

ANNUAL REPORT 2004

# STAGECOACH GROUP



## Business highlights

### Group

- strong year of growth and delivery of strategic objectives
- turnover from continuing operations up 4.9%
- operating margin improvement at continuing operations
- disposals of Citybus (Hong Kong) and non-core North American operations
- disposals of non-core investments in Road King and Trainline
- net debt down 88% by £492m from £560m to £68m
- proposed return of approximately £250m capital to shareholders through issue of redeemable “B” shares – equivalent to 18.0 pence per ordinary share

### UK Bus

- turnover up 8.7%
- operating margin\* up to 11.5% from 11.2% (including impact from increases in operating lease, National Insurance and pension costs)
- passenger volumes up 1.4% outwith London

### North America (Coach USA)

- successful delivery of restructuring and disposal programme
- signs of recovery resulting in turnover from continuing operations up 5.1% in second half of year (constant currency)
- operating profit\* up 5.7% on significantly reduced turnover base

### Rail

- turnover up 6.1%
- operating profit\* up 15.4%
- significant improvement in South West Trains’ operational performance
- first UK rail integrated control centre opened by South West Trains and Network Rail
- partner in shortlisted bids for East Coast and Integrated Kent franchises
- partnership with Virgin and Deutsche Bahn to bid for inter-city rail franchises

\*excluding restructuring costs, goodwill amortisation and exceptional items

## Financial highlights

- total turnover £1,792m (2003: £2,077m)
- total operating profit<sup>†</sup> £148m (2003: £146m)
  - £142m (2003: £121m), excluding Citybus, Road King and Trainline disposals
  - statutory operating profit £130m (2003: loss of £466m)
- profit before tax<sup>†</sup> £120m (2003: £113m)<sup>‡</sup>
  - statutory profit before tax £96m (2003: loss of £500m)
- earnings per share<sup>†</sup> 6.7 pence (2003: 6.4 pence)
- full year dividend up 11.5% at 2.9 pence (2003: 2.6 pence)

<sup>†</sup> excluding goodwill amortisation and exceptional items

<sup>‡</sup> prior year included £15.1m of non-recurring gains on repurchase of bonds and £8.5m non-recurring liquidated damages at South West Trains

## Contents

2 Chairman’s statement	7 New Zealand	10 Corporate social responsibility	24 Remuneration report
3 Chief Executive’s review	7 Rail	13 Finance Director’s review	28 Independent auditors’ report
4 Operating review	9 Disposed operations	17 Directors	29 Accounts
5 UK Bus	9 Group strategy	18 Directors’ report	67 Shareholder information
6 North America	9 Current trading and outlook	20 Corporate governance	68 Five year financial summary

## Chairman's statement



I am pleased to report that the Group has delivered a year of strong growth and demonstrated that we continue to lead the way in providing innovative public transport services. We have successfully delivered on the strategy that we outlined to restructure our North American operations, which has resulted in a more predictable business and contributed to a very significant reduction in Group debt.

Stagecoach Group now has a core portfolio of bus and rail businesses in the UK and overseas, with strong cash generation. Coupled with our solid financial position, I believe we have excellent potential to deliver good returns for shareholders.

Total turnover for the year ended 30 April 2004 was £1,792.3m (2003: £2,076.6m). Excluding the impact of disposed businesses, turnover grew by 4.9% from £1,581.4m to £1,659.4m. Operating profit before goodwill amortisation and exceptional items was £147.5m (2003: £146.4m). Excluding the impact of the disposals of Citybus, Chongqing Bus, Road King and Trainline, the equivalent operating profit grew from £121.0m to £141.9m. Earnings per share before goodwill amortisation and exceptional items were 6.7p (2003: 6.4p). The reduction in operating profits as a result of disposals was offset by growth in our continuing businesses and reduced finance charges reflecting the proceeds from disposals.

Last year, we stated our intention to pursue a progressive dividend policy. The Board of Directors is proposing a final dividend of 2.0p per share (2003: 1.8p), giving a total dividend for the year of 2.9p (2003: 2.6p). This is an increase of 11.5% and reflects the Board's firm confidence in the future prospects for the Group. The proposed final dividend of 2.0p per share will be paid on 6 October 2004 to shareholders on the register at 10 September 2004.

Consolidated net debt reduced by £492.4m in the year from £560.0m down to £67.6m. The significant reduction in net debt reflects the benefits of the strong cash generation from our core businesses, and the proceeds from the disposals of Citybus, Road King, Trainline and the non-core parts of our North American operations.

As previously announced, the Board proposes to return approximately £250m of capital to shareholders in order to achieve a more efficient capital structure. The Board believes that by adjusting the mix of equity and debt in the business, the Group can lower its overall cost of capital and generate further shareholder value. We are therefore proposing, in addition to the final dividend of 2.0p, to issue one redeemable B Share for every ordinary share, which can be converted to cash of 18.0p per B Share. Further details are provided in the Finance Director's Review on pages 13 to 16.

All of the Group's core divisions have continued to trade well, particularly our Rail division where we have seen improved performance and further growth in passenger volumes. The new three-year franchise at South West Trains has started well and is delivering good operating profits.

We welcome the Government's major review of the railways in the UK and, as part of the consultation process, we have made constructive proposals to deliver the integration we believe is vital to the future of the rail network.

A key strategic priority in the months ahead is finalising the negotiation of the CrossCountry and West Coast franchises, which at present continue to operate under annual budgets set by the Strategic Rail Authority ("SRA"). We are pleased with the progress that is being made and negotiations with the SRA are continuing towards concluding a detailed agreement in due course that will put both franchises on a long-term commercial basis through to 2012.

We will also be focusing on our bid with Virgin and Deutsche Bahn for the new Inter-City East Coast franchise, which would be an excellent addition to our rail portfolio. In addition, we are bringing our UK operating experience to the Danish State Railways' bid for the new Integrated Kent rail franchise and we will consider other opportunities in the inter-city and London commuter markets.

Renewed dynamism at our UK Bus operations has seen Stagecoach lead the industry with innovative ideas to attract more people to public transport. Megabus.com, the UK's first low cost internet bus service, encapsulates the entrepreneurial energy that drives the Group forward.

We have reported growth in operating profit\* and operating margin at our North American business. In New Zealand, our business continues to generate good operating profits and produce new ideas on the delivery of bus services.

I am delighted that the loyalty of our investors has been rewarded with a year of significant progress across the Group. Our excellent performance is also the result of a committed contribution from our employees across the whole Group. Looking ahead, I believe there are good prospects for further growth and increased shareholder value from our portfolio of businesses.



Robert Speirs  
Chairman

\*References to the operating profit of a particular division in the Chairman's statement, Chief Executive's review and Operating review refer to operating profit before restructuring costs, goodwill amortisation and exceptional items. Further details of the divisional split of operating profit can be found in note 2(b) to the accounts.

## Chief Executive's review



Stagecoach's development has always been driven by our ability to identify new ideas and growth opportunities at an early stage and to deliver them quickly. I am delighted that this year we have demonstrated yet again that we are at the cutting edge of new thinking in the provision of high quality bus and rail services.

Innovation can only become a reality with strong, effective management and a team of talented and committed people that understand our customers' needs. These qualities have underpinned our progress and success in the past 12 months as we attract more people to bus and rail travel and deliver increased value to our shareholders.

Our focus on new business development through investment in research is driving growth, particularly in our UK Bus networks. This year, we have launched two UK transport firsts – megabus.com, the country's first low cost internet bus network, and Yellow Taxibus, an innovative demand responsive service in Fife, Scotland. These projects are part of our strategy to tap into new markets and drive organic growth in our business.

Megabus.com is an excellent example of our ability to stay ahead of the competition by researching, developing and implementing new ideas quickly. Within less than a year, we have built an inter-city network that covers more than 20 routes in Scotland, England and Wales. Passenger numbers and revenues are ahead of our expectations.

We are working hard to refresh our provincial bus networks and have continued to invest in new vehicles during the year to 30 April 2004. In London, where we operate a large number of contracts on behalf of Transport for London ("TfL"), we have grown turnover this year by over 19%. Even with significant development of new services and increased cost pressures, we have increased our margins within our UK Bus division.

Our Rail division has delivered an outstanding performance, with operating profits up 15.4%. The new three-year franchise at South West Trains has started positively. Over the past year, there has been a notable reduction in the number of delay minutes attributed to South West Trains. This step-change in quality is all the more impressive having been achieved while managing the introduction of a new fleet of trains. Passengers are benefiting from record levels of investment as 40-year-old slam door carriages are replaced by the state-of-the-art Desiro fleet.

At our joint venture, Virgin Rail Group, we have strengthened the management team, which remains firmly focused on successfully renegotiating the West Coast and CrossCountry franchises.

Two-and-a-half years ago, Stagecoach launched its proposals for improved integration on the UK railways in our policy paper, "A Platform for Change". Gradually, our analysis of the issues and our thinking on the way forward for the country's fragmented rail network has gathered support and we have updated these ideas as part of our contribution to the Government's rail review.

I am delighted that South West Trains has proved to be part of the solution by joining with the infrastructure operator, Network Rail, to open the UK's first integrated operations control centre at Waterloo station in London. This has set the standard for similar centres elsewhere in the country. Similarly, both the Department for Transport and the Scottish Executive have adopted our "Kick Start" proposals for targeted funding to support the introduction of new bus services. We also welcome the Government's commitment to quality partnerships and structural stability in the UK Bus industry.

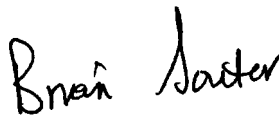
The past year has seen the completion of a major restructuring of our operations in North America. We now have an established core of more robust businesses, centred on our North East and North Central regions of the United States, and Canada. As promised a year ago, the operating profit of our North American business has been maintained on a significantly smaller base of operations and I am confident the business can make an increased contribution to earnings moving forward.

