



2003

STAGECOACH GROUP PLC Company No. SC100764

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Stagecoach Group is a leading international transport provider, committed to developing innovative solutions across our operations

Highlights 2003

Business highlights

- Continued profitability in all four key operating divisions
- Good progress in restructuring Coach USA
- c. £300m of disposals announced post year-end
- Terms of new franchise at South West Trains finalised
- Improved operational performance benefiting Rail Division
- Margin improvement at UK Bus
- Strong revenue and volume growth in New Zealand

Financial highlights

- Turnover £2,077m (2002 – £2,111m)
- Total operating profit* £146m (2002 – £167m)
- Profit before tax* £113m (2002 – £107m)
- £575m of exceptional write-downs from Coach USA review resulting in a statutory loss before tax of £500m (2002 – profit of £42m)
- Earnings per share* 6.4p; up from 6.3p
- Free cash flow up 18% to £218m
- Net debt down £215m to £560m
- Full year dividend 2.6p (2002 – 2.6p)

* excluding goodwill amortisation and exceptional items

Group overview 2003

UK Bus

Stagecoach has around 16% of the UK Bus market making it one of the largest bus operators in the UK. There are over 90 depots across the country, principally focused on providing scheduled passenger services.



Coach USA

Coach USA is one of the largest providers of motorcoach, charter, tour and sightseeing services in the United States. The business is currently being restructured to concentrate on the substantial North East and North Central regions.



Turnover*

£598.4m

£603.0m

Operating Profit*

£67.0m

£14.0m

No. of Vehicles†

7,100

12,600‡

No. of Employees†

17,900

10,600



* Turnover and operating profit figures are for the year ended 30 April 2003. Operating profit refers to operating profit before goodwill amortisation and exceptional items

† Vehicle and employee numbers are as at 30 April 2003

‡ Includes driver-owned cabs

Stagecoach's share

Overseas Bus

Stagecoach New Zealand and **Citybus** are the largest providers of scheduled bus services in New Zealand and on Hong Kong Island respectively. There are also small bus operations in mainland China and the Group operates **Fullers Ferries** in Auckland, New Zealand. The Hong Kong and China operations were sold by Stagecoach in June 2003.

Rail

Our Rail division comprises three subsidiary operating companies: **South West Trains** (one of the largest UK rail franchises), **Island Line** (Isle of Wight) and Sheffield **Supertram** (which runs 29km of rail routes across the city).

The Group also holds a 49% equity stake in **Virgin Rail Group** which operates the West Coast Mainline and CrossCountry rail franchises.

Investments

The Group owns 31.2% of the ordinary shares of **Road King Infrastructure Limited** which operates over 1,000km of toll roads throughout China.

Stagecoach holds a 49% equity stake in **thetrainline.com** which operates a rail Internet and call centre booking service in the UK.



£51.0m

£132.3m

£413.6m

£276.1m[#]

n/a

£11.0m[#]

£11.2m

£19.1m

£38.2m

£7.2m[#]

£10.5m[#]

£(4.3)m[#]

1,050

1,100

1,300



Road King Infrastructure Limited

1,850

3,250

5,250

Stagecoach
NEW ZEALAND



SOUTH WEST TRAINS

Stagecoach Group has made positive progress this year towards achieving its key strategic objectives despite challenging issues within the transport sector and a difficult economic environment.



Chairman's statement 2003

Stagecoach Group has made positive progress this year towards achieving its key strategic objectives despite challenging issues within the transport sector and a difficult economic environment.

Across the Group, we are seeing strong cash generation from each of our four key operating divisions and all are trading profitably. In the UK, our bus division has had a successful year and is delivering increased operating margins with solid revenue and passenger volume growth. We have agreed terms with the Strategic Rail Authority ("SRA") for a new three-year franchise at South West Trains, which is one of the UK's largest rail franchises. We are awaiting final approval of this new franchise agreement from the Government. Restructuring of our Coach USA division is progressing well. Earlier this month, we completed the disposal of our Citybus business in Hong Kong, while our New Zealand bus business continues to deliver strong growth.

The Group's strong cash flow generation, coupled with the favourable movement in exchange rates, has allowed us to reduce debt for the long-term benefit of the business. Net debt reduced by £214.6m in the year ended 30 April 2003, from £774.6m to £560.0m. Subsequent to the year-end we have announced disposals with a gross consideration of approximately £300m. Of these proceeds, approximately £20m relates to deferred consideration and the remainder will initially be used to reduce Group debt.

Turnover for the year ended 30 April 2003 was £2,076.6m (2002 – £2,111.4m). Total operating profit before goodwill amortisation and exceptional items was £146.4m (2002 – £166.6m). Earnings per share on an equivalent basis were up at 6.4 pence (2002 – 6.3 pence).

The Board of Directors is recommending that the total dividend for the year is 2.6 pence per share (2002 – 2.6 pence). This comprises the interim dividend of 0.8 pence (2002 – 1.3 pence) and a proposed final dividend of 1.8 pence per share (2002 – 1.3 pence). The Board has firm confidence in the future

prospects for the Group and, based on continued strong and stable cash flows and profits within the business, we will look to increase the dividend each year.

Our two key priorities in recent months have been the restructuring of our Coach USA operations following a comprehensive business review, and finalising the new South West Trains franchise. Focused management action on both of these issues will deliver greater stability and certainty.

At Coach USA we remain on course to deliver on our key restructuring objectives within the 12 to 18 month timetable we set out in December 2002 and this will produce a smaller but nevertheless substantial and more robust business.

We believe the financial and commercial terms we have agreed with the SRA for the new franchise at South West Trains will deliver a good and predictable return for our shareholders.

Virgin Rail Group (in which we have a 49% interest) is continuing to work with the SRA with a view to negotiating new long-term commercial arrangements for both the West Coast and CrossCountry franchises. Both franchises are presently receiving SRA funding on the basis of a one year budget set by the SRA for the period to February 2004. We remain confident that new franchise terms can be agreed that will secure shareholder value for Stagecoach.

Our UK Bus operations are producing revenue and passenger volume growth, most notably where we work closely with forward-looking local authorities. We have been particularly successful in the London market. We are also pleased that the Government has taken forward our "Kick Start" proposals for targeted funding to support the introduction of new services and help reinvigorate the UK Bus network.

In the Overseas Bus division, performance at our New Zealand businesses, where we are seeing strong growth, continues to be very satisfactory. Citybus, our Hong Kong bus operation, has

been an excellent investment for the Group since 1999. However, the Board received an approach for the business and felt it was appropriate to review the strategic options for Stagecoach Group in the region. In view of the limited opportunities to develop significantly elsewhere in other Pacific Rim countries and the long-term prospects for the business in Hong Kong, we believe the offer was a good one and that selling the business at this time was in the best interests of shareholders.

We have a clear strategy for the Group and are on schedule with our sales programme and restructuring at Coach USA. The sale of Citybus has put the Group in a strong financial position, further de-risking the Group's portfolio, and will allow management to focus on developing our UK bus and rail businesses, a smaller but more robust North American business and our successful New Zealand operations. The Group continues to be a leading international transport company with a strong portfolio of cash generative businesses.

Following the business review in North America, I was delighted to announce six months ago that Brian Souter had taken up the position of Chief Executive on a permanent basis. His energy and entrepreneurial vision have been the driving force behind the Group and the considerable work he has done in restructuring our US operations is laying firm foundations for a stronger North American business.

I was happy to accept the invitation, in December 2002, to continue as Chairman of the Board. We have been working closely to refocus the company and I am confident Stagecoach Group has a dedicated senior management team and a committed Board that will ensure the Group continues to thrive and deliver shareholder value.



ROBERT SPEIRS
Chairman
25 June 2003

Management has been clearly focused on the twin priorities of restructuring Coach USA and securing the new franchise at South West Trains. I have been particularly pleased at the progress we have made and this will give greater certainty to shareholders.

Chief Executive's statement 2003

Management has been clearly focused on the twin priorities of restructuring Coach USA and securing the new franchise at South West Trains. I have been particularly pleased at the progress we have made and this will give greater certainty to shareholders.

We are seeing steady performance benefits across the Group as a result of our concentration on operationally led management. I believe this has reinvigorated the entrepreneurial approach of management and we are well placed to deliver growth in our operations, despite the worldwide economic slowdown.

I am pleased to report that we remain on course to restructure our Coach USA division and to meet our strategic aims for the business within the 12 to 18 month timetable we outlined in December 2002. We have already announced the disposals of Coach USA's Transit division, New England, West, and South Central regions and a number of its taxi businesses. Together, the gross consideration for these amounts to over US\$220m.

We intend to retain the North East and North Central regions, which together accounted for around one-third of Coach USA's turnover in the year ended 30 April 2003. We are developing the businesses within the Coach USA portfolio that perform well and have predictable revenue streams, as well as reducing our exposure to charter and leisure-related businesses. In addition, we have successfully retained key management and further reduced our corporate and regional overhead base. Trading at Coach USA, as we predicted, remains challenging and we have not seen any major improvement in the trading environment. Nevertheless, Coach USA remains cash generative and profitable. We have many strong performing businesses in the residual Coach USA portfolio and we are continuing to redeploy existing assets to maximise asset utilisation and to eliminate unnecessary capital expenditure.

We have now agreed financial and commercial terms with the SRA for a new three-year franchise at South West Trains. The deal, which has been recommended to the Department for Transport and the Treasury by the SRA Board, is currently

awaiting final approval. Together with the current one-year extension, this would result in a franchise for the period until February 2007. This will cement our leading position within the UK rail market and combines the right balance of risk and return for our shareholders.

Our Rail division has delivered a strong operating profit for the year. At South West Trains, our concentration on driving up operational performance has resulted in significant improvements and we are progressing well with the planned introduction of our new £1bn Desiro train fleet. At Virgin Rail Group, the business is benefiting from the focus on service delivery and significant investment in new trains. The replacement of the entire CrossCountry fleet has been completed with the introduction of new Virgin Voyagers, while the first of the new state-of-the-art Pendolino trains are also in service.

Network infrastructure difficulties remain a concern, however, and we have implemented a range of measures to mitigate the effects on our operation as well as working closely with Network Rail and the Strategic Rail Authority.

Our UK Bus division, the traditional core of the Group, is performing well. We are benefiting from revenue and passenger growth in provincial towns where we are working in partnership with forward-looking local authorities. We have been particularly successful in the London market, where we have retained and won a number of tenders. New tenders and the operation of additional vehicles on behalf of Transport for London have added £14.6m in revenue in the year ended 30 April 2003. Passenger volumes in London are up 8.8% and we see further opportunities for growth following the introduction of congestion charging earlier this year. Operating profits and margins for the UK Bus division have risen, despite increases in pension and other labour costs.

We are taking an industry lead in generating new ideas and believe our "Kick Start" proposal, which is now being taken forward by the UK Government, can benefit communities across



Brian Souter
Chief Executive

the country. The proposal is that the Government sets aside funds, which are used to give short-term impetus for the introduction of new services with the aim that such services would become commercially viable within three years from their commencement. It can deliver more comprehensive bus services, reduced road congestion, better value for the taxpayer with important environmental and social inclusion benefits. As well as bidding for Government funding in this area, we will continue with our own "Kick Start" programme of investment in buses for routes identified as having organic growth potential and we are looking at the development of a number of new products and ideas targeted for growth in the next twelve months.

In New Zealand, where we are the biggest bus operator, our operations have delivered further strong growth. We continue to work in close partnership with national and local government to improve bus services, investing heavily in our operation. "Kick Start" pump-priming funding has helped enhance services on key corridors and bus passenger growth in Auckland has continued to be strong. In addition, we remain actively interested in running the suburban rail networks in both Wellington and Auckland.

Under our ownership since 1999, our Hong Kong Citybus operation has produced strong organic growth in passenger volumes and a significant reduction in operating costs. Following an approach for the business, we reviewed the strategic options for Stagecoach Group in the region. It was our view that there were limited opportunities to develop significantly elsewhere in other Pacific Rim countries and the long-term prospects for the business in Hong Kong were uncertain. A number of factors were assessed in coming to a decision, including the future economic climate in Hong Kong, the growing levels of regulation and the

inability to grow profit without very significant investment or critical mass synergies. While the outbreak of Severe Acute Respiratory Syndrome ("SARS") earlier this year continues to impact the profitability of the Hong Kong business, our assessment of the sale was based on a long-term view of the profitability and capital requirements of the business and not the immediate trading conditions. The market for franchised bus operations is competitive and the purchaser already had an interest in a significant franchised bus operation. The proposed combination will benefit from synergies and economies of scale and this will give a solid platform for the further investment that is required in the Hong Kong franchised bus market. On that basis, we believe the sale of Citybus was in the best interests of the business and Stagecoach shareholders, and it will allow Stagecoach management to continue to deliver our strategy as a leading international transport provider.

While still early in the new financial year, the Group has started the year well and is trading in line with our expectations.

I am delighted with the contribution our people across the globe have made in meeting the challenges of the past year and I would like to thank them and our customers for their continued support. I am certain we can deliver better services, more value to shareholders, and continued security for our employees.

A handwritten signature in black ink that reads "Brian Souter". The signature is written in a cursive, slightly slanted style.

BRIAN SOUTER
Chief Executive
25 June 2003

"I've looked after travelling passengers for 10 years now and know that, above all, our customers value good communication. If services don't run smoothly, they like to be kept informed. Keeping our passengers happy is crucial to our success."

Chris Pearce
Standards Controller
UK Bus



Operating review 2003

UK BUS

Stagecoach continues to be one of the leading UK bus operators, with a 16% share of a highly competitive market. Our UK Bus business, the traditional core of the Group, remains a strong source of cash flow. As one of the biggest bus operators in the UK, we are at the cutting edge in developing new and innovative products and we are committed to playing a key part in achieving the Government's objectives of increased use of public transport and greater integration.

Turnover in our UK Bus division has increased by 5.4% to £598.4m (2002 – £567.9m). Operating profit was £67.0m,* compared to £62.7m in the previous year, and this is after taking account of increases in insurance costs and labour costs, including an increase in pension costs. The operating profit figure is stated after the financing element of vehicle operating leases, which amounted to £0.5m. This represents an operating margin of 11.2% (2002 – 11.0%) and reflects the benefits from a wide range of local initiatives to grow revenue, despite a continuing fall in the cost of car ownership. Across the UK, we have invested in new buses with a total capital value of £40.7m during the year to develop our on-the-road product. Total passenger volumes across our UK Bus business have increased by 3.2%.

In London, where we have a 16% share of the market, we have increased our fleet size by 10% and recruited 200 more drivers in the past year. Some 88.5% of our London fleet is now low floor, with a significant proportion of vehicles having been replaced within the last five years. Passenger growth in London was 8.8% for the year and we have purchased new depot space at Stratford for future expansion.

In order to meet the extra demand generated by congestion charging, we have negotiated improved margins and enlarged contracts to operate buses on behalf of Transport for London ("TfL"), introducing 100 new vehicles. In partnership with TfL, we launched the UK's first 24-hour, round-the-clock articulated bus service in London in March 2003. A fleet of 35 state-of-the-art Mercedes "bendy buses", each capable of carrying up to 140 passengers, is now running through the West End of London. Passengers using the route buy tickets in advance from retail outlets and roadside ticket machines. This cashless operation not only helps improve journey times, but also provides added security.

**Operating profit of a particular business unit referred to in the operating review is operating profit before restructuring costs, goodwill amortisation and exceptional items.*

Outside London, total passenger volumes have increased by 0.4%. The trend in passenger volumes varies significantly by geographical area. We have initiatives in place to encourage further growth and we have been particularly successful in increasing volumes in areas where congestion is causing some commuters to switch to using public transport.

Our major operation at Ferrytoll Park and Ride in Fife, Scotland, which at peak times runs buses every five minutes into Edinburgh, has seen passenger volumes increase by 30% in the past year. The Scottish Executive has approved additional investment to double the size of the facility to 1,000 car parking spaces. Successful park and ride operations are also running in Cambridge, Canterbury and Exeter.

A new turn-up-and-go network and fleet of 40 easy-access low-floor buses was introduced in Cambridge city centre around 18 months ago and we are still achieving annual passenger growth of around 17%. This has flowed through to on-bus revenue and further development of the rebranded Citi network is planned later this year. We have seen strong levels of passenger growth in other areas, including Manchester and Kingston-upon-Hull.

In certain rural areas, where traditional bus services do not suit the needs of the community, we are working with local authorities to deliver transport solutions. Known as demand responsive transport, these taxi-bus style services run on a skeleton timetable, and also take pre-booked pick-ups arranged via call centres, helping to boost social inclusion. We are already helping run similar services in Strathclyde, Hampshire and Newcastle, with some systems using sophisticated on-board computers and the latest Global Positioning Systems technology.

Stagecoach is working in partnership with the devolved administrations in Scotland and Wales on the successful operation of the free concessionary fares schemes. We also worked in partnership with Manchester City Council and Greater Manchester Passenger Transport Executive to deliver an enhanced network for the Commonwealth Games last year. Over 500,000 passenger journeys were made on the successful free shuttle bus operation to and from the main stadium.

Our emphasis continues to be on strong local marketing, simplified fares and ticketing, and improved information, including the introduction of online access to timetables for all Stagecoach bus services. An increasing number of customers are



"My proudest moment was when we won the Bus Industry Marketing Project of the Year Award this year. Our team's priority is to provide existing passengers with up-to-date, useful information and to stimulate passenger growth through innovative promotions."

Karen Best
Marketing Manager
UK Bus

Operating review 2003

using the Internet to access information about our services and pay for specific tickets, particularly in the student market. The innovative Unirider campaign, targeted at the sizeable student market, has resulted in further growth in Manchester this year, with an encouraging shift towards annual ticket sales that generate increased loyalty among our customers. The campaign – which picked up the UK Bus Industry Award for Marketing at the end of 2002 – is also being rolled out in other student centres, such as Newcastle, Warwick, Lancaster and Aberdeen with further areas to be targeted at a later date. Around 15% of our total student revenue in Manchester is achieved via our stagecoachbus.com website. A new improved Internet sales system is being introduced in the autumn of 2003.

Sophisticated research and marketing techniques pioneered by the retail industry are being used by Stagecoach to attract more people to public transport. Lifestyle information from sources such as the census and economic trends data is being used to help understand more about our customers and how they make decisions. Customers can now be profiled, segmented and targeted on a geographical basis and the information used to tailor direct marketing campaigns, including telemarketing. In trial areas in Perth and Grimsby, between 7% and 9% of customers targeted have switched to the bus, well above the normal 2% conversion rate for these campaigns.

Stagecoach is a frontrunner within the UK bus industry in supporting and developing new approaches to bus provision to draw increasing numbers of passengers to public transport.

At national level, Stagecoach has taken an industry lead by presenting plans to the Government to help reinvigorate the UK Bus network. We believe our "Kick Start" proposal for targeted funding to support the growth of existing services can benefit communities across the country, delivering more comprehensive bus services, reduced congestion and better value for the taxpayer, with important environmental and social inclusion benefits. Our pilot project in Perth, Scotland, has seen substantial passenger growth in the first three years. We estimate that £140m of Government funding could deliver 2% passenger growth per annum across the whole UK bus network over a three-year period. The "Kick Start" proposal has received widespread support from politicians and from across the UK Bus industry. Both the Department for Transport and The Scottish Executive are now working on the details of a "Kick Start" initiative and funding could be earmarked for pilot projects later

this year. We have more Stagecoach-funded schemes planned for the coming year.

Stagecoach is supporting Government moves to improve integration between rail and bus travel. We have a growing network of bus links across our South West Trains operation, allowing passengers to buy a combined bus and rail ticket, and we fully support the Government's PlusBus through-ticketing initiative. We are also working with the Government and local authorities to introduce the benefits of smartcard technology to buses in areas such as Aberdeen, Nottinghamshire, South Wales and Manchester.

We firmly believe the future of the bus industry – and, ultimately, the long-term interests of passengers – is best served by operators, government, local authorities and customers working together to improve our public transport system. Passenger growth, improved reliability and reduced congestion in our towns and cities can all be achieved without the need for increased regulation. We believe that improved partnerships with local authorities and quicker progress on bus priority measures are key in unlocking passenger growth and achieving the government objective of modal shift.

COACH USA

Coach USA is clearly focused on delivering the 12 to 18-month strategy to restructure the business. This strategy will produce a stronger business base, ensuring greater management and geographic focus.

The trading environment, however, continues to be challenging as the uncertain global economic climate continues. Coach USA's turnover for the year was £603.0m, compared to £682.3m in the previous year. Operating profit was £14.0m, compared to £38.4m in 2002, representing a reduction in operating margin from 5.6% to 2.3%. The reduction in operating margin reflects a fall of 0.4% in like for like revenues in our coach and bus operations, increased insurance costs and a significant fall in taxicab utilisation and sales. Action is continuing to maintain strict controls on our cost base and improve operating efficiency.

In December 2002, we announced the way forward for Coach USA, following a detailed six-month business review. As a result of the review, in our interim results for the six months ended 31 October 2002, we wrote down the carrying value of Coach USA by £575.0m, to £376.9m excluding net debt and tax. After

"We really value our customers in Chicago and I like to give them a friendly and reliable service."

Clint Malcome
Driver
Coach USA



Operating review 2003

taking account of goodwill amortisation and exchange rate movements, the equivalent carrying value of Coach USA as of 30 April 2003 was £330.5m.

Key actions being taken at Coach USA are to:

- Concentrate on the North East and North Central regions of the USA;
- Focus on large business units and predictable revenue streams including commuter (line runs/scheduled services) and contract services;
- Focus on businesses which perform well and where Stagecoach has proven management experience;
- Reduce exposure to charter and leisure-related businesses;
- Reduce corporate and regional overhead base in line with the downsizing of the business; and
- Retain and focus key management.

We remain on target to complete the restructuring as planned and are proceeding with discussions for the sale of various parts of Coach USA. We have already announced the sale of two-thirds of the businesses we planned to dispose of for a combined consideration of over US\$220m.

Work to restructure the taxi division, where financial performance in the first six months of the year was particularly disappointing, is well underway with a number of businesses already sold. The management team has been strengthened and specific action plans for improvement are being implemented in the two largest and poorest performing taxi companies. We will consider opportunities to exit the taxi market in the next 12 months.

As a result of these measures, we are confident we will significantly reduce the level of our leisure-dependent operations. Despite the continuing uncertain US economy, we believe that these changes will result in a smaller but more predictable business in North America with a sustainable earnings profile.

We have many strong performing businesses in the residual Coach USA portfolio and we are continuing to redeploy existing assets to maximise asset utilisation and to eliminate unnecessary capital expenditure. Work is also ongoing to target opportunities arising out of consolidation in the fragmented US transport market or where there are potential complementary acquisitions. While trading conditions continue to be challenging, we are

seeing passenger growth as a result of new commercial initiatives and partnerships with other stakeholders.

Our Shortline business is working in partnership with Rockland County, the New York State Department of Transportation and the New York Thruway Association to run minibuses on a special route that bypasses the toll barriers at the Tappansee Bridge. The initiative, which provides faster journeys for passengers and less congestion at toll barriers, has achieved passenger growth of more than 24% since May 2002. The contract has recently been extended, along with many others with Rockland County.

Further growth is being achieved with our popular New York Sightseeing product, which runs high-quality double decker vehicles on Manhattan. In February 2003, we launched the Showbiz Insiders Tour, which takes in the major entertainment locations in New York City. In April, we added Philadelphia to the list of day-trip locations running from New York City, working in partnership with Amtrak, the Philadelphia Convention and Visitors Bureau and other organisations.

During the last six months, we have re-branded our Olympia Trails fleet, which is the primary bus operator from Newark International Airport to New York City. As well as presenting a new, fresher image to customers, round trip fares were reduced and a "kids ride free" programme was implemented to entice additional ridership. In addition, in March 2003, Olympia re-instated its bus service to downtown New York for the first time since September 11, 2001. The return of this service ensures essential airport connections for the communities of lower Manhattan and contributes to the continuing regeneration of the area.

In the North Central region, the Chicago sightseeing market has returned to pre-September 11 levels following the introduction of 75-seat double-deckers to complement our already strong Trolley Tour service. In addition, our Chicago-Airport Express scheduled service operation saw continued ridership growth of 14% above pre-acquisition results, due to an enhanced schedule, improved equipment and a focused marketing strategy. In the Wisconsin market, we will have further revenue growth from August 2003 as a result of the renewal of an important contract with the Milwaukee Public School District.

In March 2003, Coach USA acquired Lafayette and Greenville Bus Company, a line run company located in Jersey City, New Jersey.



"A customer's first impression of Stagecoach is down to the driver. I try to give them the best and longest lasting impression possible, getting them to their destination on time."

Casey Meyer
Driver
Stagecoach New Zealand

Operating review 2003

There are many synergies between the two operations and the £1.4m acquisition provides Coach USA with a strong foothold in the Jersey City and Bayonne markets.

OVERSEAS BUS

Our Overseas Bus division continues to perform satisfactorily. We remain the largest provider of scheduled bus services in New Zealand. Strong public and government support for passenger transport continues to underpin our New Zealand bus business.

Turnover for the year in Overseas Bus was £183.7m, compared to £194.7m in the previous year. Operating profit was £30.3m, compared to £33.4m in the previous year. This represents an operating margin of 16.5% (2002 – 17.2%). The reduction in operating profit reflects the disposals of operations in Australia and Portugal, movements in foreign exchange rates applied in translating overseas profits to sterling and the impact of SARS and a sluggish economy on our Hong Kong operations.

The results for Overseas Bus include turnover in respect of Citybus of £132.3m (2002 – £148.6m) and operating profit of £19.1m (2002 – £25.2m).

