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Go-Ahead

The Go-Ahead Group plc Annual Review **2000**

The Go-Ahead Group plc

Annual Review 1 July 2000

Go-Ahead

Financial Calendar

Annual General Meeting	19 October 2000
Record date	27 October 2000
Final dividend paid	24 November 2000
Half year end	30 December 2000
Interim results announced	February 2001
Interim dividend paid	April 2001
Next financial year end	30 June 2001
Full year results announced	September 2001
Annual General Meeting	October 2001
Final dividend paid	November 2001

Go-Ahead is one of the leading providers of integrated urban public transport, with around a 6% share of the total UK passenger business.

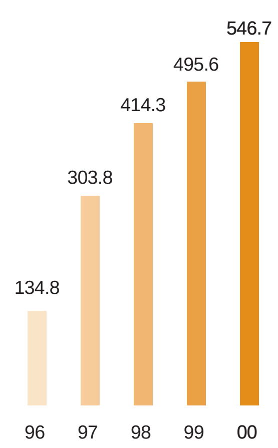
Financial Highlights

For the year

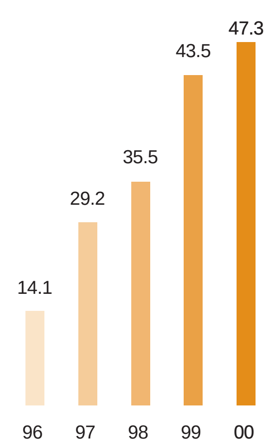
		2000	1999
Turnover (including joint ventures')	(£m)	546.7	495.6
Total operating profit (before exceptional items)	(£m)	47.3	43.5
Profit before tax	(£m)	40.6	41.2
Adjusted earnings per share	(pence)	63.7	56.9
Dividend per share	(pence)	13.0	11.5

Five year record

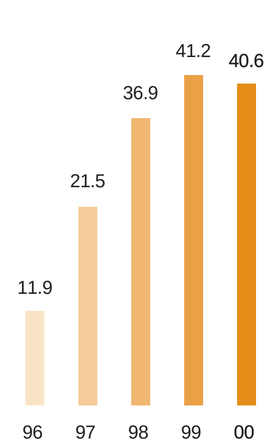
Turnover (£m)



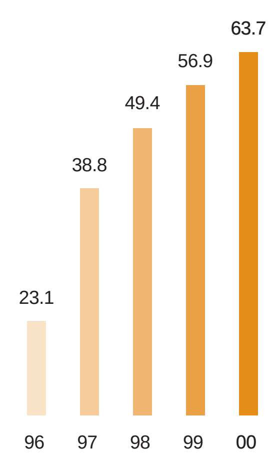
Operating Profit Before Exceptional Items (£m)



Profit Before Tax (£m)

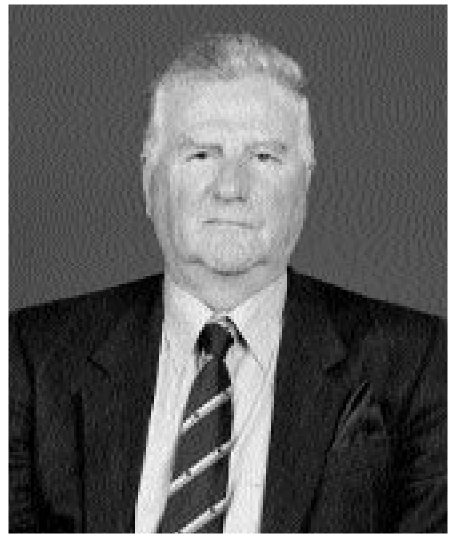


Adjusted Earnings Per Share (pence)



Chairman's Statement

(incorporating financial review)



ACCIDENT AT LADBROKE GROVE

This year has been overshadowed by the tragedy at Ladbroke Grove on 5 October 1999 involving a train operated by a Group subsidiary, Thames Trains Limited. To all the bereaved and injured we have given our heartfelt condolences. Thames Trains and the Group have been shocked and dismayed by this tragic event.

A Public Inquiry, chaired by Lord Cullen, is investigating the circumstances of the accident. Thames Trains has played its part in the Inquiry and with other related inquiries and safety reviews. The Public Inquiry is planned to continue with a second phase considering rail safety in the context of the Ladbroke Grove and Southall accidents.

Both Thames Trains and Thameslink, the two franchises operated by The Go-Ahead Group, have of course already implemented all recommendations arising from interim safety reviews which followed the tragedy. Indeed, since commencing its rail operations, the Group has monitored safety reports from the authorities and closely followed the implementation of action plans arising from recommendations in those reports. The more recent recommendations have included significant additions to driver training and driver briefing procedures, specifically in the context of signals passed at danger ("SPADs").

Although it is of no consolation to those affected by the Ladbroke Grove accident, the number of SPADs per planned million train miles had already reduced from 3.9 to 2.2 within Thames Trains over the three years since the Group had been awarded the franchise. However, as Ladbroke Grove has shown, just one SPAD can result in a dreadful tragedy and we and the industry as a whole cannot be content until SPADs have been eliminated completely from the railway network.

At present, trains of our Thameslink franchise are fitted with train protection warning systems ("TPWS"). So far, however, only a number of signals are fitted with the necessary infrastructure to enable the TPWS to function. Railtrack has plans to introduce TPWS throughout the network and the completion of the infrastructure on the Thameslink line is one of Railtrack's priorities.

Trains in our Thames Trains franchise have never had any form of automatic train protection ("ATP"). Although ATP was introduced on a pilot basis by British Rail on the Great Western trains, it had never been wholly satisfactory or reliable. Thames Trains and virtually every other operator has been awaiting TPWS development. Following the recent Inquiry by Professor Davies, TPWS is now a firm commitment throughout the UK rail network. We have committed Thames Trains to be at the forefront of implementing TPWS, expected to be fitted to our fleet by October 2001, commensurate with Railrack's plans to fit TPWS to the Paddington area, and SPAD occurrence should then reduce even further.

Rail travel continues to be the safest form of passenger transport. Go-Ahead, with its wealth of hard-won expertise, intends to continue as a major passenger rail operator in the UK into the long term.

FINANCE AND OPERATIONS

Group profitability

Turnover on continuing businesses for the year ended 1 July 2000 (including joint ventures) has increased by 10% to £547 million (1999 – £496 million). Excluding the effects of exceptional items, the operating profit of the Group, including its share of joint ventures, has increased by 9% to £47.3 million (1999 – £43.5 million). Profit before tax and exceptional items increased by 8% to £44.8 million (1999 - £41.4 million). After exceptional items, profit before tax fell 2% to £40.6 million (1999 - £41.2 million). Earnings per share excluding the effects of exceptional items rose 12% to 63.7p (1999 – 56.9p).

Dividend

A final dividend of 9.2p per share is proposed, payable on 24 November 2000 to shareholders on the register on 27 October 2000. The total dividend for the year is 13p per share (1999 – 11.5p), up 13% on the previous year and covered almost five times by earnings before exceptional items for the financial year.

Operating Result

The progress made by the Group in the year is summarised below:

	2000 Turnover £m	2000 Operating profit before exceptional items £m	2000 Margin %	1999 Turnover £m	1999 Operating profit before exceptional items £m	1999 Margin %
Buses						
Regulated	124	14.9	12.0	107	14.3	13.4
Deregulated – North	57	7.8	13.7	57	7.5	13.2
Deregulated – South	46	6.9	15.0	44	6.5	14.8
	227	29.6	13.0	208	28.3	13.6
Rail	253	14.4	5.7	241	14.5	6.0
Aviation Services	67	3.3	4.9	47	0.7	1.5
	547	47.3		496	43.5	

Bus

The Group's bus companies have put in a strong performance despite difficult conditions for all UK bus operators. The Group's bus operating margin for the year was 13.7% excluding central costs. Increases in fuel costs have impacted profits by more than £3.5 million in the year. Without this increase, the operating margin, excluding central costs, would have reached 15.2% – above the target communicated to shareholders at this time last year. The underlying improvement in the deregulated markets is a consequence of continued strong passenger growth in the South East and of management's control of costs and focused investment within the mature North East market.

This year saw the addition of a further South East-based bus company with the acquisition of Metrobus in September 1999. With over 200 vehicles, Metrobus principally operates services under contract to 'Transport for London' ("TfL") and brings our share of the London tendered bus market to over 17%, consolidating our position as the second largest operator in this important market. A winner of the London Bus Operator of the Year in 1998 and runner-up in 1999 (Bus Industry Awards), Metrobus has gained ISO recognition and is acknowledged by TfL as a leader in measured quality bus standards. We have inherited a lower margin from Metrobus which has served to depress the overall margin in our regulated market. Margins are expected to improve with the benefit of recent contract wins.

Meanwhile our London General and London Central companies are consistently among the top performers in London Transport's league table based on London Transport's own exacting quality measurements. Because of the nature of London Transport contracts, the Group decided to acquire new vehicles with a value of approximately £10 million for London by way of operating leases. The effect of the operating leases is to transfer what would otherwise have been conventional lease interest into operating costs, with a consequent reduction in operating margin of £900,000. Even with the well-publicised staff, fuel and insurance cost increases, London's margin is still a respectable 12.0%.

Rail

In the Group's two rail franchises, subsidies dropped by £16 million in the year. The Group is now a net contributor to the Exchequer compared with the year before privatisation when subsidies to Thames Trains and Thameslink exceeded £53 million. Passenger volume growth of 10.6% was recorded in Thameslink last year, while volume in Thames Trains, affected by Ladbroke Grove, rose by 7.1%. Despite the reduction in subsidy and the Chiltern bid costs of £381,000 which have been written off, good revenue growth enabled profits from the franchises to be broadly maintained. This recent growth included unexpected but maintainable gains from rail industry revenue allocations.

Aviation Services

Following its post-acquisition reorganisation, the Group's aviation services company, GHI, made a strong contribution to profitability in its first full year in the Group. The market for air transport is forecast to grow by 5% per annum in both passenger and cargo. Our aviation services business is well positioned in the significant airports in London and the South East and Manchester to exploit this increasing business. During the year, our Plane Handling joint venture with Virgin Aviation Services Limited has been awarded an underwing handling licence, allowing apron services to be carried out at Heathrow. GHI set up the operation and recruited and trained staff on behalf of Plane Handling.

The Board believes that corporate activity in the sector together with progress made under Group ownership indicates the value enhancing nature of the acquisition.

Exceptional items

As announced on 19 May 2000, the rail joint ventures with our French colleagues, VIA-GTI, in Sweden were terminated. Costs arising from both of these joint ventures totalled £4.5 million and have been treated as exceptional. The other significant item is the release of part of last year's provision in respect of an anticipated aviation services' reorganisation. This is no longer required because contract gains in the year obviated the need for these planned redundancies.

Taxation

The effective rate is 22.8% (1999 – 25.2%). Progress in resolving a number of outstanding issues from prior years has enabled the release of £2.0 million from prudent tax provisions which had previously been made. In addition, capital expenditure tax allowances in excess of accounts depreciation have again provided the majority of the remaining reduction from the standard tax rate given that no deferred tax is provided in the accounts.