In New Zealand, we had a particularly successful financial year in 2002/03 as a result of the increased traffic associated with the America's Cup yacht race in Auckland. This year, without an uplift from such a major international event and despite a challenging operating environment, we have seen further passenger growth over our combined New Zealand operations, which continue to generate good returns for the Group.

The Group has made a promising start to the current financial year and trading is in line with our expectations.

Across all its businesses, Stagecoach has always retained a commitment to good environmental stewardship as part of its day-to-day public transport provision. We have set ourselves some challenging targets for the year ahead as part of a new wide-ranging Group environmental policy. Our trial of a next generation fuel additive product in our UK Bus division has potential to deliver significant cuts in fuel consumption and vehicle emissions that could have positive implications for the whole of the bus industry.

The hard work and loyalty of all our people and their positive response to our strategy has ensured Stagecoach has made a fast recovery. Now that we are firmly back on track, our challenge is to reposition the Group as a leading UK-based public transport specialist and continue to generate growth and shareholder value. I am confident the foundations we have put in place will ensure we are well placed for further success.



Brian Souter  
Chief Executive

# Operating review

## Overview

Group turnover for the year ended 30 April 2004 was £1,502.0m, compared to £1,798.7m in the prior year. The decrease is a direct result of the disposals in the year. Our continuing businesses delivered good growth and turnover from continuing operations at constant exchange rates increased 5.9%. Turnover by division is summarised below:

GROUP TURNOVER	2004		2003		Currency	2004		2003	
	£m	% of turnover	£m	% of turnover		Local Currency (m)	Growth %	Local Currency (m)	Growth %
<b>Continuing Group operations</b>									
UK Bus	650.2	11.5	598.4	11.2	£	650.2	67.0	598.4	8.7
North America	223.6	4.4	242.3	2.3	US\$	382.6	21.8	377.3	1.4
New Zealand	58.3	18.4	51.0	22.0	NZ\$	160.9	34.8	158.3	1.6
Rail	438.9	10.0	413.6	9.2	£	438.9	38.2	413.6	6.1
	<b>1,371.0</b>		<b>1,305.3</b>						
<b>Discontinued Group operations</b>									
North America	113.2		360.7		US\$	193.8		561.7	(65.5)
Citybus (Hong Kong)	17.8		132.3		HK\$	227.8		1,607.4	(85.8)
Australian Bus	Nil		0.4		A\$	Nil		1.0	(100.0)
	<b>131.0</b>		<b>493.4</b>						
<b>Total Group turnover</b>	<b>1,502.0</b>		<b>1,798.7</b>						

Operating profit from continuing Group operations increased from £114.7m to £128.8m. Operating profit is summarised below:

OPERATING PROFIT	2004		2003		Currency	2004		2003	
	£m	% of turnover	£m	% of turnover		Local Currency (m)	Growth %	Local Currency (m)	Growth %
<b>Continuing Group operations</b>									
UK Bus	74.8	11.5	67.0	11.2	£	74.8	67.0	67.0	
North America	14.8	4.4	14.0	2.3	US\$	25.4	21.8	21.8	
New Zealand	10.7	18.4	11.2	22.0	NZ\$	29.5	34.8	34.8	
Rail	44.1	10.0	38.2	9.2	£	44.1	38.2	38.2	
Group overheads	(8.4)	–	(9.4)	–	£	(8.4)	(9.4)	(9.4)	
Restructuring costs	(7.2)	–	(6.3)	–	£	(7.2)	(6.3)	(6.3)	
	<b>128.8</b>		<b>114.7</b>						
<b>Discontinued Group operations</b>									
Citybus (Hong Kong)	1.0	5.6	19.1	14.4	HK\$	12.8	232.0	232.0	
	<b>129.8</b>		<b>133.8</b>						
<b>Joint ventures and associates</b>									
Virgin Rail Group	13.5		7.2						
Trainline	(2.4)		(4.3)						
Road King	7.0		10.5						
Other	(0.4)		(0.8)						
	<b>147.5</b>		<b>146.4</b>						
Goodwill amortisation	(17.8)		(37.6)						
Exceptional items	Nil		(575.0)						
<b>Total operating profit/(loss)</b>	<b>129.7</b>		<b>(466.2)</b>						

## UK BUS

### Overview

Turnover in our UK Bus division has increased by 8.7% to £650.2m (2003: £598.4m), with turnover at our London bus business up 19.1% on the prior year. Operating profits were up 11.6% to £74.8m, compared to £67.0m in the previous year. Operating margins were 11.5% compared to 11.2% in 2003. The reported profits include the effects of a further increase in the use of operating leases to fund new vehicles. Excluding the impact of this change in financing, operating margins increased from 11.3% to 12.0%. This is a very encouraging performance given that the reported profits have been achieved after taking account of increased National Insurance and pension costs.

### Investment and innovation

This has been a year of innovation, investment and growth. Our firm commitment to modernising our fleet is continuing to help drive organic passenger growth across our business. Passenger volumes outwith London were up 1.4%. We have also introduced a number of products targeted at developing new markets to complement our traditional customer base.

Our award-winning megabus.com network, which offers low cost inter-city bus travel, combines the power of the Internet and our operational expertise to deliver an attractive and cleverly marketed service. A UK first, megabus.com now covers more than 20 routes in the UK. Significantly, the service is also attracting commuters out of their cars, which can only be of benefit in the battle against road congestion.

A second UK first is our Yellow Taxibus service, which combines the flexibility of home pick-ups with a traditional bus service using new executive people carriers. It is the first time a major transport operator has attempted to run this kind of operation commercially. We have launched an initial pilot scheme in Fife, Scotland and have plans for a further trial in London linked to our South West Trains services.

### Urban and provincial networks

Stagecoach views customer research as a key element in growing our provincial bus networks. We have pioneered the use of geo-demographic research and sophisticated marketing in the bus industry and we are particularly encouraged by the resulting shift from the use of car to bus which has helped to drive further passenger growth in the past year. Campaigns in Hartlepool and Grimsby have seen excellent growth in sales of our weekly Megarider tickets. A telemarketing campaign and relaunch of the Cambridge-Haverhill corridor has boosted passenger volumes on the route.

The Cambridge "citi" network continues to expand and we have recently introduced the "citi" brand and a new network to Peterborough. In Oxford, we have introduced dedicated route branding on our urban network and converted our city fleet to 100% low-floor buses. Improvements to our Bedford network have reversed a 4% passenger decline and are now delivering 9% growth compared to the prior year.

Stagecoach is taking part in the development of core corridors in Newcastle and Sunderland as part of the Tyne and Wear Superoute network with Nexus Passenger Transport Executive. In Manchester, we have achieved further passenger growth this year and expect additional benefits from new quality bus corridor measures, including real time information, later this year.

## London

Our London bus business, which has around a 16.0% share of the bus market in the capital, has had an excellent year. It continues to grow and win new business operated on behalf of Transport for London ("TfL") with reported turnover up 19.1% over the prior year. Virtually all existing contracts tendered to start in 2004-05 were retained, as well as new contracts won from competitors. This is a direct result of our focus on competitive tendering, excellent operational performance, and a good working relationship with TfL. Around 200 new double and single-decker vehicles have entered service in London, making the entire fleet low-floor. Work has also started on the construction of a depot to initially house a new articulated bus operation.

## Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision. We firmly believe this partnership approach, endorsed by the Government, will deliver the best services and value for money to taxpayers. In Scotland and Wales, we are playing our part in the success of the free concessionary fares schemes where we have invested in new vehicles and increased frequencies. We are also closely involved in many smartcard and multi-operator ticketing schemes, in places such as Manchester and south-west England, to make travel easier for passengers. We are also working with businesses and educational establishments to encourage travel by public transport and in Oxford, for example, have established a new network in partnership with Brookes University. These partnerships are delivering results, such as in Corby where a reshaped network and £3.0m investment in new vehicles by Northamptonshire County Council has driven passenger growth by over 70.0% during the year.

## Kick Start

Both the Department for Transport and the Scottish Executive are taking forward our Kick Start proposal for targeted funding to support the introduction of new bus services. In January 2004, the Department for Transport included pilot schemes as part of its £40.0m Urban and Rural Bus Challenge funding programme. Significant schemes are now being taken forward by Stagecoach and our partner local authorities. Following the success of the initial pilot project in Perth, Scotland, we are also planning some further projects which are to be funded entirely by Stagecoach.



## Operating review

### NORTH AMERICA

#### Overview

Turnover of our North American business for the year of US\$576.4m (2003: US\$939.0m) comprised US\$382.6m (2003: US\$377.3m) from continuing operations and US\$193.8m (2003: US\$561.7m) from discontinued operations. Operating profit increased from US\$21.8m in 2003 to US\$25.4m. We have grown operating profit despite the significant reduction in turnover arising from a number of business disposals. This increased profit has been achieved by growth in our continuing businesses and a managed reduction in overheads. Converted to sterling, the turnover of our North American business for the year was £336.8m, compared to £603.0m in the previous year. Operating profit was £14.8m, compared to £14.0m in 2003. This represents an operating margin of 4.4% (2003: 2.3%).

We have largely completed the restructuring of our operations in North America, which has resulted in a business with a clearly defined geography and more predictable revenue streams. Since 30 April 2003, we have completed the sale of our New England, West, South Central and South East regions, as well as the disposal of the Transit division and a number of our taxi businesses, including the major Texas taxi operations. Within the past few months we have completed the sale of taxi operations in West Palm Beach, Jacksonville and San Diego.

Our North American operations are now centred on three areas: our North East and North Central regions in the United States, and Canada.

#### North East

In the North East, our highly successful New York Sightseeing operation continues to expand. We have added additional tours to our product offering and have ordered 20 new open-topped double decker buses and 6 trolleys to cater for expanding passenger volumes.

There has been further investment in around 50 new motorcoaches for the commuter, charter, and express services operated by our Suburban, Community Coach and Shortline businesses, as well as new low-floor buses for our parking lot shuttle contract at Newark Airport. We received the last 26 motor coaches out of a 3 year delivery of 226 coaches funded by the State of New Jersey for use on commuter services. Additionally, we received State funds to undertake a refurbishment programme which significantly upgraded the quality of our Staten Island commuter service.