Our bus operations in New Zealand are centred on the country's two largest metropolitan areas, Auckland and Wellington. We are closely involved with national and local government in assessing how best to organise and develop bus services.

Stagecoach New Zealand continues to work closely with regional and city councils to improve services and introduce new bus priority measures. The successful Quality Partnership Agreement with Wellington Regional Council and Wellington City Council was renewed during the year for a further four years. A similar agreement exists with Auckland City Council and informal working parties operate in other areas.

In Auckland, Stagecoach has continued to enhance bus service frequencies, using "Kick Start" pump-priming funding provided by the Government and Auckland Regional Council. Individual service improvements this year have been concentrated on peak period commuter services, including further enhancements to the key bus corridors that have seen passenger growth generated by previous "Kick Start" funding.

Stagecoach New Zealand also runs Fullers Ferries based in Auckland, which operates ferry services. Ferry passenger volumes grew by 6% over the year and a successful programme of special

trips for spectators attending the America's Cup yachting regatta generated additional revenues. Fullers is also working closely with a special purpose company owned by the city councils in Auckland to plan a major upgrade programme for ferry wharves and terminals.

On 9 June 2003, we announced the sale of Citybus to Delta Pearl Limited, a 100% indirect subsidiary of Chow Tai Fook Enterprises Limited, the privately owned company of the Cheng Yu Tung family and the major shareholder in New World Development Company Limited which in turn has an interest in New World First Bus Services Limited, one of Hong Kong's major bus operators. The sale was completed on 23 June 2003.

The gross consideration for the disposal was HK\$2,200m (approximately £176m). The net cash amount received by Stagecoach was HK\$1,646m (approximately £132m) which represented the gross consideration less the amount of net third party debt as at 30 April 2003, being HK\$554m (approximately £44m). The purchaser assumed all of the net third party debt of Citybus.

The purchaser will also assume capital commitments of approximately HK\$239m (approximately £19m) relating mainly to the completion of a new depot for Citybus at Chaiwan in Hong Kong.

The acquisition of Citybus has been successful for Stagecoach and has delivered good financial returns. Under our ownership since 1999, the business has produced strong organic growth in passenger volumes and a significant reduction in operating costs.

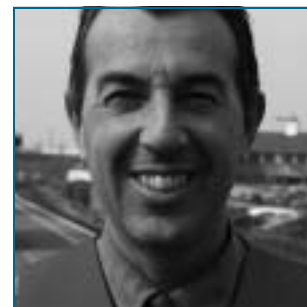
On receiving an initial approach about the possibility of disposal the Board reviewed the strategic options for Stagecoach Group in the region in view of the limited opportunities to develop significantly elsewhere in other Pacific Rim countries and the long-term prospects for the business in Hong Kong.

The Board believes that a combination of the uncertainties about the economic climate in Hong Kong, the growing levels of regulation to which the business is becoming subject and the inability to grow profit without very significant investment or critical mass synergies required it to take very seriously the approach and to negotiate terms which were in the best interests of Stagecoach shareholders.

The outbreak of Severe Acute Respiratory Syndrome ("SARS") earlier this year continues to impact the profitability of the Hong

"I passionately believe that our customers should always get the best service they have ever had – not only when the service is running well but also in times of disruption."

John Downes
Customer Care
South West Trains



Operating review 2003

Kong business but the Board's assessment of the disposal has been based on a long-term view of the profitability and capital requirements of the business and not the immediate trading conditions.

Citybus has two franchise operations, one on Hong Kong Island and the other operating to and from the international airport. These franchises expire in June 2006 and May 2013 respectively. The business will require significant new investment in property and vehicles to ensure that the franchises are retained and renewed. The purchaser already has a relationship with a significant franchised bus operation in Hong Kong and the proposed combination can benefit from synergies and economies of scale which will give a solid platform for any further investment that is required in the Hong Kong franchised bus market.

The Board therefore believes that the sales price represents fair value for Citybus and that the disposal is in the best interests of Stagecoach shareholders.

The transaction will reduce Group consolidated net debt by HK\$2,200m (approximately £176m) in the year ending 30 April 2004. It will also reduce Group consolidated capital commitments by HK\$239m (approximately £19m).

The consideration is broadly in line with the anticipated book value of the net assets at completion and accordingly, the transaction will not result in a material gain or loss on disposal in the consolidated accounts of Stagecoach Group plc. Sales proceeds will initially be used to reduce the Group's outstanding debt. The disposal will result in a small reduction in annual earnings per share.

RAIL

Stagecoach Group continues to hold a significant share of the UK rail market, including South West Trains, which is one of the largest UK rail franchises, Island Line and Sheffield Supertram. In addition, our rail business includes our joint venture, Virgin Rail Group, which operates the West Coast Main Line and CrossCountry franchises.

Turnover for our wholly-owned rail subsidiaries in the year was up 2.7% at £413.6m (2002 – £402.8m). Operating profit was £38.2m

(2002 – £31.0m), representing an operating margin of 9.2% (2002 – 7.7%). This includes liquidated damages of £8.5m in relation to late delivery and reliability of new Class 458 trains. Rail profits are stated after the costs of bidding for new franchises.

Passenger volumes at South West Trains increased by 2.1%, or 0.9% after excluding the periods affected by industrial action in the prior year.

Financial performance has benefited from significant operational improvements at South West Trains. However, infrastructure performance in the UK remains a major concern as the backlog of maintenance work continues, costs continue to rise and Network Rail has indicated that it is likely to be 2008-09 before punctuality returns to the levels achieved before the incident at Hatfield two years ago.

A reliable, right-first-time railway is a top priority for us as a major train operator and a key requirement for our customers. Despite the difficulties we face with network infrastructure, we are working very hard to mitigate the effects on our operation. We have reviewed the resourcing and control of our services to improve their resilience. An integrated control centre is planned at Waterloo where South West Trains and Network Rail personnel will work together to ensure that real-time management of the network is properly co-ordinated and disruption to passengers is minimised. We believe this will demonstrate the benefits of vertical integration on the railways. South West Trains is also working in partnership with Network Rail and infrastructure contractors Balfour Beatty to address infrastructure maintenance issues.

We are working closely with the SRA on the new strategic direction for our railways. Recent SRA announcements outlining the future direction of the industry, the focus on performance and the steps already taken to reduce congestion on the rail network, have been welcome. The introduction of new timetable changes from September 2003 will help considerably in further reducing the effect of disruption on the network.

Performance initiatives at South West Trains have helped deliver a notable increase in train punctuality on suburban services over the last year and the picture has also improved for the mainline services. Fleet reliability measures have also assisted in reducing the number of delays.



"The safety of our trains is always my top priority. It's my job to ensure that our drivers have everything they need to run a safe, reliable train service for our passengers."

Sharon Smith
Head of Drivers
South West Trains

We expect further improvements in quality and performance as more new trains are delivered at South West Trains and Virgin Rail Group.

South West Trains

We have achieved a major step forward at South West Trains with the completion of negotiations with the SRA and the agreement of financial and commercial terms for a new franchise.

The new three-year franchise, which is awaiting Government approval, places responsibility for funding and delivering infrastructure projects with the SRA, leaving South West Trains to focus on delivering a better train service to passengers. We believe it is a pragmatic agreement that reflects the organisational and operational reality of the rail industry. It will bring certainty and stability to our rail portfolio and we believe it is an excellent deal for government, our passengers, our shareholders and our people.

We are now working hard to deliver on our promises to improve the quality of service to our customers with the introduction of a £1 billion fleet of new Desiro trains and a comprehensive refurbishment of our suburban Class 455 trains. The new Desiro trains are on schedule to be delivered into passenger service later in 2003 and driver training programmes are well advanced.

Safety remains South West Trains' highest priority and our safety performance during the year was among the best in the rail industry. However, we are not complacent and we continue to monitor and improve our internal systems, as well as investing in the safety of our rolling stock. We have now almost completed the fitting of the Train Protection Warning System ("TPWS") to all our trains, and we believe it offers enormous benefit and reassurance to passengers.

We remain committed to giving our customers the best service they have ever had and have invested in a new Customer Communications and Security Centre at Wimbledon. A new customer information system, fully implemented across the network in partnership with Network Rail, provides audible and visual information to customers about trains at our 176 stations. The 24-hour control centre is the hub of our information and security links, monitoring the new customer information system, CCTV cameras and Help Point calls.

Marketing activity has focused on developing our off-peak leisure market where we see a number of opportunities for increased revenue. We have worked with the Mayor of London in promoting train travel to London and its nearby attractions. Strong promotion of our most popular products has had a significant impact and trials are also underway of new products, including a First Class "off-peak" saver ticket aimed at longer-distance travellers. We also have a substantial new leisure database following our summer 2002 Million Ticket Giveaway. This has allowed us to promote our products more directly and effectively, as well bringing thousands of new and lapsed users back to train travel. The number of revenue protection staff has been increased, particularly at Waterloo Station, as part of a successful campaign to target ticketless travel and this is having a positive impact on revenue.

Island Line

Stagecoach Group's contract to operate the Island Line franchise on the Isle of Wight runs until September 2003. We are currently participating in single party negotiations with the SRA regarding a new franchise that would run concurrently with the new South West Trains franchise until February 2007.

Sheffield Supertram

Our Supertram operation in Sheffield – which includes three routes covering 29 kilometres across the city – continues to generate increased patronage. Total passenger numbers for the year ended 30 April 2003 were 11.5 million.

Since Stagecoach took over the operation over five years ago, performance has improved and passenger volumes have grown by around 25%. In April 2003, the Group took over responsibility for maintenance of both the Sheffield Supertram system and the trams, making the light rail network a vertically integrated operation.

Virgin Rail Group

Our share of Virgin Rail Group's turnover for the year amounted to £276.1m (2002 – £261.2m) and our share of operating profits before exceptional items was £7.2m (2002 – £10.8m). Passenger volumes for the year are 4.7% above the prior year.

Virgin Rail Group is continuing to work with the SRA with a view to negotiating new long-term commercial arrangements for both



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the West Coast and CrossCountry franchises. Both franchises are presently receiving SRA funding on the basis of a one-year budget set by the SRA for the period to February 2004. We remain confident that new franchise terms can be agreed that will secure shareholder value for Stagecoach.

Eighteen of the new tilting Pendolino trains, built by Alstom, have now been delivered and the first has gone into passenger service on the West Coast Main Line. When the programme is completed, a fleet of 53 state-of-the-art Pendolinos will be regularly linking London Euston to Manchester, Liverpool, the West Midlands and Glasgow.

Virgin CrossCountry, which links 110 towns and cities and carries 16 million people a year, introduced a brand new clock-face timetable in September 2002 with a substantial increase in services featuring new Voyager trains. Reliability of the Voyager and Super Voyager train fleets is far superior to the average high-speed train rolling stock and, despite a 40% year on year increase in passenger numbers, overcrowding has been significantly reduced.

The impact of the new investment and service improvements across the company was recognised earlier this year when Virgin Trains won first prize for its Voyager and Pendolino trains in the Rail Network category of the prestigious national Business Travel World Awards 2003. Among the areas highlighted were train safety improvements, such as high visibility exterior doors and safety instructions in Braille.

INVESTMENTS

thetrainline.com

thetrainline.com is firmly established as the largest UK rail internet and call centre booking service. A joint venture between the Stagecoach and Virgin Groups, it helps rail travellers plan their journeys and buy train tickets to anywhere in the UK.

Now with over 7 million registered users, thetrainline.com has scope for considerable growth going forward. thetrainline.com is part of Stagecoach's commitment to devising transport solutions and continues to benefit from technical support by Cap Gemini Ernst and Young, which has made significant investment to support the business. Stagecoach's share of the business is 49%.

Our share of trainline's operating losses has reduced from £4.4m to £4.3m.

Road King Infrastructure

Road King Infrastructure is one of the leading highway investors and developers in China. Based in Hong Kong, it operates around 1,000 km of road tolls throughout China on over 20 toll roads and bridges in partnership with the Chinese Provincial Authorities. Following the mandatory conversion of our preference shares on 12 June 2003, Stagecoach now has a 31.2% holding in Road King.

The Group results for the year ended 30 April 2003 include our share of Road King's results for the year ended 31 December 2002. Our share of operating profits for the year was £10.5m (2002 – £12.9m). The fall in profitability reflects a reduction in certain minimum income undertakings from joint ventures and movements in foreign exchange rates applied in translating overseas profits to sterling.

Road King is benefiting from China's positive economic outlook and the continuing improvement in living standards, both of which have resulted in a surge in car ownership. Total traffic and toll revenue on Road King's highway projects in the year ended 31 December 2002 increased by 9.7% and 14% respectively compared to 2001.

Work on Anhui Bengbu Chaoyanglu Bridge, Road King's only outstanding construction project, was completed in December 2002 and toll collection has commenced. In line with the business development strategy, Road King has signed an agreement to dispose of its interest in Shanxi Provincial Highway Huanggu Route Xiaodian Fenhe Bridge project to its People's Republic of China ("PRC") partner.

Road King expects to secure additional cash revenue and profit from its investment in and operation of the Baoding-Tianjin Expressway project in Hebei Province. The Hebei Provincial Government has agreed the investment and, subject to the fulfilment of conditions, Road King will sign an unconditional contract.

Performance of highway projects in the early months of 2003 continued to be encouraging with double-digit revenue and traffic volume growth. Road King has not experienced any notable adverse effects from the spread of SARS in the region.



CORPORATE SOCIAL RESPONSIBILITY

Stagecoach Group is committed to taking our wider corporate responsibilities seriously and building positive relationships with our stakeholders. This contribution to the wider community has been part of the company's ethos since it was formed more than two decades ago. We have a consistent track-record in supporting and working with customers, investors, employees, suppliers and local communities. As a public transport operator, we have a key role to play in delivering essential services to our customers and helping to deliver social inclusion within our communities.

Our commitment to responsible business practice means we continually strive to improve our impact on society and the environment through our mainstream business practices. This is not just about our operations, products and services. We seek to combine building our business, through efficiency and competitiveness, with building the people who work for our business and building trust with the broader community.

Stagecoach's commitment to being a socially responsible business has been recognised by a number of external interested parties. We are a constituent of the FTSE4Good index, which aims to set a global standard for socially-responsible investment. In the UK, we were among the first companies – and the only major public transport operator – to take part in Business in the Community's first Corporate Responsibility Index.

Our people

Respect and value for our people lies at the core of Stagecoach Group and its businesses around the globe. The people who deliver our frontline services – from drivers to engineers and support staff – are the backbone of our operation and we want all our people to share in the success of the business.

We are an equal opportunities employer and consistently aim to work in partnership with trade unions to improve the pay and conditions of our people.

Our commitment to our people starts with the recruitment process and flows through in our approach to their induction to the company and on-going training and development.

In our UK Bus division, we are working hard to improve skills and raise standards of customer service through the roll-out of a programme of vocational qualifications in our bus companies. More than 2,100 Stagecoach drivers now have an S/NVQ, with a further 1,000 in the process of achieving this qualification.

Both our UK Bus and South West Trains businesses are working together to develop the managers of the future through our UK Graduate Recruitment Programme. The two year management training programme combines practical experience with off the job training courses. Within UK Bus, we also have a staff development programme for internal management training.

Stagecoach is working with government-funded enterprise agencies in the UK to get the long-term unemployed back into work through successful projects in Glasgow and Dumfries and Galloway in Scotland. Our Engineering Apprenticeship Programme promotes careers in local schools and we are now looking forward to our second intake following a successful first year.

We also want to help build a healthy workforce that feels proud to work for our business. At South West Trains, for example, the in-house occupational health organisation has held a number of health fairs and our employee well-being initiative offered influenza injections to all staff.

Access for all

Stagecoach continues to work hard to meet the needs of all our customers. We are very aware of the special needs of particular people that rely on our services and a number of our businesses have received special commendations for their work.

Stagecoach was one of the first operators to start a programme of significant investment in low-floor accessible vehicles and our progress towards making all Stagecoach bus services in the UK low-floor is well on track. We recognise these vehicles, which have dedicated wheelchair ramps and some of which have special "kneeling" mechanisms, are extremely important to our elderly customers, people with disabilities or families with young children.

The interiors of our new low-floor buses in the UK were specially designed with input from individuals representing various disability groups. The vehicles have helpful features such as special walkway surfacing, brightly coloured grab handles, clearly defined seating areas and space for wheelchairs. Our new Desiro fleet at South West Trains will also offer significant accessibility benefit.

"I've been driving for 30 years and make sure that the children get to school safely and return home safely."

Cleveland Brady
School bus driver
UK Bus



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We also liaise with local authorities and disability support groups to get the benefit of the latest training advice. A pilot scheme for assisting deaf people using public transport is underway in South Tyneside and is being rolled out throughout our bus company in North East England. At South West Trains, we have appointed a Disability Services Manager to ensure we follow best practice in the design of station improvements and train refurbishments. We have also issued all our frontline staff with a booklet that gives thorough guidance on how best to meet the needs of disabled travellers. In Hong Kong, the Citybus business last year completed a Braille bus guide.

Safety

Safety and security is our top priority – both for our passengers and our people. A proactive culture of safety runs through all our businesses and we firmly believe good safety is part of good commercial practice.

Buses, coaches and trains are the safest forms of transport – far safer than cars. We have a clear and simple policy – no service runs unless we are 100% convinced it is safe. We are committed to ensuring the highest standards of safety for our passengers and improving health and safety standards for our employees. This area is monitored and reported on across all our companies and immediate action is taken to address issues in our business processes.

Safety is part of a well-defined risk management process across our business. A main board executive director, Graham Eccles, has executive responsibility for safety issues across the Group and safety matters are considered at management meetings of each of our businesses.

The Group has established a Health, Safety and Environmental Committee chaired by one of the non-executive directors Janet Morgan, and also comprising Graham Eccles. It has access to internal safety executives and external consultants such as Arthur D Little, and reports regularly to the Board on safety matters.

In the UK, Stagecoach and the bus industry as a whole is working with the Government to address issues around bus safety and security on a regular basis. Crime on buses is low, but we are very aware that even the fear of crime affects the working environment for our people and can act as a deterrent in terms of people choosing to travel by bus or any other form of public transport.

Our security programme involves on-bus measures, infrastructure issues, staff training and support as well as working in the community. The CCTV management unit in Manchester, for example, continues the tactical deployment of resources to deter vandalism and crime in the city and high-quality video evidence has helped secure a number of convictions in the courts. In London, three of our buses have been converted into mobile police stations for use by the Metropolitan Police in problem areas. Extra police and dedicated traffic wardens in London are also helping address the most crime- and congestion-hit bus routes.

Across our businesses, we work in close partnership with the police and schools as part of citizenship programmes to tackle the root problems of anti-social behaviour and encourage transport safety.

Safety remains a key management priority at our rail businesses. Health and safety planning and monitoring as well as staff training are firmly embedded in the culture of the organisations. We have reaffirmed our commitment to retain guards on all our passenger trains – which some other operators have withdrawn – because we believe railway safety should also extend to the security of passengers.

South West Trains has continued to invest in improving the safety of our rolling stock. The fitting of the Train Protection Warning System to all our trains is nearly complete, well ahead of the statutory deadline. Our South West Trains business also has more Secure Station awards than any other train operating company. Virgin Rail Group, our joint venture, is involved in similar initiatives and its Annual Safety Plan is recognised within the UK rail industry as an example of best practice.

Our New Zealand bus and ferry operations have robust procedures in place, involving formal employee participation, to ensure the health and safety of our staff and customers. The Accident Compensation Corporation, which is the country's statutory provider of accident insurance for employers, has audited our procedures and safety record and placed our operations in the top 1% of New Zealand companies. Coach USA has a comprehensive safety programme in operation in all of its locations and continues to monitor its effectiveness on a regular basis.

Stagecoach Group has a good safety record, but we are never complacent and we constantly keep our safety arrangements



"Everybody likes a clean environment – it has a huge impact on customers' perceptions of public transport. Our cleaners take a real pride in their job and none of our buses leave the depot unless I'm sure they will give a first-class, clean travelling environment."

Siu Chong
Cleaning Inspector
Citybus

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under review. We are working with external consultants to review our current safety governance arrangements and we are committed to putting in place any improvements required.

Community

Stagecoach services play a vital role in connecting communities around the globe in both urban and rural areas, ensuring social inclusion through convenient and affordable public transport.

However, we see our role as a socially responsible company as far more than a service provider and major employer. As well as modernising public transport systems across the country, we share our success with the local communities we serve. During the year, £0.7m was donated to a wide range of local, national and international charities, helping them to continue their vital work.

Stagecoach was at the heart of a major TV fund-raising drive last summer to help some of the UK's lesser-known charities. The company kick-started the annual GMTV Get Up and Give appeal with a £25,000 donation and provided an open-top bus to help the fund-raising effort around the country in aid of charities helping children, disabled and disadvantaged people.

We have continued to support a number of children's and cancer charities throughout the year, as well as matching the fundraising efforts of our staff in national UK campaigns such as the BBC Children in Need Appeal.

Education and young people – the future of our world – are at the heart of much of the support we provide. In our home base of Perth, Scotland, for example, we have been working with the local authority and police to fund the supply of high-visibility waistcoats for local primary school children to improve their safety.

Community support goes well beyond just money, with hundreds of our people, from managers to frontline staff, devoting many hours of their own time every day to local projects. Our businesses also provide a huge amount of in-kind support, providing vehicles to help community projects with transport. Some of our staff have also given charities the benefit of their expertise during secondments, such as helping disability agencies improve the use of their transport fleet.

Stagecoach is helping create the entrepreneurs of tomorrow through its long-standing support for the UK educational charity "businessdynamics". Youngsters take part in courses designed to

build their personal skills and confidence. They also get the chance to learn how some of the country's top entrepreneurs have developed their business acumen and achieved success.

In New Zealand, we are helping children from all over the country who require specialist care through our three-year sponsorship of the Starship Children's Hospital in Auckland. Stagecoach's funding will initially provide extra specialist equipment for the hospital's intensive care unit.

Community arts projects are also flourishing, whether it's through free travel to visit galleries or significant sponsorship funding for organisations. In Wellington, we are helping fund the refurbishment of the Embassy Theatre, a landmark community-owned art deco style theatre.

Our involvement with good causes goes beyond areas where we have our operations. One of our buses, for example, is now stationed permanently in Romania where it has been fitted out as a mobile dental unit through our work with the charity CX999 Aid. We have also helped support the provision of medical care to people in Africa and supplied badly needed computer equipment.

Environment

Stagecoach is committed to playing its part in building a sustainable environment and improving the environmental management of our operations.

Transport has an inevitable impact on our environment and we are continuing to work hard to develop policies that will minimise that impact. We believe that integrated public transport systems will form the central core of future efforts to reduce pollution levels, alleviate road congestion and improve the quality of life in our towns and cities.

Not only do we work hard to ensure that our day-to-day transport operations interact with the environment in a responsible manner, environmental considerations are also included in all capital investment decisions taken by our business.

In the UK, we have invested millions of pounds – £120 million over the last three years alone – in new state-of-the-art bus fleets with improved energy consumption and reduced emissions. All new Stagecoach vehicles meet tough Euro III emissions standards and in the UK all our buses have changed to use low sulphur fuel.

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Continuously Regenerating Particulate Traps, which are a proven method of reducing particulate emissions by up to 90%, have been fitted to 50 of our vehicles in Manchester as part of a partnership with Greater Manchester Passenger Transport Executive.

Stagecoach is also working with major banks, local authorities, hospitals and education providers to develop green travel plans that reduce the dependence on the car to get to work. Our partnership with pharmaceutical giant Pfizer delivers one of the most comprehensive travel plans in the UK and has helped cut car commuting among its staff at its European research HQ in Sandwich, Kent, by 9%. In Cambridge, a partnership with the local authorities and Addenbrookes Hospital has seen an on-site bus station replace 100 car parking spaces, with Stagecoach offering discounted tickets to hospital staff.

South West Trains' £1 billion order for new Desiro coaches will mean faster trains providing an incentive for people to cut the number of journeys they make by car. The high-tech trains will also create less noise pollution than the existing slam door units.

Overseas, Stagecoach businesses are conducting trials of new vehicles designed to cut the impact of operations on the local environment.

In New Zealand, a prototype trolley bus – featuring a stylish new body with electrical components and axles recycled from an older vehicle – is on trial in Wellington and it is hoped this will be the first of 60 rebuilt trolley buses for the area. Three ultra-low emission hybrid-electric buses have also been purchased for trial operation in Auckland. We are also planning to bring one of these new low emission dual power electric-diesel buses from New Zealand for extensive demonstration trials in the UK.

Across its global operations, Stagecoach continues to provide support and training to its employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance.

Despite the huge progress and investment we have made in the area of environmental sustainability, we realise that this is only a start and we have a long way to go. Stagecoach Group has been working with external consultants to review our environmental arrangements and work is continuing to raise awareness of these issues across our management team. A series of key performance indicators are being put in place to measure our performance year on year. This will cover areas such as reducing emissions, water and energy consumption, minimising waste and identifying opportunities for recycling.

We are currently updating our Environmental Policy, first issued in 2000, and a fuller separate report will be published later in 2003.



The financial results for the year ended 30 April 2003 reflect the strong underlying cash flow generation of the Group and the continued trading profitability of our four key operating divisions.

Martin Griffiths
Finance Director

Finance Director's review 2003

Overall

The financial results for the year ended 30 April 2003 reflect the strong underlying cash flow generation of the Group and the continued trading profitability of our four key operating divisions.

Turnover for the year was £2,076.6m (2002 – £2,111.4m). Total operating profit before goodwill amortisation and exceptional items was £146.4m (2002 – £166.6m). Adjusted earnings per share (before goodwill amortisation and exceptional items) increased from 6.3 pence to 6.4 pence.

