1997 £000	1996 £000
New bus grants (S.32 Transport Act 1965)	**3,339**	*3,590*
ERDF grant	**99**	*99*

The company's properties at 30 June 1985 were revalued at that date by Messrs Healey & Baker, Surveyors and Valuers, on the basis of open market value of existing use. If this had not taken place the historic cost and accumulated depreciation would have been:

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Cost				
Freehold land and buildings	**20,450**	**20,450**	*20,366*	*12,242*
Leasehold property	**2,555**	**2,308**	*2,317*	*1,442*
	23,005	**22,758**	*22,683*	*13,684*
Accumulated depreciation				
Freehold land and buildings	**2,577**	**2,577**	*2,314*	*1,809*
Leasehold property	**506**	**452**	*449*	*293*
	3,083	**3,029**	*2,763*	*2,102*

The net book value of leasehold property comprises:

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Leases with 50 or more years unexpired	**2,341**	**2,148**	*2,173*	*1,363*
Leases with less than 50 years unexpired	**3**	**3**	*4*	*4*
	2,344	**2,151**	*2,177*	*1,367*

13. CAPITAL COMMITMENTS

	1997		1996	
	Group	Company	Group	Company
	£000	£000	£000	£000
Contracted	**14,929**	**–**	*9,098*	*–*

14. INVESTMENTS

Group

Fixed asset investments:

	1997	1996
	£000	£000
Associated companies	**–**	*200*
Listed investments	**2**	*1*
	2	*201*

Current asset investments:

	1997	1996
Associated company	**200**	*–*

The associated company in current assets comprises 200,000 ordinary shares of £1 each in Routemaster Reinsurance Limited which is 20% of the issued share capital of the company. There is also a fixed asset investment in a 36% holding in Network Ticketing Limited, at a cost of £360. These have not been equity accounted as they are not material. The investment in Routemaster Reinsurance has been reclassified as a current asset as it is expected to be liquidated within one year.

At 28 June 1997, the market value of the investment listed on a recognised investment exchange was not materially different from the amount stated in the accounts.

Company

Fixed asset investments:

These comprise ordinary shares in subsidiary undertakings.

The movements are:

	£000
At 29 June 1996	**65,424**
Acquisition of :	
Victory Railway Holdings Limited	**46**
Brighton Transport (1993 Limited	**6,077**
Investment in subsidiary undertakings	**4,355**
At 28 June 1997	**75,902**

Details of the principal operating subsidiary undertakings are set out on page 40.

14. INVESTMENTS (Cont'd)

On 14 October 1996, the company invested in 65% of the issued share capital of Victory Railway Holdings Limited, a newly incorporated company. This company then purchased Thames Trains Limited for a nominal consideration of £1 in cash.

	Initial book value £000	Fair value adjustments £000		Fair value to Group £000
Net assets acquired				
Tangible assets	322	–		322
Stocks	1,306	–		1,306
Debtors	9,039	–		9,039
Cash at bank and in hand	6,599	–		6,599
Creditors	(17,266)	(463)	*(a)*	(17,729)
	–	(463)		(463)
Expenses of acquisition				46
Goodwill arising				509
Analysed as: Attributable to the group				347
Attributable to minority interests				162
				509

The results for Thames Trains Limited prior to acquisition are summarised below:

	1 April 96- 14 October 1996 £000	446 days to 31 March 1996 £000
Turnover	60,206	35,923
Operating profit	3,224	1,841
Net interest receivable	197	49
Profit before taxation	3,421	1,890
Taxation	–	–
Profit for the financial period	3,421	1,890

There are no recognised gains & losses other than the profit for the financial period shown above.

On 2 March 1997, the company invested in 65% of the issued share capital of Govia Limited, a newly incorporated company. This company then purchased Thameslink Rail Limited for a nominal consideration of £1 in cash.