We are targeting new business in the North East and our local teams continue to work in close partnership with local, county and state officials in the delivery of transport provision. Our Community Coach business, for example, has secured a five-year contract with the State of New Jersey to operate 10 local transit routes in Passaic County. Management has also focused on improving the charter service through the introduction of additional vehicles, more co-ordinated sales team activity and higher profile marketing, including fresh advertising and an improved charter quote request website. New route branding and improved customer information has been introduced on routes serving the rapidly growing Jersey City and Bayonne communities just outside New York City.

We are continuing to maintain a strict control on our cost base and improve operating efficiency. During the year we consolidated garage facilities. In August 2003, the Newark garage closed and the fleet and staff were integrated into our Elizabeth facility, while in February 2004 employees and vehicles at the Passaic garage started to relocate to Paramus.

#### North Central

Sales in the North Central region have been particularly encouraging in the second half of the year and bookings for the spring and summer periods have been stronger than for the past two years.

Our growing Wisconsin school bus business has secured a number of new contracts and contract renewals in the past year, worth over US\$8.0m in annual revenue.

The University of Pittsburgh has renewed a five-year shuttle contract, while a three-year transit contract has been awarded to our Wisconsin company. In addition, we have won new commuter contracts in Chicago.

A new scheduled service line-run from the Northwest of Chicago to the Chicago Midway Airport has proved extremely popular with customers. Passenger volumes on our Chicago Airport scheduled service are running at 7% above the prior year following increased direct marketing, improved journey times and customer promotions.

More than 40 motor coaches and 10 trolley buses have recently been replaced within the region, upgrading the fleet and enhancing our reputation within local communities as a high quality transportation provider.

#### Canada

The Coach Canada operations, located in the Provinces of Quebec and Ontario, are now recovering following the impact of the SARS outbreak in Toronto last year. Charter bookings for the first two months of the new financial year are up significantly over the prior year and there is evidence that tourists are returning to Toronto.





## NEW ZEALAND

### Overview

Our New Zealand operations continue to generate good returns for the Group. This year we have not benefited from the transport spin-off from the America's Cup yacht race as we did in 2002-03. However, on a like-for-like basis, and despite a challenging operating environment we have seen further passenger growth overall in New Zealand. Turnover from our New Zealand businesses increased from NZ\$158.3m to NZ\$160.9m. Operating profit fell from NZ\$34.8m to NZ\$29.5m. Whilst the operating margin for the year was lower, we remain pleased with the profits earned in New Zealand. Converted to sterling, turnover was £58.3m (2003: £51.0m) and operating profit was £10.7m (2003: £11.2m).

### Auckland

The majority of our contracted services in the Auckland region, apart from the North Shore sector, were re-tendered during the year and we retained the majority of existing work.

During the year, more than 60 new air-conditioned triple-axle buses were introduced into service, resulting in a significant upgrade to the Auckland bus fleet and a strong visual impact on the streets of the city. Development has also started on a new depot for up to 40 buses at Panmure, which will cater for anticipated growth in the Auckland fleet.

### Wellington

Trading in the Wellington region remains satisfactory. In Hutt Valley, we retained existing service contracts at re-tender. Greater Wellington Regional Council has specified a significantly increased level of service in the new contracts, and there are already indications that this is resulting in significant patronage growth. The high profile Flyer express route linking Wellington International Airport with the Wellington and Lower Hutt central business districts has been extended by 20km to Upper Hutt, tapping a significantly increased catchment area.

Stagecoach New Zealand entered into a new Quality Partnership agreement with Greater Wellington Regional Council (GWRC), Hutt City Council and Upper Hutt City Council during the year. The existing partnership with the GWRC and Wellington City Council, which has delivered a number of successful bus priority measures in Wellington city during the year, has been renewed for a further three years.



## RAIL

### Overview

Stagecoach Group has a significant involvement in the passenger rail market in the UK, including the country's biggest commuter franchise at South West Trains. Financial performance has benefited from continued cost control and a growth in passenger volumes at South West Trains of 3.2% year on year.

Turnover for our wholly-owned rail subsidiaries in the year was £438.9m (2003: £413.6m). Operating profit was up 15.4% to £44.1m (2003: £38.2m), representing an operating margin of 10.0% (2003: 9.2%). Profit exceeded original expectations due to a combination of higher revenue growth and continued cost control. The prior year profit includes liquidated damages of £8.5m in relation to the late delivery and reliability of Class 458 trains. Rail profits are stated after taking account of the costs of bidding for new franchises.

The operating profit of £44.1m includes £1.1m in respect of Sheffield Supertram compared to a small loss in the prior year which reflects the integration of the maintenance business and other management action to increase profitability.

As one of the country's major train operators, we believe greater integration is the key to resolving the problems of the country's fragmented rail network, so that the interests of the train operating companies (TOCs) and the infrastructure provider are aligned with those of passengers. We welcome the Government's comprehensive review of the railways and have presented detailed proposals to ministers that build on the ideas we outlined in our policy paper, "A Platform for Change", more than two years ago.

While infrastructure issues still remain a significant concern, we believe we are now starting to see the benefits of steps taken by Network Rail to bring maintenance contracts in-house and performance is on an upward trend. We would still like to see improvements delivered more quickly, but the response to disruption on the rail network is getting better as a result of TOCs working more closely with Network Rail.

### South West Trains

The new three-year franchise at South West Trains, which commenced in February 2004, has started well. We had already improved services in line with commitments made to the Strategic Rail Authority as part of the thirteen period extension to the original seven-year franchise. The new franchise runs until February 2007 and the agreement includes an opportunity to negotiate a five-year extension to 2012.

### New trains

As at 30 April 2004, 42 of our £1billion order for 177 new state-of-the-art Desiro trains had been delivered into passenger service. This will increase by two new trains a week throughout the summer. In January 2004, the first of the slam-door fleet was scrapped and Network Rail has been making good progress on the necessary work to upgrade the network power supply to facilitate further roll-out of the new trains.

### Infrastructure issues

We are delighted that South West Trains is the first TOC in the country to operate an integrated control centre in conjunction with Network Rail. The Wessex Integrated Control Centre, which opened at London Waterloo station in February 2004, is the first of eight centres that will cover the entire UK rail network. Equipped with the latest information technology, it will significantly improve our joint response to incidents and ensure delays and disruption to passengers are minimised. Network Rail carried out major weekend track work on the South West Trains' network between January and May 2004. The maintenance, mainly between London Waterloo and Wimbledon, will improve infrastructure reliability.



## Operating review

### *Punctuality and customer improvements*

The punctuality of all trains operated by South West Trains has improved during the year. The number of delay minutes attributed to South West Trains' performance has reduced by 11.1% in the year. The forthcoming introduction in Winter 2004 of the most significant timetable changes since 1967 will help considerably in reducing the effect of incidents and promoting better timekeeping.

A new customer information system has now been fully implemented across the South West Trains network. Operated in partnership with Network Rail, it provides audible and visual information to customers about train running at our stations. The initiative won a major national passenger development award last year and the second phase of the system implementation, which includes summary main boards and information points, was launched in April 2004. This year we also launched the "E-Motion" customer magazine, which is published both in print and on-line, and a recent Brand Tracking Study shows the South West Trains brand is highly regarded by customers.

Passenger and employee safety and security remain a top priority for South West Trains and we compare favourably with the best in the UK rail industry. We were delighted that a further five South West Trains stations have received the Secure Station award. This brings the total number of stations on our network with this status to 36 – the highest of any of the UK's TOCs.

### *Commercial activity*

Marketing continues to be focused on developing leisure off-peak travel to increase revenue and encourage the use of services among low frequency and non-users. Our Apex and SuperAdvance ticket promotions have been particularly successful, as well as the "£5 anywhere ticket" promotion, which gained approximately 25,000 extra journeys. South West Trains, in conjunction with other London and South East TOCs, launched a 2-for-1 promotion in October 2003, which has driven a three-fold increase in sales of off-peak tickets compared to October 2002. In partnership with other TOCs, Transport for London, the Strategic Rail Authority and other interested passenger and consultative committees, this year also saw the launch of the Overground Network brand in South London.

### **Island Line**

Island Line, the Isle of Wight's rail franchise, is now operating on a new three-year franchise that runs concurrently with the South West Trains contract until 2007. The franchise is for the continued operation of the existing level of service. Island Line remains Britain's best performing railway in terms of punctuality and reliability and we are working with the SRA and local stakeholders to find a suitable solution for the long-term future of public transport on the Island.

### **Sheffield Supertram**

Sheffield Supertram marked its 10th anniversary of operation earlier this year. Under Stagecoach ownership, performance has improved dramatically and passenger volumes have grown to reach a record 12.3 million this year as the business has moved into profit for the first time.

### **Rail business development**

Stagecoach Group continues to evaluate new opportunities in the heavy and light rail sectors. Our strategy is focused on high-volume commuter

and long-distance inter-city services. We are also looking to strengthen our position in the UK light rail market subject to being able to achieve sensible commercial terms.

### *Heavy rail*

We have announced our intention to bid for the new inter-city franchises, including the East Coast franchise, with Virgin and Deutsche Bahn ("DB"). Stagecoach has a 33.3% interest in the bidding consortium. DB, which runs the largest vertically integrated railway in Western Europe, has unrivalled technical expertise in the area of high-speed operations, mixed traffic networks, infrastructure operations, and rolling stock specification and maintenance.

In addition, we are bringing our UK operating experience to the Danish State Railways' ("DSB") bid for the new Integrated Kent rail franchise. Stagecoach Group has taken a 29.9% stake in South Eastern Railways Ltd, the company established by DSB to bid for the franchise. The franchise includes routes on the national rail network currently operated by South Eastern Trains throughout Kent, parts of Sussex and South East London. It will also incorporate new domestic services on the Channel Tunnel Rail Link ("CTRL"). DSB operates the majority of passenger rail services in Denmark, as well as franchise operations in other Scandinavian countries, and is one of the best performing operators in Europe.