Trading results

The decrease in operating profit largely reflects the difficult conditions at Coach USA, and the subsequent refocusing of that business. The sluggish Hong Kong economic environment coupled with the outbreak of SARS also contributed to the decrease in operating profits. Total Group operating loss, after taking account of exceptional items and goodwill, was £466.2m (2002 – profit of £96.5m).

The turnover and operating loss is further analysed as follows:

	Turnover		Operating profit/(loss)	
	2003 £m	2002 £m	2003 £m	2002 £m
UK Bus	598.4	567.9	67.0	62.7
Overseas Bus	183.7	194.7	30.3	33.4
Coach USA	603.0	682.3	14.0	38.4
Rail	413.6	402.8	38.2	31.0
Virgin Rail Group	276.1	261.2	7.2	10.8
thetrainline.com	11.0	11.7	(4.3)	(4.4)
Virgin Rail Group/ trainline eliminations	(9.2)	(9.2)	–	–
Group overheads	–	–	(9.4)	(10.8)
Restructuring costs	–	–	(6.3)	(6.6)
Road King	–	–	10.5	12.9
Other joint ventures and associates	–	–	(0.8)	(0.8)
Total before goodwill amortisation and exceptional items	2,076.6	2,111.4	146.4	166.6
Goodwill amortisation	–	–	(37.6)	(50.5)
Coach USA exceptional items	–	–	(575.0)	(19.6)
	2,076.6	2,111.4	(466.2)	96.5

The segmentation of operating profit by division has been restated, as previously reported in our interim report for the 6 months ended 31 October 2002. Certain costs that were previously classified within "Group overheads" have been applied to particular divisions. Total profits are unchanged but we believe the new presentation provides a better reflection of divisional profitability and reflects the way that management now monitors financial performance.

Joint ventures and associates

Our share of joint ventures' and associates' operating profits (before goodwill amortisation and exceptional items) was £12.6m compared to £18.5m in the prior year. The reduction reflects reduced profitability at Virgin Rail Group and Road King, as discussed in the Operating Review. In addition to Virgin Rail Group (profit £7.2m; 2002 – £10.8m), the results include our share of thetrainline.com's operating losses which was £4.3m (2002 – £4.4m), our share of profits in Road King of £10.5m (2002 – £12.9m) and our share of operating losses of £0.8m (2002 – £0.8m) from our other joint ventures and associates.

Restructuring costs

Restructuring costs of £6.3m (2002 – £6.6m) have been charged against operating profits, of which £3.0m relates to the restructuring at Coach USA, £1.8m relates to UK Bus and £1.5m relates to redundancy costs incurred in our other divisions.

Depreciation and amortisation

Total depreciation decreased from £112.7m to £105.3m, reflecting the impairment of Coach USA's tangible fixed assets recorded as at 31 October 2002, the effect of foreign exchange movements on the translation of US\$ and HK\$ charges and a reduction in capital expenditure. The annual goodwill amortisation charge was £37.6m compared to £50.5m in 2002, reflecting the fact that we have recorded a goodwill impairment loss of £386.8m in the year.

Exceptional items

Net exceptional charges before tax of £575.5m (2002 – £14.3m) were reported. These include charges of £575.0m associated with the impairment review of Coach USA which comprised an impairment of goodwill totalling £386.8m, an impairment of tangible fixed assets of £162.7m, a write-down of current assets to net realisable value totaling £17.8m and a provision for loss on operations to be closed or sold of £7.7m. The results also include a net loss on the sale of properties of £0.5m.

Finance Director's review 2003

Finance charges

Net interest and financing charges decreased from £59.8m to £33.5m as a result of the favourable interest rate environment and gains of £15.1m on the repurchase of bonds. EBITDA before exceptional items to interest cover was 7.5 times compared to 4.7 times in 2002. This is based on EBITDA before exceptional items of £251.7m (2002 – £279.3m).

Acquisitions and disposals

We have not completed any significant acquisitions or disposals in the 12 months ended 30 April 2003. Details of disposals since 30 April 2003 are given in the Directors' report on pages 24 and 25.

Taxation

Before taking account of the exceptional write-offs in Coach USA of £575.0m, profit before tax for the year was £74.8m. The tax charge of £25.0m represents an effective rate of 33.4% on this profit (2002 – 35.7%).

The decrease in the effective tax rate this year is principally due to changes in the mix of profits from the various parts of the business.

Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items were 6.4 pence, compared to 6.3 pence in 2002. Basic loss per share (taking account of all exceptional items and goodwill amortisation) was 40.0 pence, compared to last year's earnings of 2.1 pence. The weighted average number of shares in issue during the year was 1,314.4m (2002 – 1,309.9m). No shares were repurchased during the year to 30 April 2003. Shares in issue at the year-end were 1,320.9m.

The Group has authority to repurchase a further 132m shares. This authority expires at the 2003 AGM and we will seek to renew the general authority to repurchase up to 10% of the issued share capital.

The total proposed dividend for the year is 2.6 pence per share (2002 – 2.6 pence). This represents dividend cover (before goodwill amortisation and exceptional items) of 2.5 times compared to 2.4 times in 2002.

Cash flows

Cash generation across the Group remained strong with free cash flows amounting to £217.8m. This compares to £184.3m last year. Free cash flow per share increased from 14.1 pence to 16.6 pence.

At 30 April 2003, net cash balances were £164.7m, an increase of £14.7m from 30 April 2002. The Group remains in a net

borrowing position and surplus cash balances are used to repay debt where possible.

Capital Expenditure

Additions to tangible fixed assets during the year were as follows:

	2003 £m	2002 £m
UK Bus	34.4	50.5
Coach USA	21.5	40.1
Overseas Bus	13.3	9.2
Rail	1.9	3.5
Total	71.1	103.3

In addition, new operating leases were entered into during the year by the UK Bus division for vehicles with a capital value of £19.6m.

Treasury risk management

The main areas of financial risk associated with our businesses are managed by our centralised Group Treasury function. The Board regularly reviews these risks and approves the Group's treasury policy, which covers the management of these risks. Financial instruments are held to finance Group operations and to manage the financial risks associated with these operations. Derivative financial instruments are used to manage financial risk exposures and to achieve greater certainty of future costs. The use of financial instruments is restricted to financial risk and treasury management only. No speculative trading is undertaken and activities during the year were in compliance with the Board approved treasury policy.

Liquidity and funding

Our policy is to finance the Group through a mixture of bank and hire purchase debt, capital markets issues and retained earnings. Financing is generally raised centrally and on-lent to operating subsidiaries on commercial terms. As at 30 April 2003, the Group's committed credit facilities were £647.1m, £335.6m of which were utilised, including bank guarantees, bonding and letters of credit.

The Group's policy is to look at a variety of funding sources to minimise interest cost and to maintain access to funding. Group borrowings (after taking account of swaps and forward contracts) are denominated in the operational currencies of the Group. The maturity of borrowings as at 30 April 2003 is shown in note 17.

Interest rate risk management

To provide some certainty as to the level of interest cost, it is our policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative instruments are also used where appropriate to generate the desired interest rate profile. At 30 April 2003, 41% (30 April 2002 – 49%) of the Group's gross borrowings were covered by fixed and capped/floored interest rates.

Currency rate risk

The Group is exposed to limited transactional currency risk due to the small number of foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. Where necessary, forward buying of currencies is carried out by the Group Treasury function.

The Group has overseas investments in Canada, the USA, New Zealand and, until June 2003, Hong Kong. As the impact of US\$ and HK\$ exchange rate movements on operating profits is offset by foreign currency denominated interest and fuel costs, the Group does not seek to hedge the impact of exchange rate movements on reported profits. To minimise balance sheet translation exposure, the Group aims to hedge overseas acquisitions and operations through borrowings denominated in their functional currency or through the use of derivative financial instruments which convert sterling borrowings into borrowings of the functional currency, and through forward currency exchange contracts. It is Group policy to examine each overseas investment individually and adopt a strategy based on current and forecast political and economic climates. This policy aims to allow the Group to maintain a low cost of funds and to retain some potential for currency appreciation whilst partially hedging against currency depreciation.

Commodity price risk

The Group is exposed to commodity price risk through its fuel usage. It is Group policy to establish fixed price levels to hedge this exposure for up to four years and, where necessary, to enter into physical contracts or derivative agreements to achieve certainty in the short term as to fuel costs and to reduce the year on year fluctuations over the medium term. At 30 April 2003, we had fixed approximately 100% of the Group's estimated fuel usage to 30 April 2004 when taking account of the disposals announced in May and June.

Credit risk

It is our policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical

location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

Balance sheet

Net assets have decreased by 65.1% from £909.1m to £317.1m principally due to the exceptional write-offs of £575.0m at Coach USA. Net debt at 30 April 2003 decreased by 27.7% to £560.0m compared to £774.6m as at 30 April 2002. Based on net assets of £317.1m and net debt of £560.0m, book gearing is 176.6% in comparison to last year's level of 85.2%. After taking account of proceeds in relation to disposals announced post year-end, pro-forma net debt would reduce to £268.4m. The disposals have a minimal impact on net assets, and therefore would result in pro-forma gearing of 84.6%.

Pensions

The Group continues to account for pensions on the basis of SSAP 24, "Accounting for pension costs". Under SSAP 24, total pension costs in the year ended 30 April 2003 were £31.2m (2002 – £18.0m). The increase in costs principally relates to the rail division.

The Group provides in note 26, the transitional disclosures required under FRS 17, "Retirement Benefits". Under FRS 17, the defined benefit pension schemes in respect of the Group's UK Bus and head office employees showed a net liability at 30 April 2003 of £156.2m after taking account of deferred tax. In addition, the defined benefit pension schemes in respect of the Group's UK Rail employees showed a net liability of £24.3m, after deferred tax. We believe that the Rail deficit needs to be considered separately as the franchise payments under the new South West Trains franchise take account of increased contribution levels to fund the deficit and we understand that the Group has no liability beyond the end of the franchise.

The defined benefit pension schemes are already benefiting from increased contributions from the Group and from the employees. In the year ended 30 April 2003, the cash contributions from the Group to the various pension schemes increased by £7.4m, of which £5.5m relates to the rail division. We have already planned for increased cash contributions for the year ending 30 April 2004. We remain committed to retaining defined benefit pension arrangements in the UK and continue to have constructive discussions regarding future contribution rates and other aspects of the defined benefit pension schemes.



MARTIN A GRIFFITHS

Finance Director
25 June 2003



Board of directors 2003

1 Robert Speirs, Non-Executive Chairman

A non-executive director of the Group since March 1995. In July 2002, he was appointed by the Board as Non-Executive Chairman. A former Group Finance Director of The Royal Bank of Scotland plc, Robert Speirs is also Chairman of the Miller Group Ltd and Bell Group plc. His other non-executive directorships include Canary Wharf Group plc and Martin Currie Income and Growth Trust. Aged 66.

2 Brian Souter, Chief Executive

A co-founder of Stagecoach, Brian Souter has extensive knowledge of the ground transportation industry around the world. Brian was Chairman of the Group throughout the year ended 30 April 2002. Following Keith Cochrane's resignation, the Board appointed him Chief Executive on 21 July 2002. He is now responsible for managing all of the Group's operations. He is also a board member of Road King Infrastructure. Brian Souter is also Chairman of ScotAirways Group Ltd and was a director of Scottish Enterprise until November 2002. He is a Chartered Accountant. Aged 49.

3 Martin Griffiths, Finance Director

Appointed Finance Director in April 2000, Martin Griffiths is responsible for the Group's overall financial policy and treasury management. He also has responsibility for the overall management of the Group's property portfolio. He is a Chartered Accountant. Aged 37.

4 Graham Eccles, Executive Director – Rail

Graham Eccles has over 35 years' experience in the rail industry and has held a number of senior management posts. He has been a member of the Board since September 2000 and prior to that was managing director of South West Trains from 1999. He is responsible for the management of all the Group's rail operations and business development opportunities in the rail market. He also has main board responsibility for Group safety matters. Graham Eccles is a director of Virgin Rail Group Holdings. Aged 56.

5 Ewan Brown CBE, Non-Executive Director

Ewan Brown has been a non-executive director of the Group since 1988. He is an executive director of the Noble Grossart Ltd and Chairman of Lloyds TSB Scotland plc. His other non-executive directorships include John Wood Group plc, Transport Initiatives Edinburgh Limited and Lloyds TSB Group plc. Aged 61.

6 Iain Duffin, Non-Executive Director

Iain Duffin became a non-executive director of the Group in September 2001. He was appointed Chairman of the Remuneration Committee on 1 May 2003. He is non-executive Chairman of Origo Services. He has previously held executive positions in the UK and the US with a number of organisations including Macfarlane Group plc, Hughes MicroElectronics, ITT Canon and LucasVaryty. Aged 56.

7 Ann Glog, Non-Executive Director

Ann Glog co-founded Stagecoach in 1980 and served as an executive director until May 2000. She is a past winner of the Businesswoman of the Year Award and European Women in Achievement Award. She is a trustee of the Princess Royal Trust for Carers and an international Board member of Mercy Ships. Aged 60.

8 Dr Janet Morgan, Non-Executive Director

Dr Janet Morgan, Lady Balfour of Burleigh, became a non-executive director in April 2001. She is Chairman of the Health, Safety & Environment Committee. She is also a non-executive director of Cable & Wireless plc, BPB plc, NMT Group plc and other companies. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and Chairman of the Scottish Cultural Resources Access Network. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 57.

9 Russell Walls, Non-Executive Director

Appointed as a non-executive director in June 2000, Russell Walls is the current Chairman of the Audit Committee. Following Robert Speirs appointment as Chairman in July 2002, Russell Walls was appointed the senior independent non-executive director. He is a non-executive director of Signet Group plc. He was previously Group Finance Director of BAA plc and Wellcome PLC. For many years he worked abroad with Coats Viyella plc where he was Group Finance Director from January 1990. He is a fellow of the Association of Chartered Certified Accountants. Aged 59.

Key to photograph

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Principal activity and business review

The Group's principal activity is the provision of public transport services in the UK and overseas.

A review of the Group's business performance, developments during the year, its position at the year end and likely future prospects, is set out in the Chairman's statement on pages 4 and 5, the Chief Executive's statement on pages 6 and 7, the Operating review on pages 8 to 18, and in the Finance Director's review on pages 19 to 21.

Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 36.

An interim dividend of 0.8 pence per ordinary share (net) was paid on 12 March 2003. The directors recommend a final dividend of 1.8 pence per ordinary share making a total dividend of 2.6 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 8 October 2003 to those ordinary shareholders on the register at 5 September 2003.

Directors and their interests

The names, responsibilities and biographical details of the directors appear on page 22.

Following Keith Cochrane's resignation as Group Chief Executive on 21 July 2002, the Board subsequently appointed Brian Souter as Group Chief Executive, and Robert Speirs as Non-Executive Chairman.

Brian Cox retired as a director on 3 July 2002.

Ann Gloag, Martin Griffiths and Russell Walls retire by rotation at the 2003 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election.

Table A set out on page 24 gives the interests of the directors and their families in the share capital of the Company.

Substantial shareholdings

On 24 June (being the latest practical date prior to the date of this report), the only disclosable shareholdings in excess of 3% (other than certain directors' shareholdings) were as follows:

Barclays	11.16%
Marathon Asset Management	6.06%
Legal & General Assurance Society Ltd	3.42%

Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and to maintain and, where possible, improve operational performance. The Group is also committed to providing equality of opportunity to current employees and potential employees. This applies to appropriate training, career

development and promotion opportunities for all employees regardless of physical disability, gender, religion or belief and racial or ethnic origin. The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share option schemes. Since flotation in 1993, there have been three invitations to UK employees to subscribe to the Group's sharesave ("SAYE") schemes, all of which have met with encouraging levels of response.

The Group periodically arranges meetings that bring together representatives from senior management and trade unions. Discussions take place regularly with the trade unions representing the vast majority of the Group's employees on a wide range of issues. The Group also produces a range of internal newsletters and information circulars which keep employees abreast of developments. Employees are encouraged to discuss matters of interest to them and subjects affecting day to day operations of the Group with management.

Directors' responsibilities

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 those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group, and enable them to ensure that the accounts comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the Company and of the Group, and hence for taking

Directors' report 2003

reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned as auditors and the directors appointed their successor, PricewaterhouseCoopers LLP. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, at remuneration to be fixed by the directors, will be proposed at the next Annual General Meeting.

Supplier payment policy and practice

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the accounts of those companies. As the Company is a holding Company, trade creditor days is not a relevant figure. For the Group as a whole, the trade creditors outstanding at the year-end represented 34 days' purchases (2002 – 32 days).

Fixed assets

In the opinion of the directors, there is no material deficit in the open market value of the Group's interest in land and buildings relative to book value.

Close company status

The directors are advised that at 30 April 2003 the Company was not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Charitable and political contributions

Group companies made charitable donations of £0.7m (2002 – £0.5m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year (2002 – £Nil).

Authority for company to purchase its own shares

At the 2002 Annual General Meeting, the Company was granted authority by its shareholders under section 166 of the Companies Act 1985 to repurchase up to 10% of its ordinary shares of 0.5 pence each. During the year, no shares were repurchased. Under the existing authority, the Company may repurchase up to a further 132,094,601 shares. This authority will expire on 5 March 2004 unless revoked, varied or renewed prior to this date.

A resolution will be placed at the next Annual General Meeting that the Company be authorised to repurchase up to 10% of its ordinary shares of 0.5 pence each, which, if passed, will lapse on or before 28 February 2005.

Post balance sheet events

(i) Disposal of Citybus

On 9 June 2003, the Group announced the disposal of Citybus to Delta Pearl Limited, a 100% indirect subsidiary of Chow Tai Fook Enterprises Limited, the privately owned company of the Cheng Yu Tung family and the major shareholder in New World Development Company Limited which in turn has an interest in New World First Bus Services Limited, one of Hong Kong's major bus operators. The sale was completed on 23 June 2003.

The gross consideration for the disposal is HK\$2,200m. The net cash amount received was HK\$1,646m, which represented the gross consideration less the amount of net third party debt as at 30 April 2003, being HK\$554m. The purchaser assumed all of the net third party debt of Citybus.

The purchaser also assumed capital commitments of approximately HK\$239m relating mainly to the completion of a new depot for Citybus at Chaiwan in Hong Kong.

Table A	Number of shares		Number of shares	
	30 April and 25 June 2003	30 April and 22 July 2002	30 April and 25 June 2003	30 April and 22 July 2002
Ordinary shares of 0.5p each				
Brian Souter				
beneficial	177,477,868	167,306,920	2,930,371	Nil
non-beneficial	17,059,829	15,450,145	1,832,657	648,953
Graham Eccles	37,258	16,622	1,922,849	776,182
Martin Griffiths	7,997	7,740	Nil	Nil
Ewan Brown	Nil	Nil	Nil	Nil
Ann Gloag				
beneficial	147,071,155	143,751,787	Nil	12,022
non-beneficial	2,804,564	2,804,564	Nil	Nil
Janet Morgan	Nil	Nil	Nil	Nil
Robert Speirs	18,500	18,500	Nil	Nil
Russell Walls	20,000	6,000	Nil	Nil
Iain Duffin	40,000	Nil	Nil	Nil
Share options held by Directors				
Brian Souter				
Graham Eccles				
Martin Griffiths				
Ewan Brown				
Ann Gloag				
Janet Morgan				
Robert Speirs				
Russell Walls				
Iain Duffin				

Full details of options held as at 30 April 2003 are contained in the Remuneration Report on pages 30 to 34.

No director had a material interest in the loan stock or in the share capital of any subsidiary company.

Further details on the disposal were given in the Group's announcement on 9 June 2003.

(ii) Disposal of businesses at Coach USA

Since 30 April 2003, the Group has announced the disposals of a number of parts of Coach USA in line with the restructuring plan for Coach USA announced in December 2002. The disposals announced were as follows:

- On 6 June 2003, the Group announced that it had agreed terms for the sale of the South Central and West Regions of Coach USA to a newly formed affiliate of Kohlberg & Co., LLC. Completion of the transaction is subject to regulatory approval, final confirmation of financing and normal closing conditions. The gross consideration for the sale is US\$155m, to be satisfied by cash of US\$128.5m and an interest-bearing loan note receivable of US\$26.5m repayable no later than 63 months from date of close.
- On 2 June 2003, the Group announced that it had completed the sale to Peter Pan Bus Lines of the business and assets of the New England Region of Coach USA. The business has been sold for a consideration of US\$40m, satisfied by cash of US\$33m and loan notes receivable of US\$5m and US\$2m repayable after three years and four years respectively, both interest bearing.
- On 22 May 2003, the Group announced that it had agreed terms for the sale to First Transit, a US subsidiary of First Group plc, of the business and assets of the Transit Division of Coach USA. The transaction is subject to normal commercial closing conditions, including approval from affected public authorities, with completion anticipated before 30 June 2003. The consideration for the transaction is US\$22.5m, satisfied by cash.

These transactions will not result in a material gain or loss on disposal in the consolidated accounts of Stagecoach Group plc. Further details on the disposals were given in the Group's announcements of each disposal.

Going Concern

On the basis of current financial projections and the facilities available, the directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the accounts.

By order of the Board



DEREK SCOTT

Company Secretary

25 June 2003

Corporate governance 2003

The Group is committed to high standards of corporate governance. The Stagecoach Board is accountable to shareholders and others for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group. In accordance with the Listing Rules issued by the Financial Services Authority, this statement describes how the principles of good corporate governance that are set out in the Combined Code have been applied.

The Board notes both the report of Derek Higgs on the role and effectiveness of non-executive directors and the accompanying report by Sir Robert Smith on audit committee reform. The Group currently complies with many of the recommendations contained in the two reports and will review its current corporate governance practices in light of the recommendations contained within these and the timescales set for compliance.

On 21 July 2002, the Board appointed Robert Speirs, previously the senior independent non-executive director, as non-executive Chairman. Brian Souter was appointed Group Chief Executive at the same time.

The Board

The Stagecoach Board currently comprises the Chairman (who is a non-executive director), the Group Chief Executive, two other executive directors and five other non-executive directors. Five of the six non-executive directors are considered by the Board to be independent. The offices of Chairman and Group Chief Executive have been separately held since 1998.

The Chairman ensures that meetings of the Board and shareholders are properly conducted and is responsible for setting and moving forward the Board's agenda. Leadership of the Board (by the Chairman) is not the same as the leadership required (from the Group Chief Executive) to turn the Board's decisions into actions and galvanise the whole enterprise. The Group Chief Executive has day-to-day responsibility for all business of the Group and carries out the decisions of the Board.

The directors' biographies appear on page 22 of this Annual Report and illustrate the directors' range of experience, which ensures an effective Board to lead and control the Group. The non-executive directors bring an independent viewpoint and create an overall balance. Following the appointment of Robert Speirs as Chairman, Russell Walls became the senior independent non-executive director.

The executive and non-executive directors have a complementary range of financial, operational and entrepreneurial experience that ensures no one director or viewpoint is dominant in the decision-making process.

All directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the company secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as directors. All directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all directors are required to stand for re-election by shareholders every three years. Each director receives induction training on

appointment and subsequently such training or briefings as are considered necessary to keep abreast of matters affecting their duties as directors. The number of full Board meetings during the year was ten. The full Board meets once a year at an operational location and regular verbal communication is maintained by the Chairman to ensure all directors are briefed on strategic and operational issues.

Non-attendance at the Board or its committees occurs only in very exceptional circumstances. The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance of senior management, to ensure that there are proper internal controls in place and to vet acquisitions or disposals. All directors have full and timely access to information with Board papers distributed in advance of meetings.

The Board keeps the roles and contribution made by each director under review and changes in responsibilities (for example in the composition of Board committees during the year) are made where necessary to improve the Board's effectiveness. To provide a more manageable process and better control, certain of the Board's powers have been delegated to committees.

The operational management of the Group is delegated by the Board to the Group Chief Executive and executive directors. The executive directors maintain day-to-day contact and meet regularly face-to-face or in videoconferences with non-board senior management. There are four principal operating divisions (UK Bus; Coach USA; Overseas Bus; Rail) which each comprise a varying number of autonomous business units, each headed by a chairman or managing director who is responsible for the day to day performance of the business unit. The UK Bus division is headed by a managing director, who reports to the Group Chief Executive and is supported by a small team of senior management and other specialists. The division is divided into a number of principal operating units, each headed by a managing director who reports to the managing director of UK Bus. The managing director of UK Bus and the other UK Bus directors meet regularly. Coach USA is presently headed by the Group Chief Executive. Coach USA's executive management board comprises the Group Chief Executive and other senior management based in North America. The division comprises several regions, each headed by a regional vice-president who reports to the Group Chief Executive. The Overseas Bus division is headed by a chairman and until June 2003, comprised two principal business units, each of which was headed by a managing director who is responsible for the performance of the business unit. Following the disposal of Citybus in June 2003, the Overseas Bus division consists only of the New Zealand operations. The Group Chief Executive generally attends the Board and management meetings of the principal Overseas Bus operations. A Rail board, comprising one executive director and other senior management, oversees the development of the Group's rail business. At South West Trains, an executive director is the chairman and this role is separate from the managing director who is responsible for the performance of the business unit. They are supported on the South West Trains board by a member of Group management and three non-

executive directors. Virgin Rail Group is headed by a chief executive and Board meetings are attended by one Stagecoach executive director and one other Stagecoach representative. Stagecoach is involved in all key decisions at Virgin Rail Group. Road King Board meetings are also attended by at least one Group executive, and the Chairman of Overseas Bus.

The Group holds periodic meetings with its principal shareholders and welcomes all shareholders to its AGM and EGMs. Formal notice of the 2003 AGM is enclosed within this annual report.

