Financial Highlights

For the year		**1998**	**1997**
Turnover	(£m)	414.3	303.8
Operating profit (before exceptional items)	(£m)	35.5	29.2
Profit before tax	(£m)	36.9	21.5
Basic earnings per share	(pence)	52.5	32.7
Adjusted earnings per share	(pence)	49.4	38.8
Dividend per share	(pence)	10.0	8.0

The Go-Ahead Group plc

I am pleased to report further progress in the year to 27 June 1998. Continuing the Go-Ahead Group's advance as a major provider of urban public transport, turnover for the year has increased by 36% to £414 million (1997 - £304 million) and profit before tax is up 72% to £36.9 million (1997 - £21.5 million). Earnings per share rose 27% to 49.4 pence (1997 - 38.8pence) on an adjusted basis. Excluding the effects of exceptional items, the operating profit of the Group has increased by 22% to £35.5 million (1997 - £29.2 million). These results reflect strong performance from a full year of the rail franchises and steady progress in the bus businesses.

A final dividend of 7.0 pence per share is proposed, payable to shareholders on the register at 6 November 1998. The total dividend for the year is 10.0 pence per share (1997 - 8.0 pence) up 25% on the previous year and covered more than five times by earnings for the financial year.

Our target operating profit of 15% for the bus division remains essential if we are to provide the resources necessary for ongoing investment. The Government's White Paper "A New Deal for Transport: Better for Everyone" is encouraging for the industry. It stresses the need for local transport plans to be developed by authorities in conjunction with transport operators. That partnership relies heavily on further substantial investment by transport operators; the need to make adequate profits is, therefore, clear.

Government policy is directing public opinion towards a more restrained yet sensible use of the private car. This change in cultural attitude should lead people, particularly in cities, to make considered decisions on whether to use the motor car, to walk or to find some other means of transport for each journey as it arises. This change of culture will, if achieved, not happen overnight. It will take at least a generation for the ingrained domination of the private car to be revised. In this climate, public transport should succeed in the medium to long-term. Even a small percentage of private car users transferring to public transport would have an enormous impact on passenger revenue for transport operators whose capacity for much of the day is currently well under-utilised.

Given that timescale, it seems inevitable that local congestion will worsen in many of our cities and towns before the environment improves. I have great admiration for all of our bus drivers. Most of our routes share road space with other traffic and suffer the congestion which is a feature of the bus driver's daily life. Trying to keep to a timetable is not an easy task and I recognise that our drivers are expected to show tolerance, consideration and forbearance in extremely difficult driving circumstances.

The general congestion is exacerbated by road improvements and town centre redevelopments of the sort experienced in a number of areas this year. This is a feature of urban public transport repeated throughout the UK and which makes reliability and punctuality of bus services difficult to improve.

However, bus services in London and the South East continue to show patronage increases whilst, in the North East, patronage decline has been more than matched by a reduction in resources as management continues to match the bus network to passenger demand.

In rail, essential redevelopment and reconstruction have taken their toll on reliability and punctuality. Both Thames Trains and Thameslink have continued to show very strong increases in patronage; but there remain significant, long-term under-investments in the train operating companies as well as the infrastructure inherited from British Rail. We welcome the progress made by both the management and staff in our train operating companies, together with the efforts of Railtrack and rolling stock suppliers to achieve reliability in such challenging circumstances. Inevitably there are disappointments and we have recently suffered a decline in the reliability of our Thames Trains' franchise. We have joined with Railtrack, rolling stock suppliers and the other train operating companies using the same infrastructure, in an attempt to improve both reliability and punctuality. Improvement will follow, but over this period of reconstruction and development, there will inevitably be some setbacks. Conversely, the Thameslink franchise has reached new heights of performance and we congratulate Railtrack and our other partners on their efforts to give us a more reliable railway infrastructure.

Our bus/rail integration opportunities increase and new developments are being implemented. Despite the franchises having only a seven year duration, it is heartening to see the attitudes of railway staff and management to the long-term needs for improvement and strategic direction.

We have been very encouraged by Government's action in reinstating the rebate on fuel duty for local bus services. We continue to be concerned over inflationary pressures, again it is encouraging to note that the Government is equally determined to act against inflation.

During the year, we bought the shares in Victory Railway Holdings held by the management and staff of our Thames Trains subsidiary. This resulted in a significant "passenger dividend" which was payable through the franchise.
The Go-Ahead Group is strongly committed to UK rail operation and we look forward to playing our part in improving rail services in the experience and perception of the public.

The Go-Ahead Group has a set of core skills in the service sector. We are actively seeking opportunities to use those skills in other sectors which have similar attributes to our transport businesses. Particularly we are interested in service sector opportunities which include large volume transactions with face to face customer contact, often geographically remote from a management base. We are researching a number of opportunities both in the UK and in mainland Europe.

Since the end of the financial year, we have had, with sadness, to report the death of our Chairman, Sir Michael Straker CBE. Although non-executive, Sir Michael was very active in the planning and direction of the Group and his friendship and advice will be sorely missed. Last year he recorded his thanks to the Go-Ahead staff, the subsidiary company Managing Directors and his colleagues on the main Board. This year was to have been his last report as he had intended retiring, having reached the age of 70. In this report, largely written before his death, he again intended to thank all of those who had worked so hard for the success of the Go-Ahead Group in this year. It is, therefore, my duty and pleasure to record those thanks and to say how much I am looking forward to continuing with the management and staff in the growth and development of the Group.

I am pleased to report that the first periods of this new year show our performance to be in line with expectations and we continue to look forward to the future with confidence.

Professor Sir Frederick Holliday
Chairman

17 September 1998

The Go-Ahead Group plc

Financial & Operating Review

FINANCIAL REVIEW

Trading results

A first full year of rail business provided £104 million of the £110 million increase in turnover whilst the rest of the increase was largely derived from a first full year of the Brighton Transport acquisition shortly before the end of last year.

Operating margins, before exceptional items, were as follows:

	1998 Turnover £million	1998 Operating Profit £million	1998 Margin %	1997 Turnover £million	1997 Operating Profit £million	1997 Margin %
Road Passenger Transport:						
Regulated	102	12.9	12.6	103	14.3	13.9
Deregulated – North	56	6.8	12.1	57	7.0	12.3
Deregulated – South	41	5.1	12.4	33	3.2	9.7
	199	24.8	12.5	193	24.5	12.7
Rail Passenger Transport	215	10.7	5.0	111	4.7	4.2
	414	35.5		304	29.2	

Consistent with previous reports, the above table is shown net of ALL pre-exceptional operating costs, including central management, administration and employee distributions, in contrast with other groups in the sector.

Road passenger transport margins largely reflect the crystallisation of issues noted last year and, more recently, when the interim accounts were published. In particular the impact of government changes in the treatment of tax credits on UK dividends is largely responsible for an increase in pension costs. Last year there was a credit to profit of £380,000 under the SSAP24 accounting rules. This has become a charge of £492,000 in the current year, an increase in cost of £872,000. In addition, labour shortages and pay pressures in the Regulated London market had a particularly severe impact in the first half of the year. However, whilst cost pressures remain, the group has made significant progress in the year in tackling a number of key issues, in particular:

- A radical structural reorganisation in the Deregulated North business is now near completion with margin progress expected despite a market which continues to marginally decline.
- In the Deregulated South market, the difficulties associated with the integration of the Brighton Transport business are now behind us, including the closure of loss making non-core businesses; and in Oxford the stable competitive situation, linked with continued growth in the market, will lead to further improvement.
- Whilst labour availability and cost remains an issue in the Regulated London market, management actions taken in the year have stabilised the situation.