### *Light rail*

We are partners in two separate consortia seeking to run light rail/rapid transit systems in Manchester and South Hampshire. Greater Manchester Passenger Transport Executive shortlisted our Manchester consortium (GMTL Ltd) as one of two preferred bidders. Full and final bids have been submitted and we are currently awaiting a final decision on the award of the contract. Our South Hampshire consortia (SHSL Ltd) was one of two consortia that submitted an initial proposal in relation to the South Hampshire Rapid Transit System and discussions with the client are ongoing.

### **Virgin Rail Group**

Our share of Virgin Rail Group's turnover for the year amounted to £288.4m (2003: £276.1m) and our share of operating profits was £13.5m (2003: £7.2m). Passenger volumes for the year were 2.5% above the prior year. The profit for the year was a result of both revenues and costs being better than the budget set by the SRA.

### *Franchise negotiations*

Both the West Coast and CrossCountry franchises continue to operate on the basis of annual budgets set by the SRA as discussions progress on renegotiating the franchises on a long-term commercial basis through to 2012. This is a key strategic objective for the Group and we are pleased at the continuing progress that Virgin Rail Group is making.

### *New trains*

In the meantime, Virgin Rail Group is also making excellent progress with the introduction of the new Voyager and Pendolino trains to the CrossCountry and West Coast franchises respectively. The Voyager programme has now been completed and the new trains are having a positive impact on customer perception and operational performance.

The fleet used by CrossCountry has become one of the most reliable currently used by any UK long distance inter-city operator and is significantly more reliable than the old rolling stock.

Virgin Rail Group has now taken delivery of well over 90% of its new trains and has a few more Pendolino deliveries to accept to enable renewal of the entire fleet. Network Rail is upgrading the West Coast Main Line to enable Pendolinos to travel at 125mph and to tilt around curves, which will enable journey times to be reduced. A new timetable – based on 125mph running – will be introduced from 27 September 2004.

#### Performance

During 2003/04, punctuality at Virgin Rail Group has improved despite the disruption on the network. CrossCountry has been working with the SRA to introduce timetable amendments to create a more robust service. As a result, CrossCountry's punctuality improved steadily through its financial year ended 28 February 2004, rising to second in the league table of Inter-City operators. West Coast's punctuality has also improved over the same period.

#### Management restructuring

Virgin Rail Group has finalised the re-structuring of its senior management team, which is giving greater operational focus across the business. Charles Belcher and Chris Gibb were put in charge of the West Coast and CrossCountry franchises respectively last year. Following detailed succession planning, Virgin Rail Group announced earlier this year that Tony Collins, currently Deputy Chief Executive, will step up to become Chief Executive in September. From the same date, Chris Green, currently Chief Executive, will become part-time Chairman. Stephen Murphy and Graham Eccles, currently co-Chairmen of Virgin Rail Group, will become senior non-executive directors.

## DISPOSED OPERATIONS

### Hong Kong

The Group completed the sale of its Hong Kong Citybus operations on 23 June 2003. The business was purchased by 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 disposal reduced consolidated net debt by £171.8m

### Road King

During the year, Stagecoach sold its entire 30.6% shareholding in Road King Infrastructure Limited, a leading Hong Kong listed company with its core business in the investment, development, operation and management of toll roads and other infrastructure projects in China for a total consideration of £62.9m.

### Trainline

In February 2004, Stagecoach Group announced it had sold its 49.0% shareholding in Trainline Holdings Limited to Virgin Investments Limited for £4 million in cash, which included the repayment of outstanding loans.

## GROUP STRATEGY

The Group strategy is to focus on local transport operations with critical mass and good organic growth potential. We will also pursue complementary acquisition opportunities, which offer the prospect of additional profitable growth. Through a combination of getting the basics right and applying our entrepreneurial skills in our core geographic markets, we believe we can maximise shareholder value.

We have a strong position in UK Bus and we are confident we can achieve further organic growth from our networks by continuing to apply entrepreneurial vision and innovation.

In Rail, where we already have a significant interest in the passenger rail market, we believe there are a number of exciting opportunities. As well as maximising value from our existing franchises, we will be working hard with our partners to win the new Integrated Kent and East Coast franchises. In addition, we will consider other opportunities in the inter-city and London commuter networks. We are also committed to agreeing new long-term commercial arrangements for the two rail franchises at Virgin Rail Group and we hope to conclude discussions in the near future.

The Group's substantial residual operations in North America are well-placed to benefit from the recovery in the US economy. We have a solid core of companies, which have already delivered on our prediction that they would out-perform the returns produced by the division prior to its restructuring. Coupled with our first-class operations in New Zealand, we have a strong overseas portfolio.

## CURRENT TRADING AND OUTLOOK

While still early in the new financial year, we have made a promising start and trading in all four major divisions is in line with our expectations.

We believe we are entering an exciting phase for the Group. Our renewed focus, combined with strong cash-generative qualities and a substantially de-risked portfolio, means there is real potential to drive the Group forward in the year ahead.



## Operating review

### CORPORATE SOCIAL RESPONSIBILITY

#### Overview

Our business is central to the lives of the communities we serve. Our bus and rail services deliver a range of critical economic and environmental benefits, while boosting social inclusion and bringing people together. Encouraging more people to use public transport is central to the future success of our Group, and also to the future of every one of us. That is why we believe that, together with our numerous stakeholders, we have a common interest. How we make that happen is equally important. That is why Stagecoach has always taken its wider corporate responsibilities seriously and the responsible way we do business is firmly embedded in our company's culture.

We are certainly not perfect, but we are continually striving to improve our impact on society and the environment, from greater efficiency in our operations to building trust with our stakeholders in the wider community.

#### Our stakeholders

Stagecoach Group works in partnership with a range of bodies in each of the markets where we provide public transport services. Our stakeholders include:

**Investors and the financial community** – our shareholders, bondholders and lenders are critical to our business success. We have a regular programme of meetings with investors and provide frequent updates to the markets and financial community on our performance. We are a constituent of the FTSE4Good index, which sets standards and tracks performance of the leading socially-responsible companies around the globe.

**Customers** – millions of people use our services every day, including commuters, schoolchildren, concessionary fares passengers and leisure travellers. We conduct extensive customer research to monitor our performance and determine how we can improve the delivery and accessibility of our services.

**Customer Interest Groups** – our businesses have a regular and on-going dialogue with bus and rail user groups. This includes presentations from senior managers on detailed aspects of our service as well as consultation and information sharing on particular issues.

**Government** – senior executives have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. In the UK, we work closely with the Department for Transport, the Strategic Rail Authority, the Scottish Executive and the Welsh Assembly, and Transport for London.

**Transport Authorities** – we also work closely with local authorities, including Passenger Transport Executives, Regional Transport Committees and Transit Authorities, in the delivery and planning of bus and rail services.

**Government Advisory Bodies and Lobbying Groups** – we also have constructive dialogue with organisations such as the Commission for Integrated Transport, which provides advice to the UK Government, and lobbying groups such as Transport 2000.

**Transport and Industry Representation Groups** – we are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail) and the Association of Train Operating Companies.

**Our People** – we have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

**Suppliers** – we rely on a range of suppliers to provide services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers.

#### People moving people

The people who really make Stagecoach tick are our employees, from drivers and engineers to customer service and support staff. They are crucial to improving the public perception of public transport. Significant investment in time and resources ensures that we have the right people on board to deliver what our customers need.

As you would expect from a responsible company, we respect and value our staff. We have a strong commitment to equal opportunities and partnership working with trade unions.

We also recognise the need for on-going training and development, not just so our people can do their job, but so they can develop individually. In our UK Bus division, we have developed a new driver training programme, backed up by a comprehensive DVD with practical help and advice on handling common issues faced on a daily basis. We also have one of the biggest commitments to vocational qualifications of any bus operator, and more than 30% of our current drivers have either completed or are working towards a S/NVQ.

At South West Trains our centralised Recruitment Centre and the state of the art Operations Training Centre are at the heart of our "Recruit for Attitude, Train for Skill" strategy. It is complemented by vocational training, support for managers and employee recognition programmes. Our people-centred approach was recognised by experts in the field when Beverley Shears, South West Trains' Human Resources Director, was awarded "HR Director of the Year" in the Personnel Today Awards.

Stagecoach works hard to improve skills and raise standards of customer service across our companies through open learning. In Auckland, New Zealand, for example, we have introduced a specially-equipped bus that has a rolling programme of visits to depots in the metropolitan area to make open learning available to all our local staff.

We are also looking to develop the managers of the future through our graduate development programme. Our engineering apprenticeship programme in the UK promotes careers through local schools. We have also worked closely with government-funded enterprise agencies to get the long-term unemployed back into work, because many have vital skills that are being overlooked.

We want to be there to help our people when they need it most. For example, at South West Trains we have a partnership with Care First, which offers an employee assistance programme that includes a 24-hour confidential counselling service and legal helpline. We also have a support programme for employees at our UK Bus division. Our business is simple: people moving people. And we want to build a workforce of people that feel proud to work for us.

## Access for All

No two customers are the same and we recognise that we all have our individual needs. Accessibility is important and, as far as possible within the resources we have available, we are making it easier to use public transport.

We are continuing our programme that will ultimately result in all our buses in the UK being fully low-floor. Each year, hundreds of new accessible vehicles are added to our fleet and already all buses operated in London are entirely low floor with wheelchair access. Significant investment is also taking place in our North American business in partnership with federal agencies.

As well as introducing new accessible Desiro trains, South West Trains provides station-based ramps to enable wheelchair users to board and alight with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis, at no extra charge, to transport them to their nearest accessible station.

Access for all is also about staff training and we continue to maintain links with disability groups to ensure both the needs of our passengers and employees are considered. Our new bus interiors, for example, were designed in consultation with groups representing people with various levels of ability, both in terms of visual impairment and mobility.