	Initial book value £000	Fair value adjustments £000		Fair value to Group £000
Net assets acquired				
Tangible assets	121	–		121
Stocks	61	–		61
Debtors	6,841	–		6,841
Cash at bank and in hand	20,853	–		20,853
Creditors	(28,250)	(242)	*(a)*	(28,492)
Other provisions	–	(100)	*(a)*	(100)
	(374)	(342)		(716)
Goodwill arising				716
Analysed as: Attributable to the group				465
Attributable to minority interests				251
				716

The initial book value figures noted above are subject to final agreement of completion accounts of Thameslink Rail Limited as at 2 March 1997 with the British Railways Board.

14. INVESTMENTS (Cont'd)

The results for Thameslink Rail Limited prior to acquisition are summarised below:

	1 April 96- 2 March 1997 £000	442 days to 31 March 1996 £000
Turnover	**91,716**	*39,428*
Operating (loss)/profit	**(2,465)**	*3,307*
Net interest receivable	**535**	*129*
(Loss)/profit before taxation	**(1,930)**	*3,436*
Taxation	–	–
(Loss)/profit for the financial period	**(1,930)**	*3,436*

There are no recognised gains & losses other than the profit for the financial period shown above.

On 21 May 1997, the company acquired the whole of the issued share capital of Brighton Transport (1993) Limited (whose principal subsidiary is Brighton Transport Limited) for a consideration of £2,131,000 in cash, £1,851,000 in ordinary shares issued at 4.69p per share and £1,778,000 in redeemable loan notes.

Advantage has been taken of section 131 of the Companies Act 1985 (Note 21).

	Initial book value £000	Fair value adjustments £000		Fair value to Group £000
Net assets acquired				
Tangible fixed assets	**3,053**	–		**3,053**
Stocks	**386**	**(73)**	*(b)*	**313**
Debtors	**606**	–		**606**
Cash at bank and in hand	**223**	–		**223**
Creditors	**(949)**	**(68)**	*(a)*	**(1,017)**
Corporation tax	**(73)**	**50**	*(b)*	**(23)**
Leasing obligations	**(1,997)**	–		**(1,997)**
Deferred tax	**(15)**	**15**	*(a)*	–
Other provisions	–	**(21)**	*(a)*	**(21)**
	1,234	**(97)**		**1,137**
Consideration paid				**5,760**
Expenses of acquisition				**317**
Acquisition cost				**6,077**
Goodwill arising				**4,940**

Notes

(a) Adjustments to reflect group accounting policies in the timing of recognition of certain costs and liabilities

(b) Restatement to fair value

14. INVESTMENTS (Cont'd)

The consolidated results for Brighton Transport (1993) Limited prior to acquisition are summarised below:

	1 January 97 to 21 May 1997 £000	Year to 31 December 1996 £000
Turnover	**2,911**	*8,684*
Operating (loss)/profit	**(208)**	*488*
Net interest payable	**(57)**	*(188)*
(Loss)/profit before taxation	**(265)**	*300*
Taxation	–	*(50)*
(Loss)/profit for the financial period	**(265)**	*250*

There are no recognised gains & losses other than the profit for the financial period shown above.

15. DEBTORS

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Trade debtors	**9,718**	**17**	*7,173*	*59*
Amounts owed by group undertakings	–	**17,432**	–	*17,419*
Other debtors	**6,036**	**401**	*1,286*	*134*
Prepayments and accrued income	**12,057**	**2,511**	*6,630*	*1,607*
Central Government debtor	**5,180**	–	*973*	–
Corporation tax	–	**49**	–	–
Advance corporation tax recoverable	**717**	**717**	*987*	*881*
	33,708	**21,127**	*17,049*	*20,100*

Advance corporation tax recoverable of £717,000 (1996 - £421,000) and pension prepayment of £1,588,000 (1996 - £1,242,000) are recoverable after more than one year.