Whilst, therefore, progress towards the target 15% operating margin in the road transport division has been interupted, plans for the current year envisage progress to be renewed. The current year has started in line with plan.

The contribution from rail passenger transport is well ahead of that planned when the respective franchises were bid for. As reported last year, this has been driven entirely by real passenger growth beyond expectations and which in the last year was around 11%. Clearly this rate of increase, partly driven by strong economic growth in the south east of England, is not sustainable and with clouds now clearly gathering on the macro-economic horizon, managements will place even greater emphasis on maintaining cost effective as well as reliable railways.

Exceptional items are described in Note 4 to the accounts. A number of factors in the rail passenger businesses have allowed the release of redundancy provisions made at the end of last year, in particular a non-replacement policy of leavers in buoyant labour market conditions has allowed target administrative staff reductions to be achieved at a lower than expected cost. In Brighton, the closure of non-core businesses acquired with Brighton Transport was not envisaged last year but has proved necessary following a deeper analysis of performance post-acquisition and hence further cost incurred. The North East reorganisation cost was incurred following a radical review of operations particularly in the second half of the year. The North East reorganisation also led, however, to significant property disposals yielding over £2.8 million of profit. The overall effect of reorganisation and redundancy action in the year yielded the group a significant net gain, therefore, partly mitigated by the need to report deficits on the revaluation of individual properties in the profit and loss account as explained below.

Net interest payable

Even if deposit interest on “restricted” rail cash balances is excluded, interest cover is a very healthy 12.5 times, almost double the equivalent number last year. This provides a sound platform for the group to continue its progressive investment policy.

Taxation

Excluding prior year credits, the effective tax rate is under 22% (1997: 30%). This reflects mainly the impact of the high level of capital expenditure in the year, increasing the amount of non-provided deferred tax in respect of capital allowances. In addition, following the setting up of a QUEST during the year (see note 20 to the accounts) and the issue of shares to the QUEST to support the group’s “save as you earn” employee share option scheme, a tax deduction has been accounted for in accordance with Inland Revenue rules. The tax on profits on sale of properties is also mitigated by capital gains tax reliefs.

Given the capital expenditure programme envisaged in the next couple of years and given the non-provision of deferred tax, a below normal tax charge can be expected in the medium term.

Earnings and dividends

Adjusted earnings per share (excluding exceptional items) have increased by 27%. The proposed dividend represents an increase in line with this at 25%. The dividend is covered by adjusted earnings over 4.9 times, similar to last year. Whilst this level of cover is high relative to our stock market sector, the group remain committed to a progressive investment policy requiring significant cash resources in the medium term. It is also appropriate to remark upon, in common with other equivalent groups, the level of replacement asset depreciation not accounted for under historical accounting rules. We estimate this at around £9 million for the past year. If this were accounted for, dividend cover would reduce to approximately three times.

Cash flow and borrowings

The increase in operating cash flow of 119% is flattered by the distortion created by the acquired rail businesses last year where, as noted then, operating cash flow was effectively understated by £11.8 million. Excluding this factor, operating cash flow increased by 49%. Free cash flow (after tax, interest and dividends) was £44.6 million (1997: £17.7 million) but £29.6 million was spent on capital expenditure, mainly bus fleet. A further £6.2 million was spent on acquiring the minority interest in Victory Railway Holdings discussed below. £5.7 million was realised mainly from the sale of properties and buses.

The effect of the heavy capital expenditure programme has been to reduce the average age of the bus fleet from over 9 years to 8.3 years. With similar levels of expenditure expected in the next two years, this is expected to drop to below
7.5 years.

Year end debt may be analysed as follows:

£million	**1998 £million**	**1997**
Bank loans	2.0	5.9
Unsecured loan notes	1.4	1.8
Hire purchase and lease finance	43.9	35.1
Net cash balances including cash on deposit –		
unrestricted	(5.5)	2.5
restricted	(38.9)	(29.4)
	2.9	15.9

Excluding “restricted” cash balances, gearing has reduced to 63% from 128%. As noted in note 5 to the cash flow statement, £16.0m of cash balances (1997: £14.3m) is required to collateralise railway season ticket bonds. This, together with a further £22.9 million (1997: £15.1m) of balances held by the rail companies which cannot be distributed as at the year end by dividend, makes up the “restricted” cash on deposit set out above.

Balance sheet

The major features of change may be summarised as an increase in net assets by £31 million (an increase of 88%) made up mainly of retained profits of £21 million and a property revaluation surplus of £14 million less goodwill on the purchase of the minority interest in Victory Railway Holdings of £5 million (as set out in note 14 to the accounts).

The property revaluation surplus overall was a net £13,416,000 but, under current accounting rules, a deficit on any individual property which is considered to be permanent must be accounted for in the profit and loss account even though the group revaluation result, including all properties, yields a large surplus. Hence the exceptional charge to profit of £855,000 in note 4 to the accounts contrasts with the treatment of the profit of over £14 million which is reflected as a movement on reserves.

The property revaluation surplus, together with the high level of capital expenditure in the year referred to above, is responsible for the significant increase in tangible assets from £93 million to £120 million.

Following the buy-back by Victory Railway Holdings (“VRH”) of the 35% management and employee share interest in VRH, the only minority interest in the group is now the 35% shareholding of VIA GTI(UK) Limited in Govia, the holding company of Thameslink Rail.

Year 2000

The board commissioned a group-wide programme, designed to address the impact of the year 2000 on our business.

Each subsidiary assembled a project team to ensure that all systems were examined, any problems identified, and priority given to those projects which could have a significant financial impact on the group's trade if they were to fail.

Within the bus companies, plans for appropriate action are well underway, with the objective of most systems being fully compliant by the end of 1998.

Our train companies are dependant upon several systems supported by third party suppliers on an industry-wide basis, and in order to ensure these suppliers provide the appropriate level of resource to meet the time-critical dates of the programme, we are fully active on the various committees monitoring the situation.

It is anticipated that the costs of ensuring compliance for the Year 2000 will not have a material impact on the group accounts.

Accounting policies

No changes have been made in the year to the group's accounting policies however the points below may be made.

Following the trend of last year, the updating of bus fleet and property rationalisation has led to a further reduction in the provision for property and vehicle repairs. The imminent publication of the FRS on this subject is likely to lead to the provision being written off in the current year.

A review of vehicle useful lives in the year led to an upward revision for certain bus types of vehicle as explained in note 12 to the accounts.

OPERATING REVIEW

Last year's report commented on the progress that had been made in developing the partnership approach with key local authorities and on the growth in the market that could be achieved. The emphasis on partnership in the government's recent White Paper is therefore welcomed along with the other measures which over a period of time will contribute to improved conditions for public transport operation in our towns and cities.

Integration

The group has continued to be at the forefront of developments in transport integration, building on experience gained over many years in the North East of England in partnership with other operators and Nexus (Tyne & Wear PTE). Bus and rail integration measures during the year have included an extension of joint ticketing schemes in several areas including Brighton, Oxford, High Wycombe, Luton and the Thames Valley. Other developments have seen new limited stop bus services introduced in North East England to provide better access to rail services from Durham and a network of rural services based on Goring & Streatley station operated as a franchise to Thames Trains. A particularly welcome development in the highly competitive Oxford market has been the agreement by Stagecoach to participate in the “Plus Pass” travelcard scheme which introduced ticket interavailability between bus operators for the first time in that area. It is also pleasing that Stagecoach have now opted to join the consortium originally promoted by Go-Ahead to develop the Guided Transit Expressway system.