Stagecoach is also working with key stakeholders to improve accessibility across the transport industry. In New Zealand, for example, we assisted the Human Rights Commission to draw up the terms of reference for an enquiry into the provision of accessible transport.

## Safety first

Safety and security for both our customers and our people are at the heart of our business. We have a proactive culture across the Group that puts safety at the top of our agenda.

Across Stagecoach Group, health and safety is monitored and reported on in every company. 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 specific responsibility for safety issues across the Group and the board is updated on safety matters at each of its meetings. Safety matters are also considered at the board and management meetings of each of our businesses.

Our Group Health, Safety and Environmental Committee, chaired by our non-executive director Janet Morgan and also comprising Graham Eccles and Iain Duffin, reports regularly to the Board on these matters. They have access to internal safety executives and external consultants.

In the current climate, Stagecoach and other major operators are in contact with national bodies putting in place processes and measures to prevent or mitigate the impact of potential terrorist attacks on public transportation. In the United States, for example, we are working with the Federal Government to take part in multi-session anti-terrorism workshops that all employees are required to complete. Senior management in our North East division have contributed to a task force, organised by New Jersey Transit, to put in place contingency plans to deal with terrorist attacks, power outages, and other major disruptions.

Stagecoach and other transport operators are working in partnership with national governments and other agencies to improve bus and rail safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses and trains.

We continue to invest in CCTV technology and other measures to deter anti-social behaviour and have many programmes up and down the country to educate the next generation of public transport users.

All South West Trains rolling stock is fitted with the Train Protection Warning System and the new, modern Desiro units provide a safer travelling environment. We are also working with Network Rail and British Transport Police to identify hot-spots and ensure effective measures are taken on both trains and at stations to reduce incidents of assault, trespass and vandalism. Our award-winning TravelSafe Officers partnership with British Transport Police which helps ensure passenger safety – has been extended in the past year to cover more routes and stations on the South West Trains network.

Public transport by bus, coach and train is the safest way to travel. Stagecoach Group itself has a good safety record, but there is no room for complacency. We constantly keep our safety arrangements under review and are committed to putting in place any improvements required to our safety governance arrangements.

## Caring for our community

Stagecoach has always done far more than provide lifeline services and significant job opportunities in local communities around the world. We feel part of the very communities we serve and regularly share our success with local people.

Every year, we help fund the vital work of local, national and international charities through in-kind support and financial assistance. During 2003-04 £268,000 was donated by the Group to help these worthwhile causes. Financial support has assisted the work of children's and cancer charities as well as organisations helping people with sight impairment and genetic disorders.

Our community support goes well beyond just money with hundreds of our people devoting many hours of their own time every day to local projects. Our businesses also provide a huge amount of in-kind support, while our people also give charities the benefit of their expertise during secondments.

Much of the backing we provide is focused on education and young people. We work closely with schools and police on local crime prevention initiatives and education of youngsters about the dangers and consequences of anti-social behaviour. Our support also assists many local initiatives that help provide opportunities for young people.

Our work is also helping promote social inclusion within our communities. For example, in west Scotland we have sponsored the Quads initiative in conjunction with North Ayr Social Inclusion Partnership, Starchlyde Police, Learn Direct Scotland and South Ayrshire Council to help adults with learning difficulties and young people with social problems.

Stagecoach has continued to support the UK educational charity businessdynamics, which provides courses designed to build the skills and confidence of young people as they prepare to enter the worlds of work and further education.

Our businesses in North America and New Zealand are also active members of the community, helping support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services. In the United States in New Jersey, for example, we provide small grants and emergency transportation to municipal fire and rescue squads, many of whom operate on a volunteer basis.

Stagecoach New Zealand is a long-standing supporter of the Starship Foundation, which helps the country's leading specialist paediatric hospital.

## Operating review

All fares collected on a specially-liveried Stagecoach bus in Auckland go to the Starship Foundation and the money is used to provide a range of additional equipment and staff training for the medical facility. In Wellington, one of our buses visits local shopping centres and businesses in the weeks before Christmas, collecting donated gifts that Wellington City Mission can give to the needy.

These are only a few examples of our work, but in everything we do, we hope people see us as we see them – good neighbours that care for our community.

### A sustainable environment

Travelling by bus or train is one way we can all help to reduce pollution, cut road congestion and improve the quality of life for us all in our towns and cities. Major employers are working with us to develop travel plans that reduce dependence on the car to get to work.

However, even public transport has an inevitable impact on our environment. That is why Stagecoach is committed to playing its part in building a sustainable environment and improving the environmental management of our operations.

We were delighted to publish our updated Environmental Policy statement towards the end of 2003. This document outlines our commitment to good environmental stewardship and we have set ourselves some stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling. We have pledged to measure and report on a range of key performance indicators each year. A copy of the full environmental policy document is available on our website at [www.stagecoachgroup.com](http://www.stagecoachgroup.com).

Every day we work hard to make sure our transport operations are as environmentally sustainable as possible. Across our global operations, we provide support and training for our employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance.

New buses and trains meet the latest stringent standards and we continue to investigate new fuels and cleaner technologies. Stagecoach has signed an agreement with Cerulean International Ltd, the Oxford-based subsidiary of the nanomaterials company Oxonica Ltd, to trial a next generation fuel additive product in up to 1,000 buses across the UK. Initial trials are progressing well, delivering reduced fuel consumption, cuts in vehicle emissions and cost savings that could be of significant benefit to the bus industry.

Stagecoach is using environmentally friendly hybrid electric buses in New Zealand on an inner city circuit in Auckland. We have plans to showcase a specially-adapted vehicle to local authorities across the UK this summer.

In Manchester, we are continuing with our programme to fit particulate traps to buses and so far 100 vehicles have been adapted as part of a joint initiative with Greater Manchester Passenger Transport Executive and the Energy Savings Trust. Similar initiatives are underway in our bus operations in North America.

South West Trains has undertaken a review of its environmental management system to ensure it continues to comply with legislation. Comprehensive asbestos surveys are currently being carried out at all stations and depots. South West Trains has also introduced a complete smoking ban on its train services, which has improved the travelling environment for passengers and has been welcomed by customers.

Stagecoach is working directly with government to address environmental issues. In New Zealand, we have instituted a sustainable transport management plan in association with Auckland Regional Council and the Sustainable Businesses Network. The objective is to reduce water and energy consumption and cut emissions and wastes. It is intended to be a pilot for measures that may eventually become compulsory for all bus operators in the Auckland region.

Despite the huge progress and investment we have made in the area of environmental sustainability, we realise we are not perfect. This is only a start and we have a long way to go, but we are moving in the right direction.



## Finance Director's review



### Overall

The financial results for the year ended 30 April 2004 reflect a year of strong growth in our continuing businesses and delivery of our strategic objectives.

During the year, we disposed of approximately 60% of our North American business, the Citybus operation in Hong Kong and our non-core investments in Road King Infrastructure Limited and Trainline Holdings Limited.

Turnover from our continuing businesses increased by 4.9% from £1,581.4m to £1,659.4m, and by 5.9% at constant foreign exchange rates. Total turnover reduced as a result of our successful programme of disposals and was £1,792.3m for the year (2003: £2,076.6m).

Operating profit before goodwill amortisation and exceptional items grew from £146.4m in 2003 to £147.5m in 2004 reflecting growth in profits in our continuing operations more than offsetting the impact of disposals. We delivered a significant improvement in the operating margin of our core continuing divisions (UK Bus, North America, New Zealand, Rail and Virgin Rail Group) – the operating margin from these businesses before goodwill amortisation, exceptional items and restructuring costs grew from 6.6% in 2003 to 8.4% in 2004.

The impact of the disposals was offset by growth in profits in our continuing operations and lower finance charges. As a result, adjusted earnings per share (before goodwill amortisation and exceptional items) increased from 6.4 pence to 6.7 pence. It should be noted that prior year earnings per share benefited from non-recurring gains on the repurchase of bonds and non-recurring liquidated damages at South West Trains which before tax together amounted to £23.6m (£16.5m after tax).

Basic earnings per share grew from a loss of 40.0 pence per share to earnings of 7.9 pence per share, which include the one-off benefit of an exceptional tax credit, equivalent to 3.1 pence per share.

### Joint ventures and associates

Our share of joint venture and associates' operating profits (before goodwill amortisation) was £17.7m compared to £12.6m in the prior year largely reflecting the increased profitability at Virgin Rail Group (profit £13.5m; 2003: £7.2m). The results include our share of trainline's operating losses which, up to the date of disposal, was £2.4m (2003: £4.3m), our share of profits in Road King, up to the date of disposal, of £7.0m (2003: £10.5m) and our share of operating losses of £0.4m (2003: £0.8m) from our other joint ventures and associates.

### Restructuring costs

Restructuring costs of £7.2m (2003: £6.3m) have been charged against operating profits. The majority of the restructuring costs, £5.7m, relate to the re-shaping of our North American business and the Directors expect that restructuring costs in future years will be significantly reduced. A further £0.9m relates to South West Trains, and £0.6m relates to UK Bus.

### Depreciation and amortisation

Total depreciation decreased from £105.3m to £67.2m, reflecting the disposals completed in the year and the effect of foreign exchange movements on the translation of US\$ and HK\$ charges. The annual goodwill amortisation charge was £17.8m compared to £37.6m in 2003, reflecting the disposals completed in the year.

Adding the depreciation of £67.2m to the operating profit before goodwill and exceptional items of £147.5m gives EBITDA (earnings before interest, taxation, depreciation and amortisation) of £214.7m (2003: £251.7m) for the year.

### Exceptional Items

Net exceptional charges before tax of £6.6m (2003: £575.5m) were reported, comprising a loss of £7.1m in relation to the disposals completed during the year and a gain of £0.5m on the sale of a property in New Zealand.

### Finance charges

Net interest and financing charges decreased from £33.5m to £27.3m. EBITDA before exceptional items to net finance charges was 7.9 times compared to 7.5 times in 2003. The finance charges of £33.5m for the comparative period last year included the benefit of non-recurring gains of £15.1m on the repurchase of our bonds. The reduction of £21.3m in underlying finance charges is as a result of our reduced net debt levels.