Capital expenditure

Net capital expenditure of £24 million was, as in prior years, largely due to investment in the bus fleet. In addition, as noted above, £10 million of vehicles were acquired under operating leases. This large investment, mainly comprising 350 new buses, plus the inheritance of a very young fleet with the acquisition of Metrobus, has led to a reduction in the Group's average vehicle fleet age from 8.1 years per vehicle to 6.8 years (excluding the Heritage Fleet of Routemaster buses). The Group's fleet upgrade policy is close to maturity and, following further planned investment improvements in the current year, a policy of maintenance capital spend will be adopted, substantially reducing capital expenditure and, therefore, increasing free cash availability.

Cash flow, borrowings and balance sheet

Operating cash flow increased by 43%. Excluding positive working capital movements (mainly due to statutory rail settlement procedures), operating cash generated was £60.5 million, an increase of 12% on last year.

Significant cash outflows were in relation to the Metrobus acquisition, mainly for cash (£8.5 million net of cash acquired) and the Swedish joint ventures (£4.1 million).

Excluding restricted cash, gearing has been reduced from 70.4% last year to 59.2%. This, together with the Group's very robust cash interest cover ratios, provides a basis for significant borrowing capacity to create further value for shareholders.

Management and staff

This year has not been an easy one for any part of Go-Ahead's businesses. I would like to pay tribute to all of the management and staff for their efforts over the year. As recognition of the efforts of many, it was heartening to read of the award of the MBE to Dilip Joshi who managed the enhanced Ealing Broadway station so magnificently during the time that Paddington was closed.

STRATEGY

The Group's strategy will continue to focus on two distinct activities – public transport and aviation services. The strategy will be delivered through our empowered local management teams delivering quality services through investment, training and partnerships.

Public Transport

Group strategy in public transport in the near term will focus in the UK where we see the majority of opportunities for the whole of Europe. Our strong portfolio of Group businesses in the UK bus and rail sectors provides a platform for the many opportunities for growth in the context of the Ten Year Transport Plan.

The Ten Year Transport Plan

The government's recently announced Transport Plan aims for spending of £180 billion on public transport over the next ten years with two-thirds of this total arising from public resources. With the exception of some of the rail investment, the target relates to expenditure in England. Without the effects of this plan, road congestion is expected to worsen by 23% over the next ten years. The plan aims to achieve an overall reduction in congestion of 5%. The majority of this planned reduction is expected to be achieved by improvements and investment in public transport.

The key component of our strategy remains the increasing requirement for public transport in the expanding region of London and the South East of England. As recent regional studies show, population and capital investment are flowing into this area. Facilities for private transport are already inadequate and will be unable to cope in the future. Growth in public transport use is central to government policy and the need to invest in the network around London and the South East is critical. The Group has already invested many millions of pounds in renewing its bus fleets and in helping to plan and implement changes to traffic networks.

In London, we welcome the early commitment to service quality measures given by TfL and the Mayor. We have ourselves always sought to include significant improvements in quality in our bids for London bus contracts. Around 200 new low-floor double deck vehicles have been recently added to our London fleet.

Opportunities in rail franchising

Of particular significance are the Group's plans for ensuring a long-term future in rail operation. As the current operator of Thames Trains and Thameslink franchises, we believe we have the experience and credibility to bid for longer term replacement franchises of up to 20 years for these and other networks. Chiltern Rail and South Central franchises are neighbours of our existing franchises. Both were among the first three franchises to be offered for replacement bids and we were delighted to find that our proposals for those two franchises had carried us forward to the 'Best and Final Offers' against the existing incumbents. Our partners and advisors are among the top firms in their fields in the country. We are confident that our proposals have been realistic and practical, while offering excellent value for money. In the case of Chiltern Rail, the shadow Strategic Rail Authority preferred the incumbent's proposals and that team has been selected as the 'preferred bidder'. Nevertheless, we are confident that the Group is well placed to win other long-term franchises.

Aviation Services

The opportunities in the Aviation Services sector are very exciting, fuelled by growth in international trade and increased consumer spending on leisure travel. GHI are significant handlers of cargo as well as passenger service providers, either in their own capacity or through joint ventures, at all of the main airports in the UK. GHI seeks opportunities to grow with others elsewhere in the world. Unlike our bus and rail contracts, an IATA ground handling contract is a universal document and our airline customers are global operators. Aviation services are truly international products and it is through this business that we will presently concentrate our search for international opportunities.

Ground handling services have tended to consolidate on a global scale. As an interim measure, GHI is currently at the forefront of creating an alliance of independent handlers in much the same way as airlines themselves have formed alliances to create the benefits of scale without upsetting regulatory authorities. Meanwhile, airlines with their own significant ground handling capabilities seek to outsource their non-core activities.

GHI has key facilities to cope with capacity needs at Gatwick and, with its Virgin joint venture, Plane Handling, at Heathrow. It is the only independent handler in the North terminal at Gatwick. There are truly exciting developments to come for the professional GHI operation.

OFFER FROM C3D TRANSPORT UK LIMITED

The board of Go-Ahead remains unanimous in its rejection of the opportunistic offer from C3D Transport UK Ltd of 650 pence in cash for each Go-Ahead share. The offer, which clearly fails to recognise the Group's prospects, is unwelcome and wholly inadequate.

These results alone should give shareholders the principal reasons why the board is of this view. Our further explanations as to why this offer fails to value your company properly is explained in the 'Defence Document' being posted to shareholders.

PROSPECTS

Finally, I am able to report that the first two months' trading of the current financial year show our performance to be ahead of the Board's expectations. We are concentrating on the significant opportunities available to us and we look forward with confidence to a successful and exciting future.

Professor Sir Frederick Holliday
Chairman

7 September 2000

Operating Review

Go-Ahead's UK based bus, rail and airport ground handling operations have continued to develop during this past year. The policies of integration and partnership remain the basis of the Government's Transport Policy and these are shaping the ways in which Go-Ahead responds to the growing problem of traffic congestion which is impacting in all areas of our bus operations. Throughout these developments we have maintained our ethos of devolved localised management delivering quality services through investment, training and partnerships.

Bus

The group has continued to invest heavily in new vehicles. Over 350 new vehicles (including buses financed by operating leases) have joined the fleet this year, representing an investment in excess of £40 million. As reported in the chairman's statement, this has brought our fleet age down to an average of 6.8 years (excluding the Heritage Fleet of Routemasters), amongst the best in the industry, beating the Industry-Government target set at last year's Bus Summit of 8 years.

This year saw the addition of a further south east based bus company with the acquisition of Metrobus Limited in September 1999. With over 200 vehicles, Metrobus principally operates services under contract to 'Transport for London'("TfL") and brings our share of the London tendered bus market to over 17%. Winner of the London Bus Operator of the Year in 1998 and runner-up in 1999 (Bus Industry Awards), Metrobus has gained ISO recognition and is acknowledged by TfL as a leader in measured quality bus standards.

The commencement of the Croydon Tramlink in London has seen certain Metrobus operations dovetailed with this light rail system. Metrobus has also been chosen to partner BAA and West Sussex County Council in the Gatwick Direct scheme, aimed at reducing employee car travel to London's second airport. Our involvement will continue when this is replaced by 'Gatwick Direct' in 2003, providing a guided busway link to the airport.

Within the highly regulated Central London market, the group has continued to maintain our 'service quality' approach to tenders. Contract retentions and wins, including the prestigious M1 and M2 Millennium Dome routes, have offset the tender losses of last year and we welcome the early commitment to service quality measures given by TfL and the new London Mayor. Around 200 new low-floor double deck vehicles have been added to our London fleet as a result.

London continues to suffer from the worst traffic congestion in the UK. In order for buses to fulfil their role as one of the key solutions to this urban problem, they need to operate in an environment free from traffic congestion. Strictly enforced bus lanes and priority signalling, as with the Edinburgh *'greenways'*, are the ideal solution for reduced journey times along with corresponding reliability and patronage improvements.

In London, as in other cities, buses tend to suffer the same congestion fate as the private car, and will continue to do so unless bus lanes and parking restrictions are strictly enforced. As a flavour of the problems faced in the capital, in the first half of this financial year our Routemaster 'route 12' suffered delays of over 15 minutes on 121 out of 181 days. To give a few examples; on 19 January road works in the Peckham area caused 'gridlock' resulting in delays of 60 minutes; traffic congestion and road works in mid April resulted in delays of 30 minutes or more on four consecutive days; on 14 June a combination of road works, broken down and unloading vehicles blocking roads, and processions caused delays totalling almost 2.5 hours.

Only when public transport is visibly seen to be quicker and less stressful than the car will we be able to achieve significant modal shift. Road works, demonstrations, illegal parking, road traffic accidents and dependency on the private car all contribute to our, and London's, congestion problems. As such we welcome the new London Mayor's stance on improving bus services and congestion charging, and we look forward to working closely with the Mayor, through TfL, to deliver the transport system London needs.

Our on-going partnership approach in Brighton & Hove with the local authorities has delivered a 6.4% increase in passengers this year, the sixth successive year of patronage growth. Our long-term aim is to continue this growth and vital to this is the need to 'convert' people to public transport use at an early age. To this aim we have extended the scope of free travel for children in Brighton. It is hoped that by encouraging bus use within the younger generation, they will be less likely to rush into car ownership when they become old enough.

The issue of easily available 'information' continues to rank highly in passenger surveys. Continuing the theme of quality partnerships, together with Brighton & Hove Council, we have introduced an experimental real-time information system at selected town centre stops. This has been complemented by further investment in fleet modernisation.

Brighton & Hove has continued its award success, winning the European based Eurochallenge Award for our METRO marketing scheme. It is gratifying to note that other UK groups are now replicating this strategy. Brighton & Hove was also runner-up in Meridian TV Annual Business Excellence Awards and NFBU Company of the Year (Southern region) for the third year running, while the managing director, Roger French, picked up the Businessman of the Year in the 1999 Sussex Business Awards.

In Oxford, implementation of the city council's Transport Strategy has resulted in an initially slower than expected market growth. However, increasing demand from Sunday shoppers has required an expansion of our east-west Park & Ride service, with passenger levels now 14% up on last year. The Oxford Express service to Gatwick has also seen demand growth, with the frequency now increased to hourly from May 2000.

Continuing investment has seen our Oxford fleet become one of the most modern in the country with an average age of just over three years. 70% of our Oxford fleet now achieves an environmental performance level (Euro III compliant) well ahead of that required by legislation. Across all our bus subsidiaries we are ahead of European Policy directives to reduce vehicle emissions and our continuing aim is to use existing and new technologies to remain a step ahead of such directives.

As a result of our work in Oxford we were awarded a 'Green Oxfordshire Special Conservation Award' in recognition of continuing initiatives to reduce exhaust emissions. In addition Oxford were runners-up for Midlands Region in NFBU 'Welcome Aboard' awards.

Continuing work on improving the accessibility of our bus services has seen our north east bus operation awarded the 'Claudia Flanders Award For Accessibility' (1999 Bus Industry Awards). Our north east fleet now boasts one of the largest proportions of low-floor easy access vehicles in the country, with the addition of over 170 low-floor vehicles in the last three years. With an additional 56 due this year we are on course to achieve a fully accessible fleet ahead of the Government's target date. Such work on improving access for all customers is mirrored across our other bus operating companies.

This year we have taken a lead role in the establishment of the TRAVELINE NORTH EAST, part of the industry's national public transport telephone enquiry service, and meeting a commitment to Government. This went 'live' in February, ahead of much of the rest of the country.

The north east continues to mature; the result of a declining population, demographic shift towards an older population, continued growth in car ownership in excess of the national average and the fragmentation of traditional employment and retail patterns. However, localised organic growth has been achieved through a range of successful Quality Partnerships concentrated along main corridors. These quality partnerships include all aspects of service, including infrastructure, continuing targeted fleet investment and new initiatives such as a 28-day money back guarantee.