16. CREDITORS : Amounts falling due within one year

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Bank loans	3,900	3,900	2,611	2,611
Bank overdrafts	4,349	3,186	298	–
Obligations under hire purchase and lease finance	8,977	–	10,829	–
Unsecured loan notes	1,778	1,778	5,023	–
Trade creditors	16,570	590	8,338	1,225
Amounts owed to group undertakings	–	41,470	–	32,695
Corporation tax	7,802	–	5,286	295
Other taxes and social security costs	3,291	106	2,289	15
Other creditors	10,075	28	9,425	21
Deferred season ticket income	15,472	–	–	–
Accruals and deferred income	18,093	246	9,981	311
Redundancy accrual	3,049	–	–	–
Central Government creditor	361	246	–	37
Dividends proposed and payable	2,936	2,867	1,685	1,685
Advance corporation tax payable	978	978	642	590
	97,631	55,395	56,407	39,485

Bank loans amounting to £3,000,000 and overdrafts are secured by a floating charge over the assets of the group.
Bank loans amounting to £900,000 are secured by a fixed charge over specific assets of the group.

17. CREDITORS : Amounts falling due after more than one year

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Obligations under hire purchase and lease finance	26,153	–	20,956	–
Bank loan	2,006	2,006	15,816	15,816
Deferred government grant	183	–	198	–
	28,342	2,006	36,970	15,816
Bank loans repayable:				
Between one and two years	967	967	4,938	4,938
Between two and five years	1,039	1,039	10,878	10,878
	2,006	2,006	15,816	15,816

The bank loan is secured by a fixed charge over specific assets of the group.

18. OBLIGATIONS UNDER HIRE PURCHASE AND LEASE FINANCE

The capital amounts due under hire purchase and finance lease obligations comprise:

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Due in the next year	**8,977**	–	*10,829*	–
Due in the second to fifth years thereafter	**26,153**	–	*20,956*	–
	35,130	–	*31,785*	–

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Vehicle Repairs £000	Deferred Building Repairs £000	Total £000
At 29 June 1996	**1,260**	**708**	**1,968**
Arising on the acquisition of subsidiary undertakings	**21**	**100**	**121**
Amounts expended	**(476)**	**(77)**	**(553)**
Amounts released	**(624)**	**(480)**	**(1,104)**
Amounts provided	**613**	**285**	**898**
At 28 June 1997	**794**	**536**	**1,330**

It is anticipated that there will be no reversal of the net deferred tax timing differences in the foreseeable future and, therefore, no deferred tax provision is required.

The amounts of deferred tax not provided are:

	1997		1996	
	Group £000	Company £000	Group £000	Company £000
Capital allowances in advance of depreciation	**3,790**	**735**	*2,527*	*699*
Leased assets	**1,640**	–	*648*	–
Other timing differences	**(577)**	**547**	*(38)*	*493*
	4,853	**1,282**	*3,137*	*1,192*

20. CALLED UP SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1997	1996	1997	1996
	£000	£000	£000	£000
Ordinary shares of 10p each	**6,125**	*6,125*	**4,900**	*4,554*

On 24 September 1996, 2,277,000 ordinary shares were issued at 305p per share, in order to provide new capital funding for the Thames Trains Limited passenger rail franchise.

On 21 May 1997, 394,686 ordinary shares were issued at 469p per share, as consideration for the acquisition of Brighton Transport (1993) Limited.

The company operates share option schemes under which options have been granted to certain executives and to employees under the savings related scheme. During the year, executive options of 462,400 shares were exercised at 16.9375p per share, and 320,000 shares were exercised at 25p per share. Executive options were granted during the year over 300,000 shares, exercisable at 285p per share between 1999 and 2006, and 50,000 shares at 389p also exercisable between 1999 and 2006 and these were the only executive options unexercised at 28 June 1997.

In addition, there are unexercised savings related options over 491,631 shares exercisable at 128p per share in 2000, 529,491 shares exercisable at 236p per share in 2001 and 652,744 shares exercisable at 391p per share in 2000. 2,982 and 678 shares were issued during the year at 128p and 236p per share respectively under the terms of the savings related scheme.