### Acquisitions

The Group did not make any major acquisitions of businesses during the year.

### Disposals

During the year, the Group disposed of a number of subsidiaries and other businesses as set out on page 14. Various parts of our North American businesses were disposed of during the year, being the Transit Division, South East Region, South Central Region, West Region, New England Region and the majority of the taxi division.



## Finance Director's review

### Disposals (continued)

	Cash proceeds from disposal £m	Decrease/(increase) in net debt from disposal £m	Gain/(loss) on disposal £m
<b>Subsidiary undertakings</b>			
SGC (HK Group) Limited, encompassing "Citybus" operations	128.7	171.8	0.3
Various parts of North America (Coach USA)	135.0	135.0	(12.4)
Other subsidiary undertakings	–	(0.1)	(0.1)
	263.7	306.7	(12.2)
<b>Joint venture</b>			
Trainline Holdings Limited	1.1	1.1	Nil
<b>Associates</b>			
Road King Infrastructure Limited	62.9	62.9	6.2
Hong Kong Kwoon Chung (Chongqing) Bus Investment Limited	0.9	0.9	(1.1)
	63.8	63.8	5.1
<b>Total: subsidiaries, joint venture and associates</b>	<b>328.6</b>	<b>371.6</b>	<b>(7.1)</b>

### Taxation

Profit before tax for the year was £95.8m. The tax credit, reported against this, of £8.8m includes an exceptional tax credit received in the year of £41.0m. Excluding this tax credit, the Group's tax charge of £32.2m represents an effective rate of 33.6% on this profit (2003: 33.4% excluding the exceptional operating loss of £575.0m).

During the year, we have reached agreement with various tax authorities on a number of prior years' tax returns and provisions and the exceptional tax credit of £41.0m is as a result of these agreements.

On an ongoing basis we would expect the Group's effective tax rate to be in the range of 25% – 30%.

### Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items were 6.7 pence, compared to 6.4 pence in 2003. Basic earnings per share (taking account of all exceptional items and goodwill amortisation) was 7.9 pence, compared to last year's loss of 40.0 pence. The weighted average number of shares in issue during the year was 1,321.7m (2003: 1,314.4m). Shares in issue at the year-end were 1,335.4m, of which 1,325.8m ranked for dividends and therefore are included in determining earnings per share.

The Group has authority to repurchase a further 132,094,601 shares. This authority expires at the 2004 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 2.9 pence (2003: 2.6 pence). This represents dividend cover (before goodwill amortisation and exceptional items) of 2.3 times compared to 2.5 times in 2003.

### Return of capital

In addition to the total proposed dividend for the year of 2.9 pence per share, the Directors have proposed to return capital to shareholders equivalent to 18.0 pence per ordinary share.

The return of capital will be achieved through the issue of redeemable B Shares and is conditional, inter alia, on obtaining Shareholder approval at the AGM on 27 August 2004. The B Shares will have a nominal value of 18.0 pence each and the total nominal value of the B shares issued will be approximately £250m. The precise total nominal value of the B shares issued will depend upon the number of Ordinary Shares in issue on the record date.

For every 24 Ordinary Shares held on the Record Date (expected to be 10 September 2004), Shareholders will receive 19 Consolidated Ordinary Shares and 24 B Shares.

Shareholders can have their B Shares redeemed for 18.0 pence each in cash on 22 September 2004. Alternatively they can retain all or some of their B Shares and receive a continuing dividend equal to 70% of 6 months' LIBOR, payable semi-annually in arrears, until such shares are redeemed.

A circular will be sent to shareholders in July 2004 setting out further details of the proposed return of capital.



## Cash flows

Cash generation across the Group remained strong with free cash flows amounting to £209.5m (2003: £217.8m). Free cash flow per share decreased from 16.6 pence to 15.9 pence.

At 30 April 2004 net cash balances were £476.5m, an increase of £311.8m from 30 April 2003. This increase in cash largely reflects the impact of disposals of businesses.

## Capital Expenditure

Capital Expenditure for the year was:

	2004 £m	2003 £m
UK Bus	50.5	34.4
North America (Coach USA)	23.1	21.5
New Zealand	7.0	7.2
Citybus (Hong Kong)	3.0	6.1
UK Rail	3.2	1.9
Total	86.8	71.1

## 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 financing and treasury management only.

## 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 2004, the Group's committed credit facilities were £430.1m, £310.5m of which were utilised, including bank guarantees.

During June 2004 the Group cancelled bank facilities amounting to £195m which were due to expire in the period to December 2004 and replaced these with approximately £440m of revolving credit facilities which mature in 3 and 5 years. These new facilities provide us with significant financial flexibility going forward.

## 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 2004, 49.0% (30 April 2003: 41.0%) of the Group's gross borrowings were covered by fixed and capped/floored interest rates. Excluding our Eurobonds, which will be redeemed in November 2004, 73% of our interest cost is fixed or capped.

During the year, we closed out fixed to floating swaps with a notional amount of £334.1m and an expiry date of November 2009. These swaps effectively converted the fixed interest payable on our 2009 US\$ bonds to floating interest payable and the close out of the swaps effectively leaves the Group paying fixed interest on the US\$ bonds.

## 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 now has overseas investments in Canada, the USA, and New Zealand. To minimise balance sheet translation exposure, the Group aims to hedge the sterling book value of overseas 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.

We presently have hedging arrangements in place that effectively fix the unit cost of approximately 40% of our expected Group fuel consumption in the year ending 30 April 2005. We have further hedging arrangements that effectively cap the maximum unit costs of around a further 57% of expected Group fuel consumption.

## 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 increased by 23.0% from £317.1m to £390.0m. Net debt decreased by £492.4m or 87.9% from £560.0m as at 30 April 2003, to £67.6m at 30 April 2004, mainly as a result of the business disposals. Based on net assets of £390.0m and net debt of £67.6m, book gearing (net debt divided by net assets) is 17.3% in comparison to last year's level of 176.6%.

## Finance Director's review

### 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 2004 were £32.9m (2003: £31.2m). The post-tax pension scheme deficit under FRS 17 "Retirement benefits" improved (i.e. reduced) by £50.5m in the year. 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 2004 of £115.8m after taking account of deferred tax. In addition, the defined benefit pension schemes in respect of the Group's Rail employees showed a net liability of £14.2m after deferred tax. We believe the Rail deficit needs to be considered separately as the franchise payments under the South West Trains franchise take account of increased contribution levels to fund the deficit and we believe that the Group has no liability beyond the end of the franchise.

### International Financial Reporting Standards

Being a UK quoted company, Stagecoach Group plc is required to produce future financial statements and annual reports in line with International Financial Reporting Standards ("IFRS") also known as International Accounting Standards ("IAS"). The Group's first full set of IFRS accounts, including comparatives, will be prepared for the year ending 30 April 2006.

In September 2003, the Company established a Steering Committee to oversee the convergence to IFRS. To date the Committee has identified the main differences between IFRS and the current Group UK GAAP policies and is making good progress in establishing the accounting policies or changes that will be required. The convergence project is ongoing and the Committee will continue to monitor evolving best practice and will apply the standards that are required for adoption in due course.

The Company is committed to ensuring it complies with all material aspects of IFRS and until such time as its conversion project is complete, it is inappropriate to provide a comprehensive summary of all of the accounting differences that could impact the Company's financial statements. The most significant areas of difference are expected to be in respect of financial instruments, pensions and goodwill. The Steering Committee is also closely examining the detailed IFRS regulations in relation to leases and government grants.

### Accounting policies

The Group has implemented UITF 38 "Accounting for ESOP Trusts" early.

As a result, there has been an impact on the classification of our shares purchased during the year. The adoption of UITF 38 has had no impact on the profit for the year ended 30 April 2004 (2003: £Nil). Had UITF 38 not been adopted, the consolidated net assets would have been £3.9m higher as at 30 April 2004 (2003: £Nil).

There have been no other changes in accounting policies.



Martin A Griffiths  
Finance Director



## Directors

### 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. Aged 67.

### 2 Brian Souter, Chief Executive

A co-founder of Stagecoach, Brian Souter is architect of the company's strategy and philosophy. He has extensive knowledge of the ground transportation industry around the world and is responsible for managing all of the Group's operations. He is also Chairman of ScotAirways Group Ltd and until its disposal in January 2004, he was a board member of Road King Infrastructure Ltd. He is a Chartered Accountant. Aged 50.

### 3 Martin Griffiths, Finance Director

Appointed Finance Director in April 2000, Martin Griffiths is responsible for the Group's overall financial policy, taxation and treasury management. He also has responsibility for the overall management of the Group's property portfolio. He won the Young Scottish Finance Director of the Year Award in 2004 and is a Chartered Accountant. Aged 38.

### 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. In addition, he has main board responsibility for Group safety matters. Graham Eccles is a director of Virgin Rail Group Holdings Ltd and is an advisor to Network Rail. Aged 57.

### 5 Ewan Brown CBE, Non-Executive Director

Ewan Brown has been a non-executive director of the Group since 1988. He was appointed Chairman of the Nomination Committee in June 2004. He is a former executive director and is currently a non-executive director of Noble Grossart Ltd. His other non-executive directorships include John Wood Group plc and Lloyds TSB Group plc. He is also Chairman of Lloyds TSB Scotland plc and Transport Initiatives Edinburgh Ltd. Aged 62.

### 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 a non-executive Chairman of Origo Services and Beattie Media Group. He has previously held executive positions in the UK and the US with a number of organisations including Macfarlane Group plc, LucasVaryty plc, ITT Corporation and Hughes Aircraft. Aged 57.

### 7 Ann Gloag OBE, Non-Executive Director

Ann Gloag 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, an international Board member of Mercy Ships and a non-executive director of OPTOS. In June 2004, she was awarded an OBE for services to charity. Aged 61.