Audit Committee

The Audit Committee comprises five non-executive directors and at the present time, its members are Russell Walls (Chairman), Janet Morgan, Robert Speirs, Ewan Brown and Iain Duffin. Of the members of the Audit Committee, the Chairman and one other are former Finance Directors of FTSE 100 companies and a third member is currently the chairman of an audit committee of another FTSE 100 company. The Committee therefore has deep financial expertise and is appropriately qualified to undertake its duties in an effective manner.

The Audit Committee met twice during the year and has met a further three times in May and June 2003. It receives reports from many of the Group's business functions including the risk assurance function. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual accounts and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the external auditors. Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid as well as any other fees which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

Our procedures in respect of other services provided by the auditors are:

- Audit related services – These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services.
- Tax consulting – It is the Group's policy to select the advisor for each specific piece of tax consulting work who has the most appropriate skills and experience for the work required. The Group uses a range of advisors for tax consulting, including the auditors where they are best suited to the work being undertaken.

- General consulting – For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken. The auditors are only permitted to provide general consulting when both the Group and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest.

Remuneration Committee

The Remuneration Committee during the year comprised five non-executive directors, Robert Speirs (Chairman until 1 May 2003), Russell Walls, Iain Duffin (Chairman from 1 May 2003), Janet Morgan and Ann Gloag. Ann Gloag is no longer a member of the Committee. The Remuneration Committee met two times during the year. It is responsible for reviewing the scale and structure of the remuneration of the executive directors and the terms of their service contracts and is also responsible for approving grants of and changes to the company's performance-related incentive schemes and executive share option schemes. Exercise of options, which is always subject to the rules of the schemes, is approved by a Committee of the main Board.

Nominations Committee

The Nominations Committee currently comprises two non-executive directors, Robert Speirs and Ewan Brown and one executive director, Brian Souter. The Committee may also include, by invitation on an *ad hoc* basis, the other non-executive directors, as necessary. The purpose of the Committee is to propose to the Board any new executive director appointments. Final appointments are the responsibility of the whole Board. The Committee did not meet during the year because there were no new or proposed appointments to the Board. The changes to the Chairman and Group Chief Executive roles in July 2002 were dealt with by the Board as a whole.

Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by a non-executive director Janet Morgan, and also comprises Graham Eccles. It was established to discuss health, safety and environmental issues across the Group and to report regularly to the Board on these matters. It has access to internal safety executives and also external consultants.

Directors' remuneration

The Remuneration Committee makes recommendations to the Board for ensuring that the directors' remuneration is appropriate to attract, motivate and retain executive directors of the quality needed to run the Group's business successfully. The Committee believes that remuneration packages should contain significant performance-related elements. Performance targets are established to align incentives with the interests of shareholders, using an appropriate balance of long- and short-term targets. These include not only traditional financial indicators but also personal targets, successful investment, innovation, staff development, customer satisfaction, achievement of regulatory requirements, including health and safety and environmental

Corporate governance 2003

targets. The constitution and operation of the Remuneration Committee complies with the principles and provisions of the Combined Code and this is detailed in the remuneration report laid out on pages 30 to 34.

Relations with shareholders

The Board considers communications with shareholders, whether large or small, external or employee, to be extremely important. The Group holds periodic meetings with representatives of major institutional shareholders, other fund managers and representatives of the financial press. Annual meetings are held with employee shareholder representatives through the ESOP and QUEST trustee boards.

The programme of investor relations includes presentations in London of the full year and interim results and meetings with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are being effectively communicated and shareholder objectives are known. During the year written responses are given to letters or e-mail received from shareholders and all shareholders receive interim and annual reports or the summary annual report. Each shareholder is given the opportunity to elect which document they require and this allows our reporting to be more focused towards the needs of individual shareholders. Information is also available on the company website (www.stagecoachgroup.com). Private and institutional shareholders are welcome to attend and participate at the AGM and any EGMs. The Group aims to ensure that the chairmen of the Audit, Remuneration, Nominations and Health, Safety and Environmental Committees are available at the AGM to answer questions. The AGM provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the AGM on all the Group's principal business activities. At each AGM, the Chairman reports details of all proxy votes lodged for each resolution after each show of hands.

Accountability and audit

The Board endeavours, in all its communications with shareholders, to present a balanced and understandable assessment of the Company's position and prospects.

The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or reduced and, in some cases, transferred to third parties. Internal controls are used to identify and manage acceptable levels of risk. The directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group's system is designed to provide the directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

Certain of the Group's businesses are subject to significant risk. Each identified business risk is assessed for its probability of occurrence and its severity of occurrence. Where necessary, the

Board considers whether it is appropriate to accept certain risks that cannot be fully controlled or mitigated by the Group.

The Group's risk management process was embedded throughout the businesses during the year ended 30 April 2003. The Board has carried out a review of the effectiveness of the Group's internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that the processes are in place to ensure that risks are mitigated to an acceptable level.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit. The Audit Committee meets with representatives of operating units because this is one way for an independent appraisal of risk management to be obtained.

Self assessment of risk conducted by the directors and senior management is ongoing and has been considered at several levels with each division maintaining a separate risk profile. Risks are evaluated within broad categories: external, reputation, strategic and competitive, legal and regulatory, business change, people, financial performance and operational performance.

The Group Risk Assurance function is utilised in monitoring risk management processes to determine whether internal controls (operational, compliance and financial) are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for continually improving the risk management process in the context of the Group's overall goals.

Group Risk Assurance plans and reports are reviewed by the Audit Committee together with external audit plans and any business improvement opportunities that are recommended by the external auditors.

Virgin Rail Group has its own audit committee and internal audit function. The Group's risk management process does not specifically cover Virgin Rail Group at present, but the Group maintains an overview of the business' risk management through representation on the Board and audit committee. Stagecoach management representatives meet with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures.

Road King Infrastructure has its own audit committee and internal audit function.

The Group's Audit Committee review the financial statements of Virgin Rail Group and Road King Infrastructure together with the minutes, external audit presentations, management presentations and internal audit presentations from the respective audit committee meetings of these companies.

Internal control

The wider process described above, together with the key procedures noted below, enables the directors and senior group

managers to confirm that they have reviewed the effectiveness of the system of internal control of the Group during the year. The key procedures, which the directors have established, are as follows:

- an annual budgeting process with regular re-forecasting of out-turn, identifying key risks and opportunities. All budgets are presented to a panel of the executive directors and senior group managers by each business unit's management team, before being approved by the Board prior to the commencement of the financial year.
- reporting of financial information to the Board encompassing profit and loss, cash flow, balance sheet and key performance indicators and operating ratios. All results are monitored throughout the year by the Group executives.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned by the Group of areas where significant inherent risks have been identified, such as treasury management, insurance provisioning, pensions strategy and competition policy.
- a decentralised organisation structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- control over the activities of joint ventures and associated undertakings through Stagecoach representation on the boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system is in place which covers over 100 of the Group's senior management and is based on agreed financial and other performance objectives, many of which incorporate identifying and managing risk.
- significant emphasis is placed on cash flow management. Bank balances are reviewed on a daily basis, cash flows are compared to budget on a four-weekly basis and any material variances between earnings and expected cash flows are investigated.
- regular Board reporting on specific matters including pensions, insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.
- each operating unit maintains controls and procedures appropriate to the business. It is a key requirement of the procedures that a written certificate is provided annually by the managing director and financial manager of each business confirming that they have reviewed the effectiveness of the system of internal control during the year. As might be expected, a number of minor internal control weaknesses were identified by this procedure, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the continuous improvement of our risk management procedures.

- a commitment to best practice in external reporting.
- a competition compliance programme which has been approved by the Board and which is subject to regular monitoring.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned as auditors and the directors appointed its successor, PricewaterhouseCoopers LLP. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, at remuneration to be fixed by the directors, will be proposed at this year's Annual General Meeting.

The Audit Committee, having considered the external auditors' performance during their period in office, recommend re-appointment. The audit fees of £0.7 million for PricewaterhouseCoopers LLP and non-audit related fees of £0.2m were discussed by the Audit Committee and considered appropriate given the current size of the Group and the level of corporate activity undertaken during the year. The Committee believes the level of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a good understanding of the Group's operations. Other accounting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified.

Compliance with the Combined Code

The Group has complied with the provisions of the Code throughout the financial year except that one director who was not independent of management was a member of the Remuneration Committee during the year. The Remuneration Committee now comprises four independent non-executive directors and the director who was not independent is no longer a member.

Pension schemes

The assets of the Group's pension schemes are totally separate from the assets of the Group and are invested with independent fund managers. There are ten trustees for the principal UK scheme of whom five are employee representatives nominated by the members on a regional basis. The other trustees include executive directors and senior Group and UK Bus executives. The Company Secretary, who is an elected member of the NAPF's Investment Council, and who in 1998 was also re-elected for a six year term to the 16-member board of the industry-wide Railways Pension Scheme, acts as chairman of the trustees of the principal UK scheme. The auditors and actuaries of the principal UK pension schemes are both independent of the Group. Similar arrangements are in place for the South West Trains, Island Line, Sheffield Supertram and two Virgin Rail Group sections of the Railways Pension Scheme. PricewaterhouseCoopers LLP does not conduct the external audit of any significant pension schemes in which the Group participates.

PricewaterhouseCoopers LLP provided internal audit services to the Railways Pension Scheme until 2002 when an in-house internal audit function was fully established instead.

Remuneration report 2003

The Board supports the principles of good corporate governance relating to directors' remuneration and has applied them as described below.

In accordance with Schedule 7A 'Directors' Remuneration Report' of the Companies Act 1985, those paragraphs that have been audited have been highlighted as such.

Composition

During the year ended 30 April 2003, the Remuneration Committee was chaired by Robert Speirs and the other members were Russell Walls, Iain Duffin, Janet Morgan and Ann Gloag, all non-executive directors, a majority of whom are independent. Iain Duffin was appointed as the new Chairman of the Remuneration Committee on 1 May 2003. Ann Gloag is no longer a member of the Committee. The Committee, which was established in December 1992, is responsible for considering the remuneration and terms and conditions of employment of the executive directors, including the Chief Executive, on behalf of the Board and shareholders.

The non-executives' own fees and expenses are set by the Board of directors as a whole. Non-executive directors do not hold any share options, nor do they participate in any incentive plans or pension schemes with the exception of Ann Gloag who receives a pension accrued when she was an executive director. The members of the Remuneration Committee have no personal interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Stagecoach Group. In agreeing increases in non-executive director fees payable from 1 May 2003, the Board approved the principle of encouraging non-executive directors to take up to 10% of their annual fees in shares.

Both the constitution and operation of the Remuneration Committee comply with the principles incorporated in Schedule A of the Combined Code, with the prior consent of shareholders

where necessary. In preparing this Remuneration Report, the Board has followed the provisions in Schedule B of the Combined Code.

Performance graph

The graph below charts the performance of the Stagecoach Group Total Shareholder Return (TSR) (share value movement plus reinvested dividends) over the past 5 years compared with that of the FTSE Transport All-Share Index, the FTSE Mid 250 Index and the FTSE All-Share Index. We have included a further graph on page 31 to highlight the Company's more recent performance, charting TSR for the 6 months up to 30 April 2003.

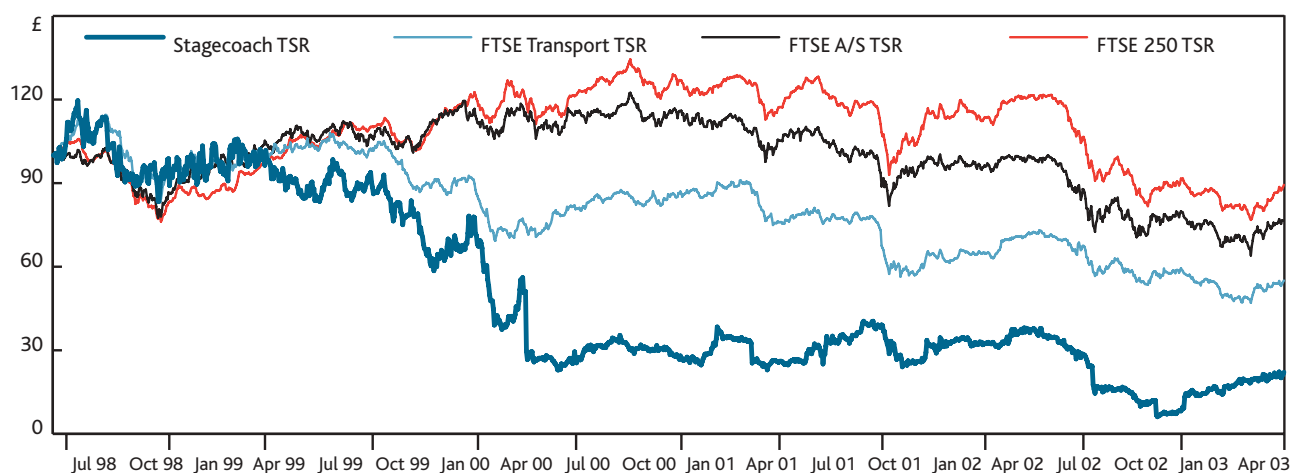
In assessing the performance of the Company's TSR the Board believes the comparator groups it has chosen represent a fair benchmark both in terms of the nature of the business activity and size of company.

Remuneration policy

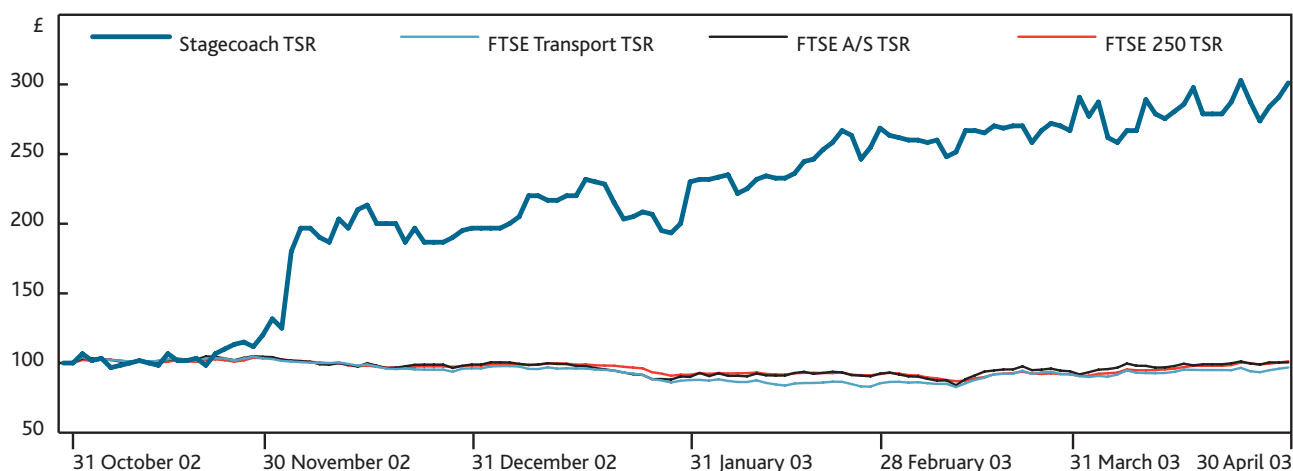
Our remuneration policy is consistent with our prior year policy, which was approved by the shareholders at the 2002 AGM.

In determining appropriate levels of remuneration for the executive directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving the Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance related elements. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short- and long-term targets. Performance targets include not only traditional financial indicators but also personal targets, successful investment, innovation, staff development, customer satisfaction and achievement of regulatory requirements, including health and safety and environmental targets.

Stagecoach TSR Comparative Performance since 1 May 1998



Stagecoach TSR Comparative Performance since 31 October 2002



To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Chief Executive making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the growth prospects for the Stagecoach Group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach Group and of average earnings for all employees. With regard to pensions, the Remuneration Committee receives reports from the trustees and scheme actuaries regarding the cost of pension obligations on a regular basis.

The Remuneration Committee believes that remuneration packages should reward the efforts of all staff since a motivated workforce is a key element of Group performance. The Committee recognises that executive directors bear greatest responsibility for delivering corporate strategy which underpins long-term sustainable performance. While the Remuneration Committee's report focuses on incentive schemes for senior executives, there are also a number of performance-related bonus schemes within group companies, in addition to the UK-only SAYE schemes.

Directors' remuneration (audited)

Directors' remuneration is shown in Table 1 (amounts in £000):

Table 1	Salary/fees		Performance related bonus		Benefits in kind		Compensation for loss of office		Non-pensionable allowances†		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Executive directors												
Brian Souter	460	447	322	Nil	18	18	Nil	Nil	n/a	n/a	800	465
Keith Cochrane*	81	338	Nil	85	8	18	543	Nil	108	81	740	522
Brian Cox*	37	206	Nil	16	4	13	Nil	Nil	n/a	n/a	41	235
Graham Eccles	190	175	114	25	13	14	Nil	Nil	26	16	343	230
Frank Gallagher*	Nil	93	Nil	Nil	Nil	Nil	Nil	Nil	n/a	n/a	Nil	93
Martin Griffiths	180	150	108	25	20	19	Nil	Nil	23	11	331	205
Non-executive directors												
Ewan Brown	27	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	27	25
Ann Gloag	27	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	27	25
Barry Sealey*	Nil	14	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	Nil	14
Robert Speirs	72	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	72	25
Russell Walls	27	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	27	25
Janet Morgan	27	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	27	25
Iain Duffin	27	16	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	27	16
Total	1,155	1,564	544	151	63	82	543	Nil	157	108	2,462	1,905

*Resigned or retired prior to 30 April 2003.

†Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits.

Remuneration report 2003

Directors' remuneration (audited) (continued)

Directors' pension benefits were as follows (amounts in £000):

	Additional accrued benefits earned in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less directors' contributions
	Excluding inflation	Including inflation	2003	2002	2003	2002	2003	2002	
Executive directors									
Brian Souter	51	60	209	192	348	305	138	147	116
Keith Cochrane*	63	63	84	68	252	205	111	54	105
Brian Cox*	4	4	108	107	143	140	18	123	17
Graham Eccles	11	11	7	4	20	12	26	22	25
Frank Gallagher*	Nil	Nil	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Martin Griffiths	9	10	19	16	58	50	9	6	8

*Resigned or retired prior to 30 April 2003

In addition to their remuneration detailed in Table 1, Graham Eccles and Martin Griffiths each received 257 free shares during the year ended 30 April 2003 under the Stagecoach Profit Sharing Scheme.

Keith Cochrane, Graham Eccles, Martin Griffiths and Frank Gallagher were not members of the Group pension schemes before the introduction of the pensionable salary cap in June 1989. In respect of Keith Cochrane, pension arrangements were established through FURBS, based upon the independent advice of actuaries, to provide final salary benefits commensurate with market practice for equivalent executive positions. These arrangements were put into place in April 1997. In respect of Graham Eccles and Martin Griffiths, they are each paid a non-pensionable allowance which is equivalent to the cost of a money purchase contribution of 20% of their salary in excess of the pensionable salary cap.

During the year ended 30 April 2002, the remaining proceeds of a small self-administered money purchase scheme (SSAS) established for Brian Souter and Ann Gloag in 1992 were transferred into the Stagecoach Group Pension Scheme to secure additional final salary type benefits equivalent in actuarial value to the proceeds transferred. The additional benefits are reflected in the disclosure of Brian Souter's accrued benefits above. In Ann Gloag's case, her share of the SSAS assets was used to secure additional money purchase benefits equivalent in actuarial value to the proceeds transferred towards providing her total pension of £90,000 per annum referred to below. Employer contributions to the SSAS ceased in 2000 for Ann Gloag and in 2001 for Brian Souter.

Prior to his resignation, on 21 July 2002, Keith Cochrane participated in The Stagecoach Executive Directors' Long Term Bonus Scheme. An additional annual bonus of £75,000 per financial year, for each of the five years commencing 1 May 1998, was payable subject to growth in earnings per share in each financial year outperforming inflation by at least 5%. A bonus was only payable under this scheme for the year ended 30 April 1999 and no amount was payable in subsequent years as the performance criteria were not met.

Keith Cochrane was paid £543,000 by the company as contractual compensation for loss of office and other benefits, as disclosed on page 31, following his resignation from the Board on 21 July 2002. He is also entitled to an annual pension of £84,150 from the age of 64 and a lump sum on retirement of £252,450.

Ann Gloag retired as an executive director on 30 April 2000 and, in addition to her fees as a non-executive director, receives an annual pension of £90,000 from 1 May 2000.

Directors who are members of the Stagecoach Group Pension Scheme have the option to pay additional voluntary contributions ("AVCs"). Neither the contributions nor the resulting benefits of any AVCs are included in the table above.

Basic salary

The salary of individual executive directors is reviewed at 1 May each year. Account is taken of individual achievements, together with any changes in responsibilities that may have occurred and, as stated above, the salaries for similar roles in comparable companies.

Performance related bonuses

An annual discretionary bonus scheme for the executive directors was first introduced in 1993; payments take account of the achievement of operating profits and after-tax results, specific individual performance and additional responsibilities. Bonuses are non-pensionable.

In making its judgement of performance for the last financial year the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, and relative total return to shareholders over the year, as well as other strategic developments and operating improvements. The maximum potential bonus for executive directors in 2002/2003 ranged from 60% to 75% of basic salary. Actual bonuses awarded ranged from 60% to 70%.

Benefits in kind

Certain executive directors receive car, fuel, telephone and healthcare taxable benefits. The value of such benefits is included within the directors' remuneration table on page 31 of this report.

Pensions

Under the terms of their service agreements, executive directors are entitled to become members of one of the Stagecoach Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension schemes. The Stagecoach Group pension schemes are designed to provide a pension for executives of up to two-thirds of final pensionable salary completed up to normal retirement age, subject to Inland Revenue limits.

Martin Griffiths and Graham Eccles are subject to the earnings cap so the Company makes a cash contribution to them for the part of their salary which exceeds the cap. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided under the Group pension scheme.

Share option schemes and long term incentive schemes (audited)

The interests of directors who have options to subscribe for ordinary shares of the company, together with movements

during the year, are shown in Table 3. As permitted, certain share option awards have been aggregated in Table 3 to avoid an excessively lengthy report. For each director, "in the money" and "out of the money" share options are shown separately. All of the share options were granted for nil consideration. The mid-market price of the underlying shares at 30 April 2003 was £0.44 per share. The Company's shares traded in the range £0.125 to £0.805 during the year to that date.

Share options are subject to certain performance criteria as discussed on page 34.

No director realised gains during the year by exercising options.

In addition to the share options shown in Table 3, on 1 April 1998 and 1 April 2002, the directors detailed in Table 4 were granted options under the Group's Save As You Earn scheme following an invitation to all eligible UK employees:

Further information on these options is detailed in note 23a to the accounts on page 66.

Table 3	At 1 May 2002 number	Granted number	At 30 April 2003 number	Average exercise price £	Date from which exercisable	Expiry date
Keith Cochrane	3,182,818	Nil	3,182,818	0.9823	October 1998	July 2003*
	Nil	960,000	960,000	0.3750†	July 2002	July 2003*
Brian Cox	1,282,074	Nil	1,282,074	1.4316	October 1999	July 2003*
Graham Eccles	633,120	Nil	633,120	0.9050	October 2001	June 2008
	Nil	1,183,704	1,183,704	0.3126†	July 2005	December 2009
Martin Griffiths	761,339	Nil	761,339	0.7875	October 2001	June 2008
	Nil	1,146,667	1,146,667	0.3140†	July 2005	December 2009
Brian Souter	Nil	2,930,371	2,930,371	0.3140†	July 2005	December 2009

*Upon leaving the Company, both Keith Cochrane and Brian Cox had 12 months from that date to exercise any options previously granted to them.

†Market price exceeds exercise price as at 30 April 2003.

Table 4	At 1 May 2002 no. of ordinary shares	Lapsed no. of ordinary shares	At 30 April 2003 no. of ordinary shares
Keith Cochrane	13,605	13,605	Nil
Martin Griffiths	14,843	Nil	14,843
Ann Gloag	12,022	12,022	Nil
Graham Eccles	15,833	Nil	15,833

Remuneration report 2003

In addition to their individual interests in shares the executive directors were, for Companies Act purposes, regarded as interested in 4,901,652 shares held at 30 April 2003 by the Stagecoach Group QUEST.

The Remuneration Committee has made awards to executive directors under three schemes:

- (i) The Stagecoach Profit Sharing Scheme – established in September 1991, this scheme was used to reward UK employees in the Group with free shares based on up to 3% per annum of profits before taxation of the relevant parts of the Group. Two of the directors were awarded shares under this scheme in 2002/2003.

Rewards were based on divisional profits and a minimum service period of 12 months was required for an award to be made. This Scheme was closed on the 31 December 2002.
- (ii) The Stagecoach Executive Share Option Scheme – established in March 1992 when it was formally approved by the Inland Revenue. This scheme was also used to reward senior executives throughout the Group. Awards have in the past been made to certain executive directors as a proportion of annual salary.

Awards are made at the Board's discretion.
- (iii) The Stagecoach Unapproved Executive Share Option Scheme – established in September 1997, when it was approved by shareholders at the AGM, to take account of the changed tax treatment announced in 1995 and confirmed in the Finance Act 1996. The scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. This scheme is also used to reward senior executives throughout the Group, at the Board's discretion. Normal options awarded under the scheme are exercisable between three and seven years, but the scheme also permits "super options" exercisable between five and seven years. Exercise of normal options is subject to earnings per share outperforming inflation over three consecutive financial years by 2% per annum cumulatively (for options awarded up until June 2001) and by 3% to 5% per annum cumulatively for more recent options. Exercise of super options is subject to achievement of top quartile total shareholders' return compared to other Transport Sector shares in the UK (excluding FTSE 100). Awards were made to four directors under this scheme in 2002/2003.