Rail

Passenger growth on both our rail franchises has continued this year, placing enormous strain on an infrastructure starved of investment during the last decade. We welcome the formation of the shadow Strategic Rail Authority (sSRA) and the strategic guidance and planning this will give to the industry, and look forward to a clear statement of its strategic aims and objectives. We are already seeing evidence of this with the start of the franchise renegotiations. These longer franchises (up to 20 years) will give the industry and 'players' the necessary stability to fund the large scale investment required to meet the estimated 50% patronage growth in the next ten years.

On our busiest franchise, Thameslink – amongst the most congested routes in the UK - we have leased an additional six four-car trains to relieve passenger congestion. However, this is only a short-term solution to the congestion problems across the south east rail network. As such we welcome the recent announcement of the public inquiry into the Thameslink 2000 project, and look forward to the opportunity of working with the sSRA and Government in the implementation of this expanded and improved network which will allow operation of 24 12-car trains per hour through central London.

Thameslink is one of the first TOCs to be awarded 'Secure Stations' status.

Our Thames Trains franchise has also experienced continued passenger growth, but we have still achieved an almost 10% improvement in punctuality since summer 1998. Continued investment in this franchise has seen Oxford station revamped and voted 'most passenger friendly medium sized station' by rail travellers. A new ticket office has been opened at Paddington to reduce concourse congestion, while a refurbishment programme has started for our fleet of Turbos.

Our chairman has already made reference to the tragedy at Ladbroke Grove and our thanks must go to the staff of Thames Trains for their hard work and dedication during this traumatic year. Within Go-Ahead, they felt the effects of Ladbroke Grove most keenly and are to be commended for the professionalism and compassion they demonstrated while dealing with the aftermath of the crash. The internal processes and procedures of Thames Trains have come under intense internal and external investigation in recent months and we have fulfilled our commitment to be open, honest and where necessary, self critical in our response to the Cullen Inquiry. Its conclusions are keenly awaited.

On a safety issue, we have now completed the fitment of Train Protection Warning System ("TPWS") on all our Thameslink vehicles. This is the system recommended by Sir David Davis following his Government sponsored inquiry into the most suitable form of protection for the UK rail network, and has now been adopted as the industry standard with complete fitting expected by 2002. On the Thameslink network we are now waiting for Railtrack to complete the fitting of the trackside equipment so that the system can go 'live' throughout. We are working with Railtrack and Angel Trains (the rolling stock leasing company) to ensure the earliest possible implementation of TPWS on Thames Trains including, in particular, the Paddington approaches.

Go-Ahead is committed to playing a major role in the rejuvenation of the UK rail network and as part of our long-term strategy we bid and were short listed for two further rail franchises – South Central and Chiltern.

Aviation Services

Forecasts for airport use continue to depict growth in excess of 5% per annum. This, coupled with the opening of the European markets through deregulation, provides tremendous business potential for Go-Ahead to build on our existing airport service operation.

Our airport ground services company, Gatwick Handling (GHI), has continued to grow during the year. Restructuring within GHI has seen significant savings, with approximately £100,000 saved alone through the transfer of the head office function out of the Gatwick Terminal building into more appropriate accommodation on the airport perimeter.

This year has seen a number of new contract wins with Maersk, Olympic and Virgin Sun joining GHI. In addition Monarch returned to GHI after only six months with a competitor, citing service quality and 'value for money' as reasons for the return.

Our Plane Handling joint venture with Virgin Atlantic has been awarded an underwing handling licence for apron services to be carried out at Heathrow. This will considerably enhance the opportunity for growth at this airport. GHI set up the operation and recruited and trained staff on behalf of Plane Handling.

Europe

Last year we reported on the contract successes in Sweden for the joint venture company of Go-Ahead, VIA-GTI and Swedish operator BK Tåg. We were successful as a minority partner in tendering to operate both the Stockholm commuter rail network and the intercity service on Sweden's West Coast from Gothenburg to Malmo.

However, unexpected difficulties in starting up the Stockholm business early in 2000 were not resolved through discussions with the Swedish authorities. As a result we terminated our involvement in the project and transferred our interest to VIA-GTI. In addition it was found impossible to continue the rail joint venture in western Sweden. Together with our partners, the decision was taken to shut the intercity operation down. We are continuing to advise Swedish and other government agencies on structural changes necessary to ensure successful service transfer.

The group remains committed to the ideals of European expansion through partnership as the market becomes more open. In fact we have continued our relationship with VIA-GTI (now part-owned by SNCF, the French national railway operator) with our joint bid to operate the South Central rail franchise (VIA-GTI / SNCF are our existing partner in the Thameslink rail franchise). We also hope to expand our airport ground handling division into Europe as the market deregulates following the European Directive.

Pictures of the No 12 bus by Red Burdon.

Directors and Advisors

Directors

Professor Sir Frederick Holliday (64)

joined the board of Go-Ahead in 1997 as a non-executive director, becoming non-executive chairman in 1998. He is chairman of Northumbrian Water Group and serves on the board of Suez Lyonnaise des Eaux. He is also chairman of Northern Venture Trust and is a director of Brewin Dolphin Holdings plc. He chaired the Eastern Region Board of British Rail from 1986 to 1990 and was a British Rail main board member from 1990 to 1993. He was a board member of Union Railways and continues to give environmental advice to the railway industry. In 1990 he retired from the position of vice-chancellor of Durham University, having spent 32 years in higher education.

Martin Ballinger (56)

is group managing director. He has headed up the Go-Ahead Group management team since 1982 through deregulation (1986), the management buy-out (1987) and a successful placing on the London market in 1994. Qualified as an accountant in 1968, he held various accounting posts before joining the National Bus Company in 1972.

Ian Butcher (49)

is group finance director and company secretary. 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 15 years in a broad range of industries at group finance director level, the last ten of which have been spent with public companies.

Sir Patrick Brown (58)

is a non-executive director and joined the board in January 1999. He is also a non-executive director of Hunting plc and Arlington Securities 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. He was second permanent secretary in the DoE before returning to the DoT.

Christopher Collins (60)

is the most recently appointed non-executive director. He is chairman of Hanson plc, having previously been executive vice-chairman and director, corporate development, between 1991 and 1995. He is also a non-executive director of Old Mutual plc and Forth Ports plc and a qualified chartered accountant.

Christopher Moyes (51)

is group commercial director. He has been a board member of the Go-Ahead Group since 1986 and was involved in the management buy-out of that business in 1987. Earlier he held a variety of management posts with the National Bus Company. A graduate engineer, he is also a fellow of the Chartered Institute of Transport and was a member of its UK Council (1990-1995). He has recently been appointed chairman of Transfed, the National Training Organisation for the industry and a subsidiary of the Confederation of Passenger Transport.

The audit committee consists of Professor Sir Frederick Holliday, Sir Patrick Brown and Christopher Collins. Martin Ballinger sits in attendance. The remuneration committee consists of Professor Sir Frederick Holliday, Sir Patrick Brown and Christopher Collins.

Advisors

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Solicitors

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St Ann's Wharf
112 Quayside
NEWCASTLE UPON TYNE
NE99 1SB

Registrars

Lloyds TSB Registrars
The Causeway
WORTHING
West Sussex
BN99 6DA

Principal Bankers

The Royal Bank of Scotland plc
Corporate Banking
Waterhouse Square
138 – 142 Holborn
LONDON
EC1N 2TH

Den Danske Bank
75 King William Street
LONDON
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Corporate Governance

The company is committed to 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 Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

Statement by the Directors on compliance with the provisions of the Combined Code

Following the appointment of Christopher Collins on 1 September 1999 and the passing of certain resolutions at the AGM on 22 October 1999, 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.2.1 In the board's opinion, its size does not justify the appointment of a formally recognised senior independent non-executive director.

A.5.1 Because of the small size of the board, it has not been considered appropriate to appoint a nominations committee, the board as a whole being responsible for approving new appointments.

B.1.7 Two executive directors have contracts with two years' notice on the basis set out in the section below under "remuneration committee and policy".

Having reviewed the results of an external review of internal controls, the board confirms that it has established the procedures necessary to implement the guidance 'Internal Control: Guidance for Directors on the Combined Code' to ensure full compliance for the year ending 30 June 2001.

The group has adopted the transitional approach to reporting on the internal control aspects of the Combined Code as set out in a letter from the London Stock Exchange dated 27 September 1999. Accordingly, the board's review of the group's system of internal control has been limited to its internal financial control and financial reporting in accordance with the guidance issued for directors in December 1994.

The board

The board currently comprises three non-executive directors, all of whom are considered to be independent, and three executive directors, and is responsible to shareholders for the proper management of the group. It meets at least 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.

All directors are subject to re-election by shareholders following appointment. Further, following the AGM on 22 October 1999, all directors are subject to re-election at intervals of not more than three years.

The board has adopted a group board procedures manual which was 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 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 Professor Sir Frederick Holliday, comprises all the non-executive directors, and meets no 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 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.

Remuneration committee and policy

The remuneration committee is made up of the non-executive directors and is chaired by Professor Sir Frederick Holliday. It has the responsibility for determining the remuneration, contract terms and other benefits for executive directors, including performance-related bonus and share option schemes. In considering these issues, the policy of the group is to ensure that the overall reward packages reflect current market practice and the responsibilities of the individuals concerned in order to attract and retain individuals of the appropriate calibre to meet group objectives including, where appropriate, the granting of contracts up to two years. The remuneration arrangements consist of basic salary, non-pensionable performance related bonus based on functional performance, contributions to the group pension plan, healthcare insurance, professional subscriptions and other non-pensionable benefits in accordance with typical company practice. Share options have also been granted, the condition for exercise of which is set out in Note 7 to the accounts. In recent years options have been granted only in exceptional circumstances as a matter of policy. As reported last year, the remuneration committee approved the introduction of a share bonus scheme for the benefit of certain executive directors at main board and subsidiary board levels. Under the terms of the scheme, higher levels of annual bonus will be awarded but the majority will be converted into shares and held in trust until awarded to the executives three years after adoption of the scheme. The remuneration committee decide the amount of the award on an individual basis subject to achieving performance targets. The individual loses any right to the bonus if leaving employment within the three years. The first award was made in respect of the previous financial year, ended 3 July 1999 and details of this, other remuneration including share options and contract terms are set out in Note 7 to the accounts.

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 regularly in contact with stockbrokers' analysts. All shareholders are invited to the Annual General Meeting. The group maintains a website and expects this will become a growing medium for communication to smaller and individual shareholders.

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 three executive directors. Martin Ballinger is chairman of the trustees. The auditors and actuaries of the plan are both independent of the group.

Internal financial 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 group 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 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 reporting of financial information to the board encompassing profit and loss, cash flow 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 safety, insurance and treasury management;
- defined capital expenditure approval procedures;
- each group company maintains controls and procedures appropriate to its business and they are reviewed annually on the basis of a group internal control policy document certified by the respective subsidiary boards; 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.

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.

Directors' Report

The directors present their report and audited accounts for the year ended 1 July 2000.

ACTIVITIES

The principal activities of the group are the provision of passenger transport services in the United Kingdom and the operation of aviation ground handling services.

TRADING

The profit and loss account appears on page 18. The directors propose that a final dividend of 9.2p be paid (making a total of 13.0p 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 Operating Review on pages 2 to 9.

DIRECTORS

The names of the directors appear on page 10.