### 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 & Environmental Committee. She is also chairman of the Nuclear Generation Decommissioning Fund and a non-executive director of Cable & Wireless plc, BPB 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 58.

### 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 and is the senior independent non-executive director. He is a non-executive director of Signet Group plc and Aviva 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 60.

#### Key to photograph

4	8	3	2	1	9	5	6	7
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# Directors' report

## 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 page 2, the Chief Executive's review on page 3, the Operating review on pages 4 to 12, and the Finance Director's review on pages 13 to 16.

## Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 29.

An interim dividend of 0.9 pence per ordinary share (net) was paid on 10 March 2004. The directors recommend a final dividend of 2.0 pence per ordinary share making a total dividend of 2.9 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 6 October 2004 to those ordinary shareholders on the register at 10 September 2004.

## Directors and their interests

The names, responsibilities and biographical details of the directors appear on page 17.

Graham Eccles, Janet Morgan and Robert Speirs retire by rotation at the 2004 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. Ewan Brown, who is considered an independent non-executive director by the Board, but may not be considered independent under the revised Combined Code, and Ann Gloag, who is not an independent non-executive director, being eligible offer themselves for annual re-election.

Tables A and B, set out on page 19, give the interests of the directors and their families in the share capital of the Company.

## Substantial shareholdings

On 22 June 2004 (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 Global Investors (UK) Ltd	6.90%
Marathon Asset Management Ltd	4.88%
Capital International Ltd	4.43%
Legal & General Investment Management (UK)	3.48%
Liontrust Asset Management	3.44%

## 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 a handicapped or disabled person can adequately fulfil the requirements of the job. 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 1996, 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 judgements 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 reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors

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 33 days' purchases (2003: 34 days).

TABLE A		Number of shares	
		30 April and 23 June 2004	30 April and 25 June 2003
<b>Ordinary shares of 0.5p each</b>			
Brian Souter	beneficial	<b>179,254,818</b>	177,477,868
	non-beneficial	<b>17,821,379</b>	17,059,829
Graham Eccles		<b>115,048</b>	37,258
Martin Griffiths		<b>7,997</b>	7,997
Ewan Brown		<b>Nil</b>	Nil
Ann Gloag	beneficial	<b>146,971,155</b>	147,071,155
	non-beneficial	<b>2,019,564</b>	2,804,564
Janet Morgan		<b>2,600</b>	Nil
Robert Speirs		<b>18,500</b>	18,500
Russell Walls		<b>20,000</b>	20,000
Iain Duffin		<b>40,000</b>	40,000

TABLE B		Number of shares	
		30 April and 23 June 2004	30 April and 25 June 2003
<b>Share options held by Directors</b>			
Brian Souter		<b>3,804,038</b>	2,930,371
Graham Eccles		<b>2,297,373</b>	1,832,657
Martin Griffiths		<b>2,298,573</b>	1,922,849
Ewan Brown		<b>Nil</b>	Nil
Ann Gloag		<b>Nil</b>	Nil
Janet Morgan		<b>Nil</b>	Nil
Robert Speirs		<b>Nil</b>	Nil
Russell Walls		<b>Nil</b>	Nil
Iain Duffin		<b>Nil</b>	Nil

Full details of options held as at 30 April 2004 are contained in the Remuneration Report on pages 24 to 27.

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

### Fixed assets

In the opinion of the directors, there is no material difference 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 2004 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 £0.3m (2003: £0.7m) 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 (2003: £Nil).

### Authority for company to purchase its own shares

At the 2003 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 28 February 2005 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 26 February 2006.

### Return of Capital

The disposals of Citybus, Road King and significant parts of North America (Coach USA) have resulted in a substantial change to the Group's capital structure. The Group's net debt has reduced significantly and the proportion of the Group's funding provided by debt, rather than equity, has fallen accordingly. As a consequence of this we have announced our intention to return approximately £250 million to shareholders via an issue of redeemable B shares.

At the 2003 AGM the shareholders passed a special resolution that £200m of the Company's share premium account be converted into a new special reserve of the Company. Given that the share premium account is now being proposed to be partly used for the return of capital, the Directors have decided not to seek the Court of Session's confirmation of the reduction in the share premium account.

### 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

23 June 2004

# Corporate governance

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.

In July 2003, a Revised Combined Code was issued for financial years commencing on or after 1 November 2003. The Group currently complies with most of the recommendations contained in the Revised Code and will keep under review its current corporate governance practices in light of the recommendations contained within it for its financial year ending 30 April 2005. The Directors have, however, made the following initial observations in regards to potential non-compliance with the provisions contained in the Revised Code:

- The Audit Committee should include at least three members, who should all be independent non-executive directors. The Stagecoach Audit Committee comprises four non-executive directors, all of whom are considered by the Board to be independent.
- Half of the Board, excluding the Chairman, should be independent non-executive directors. The Board believes that the Group satisfies this recommendation because it considers Ewan Brown to be an independent non-executive director.
- The Nomination Committee should comprise a majority of independent non-executive directors. The Board believes that the Group satisfies this recommendation.

One of the non-executive Directors, Ann Gloag, is not an independent director. The Board has determined nevertheless that it complies with the above provisions as it considers Ewan Brown to be independent, notwithstanding the existence of circumstances which may appear relevant to that determination, due to the reasons stated below.

## 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. In the case of Ewan Brown, the Board in its determination has taken into account the less than 1% shareholding in the company held by Noble Grossart Investments Limited, Mr. Brown's outstanding service on the Board since he was first elected in 1988, and his willingness to stand for annual re-election by shareholders from 2004. The Board has also noted that Mr. Brown has retired as an executive director of Noble Grossart. Mr. Brown is not dependent on the company for his primary source of income and does not participate in any of the Company's bonus, option or pension schemes.

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 strategic and policy decisions into actions and to infuse the whole enterprise. The Group Chief Executive has day-to-day responsibility for all business of the Group and carries out the agreed strategy and policies of the Board.

The directors' biographies appear on page 17 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. Russell Walls is 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 roles as directors. The number of full Board meetings during the year was seven. The full Board meets once a year at an operational location and regular verbal communication is maintained by the Chairman between meetings to ensure all directors are well informed on strategic and operational issues.

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 and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major 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, North America, Overseas Bus and 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 regional 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.

Following a series of disposals during the year ended 30 April 2004, North America now comprises three regions (North East, North Central and Canada). Each region is headed by a chief operating officer who reports to the Group Chief Executive.

The Overseas Bus division is headed by a chairman, who reports to the Group Chief Executive and until June 2003, comprised two principal business units, each of which was headed by a managing director 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.



A Rail board, comprising one Group executive director and other senior management, oversees the performance and development of the Group's rail business. At South West Trains, the aforementioned Group 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.

Until its disposal in January 2004, Road King board meetings were also attended by at least one Group executive director, 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 2004 AGM is enclosed within this annual report.

### Evaluation of effectiveness of the Board

The directors have reviewed the effectiveness of the Board as a whole and its Committees. Each director has assessed the effectiveness of the Board and each Committee of which he or she is a member. In the case of the Remuneration Committee, independent consultants have contributed to the assessment of the Committee's effectiveness.

The assessment of effectiveness included:

- Consideration of the effectiveness of the formal Board and Committee meetings.
- The nature and extent of the Board's interaction with the management of the Group.
- The timeliness, relevance and accuracy of the information provided to the Board and its Committees.
- The allocation of the Board's time between differing priorities including the time spent on strategic considerations relative to other matters.
- The composition of the Board and its Committees.

The Board has considered the results of these assessments and has concluded that overall the Board and the Committees continue to operate in an effective and constructive manner.

### Audit Committee

The Audit Committee comprises four non-executive directors, all of whom are considered by the Board to be independent. At the present time, its members are Russell Walls (Chairman), Janet Morgan, Ewan Brown and Iain Duffin. Of the members of the Audit Committee, the Chairman is a former Finance Director of a FTSE 100 company and a second member is currently the chairman of an audit committee of another FTSE 100 company. The Committee therefore has significant financial expertise and is appropriately qualified to undertake its duties in an effective manner.

The Audit Committee met four times during the year and has met a further time in June 2004. It receives reports from all of the Group's major business functions including the risk assurance function (internal audit), which is now outsourced and managed by Deloitte. 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 internal and 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 and advance approval of any other fees in excess of £50,000 cumulative 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.

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, subject to approval by the Audit Committee.
- 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, subject to approval by the Audit Committee.
- 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 the Group, the Audit Committee 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.

### Auditors

The Audit Committee, having considered the external auditors' performance during their period in office, recommends 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 or consulting 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.

### Remuneration Committee

The Remuneration Committee during the year comprised three independent non-executive directors, Iain Duffin (Chairman), Russell Walls and Janet Morgan. The Remuneration Committee met five 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. It 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.



## Corporate governance

### Nomination Committee

The Nomination Committee currently comprises two independent non-executive directors, Robert Speirs and Ewan Brown (who acts as chairman) 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 director appointments. Final appointments are the responsibility of the whole Board. The Committee did not meet during the year as there were no new or proposed appointments to the Board. However, they did meet in June 2004 to consider the re-election of directors by rotation.

### Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by a non-executive director Janet Morgan, and also comprises one other non-executive director, Iain Duffin who joined the Committee in May 2004 and one executive director, 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. The Committee met twice during the year and again in June 2004.

### Individual director attendance at meetings

The following is a table of attendance at meetings by director:

ATTENDANCE AT MEETINGS	Board meetings	Audit Committee	Remuneration Committee	Health, Safety and Environmental Committee
No. of meetings	7	4	5	2
Robert Speirs	6	n/a	n/a	n/a
Brian Souter	7	n/a	n/a	n/a
Martin Griffiths	7	n/a	n/a	n/a
Graham Eccles	7	n/a	n/a	2
Ewan Brown	7	4	n/a	n/a
Iain Duffin	7	4	5	n/a
Ann Gloag	7	n/a	n/a	n/a
Janet Morgan	7	2	4	2
Russell Walls	6	3	4	n/a

### 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 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 24 to 27.