Quality partnerships

Informal partnerships have existed for a number of years in Brighton and Oxford and that in Oxford was formalised earlier this year. The Oxford partnership, which backs up the council's long term transport strategy, will see significant further developments in traffic management to the benefit of public transport which will in turn bring further investment in environmental improvements and clean vehicle technology by the operators.

Within the North East of England the partnership with Sunderland Borough Council, Nexus and other operators has contributed to the development of the “Durham Road Super Route”. This combines significant investment in bus lanes and roadside infrastructure with the introduction to service by both major operators of new high quality super low floor single deck vehicles. The success of this scheme in generating organic patronage growth following the group's experience in South East England adds weight to the arguments in favour of developing this approach nationwide.

Rail services

The group's two rail franchises, Thameslink and Thames Trains, have both continued to enjoy rising patronage and whilst the continued growth is not without problems, the revitalisation of rail services remains encouraging.

Thameslink services were re-launched in May with a new brand identity and with the full segregation of the Luton to Wimbledon and Sutton “City Metro” stopping services from the Bedford and Luton to Gatwick and Brighton “City Flyer” services. Rolling stock use on the “City Flyer” service has also benefited from a thorough internal refurbishment whilst other measures taken have included the introduction of air-side ticket desks at Gatwick in partnership with other operators, a major refurbishment of stations on the Wimbledon Loop for “City Metro” services, in partnership with Railtrack, and the installation of ticket barriers to the platforms at Luton, Bedford and St Albans as part of the campaign to clamp down on fare evasion. With further timetable enhancement scheduled for October, Thameslink is continuing to cater for growth whilst delivering a steadily improving level of punctuality. The railway is however reaching capacity and new measures to add to that capacity are being explored with Railtrack and OPRAF.

Thames Trains too has seen growth in patronage, although pressure on the infrastructure which has for example seen a 38% increase in total train departures from London’s Paddington Station, has brought with it a number of operating problems which have had an adverse effect in the short term on Thames Trains’ previously high standards. A majority of those problems, which are inherent in the growth now being experienced on a system suffering from long term under-investment, are outside the direct control of the company. However, all are being addressed in conjunction with Railtrack and other suppliers

On a positive note, the group completed the buy-back of the minority shareholding in Victory Railway Holdings, the holding company of Thames Trains, previously held by management and employees and a number of new benefits were offered to rail users including the introduction jointly with Great Western Trains of a new Oxford to Bristol direct service.

Bus operations

The success in developing operations in partnership with other parties has already been described and this success brings with it further investment in new vehicles and in other facilities. Delivery of low floor single deck buses to all group companies has continued and the new generation of low floor double deck buses will enter services in most companies during the coming year. Major investment in a new purpose-built depot in Sunderland has enabled the group to close three separate out-dated premises in the area with significant improvements in efficiency and vehicle presentation.

The acquisition of Brighton Transport shortly before the end of last year has previously been reported and during the year its operations have been fully integrated into the successful Brighton & Hove network. The extent to which that has been successfully established is perhaps best evident in the award to Brighton & Hove for the second year running in the National Federation of Bus Users “Welcome Aboard” award as best bus company in the South of England. An award of that nature is not achieved without considerable hard work from all members of staff and it was particularly pleasing to see the particular recognition of Inspector Pat Slattery from Brighton Transport with the award of an MBE in the New Year Honours List.

London

Both London General and London Central have continued to enjoy success in competing for London Transport tenders and in maintaining a high quality service despite the difficulties caused by the much publicised staff shortages. Whilst labour turnover has increased markedly during the past year, both companies have recruitment and retention strategies in place to ensure that they can deliver the standards of service rightly expected by London Transport and public transport users. Particularly noteworthy successes in tendering recently have been the retention and indeed slight increase in the size of the major Bexleyheath contract and in the award of the contract to run the dedicated service to the Millennium Dome. Arising from successful bids, new vehicles have continued to enter service in London addressing the inherited backlog, whilst many of the oldest Routemaster vehicles have been refurbished and equipped with new Scania engines to improve both reliability and environmental friendliness.

The Go-Ahead Group plc

Directors and Advisors

Directors

Professor Sir Frederick Holliday (62) is non-executive chairman. He is a also a director of Compagnie Suez-Lyonnaise and is chairman of the board of their UK interests. He was formerly a main board director of British Rail.

Martin Ballinger (54) is managing director. He led Northern General through deregulation of the bus industry in 1986 and the management buy-out in 1987. Having qualified as a management accountant in 1968, he held various accounting posts before joining NBC in 1972. He is also a director of Northern Enterprise Limited.

Ian Butcher (47) is finance director and company secretary. He is a chartered accountant and has gained wide experience at finance director level in a number of industries before joining The Go-Ahead Group plc in March 1996.

Duncan Clegg (56) is a non-executive director. Many years merchant banking experience brings a City view to the board. He is also a non-executive director of a number of other companies.

Christopher Moyes (49) is commercial director. He has been responsible for the marketing and operational side of the business since 1983 having joined NBC in 1971. An engineering graduate, he holds post graduate qualifications in Transport Planning and Engineering.

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

Advisors

Financial Advisors
Close Brothers Corporate Finance Limited
12 Appold Street
LONDON EC2A 2AA

Auditors
Ernst & Young
Norham House
12 New Bridge Street West
NEWCASTLE NE1 8AD

Principal Bankers
The Royal Bank of Scotland plc
London Corporate Centre
3rd Floor
62-63 Threadneedle Street
LONDON EC2R 8LA

Stockbrokers
Kleinwort Benson Securities Limited
PO Box 560
20 Fenchurch Street
LONDON EC3P 3DB

Wise Speke Limited
Commercial Union House
39 Pilgrim Street
NEWCASTLE NE1 6RQ

Solicitors
Dickinson Dees
St Ann's Wharf
112 Quayside
NEWCASTLE NE99 1SB

Registrars
Lloyds Bank plc
Lloyds Bank Registrar
The Causeway
WORTHING
West Sussex BN99 6DB

Corporate Governance

The company supports and during the financial year complied with all the recommendations in the Cadbury Committee's code of best practice. Following the death of the group's former non-executive Chairman, steps are being taken to recruit at least one further non-executive director.

The board

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

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

Audit committee

The audit committee, which is chaired by 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 committee has unrestricted access to the auditors.

Remuneration committee and its report

The remuneration committee is made up of the non-executive directors and is chaired by 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, performance related bonus based on functional performance, contributions to the group pension plan, healthcare insurance, professional subscriptions and other benefits in accordance with typical company practice. Company cars ceased to be provided from 1 July 1998. Share options are also 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. Details of remuneration, including share options, and contract terms are also set out in note 7 to the accounts.

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

Pension plan

The assets of the group's pension plan are totally separate from the assets of the group and are invested with independent fund managers. There are 26 trustees, all employees chosen to reflect the geographic and functional spread of the group and including the three executive directors. Martin Ballinger is chairman of the trustees. The auditors and actuaries of the plan are both independent of the group.