Transactions in which directors have had a material interest (audited)

Ewan Brown (a non-executive director) is an executive director of Noble Grossart Limited which provided advisory services to the Group during the year. Total fees paid to Noble Grossart Limited during the year, amounted to £20,000 (2002 – £15,000). Noble Grossart Investments Limited, a subsidiary of Noble

Grossart Limited, held at 30 April 2003 8,026,665 (2002 – 8,026,665) ordinary shares in the Company.

Directors' service agreements

The details of the executive directors' service contracts are summarised in the table below:

Name of director	Date of contract	Notice period
Brian Souter	2 April 1993 (amended 26 January 1996)	12 months
Graham Eccles	27 October 2000	12 months
Martin Griffiths	8 August 2000	12 months
Keith Cochrane	31 March 2000	contract ended
Brian Cox	2 April 1993	contract ended

It is the company's policy that executive directors should have 12 month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants that will be rigorously applied.

If an executive director's contract is terminated by the company, the costs for which the Company is liable will vary depending on length of service and are subject to mitigation. The costs will include a termination payment of up to one times salary only and certain benefits and retirement benefits funded under the Company's pension schemes.

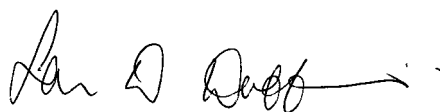
Outside appointments

Under the terms of their service agreements, executive directors require Board approval before accepting any external appointment. Details of remuneration earned where an executive director serves as a non-executive director elsewhere are disclosed in note 27 to the accounts on page 74. Such earnings are paid to the Group and not to individual directors.

Remuneration policy approval

An ordinary resolution to receive this Remuneration Report and to consider and, if thought fit, approve the Board's remuneration policy will be proposed at the 2003 Annual General Meeting.

On behalf of the Board



IAIN DUFFIN

Chairman of the Remuneration Committee
25 June 2003

Independent Auditors' Report to the Members of Stagecoach Group plc 2003

Independent auditors' report to the members of Stagecoach Group plc

We have audited the accounts which comprise the consolidated profit and loss account, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement, the reconciliation of movements in consolidated shareholders' funds, the consolidated statement of total recognised gains and losses, and the related notes to the accounts. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the Remuneration report.

Our responsibility is to audit the accounts and the auditable part of the Remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the auditable part of the Remuneration report have been properly prepared in accordance with the Companies Act 1985. 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 information specified by law regarding Remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Chairman's Statement, the Chief Executive's review, the Operating review, the Finance Director's review, the Corporate governance statement, the Directors' report and the unaudited part of the Remuneration report.

We review whether the Corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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 and the auditable part of the Remuneration report. 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the auditable part of the Remuneration report 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 the Group at 30 April 2003 and of the loss and cash flows of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors

Glasgow

25 June 2003

Consolidated profit and loss account

Year ended 30 April 2003

	Notes	Performance pre goodwill and exceptionals £m	2003 Goodwill and exceptional items £m	Results for the year £m	Performance pre goodwill and exceptionals £m	2002 Goodwill and exceptional items £m	Results for the year £m
Turnover: Group and share of joint ventures	2	2,076.6	Nil	2,076.6	2,111.4	Nil	2,111.4
Less: Share of joint ventures' turnover		(277.9)	Nil	(277.9)	(263.7)	Nil	(263.7)
Group turnover		1,798.7	Nil	1,798.7	1,847.7	Nil	1,847.7
Operating costs (including asset impairment)	2	(1,752.6)	(603.6)	(2,356.2)	(1,753.8)	(61.3)	(1,815.1)
Other operating income	3	87.7	Nil	87.7	54.2	Nil	54.2
Operating (loss)/profit of Group companies	2	133.8	(603.6)	(469.8)	148.1	(61.3)	86.8
Share of operating loss of joint ventures		2.6	(8.7)	(6.1)	6.1	(8.4)	(2.3)
Share of operating profit from interest in associates		10.0	(0.3)	9.7	12.4	(0.4)	12.0
Total operating (loss)/profit: Group and share of joint ventures and associates	2	146.4	(612.6)	(466.2)	166.6	(70.1)	96.5
(Loss)/profit on sale of properties		Nil	(0.5)	(0.5)	Nil	0.5	0.5
Profit on disposal of overseas operations		Nil	Nil	Nil	Nil	4.8	4.8
(Loss)/profit on ordinary activities before interest and taxation		146.4	(613.1)	(466.7)	166.6	(64.8)	101.8
Finance charges (net)	4	(33.5)	Nil	(33.5)	(59.8)	Nil	(59.8)
(Loss)/profit on ordinary activities before taxation	5	112.9	(613.1)	(500.2)	106.8	(64.8)	42.0
Taxation on (loss)/profit on ordinary activities	7	(28.8)	3.8	(25.0)	(24.2)	9.2	(15.0)
(Loss)/profit on ordinary activities after taxation		84.1	(609.3)	(525.2)	82.6	(55.6)	27.0
Dividends	8	(34.3)	Nil	(34.3)	(34.1)	Nil	(34.1)
Retained loss for the year		49.8	(609.3)	(559.5)	48.5	(55.6)	(7.1)
(Loss)/earnings per share – Adjusted/Basic	9	6.4p		(40.0)p	6.3p		2.1p
– Diluted	9	6.4p		(40.0)p	6.3p		2.1p

A statement of movements on the profit and loss account reserve is given in note 10.

All operations in the years ended 30 April 2003 and 30 April 2002 are classed as continuing.

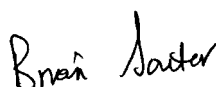
The accompanying notes form an integral part of this consolidated profit and loss account.

Consolidated balance sheet

As at 30 April 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets	11	206.9	665.4
Tangible assets	12	851.6	1,108.9
Investments	13		
– Investment in joint ventures			
Goodwill		72.7	81.4
Share of gross assets		167.5	136.7
Share of gross liabilities		(122.0)	(97.4)
Shareholder loan notes		10.4	10.0
	13	128.6	130.7
– Investment in associates	13	70.0	72.8
– Other investments	13	2.7	3.2
		1,259.8	1,981.0
Current assets			
Stocks	15	38.1	50.9
Debtors and prepaid charges – due within one year	16	192.3	228.5
– due after more than one year	16	59.9	54.2
Cash at bank and in hand		164.7	150.0
		455.0	483.6
Creditors: Amounts falling due within one year	17	(504.2)	(524.0)
Net current liabilities		(49.2)	(40.4)
Total assets less current liabilities		1,210.6	1,940.6
Creditors: Amounts falling due after more than one year	17	(640.7)	(808.1)
Provisions for liabilities and charges			
– Joint ventures – thetrainline.com	21		
Share of gross assets		5.3	5.1
Share of gross liabilities		(27.9)	(21.8)
– Other provisions	21	(230.2)	(206.7)
Net assets	2	317.1	909.1
Capital and reserves			
Equity share capital	22	6.6	6.6
Share premium account	24	386.1	384.4
Profit and loss account	24	(77.3)	514.8
ESOP distribution reserve	24	Nil	1.6
Capital redemption reserve	24	1.7	1.7
Shareholders' funds – Equity		317.1	909.1

Signed on behalf of the Board on 25 June 2003



BRIAN SOUTER
Chief Executive



MARTIN A GRIFFITHS
Finance Director

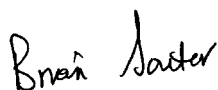
The accompanying notes form an integral part of this consolidated balance sheet.

Company balance sheet

As at 30 April 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Tangible assets	12	7.8	8.5
Investments	13	643.2	373.9
		651.0	382.4
Current assets			
Debtors and prepaid charges – due within one year	16	21.5	22.3
– due after more than one year	16	551.8	1,656.9
Cash at bank and in hand		5.2	Nil
		578.5	1,679.2
Creditors: Amounts falling due within one year	17	(210.6)	(177.2)
Net current assets		367.9	1,502.0
Total assets less current liabilities		1,018.9	1,884.4
Creditors: Amounts falling due after more than one year	17	(563.4)	(812.0)
Provisions for liabilities and charges	21	(3.6)	(8.0)
Net assets		451.9	1,064.4
Capital and reserves			
Equity share capital	22	6.6	6.6
Share premium account	24	386.1	384.4
Profit and loss account	24	57.5	670.1
ESOP distribution reserve	24	Nil	1.6
Capital redemption reserve	24	1.7	1.7
Shareholders' funds – Equity		451.9	1,064.4

Signed on behalf of the Board on 25 June 2003



BRIAN SOUTER
Chief Executive



MARTIN A GRIFFITHS
Finance Director

The accompanying notes form an integral part of this balance sheet.

Consolidated cash flow statement

Year ended 30 April 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	25	272.2	256.9
Dividends from joint ventures and associates		5.3	5.0
Returns on investments and servicing of finance			
Interest paid		(52.6)	(61.7)
Interest element of hire purchase and lease finance		(4.7)	(7.6)
Interest received		5.4	8.4
Net cash outflow from returns on investments and servicing of finance		(51.9)	(60.9)
Taxation		(7.8)	(16.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(52.9)	(82.4)
Sale of tangible fixed assets		20.1	5.4
Net cash outflow from capital expenditure and financial investment		(32.8)	(77.0)
Acquisitions and disposals			
Acquisition of subsidiaries	25	(10.1)	(25.2)
Net cash acquired with subsidiaries		Nil	0.3
Purchase of goodwill		(0.8)	(0.1)
Purchase of investments in joint ventures and associates		(0.9)	(1.5)
Purchase of other investments		Nil	(0.3)
Cash of disposed subsidiaries	13	Nil	(0.8)
Disposal of subsidiaries and other businesses	13	7.0	16.1
Disposal of other investments		Nil	2.0
Net cash outflow from acquisitions and disposals		(4.8)	(9.5)
Equity dividends paid		(27.6)	(49.8)
Net cash inflow before financing		152.6	48.0
Financing			
Sale of tokens		12.9	14.8
Redemption of tokens		(10.8)	(13.4)
Issue of share capital for cash		Nil	1.3
(Increase)/decrease in collateral balances		(32.1)	38.2
Decrease in borrowings		(90.9)	(12.2)
Repayments of hire purchase and lease finance		(44.4)	(48.2)
Net cash outflow from financing		(165.3)	(19.5)
(Decrease)/increase in cash during the year	25	(12.7)	28.5
Free cash flow		217.8	184.3
Free cash flow per share		16.6p	14.1p

Free cash flow comprises net cash inflow from operating activities, dividends from joint ventures and associates, net cash outflow from returns on investments and servicing of finance, and taxation.

The accompanying notes form an integral part of this consolidated cash flow statement.

Consolidated statement of total recognised gains and losses

Year ended 30 April 2003

	2003 £m	2002 £m
(Loss)/profit for the financial year	(525.2)	27.0
Translation differences on foreign currency net investments	(26.6)	(5.5)
UK tax effect of translation differences on foreign currency net investments	(6.4)	(4.8)
Share of other recognised gains and losses of associates	(0.1)	(0.2)
Total recognised gains and losses relating to the year	(558.3)	16.5

There are no recognised gains and losses of joint ventures other than the Group's share of their profits or losses for each financial year.

Reconciliation of movements in consolidated shareholders' funds

Year ended 30 April 2003

	2003 £m	2002 £m
(Loss)/profit for the financial year	(525.2)	27.0
Dividends	(34.3)	(34.1)
	(559.5)	(7.1)
Goodwill sold, previously written off to reserves	0.5	3.7
Other recognised gains and losses relating to the year		
– translation differences on foreign currency net investments	(26.6)	(5.5)
– UK tax effect of translation differences on foreign currency net investments	(6.4)	(4.8)
– share of other recognised gains and losses of associates	(0.1)	(0.2)
Share capital issued less costs	1.7	2.9
ESOP distribution reserve decrease	(1.6)	(0.2)
Net reduction in shareholders' funds	(592.0)	(11.2)
Opening shareholders' funds	909.1	920.3
Closing shareholders' funds	317.1	909.1

The accompanying notes form an integral part of these statements.

Note 1 Statement of accounting policies

A summary of the principal accounting policies is set out below. All principal accounting policies have been applied consistently throughout the year and the preceding year.

(a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

(b) Presentation of profit and loss account

Where applicable, profit and loss account information has been presented in a columnar format, which separately highlights goodwill amortisation and exceptional items. This is intended to enable the users of the accounts to determine more readily the impact of goodwill and exceptional items on the results of the Group.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company, its subsidiary undertakings, joint ventures and associates made up to 30 April in each year except as noted below:

Associates – The Group's share of the profit of Road King Infrastructure Limited is based on the results of that company for the year to 31 December. The Group's share of the profit/loss of other associates is based on the results for the period covered by the Group's financial year.

The consolidated profit and loss account includes the results of businesses purchased from the effective date of acquisition and excludes the results of discontinued operations and businesses sold from the effective date of disposal. No profit and loss account is presented for the parent company, Stagecoach Group plc, as permitted by Section 230 of the Companies Act 1985.

(d) Intangible assets

In accordance with FRS 10 "Goodwill and Intangible Assets", goodwill arising on acquisitions after 30 April 1998 is recorded as an asset on the balance sheet at cost less amortisation. Each acquisition is reviewed and where the goodwill has a finite economic life, goodwill is amortised over that life. In estimating the useful economic life of goodwill, account has been taken of the nature of the business acquired, stability of the industry sector, extent of barriers to entry and expected future impact of competition. The useful life of goodwill arising on the acquisitions made is estimated by the directors to be between 5 and 20 years. Provision is made for any impairment, with impairment reviews being undertaken in accordance with FRS 11, "Impairment of fixed assets and goodwill". Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to reserves in accordance with the accounting standard then in force.

As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On the disposal of a subsidiary undertaking, goodwill previously written off directly to reserves in respect of such an undertaking is transferred to the profit and loss account and constitutes part of the gain or loss to the Group arising on disposal.

Fair value accounting adjustments have been made to take account of the revaluation of certain fixed assets on an existing use basis, discounting of long term liabilities (but not deferred tax provisions) and other changes in accounting policies required to comply with Group policies. Fair value adjustments based on provisional estimates are amended in the following year's accounts where necessary, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post-acquisition.

Notes to the accounts 2003

Note 1 Statement of accounting policies (continued)

(e) Tangible fixed assets

Tangible fixed assets are shown at their original historic cost or fair value on acquisition net of depreciation and any provision for impairment as set out in note 12.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over their estimated useful lives, as follows:

Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	Over period of lease
Public service vehicles ("PSVs") and transportation equipment	7 to 16 years, depending on type
IT and other equipment, furniture and fittings	5 to 10 years
Motor cars and other vehicles	3 to 5 years

Heritable and freehold land is not depreciated.

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of net realisable value or value in use.

(f) Pre-contract costs

In accordance with UITF Abstract 34, "Pre-contract costs", the costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that a contract will be awarded in which case they are recognised as an asset and are charged to the profit and loss account over the life of the franchise.

(g) Investments

Fixed asset investments are shown at cost less provision for impairment. In the Company's accounts investments in subsidiary undertakings are stated at cost, less provision for impairment.

(h) Associates and Joint Ventures

In the Group accounts the investments in associates are accounted for using the equity method and investments in joint ventures are accounted for using the gross equity method. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profits less losses, while the Group's share of associates' and joint ventures' net assets is shown in the consolidated balance sheet. Where the Group has an interest in a joint venture's net liabilities, the Group's share of net liabilities is classified within provisions for liabilities and charges. Goodwill arising on the acquisition is accounted for in accordance with the policy set out above. Any unamortised goodwill is included in the carrying value of the Group's investments.

(i) Stocks

Stocks of parts and consumables are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items.

Taxicabs which are held for sale or lease to independent contractors are included within stocks.

(j) Hire purchase and lease obligations

Assets acquired under hire purchase and finance leases are recorded in the balance sheet as assets at the equivalent of the purchase price and as obligations to pay hire purchase capital instalments or future lease rentals. Obligations arising from hire purchase contracts and finance leases represent the total of the capital payments outstanding at the date of the balance sheet. Future finance charges are not included. Future finance charges are calculated in relation to the reducing balance of capital outstanding throughout the contract and charged to the profit and loss account on the same basis.

Assets capitalised under lease finance and other similar contracts are depreciated over the shorter of the lease terms and their useful economic lives.

Assets capitalised under hire purchase contracts are depreciated over their useful economic lives.

Rentals under operating leases are charged on a straight-line basis over the lease term.

The principal restriction on property held under finance or hire purchase agreements is a restriction on the right to dispose of the property during the period of the agreement.

Note 1 Statement of accounting policies (continued)**(k) Taxation**

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

In accordance with FRS 19, "Deferred Taxation", full provision is made for deferred tax on a non-discounted basis in respect of all timing differences except those arising from the revaluation of fixed assets where there is no binding sale agreement and undistributed profits of overseas subsidiaries and associates.

Deferred tax is calculated at rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent they are more likely than not to be recovered.

(l) Turnover

Turnover represents gross revenue earned from public transport services and operating lease rentals receivable, and excludes future payments received on account. Amounts receivable for tendered services and concessionary fare schemes are included as part of turnover. Where appropriate, amounts are shown net of rebates and VAT. Revenues incidental to the Group's principal activity (including advertising income and maintenance income) are reported as miscellaneous revenue.

Bus and rail revenue is recognised at the time of travel. Bus revenue from local authority and similar contracts is recognised on a straight-line basis over the period of the contract.

Income from advertising and other activities is recognised as the income is earned.

Compensation receivable by UK Rail companies in respect of service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the expected period of disruption and is shown as other operating income.

(m) Tokens

Tokens issued by National Transport Tokens Limited, a subsidiary of the Group, are credited to a token redemption provision. Redemptions are offset against this and associated handling commission paid to third parties is included in operating costs. Funds from the sale of tokens required for token redemption are included as a financing activity in the consolidated cash flow statement.

The estimation of the balance sheet provision for token redemption is based on the value of tokens issued by the Group but not yet redeemed at the balance sheet date. Allowance is made for the estimated proportion of tokens in issue that will never be redeemed. This allowance is estimated with reference to historic redemption rates. At 30 April 2003, it has been estimated that 97% (2002 – 97%) of tokens in issue will be redeemed.

(n) Pension costs

The Group provides for and funds pension liabilities on the advice of external actuaries and makes payments to segregated funds managed by specialist financial institutions.

Independent actuarial valuations on a going concern basis are carried out at least every three years. The employer costs of providing retirement benefits to employees are charged to the profit and loss account on a systematic basis so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from regular cost arising from any excess or deficiency of the actuarial value of the pension funds' assets over the actuarial valuation of the pension funds' liabilities are allocated to the profit and loss account over the employees' average remaining service lives. Any timing difference between amounts charged in the profit and loss account and paid to the pension funds is shown in the balance sheet as an asset or a liability.

Details of the principal Group pension schemes are given in note 26d.

The transitional disclosures required under FRS 17, "Retirement Benefits", are also included in note 26d.

Notes to the accounts 2003

Note 1 Statement of accounting policies (continued)

(o) Foreign currencies

The accounts of overseas subsidiaries and associate undertakings are maintained in the local currencies in which the subsidiaries transact business. The trading results of overseas subsidiary and associate undertakings are translated into sterling using average rates of exchange. Exchange differences arising on the translation of the opening net assets and results of overseas operations, together with exchange differences arising on foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in overseas operations, are dealt with in the statement of total recognised gains and losses.

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end except in those instances where forward contracts are in place, in which case the contract rate is used. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Principal rates of exchange	2003	2002
New Zealand Dollar		
Year end rate	2.86	3.40
Average rate	3.10	3.26
Hong Kong Dollar		
Year end rate	12.46	11.37
Average rate	12.15	11.17
US Dollar		
Year end rate	1.60	1.46
Average rate	1.56	1.43

(p) Accounting for finance costs and debt

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance costs that are recognised in the profit and loss account in respect of each accounting period. The carrying amount is reduced by amounts paid in respect of finance costs and/or repayments of principal.

(q) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is expensed.

Revenue grants receivable in respect of the operation of rail franchises in the UK are charged or credited to the profit and loss account in the year in which the related expenditure is recognised in the profit and loss account or where they do not relate to any specific expenditure, in the year in which the grant is receivable. These rail franchise grants are classified within Other Operating Income.

Note 1 Statement of accounting policies (continued)**(r) Derivatives and financial investments**

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value.

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Forward foreign exchange contracts are used to manage exposure to fluctuations in currency rates and to hedge overseas net investments.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are either held off balance sheet or deferred on balance sheet and recognised either in the profit and loss account or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's financial statements. Gains and losses arising on derivatives hedging overseas net investments are recognised in the Statement of Total Recognised Gains and Losses.

For interest rate and commodity swaps to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate or fuel cost by converting a fixed rate to a variable rate or vice versa.

Cash flows under these swaps are recognised by adjusting net interest payable and fuel costs over the periods of the contracts. Gains and losses arising from the termination of these contracts are deferred on balance sheet and amortised to the profit and loss account over the remaining period of the related hedged item or recognised immediately in the profit and loss account where the hedged item no longer exists.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position no longer exists or the hedge is no longer effective, provision is made for any fair value loss on the instrument at that time.

(s) Marketing costs

Marketing costs incurred during the start up phase of a new activity are charged to the profit and loss account as incurred.

(t) Insurance

The Group receives claims in respect of traffic incidents and employee claims. The Group protects against the cost of such claims through third party insurance policies. An element of the claims are not insured as a result of the "excess" on insurance policies.

Provision is made on a discounted basis for the estimated cost to the Group (net of insurance recoveries) to settle claims for incidents occurring prior to the balance sheet date. The estimation of the balance sheet insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but that have not yet been reported to the Group.

Note 2 Segmental analysis

(a) Turnover	2003 £m	2002 £m
Continuing operations		
UK Bus	598.4	567.9
Overseas Bus	183.7	194.7
Coach USA	603.0	682.3
Total bus continuing operations	1,385.1	1,444.9
Rail	413.6	402.8
Group turnover – continuing operations	1,798.7	1,847.7
Share of joint ventures' turnover		
– Train operating companies	276.1	261.2
– thetrainline.com	11.0	11.7
– Elimination of inter-segment turnover	(9.2)	(9.2)
Group turnover and share of joint ventures' turnover	2,076.6	2,111.4

Turnover of £183.7m (2002 – £194.7m) for the continuing Overseas Bus segment includes amounts of £132.3m (2002 – £148.6m) in relation to Citybus, which was disposed of after 30 April 2003.

Due to the nature of the Group's business, the origin and destination of turnover is the same in all cases.

Notes to the accounts 2003

Note 2 Segmental analysis (continued)

(b) (i) Operating (loss)/profit	2003			2002 Restated (see below)		
	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m
Continuing operations						
UK Bus	67.0	Nil	67.0	62.7	Nil	62.7
Overseas Bus	30.3	Nil	30.3	33.4	Nil	33.4
Coach USA	14.0	(575.0)	(561.0)	38.4	(19.6)	18.8
Total bus continuing operations	111.3	(575.0)	(463.7)	134.5	(19.6)	114.9
Rail	38.2	Nil	38.2	31.0	Nil	31.0
Total continuing operations	149.5	(575.0)	(425.5)	165.5	(19.6)	145.9
Group overheads	(9.4)	Nil	(9.4)	(10.8)	Nil	(10.8)
Annual goodwill amortisation	Nil	(28.6)	(28.6)	Nil	(41.7)	(41.7)
Redundancy/restructuring costs – Continuing operations	(6.3)	Nil	(6.3)	(6.6)	Nil	(6.6)
Total operating (loss)/profit of Group companies	133.8	(603.6)	(469.8)	148.1	(61.3)	86.8
Share of operating profit/(loss) of joint ventures						
– Train operating companies	7.2	Nil	7.2	10.8	Nil	10.8
– thetrainline.com	(4.3)	Nil	(4.3)	(4.4)	Nil	(4.4)
– other	(0.3)	Nil	(0.3)	(0.3)	Nil	(0.3)
Goodwill amortised on investment in joint ventures	Nil	(8.7)	(8.7)	Nil	(8.4)	(8.4)
Share of operating profit/(loss) of associates						
– Road King	10.5	Nil	10.5	12.9	Nil	12.9
– other	(0.5)	Nil	(0.5)	(0.5)	Nil	(0.5)
Goodwill amortised on investment in associates	Nil	(0.3)	(0.3)	Nil	(0.4)	(0.4)
Total operating (loss)/profit: Group and share of joint ventures and associates	146.4	(612.6)	(466.2)	166.6	(70.1)	96.5

Operating profit of £30.3m (2002 – £33.4m) for the continuing Overseas Bus segment includes amounts of £19.1m (2002 – £25.2m) in relation to Citybus, which was disposed of after 30 April 2003.

Goodwill amortisation of £28.6m (2002 – £41.7m) is analysed as UK Bus £0.8m (2002 – £0.7m), Overseas Bus £8.6m (2002 – £9.2m) and Coach USA £19.2m (2002 – £31.8m).

Restructuring costs of £6.3m (2002 – £6.6m) are analysed as UK Bus £1.8m (2002 – £1.5m), Overseas Bus £0.1m (2002 – £Nil), Coach USA £3.0m (2002 – £4.9m), Rail £0.6m (2002 – £Nil) and costs incurred centrally £0.8m (2002 – £0.2m)

The above segmental analysis of operating profit has been restated by applying certain costs that were previously classified within “Group overheads” against the operating profits of particular operating divisions. This has been done to align the segmental analysis with the way management now monitors the business and to achieve greater comparability with other companies.

For completeness, we have also presented on page 47, operating profits segmented using the previous basis.