Christopher Collins was appointed as a non-executive director on 1 September 1999.

In accordance with the provisions of the Articles of Association adopted at the last Annual General Meeting, Professor Sir Frederick Holliday and Ian Butcher retire by rotation and being eligible, offer themselves for re-election. Mr Butcher's service contract provides for a rolling one year notice period. Non-executive directors do not have service contracts of one year or more.

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

		2000 No.	1999 No.
Prof. Sir Frederick Holliday	Beneficial	1,000	1,000
Martin Ballinger	Beneficial	3,647,712	3,637,712
	Non-beneficial	80,000	80,000
Ian Butcher	Beneficial	100,000	-
Sir Patrick Brown	Beneficial	2,500	2,500
Christopher Collins	Beneficial	5,000	-
Christopher Moyes	Beneficial	2,816,628	2,861,553
	Non-beneficial	39,400	39,400

The only change up to 31 August 2000 was the acquisition of 498 shares by Ian Butcher on exercise of his savings related scheme options exercisable from 1 July 2000. Details of directors' interests in share options appear in Note 7 to the accounts.

SUBSTANTIAL SHAREHOLDINGS

As at 24 August 2000 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 shares of the company:

	No.	%
Friends Ivory & Sime	3,438,427	6.80
Fidelity Investment Management	3,230,550	6.39
Nuevas Iniciativas Europeas de Transporte, S.A.	3,075,000	6.08
Caisse des Dépôts - Developpement	3,051,339	6.04
Fleming Investment Management	2,412,562	4.77
T H Shears	2,350,000	4.65
CGNU plc	2,292,482	4.55
Aberforth Investment Managers	2,173,000	4.30
Jupiter Asset Management	1,728,577	3.42

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 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.

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 and it is intended that this be expanded to take advantage of recent tax legislation as explained under Special Business below.

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 trade 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 £252,000 (1999 - £210,000).

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 1 July 2000 the number of days' purchases outstanding for the company and the group were 38 and 24 days' respectively.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Resolution 6 renews the authority granted to the directors at the extraordinary general meeting held on 17 June 1996 to allot shares in the company. The directors already have power to make allotments under the group's employee share schemes. Resolution 6 will, if passed, give the directors additional authority to allot shares up to a maximum nominal value of £979,635 (representing approximately 19.4% of the issued share capital of the company at 7 September 2000).

The authority will lapse not later than 18 October 2005 except in so far as commitments to allot shares have been entered into before that date.

Resolution 7 set out in the notice of the Annual General Meeting, which will be proposed as a special resolution, will supplement the directors' authority to allot shares in the company, assuming resolution 6 has been passed.

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 two 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; and

2. allotments of shares for cash up to a total nominal value of £250,542 (representing 5% of the company's issued share capital at 1 July 2000). 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.

The board also confirms its intention that 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 8 seeks authority for the board to establish, if it considers appropriate, a new all employee share ownership plan ("the Plan") in accordance with the legislation set out in the Finance Act 2000. A summary notice of the proposed rules of the Plan based on the current legislation is set out in the Notice of Meeting at the end of this report. The aim of the Plan is to provide share-based incentives to a broad range of employees and to encourage wider employee share ownership within the group. The Plan would allow employees each month to buy shares (known as partnership shares) out of their gross pay. The proposals also include proposals for offering shares on a performance-related basis, including matching shares to provide additional incentives on an all-employee basis.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board

I P Butcher

Secretary

Registered office:

Cale Cross House
Pilgrim Street
NEWCASTLE UPON TYNE
NE1 6SU

7 September 2000

Registered No. 2100855

Report of the Auditors to the shareholders of The Go-Ahead Group plc

We have audited the accounts on pages 18 to 43 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 24 and 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 14, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if 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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on page 11 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 either the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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 1 July 2000 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
REGISTERED AUDITOR
NEWCASTLE UPON TYNE
7 September 2000

Financial Accounts

Consolidated Profit and Loss Account

for the year ended 1 July 2000

		Notes	2000 £000	1999 £000
Turnover: Group and share of joint ventures'		2	546,651	495,633
Less: share of joint ventures' turnover			(15,973)	(8,267)
Continuing operations	- ongoing		517,678	487,366
	- acquisition		13,000	-
GROUP TURNOVER		2	530,678	487,366
Operating costs			(485,609)	(444,841)
Exceptional items		4	399	(53)
		3	(485,210)	(444,894)
OPERATING PROFIT				
Continuing operations	- ongoing		44,397	42,472
	- acquisition		1,071	-
Group operating profit		2	45,468	42,472
Share of operating profit in joint ventures			2,203	940
Total operating profit		2	47,671	43,412
Loss on disposal of joint ventures		4	(4,500)	-
Net loss on disposal of properties - continuing		4	(100)	(116)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			43,071	43,296
Net interest payable	- group	5	(2,417)	(2,022)
	- share of joint ventures'		(51)	(26)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6	40,603	41,248
Taxation	- group	9	(8,643)	(10,111)
	- share of joint ventures'		(625)	(294)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			31,335	30,843
Minority interests – including non-equity		23	(3,723)	(3,103)
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY			27,612	27,740
Dividends		10	(6,505)	(5,638)
RETAINED PROFIT FOR THE FINANCIAL YEAR			21,107	22,102
EARNINGS PER SHARE	- basic	11	55.8p	56.6p
	- adjusted	11	63.7p	56.9p
	- diluted	11	55.0p	55.3p

There were no recognised gains or losses for 2000 or 1999 other than those included in the above profit and loss account.

The profits reported above are not materially different to those which arise on a historical cost basis.

Consolidated Balance Sheet

as at 1 July 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Intangible assets - goodwill	12	24,283	19,495
Tangible assets	13	156,363	138,399
Investments	15		
Investments in joint ventures			
-share of gross assets		9,025	6,674
-share of gross liabilities		(4,554)	(3,262)
		4,471	3,412
Other fixed asset investments		721	1,167
		185,838	162,473
CURRENT ASSETS			
Stocks		3,634	3,660
Properties held for resale		240	274
Debtors	16	59,027	52,997
Cash on deposit		22,831	30,188
Cash at bank and in hand		19,364	14,885
		105,096	102,004
CREDITORS: amounts falling due within one year	17	(128,112)	(122,294)
NET CURRENT LIABILITIES		(23,016)	(20,290)
TOTAL ASSETS LESS CURRENT LIABILITIES		162,822	142,183
CREDITORS: amounts falling due after more than one year	18	(50,464)	(52,987)
NET ASSETS		112,358	89,196
CAPITAL AND RESERVES			
Called up share capital	21	5,012	4,967
Share premium	22	48,609	47,357
Revaluation reserve	22	14,207	14,371
Other reserve	22	592	-
Profit and loss account	22	41,106	20,164
EQUITY SHAREHOLDERS' FUNDS		109,526	86,859
EQUITY MINORITY INTERESTS	23	2,832	2,337
		112,358	89,196

Professor Sir Frederick Holliday
Chairman

I P Butcher
Group Finance Director
7 September 2000

Balance Sheet

as at 1 July 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	13	33,374	32,647
Investments	15	111,994	102,070
		145,368	134,717
CURRENT ASSETS			
Properties held for resale		240	274
Debtors	16	10,532	14,576
Cash on deposit		6,285	4,000
Cash at bank and in hand		362	9,694
		17,419	28,544
CREDITORS: amounts falling due within one year	17	(53,241)	(47,763)
NET CURRENT LIABILITIES		(35,822)	(19,219)
TOTAL ASSETS LESS CURRENT LIABILITIES		109,546	115,498
CREDITORS: amounts falling due after more than one year	18	(20,000)	(25,000)
NET ASSETS		89,546	90,498
CAPITAL AND RESERVES			
Called up share capital	21	5,012	4,967
Share premium	22	48,609	47,357
Revaluation reserve	22	14,207	14,371
Other reserve	22	7,804	7,212
Profit and loss account	22	13,914	16,591
EQUITY SHAREHOLDERS' FUNDS		89,546	90,498

Professor Sir Frederick Holliday
Chairman

I P Butcher
Group Finance Director
7 September 2000

Consolidated Cash Flow Statement

for the year ended 1 July 2000

	Notes to Cash Flow	2000 £000	1999 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1	63,814	44,490
DIVIDENDS RECEIVED FROM JOINT VENTURE		256	-
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		3,084	3,560
Interest paid		(2,059)	(1,998)
Interest element of finance lease rental payments		(3,412)	(3,739)
Dividends paid to minority interests		(2,558)	(2,145)
		(4,945)	(4,322)
TAXATION			
Corporation tax paid		(12,199)	(8,631)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(26,979)	(25,213)
Receipts from sales of tangible fixed assets		3,020	3,527
Net receipts from sales of investments		-	1,397
Receipts from sales of properties held for resale		34	1,726
		(23,925)	(18,563)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings	2	(9,536)	(27,911)
Cash/(overdraft) acquired with subsidiary undertakings		1,064	(1,360)
Investment in joint ventures		-	(212)
Disposal of joint ventures		(4,109)	-
		(12,581)	(29,483)
EQUITY DIVIDENDS PAID		(5,844)	(5,147)
MANAGEMENT OF LIQUID RESOURCES			
Decrease/(increase) in cash on deposit		7,357	(8,021)
FINANCING			
Issue of ordinary share capital		1,412	50
QUEST share issue costs		(5)	(1)
New long-term loans		-	30,000
Repayment of long term loans		(6,689)	(2,247)
Receipts from finance leases and hire purchase contracts		22,184	15,452
Repayment of capital element of finance leases and hire purchase contracts		(21,613)	(22,161)
Redemption of preference shares by subsidiary		-	(801)
Loan notes redeemed		(436)	(394)
		(5,147)	19,898
INCREASE/(DECREASE) IN CASH		6,786	(9,779)

Notes to the Cash Flow Statement

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

	2000 £000	1999 £000
Group operating profit	45,468	42,472
Exceptional (credit)/charge	(399)	53
Cash flow on exceptional charges	(24)	(1,392)
Depreciation	16,141	13,966
Movements on provisions	-	(258)
Profits on disposal of tangible fixed assets	(714)	(671)
Decrease in stocks	170	779
Increase in debtors	(9,131)	(5,760)
Increase/(decrease) in creditors	12,303	(4,699)
Net cash inflow from operating activities	63,814	44,490

Cash flow on exceptional charges:

Redundancy: North East reorganisation	-	(135)
GHI reorganisation	(11)	(290)
Thames Trains Limited	-	(787)
Thameslink Rail Limited	(13)	(180)
	(24)	(1,392)

2. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	2000 £000	1999 £000
Net Assets acquired		
Tangible fixed assets	9,436	9,665
Investments	-	3,105
Stocks	144	73
Debtors	831	12,825
Creditors	(1,120)	(8,438)
Cash at bank	1,064	-
Bank overdrafts	-	(1,360)
Loans and finance leases	(5,007)	(7,454)
	5,348	8,416
Goodwill	4,788	19,495
	10,136	27,911
Satisfied by		
Cash	9,400	27,290
Shares	600	-
Expenses	136	621
	10,136	27,911

The subsidiary undertaking acquired during the year contributed £645,000 to the group's operating net cash flows, £250,000 was paid out in interest and hire purchase receipts were £1,706,000.