Internal controls

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

- a decentralised organisation structure with defined limits of responsibility and authority;
- an annual budgeting process with regular re-forecasting of results, identifying key risks and opportunities;
- monthly reporting of financial information to the board encompassing profit and loss, 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 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.

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

In addition to our audit of the accounts, we have reviewed the directors' statements on pages 10 and 13 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing rules 12.43(j) and 12.43 (v).

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

Opinion

With respect to the directors' statement on internal financial control on page 10 and going concern on page 13, in our opinion the directors have provided the disclosure required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 10 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

ERNST & YOUNG
Newcastle upon Tyne

17 September 1998

Directors' Report

The directors present their report and audited accounts for the year to 27 June 1998.

Activities

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

Trading

The profit and loss account appears on page 15. The directors propose that a final dividend of 7.0p be paid (making a total of 10.0p for the year).

A review of the business of the group during the year and its prospects for the future can be found in the Chairman's Statement and the Financial and Operating Review on pages 2 to 8.

Directors

The names of the directors appear on page 9.

Professor Sir Frederick Holliday was appointed on 11 September 1997. Following the death of Sir Michael Straker on 28 August 1998, Professor Holliday was appointed Chairman. He retires and, being eligible, offers himself for re-election. He does not have a service contract 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:

		1998 No	**1997 No**
Sir Michael Straker	Beneficial	164,256	164,256
Professor Sir Frederick Holliday	Beneficial	1,000	–
Martin Ballinger	Beneficial	3,637,712	3,637,712
	Non-beneficial	80,000	160,000
Ian Butcher		–	–
Duncan Clegg	Beneficial	6,000	6,000
Christopher Moyes	Beneficial	2,998,894	3,512,452
	Non-beneficial	39,400	54,400

There were no changes in these interests up to 17 September 1998. Details of directors' interests in share options appear in note 7 to the accounts.

Substantial shareholdings

As at 10 September 1998 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	**%**
T H Shears	2,550,000	5.17
Friends Ivory & Sime	3.394,994	6.88
Scottish Value Management	2,818,735	5.71
Mercury Asset Management	2,306,289	4.68
London & Manchester Group	1,640,500	3.33
Gartmore Investment Management	1,581,541	3.21

The last five holdings are in respect of the aggregate of investment management client's interests within the respective asset management companies.

Directors' responsibilities in respect of accounts

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

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

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

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

Auditors and their responsibilities

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

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

The auditors' opinion does not encompass the directors' report on pages 12 and 13. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the directors' report are inconsistent with the accounts.

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

Management and staff

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

It is the group's policy to give full consideration to suitable applications for employment by disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the group.

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

The group supports local communities' events in which its employees participate. The group is a member of the Per Cent Club in the North East and commits a proportion of its pre-tax profits to community activities, principally in the fields of education and training. Charitable donations, sponsorship and community support over the year amounted to £128,000 (1997 - £107,000).

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 27 June 1998, the number of day's purchases outstanding for the company and the group were 41 and 28 days respectively.

Going concern

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

By order of the board

I P Butcher
Secretary

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

17 September 1998

Registered No. 2100855

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

ERNST & YOUNG

We have audited the accounts on pages 15 to 36 which have been prepared under the historical cost convention (as modified by the revaluation of certain properties) and on the basis of the accounting policies set out on page 21.

Respective responsibilities of directors and auditors

As described on page 12 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 27 June 1998 and of its 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

17 September 1998

The Go-Ahead Group plc

Consolidated Profit and Loss Account

for the year to 27 June 1998

	NOTES	1998 £000	1997 £000
TURNOVER	2		
Continuing operations		414,287	303,785
Operating costs		(378,777)	(274,569)
Exceptional items	4	(749)	(5,297)
	3	(379,526)	(279,866)
OPERATING PROFIT			
Continuing operations		34,761	23,919
Net profit on disposal of properties	4	2,849	–
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		37,610	23,919
Net interest payable	5	(733)	(2,429)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	36,877	21,490
Taxation	9	(7,778)	(5,633)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		29,099	15,857
Minority interests - including non-equity	22	(3,354)	(281)
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		25,745	15,576
Dividends	10	(4,901)	(4,005)
RETAINED PROFIT FOR THE FINANCIAL YEAR		20,844	11,571
EARNINGS PER SHARE – basic	11	52.5p	32.7p
– adjusted	11	49.4p	38.8p

Consolidated statement of total recognised gains and losses

	1998 £000	1997 £000
Profit for the financial year attributable to members of the parent company	25,745	15,576
Unrealised surplus on revaluation of properties	14,271	–
	40,016	15,576

Consolidated Balance Sheet
as at 27 June 1998

	NOTES	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	12	120,435	92,994
Investments	14	411	2
		120,846	92,996
CURRENT ASSETS			
Stocks		4,366	4,463
Properties held for resale		2,120	80
Debtors	15	31,675	33,628
Investments		100	200
Cash on deposit		22,167	14,291
Cash at bank and in hand		22,903	16,955
		83,331	69,617
CREDITORS: amounts falling due within one year	16	(110,594)	(97,631)
NET CURRENT LIABILITIES		(27,263)	(28,014)
TOTAL ASSETS LESS CURRENT LIABILITIES		93,583	64,982
CREDITORS: amounts falling due after more than one year	17	(27,023)	(28,342)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(258)	(1,330)
NET ASSETS		66,302	35,310
CAPITAL AND RESERVES			
Called up share capital	20	4,933	4,900
Share premium	21	44,492	42,299
Revaluation reserve	21	14,746	763
Other reserve	21	(47,983)	(43,236)
Profit and loss account	21	47,789	28,459
EQUITY SHAREHOLDERS' FUNDS		63,977	33,185
MINORITY INTERESTS – equity		1,524	(150)
– non-equity	22	801	2,275
		66,302	35,310

Professor Sir Frederick Holliday
Chairman

I P Butcher
Finance Director

17 September 1998

The Go-Ahead Group plc

Balance Sheet
as at 27 June 1998

	NOTES	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	12	32,818	20,707
Investments	14	75,435	75,902
		108,253	96,609
CURRENT ASSETS			
Properties held for resale		2,120	80
Debtors	15	13,880	21,047
Cash at bank and in hand		3,651	347
		19,651	21,474
CREDITORS: amounts falling due within one year	16	(39,648)	(55,395)
NET CURRENT LIABILITIES		(19,997)	(33,921)
TOTAL ASSETS LESS CURRENT LIABILITIES		88,256	62,688
CREDITORS: amounts falling due after more than one year	17	(1,039)	(2,006)
NET ASSETS		87,217	60,682
CAPITAL AND RESERVES			
Called up share capital	20	4,933	4,900
Share premium	21	44,492	42,299
Revaluation reserve	21	14,746	763
Other reserve	21	7,212	7,212
Profit and loss account	21	15,834	5,508
EQUITY SHAREHOLDERS' FUNDS		87,217	60,682