Note 2 Segmental analysis (continued)

(b) (ii) Operating (loss)/profit	2003			2002		
	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m
Continuing operations						
UK Bus	76.0	Nil	76.0	71.1	Nil	71.1
Overseas Bus	30.3	Nil	30.3	34.1	Nil	34.1
Coach USA	16.6	(575.0)	(558.4)	41.2	(19.6)	21.6
Total bus continuing operations	122.9	(575.0)	(452.1)	146.4	(19.6)	126.8
Rail	38.2	Nil	38.2	31.3	Nil	31.3
Total continuing operations	161.1	(575.0)	(413.9)	177.7	(19.6)	158.1
Group overheads	(21.0)	Nil	(21.0)	(23.0)	Nil	(23.0)
Annual goodwill amortisation	Nil	(28.6)	(28.6)	Nil	(41.7)	(41.7)
Redundancy/restructuring costs – Continuing operations	(6.3)	Nil	(6.3)	(6.6)	Nil	(6.6)
Total operating (loss)/profit of Group companies	133.8	(603.6)	(469.8)	148.1	(61.3)	86.8
Share of operating profit/(loss) of joint ventures						
– Train operating companies	7.2	Nil	7.2	10.8	Nil	10.8
– thetrainline.com	(4.3)	Nil	(4.3)	(4.4)	Nil	(4.4)
– other	(0.3)	Nil	(0.3)	(0.3)	Nil	(0.3)
Goodwill amortised on investment in joint ventures	Nil	(8.7)	(8.7)	Nil	(8.4)	(8.4)
Share of operating profit/(loss) of associates						
– Road King	10.5	Nil	10.5	12.9	Nil	12.9
– other	(0.5)	Nil	(0.5)	(0.5)	Nil	(0.5)
Goodwill amortised on investment in associates	Nil	(0.3)	(0.3)	Nil	(0.4)	(0.4)
Total operating (loss)/profit: Group and share of joint ventures and associates	146.4	(612.6)	(466.2)	166.6	(70.1)	96.5
(c) Operating costs						
Operating costs (excluding asset impairment)	(1,752.6)	(54.1)	(1,806.7)	(1,753.8)	(51.6)	(1,805.4)
Impairment of assets of group companies	Nil	(549.5)	(549.5)	Nil	(9.7)	(9.7)
	(1,752.6)	(603.6)	(2,356.2)	(1,753.8)	(61.3)	(1,815.1)

Notes to the accounts 2003

Note 2 Segmental analysis (continued)

(d) Net assets	2003 £m	2002 £m
UK Bus	298.5	344.3
Overseas Bus	230.1	271.0
Coach USA	323.2	1,032.3
Rail	(76.8)	(83.2)
Central assets/liabilities	(73.9)	(67.5)
Net assets of Group companies before debt	701.1	1,496.9
Joint ventures	106.0	114.0
Associates	70.0	72.8
Total net assets before debt: Group, joint ventures and associates	877.1	1,683.7
Net debt	(560.0)	(774.6)
Net assets	317.1	909.1

Central assets/liabilities include the proposed dividend, token provisions, interest payable and receivable on Group debt and other net assets of the holding company.

Note 3 Other operating income

	2003 £m	2002 £m
Miscellaneous revenue	47.9	47.5
Liquidated damages received	8.5	Nil
Losses on disposal of assets, other than properties	(2.7)	(0.1)
Rail franchise support	34.0	6.8
	87.7	54.2

Miscellaneous revenue comprises revenue incidental to the Group's principal activity. It includes advertising income, maintenance income and property income.

The liquidated damages received of £8.5m (2002 – £Nil) relate to 24 new class 458 trains, which are now in service at South West Trains, a subsidiary of the Group. A number of problems were experienced with the late delivery and reliability of the new trains and the liquidated damages were received in respect of these issues.

Rail franchise support totalled £34.0m (2002 – £6.8m). The increase mainly reflects the deed of amendment agreed with the UK's Strategic Rail Authority in respect of South West Trains and is offset by increased operating costs.

Note 4 Finance charges (net)

	2003 £m	2002 £m
Bank loans and overdrafts	27.8	35.3
Hire purchase and leases	4.7	7.6
Other loans	19.5	30.3
Interest receivable	(5.4)	(7.9)
Net gain on early settlement of debt and other financial instruments	(13.1)	(5.5)
	33.5	59.8

Interest receivable includes £Nil (2002 – £0.7m) in relation to share of joint venture net interest receivable and £1.0m (2002 – £1.0m) in relation to interest receivable on joint venture shareholder loan notes. Interest payable on other loans includes £0.2m (2002 – £Nil) in relation to share of joint venture net interest payable and £1.3m (2002 – £2.0m) in relation to share of associates' net interest payable.

Note 5 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):	2003 £m	2002 £m
Materials and consumables	208.9	215.8
Depreciation and amounts written off		
– Tangible fixed assets (owned)	87.3	95.1
– Tangible fixed assets (on HP or lease)	18.0	17.6
– Impairment losses	162.7	9.7
Amortisation of goodwill		
– Subsidiaries	28.6	41.7
– Joint venture and associates	9.0	8.8
Impairment of Coach USA goodwill	386.8	Nil
Losses/(gains) on property disposals	0.5	(0.5)
Losses on other asset disposals	2.7	0.1
Operating lease rentals		
– PSVs and rolling stock	95.9	93.4
– Network Rail charges	101.5	103.4
– Land and buildings	10.1	10.2
Auditors' remuneration – audit (Group)		
– Andersen	Nil	0.3
– PricewaterhouseCoopers	0.7	0.5
Auditors' remuneration – audit (Company)		
– PricewaterhouseCoopers	–	–

Payments for non-audit services of £0.2m (2002 – £0.3m) were made to PricewaterhouseCoopers in the UK during the year. Payments for non-audit services of £0.4m were made to Andersen in year ended 30 April 2002 while auditors of the Company.

The following items have been treated as exceptional:	2003 £m	2002 £m
Provision for losses on operations to be terminated or sold at Coach USA	(7.7)	(9.9)
Impairment of tangible fixed assets at Coach USA	(162.7)	(9.7)
Write-down of current assets to net realisable value at Coach USA	(17.8)	Nil
Impairment of goodwill at Coach USA	(386.8)	Nil
Profit on disposal of overseas operations	Nil	4.8
(Loss)/profit on sale of properties	(0.5)	0.5
	(575.5)	(14.3)
Tax effect of exceptional items	Nil	5.6
	(575.5)	(8.7)

Management undertook a review of its North American business, Coach USA, in the six months to 31 October 2002. The outcome of this review resulted in a significant change to the Group's North American strategy, further details of which are given in the Chief Executive's Review.

As at 30 April 2002, the Group undertook an impairment review of Coach USA. The Directors concluded that at that time, no impairment write-down was required but announced that a review of Coach USA's business would be undertaken. The recovery in revenues for the six months ended 31 October 2002 was less than expected and trading conditions in North America continued to be difficult. As a result of the change in strategy for Coach USA and the absence of a significant recovery in revenues, the Group undertook a further review of the carrying value of Coach USA's assets as at 31 October 2002. The commercial assumptions used in reviewing the carrying value of Coach USA at that time are consistent with the current strategic plans for that business.

The carrying values of current assets within Coach USA were also reviewed to ensure those were properly valued. Appropriate write-downs were recorded in the six months ended 31 October 2002. These write-downs included adjustments to the carrying value of taxicab inventory and receivables, where the realisable value had fallen reflecting market conditions at that time.

The remaining goodwill and tangible fixed assets of Coach USA were reviewed for impairment. In accordance with FRS 11, "Impairment of fixed assets and goodwill", Coach USA was divided into appropriate "Income Generating Units" or "IGUs". The carrying value of each IGU as at 31 October 2002 was compared to its estimated recoverable amount, being the higher of its value in use and net realisable value to the Group. The value in use of each IGU was derived from discounted cash flow projections that covered the period to 30 April 2007. After 30 April 2007, the projections used a long-term growth rate compatible with projections for the US economy. The average discount rate used to arrive at the value in use was 13.0% on a pre-tax basis. The remaining tangible fixed assets and goodwill of each IGU are being amortised over their estimated useful economic lives, which in the case of goodwill is 16.25 years from 30 April 2003.

Notes to the accounts 2003

Note 5 (Loss)/profit on ordinary activities before taxation (continued)

The Group closed a number of businesses in the USA as a consequence of the review. Specific provision has been made for losses associated with the closure of these businesses over and above the write-down of asset values described above. These additional losses include employee redundancy payments, operating lease termination payments and professional fees directly attributable to the closures. To the extent the written-down values as at 31 October 2002 were based on projected cash flows, the actual cash flows for the six months ended 30 April 2003 have been compared to the projections. Actual cash flows were not significantly different to those projected.

	Year ended 30 April 2003 £m
The aggregate exceptional charges across all of the IGUs were as follows:	
Provision for losses on operations to be terminated	(7.7)
Write-down of current assets to net realisable value	(17.8)
Impairment of tangible fixed assets	(162.7)
Impairment of goodwill	(386.8)
	(575.0)

	As at 30 April 2003 £m
The residual written down values of Coach USA's net assets as at 30 April 2003 were as follows:	
Goodwill	108.0
Tangible fixed assets	231.0
Net current liabilities	(8.5)
Net assets before debt and tax balances	330.5

Net assets for Coach USA included in note 2(d) totalled £323.2m. This includes net tax liabilities of £7.3m excluded above. Details of disposals of fixed asset investments in the year are given in note 13.

	2003 £m	2002 £m
Note 6 Staff costs and employees		
Staff costs		
Wages and salaries	788.8	774.6
Social security costs	60.6	61.3
Other pension costs (note 26d)	31.2	18.0
ESOP provided for	0.2	1.8
	880.8	855.7

	2003 £m	2002 £m
Summary directors' remuneration		
Aggregate emoluments	1.8	1.8
Compensation for loss of office	0.5	Nil
Sums paid to third parties for directors' services	0.2	0.1
	2.5	1.9

Further information on directors' remuneration, share options, incentive schemes and pensions is contained in the Remuneration report on pages 30 to 34.

The average monthly number of persons employed by the Group during the year (including executive directors) was as follows:

	2003 number	2002 number
UK operations	21,292	20,856
UK administration and supervisory	1,945	1,884
Overseas	15,639	16,043
	38,876	38,783

Note 7 Taxation on (loss)/profit on ordinary activities

(a) Analysis of charge in the year	2003			2002		
	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for year £m	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for year £m
Current tax:						
UK corporation tax at 30% (2002 – 30%)	24.7	Nil	24.7	12.6	Nil	12.6
Share of joint ventures' current tax	2.4	Nil	2.4	0.2	Nil	0.2
Share of associates' current tax	0.3	Nil	0.3	3.1	Nil	3.1
Foreign tax (current year)	3.2	Nil	3.2	2.8	Nil	2.8
Foreign tax (adjustments in respect of prior periods)	(3.6)	Nil	(3.6)	(0.3)	Nil	(0.3)
Total current tax	27.0	Nil	27.0	18.4	Nil	18.4
Deferred tax:						
Origination and reversal of timing differences	(0.2)	(3.8)	(4.0)	7.4	(9.2)	(1.8)
Adjustments in respect of prior periods	2.0	Nil	2.0	(1.6)	Nil	(1.6)
Total deferred tax	1.8	(3.8)	(2.0)	5.8	(9.2)	(3.4)
Tax on (loss)/profit on ordinary activities	28.8	(3.8)	25.0	24.2	(9.2)	15.0

(b) Factors affecting tax charge for the year

	2003 £m	2002 £m
(Loss)/profit on ordinary activities before tax	(500.2)	42.0
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(150.1)	12.6
Effects of:		
Goodwill amortisation	7.7	11.6
Impairment loss	172.5	Nil
Non-deductible expenditure	4.4	0.7
Capital allowances for period in excess of depreciation	(4.3)	(7.1)
Losses not utilised	(2.1)	4.1
Movement in general provisions and other short term timing differences	5.6	2.8
Foreign taxes differences	(3.1)	(4.8)
Adjustments to tax charge in respect of prior periods	(3.6)	(1.5)
Current tax charge for the year (note 7(a))	27.0	18.4

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on rolled over gains. The total amount unprovided for is £3.3m (2002 – £3.3m).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures unless a binding agreement exists at the balance sheet date to remit such earnings in the future.

Deferred tax assets in respect of corporation tax losses carried forward within UK companies are provided against where the recoverability is in doubt.

Notes to the accounts 2003

Note 8 Dividends	2003 £m	2002 £m
Ordinary shares – interim paid (0.8 pence (2002 – 1.3 pence) per share)	10.6	17.1
– final proposed (1.8 pence (2002 – 1.3 pence) per share)	23.7	17.0
	34.3	34.1

During the year, a share alternative was offered in respect of the interim dividend of 0.8 pence per share. The cash cost to the Company is unaffected but the cash is used by the Company's registrars to acquire shares to be provided to shareholders as an alternative to the cash dividend. The alternative comprised ordinary shares with a market value of 36.13 pence per existing ordinary share. A similar arrangement applied to last year's final dividend of 1.3 pence per share, the relevant market value being 22.00 pence per existing ordinary share.

Note 9 (Loss)/earnings per share

(Loss)/earnings per share have been calculated in accordance with FRS 14 "Earnings per Share" by calculating Group (loss)/profit on ordinary activities after tax, divided by the weighted average number of shares in issue during the year based on the following:

	2003			2002		
	(Loss)/ earnings £m	Weighted average no. of shares million	(Loss)/ earnings per share pence	(Loss)/ earnings £m	Weighted average no. of shares million	(Loss)/ earnings per share pence
Basic	(525.2)	1,314.4	(40.0)	27.0	1,309.9	2.1
Adjusted (pre goodwill and exceptional items)	84.1	1,314.4	6.4	82.6	1,309.9	6.3
Dilutive shares – Executive Share Option Scheme	–	2.3	Nil	–	0.1	Nil
– Employee SAYE Scheme	–	Nil	Nil	–	0.2	Nil
Diluted excluding goodwill and exceptional items	84.1	1,316.7	6.4	82.6	1,310.2	6.3
Include goodwill and exceptional items				(55.6)	–	(4.2)
Diluted				27.0	1,310.2	2.1

(Loss)/earnings per share before goodwill and exceptional items is calculated after adding back goodwill amortisation and exceptional items after taking account of taxation, as shown on the consolidated profit and loss account on page 36. This has been presented to allow shareholders to gain a clearer understanding of the underlying performance.

In accordance with FRS 14, share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of ordinary shares at less than fair value. Potential ordinary shares are only treated as dilutive where the effect is to reduce earnings per share or increase loss per share. Accordingly, the basic loss per share for 2003 has not been adjusted for the dilutive shares as the effect would be to reduce the loss per share.

Note 10 Profit and loss account

The movement on profit and loss account reserve is:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Retained profit brought forward	514.8	128.7	670.1	342.4
Retained loss for the year	(559.5)	(7.1)	(612.6)	(72.3)
Translation adjustment	(26.6)	(5.5)	Nil	Nil
UK tax effect of translation adjustment	(6.4)	(4.8)	Nil	Nil
Share of other recognised gains and losses of associates	(0.1)	(0.2)	Nil	Nil
Goodwill previously written off to reserves	0.5	3.7	Nil	Nil
Transfer from share premium/other reserve	Nil	400.0	Nil	400.0
Retained (loss)/profit carried forward	(77.3)	514.8	57.5	670.1

Note 11 Intangible assets – goodwill

The Group movement in the year is:

	Joint ventures	Associates	Subsidiaries	Total
	£m	£m	£m	£m
Cost				
Beginning of year	110.5	5.5	1,198.7	1,314.7
Additions	Nil	0.5	2.8	3.3
Disposals	Nil	Nil	(2.0)	(2.0)
Translation adjustment	Nil	Nil	(100.2)	(100.2)
End of year	110.5	6.0	1,099.3	1,215.8
Amortisation				
Beginning of year	(29.1)	(4.3)	(533.3)	(566.7)
Charge for the year	(8.7)	(0.3)	(28.6)	(37.6)
Impairment losses	Nil	Nil	(386.8)	(386.8)
Disposals	Nil	Nil	2.0	2.0
Translation adjustment	Nil	Nil	54.3	54.3
End of the year	(37.8)	(4.6)	(892.4)	(934.8)
Net book value beginning of year	81.4	1.2	665.4	748.0
Net book value end of year	72.7	1.4	206.9	281.0

Goodwill arising during the year and the amortisation periods are as follows:

	Amortisation period	Goodwill additions
	Years	£m
Subsidiaries		
North American acquisitions	20	1.5
UK Bus goodwill acquired	5	0.8
Adjustments re prior year acquisitions	20	0.5
Associates	10	0.5
		3.3

Notes to the accounts 2003

Note 12 Tangible fixed assets

The following are included in the net book value of tangible fixed assets:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Land and buildings	160.6	176.9	3.4	3.4
PSVs and other assets	691.0	932.0	4.4	5.1
	851.6	1,108.9	7.8	8.5

The Group movement in the year is:

	Land and buildings £m	PSVs and other assets £m	Total £m
Cost			
Beginning of year	185.0	1,558.2	1,743.2
Additions	19.5	51.6	71.1
New subsidiary undertakings	Nil	2.0	2.0
Disposals	(7.4)	(53.0)	(60.4)
Sale/closure of subsidiary undertakings	(2.9)	(5.9)	(8.8)
Translation adjustment	(6.7)	(64.5)	(71.2)
End of year	187.5	1,488.4	1,675.9
Depreciation			
Beginning of year	(8.1)	(626.2)	(634.3)
Charge	(6.8)	(98.5)	(105.3)
Impairment losses	(17.2)	(145.5)	(162.7)
Disposals	3.0	42.0	45.0
Sale/closure of subsidiary undertakings	0.5	3.2	3.7
Translation adjustment	1.7	27.6	29.3
End of year	(26.9)	(797.4)	(824.3)
Net book value, beginning of year	176.9	932.0	1,108.9
Net book value, end of year	160.6	691.0	851.6
Included in the above are:			
Assets on hire purchase	Nil	162.5	162.5
Leased PSV assets	Nil	7.9	7.9
Short leasehold land and buildings	1.9	Nil	1.9
Long leasehold land and buildings	27.4	Nil	27.4

Heritable and freehold land amounting to £33.0m (2002 – £33.0m) has not been depreciated.

Depreciation of £18.0m (2002 – £17.6m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

Note 12 Tangible fixed assets (continued)

The Company movement during the year was as follows:

	Land and buildings £m	PSVs and other assets* £m	Total £m
Cost			
Beginning of year	3.6	6.4	10.0
Additions	Nil	0.5	0.5
Disposals	Nil	(0.5)	(0.5)
End of year	3.6	6.4	10.0
Depreciation			
Beginning of year	(0.2)	(1.3)	(1.5)
Charge	Nil	(0.9)	(0.9)
Disposals	Nil	0.2	0.2
End of year	(0.2)	(2.0)	(2.2)
Net book value, beginning of year	3.4	5.1	8.5
Net book value, end of year	3.4	4.4	7.8

* PSVs and other assets include £4.1m (2002 – £4.7m) of information technology in progress not yet allocated to Group operating companies.

Note 13 Fixed asset investments

The Group movement during the year was as follows:

	Joint ventures £m	Associates £m	Other investments £m	Total £m
Cost				
Beginning of year	159.8	158.7	3.7	322.2
Additions	0.3	1.0	0.1	1.4
Share of recognised profits	6.3	8.1	Nil	14.4
Share of other recognised gains and losses	Nil	(0.1)	Nil	(0.1)
Translation adjustment	Nil	(6.2)	Nil	(6.2)
Dividends received	Nil	(5.3)	Nil	(5.3)
End of year	166.4	156.2	3.8	326.4
Amounts written off				
Beginning of year	(29.1)	(85.9)	(0.5)	(115.5)
Amounts written off during year	Nil	Nil	(0.6)	(0.6)
Goodwill amortised during year	(8.7)	(0.3)	Nil	(9.0)
End of year	(37.8)	(86.2)	(1.1)	(125.1)
Net book value, beginning of year	130.7	72.8	3.2	206.7
Net book value, end of year	128.6	70.0	2.7	201.3

The Group's share of the net assets of joint venture companies included above is analysed below:

	Virgin Rail Group Holdings Limited £m	Other joint venture companies £m	2003 Total £m	2002 Total £m
Fixed assets	8.3	Nil	8.3	3.5
Current assets	158.5	0.7	159.2	133.2
Creditors: Amounts falling due within one year	(114.3)	(0.9)	(115.2)	(90.8)
Creditors: Amounts falling due after more than one year	(6.1)	(0.7)	(6.8)	(6.6)
Share of net assets/(liabilities)	46.4	(0.9)	45.5	39.3
Goodwill	71.9	0.8	72.7	81.4
Shareholder loan notes	10.0	0.4	10.4	10.0
	128.3	0.3	128.6	130.7

In addition to amounts shown above, the Group has a share of net liabilities in thetrainline.com, as shown in note 21.

Notes to the accounts 2003

Note 13 Fixed asset investments (continued)

The principal associate is:	Country of operation	Number of shares in issue at 30 April 2003	Nominal value of share capital in issue at 30 April 2003	% held at 30 April 2003
Road King Infrastructure Limited	China			
– ordinary shares		515.6m	HK\$51.6m	25.2
– preference shares		0.4m	HK\$0.04m	100.0

The market value of the Group's ordinary share investment in Road King Infrastructure Limited, a Bermudan incorporated company, listed on the Hong Kong Stock Exchange, at 30 April 2003 was HK\$480.2m (£38.5m) (2002 – HK\$392.6m (£34.5m)). In February 2002, the Group converted 100,000 of its 518,380 7.5% HK\$1,000 convertible preference shares in Road King Infrastructure Limited to ordinary shares. The remaining 418,380 preference shares were converted on 12 June 2003 which resulted in us having a 31.2% interest in Road King's ordinary shares. The equivalent market value of the Group's ordinary share investment in Road King post-conversion of the preference shares would be HK\$661.1m (£53.0m). This calculation uses the market value of Road King's shares at 30 April 2003 and the exchange rate prevailing at that date. The coupon received on the preference shares has been included in the share of associates' operating profits. The Group's share of operating profit is based on the most recent publicly available information, being the results for the year ended 31 December 2002.

The carrying value of the Group's interest in Road King Infrastructure Limited as at 30 April 2003 was £62.0m.

The principal joint ventures are:	Country of incorporation/operation	Number of shares in issue at 30 April 2003	Nominal value of share capital in issue at 30 April 2003	% held at 30 April 2003
Virgin Rail Group Holdings Limited	United Kingdom	34.8m	£3.5m	49
Trainline Holdings Limited	United Kingdom	3.4m	£3.4m	49

Virgin Rail Group Holdings Limited is the holding company of Virgin Rail Group Limited, which in turn is the holding company of CrossCountry Trains Limited and West Coast Trains Limited. Trainline Holdings Limited is the holding company of thetrainline.com Limited. The Virgin Rail Group Holdings and Trainline Holdings shareholders' agreements provide for joint decision making on key matters and equal representation on the Boards of both companies. As a consequence the investments have been accounted for as joint ventures. As part of the original acquisition, the Group acquired a £20m shareholder loan to Virgin Rail Group Limited, now a subsidiary of Virgin Rail Group Holdings Limited. The shareholder loan carries a 10% coupon and £10m was repaid on 28 April 2000.

Virgin Rail Group Limited is restricted from paying dividends until any shareholders loans payable by it have been repaid. Under an agreement with the UK's Strategic Rail Authority ("SRA"), Virgin Rail Group Limited, CrossCountry Trains Limited and West Coast Trains Limited may not pay dividends prior to 1 March 2004.

As at 30 April 2002, the Group undertook an impairment review of its investment in Virgin Rail Group in accordance with FRS 11. The directors concluded, at that time, no impairment write-down was required. However, for each of the five years following the initial impairment review, the Group is required to review its initial projections in light of the actual cash flows. The Group has therefore reviewed the projections made in connection with the 30 April 2002 impairment review. This indicated that the actual net cash flows earned by the Group from its investment in Virgin Rail Group during the year ended 30 April 2003 were in line with those projected.

Virgin Rail Group's two train franchises are presently operating with subsidy from the SRA on the basis of a one-year budget set by the SRA. The value of the Group's investment in Virgin Rail Group depends on the agreement of long-term commercial arrangements with the SRA for the operation of Virgin Rail Group's two franchises. Virgin Rail Group has not yet agreed terms for the long-term operation of the franchises and it is not known with certainty when these arrangements will be agreed. In addition, Virgin Rail Group continues to be significantly impacted by the performance of Network Rail. Network Rail is contractually responsible for upgrading certain railway infrastructure, on which the future revenue growth of Virgin Rail Group's train operations is dependent.

The directors believe that these uncertainties give rise to a need to undertake a fresh impairment review as at 30 April 2003.

In accordance with FRS 11, we have compared the carrying value of our net investment in Virgin Rail Group, with its estimated recoverable amount, being the higher of net realisable value and value in use.

The Group has conducted this fresh review with reference to the terms agreed between Virgin Rail Group and the SRA on 19 July 2002 for the future operation of the two franchises. There remains uncertainty over the timing of agreeing new long-term commercial arrangements for each franchise and also around the level of shareholder return that will be achievable under such arrangements. The SRA has the right to offer the CrossCountry franchise for competitive tender and this presents a further uncertainty. However, to date, the SRA has not indicated that it intends to exercise this right. In conducting the impairment review as at 30 April 2003, the directors have made best estimates of future cash flows to the expected end of the two franchises in 2012 after taking account of these factors. Any estimation of value in use is subjective because it is based on estimates of future cash flows. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Note 13 Fixed asset investments (continued)

This review indicates that there is no impairment loss. The value in use of Virgin Rail Group was determined using an average pre-tax discount rate of 11.4%. However, the directors will keep this matter under review in the light of changing circumstances.