21. SHARE CAPITAL AND RESERVES

	Called up Share Capital £000	Share Premium £000	Revaluation Reserve £000	Other Reserve £000	Profit & Loss Account £000	Total Capital & Reserves £000
Group						
At 1 July 1995	**3,645**	**16,009**	**791**	**(20,142)**	**10,177**	**10,480**
Movements during the year						
Retained profit for the year	–	–	–	–	**6,683**	**6,683**
Revaluation reserve amortisation	–	–	**(14)**	–	**14**	–
Arising on share issues	**909**	**20,413**	–	**5,400**	–	**26,722**
Share issue costs	–	**(814)**	–	–	–	**(814)**
Goodwill on acquisition	–	–	–	**(24,554)**	*1*	**(24,554)**
At 29 June 1996	**4,554**	**35,608**	**777**	**(39,296)**	**16,874**	**18,517**
Movements during the year						
Retained profit for the year	–	–	–	–	**11,571**	**11,571**
Revaluation reserve amortisation	–	–	**(14)**	–	**14**	–
Arising on share issues	**346**	**6,802**	–	**1,812**	–	**8,960**
Share issue costs	–	**(111)**	–	–	–	**(111)**
Goodwill on acquisition	–	–	–	**(5,752)**	–	**(5,752)**
At 28 June 1997	**4,900**	**42,299**	**763**	**(43,236)**	**28,459**	**33,185**

The cumulative amount of goodwill written off at 28 June 1997 is £54,747,000 (1996 - £48,995,000) of which £962,000 (1996 - £962,000) has been written off to profit and loss account and £53,785,000 (1996 - £48,033,000) has been written off against other reserve.

21. SHARE CAPITAL AND RESERVES (Cont'd)

	Called up Share Capital £000	Share Premium £000	Revaluation Reserve £000	Other Reserve £000	Profit & Loss Account £000	Total Capital & Reserves £000
Company						
At 29 June 1996	**4,554**	**35,608**	**777**	**5,400**	**5,057**	**51,396**
Movements during the year						
Profit for the financial year	–	–	–	–	**4,442**	**4,442**
Dividends	–	–	–	–	**(4,005)**	**(4,005)**
Revaluation reserve amortisation	–	–	**(14)**	–	**14**	–
Arising on share issues	**346**	**6,802**	–	**1,812**	–	**8,960**
Share issue costs	–	**(111)**	–	–	–	**(111)**
At 28 June 1997	**4,900**	**42,299**	**763**	**7,212**	**5,508**	**60,682**

In accordance with the exemption allowed by S.230 Companies Act 1985 the company has not presented its own profit and loss account.

The cumulative amount of goodwill written off to profit and loss account at 28 June 1997 is £211,000 (1996 - £211,000).

22. MINORITY INTERESTS

Non-equity:

Non-equity minority interests comprise 2,274,965 15% cumulative redeemable preference shares of £1 each in Govia Limited. This represents 35% of the total preference shares issued in this company and the rights of these shares are summarised below:

Rights to dividends

The holders are entitled to a fixed cumulative dividend of 15% (including tax credit) ranking in priority to any other shares in issue. The dividend is payable half yearly on 30 June and 31 December each year.

Capital

On a winding up, the assets of the company available for distribution to members are first applied in repaying the nominal value and unpaid cumulative dividend of the preference shares. Subject to the provisions of the Companies Act 1985, the company is bound to redeem the shares at par, for all holders as soon as practicable, the maximum number of shares lawfully redeemable.

Voting

The shares have no voting rights in respect of general meetings of the company other than on a resolution adversely affecting their rights in which case they vote pari passu with the ordinary shares.