Professor Sir Frederick Holliday
Chairman

I P Butcher
Finance Director

17 September 1998

Consolidated Cash Flow Statement
for the year to 27 June 1998

	NOTES TO CASH FLOW	1998 £000	1997 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1	55,493	25,250
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		2,845	1,452
Interest paid		(468)	(1,223)
Interest element of hire purchase and lease finance		(2,860)	(2,490)
Preference dividends paid to minority shareholder		(277)	(17)
Net cash outflow for returns on investments and servicing of finance		(760)	(2,278)
TAXATION			
Corporation tax paid		(5,820)	(2,535)
CAPITAL EXPENDITURE			
Purchase of tangible assets		(29,585)	(18,488)
Sale of tangible assets		5,733	1,218
Net cash outflow for capital expenditure		(23,852)	(17,270)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings	2	(6,213)	25,181
EQUITY DIVIDENDS PAID		(4,336)	(2,824)
MANAGEMENT OF LIQUID RESOURCES			
Increase in cash on deposit		(7,876)	(14,291)
FINANCING			
Issue of ordinary share capital		16	7,109
Share issue costs		–	(111)
QUEST share issue costs		(1)	–
Redemption of preference shares by subsidiary		(1,474)	–
Receipts from bank loans		–	3,000
Repayment of bank loans		(3,900)	(15,804)
Loan notes redeemed		(351)	(5,023)
Receipts from hire purchase and lease finance		28,505	14,980
Repayments of hire purchase and lease finance		(19,762)	(13,632)
Net cash inflow/(outflow) from financing		3,033	(9,481)
INCREASE IN CASH		9,669	1,752

Notes to the Cash Flow Statement

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

	1998 £000	**1997 £000**
Group operating profit	34,761	23,919
Exceptional charges	749	5,297
Cash flow on exceptional charges	(2,288)	(2,034)
Depreciation	11,550	10,944
Movement on provisions	(1,072)	(737)
Profits on disposal of tangible fixed assets	(1,373)	(552)
Decrease in stocks	97	56
Decrease/(increase) in debtors	4,234	(133)
Increase/(decrease) in creditors	8,835	(11,510)
Net cash inflow from operating activities	55,493	25,250

Cash flow on exceptional charges:

	1998	1997
Redundancy: North East reorganisation	461	–
London bus reorganisation	–	486
Thames Trains Limited	728	618
Thameslink Rail Limited	856	506
Brighton Transport (1993) Limited	–	252
Reorganisation: Brighton Transport (1993) Limited	243	54
Cost of restructuring banking arrangements	–	118
	2,288	2,034

2 PURCHASE OF SUBSIDIARY UNDERTAKINGS

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

	1998 £000	**1997 £000**
Consideration (Note 14)	6,100	5,760
Shares issued	–	(1,851)
Loan notes	–	(1,778)
	6,100	2,131
Cash at bank and in hand acquired	–	(27,675)
	6,100	(25,544)
Expenses of acquisition	113	363
	6,213	(25,181)

Notes to the Cash Flow Statement
continued

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

	1998 £000	1997 £000
Increase in cash in year	9,669	1,752
Cash flow from (increase)/decrease in debt and leasing/hire purchase obligations	(4,492)	16,524
Increase in cash on deposit	7,876	14,291
Change in net debt resulting from cash flows	13,053	32,567
Leasing obligations of subsidiaries acquired in year	–	(1,997)
Loan notes issued on acquisition of subsidiary	–	(1,778)
Other non-cash movements in net debt	–	(328)
Change in net debt resulting from non-cash flows	–	(4,103)
Movement in net debt in the year	13,053	28,464
Net debt at 28 June 1997	(15,917)	(44,381)
Net debt at 27 June 1998	(2,864)	(15,917)

4 ANALYSIS OF CHANGES IN NET DEBT

	At 28 June 1997 £000	Cash flows £000	Other non-cash movements £000	At 27 June 1998 £000
Cash				
Cash at bank and in hand	16,955	5,948	–	22,903
Bank overdrafts	(4,349)	3,721	–	(628)
	12,606	9,669	–	22,275
Debt due within one year				
Bank loans	(3,900)	3,900	(967)	(967)
Loan notes	(1,778)	351	–	(1,427)
	(5,678)	4,251	(967)	(2,394)
Debt due after one year				
Bank loans	(2,006)	–	967	(1,039)
Finance lease and hire purchase obligations	(35,130)	(8,743)	–	(43,873)
Cash on short term deposit	14,291	7,876	–	22,167
Net debt	(15,917)	13,053	–	(2,864)

5 RESTRICTED CASH
Included in cash at bank and cash on short term deposit are balances amounting to £38,900,000 (1997: £29,400,000) held by the train companies which cannot be distributed by means of a dividend, of which £16,018,000 (1997: £14,291,000) is cash collateral for Railway season ticket bonds.

6. MAJOR NON-CASH TRANSACTION
A proportion of the consideration for the sale of tangible assets comprised the exchange of a property at a value of £1,449,000.

The Go-Ahead Group plc

Notes to the Accounts

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and each of its subsidiary undertakings made up to 27 June 1998.

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.

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

Goodwill

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

Stocks

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

Building and vehicle repairs

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

Deferred taxation

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

Pension benefits

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.

Notes to the Accounts
continued

2. SEGMENTAL ANALYSIS

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

	1998 £000	1997 £000
Turnover		
Road passenger transport	198,920	192,636
Rail passenger transport	215,367	111,149
Group turnover	414,287	303,785
Operating profit		
Road passenger transport	24,777	24,521
Rail passenger transport	10,733	4,695
Exceptional items (Note 4)	(749)	(5,297)
Group operating profit	34,761	23,919
Net assets/(liabilities)		
Road passenger transport	109,546	84,238
Rail passenger transport	(26,928)	(22,012)
	82,618	62,226
Unallocated net liabilities:		
Taxation	(10,021)	(8,063)
Dividends proposed and payable	(3,431)	(2,936)
Interest bearing net liability	(2,864)	(15,917)
Total net assets	66,302	35,310

All operations are of U.K. origin.

3. OPERATING COSTS

	1998 £000	1997 £000
Materials and external charges	179,532	112,927
Staff costs	148,008	129,855
Depreciation of tangible assets	11,550	10,944
Other operating charges	46,826	29,580
Other operating income	(6,390)	(3,440)
	379,526	279,866

4. EXCEPTIONAL ITEMS

		1998 £000	1997 £000
Continuing operations			
Deficit on revaluation of road passenger transport properties		855	–
Redundancy:	North East reorganisation	623	–
	Thames Trains Limited	(632)	2,118
	Thameslink Rail Limited	(340)	1,800
	London bus reorganisation	–	486
	Brighton Transport (1993) Limited	–	252
Reorganisation:	Brighton Transport (1993) Limited	243	241
Costs of restructuring banking arrangements		–	400
		749	5,297

Recognised after operating profit

Net profit on disposal of properties of £2,849,000 has been credited below operating profit.
This relates wholly to road passenger transport, and the effect on the taxation charge is disclosed in note 9.