Notes to the Cash Flow Statement

Continued

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

	2000 £000	1999 £000
Increase/(decrease) in cash	6,786	(9,779)
Cash flow from decrease/(increase) in debt and leasing/hire purchase obligations	6,554	(20,650)
(Decrease)/increase in cash on deposit	(7,357)	8,021
Change in net debt resulting from cash flows	5,983	(22,408)
Leasing obligations of subsidiaries acquired in year	(4,357)	(6,174)
Bank loan of subsidiary acquired	(650)	(1,280)
Change in net debt resulting from non-cash flows	(5,007)	(7,454)
Movement in net debt in the year	976	(29,862)
Net debt at 3 July 1999	(32,726)	(2,864)
Net debt at 1 July 2000	(31,750)	(32,726)

4. ANALYSIS OF CHANGES IN NET DEBT

	At 4 July 1999 £000	Cash flow £000	Acquisition £000	Other non-cash £000	At 1 July 2000 £000
Cash					
Cash at bank and in hand	14,885	4,479	-	-	19,364
Bank overdrafts	(2,389)	2,307	-	-	(82)
	12,496	6,786	-	-	19,282
Debt due within one year					
Bank loans	(6,039)	6,689	(650)	(5,000)	(5,000)
Loan notes	(1,033)	436	-	-	(597)
	(7,072)	7,125	(650)	(5,000)	(5,597)
Debt due after one year					
Bank loans	(25,000)	-	-	5,000	(20,000)
Finance lease and hire purchase obligations	(43,338)	(571)	(4,357)	-	(48,266)
Cash on short term deposit	30,188	(7,357)	-	-	22,831
Net debt	(32,726)	5,983	(5,007)	-	(31,750)

5. RESTRICTED CASH

Included in cash at bank and cash on short-term deposit are balances amounting to £34,712,000 (1999 - £30,070,000) held by the train companies which cannot be distributed by means of a dividend of which £16,546,000 (1999 - £16,188,000) is cash collateral for railway season ticket bonds.

Notes to the Accounts

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The accounts are prepared under the historical cost convention, modified by the revaluation of certain properties, and in accordance with applicable accounting standards. True and fair override provisions of the Companies Act 1985 have been invoked, as described in "goodwill" below and Note 12.

BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of the company and each of its subsidiary undertakings made up to 1 July 2000. Entities in which the group holds an interest on a long term basis and are jointly controlled by the group and one or more other ventures under a contractual arrangement are treated as joint ventures. In the group accounts, joint ventures are accounted for using the gross equity method.

CAPITAL GRANTS

Grants received in respect of new bus grants under S32 Transport Act 1965 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.

FIXED ASSETS AND 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 and equipment	5 to 10 years

The transitional arrangements of FRS 15 have been adopted for group properties, which permit the previous revaluation, performed as at 27 June 1998, to be retained. No further revaluations are planned. Other fixed assets are shown at historical cost to the group.

GOODWILL

For acquisitions prior to 27 June 1998, goodwill arising on acquisitions was set off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10. In the event of subsequent disposal of the business to which it related, goodwill will be charged or credited to the profit and loss account.

Positive goodwill arising on acquisitions since 28 June 1998 is capitalised and carried as an asset on the balance sheet. Each acquisition is assessed individually to determine if the estimated useful life of the goodwill is considered to be indefinite. No amortisation is provided where the board is of the opinion that to do so would not show a true and fair view of the profit for the year or the financial position of the group at the end of the year. This overrides the requirement of the Companies Act 1985 to amortise goodwill and it is in compliance with FRS 10.

Where the useful life is not considered indefinite, the goodwill is amortised to the profit and loss account on a straight line basis over the estimated useful life.

In either case, goodwill is reviewed for impairment at the end of the first full financial year following the acquisition. Where goodwill is not amortised an annual impairment review is performed. An impairment review is also carried out on goodwill being amortised if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the Accounts
Continued

1. ACCOUNTING POLICIES Continued

STOCKS

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

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

The company operates retirement benefit schemes, both defined benefit and defined contribution. In respect of the defined benefit schemes, the pension benefits are funded over the employees' average period of service. The net pension cost to the company as determined from the latest triennial actuarial valuation and subsequent actuarial reviews is charged to the profit and loss account.

Contributions payable under the money purchase schemes are charged to the profit and loss account as they arise.

2. SEGMENTAL ANALYSIS

The turnover of the group is revenue from road passenger transport, rail passenger transport and aviation services. Rail passenger transport turnover includes financial support receivable from the shadow Strategic Rail Authority and associated income.

Area of activity		2000 £000	1999 £000
Turnover			
Road passenger transport	- ongoing	213,848	207,259
	- acquisition	13,000	-
Rail passenger transport	- ongoing	253,046	241,157
Aviation services	- ongoing	50,784	38,950
Group turnover		530,678	487,366
Shares of joint ventures' turnover	- aviation services	15,973	8,267
Turnover: Group and share of joint ventures'		546,651	495,633
Operating profit			
Road passenger transport	- ongoing	28,549	28,263
	- acquisition	1,013	-
Rail passenger transport	- ongoing	14,403	14,481
Aviation services	- ongoing	1,104	(219)
Exceptional items (Note 4)		399	(53)
Group operating profit		45,468	42,472
Share of joint ventures' operating profit	- aviation services - ongoing	2,203	940
Total operating profit		47,671	43,412
Net assets/(liabilities)			
Road passenger transport	- ongoing	133,511	116,677
	- acquisition	5,114	-
Rail passenger transport	- ongoing	(18,407)	(14,007)
Aviation services	- ongoing	37,283	34,716
		157,501	137,386
Unallocated net liabilities:			
Taxation		(7,995)	(11,396)
Dividends proposed and payable		(5,398)	(4,068)
Interest bearing net liability		(31,750)	(32,726)
Total net assets		112,358	89,196

All turnover and operating profits above are of UK origin except for turnover of £1,473,000 (1999 - £911,000) and operating profit of £395,000 (1999 - £321,000) arising from a joint venture in aviation services, which arose in Ghana, Africa.

3. OPERATING COSTS

	2000 Ongoing £000	2000 Acquisition £000	2000 Total £000	1999 Total £000
Materials and external charges	269,333	4,037	273,370	207,844
Staff costs	195,278	7,472	202,750	185,664
Depreciation of tangible assets	15,272	869	16,141	13,966
Other operating charges	-	-	-	41,551
Other operating income	(6,602)	(449)	(7,051)	(4,131)
	473,281	11,929	485,210	444,894

4. EXCEPTIONAL ITEMS

		2000 £000	1999 £000
Recognised before operating profit:			
Continuing operations			
Redundancy:	GHI reorganisation	(399)	731
	Thames Trains Limited	-	690
	Thameslink Rail Limited	-	(84)
Net profit on disposal of current asset investment		-	(1,284)
		(399)	53

Recognised after operating profit:

The net loss on disposal of properties of £100,000 (1999 - £116,000) relates entirely to road passenger transport. The loss on disposal of joint ventures relates to the group's withdrawal from Swedish rail in May 2000. The effect on the taxation charge is disclosed in Note 9.

5. NET INTEREST PAYABLE - Group

	2000 £000	1999 £000
On bank loans and overdrafts	2,091	1,535
Finance lease and hire purchase interest	3,177	3,531
Other interest payable	194	182
	5,462	5,248
Interest receivable on bank deposits	(2,984)	(3,226)
Other interest receivable	(61)	-
	2,417	2,022

Notes to the Accounts
Continued

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	2000 £000	1999 £000
Auditors' remuneration		
Audit fees	160	173
Acquisition services	37	154
Taxation services	48	47
Other non-audit services	12	-
Depreciation		
Owned assets	6,364	4,287
Leased and hire purchased assets	9,777	9,679
Operational lease and rental charges		
Property	12,200	13,713
Other	49,863	48,962
Profits on disposal of tangible assets	(714)	(555)

In addition, £32,000 (1999 - £124,000) of non audit fees was capitalised as part of the cost of acquisitions during the year.

7. DIRECTORS' REMUNERATION

	Salary/Fees 2000 £000	Salary/Fees 1999 £000	Performance related 2000 £000	Performance related 1999 £000	Benefits in kind 2000 £000	Benefits in kind 1999 £000	Total excluding pensions 2000 £000	Total excluding pensions 1999 £000
Sir Michael Straker	-	5	-	-	-	-	-	5
Prof. Sir Frederick Holliday	46	32	-	-	-	-	46	32
Martin Ballinger	199	175	36	31	-	-	235	206
Ian Butcher	177	153	32	28	-	-	209	181
Sir Patrick Brown	27	11	-	-	-	-	27	11
Duncan Clegg	-	22	-	-	-	-	-	22
Christopher Moyes	188	164	34	29	-	-	222	193
Christopher Collins	21	-	-	-	-	-	21	-
	658	562	102	88	-	-	760	650

Mr Butcher exercised 100,000 share options at £2.85 per share on 13 September 1999, that being the first opportunity for exercise. On that date, based on the mid market value per share of £9.25, the gain arising after tax was £384,000. Mr Butcher still held the shares at the year end and based on the mid-market price on that date he had incurred a loss after tax of £113,500.

Last year Mr Butcher was awarded a bonus of £75,000 in respect of the year to 3 July 1999 under a share bonus scheme. No bonus has been proposed for the year to 1 July 2000. The bonus was used to buy ordinary shares in the group. The shares were placed in a trust on Mr Butcher's behalf and will remain in the trust until September 2002 when title will be transferred from the trust to Mr Butcher provided he is still employed by the group at the time.

Included within Mr Clegg's remuneration in 1999 was £10,000 paid in compensation for loss of office.

Notes to the Accounts

Continued

7. DIRECTORS' REMUNERATION Continued

Messrs 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 £13,308 and £13,039 respectively (1999 - £5,003 and £8,581). The equivalent increase in transfer values after deducting the directors' personal contributions were £141,884 and £114,118 respectively. Their accrued pensions at 1 July 2000 were £89,160 and £85,673 (1999 - £75,026 and £71,844) respectively. Mr Butcher is a member of the group money purchase scheme and company contributions of £8,166 (1999 - £6,975) were made on his behalf in the year. No other director benefits from a group pension scheme.

Directors' share options:

	Scheme	At 3.7.99	At 1.7.00	Exercise Price	Exercise Period
Ian Butcher	Savings Related	498	498	391p	2000
	Savings Related	-	281	688p	2003

The market price of the group's ordinary shares at 1 July 2000 was 427.5p per share and the range during the year to 1 July 2000 was 424p to 925p.

Executive options were exercised in the year. The condition of at least 6% real growth in earnings per share over any period of three consecutive years commencing with the end of the financial year immediately before the grant date and the final exercise date was met by the start of the exercise period, 19 July 1999. Closed period rules restricted the directors from exercising the options until 13 September 1999.

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

	2000 £000	1999 £000
Staff costs:		
Wages and salaries	182,980	167,253
Social security costs	15,527	14,092
Other pension costs (note 26)	4,973	4,319
	203,480	185,664

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

	2000 No.	1999 No.
Administration and supervision	903	1,242
Maintenance and engineering	1,211	1,085
Operations	8,607	7,919
	10,721	10,246

Notes to the Accounts

Continued

9. TAXATION ON PROFIT ON ORDINARY ACTIVITIES - Group

	2000 £000	1999 £000
The taxation charge is made up as follows:		
Corporation tax		
On the profit for the year	10,691	10,483
Relating to prior years	(2,048)	(372)
	8,643	10,111

If full provision had been made for deferred tax in the year, the tax charge would have increased by £1,805,000 relating to the current year and £1,474,000 to prior years, (1999 - £2,484,000).