The remaining goodwill relating to the original acquisition of Virgin Rail Group is being amortised over its remaining useful life of 8.8 years from 30 April 2003.

The Company movement during the year was as follows:	Subsidiary undertakings £m	Joint ventures £m	Other investments £m	Total £m
Cost				
Beginning of year	235.5	139.4	0.8	375.7
Additions	1,359.0	Nil	Nil	1,359.0
Disposals	(213.1)	(137.6)	Nil	(350.7)
Translation gain	(1.2)	Nil	Nil	(1.2)
End of year	1,380.2	1.8	0.8	1,382.8
Amounts written off				
Beginning of year	(1.8)	Nil	Nil	(1.8)
During the year	(737.8)	Nil	Nil	(737.8)
End of year	(739.6)	Nil	Nil	(739.6)
Net book value, beginning of year	233.7	139.4	0.8	373.9
Net book value, end of year	640.6	1.8	0.8	643.2

Subsidiary undertaking additions total £1,359.0m due to intercompany receivables being converted into investments and also increased investment in a subsidiary following the sale of certain of the Company's investments and intercompany receivables to this subsidiary.

Acquisitions

During the year a further three acquisitions have been concluded by Coach USA for a total consideration of £2.8m in cash. The fair value of the net assets acquired was £1.3m giving rise to goodwill of £1.5m which has been capitalised and is being amortised over 20 years.

UK businesses were acquired for a total consideration of £2.3m, paid in cash. The fair value of the net assets acquired was £2.3m giving rise to no goodwill.

These acquisitions are not considered to be individually or collectively material for the purposes of FRS 7, "Fair Values in Acquisition Accounting". The aggregate fair value of the assets acquired is as follows:

	Coach USA £m	UK £m	Total £m
Fair value to Group			
Tangible fixed assets	1.8	0.2	2.0
Other current assets	0.1	2.1	2.2
Total assets	1.9	2.3	4.2
Creditors – within one year	(0.6)	Nil	(0.6)
Total liabilities	(0.6)	Nil	(0.6)
Net assets	1.3	2.3	3.6
Consideration	2.8	2.3	5.1
Goodwill	1.5	Nil	1.5

Disposal of subsidiary undertakings and businesses

The Group disposed of and closed a number of businesses within Coach USA during the year. A provision of £7.7m for the losses on the operations to be sold or terminated was recorded as at 31 October 2002. (See note 21).

Notes to the accounts 2003

Note 13 Fixed asset investments (continued)

The net assets disposed of were as follows:

	Coach USA £m	Other Overseas £m	Total £m
Tangible fixed assets	3.6	1.5	5.1
Other current assets	0.7	0.1	0.8
Net assets disposed	4.3	1.6	5.9
Provisions for losses on operations to be sold or terminated	(7.7)	Nil	(7.7)
Unutilised provision as at 30 April 2003	4.6	Nil	4.6
Closure costs	4.1	Nil	4.1
Goodwill previously written off to reserves	Nil	0.5	0.5
Proceeds on disposal	5.3	2.1	7.4
Satisfied by:			
Cash	4.9	2.1	7.0
Deferred consideration	0.4	Nil	0.4
Net cash inflows in respect of the disposals comprised:			
Cash consideration	4.9	2.1	7.0
Cash at bank and in hand on disposal	Nil	Nil	Nil
	4.9	2.1	7.0

Note 14 Principal business units

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) are:

Company	Country of registration or incorporation	Principal activity
Stagecoach (South) Ltd*	England	Bus and coach operator
Stagecoach (North West) Ltd*	England	Bus and coach operator
East Midland Motor Services Ltd*	England	Bus and coach operator
Stagecoach Scotland Ltd*	Scotland	Bus and coach operator
National Transport Tokens Ltd (99.9%)*	England	Transport tokens
East Kent Road Car Company Ltd*	England	Bus and coach operator
Stagecoach West Ltd*	England	Bus and coach operator
PSV Claims Bureau Ltd*	England	Claims handling
Busways Travel Services Ltd*	England	Bus and coach operator
South East London and Kent Bus Co Ltd*	England	Bus and coach operator
East London Bus and Coach Co Ltd*	England	Bus and coach operator
Cleveland Transit Ltd*	England	Bus and coach operator
Cambus Ltd*	England	Bus and coach operator
Stagecoach Devon Ltd*	England	Bus and coach operator
Greater Manchester Buses South Ltd*	England	Bus and coach operator
South West Trains Ltd	England	Train operating company
Island Line Ltd*	England	Train operating company
South Yorkshire Supertram Ltd*	England	Tram operator
Wellington City Transport Ltd*	New Zealand	Bus and coach operator
Transportation Auckland Corporation Limited*	New Zealand	Bus and coach operator
Fullers Group Limited (96%)*	New Zealand	Ferry operator
SGC (HK Group) Limited (formerly Citybus Group Limited)*	Hong Kong	Bus and coach operator
Coach USA Inc.*	United States	Bus and coach operator

*indirectly held

All companies operate in the countries shown above. The companies listed above include all those which principally affect the results and assets of the Group. A full list of subsidiary undertakings at 30 April 2003 will be annexed to the next annual return.

Note 15 Stocks

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Parts and consumables	19.1	19.1	Nil	Nil
Taxicabs held for resale	19.0	31.8	Nil	Nil
	38.1	50.9	Nil	Nil

There is no material difference between the carrying value of stocks held at 30 April 2003 and their estimated replacement cost.

Note 16 Debtors and prepaid charges

Amounts falling due within one year are:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	91.0	107.7	0.3	0.2
Other debtors	30.3	36.2	13.7	13.0
Other prepayments and accrued income	62.6	73.2	1.2	0.9
VAT and other government debtors	8.4	11.4	6.3	8.2
	192.3	228.5	21.5	22.3

Amounts falling due after more than one year are:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Pension scheme prepayment (note 26d)	35.2	33.8	Nil	13.9
Amounts owed by group companies	Nil	Nil	550.6	1,643.0
Pre-contract costs	1.8	4.4	Nil	Nil
Other debtors	22.9	16.0	Nil	Nil
Deferred tax asset (note 21)	Nil	Nil	1.2	Nil
	59.9	54.2	551.8	1,656.9

Note 17 Creditors

(a) Creditors: Amounts falling due within one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank overdrafts	Nil	Nil	59.6	17.7
Bank loans and loan notes	58.9	76.7	46.8	54.8
Trade creditors	95.5	110.3	0.9	1.2
Accruals and deferred income	230.3	242.8	42.3	52.5
Dividends payable	23.7	17.0	23.7	17.0
Other creditors				
– UK corporation tax payable	44.9	20.2	9.1	7.8
– Foreign tax payable	4.0	6.1	Nil	Nil
– PAYE and NIC payable	12.1	10.2	0.2	0.2
Current portion of hire purchase and lease obligations	34.8	40.7	Nil	Nil
Amounts due to group companies	Nil	Nil	28.0	26.0
	504.2	524.0	210.6	177.2

Notes to the accounts 2003

Note 17 Creditors (continued)

(b) Creditors: Amounts falling due after more than one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans and loan notes	181.1	237.3	129.2	190.7
US Dollar 8.625% Notes (note 17c)	208.9	259.3	227.6	342.0
US Dollar 9.375% Notes (note 17d)	Nil	0.1	Nil	Nil
Euro 6% Notes (note 17e)	195.2	244.7	195.2	244.7
Non-current portion of hire purchase and lease obligations	45.8	65.8	Nil	Nil
Deferred income	9.7	Nil	Nil	Nil
Other creditors	Nil	0.9	Nil	Nil
Amounts due to group companies	Nil	Nil	11.4	34.6
	640.7	808.1	563.4	812.0

(c) US Dollar 8.625% Notes

On 9 November 1999 the Group issued US\$500m of 8.625% Notes due in 2009. Interest on the Notes is payable six monthly in arrears. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 15 November 2009.

During the year US\$45.0m (2002 – US\$71.5m) of the Notes were purchased by the Group. US\$135.9m (2002 – Nil) of the Notes purchased have been cancelled. The cumulative par value of Notes repurchased was US\$165.9m as at 30 April 2003 (2002 – US\$120.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2003 was £208.9m (2002 – £259.3m), after taking account of the notes purchased by the Group, the discount on issue, and issue costs.

(d) US Dollar 9.375% Notes

In June 1997, Coach USA, Inc. issued \$150m 9.375% senior subordinated notes due in 2007. Following the acquisition of Coach USA, Inc. by the Group in July 1999 a tender offer for all the outstanding notes was made at a price of 101% of principal. \$0.2m of notes were tendered and redeemed at this time. On 18 November 1999 a tender and consent offer was made for all the outstanding notes.

On 17 December 1999 \$146.4m of notes were tendered and redeemed. Following the tender the terms of the notes were amended to remove amongst other clauses, restrictive covenants and events of default. \$0.1m of these notes remain outstanding.

The remaining notes were redeemed at the option of the Company at a premium of 104.7% on 1 July 2002.

(e) Euro 6% Notes

On 24 November 1999 the Group issued €400m of 6% Notes due in 2004. Interest on the Notes is payable annually in arrears. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 24 November 2004.

During the year €48.6m (2002 – €42.6m) of the Notes were purchased by the Group and cancelled. The cumulative par value of Notes repurchased and cancelled was €99.2m as at 30 April 2003 (2002 – €50.6m).

The Notes were issued at 99.937% of their principal amount. The Group has effectively swapped the carrying value into US Dollars and Sterling with a currency swap. After taking account of the notes repurchased and cancelled, the discount on issue, issue costs and the currency swap, the carrying value of the Notes at 30 April 2003 was £195.2m (2002 – £244.7m).

Note 17 Creditors (continued)**(f) Borrowings are repayable as follows**

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
On demand or within 1 year				
Bank overdraft	Nil	Nil	59.6	17.7
Bank loans and loan notes	58.9	76.7	46.8	54.8
Hire purchase and lease obligations	34.8	40.7	Nil	Nil
Within 1-2 years				
Bank loans and loan notes	130.6	25.2	118.3	8.0
Euro 6% Notes	195.2	Nil	195.2	Nil
Hire purchase and lease obligations	23.3	32.8	Nil	Nil
Within 2-5 years				
Bank loans and loan notes	49.5	207.4	10.9	182.7
Euro 6% Notes	Nil	244.7	Nil	244.7
US Dollar 9.375% Notes	Nil	Nil	Nil	Nil
Hire purchase and lease obligations	22.2	32.0	Nil	Nil
Over 5 years				
Bank loans and loan notes	1.0	4.7	Nil	Nil
US Dollar 8.625% Notes	208.9	259.3	227.6	342.0
US Dollar 9.375% Notes	Nil	0.1	Nil	Nil
Hire purchase and lease obligations	0.3	1.0	Nil	Nil
Total borrowings	724.7	924.6	658.4	849.9
Less current maturities	(93.7)	(117.4)	(106.4)	(72.5)
Long term portion of borrowings	631.0	807.2	552.0	777.4

Interest terms on UK borrowings (except loan notes) are at annual rates between 0.4% and 1.625% over Bank of Scotland base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates between 1.9% and 8.4% and are based on applicable local market borrowing rates. Interest on loan notes are at three months LIBOR or fixed interest. Loan notes amounting to £39.5m (2002 – £46.8m) are backed by guarantees provided under group banking facilities.

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemptions.

UK Bank loans, overdrafts, Euro Notes and US\$ Notes are unsecured.

Note 18 Derivatives and other financial instruments

Treasury policy and the use of financial instruments are both discussed in the Finance Director's review on pages 19 to 21.

Short term debtors and creditors have been excluded from the disclosures below except for 18(c) on currency exposures.

(a) Interest rate and currency profile of financial liabilities

The interest rate profile of the financial liabilities of the Group on which interest is paid at 30 April 2003 was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	255.2	Nil	255.2	n/a	n/a
US Dollar	167.2	245.7	412.9	7.7	1.5
Hong Kong Dollar	49.4	Nil	49.4	n/a	n/a
New Zealand and Australian Dollar	0.7	Nil	0.7	n/a	n/a
Other	6.5	Nil	6.5	n/a	n/a
Gross Borrowings	479.0	245.7	724.7	7.7	1.5

The figures shown in the above table take into account various interest rate and currency swaps used to manage the interest rate and currency profile of borrowings.

Notes to the accounts 2003

Note 18 Derivatives and other financial instruments (continued)

As at 30 April 2003 floating rate Sterling borrowings of £50m (2002 – £125m) were hedged with a collar with an average cap rate of 8.5% and an average floor of 4.5%. The cap was not exercised during the year to 30 April 2003, the floor was exercised on £50m at an average rate of 4.5%.

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to three months based on market rates outlined in note 17.

Financial liabilities on which no interest is paid comprise certain provisions totalling £106.6m (2002 – £91.6m). These are denominated in Sterling £54.1m (2002 – £49.9m), US dollars £46.8m (2002 – £36.1m) and Hong Kong dollars £5.7m (2002 – £5.6m). The weighted average maturity of these liabilities is 1.9 years (2002 – 2.1 years).

The Group's policies on managing interest rate risk and currency risk are explained in the Finance Director's review on pages 19 to 21.

The interest rate profile of the financial liabilities of the Group on which interest is paid at 30 April 2002 was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	169.0	9.6	178.6	7.6	0.5
US Dollar	353.1	318.8	671.9	7.3	2.2
Hong Kong Dollar	58.2	Nil	58.2	n/a	n/a
New Zealand and Australian Dollar	1.9	0.9	2.8	5.8	1.3
Other	13.1	Nil	13.1	n/a	n/a
Gross borrowings	595.3	329.3	924.6	7.3	2.2

The maturity profile of the Group's financial liabilities at 30 April 2003 was as follows:

	2003 £m	2002 £m
Expiring within one year	136.8	155.7
Expiring in more than one year but less than two years	371.0	76.9
Expiring in more than two years but less than five years	88.4	516.0
Expiring beyond five years	235.1	267.6
	831.3	1,016.2
Represented by:		
Gross borrowings	724.7	924.6
Financial liabilities on which no interest is paid		
– insurance provisions	80.2	65.2
– token provisions	26.4	25.5
– other creditors	Nil	0.9
	831.3	1,016.2

(b) Interest rate and currency profile of financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £164.7m (2002 – £150.0m).

The cash deposits comprise deposits placed on money market at call, seven day and monthly rates. The currency analysis is as follows:

Currency	Floating rate	
	2003 £m	2002 £m
Sterling	98.0	119.1
US Dollar	58.7	20.8
Hong Kong Dollar	5.0	4.6
New Zealand and Australian Dollar	2.3	2.0
Other	0.7	3.5
Cash at bank and in hand	164.7	150.0

Note 18 Derivatives and other financial instruments (continued)

Financial assets on which no interest is receivable total £4.2m (2002–£4.7m) and comprise other investments of £2.7m (2002–£3.2m) and other debtors greater than one year of £1.5m (2002–£1.5m). These assets are denominated in Sterling £0.9m (2002–£1.1m), US dollars £1.2m (2002–£1.7m) and others £2.1m (2002–£1.9m). The weighted average period to maturity of other debtors greater than one year is 1.5 years (2002 – 1.5 years). Financial assets on which fixed interest is receivable total £6.5m (2002 – £21.5m) and comprise US\$ denominated loan notes receivable. They have a weighted average interest rate of 13.0% (2002 – 12.9%) and an average maturity of 2.7 years (2002 – 2.5 years).

(c) Currency exposures

As explained in the Finance Director's review on pages 19 to 21, the Group's objective in managing currency borrowings and net exposures arising from its investments in net assets of overseas subsidiaries is to maintain a low cost of borrowing and to retain some potential for currency related appreciation whilst partially hedging against currency depreciation. All foreign currency borrowings are taken out to provide for or to hedge against foreign net investments. Gains and losses arising from these currency borrowings and net exposures are recognised in the statement of total recognised gains and losses.

The Group generally hedges actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2003 and 30 April 2002 there were no material net transactional exposures.

(d) Borrowing facilities

At 30 April 2003 the Group had the following undrawn committed banking and hire purchase facilities:

	2003 £m	2002 £m
Expiring within one year	59.2	28.9
Expiring in more than one year but no more than two years	207.9	Nil
Expiring beyond two years	44.4	282.6
	311.5	311.5

Note 19 Fair values

Set out below is a comparison of fair and book values of all the Group's financial instruments by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting future cash flows at prevailing interest and exchange rates.

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Other financial assets	10.7	10.7	26.2	26.2
Primary financial instruments to finance the Group's operation				
Cash deposits and bank overdrafts	164.7	164.7	150.0	150.0
US Dollar 8.625% Notes	(208.9)	(216.4)	(259.3)	(247.2)
Euro 6% Notes	(210.4)	(210.0)	(215.8)	(203.1)
Foreign currency swaps hedging currency debt	15.2	25.4	(28.9)	(25.6)
Short term borrowings and current portion of long term debt	(93.7)	(93.7)	(117.4)	(117.4)
Other long term borrowings	(226.9)	(226.9)	(303.2)	(303.2)
Derivative financial instruments held to manage the interest rate, currency and commodity risk profiles				
Interest rate swaps and similar instruments	Nil	15.5	Nil	(0.2)
Forward foreign currency contracts and swaps hedging overseas investments	0.7	(0.9)	(5.3)	(5.9)
Fuel price swaps and options	Nil	1.4	Nil	1.5
Other financial liabilities	(106.6)	(106.6)	(91.6)	(91.6)

Notes to the accounts 2003

Note 20 Hedge accounting

	2003			2002		
	Gains £m	Losses £m	Total £m	Gains £m	Losses £m	Total £m
Unrecognised gains or losses on hedges at start of year	35.5	(31.5)	4.0	26.5	(81.0)	(54.5)
Gains or losses arising in previous years that were recognised in the year	22.3	0.3	22.6	7.6	55.4	63.0
Gains or losses arising in previous years that were not recognised in the year	57.8	(31.2)	26.6	34.1	(25.6)	8.5
Gains or losses arising in the year that were not recognised in the year	1.2	(2.3)	(1.1)	1.4	(5.9)	(4.5)
Unrecognised gains or losses on hedges at end of year	59.0	(33.5)	25.5	35.5	(31.5)	4.0
Of which:						
Gains or losses expected to be recognised within one year	19.4	(16.9)	2.5	11.1	(13.5)	(2.4)
Gains or losses expected to be recognised after one year	39.6	(16.6)	23.0	24.4	(18.0)	6.4
	59.0	(33.5)	25.5	35.5	(31.5)	4.0

As explained in the Finance Director's review on pages 19 to 21, the Group's policy is to hedge against interest rate risk, currency risk and commodity price risk.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Note 21 Provisions for liabilities and charges

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Deferred taxation	104.8	105.3	Nil	3.6
Token redemption provision	26.4	25.5	Nil	Nil
Insurance provisions	80.2	65.2	Nil	Nil
Environmental provisions	2.4	2.9	0.8	1.2
Pension provision (note 26d)	11.8	6.1	2.8	3.2
Restructuring provision	4.6	1.7	Nil	Nil
	230.2	206.7	3.6	8.0
Joint ventures				
– share of gross assets	(5.3)	(5.1)	Nil	Nil
– share of gross liabilities	27.9	21.8	Nil	Nil
	22.6	16.7	Nil	Nil
Total provisions	252.8	223.4	3.6	8.0

The token redemption provision relates to tokens issued to third parties to be redeemed as payment for transportation services.

The insurance provisions relate to insurance reserves on incurred accidents up to 30 April in each year where claims have not been settled. These are based on actuarial reviews and prior claims history.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel tanks or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required.

The pension provision relates to unfunded liabilities established by actuarial review and SSAP 24 pension liabilities.

The restructuring provision relates to the estimated costs of completing the sale or closure of operations at Coach USA, where an obligation exists at the balance sheet date.

Share of joint venture's net liabilities relates to the Group's interest in the consolidated net liabilities of Trainline Holdings Limited.

Note 21 Provisions for liabilities and charges (continued)

The Group movement during the year was as follows:

	Deferred taxation	Token redemption provision	Insurance provisions	Environmental provisions	Pension provisions	Restructuring provision	Share of joint venture's net liabilities
	£m	£m	£m	£m	£m	£m	£m
Beginning of year	105.3	25.5	65.2	2.9	6.1	1.7	16.7
– (credited)/provided during year	(2.0)	Nil	38.4	0.2	12.8	7.7	5.9
– less deferred tax charge in profit and loss account re associates/joint ventures	0.3	Nil	Nil	Nil	Nil	Nil	Nil
Utilised in the year	Nil	Nil	(19.4)	(0.7)	(7.1)	(4.6)	Nil
Arising on sale of tokens during year	Nil	13.2	Nil	Nil	Nil	Nil	Nil
Redemption of tokens	Nil	(12.3)	Nil	Nil	Nil	Nil	Nil
Translation differences	1.2	Nil	(4.0)	Nil	Nil	(0.2)	Nil
End of year	104.8	26.4	80.2	2.4	11.8	4.6	22.6

The Company movement during the year was as follows:

	Deferred taxation	Environmental provisions	Pension provisions
	£m	£m	£m
Beginning of year	3.6	1.2	3.2
(Credited)/provided during year	(4.8)	Nil	0.5
Payments in year	Nil	(0.4)	(0.9)
End of year	(1.2)	0.8	2.8

Deferred taxation is calculated as follows:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Accelerated capital allowances	193.6	198.2	0.5	0.9
Pension timing differences	7.0	8.4	(0.8)	3.1
Timing differences related to overseas retained earnings	Nil	0.1	Nil	Nil
Short term timing differences	(95.8)	(101.4)	(0.9)	(0.4)
	104.8	105.3	(1.2)	3.6

Note 22 Equity share capital

	2003 £m	2002 £m
Authorised 1,840,000,000 (2002 – 1,840,000,000) ordinary shares of 0.5p each	9.2	9.2
Allotted, called-up and fully-paid 1,320,946,012 (2002 – 1,320,946,012) ordinary shares of 0.5p each	6.6	6.6

There were no movements in issued share capital during the year ended 30 April 2003.

In October 1999 the Company established a Qualifying Employee Share Ownership Trust ("QUEST") for the purpose of satisfying share option schemes for staff. During the year to 30 April 2000 a contribution of £10.5m and a loan of £10.0m were made to the QUEST and used by the QUEST to apply for 11,500,000 new ordinary shares of 0.5p each at the market price of £1.78 per share on 29 October 1999. Under the provisions of FRS 5 "Reporting the Substance of Transactions", the assets and liabilities of the QUEST are recognised as assets and liabilities of the Group and the QUEST is consolidated in the Group accounts. Balances and transactions between the QUEST and other Group entities are eliminated on consolidation. Since the shares have not been issued outside of the Group, the only effect of the above transaction was to increase share capital by £0.1m. The 11,500,000 shares are to be used to satisfy the valid exercise of options granted under the Stagecoach savings related share option schemes.

Between 29 October 1999 and 30 April 2002 1,769,336 shares were transferred to option holders. During the year to 30 April 2003, a further 4,829,012 shares were transferred to option holders. The remaining 4,901,652 shares are held by the QUEST. At 30 April 2003 the market valuation of shares held was £2.2m.

Notes to the accounts 2003

Note 23 Share option schemes

(a) Savings related share option schemes

The Company has two Inland Revenue approved savings related share option schemes. The schemes are based on eligible employees being granted options and them agreeing to open a sharesave account with the Nationwide Building Society and/or Halifax plc and to save weekly or monthly for a fixed period. The right to exercise the option is at the employee's discretion within six months following the end of the fixed period.

Scheme	Date of issue	Exercise price	Duration
B	1 April 1998	129.1p	5 years
C	1 April 2002	60.0p	3 years

The changes in the number of participating employees and options over ordinary shares were as follows:

	Scheme B		Scheme C	
	Number of employees	Ordinary shares	Number of employees	Ordinary shares
Beginning of year	1,725	3,847,359	4,414	15,654,052
Options lapsed	1,263	2,530,468	834	3,300,599
End of year	462	1,316,891	3,580	12,353,453

(b) Executive share options

Award date	Number of executives & directors	At 1 May 2002	Granted	Lapsed	At 30 April 2003	Exercise price £	Date from which exercisable	Expiry date
9 September 1994	1	53,296	Nil	Nil	53,296	0.3030	9 September 1997	9 September 2004
13 October 1995	3	339,353	Nil	Nil	339,353	0.4820	13 October 1998	13 October 2005
11 October 1996	9	1,332,276	Nil	Nil	1,332,276	1.0900	11 October 1999	11 October 2006
8 September 1997	9	558,569	Nil	Nil	558,569	1.2810	8 September 2000	8 September 2004
8 September 1997	2	41,472	Nil	Nil	41,472	1.2810	8 September 2000	8 September 2007
8 September 1997	3	725,754	Nil	Nil	725,754	1.2810	8 September 2002	8 September 2004
19 October 1998	21	392,506	Nil	63,753	328,753	2.2280	19 October 2001	19 October 2005
19 October 1998	3	738,874	Nil	Nil	738,874	2.2280	19 October 2003	19 October 2005
1 February 1999	1	27,130	Nil	Nil	27,130	2.5060	1 February 2002	1 February 2006
16 June 1999	3	145,755	Nil	Nil	145,755	2.1140	16 June 2004	16 June 2006
19 July 1999	26	672,557	Nil	33,797	638,760	2.0310	19 July 2002	19 July 2006
1 October 1999	1	78,050	Nil	Nil	78,050	0.0050	1 October 2002	1 October 2006
15 June 2000	72	7,402,661	Nil	692,497	6,710,164	0.6250	15 June 2003	15 June 2007
15 June 2000	2	1,822,301	Nil	Nil	1,822,301	0.6250	15 June 2005	15 June 2007
20 June 2001	77	6,752,925	Nil	286,850	6,466,075	0.7075	20 June 2004	20 June 2008
23 July 2001	1	828,300	Nil	828,300	Nil	0.7625	23 July 2004	23 July 2008
23 July 2002	99	Nil	22,497,813	200,000	22,297,813	0.3750	23 July 2005	23 July 2009
5 December 2002	39	Nil	15,835,032	Nil	15,835,032	0.2700	5 December 2005	5 December 2009
Totals		21,911,779	38,332,845	2,105,197	58,139,427			

The expiry dates shown above are based on the original share option agreements. As explained in the Remuneration report on pages 30 to 34, certain former directors of the Company hold share options where the expiry date is earlier than the original expiry date due to the directors no longer being employed by the Group.