5. NET INTEREST PAYABLE

	1998 £000	1997 £000
On bank loans and overdrafts	468	1,222
Finance lease and hire purchase interest	3,110	2,507
	3,578	3,729
Interest receivable on bank deposits	(2,845)	(1,300)
	733	2,429

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	1998 £000	1997 £000
Auditors' remuneration		
Audit fees	115	110
Non-audit services	160	95
Depreciation		
Owned assets	3,288	2,749
Leased and hire purchased assets	8,262	8,195
Operational lease and rental charges		
Property	13,788	2,405
Other	41,966	7,404
Profits on disposal of tangible assets	(4,222)	(552)

7. DIRECTORS' REMUNERATION

	Salary/Fees		Performance related		Benefits in kind		Total excludi pensions	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
Sir Michael Straker	26	20	–	–	–	–	26	20
Professor Sir Frederick Holliday	15	–	–	–	–	–	15	–
Douglas Adie	–	61	–	18	–	4	–	83
Martin Ballinger	151	119	30	22	6	4	187	145
Ian Butcher	116	93	27	13	8	7	151	113
Duncan Clegg	17	16	–	–	–	–	17	16
Christopher Moyes	134	105	30	19	9	6	173	130
	459	414	87	72	23	21	569	507

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 £14,636 and £13,417 respectively (1997 - £10,011 and £9,231). The equivalent increase in transfer values after deducting the directors' personal contributions were £148,701 and £113,311 respectively. Their accrued pensions at 27 June 1998 were £67,852 and £61,301 respectively. Mr Butcher is a member of the group money purchase scheme and company contributions of £5,694 (1997 - £5,143) were made on his behalf in the year. No other director benefits from a group pension scheme.

Directors' share options:

	Scheme	At 28.6.97 and 27.6.98	Exercise Price	Exercise Period
Ian Butcher	Executive	100,000	285p	19.7.99 – 19.7.2006
	Savings Related	498	391p	2000

The market price of the group's ordinary shares at 27 June 1998 was 710p per share and the range during the year to 27 June 1998 was 427p to 772p.

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

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

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

8. EMPLOYEES

	1998 £000	1997 £000
Staff costs:		
Wages and salaries	132,128	116,493
Social security costs	11,352	9,342
Other pension costs	4,528	4,020
	148,008	129,855

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

	1998 No	1997 No
Administration and supervision	1,005	874
Maintenance and engineering	1,119	1,212
Operations	6,340	5,746
	8,464	7,832

9. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1998 £000	1997 £000
The taxation charge is made up as follows:		
Corporation tax		
On the profit for the year	7,961	6,369
Relating to prior years	(183)	(736)
	7,778	5,633

If full provision had been made for deferred tax in the year, the tax charge would have increased by £4,798,000 (1997 - £1,716,000).

The tax effect in the profit and loss account relating to the exceptional items recognised below operating profit is a charge of £506,000 (1997 - £NIL).

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

	1998 £000	1997 £000
Equity:		
Dividend of 3.70p per share for shares issued cum div on 24 September 1996	–	93
Interim dividend of 3.00p per share (1997: 2.15p per share)	1,470	1,045
Proposed final dividend of 7.00p per share (1997: 5.85p per share)	3,431	2,867
	4,901	4,005

11. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based upon earnings of £25,745,000 (1997 - £15,576,000) divided by the weighted average number of ordinary shares of 49,001,472 (1997 - 47,662,165).

The shares held by The Go-Ahead Group QUEST Trustees Limited have been excluded from the calculation of earnings per share.

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

	1998 pence per share	1997 pence per share
Earnings per share – unadjusted	52.5	32.7
Exceptional items	(4.3)	11.1
Taxation on exceptional items	0.5	(2.7)
Minority interests' share in exceptional items after tax	0.7	(2.3)
Adjusted earnings per share	49.4	38.8

12. TANGIBLE ASSETS

	Freehold Land and Buildings £000	Leasehold Properties £000	Rolling Stock £000	Plant & Equipment £000	Total £000
Group					
Cost or Valuation					
At 28 June 1997					
At 1985 valuation	2,341	139	–	–	2,480
At cost	17,812	2,590	154,642	17,209	192,253
	20,153	2,729	154,642	17,209	194,733
Additions	1,512	184	26,884	2,454	31,034
Surplus on revaluation	10,455	837	–	–	11,292
Disposals	(450)	(20)	(16,663)	(1,731)	(18,864)
Transfer to current assets	(1,982)	(700)	–	–	(2,682)
At 27 June 1998					
At 1998 valuation	29,688	2,985	–	–	32,673
At cost	–	45	164,863	17,932	182,840
	29,688	3,030	164,863	17,932	215,513
Depreciation					
At 28 June 1997	1,812	385	88,686	10,856	101,739
Charge for the year	247	69	9,459	1,775	11,550
Surplus on revaluation	(1,756)	(368)	–	–	(2,124)
Disposals	(71)	(10)	(14,476)	(1,231)	(15,788)
Transfer to current assets	(232)	(67)	–	–	(299)
At 27 June 1998	–	9	83,669	11,400	95,078
Net book value					
At 27 June 1998	29,688	3,021	81,194	6,532	120,435
At 28 June 1997	18,341	2,344	65,956	6,353	92,994

During the year, the directors revised their estimate of the useful lives of certain rolling stock to more accurately reflect anticipated operational use. The effect of this revision is to reduce the current year's depreciation charge by £533,000 compared to prior years.

12. TANGIBLE ASSETS (continued)

	Freehold Land and Buildings £000	Leasehold Properties £000	Plant & Equipment £000	Total £000
Company				
Cost or Valuation				
At 28 June 1997				
At 1985 valuation	2,341	139	–	2,480
At cost	17,812	2,314	293	20,419
	20,153	2,453	293	22,899
Additions	1,477	184	64	1,725
Transfer from subsidiary undertakings	35	211	–	246
Surplus on revaluation	10,455	837	–	11,292
Disposals	(450)	–	(135)	(585)
Transfer to current assets	(1,982)	(700)	–	(2,682)
At 27 June 1998	29,688	2,985	222	32,895
Depreciation				
At 28 June 1997	1,812	302	78	2,192
Charge for the year	247	40	53	340
Transfer from subsidiary undertakings	–	93	–	93
Surplus on revaluation	(1,756)	(368)	–	(2,124)
Disposals	(71)	–	(54)	(125)
Transfer to current assets	(232)	(67)	–	(299)
At 27 June 1998	–	–	77	77
Net book value				
At 27 June 1998	29,688	2,985	145	32,818
At 28 June 1997	18,341	2,151	215	20,707

Freehold land and buildings includes non-depreciable land amounting to £13,850,000 (1997 - £6,955,000) in the group and company.

Leasehold properties includes non-depreciable land amounting to £848,000 (1997 - £202,000) in the group and company.

12. TANGIBLE ASSETS (continued)

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

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Rolling stock	73,321	–	56,241	–
Plant and equipment	52	–	74	–
	73,373	–	56,315	–

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

	1998 £000	1997 £000
New bus grants (S.32 Transport Act 1965)	3,090	3,339
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, whilst those properties that had been declared surplus by the company were valued on the basis of Open Market Value. The valuations were all carried out in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Cost				
Freehold land and buildings	19,818	19,818	20,450	20,450
Leasehold property	2,019	1,974	2,555	2,308
	21,837	21,792	23,005	22,758
Accumulated depreciation				
Freehold land and buildings	3,085	3,085	2,577	2,577
Leasehold property	656	647	506	452
	3,741	3,732	3,083	3,029

The net book value of leasehold properties comprises:

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Leases with 50 or more years unexpired	3,021	2,985	2,341	2,148
Leases with less than 50 years unexpired	–	–	3	3
	3,021	2,985	2,344	2,151

13. CAPITAL COMMITMENTS

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Contracted for but not provided	25,716	–	14,929	–

14. INVESTMENTS

Group

Fixed asset investments:

(a) Investment in own shares

The movement in the year in the company's investment in its own shares is as follows:

	£000
At 28 June 1997	–
Additions	410
At 27 June 1998	410

The investment in shares of The Go-Ahead Group plc represents the shares held by a qualifying share ownership trust (the QUEST). Details concerning the QUEST are to be found in note 20 to the accounts.