The tax effect in the profit and loss account relating to the exceptional items recognised below operating profit is a credit of £295,000 (1999 – credit of £27,000).

There would be a liability to taxation of approximately £4,000,000 in respect of capital gains on properties if these properties were to realise the value stated in the accounts.

10. DIVIDENDS

	2000 £000	1999 £000
Equity:		
Under accrual of final dividend for year to 3 July 1999	30	-
Interim dividend of 3.80p per share (1999 - 3.50p per share)	1,892	1,716
Proposed final dividend of 9.20p per share (1999 - 8.00p per share)	4,583	3,922
	6,505	5,638

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based upon earnings of £27,612,000 (1999 - £27,740,000) and on 49,496,030 ordinary shares (1999 – 49,020,206) being the weighted average number of shares in issue during the period, after excluding the shares owned by the QUEST.

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

	2000 pence per share	1999 pence per share
Earnings per share – unadjusted	55.8	56.6
Exceptional items	8.5	0.3
Taxation on exceptional items	(0.6)	-
Adjusted earnings per share	63.7	56.9

Diluted earnings per share is based on 50,178,739 ordinary shares (1999 – 50,130,068), the difference from the basic calculation being due to the inclusion of 682,709 (1999 – 1,109,862) dilutive ordinary shares under share option schemes.

Notes to the Accounts
Continued

12. INTANGIBLE ASSETS - GOODWILL

		£000
Cost:	At 4 July 1999	19,495
	Arising on acquisitions in year (Note 15)	4,788
	At 1 July 2000	24,283

Amounts brought forward represent goodwill which arose on the purchase of GHI during the last financial year. This goodwill is not amortised as the board is of the view that the goodwill has an indefinite useful life.

GHI operates in the air transport industry, which has grown substantially in the past and is expected to continue to grow over the coming years. Ground handling is essential to the operation of the airlines so will always be required. Further, the recent EU directive opening up the ground handling business to more competition provides opportunities for future growth. GHI currently operates in UK markets which have significant barriers to entry and which have been open to competition for many years during which time GHI continued to grow.

These factors lead the board to its conclusion that the useful life of the goodwill exceeds 20 years and is indefinite.

Had the goodwill been amortised in accordance with the Companies Act 1985 over the FRS 10 presumed maximum period of 20 years, £975,000 would have been charged to the profit and loss account in the year to 1 July 2000.

A review has been performed which confirmed that there has been no impairment to the goodwill during the financial year.

The goodwill addition in the year arose on the acquisition of Metrobus Limited, which was acquired on 3 September 1999. This goodwill has been considered separately by the board, who are of the opinion that it has an indefinite useful life and consequently has not been amortised.

Metrobus operates bus services in the outer London area, generating revenue from both London Transport contracts and non-regulated areas. Patronage in the London areas has shown a marked increase over recent years, and with growing congestion in the capital, this is predicted to continue. Public transport in and out of London will always be required.

London Transport contracts have a finite length and competition is present, but Metrobus is very well placed, with its depot locations, modern fleet, experienced management and staff and good reputation, not only to retain existing contracts, but to win others. Ownership of infrastructure and staff employed represent significant barriers to competition, securing Metrobus's long term future.

As a result of these considerations the board reached the conclusion that the useful life of the goodwill exceeds 20 years and is indefinite.

Had the goodwill been amortised in accordance with the Companies Act 1985 over the FRS 10 presumed maximum period of 20 years, £198,000 would have been charged to the profit and loss account in the year to 1 July 2000.

Notes to the Accounts
Continued

13. TANGIBLE ASSETS

	Freehold Land and Buildings £000	Leasehold Properties £000	Rolling Stock £000	Plant & Equipment £000	Total £000
Group					
Cost or Valuation					
At 3 July 1999					
At 1998 valuation	29,598	2,985	-	-	32,583
At cost	204	163	173,959	41,186	215,512
	29,802	3,148	173,959	41,186	248,095
Additions	212	-	21,644	5,135	26,991
Acquisitions	850	-	11,204	440	12,494
Disposals	(20)	-	(17,968)	(1,877)	(19,865)
Reclassification	-	-	(130)	130	-
At 1 July 2000	30,844	3,148	188,709	45,014	267,715
At 1998 valuation	29,598	2,985	-	-	32,583
At cost	1,246	163	188,709	45,014	235,132
	30,844	3,148	188,709	45,014	267,715
Depreciation					
At 3 July 1999	305	60	84,877	24,454	109,696
Charge for the year	315	43	11,616	4,167	16,141
Acquisitions	-	-	2,824	234	3,058
Disposals	-	-	(16,651)	(892)	(17,543)
Reclassification	-	-	(85)	85	-
At 1 July 2000	620	103	82,581	28,048	111,352
Net book value					
At 1 July 2000	30,224	3,045	106,128	16,966	156,363
At 3 July 1999	29,497	3,088	89,082	16,732	138,399

Notes to the Accounts
Continued

13. TANGIBLE ASSETS Continued

	Freehold Land and Buildings £000	Leasehold Properties £000	Plant & Equipment £000	Total £000
Company				
Cost or Valuation				
At 3 July 1999				
At 1998 valuation	29,598	2,985	-	32,583
At cost	184	118	227	529
	29,782	3,103	227	33,112
Additions	202	-	87	289
Transfer from other group companies	850	-	-	850
At 1 July 2000	30,834	3,103	314	34,251
At 1998 valuation	29,598	2,985	-	32,583
At cost	1,236	118	314	1,668
	30,834	3,103	314	34,251
Depreciation				
At 3 July 1999	305	45	115	465
Charge for the year	311	43	54	408
Transfer from other group companies	4	-	-	4
At 1 July 2000	620	88	169	877
Net book value				
At 1 July 2000	30,214	3,015	145	33,374
At 3 July 1999	29,477	3,058	112	32,647

Freehold land and buildings includes non-depreciable land amounting to £14,280,000 (1999 - £14,280,000) in the group and company.

Leasehold properties includes non-depreciable land amounting to £848,000 (1999 - £848,000) in the group and company.

Notes to the Accounts
Continued

13. TANGIBLE ASSETS Continued

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

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Rolling stock	55,232	-	78,297	-
Plant and equipment	5,350	-	6,362	-
	60,582	-	84,659	-

The cost amounts are after deducting government grants received of:

	2000 £000	1999 £000
New bus grants (S.32 Transport Act 1965)	470	2,284
ERDF Grant	99	99

The freehold and leasehold properties occupied by The Go-Ahead Group plc were valued by Knight Frank as External Valuers, as at 27 June 1998, on the basis of Existing Use Value. If this had not taken place the historic cost and accumulated depreciation would have been:

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Cost				
Freehold land and buildings	20,974	20,964	19,932	19,912
Leasehold property	2,137	2,092	2,137	2,092
	23,111	23,056	22,069	22,004
Accumulated depreciation				
Freehold land and buildings	3,441	3,435	3,271	3,265
Leasehold property	705	695	681	672
	4,146	4,130	3,952	3,937

The net book value of leasehold properties comprises:

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Leases with 50 or more years unexpired	3,045	3,015	3,088	3,058

14. CAPITAL COMMITMENTS

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Contracted for but not provided	23,636	-	30,583	55

Notes to the Accounts

Continued

15. INVESTMENTS

Group

Investments in joint ventures:

	£000
At 3 July 1999	3,412
Share of profits after taxation	1,527
Share of dividends	(256)
Disposal of Swedish Joint Ventures	(212)
At 1 July 2000	4,471

Details of the principal joint ventures are set out on page 43.

Other fixed asset investments:

	2000 £000	1999 £000
Investment in own shares	695	1,141
Associated companies	-	-
Trade investments	25	25
Listed investments	1	1
	721	1,167

The investment in shares of The Go-Ahead Group plc represents the shares held by a qualifying share ownership trust (the QUEST).

Movements in the year are as follows:

	Number	Cost £000	Nominal Value £000	Market Value £000
As at 3 July 1999	638,873	1,141	64	5,398
New shares issued to QUEST	65,914	85	7	
Issued to employees on exercise of options	(408,785)	(531)	(41)	
As at 1 July 2000	296,002	695	30	1,265

All rights to dividends on these shares have been waived. The trustee of the QUEST is The Go-Ahead Group QUEST Trustees Limited which is a wholly owned subsidiary of the company.

The investment in associated companies relates to a 32% holding in Network Ticketing Limited, at a cost of £317, and a 50% holding in Oxford Plus Pass Limited, at a cost of £45. These have not been equity accounted as they are not material. Trade investments are dormant companies acquired with GHI Limited.

On 1 July 2000, the market value of the investment listed on a recognised investment exchange was not materially different from the amount stated in the accounts.

Notes to the Accounts

Continued

15. INVESTMENTS Continued

Company

Fixed asset investments:

These comprise ordinary and preference shares in subsidiary undertakings and joint ventures.

The movements are:

	£000
At 3 July 1999	102,070
Acquisition of Metrobus Limited	10,136
Investments in Swedish Joint Ventures	(212)
At 1 July 2000	111,994

Details of the principal operating subsidiary undertakings are set out on page 43. As permitted under section 233(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 annual accounts.

Acquisition of Metrobus Limited

On 3 September 1999 the group acquired Metrobus for a consideration of £10,136,000 including expenses. The goodwill arising has been capitalised as an intangible asset.

Net assets at date of acquisition:

	Note	Book Value	Adjustments: Accounting policies	Adjustments: Other	Fair Value to Group
Tangible fixed assets	1	11,421	(520)	(1,465)	9,436
Intangible fixed assets	2	33	-	(33)	-
Stocks	3	146	(2)	-	144
Debtors	4	961	(130)	-	831
Cash at bank and in hand		1,081	-	(17)	1,064
Creditors falling due in less than one year	5	(6,041)	(33)	(53)	(6,127)
Provisions	6	(1,576)	1,576	-	-
		6,025	891	(1,568)	5,348

Goodwill arising	4,788
	10,136
Cash	9,400
Shares issued	600
Expenses	136
	10,136

Notes

1. To bring Metrobus depreciation policy in line with Go-Ahead and to revalue the property to existing use value
2. To write off goodwill in acquisition balance sheet
3. To write off uniform stocks in accordance with Go-Ahead accounting policy
4. To write back insurance recoveries not recognisable under Go-Ahead policies
5. Accruals required to align with Go-Ahead policies including holiday pay.
6. To bring Metrobus deferred tax policy in line with Go-Ahead.

67,796 10p ordinary shares were issued at the prevailing mid market value of £8.85 per share, on 3 September 1999. Advantage has been taken of section 131 of the Companies Act 1985.

Notes to the Accounts
Continued

15. INVESTMENTS Continued

The results for Metrobus for the period 1 April 1999 to 2 September 1999 and the year to 31 March 1999 are summarised below:

	1 April– 2 September 1999 £000	Year to 31 March 1999 £000
Turnover	5,808	12,844
Operating profit	569	1,438
Net interest payable	(136)	(420)
Profit before taxation	433	1,018
Taxation	(98)	(243)
Profit after taxation	335	775

There were no other gains and losses for either period except for the profit above.

16. DEBTORS

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Trade debtors	22,354	1	21,531	7
Amounts owed by group undertakings	-	7,043	-	7,010
Amounts owed by joint ventures	-	-	500	-
Other debtors	14,917	1,421	6,753	4,794
Prepayments and accrued income	14,377	1,340	11,777	847
Central Government debtor	6,257	-	7,420	81
Corporation tax	1,122	727	2,450	979
Advance corporation tax recoverable	-	-	2,566	858
	59,027	10,532	52,997	14,576

A pension prepayment of £276,000 (1999 - £345,000) is recoverable after more than one year.