All options were granted for nil consideration. The mid-market price for these shares at 30 April 2003 was £0.44. The Company's shares traded in the range £0.125 to £0.805 during the year to that date.

Note 24 Reserves

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Profit and loss account (note 10)	(77.3)	514.8	57.5	670.1
Share premium account	386.1	384.4	386.1	384.4
ESOP distribution reserve	Nil	1.6	Nil	1.6
Capital redemption reserve	1.7	1.7	1.7	1.7

Other than the Company's profit and loss account balance of £57.5m, none of the above reserves as at 30 April 2003 are regarded as distributable.

(Loss)/profit for the financial year comprises:	2003 £m	2002 £m
Company	(578.3)	(38.1)
Subsidiary undertakings, joint ventures and associates	53.1	65.1
	(525.2)	27.0

The movement in the profit and loss account is given in note 10. The movement on other reserves is as follows:

	Group and company: share premium £m	Group and company: ESOP distribution reserve £m	Group and company: capital redemption reserve £m
Beginning of year	384.4	1.6	1.7
Arising on shares issued by QUEST	1.7	Nil	Nil
ESOP distributed during year	Nil	(1.8)	Nil
ESOP provided during year	Nil	0.2	Nil
End of year	386.1	Nil	1.7

The ESOP distribution reserve represents the amount to be subscribed in connection with the approved profit sharing scheme (following an equivalent contribution by Group companies) in respect of the issue of new shares to eligible employees.

Cumulative goodwill of £113.8m (2002 – £114.3m) has been written off against reserves in periods prior to the adoption of FRS 10 "Goodwill and Intangible Assets".

Notes to the accounts 2003

Note 25 Consolidated cash flows

(a) Reconciliation of operating (loss)/profit to net cash flow from operating activities	2003 £m	2002 £m
Operating (loss)/profit of Group companies	(469.8)	86.8
Depreciation	105.3	112.7
Impairment of tangible fixed assets at Coach USA	162.7	9.7
Impairment of goodwill at Coach USA	386.8	Nil
Loss on sale of tangible fixed assets, other than properties	2.7	0.1
Goodwill amortisation	28.6	41.7
Provision for losses on operations to be terminated or sold	7.7	9.9
Decrease/(increase) in stocks	11.7	(3.1)
Decrease/(increase) in debtors	13.6	(6.6)
ESOP provided for	0.2	1.8
Decrease in creditors	(1.7)	(4.1)
Increase in provisions	24.4	8.0
Net cash inflow from operating activities	272.2	256.9

(b) Reconciliation of net cash flow to movement in net debt	2003 £m	2002 £m
(Decrease)/increase in cash	(12.7)	28.5
Bond repayments	40.0	77.7
Cash flow from decrease/(increase) in debt and lease financing	95.3	(17.3)
	122.6	88.9
Loans and finance leases of acquired/disposed subsidiaries	Nil	0.5
Other movements	59.9	(40.1)
Movement in cash collateral	32.1	(38.2)
Decrease in net debt	214.6	11.1
Opening net debt	(774.6)	(785.7)
Closing net debt	(560.0)	(774.6)

(c) Analysis of net debt

	Opening £m	Cash flows £m	Cash collateral £m	Other movements £m	Closing £m
Cash	107.5	(12.7)	Nil	(4.7)	90.1
Cash collateral	42.5	38.9	(6.8)	Nil	74.6
Hire purchase and lease obligations	(106.5)	44.4	Nil	(18.5)	(80.6)
Bank loans and loan stock	(314.0)	44.1	6.8	23.1	(240.0)
Bonds	(504.1)	40.0	Nil	60.0	(404.1)
Totals	(774.6)	154.7	Nil	59.9	(560.0)

The net total of cash and cash collateral of £164.7m (2002 – £150.0m) is classified in the balance sheet as £164.7m (2002 – £150.0m) in cash at bank and in hand.

(d) Restricted cash

The cash collateral balance as at 30 April 2003 of £74.6m (2002 – £42.5m) comprises balances held in trust in respect of loan notes of £34.3m (2002 – £41.1m) and Coach USA letter of credit cash and insurance collateral cash of £40.3m (2002 – £1.4m). In addition, cash includes train operating company cash of £42.9m (2002 – £56.4m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

Note 25 Consolidated cash flows (continued)

(e) Purchase of subsidiary undertakings	Coach USA £m	UK £m	Total £m
Net assets acquired at fair value (see note 13)	1.3	2.3	3.6
Goodwill	1.5	Nil	1.5
	2.8	2.3	5.1
Consideration			
Cash and acquisition expenses paid in year	2.8	Nil	2.8
Deferred consideration	Nil	2.3	2.3
	2.8	2.3	5.1
The cash paid during the year in respect of the purchase of subsidiary undertakings was as follows:			£m
Cash paid in respect of acquisitions in year (see above)			2.8
Deferred consideration in respect of Coach USA acquisitions			7.3
			10.1

Companies acquired in the year did not have a material impact on cash flows.

(f) Disposal of subsidiaries and other businesses

Details of net assets disposed of and the related sales proceeds are set out in note 13.

Companies disposed of in the year did not have a material impact on cash flows.

Note 26 Guarantees and other financial commitments**(a) Guarantees**

The Company is a party to bank guarantees in respect of guarantees, loans, overdrafts and other facilities provided to certain Group undertakings of which £81.0m was outstanding at 30 April 2003 (2002 – £75.7m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments

Capital commitments are as follows:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Contracted for but not provided For delivery in one year	50.5	73.1	16.8	11.8

At 30 April 2003, £32.6m of the total capital commitments relates to overseas operations (30 April 2002 – £55.6m).

Notes to the accounts 2003

Note 26 Guarantees and other financial commitments (continued)

(c) Operating lease and similar commitments

The annual commitments due under non-cancellable operating leases are as follows:

	2003 £m	2002 £m
Under one year	80.3	77.9
Between one year and five years	152.4	134.0
Five years and over	3.3	74.4

South West Trains Limited has contracts with Network Rail for access to the railway infrastructure (track, stations and depots) for the period until February 2007. South West Trains Limited also has contracts which commit it to lease rolling stock from Angel Trains Contracts Ltd, HSBC Rail (UK) Ltd and Porterbrook Leasing Limited.

(d) Pension commitments

(i) Summary of schemes operated

The Group contributes to a number of pension schemes. The principal defined benefit occupational benefit schemes are as follows:

- The South West Trains section of the Railways Pension Scheme ("RPS");
- The Island Line section of the Railways Pension Scheme ("RPS");
- The Stagecoach Group Pension Scheme ("SGPS");
- A number of UK Local Government Pension Schemes ("LGPS").

These defined benefit schemes cover the majority of the Group's UK employees. These schemes are devised in accordance with local employment terms and conditions. Each scheme is administered independently of the employers and the scheme assets are held in trusts that are managed by investment managers appointed by the schemes' trustees.

In addition, the Group contributes to a number of defined contribution schemes covering non-UK employees.

(ii) Accounting for pensions under SSAP 24

The Group has applied SSAP24, "Accounting for pension costs" in preparing its accounts. The total pension cost reported in the profit and loss account and the cash outflow to the Group in the year ended 30 April 2003 can be analysed as follows:

	Pension cost		Cash outflow	
	2003 £m	2002 £m	2003 £m	2002 £m
UK Bus/Group overheads				
– SGPS	14.0	12.4	15.5	15.0
– LGPS	2.7	1.9	3.0	2.4
– Other	0.8	0.2	0.9	Nil
Rail				
– RPS	12.1	1.8	5.9	0.4
Coach USA	1.6	1.7	1.6	1.7
	31.2	18.0	26.9	19.5

The balance sheet position of each scheme as at 30 April 2003 is analysed below. It should be noted that the balance sheet position under SSAP 24 that is shown on page 71 is not equivalent to an actuarial estimate of the scheme's funding position at the balance sheet date.

The net balance sheet asset of £23.4m (2002 – £27.7m) shown below is the sum of the cumulative differences between contributions paid by the employers into the schemes and the charge to the profit and loss account.

Note 26 Guarantees and other financial commitments (continued)**(d) Pension commitments (continued)**

	Prepayment		Provision		Net	
	2003	2002	2003	2002	2003	2002
UK Bus/Group overheads						
– SGPS	20.3	18.8	Nil	Nil	20.3	18.8
– LGPS	14.9	15.0	(0.2)	(0.6)	14.7	14.4
– Other	Nil	Nil	(3.3)	(3.4)	(3.3)	(3.4)
Rail						
– RPS	Nil	Nil	(8.3)	(2.1)	(8.3)	(2.1)
	35.2	33.8	(11.8)	(6.1)	23.4	27.7

The accounting for each of the defined benefit schemes is based on the most recent formal valuation of the relevant scheme, updated where appropriate to the financial year-end immediately following the date of the valuation. The key details for each scheme are as follows:

	Most recent full actuarial valuation of scheme	Latest actuarial review for SSAP 24 accounting purposes	Funding Level %	Market value of assets £m
UK Bus/Group overheads				
– SGPS	5 April 2002	30 April 2002	105	325.9
– LGPS	31 March 2001	30 April 2001	121	186.6
Rail				
– RPS	31 December 2001	31 December 2001	105	225.5

The above defined benefit schemes are funded at contribution rates determined by independent actuaries on the basis of triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of valuations are those relating to the rate of return on investments and the rates of increases in earnings and pensions. The valuations referred to above for SSAP 24 accounting purposes assume that investment returns, net of management expenses, will exceed earnings growth by an average of at least 3.5% per annum. Present and future pensions are assumed to increase at an average of 2.6% per annum for SGPS and 2.5% per annum for the other defined benefit schemes.

(iii) Accounting for pensions under FRS 17

Under the transitional arrangements for the implementation of Financial Reporting Standard ("FRS") 17, "Retirement Benefits", the Group continues to account for pensions in accordance with SSAP 24 as set out above. The additional disclosures required by FRS 17 are provided below.

The calculations of FRS 17 disclosures have been based on the most recent actuarial valuations, which have been updated to 30 April 2003 by an independent professionally qualified actuary to take account of the requirements of FRS 17.

The main financial assumptions used by the actuary were as follows:

	2003 %	2002 %
Rate of increase in salaries	4.0	4.0
Rate of increase of pensions in payment		
– SGPS	2.3	2.3
– Other defined benefit schemes	2.5	2.5
Discount rate	5.5	6.1
Inflation	2.5	2.5

In applying FRS 17, the directors believe that the RPS schemes need to be considered separately. The directors understand that the Group has no rights or obligations in respect of the RPS schemes following the expiry of the South West Trains and Island Line franchises. Furthermore, the franchise payments in respect of the new South West Trains franchise to February 2007 take account of the cash cost of pension scheme funding during the franchise term.

The amounts relating to the RPS schemes are separately highlighted on page 72.

Notes to the accounts 2003

Note 26 Guarantees and other financial commitments (continued)

(d) Pension commitments (continued)

The balance sheet amounts as at 30 April 2003 measured in accordance with the requirements of FRS 17 were as follows:

	SGPS/Other		RPS		LGPS		Total	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Total market value of assets	282.3	325.9	183.5	225.7	155.3	180.1	621.1	731.7
Present value of liabilities	(449.1)	(364.8)	(218.2)	(213.6)	(211.7)	(187.4)	(879.0)	(765.8)
Pension (liability)/asset before tax	(166.8)	(38.9)	(34.7)	12.1	(56.4)	(7.3)	(257.9)	(34.1)
Related deferred tax asset/(liability)	50.1	11.7	10.4	(3.6)	16.9	2.2	77.4	10.3
Net pension (liability)/asset	(116.7)	(27.2)	(24.3)	8.5	(39.5)	(5.1)	(180.5)	(23.8)

The value of the assets in the schemes and the expected long-term rate of return as at 30 April were:

	Rate of return		SGPS		RPS		LGPS		Total	
	2003 (%)	2002 (%)	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Equities	8.5	8.5	242.9	313.3	173.8	213.5	92.0	112.1	508.7	638.9
Bonds	5.3	5.9	Nil	Nil	8.5	11.6	38.3	36.9	46.8	48.5
Other	5.7	6.5	39.4	12.6	1.2	0.6	25.0	31.1	65.6	44.3
			282.3	325.9	183.5	225.7	155.3	180.1	621.1	731.7

If FRS 17 had been adopted, the amounts charged/(credited) to the profit and loss account would have been as follows:

	£m
Charge to operating profits	
– Current service cost	30.9
– Past service cost	Nil
	30.9
Finance (income)/cost	
– Expected return on assets	(60.7)
– Interest cost	48.1
	(12.6)

The following amounts would have been included within the Group statement of recognised gains and losses (STRGL) under FRS 17:

	£m
Actual return less expected return on pension scheme assets	(185.6)
Experience gains and losses arising on the scheme liabilities	38.8
Changes in assumptions underlying the present value of the scheme liabilities	(85.6)
Actuarial loss reported in STRGL	(232.4)

Actuarial loss as a percentage of scheme assets and liabilities at 30 April 2003 were as follows:

	%
Actual return less expected return on pension scheme assets as a percentage of scheme assets	(29.9%)
Experience gains and losses arising on the scheme liabilities as a percentage of the present value of scheme liabilities	4.4%
Total actuarial loss recognised in STRGL as a percentage of the present value of scheme liabilities	(26.4%)

Note 26 Guarantees and other financial commitments (continued)**(d) Pension commitments (continued)**

The movement in deficit during the year under FRS 17 would have been:

	£m
Deficit in schemes at the beginning of the year	(34.1)
Movement in the year:	
Current service cost	(30.9)
Contributions	26.9
Other finance income	12.6
Actuarial loss	(232.4)
Deficit in schemes at the end of the year	(257.9)

If FRS 17 had been adopted in these financial statements, the Group's consolidated net assets and profit and loss reserve at 30 April 2003 would have been as follows:

	Profit and loss reserve £m	Net assets £m
As currently stated	(77.3)	317.1
Net pension liability on FRS 17 basis	(180.5)	(180.5)
SSAP 24 net pension asset that will reverse on implementation of FRS 17	(23.4)	(23.4)
Deferred tax related to SSAP 24 items	7.0	7.0
Adjustment to net interest in joint ventures	(17.8)	(17.8)
Net assets on FRS 17 basis	(292.0)	102.4

(e) Contingent liabilities

- (i) The Group's contingent liability for the full potential amount of deferred taxation on all timing differences is detailed in note 21.
- (ii) Certain of the Group's properties are the subject of contractual obligations to pay a share of the open market value to the former owners but only on the occurrence of certain specified events. The periods of these contractual obligations lapse on various dates up until 2005. There are no intentions to dispose of any of these properties at 30 April 2003.
- (iii) A performance bond backed by an insurance arrangement for £20.9m (2002 – £20.9m), a season ticket bond backed by an insurance arrangement for £31.3m (2002 – £28.7) and a holding company guarantee of £21.0m (2002 – £21.0m) have been provided to the UK's Strategic Rail Authority in support of the Group's franchise obligations at South West Trains Limited at 30 April 2003. These contingent liabilities are not expected to crystallise.
- (iv) The Group and its joint venture have, in the normal course of business, entered into a number of long term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.
- (v) Under UK Rail franchise agreements, the Group and its joint venture have agreed with the UK's Strategic Rail Authority annual amounts receivable or payable in respect of the operation of rail franchises for future periods.

Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.

(f) Joint venture and associates

Our share of commitments and contingent liabilities in joint venture and associates shown below are based on the latest statutory accounts of the relevant companies:

	Joint ventures £m	Associates £m	2003 Total £m	2002 Total £m
Annual commitments under non-cancellable operating leases	73.1	0.4	73.5	69.1
Capital commitments	0.5	Nil	0.5	2.2
Franchise performance bonds	14.7	Nil	14.7	14.7
Bank guarantee	Nil	2.4	2.4	3.1
Season ticket bond	1.2	Nil	1.2	1.2
Infrastructure investment commitments	Nil	0.9	0.9	1.8

Notes to the accounts 2003

Note 26 Guarantees and other financial commitments (continued)

(f) Joint venture and associates (continued)

On 15 May 2003, West Coast Trains Limited (an indirect subsidiary of Virgin Rail Group Holdings Limited, the latter being classified as a joint venture in these accounts) initiated legal proceedings against ALSTOM in respect of a claim for liquidated damages and certain additional lease costs arising from the late delivery of "Pendolino" train sets which are being procured from ALSTOM in order to operate on the West Coast mainline. No account of any benefit from this claim has been included in the financial statements of Virgin Rail Group Holdings Limited or its subsidiary companies. ALSTOM itself has made claims for extensions of time to West Coast Trains Limited in the form of notices of potential delay as well as indicating that it is entitled to recover cost overruns. ALSTOM's counterclaim has not been fully formulated or particularised and it is not yet possible to assess the merits of this counterclaim. On receipt of their formal claim, a more detailed examination can be undertaken.

Note 27 Related party transactions

Transactions between Group companies that are fully eliminated on consolidation are not disclosed as permitted by FRS 8, "Related Party Disclosures".

Transactions in which directors have had a material interest are disclosed in the Remuneration report on pages 30 to 34.

At 30 April 2003, the Company had loan notes receivable of £10.0m (2002 – £10.0m) from Virgin Rail Group Limited. The Company earned interest of £1.0m (2002 – £1.0m) on the loan notes during the year.

During the year, Keith Cochrane (up until his resignation on 21 July 2002), Graham Eccles and another member of the Group's management were non-executive directors of Virgin Rail Group Holdings Limited. Fees of £25,000 (2002 – £25,000) were payable to the Group by Virgin Rail Group Holdings Limited in this regard.

During the year, Brian Souter and Keith Cochrane (up until his resignation on 21 July 2002) and another member of the Group's management were non-executive directors of Road King Infrastructure Limited. Fees of £35,981 (2002 – £33,795) were paid to the Group by Road King Infrastructure Limited in this regard.

Note 28 Post balance sheet events

(i) Disposal of Citybus

On 9 June 2003, the Group announced the disposal of Citybus to Delta Pearl Limited ("the purchaser"), a 100% indirect subsidiary of Chow Tai Fook Enterprises Limited, the privately owned company of the Cheng Yu Tung family and the major shareholder in New World Development Company Limited which in turn has an interest in New World First Bus Services Limited, one of Hong Kong's major bus operators. The sale was completed on 23 June 2003.

The gross consideration for the disposal is HK\$2,200m. The net cash amount received was HK\$1,646m, which represented the gross consideration less the amount of net third party debt as at 30 April 2003, being HK\$554m. The purchaser assumed all of the net third party debt of Citybus.

The purchaser also assumed capital commitments of approximately HK\$239m relating mainly to the completion of a new depot for Citybus at Chaiwan in Hong Kong.

Further details on the disposal were given in the Group's announcement on 9 June 2003.

(ii) Disposal of businesses at Coach USA

Since 30 April 2003, the Group has announced the disposals of a number of parts of Coach USA in line with the restructuring plan for Coach USA announced in December 2002. The disposals announced were as follows:

- On 6 June 2003, the Group announced that it had agreed terms for the sale of the South Central and West Regions of Coach USA to a newly formed affiliate of Kohlberg & Co., LLC. Completion of the transaction is subject to regulatory approval, final confirmation of financing and normal closing conditions. The gross consideration for the sale is US\$155m, to be satisfied by cash of US\$128.5m and an interest-bearing loan note receivable of US\$26.5m repayable no later than 63 months from date of close.
- On 2 June 2003, the Group announced that it had completed the sale to Peter Pan Bus Lines of the business and assets of the New England Region of Coach USA. The business has been sold for a consideration of US\$40m, satisfied by cash of US\$33m and loan notes receivable of US\$5m and US\$2m repayable after three years and four years respectively, both interest bearing.
- On 22 May 2003, the Group announced that it had agreed terms for the sale to First Transit, a US subsidiary of First Group plc, of the business and assets of the Transit Division of Coach USA. The transaction is subject to normal commercial closing conditions, including approval from affected public authorities, with completion anticipated before 30 June 2003. The consideration for the transaction is US\$22.5m, satisfied by cash.

These transactions will not result in a material gain or loss on disposal in the consolidated accounts of Stagecoach Group plc. Further details on the disposals were given in the Group's announcements of each disposal.

Shareholder information

Analysis of shareholders as at 30 April 2003

Range of holdings	No. of holders	%	Shares held	%
1 – 25,000	63,374	98.13	112,090,141	8.49
25,001 – 250,000	911	1.41	61,025,734	4.62
250,001 – 500,000	87	0.13	31,135,217	2.36
500,001 – 3,750,000	160	0.25	223,171,952	16.89
Over 3,750,000	50	0.08	893,522,968	67.64
	64,582	100.00	1,320,946,012	100.00

Classification of shareholders	No. of holders	%	Shares held	%
Individuals	62,057	96.09	425,922,132	32.24
Other corporate bodies	74	0.11	9,689,593	0.73
Banks and Nominees	2,209	3.42	817,816,640	61.92
Insurance and assurance companies	1	0.00	152,616	0.01
Limited companies	231	0.36	67,157,356	5.08
Pension funds	10	0.02	207,675	0.02
	64,582	100.00	1,320,946,012	100.00

Registrar and transfer office

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's name and address. Please write to: Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. Telephone 0870 601 5366.

Stagecoach individual savings accounts

The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on 08457 22 55 25.

The Company has also made arrangements with Stocktrade for Maxi and Mini ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 10 George Street, Edinburgh EH2 2PZ. Telephone 0131 240 0448.

Low cost share dealing facility

The Group has set up a low cost execution only share dealing facility with a division of Brewin Dolphin, Stocktrade, exclusive to Stagecoach shareholders. The commission is 0.6% up to £10,000 with 0.2% being charged on the excess thereafter, subject to a £15 minimum. Shareholders who would like further information should write to Stocktrade, PO Box 1076, 10 George Street, Edinburgh EH2 2PZ. Telephone 0845 601 0995, quoting dealing reference Low Co020. Postal dealing packs are available on request.

Payment of dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The mandates enable the Company to pay dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to shareholders of the BACS system is that the registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder bank or building society account. Shareholders who wish to benefit from this service should request the Company's registrar (address above) to send them a dividend/interest mandate form or alternatively complete the mandate form attached to the next dividend tax voucher they receive.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at favourable commission rates. Shareholders who would like further information should telephone Lloyds TSB Registrars Scotland on 0870 241 3018.

Five year financial summary

	2003 £m	2002 £m	2001* £m	2000* £m	1999† £m
Results					
Total turnover	2,076.6	2,114.4	2,083.5	2,179.1	1,548.4
Operating (loss)/profit	(466.2)	96.5	(268.8)	198.6	274.9
Finance charges (net)	(33.5)	(59.8)	(76.0)	(144.6)	(61.0)
(Loss)/profit before tax	(500.2)	42.0	(335.2)	255.3	210.4
Tax charge	(25.0)	(15.0)	(19.1)	(50.1)	(60.5)
(Loss)/profit attributable to ordinary shareholders	(525.2)	27.0	(354.3)	205.2	150.0
Net assets					
Fixed assets	1,259.8	1,981.0	2,047.3	2,304.1	2,107.6
Net current (liabilities)/assets	(49.2)	(40.4)	(109.1)	250.8	(189.9)
Long term creditors	(640.7)	(808.1)	(816.8)	(1,039.4)	(950.8)
Provisions	(252.8)	(223.4)	(201.1)	(192.9)	(374.8)
Tangible fixed assets					
Additions	71.1	103.3	141.8	376.7	263.1
Depreciation	(105.3)	(112.7)	(111.2)	(218.7)	(186.0)
Cash and debt					
Cash at bank and in hand	164.7	150.0	160.4	816.0	321.8
Gross debt	(724.7)	(924.6)	(946.1)	(1,365.6)	(1,226.7)
Securitised debt (included within gross debt)	Nil	Nil	Nil	Nil	(482.7)
Net debt	(560.0)	(774.6)	(785.7)	(549.6)	(904.9)
Cash flow					
Free cash flow	217.8	184.3	228.1	283.9	279.8
Ratios					
Earnings per share‡	6.4p	6.3p	7.5p	12.8p	11.9p
Dividends per ordinary share	2.6p	2.6p	3.8p	3.6p	3.0p
Free cash flow per ordinary share	16.6p	14.1p	17.0p	18.9p	21.2p
Shares in issue at year end	1,320.9m	1,320.9m	1,318.6m	1,407.0m	1,382.5m
Average number of employees	38,876	38,783	40,002	41,254	31,920

*2001 and 2000 have been restated following adoption of FRS 19

†1999 summary information has been restated following adoption of FRS 15 and FRS 19

‡before goodwill amortisation and exceptional items

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Exchange House
Primrose Street
London EC2A 2HS

Financial Calendar



Annual General Meeting
29 August 2003



Final Dividend
8 October 2003



Interim Report
December 2003



Interim Dividend
March 2004



Company websites

www.stagecoachgroup.com
www.stagecoachbus.com
www.southwesttrains.co.uk
www.coachusa.com

www.stagecoach.co.nz
www.island-line.co.uk
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