(b) Other fixed asset investments

	1998 £000	1997 £000
Associated companies	–	–
Listed investments	1	2
	1	2

The investment in associated companies relates to a 34% holding in Network Ticketing Limited, at a cost of £340, 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.

On 27 June 1998, the market value of the investment listed on a recognised investment exchange was not materially different from the amount stated in the accounts.

14. INVESTMENTS (continued)

Company

Fixed asset investments:

These comprise ordinary shares in subsidiary undertakings.

The movements are:

	£000
At 28 June 1997	75,902
Investment in preference shares of Victory Railway Holdings Limited	4,162
Redemption of preference shares in Govia Limited	(2,737)
Disposal of investments in dormant subsidiaries	(1,892)
At 27 June 1998	75,435

Details of the principal operating subsidiary undertakings are set out on page 36.

On 5 June 1998, the company became the holder of 100% of the issued ordinary share capital of Victory Railway Holdings Limited ("VRH").

This was achieved by means of a buy-back by VRH of the 35% shareholding in VRH held by certain directors and employees of Thames Trains Limited.

The VRH directors from whom shares were acquired were Roger McDonald, Nicholas Illsley, Kevin Harrison, Christopher Scanlon and David Franks, each of whom sold 10,000 shares back to VRH.

The total consideration for the buy-back was £6,100,000 with acquisition expenses of £113,000, resulting in goodwill arising of £4,747,000.

15. DEBTORS

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Trade debtors	11,162	1	9,718	17
Amounts owed by group undertakings	–	8,280	–	17,432
Other debtors	5,494	2,007	5,956	321
Prepayments and accrued income	8,901	1,841	12,057	2,511
Central Government debtor	3,678	44	5,180	–
Corporation tax	–	849	–	49
Advance corporation tax recoverable	2,440	858	717	717
	31,675	13,880	33,628	21,047

Advance corporation tax recoverable of £1,500,000 (1997 - £717,000) and pension prepayment of £1,145,000 (1997 - £1,588,000) are recoverable after more than one year.

16. CREDITORS : amounts falling due within one year

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Bank loans	967	967	3,900	3,900
Bank overdrafts	628	–	4,349	3,186
Obligations under hire purchase and lease finance	18,126	–	8,977	–
Unsecured loan notes	1,427	1,427	1,778	1,778
Trade creditors	25,931	509	20,974	590
Amounts owed to group undertakings	–	30,637	–	41,470
Corporation tax	9,710	–	7,802	–
Other taxes and social security costs	3,205	17	3,291	106
Other creditors	6,313	645	5,671	28
Deferred season ticket income	16,463	–	15,472	–
Accruals and deferred income	20,898	790	18,093	246
Redundancy accrual	655	–	3,049	–
Central Government creditor	60	–	361	246
Dividends proposed and payable	3,431	3,431	2,867	2,867
Dividends payable to minority shareholders	29	–	69	–
Advance corporation tax payable	2,751	1,225	978	978
	110,594	39,648	97,631	55,395

Bank overdrafts are secured by a floating charge over the assets of the group, and bank loans amounting to £967,000 are secured by a fixed charge over specific assets.

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

	1998		1997	
	Group £000	Company £000	Group £000	Company £000
Obligations under hire purchase and lease finance	25,747	–	26,153	–
Bank loans	1,039	1,039	2,006	2,006
Deferred government grants	237	–	183	–
	27,023	1,039	28,342	2,006
Bank loans repayable:				
Between one and two years	1,039	1,039	967	967
Between two and five years	–	–	1,039	1,039
	1,039	1,039	2,006	2,006

The bank loans are secured by a fixed charge over specific assets of the group.

18. OBLIGATIONS UNDER HIRE PURCHASE AND LEASE FINANCE

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

	1998 Group £000	1998 Company £000	1997 Group £000	1997 Company £000
Due in the next year	18,126	–	8,977	–
Due in the second to fifth years thereafter	25,747	–	26,153	–
	43,873	–	35,130	–

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Vehicle Repairs £000	Deferred Building Repairs £000	Total £000
At 28 June 1997	794	536	1,330
Amounts expended	(586)	(13)	(599)
Amounts released	(115)	(358)	(473)
At 27 June 1998	93	165	258

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:

	1998 Group £000	1998 Company £000	1997 Group £000	1997 Company £000
Capital allowances in advance of depreciation	7,845	1,014	3,790	735
Leased assets	1,778	–	1,640	–
Other timing differences	28	394	(577)	547
	9,651	1,408	4,853	1,282

20. CALLED UP SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1998 £000	1997 £000	1998 £000	1997 £000
Ordinary shares of 10p each	6,125	6,125	4,933	4,900

The company operates share option schemes under which options have been granted to certain executives and to employees under the savings related scheme. Currently unexercised, there are executive options over 300,000 shares, exercisable at 285p per share between 1999 and 2006, and 50,000 shares at 389p also exercisable between 1999 and 2006.

In addition, there are unexercised savings related options over 442,491 shares exercisable at 128p per share in 2000, 455,622 shares exercisable at 236p per share in 2001 and 594,451 shares exercisable at 391p per share in 2000. During the year 5,315, 2,320 and 972 shares were issued at 128p, 236p and 391p per share respectively under the terms of the savings related scheme.

The company also issued 320,000 shares to The Go-Ahead Group QUEST Trustees Limited for a total consideration of £2,211,200. The Go-Ahead Group QUEST Trustees Limited was incorporated on 22 January 1998, and was established as a qualifying employee share ownership trust in order to acquire ordinary shares of the company for supply to employees exercising options under The Go-Ahead Group savings related share option scheme. A contribution of £1,802,000 has been gifted to the QUEST by the company to reflect the difference between the market price on issue of the shares, and the option exercise price of 128p. All rights to dividends on these shares have been waived. The market value of these shares as at 27 June 1998 was £2,272,000. The trustee of the QUEST is The Go-Ahead Group QUEST Trustees Limited which is a wholly owned subsidiary of the company.

21. SHARE CAPITAL AND RESERVES

	Called up Share Capital £000	Share Premium £000	Revaluation Reserve £000	Other Reserve £000	Profit & Loss Account £000	Total Capital & Reserves £000
Group						
At 29 June 1996	4,554	35,608	777	(39,296)	16,874	18,517
Movements during the year						
Retained profit for the year	–	–	–	–	11,571	11,571
Revaluation reserve amortisation	–	–	(14)	–	14	–
Arising on share issues	346	6,802	–	1,812	–	8,960
Share issue costs	–	(111)	–	–	–	(111)
Goodwill on acquisition	–	–	–	(5,752)	–	(5,752)
At 28 June 1997	4,900	42,299	763	(43,236)	28,459	33,185
Movements during the year						
Retained profit for the year	–	–	–	–	20,844	20,844
Revaluation surplus	–	–	14,271	–	–	14,271
Realised revaluation surplus on sale of properties	–	–	(288)	–	288	–
Arising on share issues	1	15	–	–	–	16
QUEST shares issued	32	2,179	–	–	(1,802)	409
QUEST share issue costs	–	(1)	–	–	–	(1)
Goodwill on acquisition	–	–	–	(4,747)	–	(4,747)
At 27 June 1998	4,933	44,492	14,746	(47,983)	47,789	63,977

Cumulative goodwill written off amounts to £59,494,000 (1997 - £54,747,000) of which £962,000 (1997 - £962,000) has been written off to profit and loss account and £58,532,000 (1997 - £53,785,000) has been written off against other reserve.