17. CREDITORS : amounts falling due within one year

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Bank loans	5,000	5,000	6,039	6,039
Bank overdrafts	82	-	2,389	-
Obligations under hire purchase and lease finance	18,268	-	15,833	-
Unsecured loan notes	597	597	1,033	1,033
Trade creditors	28,533	663	23,969	348
Amounts owed to joint ventures	-	-	190	-
Amounts owed to group undertakings	-	40,831	-	34,581
Corporation tax	9,117	-	16,412	-
Other taxes and social security costs	5,605	-	4,910	17
Other creditors	12,604	-	8,111	188
Deferred season ticket income	17,647	-	17,402	-
Accruals and deferred income	16,484	1,345	13,287	1,635
Insurance accruals	8,689	-	7,973	-
Redundancy accrual	71	-	546	-
Central Government creditor	17	222	132	-
Dividends proposed and payable	4,583	4,583	3,922	3,922
Dividends payable to minority shareholder	815	-	146	-
	128,112	53,241	122,294	47,763

Bank overdrafts are secured by a floating charge over the assets of the group.

18. CREDITORS : amounts falling due after more than one year

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Obligations under hire purchase and lease finance	29,998	-	27,505	-
Bank loans	20,000	20,000	25,000	25,000
Deferred government grants	466	-	482	-
	50,464	20,000	52,987	25,000
Bank loans repayable:				
In more than one year but not more than two years	5,000	5,000	5,000	5,000
In more than two years but not more than five years	15,000	15,000	20,000	20,000
	20,000	20,000	25,000	25,000

Notes to the Accounts

Continued

19. OBLIGATIONS UNDER HIRE PURCHASE AND LEASE FINANCE

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

	2000		1999	
	Group	Company	Group	Company
	£000	£000	£000	£000
In one year or less	18,268	-	15,833	-
In more than one year but not more than two years	16,793	-	13,147	-
In more than two years but not more than five years	13,205	-	14,358	-
	48,266	-	43,338	-

20. DEFERRED TAX

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:

	2000		1999	
	Group	Company	Group	Company
	£000	£000	£000	£000
Capital allowances in advance of depreciation	15,727	1,055	11,008	1,082
Leased assets	1,491	-	1,613	-
Other timing differences	(228)	83	(486)	225
	16,990	1,138	12,135	1,307

21. CALLED UP SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	2000	1999	2000	1999
	£000	£000	£000	£000
Ordinary shares of 10p each	6,125	6,125	5,012	4,967

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 over 300,000 shares were exercised at £2.85p per share. At the year end there were executive options over 50,000 shares unexercised, exercisable at 389p per share between 1999 and 2006. These options have now been exercised.

In addition, there are unexercised savings related options over 1,404 shares exercisable at 128p per share by 31 July 2000, 383,789 shares exercisable at 236p per share in 2001, 485,138 shares exercisable at 391p per share in 2000 and 719,182 shares exercisable at 688p in 2003. During the year 6,794 and 7 shares were issued at 391p and 688p per share respectively under the terms of the savings related scheme.

The movements in share capital are shown in Note 22, with further descriptions in Note 15.

Notes to the Accounts

Continued

22. SHARE CAPITAL AND RESERVES

	Called up Share Capital	Share Premium	Revaluation Reserve	Other Reserve	Profit & Loss Account	Total Capital & Reserves
	£000	£000	£000	£000	£000	£000
Group						
At 27 June 1998	4,933	44,492	14,746	-	(194)	63,977
Movements during the year						
Retained profit for the year	-	-	-	-	22,102	22,102
Revaluation reserve amortisation	-	-	(145)	-	145	-
Realised revaluation surplus on sale of properties	-	-	(230)	-	230	-
Arising on shares issued for option schemes	1	33	-	-	-	34
QUEST shares issued	33	2,833	-	-	(2,119)	747
QUEST share issue costs	-	(1)	-	-	-	(1)
At 3 July 1999	4,967	47,357	14,371	-	20,164	86,859
Movements during the year						
Retained profit for the year	-	-	-	-	21,107	21,107
Revaluation reserve amortisation	-	-	(148)	-	148	-
Realised revaluation surplus on sale of properties	-	-	(16)	-	16	-
Arising on shares issued for option schemes	30	850	-	-	-	880
Arising on acquisition of subsidiary	8	-	-	592	-	600
QUEST shares issued	7	407	-	-	(329)	85
QUEST share issue costs	-	(5)	-	-	-	(5)
At 1 July 2000	5,012	48,609	14,207	592	41,106	109,526

Cumulative positive goodwill written off amounts to £59,494,000 (1999 - £59,494,000), of which £7,212,000 has been written off to other reserves and the remainder written to the profit and loss account. Negative goodwill of £3,337,000 (1999 - £3,337,000) has been credited to the profit and loss account.

	Called up Share Capital	Share Premium	Revaluation Reserve	Other Reserve	Profit & Loss Account	Total Capital & Reserves
	£000	£000	£000	£000	£000	£000
Company						
At 3 July 1999	4,967	47,357	14,371	7,212	16,591	90,498
Movements during the year						
Profit for the year	-	-	-	-	3,993	3,993
Dividends	-	-	-	-	(6,505)	(6,505)
Revaluation reserve amortisation	-	-	(148)	-	148	-
Realised revaluation surplus on sale of properties	-	-	(16)	-	16	-
Arising on shares issued for option schemes	30	850	-	-	-	880
Arising on acquisition of subsidiary	8	-	-	592	-	600
QUEST shares issued	7	407	-	-	(329)	85
QUEST share issue costs	-	(5)	-	-	-	(5)
At 1 July 2000	5,012	48,609	14,207	7,804	13,914	89,546

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 the profit and loss account at 1 July 2000 is £211,000 (1999 - £211,000).

Notes to the Accounts
Continued

23. MINORITY INTERESTS

Share of profit on ordinary activities after taxation:

	2000 £000	1999 £000
Equity	3,723	3,070
Non-equity	-	33
	3,723	3,103

Net assets at balance sheet date:

	2000 £000	1999 £000
Equity	2,832	2,337

24. OPERATING LEASE COMMITMENTS

Annual rentals on operating leases and rental agreements which expire:

	2000		1999	
	Property £000	Other £000	Property £000	Other £000
Group				
Within one year	20	81	5	1,752
In the second to fifth years inclusive	18,170	45,885	10,898	45,699
Over five years	93	142	3,363	610
	18,283	46,108	14,266	48,061
Company				
Within one year	20	-	7	-
In the second to fifth years inclusive	59	-	60	-
Over five years	-	-	-	-
	79	-	67	-

Notes to the Accounts
Continued

25. DERIVATIVES AND FINANCIAL INSTRUMENTS

The group's principal financial instruments comprise bank loans borrowed over initial five year terms, finance leases, hire purchase contracts, unsecured loan notes, cash and short term deposits. The main purpose of these financial instruments is to raise finance and maintain liquidity for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

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 6 months. Excluding lease and hire purchase liabilities, the group has net cash balances and hence the present adverse risk is a fall in interest rates.

The group has for several years purchased road passenger vehicles by means of lease and hire purchase arrangements at fixed rates of interest over five year primary borrowing periods. For the first time this year, the group has entered into material operating leases amounting to over £10 million in terms of asset capital value. This was done for bus purchases in the London regulated market where vehicles in terms of asset capital value are purchased to service mainly five year operating contracts for London Transport. Using operating leases for vehicle requirements on a back to back basis significantly mitigates the risk of ownership at the end of the five year contract and the group has been able to secure this type of finance at competitive levels. As noted above, this has had the effect of incorporating £900,000 of cost within operating charges which would otherwise have been charged to interest.

The group rarely enters into transactions in foreign currency and no transaction to date has been material. Should larger foreign transactions be undertaken then efforts would be made to hedge the foreign exchange risk.

The group does not currently hedge its risk to increases in fuel prices.

The disclosures below exclude short term debtors and creditors.

The group's financial assets and liabilities can be classified as follows:

	2000 £000	1999 £000
Financial liabilities		
Fixed rate – 7.4% average rate (1999 – 7.6%)	48,945	47,799
Floating rate	25,000	30,000
	73,945	77,799
Financial assets		
Floating rate	42,195	45,073
	31,750	32,726

Floating rates are based on LIBOR.
The weighted average period to maturity of the fixed rate debt is 2 years 8 months.
All of the group's financial assets and liabilities are denominated in sterling.
At 1 July 2000, the group had an undrawn facility of £11m (1999 - £13m). This reduces by £2m p.a. until February 2002 when it matures.
The maturity of the group's financial liabilities is shown in Notes 17, 18 and 19. Fair values are not significantly different to their carrying amount.

Notes to the Accounts

Continued

26. PENSION PLAN

The group operates one main scheme, the group pension plan, which consists of final salary and money purchase sections. The pension charge in respect of defined contribution schemes is £811,000 (1999 - £668,000). 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. 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. During the year the Gatwick Handling Pension & Life Assurance Scheme was merged into the group pension plan. Calculations performed for the purposes of the merger suggested that there was no material difference between the funding levels of the pension schemes concerned. The latest actuarial information is as follows:

		Railways Pension Scheme	
	Group Pension Plan	Thames Trains Section	Thameslink Section
Date of actuarial valuation	5 April 1997	31 December 1998	31 December 1998
Actuarial assumptions:			
Investment return	8.75% p.a.	6.75% p.a.	6.75% p.a.
Pay growth	6.00% p.a.	4.50% p.a.	4.50% p.a.
Pension increase	4.00% p.a.	3.00% p.a.	3.00% p.a.
Dividend growth	4.50% p.a.	3.75% p.a.	3.75% p.a.
Market value of assets	£91,728,000	£44,765,000	£30,035,000
Funding level	111%	112%	108%
Actuarial method	Projected Unit credit	Projected Unit credit	Projected Unit credit

The group overfunding shown in the last valuation continued to be corrected during the year by reducing the employer's contribution rate in the final salary sections.

A valuation of the group pension plan as at 5 April 2000 is currently being prepared. At 1 July 2000 the balance sheet includes a SSAP 24 prepayment of £276,000 (1999 - £750,000).