Share of profit on ordinary activities after taxation:

	£000
Equity	**193**
Non-equity:	
Preference dividend paid	**17**
Preference dividend payable	**71**
	281

23. OPERATING LEASE COMMITMENTS

Annual rentals on operating leases and rental agreements which expire:

	1997		**1996**	
	Property £000	**Plant and Equipment £000**	**Property £000**	**Plant and Equipment £000**
Group				
Within one year	**131**	**60**	*28*	*37*
In the second to fifth years inclusive	**5,192**	**1,977**	*92*	*45*
Over five years	**46,675**	**39,655**	*168*	*–*
	51,998	**41,692**	*288*	*82*
Company				
Within one year	**33**	–	*28*	*–*
In the second to fifth years inclusive	**30**	–	*–*	*–*
Over five years	**44**	–	*58*	*–*
	107	–	*86*	*–*

24. PENSION COMMITMENTS

The group operates one main scheme, the group pension plan, which consists of final salary and money purchase sections. The group plan is funded by the payment of contributions to a separately administered trust fund in accordance with the advice of independent qualified actuaries. The latest actuarial information is as follows:

Date of actuarial review	*5 April 1996*
Actuarial assumptions :	
Investment return	*9% p.a.*
Pay growth	*6.5% p.a.*
Pension increase	*4.25% p.a.*
Dividend growth	*4.5% p.a.*
Market value of assets	*£82,519,000*
Funding level	*121.5%*
Actuarial method	*Projected unit credit*

The current group overfunding is being corrected by reducing the employer's contribution rate in the final salary sections. At 28 June 1997 the balance sheet includes a prepayment of £1,764,000 (1996 - £1,380,000).

During the year the scheme applicable to the employees of London General Transport Services Limited was consolidated into the group scheme.

Thames Trains Limited and Thameslink Rail Limited employees participate in the Railways Pension Scheme (RPS) which operates a defined benefits scheme for those companies previously owned by British Railways Board. RPS was last valued as at 1 April 1996 by an independent qualified actuary. Individual company sections were set up at the dates of acquisition by the Group and at the respective dates, it is considered that there was no material surplus or deficit.

The most recent actuarial reviews were conducted prior to the 1997 Finance Bill which stated that pension schemes will be unable to reclaim future tax credits on UK dividends. The effect is likely to be an increase in future pension charges and this will be quantified as part of the full triennial valuation being undertaken this year of the main group scheme. However, the effect on the amount of the pension charge as at 28 June 1997 is not expected to be material.

Principal Subsidiary Undertakings

Name		*Principal activity*
Brighton & Hove Bus and Coach Company Limited		*Bus and coach operator*
City of Oxford Motor Services Limited		*Bus and coach operator*
The Gateshead & District Omnibus Company Limited		*Bus operator*
Grandforce Limited		*Service company*
London Central Bus Company Limited		*Bus and coach operator*
London General Transport Services Limited	*(b)*	*Bus and coach operator*
Mokett Limited		*Holding company*
Northern General Transport Company, Limited		*Bus operator*
The Northern National Omnibus Company Limited		*Coach operator*
OK Motor Services Limited	*(b)*	*Bus and coach operator*
OK Motor Services (Travel) Limited	*(b)*	*Travel agent*
OK Travel (Inclusive Tours) Limited	*(b)*	*Tour operator*
The Sunderland & District Omnibus Company Limited		*Bus operator*
The Tynemouth & District Omnibus Company Limited		*Bus operator*
The Tyneside Omnibus Company Limited		*Bus operator*
Visitauto Limited		*Taxi operator*
The Wycombe Bus Company Limited		*Bus operator*
Victory Railway Holdings Limited	*(a)*	*Holding company*
Thames Trains Limited	*(b)*	*Train operator*
Govia Limited	*(a)*	*Holding company*
Thameslink Rail Limited	*(b)*	*Train operator*
Brighton Transport (1993) Limited		*Holding company*
Brighton Transport Limited	*(b)*	*Bus operator*

Notes:

1. *All the principal subsidiary undertakings are incorporated and operate in Great Britain.*
2. *The above are subsidiary undertakings by virtue of the majority voting rights being held by the immediate parent undertaking.*
3. *The proportion of nominal value of ordinary share capital held in each company is 100%, except companies marked (a), where the proportion is 65%.*
4. *All subsidiary undertakings are included in the consolidated accounts.*
5. *All the principal subsidiary undertakings operate within the United Kingdom.*
6. *Subsidiary undertakings held indirectly are marked (b).*