21. SHARE CAPITAL AND RESERVES (continued)

	Called up Share Capital £000	Share Premium £000	Revaluation Reserve £000	Other Reserve £000	Profit & Loss Account £000	Total Capital & Reserves £000
Company						
At 28 June 1997	4,900	42,299	763	7,212	5,508	60,682
Movements during the year						
Profit for the year	–	–	–	–	16,741	16,741
Dividends	–	–	–	–	(4,901)	(4,901)
Revaluation surplus	–	–	14,271	–	–	14,271
Realised revaluation surplus on sale of properties	–	–	(288)	–	288	–
Arising on share issues	1	15	–	–	–	16
QUEST shares issued	32	2,179	–	–	(1,802)	409
QUEST share issue costs	–	(1)	–	–	–	(1)
At 27 June 1998	4,933	44,492	14,746	7,212	15,834	87,217

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

The cumulative amount of goodwill written off to profit and loss account at 27 June 1998 is £211,000 (1997 - £211,000).

22. MINORITY INTERESTS

Non-equity

Non-equity minority interests comprise 801,451 (1997 - 2,274,965) 15% cumulative redeemable preference shares of £1 each in Govia Limited held by VIA GTI (UK) Limited. This represents 35% of the total preference shares issued in this company and the rights of these shares are summarised below:

Rights to dividends

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

Capital

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

Voting

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

Share of profit on ordinary activities after taxation:

	1998 £000	1997 £000
Equity	3,077	193
Non-equity	277	88
	3,354	281

23. OPERATING LEASE COMMITMENTS

Annual rentals on operating leases and rental agreements which expire:

	1998 Property £000	1998 Other £000	1997 Property £000	1997 Other £000
Group				
Within one year	74	103	131	60
In the second to fifth years inclusive	5,347	1,884	5,192	1,977
Over five years	8,896	40,212	8,943	39,655
	14,317	42,199	14,266	41,692
Company				
Within one year	–	–	33	–
In the second to fifth years inclusive	57	–	30	–
Over five years	42	–	44	–
	99	–	107	–

24. 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 £553,000 (1997 - £505,000).

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.

The latest actuarial information is as follows:

	Group Pension Plan	Railways Pension Scheme: Thames Trains Section	Railways Pension Scheme: Thameslink Section
Date of actuarial valuation	5 April 1997	14 October 1996	2 March 1997
Actuarial assumptions:			
Investment return	8.75% p.a.	8.50% p.a.	8.50% p.a.
Pay growth	6.00% p.a.	6.50% p.a.	6.50% p.a.
Pension increase	4.00% p.a.	4.50% p.a.	4.50% p.a.
Dividend growth	4.50% p.a.	4.00% p.a.	4.00% p.a.
Market value of assets	£91,728,000	£32,219,000	£21,657,000
Funding level	111%	115%	107%
Actuarial method	Projected unit credit	Projected unit credit	Projected unit credit

The current group overfunding is being corrected by reducing the employer's contribution rate in the final salary sections.
At 27 June 1998 the balance sheet includes a prepayment of £1,272,000 (1997 - £1,764,000).

Principal Subsidiary Undertakings

Name			Principal activity
Brighton & Hove Bus and Coach Company Limited			Bus and coach operator
City of Oxford Motor Services Limited			Bus and coach operator
The Gateshead & District Omnibus Company Limited	(e)		Bus operator
Go Gateshead Limited (formerly Grandforce 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 (formerly Northern General Transport Company, Limited)			Bus and coach operator
The Northern National Omnibus Company Limited	(e)		Coach operator
Elsely Limited			Intermediate holding company
OK Motor Services Limited	(a)	(e)	Bus and coach operator
OK Motor Services (Travel) Limited	(a)	(e)	Travel agent
OK Travel (Inclusive Tours) Limited	(a)	(e)	Tour operator
Go Wear Buses Limited (formerly The Sunderland and District Omnibus Company Limited)			Bus operator
Go Coastline Limited (formerly The Tynemouth and District Omnibus Company Limited)			Bus operator
The Tyneside Omnibus Company Limited		(e)	Bus operator
Visitauto Limited			Taxi operator
The Wycombe Bus Company Limited			Bus operator
Victory Railway Holdings Limited		(b)	Intermediate holding company
Thames Trains Limited		(a)	Train operator
Govia Limited	(c)	(d)	Intermediate holding company
Thameslink Rail Limited		(a)	Train operator

Notes:

1. All the principal subsidiary undertakings are incorporated and operate in Great Britain
2. The above are subsidiary undertakings by virtue of the majority voting rights being held by the immediate parent undertaking
3. Subsidiary undertakings held indirectly are marked (a)
4. The proportion of nominal value of preference share capital held is 65% where marked (d) and 100% where marked (b)
5. The proportion of nominal value of ordinary share capital held in each company is 100%, except companies marked (c) where the proportion is 65%
6. Companies which have been dormant since the year end are marked (e)
7. All subsidiary undertakings are included in the consolidated accounts

The Go-Ahead Group plc

Five Year Summary and Shareholder Information

Five Year Summary

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
TURNOVER	414.3	303.8	134.8	111.7	61.4
OPERATING PROFIT BEFORE EXCEPTIONALS	35.5	29.2	14.1	12.2	4.5
OPERATING MARGIN	8.6%	9.6%	10.5%	10.9%	7.3%
Exceptional items	2.1	(5.3)	0.8	(1.9)	(1.0)
Net interest payable	(0.7)	(2.4)	(3.0)	(1.8)	(0.6)
PROFIT BEFORE TAXATION	36.9	21.5	11.9	8.5	2.9
Taxation	(7.8)	(5.6)	(2.8)	(1.0)	(0.9)
Minority interests	(3.4)	(0.3)	–	–	–
Dividends	(4.9)	(4.0)	(2.4)	(1.7)	–
RETAINED PROFIT	20.8	11.6	6.7	5.8	2.0
Earnings per share - basic	52.5p	32.7p	24.6p	21.9p	8.2p
- adjusted	49.4p	38.8p	23.1p	25.7p	11.0p
Dividends per share	10.0p	8.0p	5.55p	4.80p	–
OPERATING CASH FLOW	55.5	25.3	21.8	11.2	9.0
FREE CASH FLOW	44.6	17.7	13.7	7.8	7.6
NET CAPITAL EXPENDITURE	(23.9)	(17.3)	(10.2)	(10.8)	(7.0)
NET BORROWINGS	2.9	15.9	44.4	34.3	5.7

Shareholder Information

Range of holdings	**No of holders**	**%**	**Shares held 000**	**%**
1 - 10,000	1,866	87.44	2,055	4.17
10,001 - 100,000	177	8.29	6,606	13.39
100,001 - 500,000	74	3.47	17,812	36.11
500,001 - 1,000,000	10	0.47	7,129	14.45
Over 1,000,000	7	0.33	15,725	31.88
	2,134	100.00	49,327	100.00

Classification of shareholders	**No of holders**	**%**	**Shares held 000**	**%**
Directors' beneficial holdings	5	0.23	6,808	13.80
Other individuals	1,532	71.79	8,299	16.82
Institutional investors	597	27.98	34,220	69.38
	2,134	100.00	49,327	100.00