Principal Subsidiary Undertakings and Joint Ventures

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
Go Gateshead Limited		Bus operator
London Central Bus Company Limited		Bus and coach operator
Mokett Limited		Intermediate holding company
London General Transport Services Limited	(a)	Bus and coach operator
Go Northern Limited		Bus and coach operator
Go Wear Buses Limited		Bus operator
Go Coastline Limited		Bus operator
Go Metro Limited		Taxi operator
The Wycombe Bus Company Limited		Bus operator
Metrobus Limited		Bus operator
Victory Railway Holdings Limited		Intermediate holding company
Thames Trains Limited	(a)	Train operator
Govia Limited	(b)	Intermediate holding company
Thameslink Rail Limited	(a)	Train operator
Abingdon Bus Company Limited		Intermediate holding company
GHI Limited		Intermediate holding company
GH Manchester Limited	(a)	Aviation services
GH Stansted Limited	(a)	Aviation services
Gatwick Handling Limited	(a)	Aviation services
GH Heathrow Limited		Intermediate holding company

PRINCIPAL JOINT VENTURES

Name		Principal activity
Plane Handling Limited	(a),(c)	Aviation services
Af.G.O. Limited	(a),(d)	Aviation services

Notes:

1. All the principal subsidiary undertakings and joint ventures are incorporated and operate in Great Britain, except Af.G.O. Limited, which is incorporated and operates in Ghana, Africa
2. The above are subsidiary undertakings by virtue of the majority voting rights being held by the immediate parent undertaking
3. Subsidiary undertakings and joint ventures held indirectly are marked (a)
   Thameslink Rail Limited is owned 100% by Govia Limited, and therefore 65% by The Go-Ahead Group plc
4. The proportion of nominal value of ordinary share capital held in each company is 100%, except companies marked (b), (c) or (d), where the proportion is 65%, 50% and 20% respectively
5. All subsidiary undertakings are included in the consolidated accounts

Five Year Summary and Shareholder Information

Five Year Summary

		2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
TURNOVER: GROUP AND SHARE OF JOINT VENTURES'		546.7	495.6	414.3	303.8	134.8
TOTAL OPERATING PROFIT BEFORE EXCEPTIONALS INCLUDING JOINT VENTURES'		47.3	43.5	35.5	29.2	14.1
OPERATING MARGIN		8.7%	8.8%	8.6%	9.6%	10.5%
Exceptional items		(4.2)	(0.2)	2.1	(5.3)	0.8
Net interest payable		(2.5)	(2.1)	(0.7)	(2.4)	(3.0)
PROFIT BEFORE TAXATION		40.6	41.2	36.9	21.5	11.9
Taxation		(9.3)	(10.4)	(7.8)	(5.6)	(2.8)
Minority interests		(3.7)	(3.1)	(3.4)	(0.3)	-
Dividends		(6.5)	(5.6)	(4.9)	(4.0)	(2.4)
RETAINED PROFIT		21.1	22.1	20.8	11.6	6.7
Earnings per share	- basic	55.8p	56.6p	52.5p	32.7p	24.6p
	- adjusted	63.7p	56.9p	49.4p	38.8p	23.1p
Dividends per share		13.0p	11.5p	10.0p	8.0p	5.55p
OPERATING CASH FLOW		63.8	44.5	55.5	25.3	21.8
FREE CASH FLOW		41.1	26.4	44.6	17.7	13.7
NET CAPITAL EXPENDITURE		(23.9)	(18.6)	(23.9)	(17.3)	(10.2)
NET BORROWINGS		31.8	32.6	2.9	15.9	44.4

Shareholder Information

Range of holdings	No. of holders	%	Shares held 000	%
1 - 10,000	2,689	91.74	2,373	4.74
10,001 - 100,000	165	5.63	5,800	11.57
100,001 - 500,000	55	1.88	13,675	27.29
500,001 – 1,000,000	13	0.44	9,941	19.84
Over 1,000,000	9	0.31	18,320	36.56
	2,931	100.00	50,109	100.00

Classification of shareholders	No. of holders	%	Shares held 000	%
Directors	6	0.20	6,697	13.36
Other individuals	2,304	78.61	6,086	12.15
Institutional investors	621	21.19	37,326	74.49
	2,931	100.00	50,109	100.00

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirteenth Annual General Meeting of the company will be held at the Vermont Hotel, Castle Garth, Newcastle upon Tyne on Thursday 19 October 2000 at 4 p.m. for the following purposes:

ORDINARY BUSINESS

1) To receive and adopt the Directors' Report and Accounts for the year ended 1 July 2000, together with the Auditors' Report thereon;
2) To declare a final dividend of 9.2p per share in respect of the ordinary shares in the company payable on 24 November 2000 to all ordinary shareholders on the register at the close of business on 27 October 2000;
3) To re-elect Professor Sir Frederick Holliday as a director of the company;
4) To re-elect Mr I P Butcher as a director of the company;
5) To re-appoint Ernst & Young as auditors of the company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions of which resolutions 6 and 8 will be proposed as ordinary resolutions and resolution 7 will be proposed as a special resolution:

6) that in substitution for the authority granted to the directors pursuant to a special resolution passed at an extraordinary general meeting of the company held on 17 June 1996, 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 £979,635 provided that:-
   (i) (except as provided in paragraph (ii) below) this authority shall expire five years 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 offer or agreement notwithstanding that the authority conferred by this resolution has expired.
7) that subject to the passing of and pursuant to the general authority conferred by the resolution numbered 6 in the notice convening the meeting the directors, be empowered pursuant to Section 95 of the Companies Act 1985 ("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 £250,542;

   and 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.
8) To consider and, if thought fit, pass the following and ordinary resolutions:-
   (a) that The Go-Ahead Group plc all employee share ownership plan (the "Plan"), a summary of which is set out in Note (i) below, be and is hereby approved and that the directors be and are hereby authorised to do all acts and things necessary to establish and carry the Plan into effect.
   (b) that the directors be and are hereby authorised to make any amendments to the Plan (including the provisions referred to above) as they may think fit in order to satisfy the requirements of the Board of Inland Revenue and to obtain the best taxation treatment for the company and its employees in relation to the Plan.

By order of the board

I P Butcher
Secretary
7 September 2000

Registered Office:
Cale Cross House
Pilgrim Street
NEWCASTLE UPON TYNE
NE1 6SU

Notice of Meeting
Continued

NOTES

(i) Summary of the main provisions of The Go-Ahead Group plc Employee Share Ownership Plan ("the Plan"):-

1. CONSTITUTION

The plan will be constituted by a trust deed. Trustees who are otherwise eligible to do so will be permitted to participate in the Plan. Save to the extent required by the terms of the trust deed, the Plan will be administered by the Board of Directors of the company (the "Board").

2. OPERATION OF THE PLAN

On any occasion on which the Board decides to operate the Plan, it may be operated on one or more of the bases allowed by the legislation. These are as follows:

2.1 as a Partnership Plan;
2.2 as a Matching Plan; and
2.3 as a Free Plan.

3. PARTNERSHIP PLAN

3.1 Under the Partnership Plan, an eligible employee may enter into an agreement with the Company to allocate up to £1,500 of his pre-tax salary each year to subscribe for and/or purchase shares ("Partnership Shares").
3.2 The Partnership Shares may be bought monthly from the Plan or at the end of an accumulation period not exceeding one year.
3.3 A participant may withdraw his Partnership Shares from the Plan at any time but, if he does so before the Partnership Shares have been held in the trust for five years, otherwise than in certain specified circumstances such as redundancy or disability, he will incur an income tax liability.

4. MATCHING PLAN

4.1 If the Board decides to operate the Partnership Plan in any period, it may also decide to operate the Matching Plan in the same period. Under the Matching Plan, the employing companies will provide the trustees with funds to enable them to subscribe for and/or purchase Shares ("Matching Shares") which will then be allocated to the eligible employees up to a maximum ration of two Matching Shares for every Partnership Share.
4.2 Participation in the Matching Plan must be open to all eligible employees on the same basis.
4.3 Matching Shares must be held by the trustees for a minimum period of three years or for such longer period, not exceeding five years, as the Board may decide. If a participant ceases to be employed within the Group before the end of this period, his Matching Shares must be withdrawn from the trust. If the shares are withdrawn from the trust before the end of the five year period (except in certain specified circumstances such as redundancy or disability), the participant will incur an income tax liability.
4.4 If the participant ceases to be employed within the minimum three year period (or within such shorter period as the Board may decide) other than for a specified reason such as redundancy or disability or withdraws his Partnership Shares from the trust before the end of the minimum three year period, the Matching Plan may provide that his Matching Shares will be forfeited.

5. FREE PLAN

5.1 The Plan will allow for awards of Shares for nil consideration ("Free Shares"). The funding for the Free Shares will be provided by the relevant employing company.
5.2 The Plan will contain the statutory limit on the value of Free Shares which may be offered which is currently £3,000 worth per individual per year. All allocations will be on similar terms, including the extent which any objective performance targets had to be satisfied in the period before allocation.
5.3 The Free Shares will be held in trust for up to five years and there would be PAYE and National Insurance liabilities for the participants if the Free shares were to be withdrawn earlier except in the event of the employee leaving employment on account of injury, disability, redundancy or retirement.

6. ELIGIBILITY

All UK resident employees of the Company and its participating subsidiaries who have not less than one year's continuous service (or such shorter period as the Board may decide from time to time) must be eligible to participate in the Plan. Other employees may be eligible to participate in the Plan at the Board's discretion.

7. SUBSCRIPTION PRICE

The subscription price of any Shares issued for the purposes of the Plan will be determined by the Board. Except as required by the legislation, it may not be less than an amount equal to the middle market quotation of a Share, as derived from the London Stock Exchange Daily Official List, for the dealing day immediately preceding the date of subscription.

Notice of Meeting
Continued

8. PLAN LIMITS

8.1 The Plan will be subject to the limit that, on any date, the aggregate nominal amount of new Shares which may be issued to the trustees may not, when added to the normal amount of new Shares allocated in the previous 10 years under all employee share schemes of the Group, exceed 10% of the equity share capital of the Company.
8.2 For these purposes, Shares are allocated under option schemes when the options are granted and under other schemes when the Shares are issued. Options which lapse, by reason of non-exercise or otherwise, cease to count. No account is taken of existing Shares which are acquired by purchase rather than by subscription except where such Shares were first issued to an employee trust for the purpose of satisfying an option holder's rights. No account is taken of Shares which an employee purchases using his own funds except on the exercise of an option under an option scheme.

9. DIVIDENDS

The Plan may provide that dividends paid on the Free, Partnership or Matching Shares will either be paid to the participants or re-invested in the purchase of additional Shares to be held in the Plan for a period of three years.

10. VOTING RIGHTS

The Plan may provide that the voting rights attributable to the Shares of a participant may not be exercised whilst the Shares are held in the trust. Alternatively, the participant may be allowed to direct the trustees how to exercise those voting rights. The Trustees will not, however, exercise the voting rights attributable to the Shares held in the trust except in accordance with the participant's instructions.

11. CHANGE OF CONTROL, REORGANISATION ETC.

In the event of a general offer being made to the shareholders or a rights or capitalisation issue, participants will be able to direct the trustees how to act on their behalf.

12. LISTING

Application will be made to the London Stock Exchange for admission to the Official List of new Shares issued under the Plan. Shares issued under the Plan will rank equally in all respects with existing Shares except for rights attaching to Shares by reference to a record date prior to the date of allotment.

13. AMENDMENTS

13.1 The Board may change the rules and trust deed of the Plan. Shareholder approval is required for changes which are to the advantage of employees and concern: eligibility; the individual limits on taking part; the overall limits on the issuing of shares; the rights attaching to shares received; the rights of participants on any variation of share capital and the amendment rule itself.

13.2 The Board will not, however, need to obtain shareholder approval if the changes are minor and concern the administration of the Plan; a change in law; or intended to get to keep favourable tax treatment; exchange control or regulatory treatment for employees of the Company. The Board cannot change the term of the Plan while it is approved by the Inland Revenue where the Inland Revenue so agrees.

(ii) The company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 1800 hours on Tuesday 17 October 2000 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 1800 hours on Tuesday 17 October 2000 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(iii) 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 for use if required. To be effective this must be deposited at, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 3UH not later than 48 hours before the meeting.

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

(v) There will be available for inspection at 50 Westgate Road, Newcastle upon Tyne, NE1 4XX during usual business hours (Saturdays 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; and

(b) copies of the contracts of service of the directors employed by the company.

These documents will also be available for inspection during the Annual General Meeting and for at least fifteen minutes before it begins.

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