### 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.

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](http://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, Nomination 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, after each show of hands, details of all proxy votes lodged for each resolution.

### 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 potential 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 2004. 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 and objective 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, and social, ethical and environmental risks.

The Group Risk Assurance function, which is now outsourced and managed by Deloitte, 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 maintaining the integrity and improving where possible the Group's full 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 also meet regularly with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures.

The Group's Audit Committee reviews the financial statements of Virgin Rail Group together with the minutes, external audit presentations, management presentations and internal audit presentations from the audit committee meetings.

## 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 consisting of 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 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 updated key risks, taxation, 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 maintenance and 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.

## Compliance with the Combined Code

The Group has complied with the provisions of the applicable edition of the Combined Code throughout the financial year.

## 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 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.

# Remuneration report

## Remuneration report

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 2004, Iain Duffin chaired the Remuneration Committee and the other members were Russell Walls and Janet Morgan, all three of whom are independent non-executive directors. 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 10.0% of their annual fees in shares.

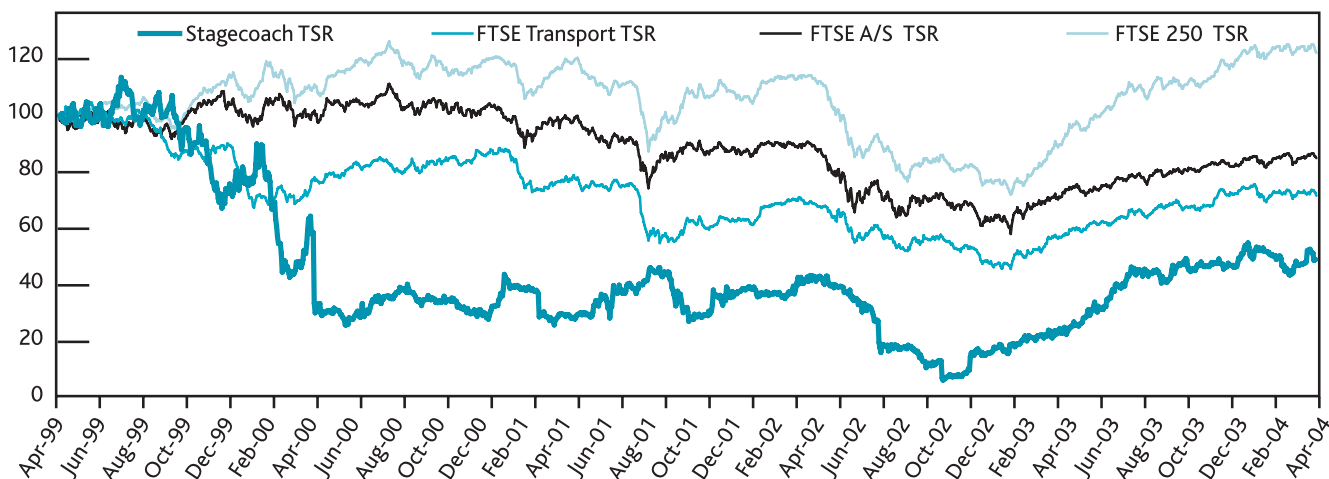
Both the constitution and operation of the Remuneration Committee comply with the principles incorporated in Schedule A of the Combined Code, with the prior consent of shareholders where necessary. In preparing this Remuneration Report, the Board has followed the provisions in Schedule B of the Combined Code.

## Performance graph

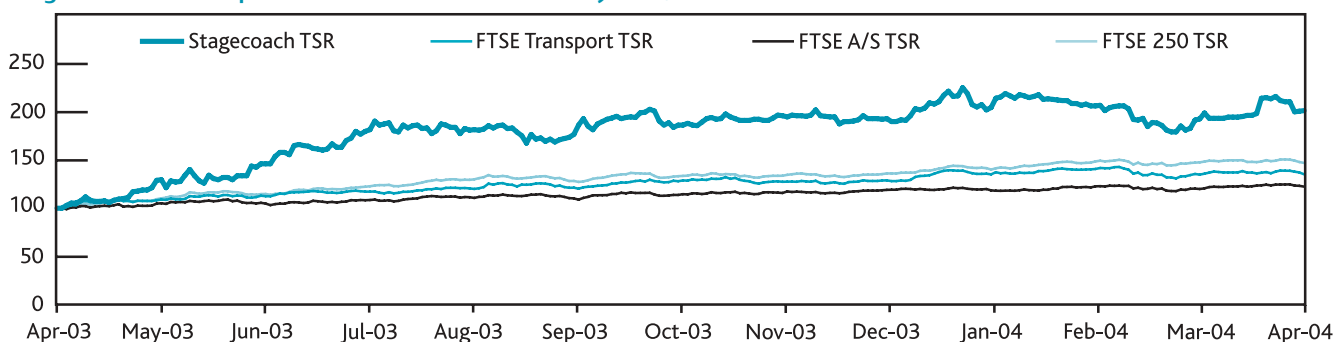
The graph below charts the performance of the Stagecoach Group Total Shareholder Return (TSR) (share value movement plus reinvested dividends) over the past 5 years compared with that of the FTSE Transport All-Share Index, the FTSE Mid 250 Index and the FTSE All-Share Index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2004.

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.

### Stagecoach TSR Comparative Performance since 1 May 1999



### Stagecoach TSR Comparative Performance since 1 May 2003



## Remuneration policy

Our remuneration policy is consistent with our prior year policy, which was approved by the shareholders at the 2003 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.

To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Group 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 has access to reports from the trustees and scheme actuaries regarding the cost of pension obligations.

The Committee has also appointed and taken advice during the year from a firm of independent executive remuneration consultants, Inbucon Consulting, which was instructed to review the existing remuneration of all executive directors and the chairman. Inbucon Consulting also provided training to the Committee in the year.

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 below. Directors' pension benefits are shown in Table 2 on page 26.

TABLE 1 (amounts in £000)	Salary/fees		Performance related bonus		Benefits in kind		Compensation for loss of office		Non-pensionable allowances†		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Executive directors</b>												
Brian Souter	470	460	329	322	18‡	18	Nil	Nil	n/a	n/a	817	800
Keith Cochrane*	Nil	81	Nil	Nil	Nil	8	Nil	543	Nil	108	Nil	740
Brian Cox*	Nil	37	Nil	Nil	Nil	4	Nil	Nil	n/a	n/a	Nil	41
Graham Eccles	250	190	175	114	21	13	Nil	Nil	44	26	490	343
Martin Griffiths	205	180	143	108	20‡	20	Nil	Nil	29	23	397	331
<b>Non-executive directors</b>												
Ewan Brown	30	27	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	30	27
Ann Gloag	30	27	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	30	27
Robert Speirs	90	72	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	90	72
Russell Walls	30	27	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	30	27
Janet Morgan	30	27	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	30	27
Iain Duffin	30	27	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	30	27
<b>Total</b>	<b>1,165</b>	<b>1,155</b>	<b>647</b>	<b>544</b>	<b>59</b>	<b>63</b>	<b>Nil</b>	<b>543</b>	<b>73</b>	<b>157</b>	<b>1,944</b>	<b>2,462</b>

\*Resigned or retired prior to 30 April 2003.

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

‡Includes cash payments in lieu of provision of company car.

## Remuneration report

### Directors' remuneration (audited) (continued)

TABLE 2 (amounts in £000)	Additional accrued benefits 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	2004	2003	2004	2003	2004	2003	
<b>Executive directors</b>									
Brian Souter	<b>44</b>	<b>60</b>	<b>226</b>	209	<b>391</b>	348	<b>127</b>	138	<b>99</b>
Graham Eccles	<b>11</b>	<b>12</b>	<b>18</b>	15	<b>53</b>	44	<b>29</b>	26	<b>29</b>
Martin Griffiths	<b>11</b>	<b>14</b>	<b>23</b>	19	<b>68</b>	58	<b>10</b>	9	<b>10</b>

Graham Eccles and Martin Griffiths were not members of the Group pension schemes before the introduction of the pensionable salary cap in June 1989. 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 initial annual pension of £90,000, reduced to £81,000 from March 2004 referred to below. Employer contributions to the SSAS ceased in 2000 for Ann Gloag and in 2001 for Brian Souter.

Graham Eccles and Martin Griffiths participate in The Stagecoach Executive Directors' Long Term Bonus Scheme. Under this scheme, Graham Eccles may be awarded an additional annual bonus of £100,000 per financial year for each of the three years commencing 1 May 2003 and Martin Griffiths may be awarded an additional annual bonus of £50,000 for each of the five years commencing 1 May 2003. The performance condition of the Scheme is such that the bonuses are payable if the growth in earnings per share each financial year outperforms inflation by at least 5%. The performance condition in respect of the year ended 30 April 2004 was satisfied and therefore subject to the relevant individual remaining a full-time employee of the Group, the bonus in respect of that year will be paid at the end of the three or five year period.

Ann Gloag retired as an executive director on 30 April 2000 and, in addition to her fees as a non-executive director, received an annual pension of £90,000 from 1 May 2000, reducing to £81,000 from 1 March 2004.

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. Actual bonuses awarded to executive directors in 2003/2004 were 70% of basic salary.

#### 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 25 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 pensionable 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 on page 27. 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 2004 was £0.82 per share. The Company's shares traded in the range £0.44 to £0.93 during the year to that date.

Share options are subject to certain performance criteria as discussed on page 27.

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 23 to the accounts on page 58.

## Share option schemes and long-term incentive schemes (audited) (continued)

<b>TABLE 3 SHARE OPTIONS</b>	Number at 1 May 2003	Granted number	Number at 30 April 2004	Average exercise price £	Date from which exercisable	Expiry date
Graham Eccles	101,920	Nil	101,920	2.1091	October 2001	July 2006
	1,714,904	464,716	2,179,620	0.4774‡	June 2003	December 2010
Martin Griffiths	65,339	Nil	65,339	2.1209	October 2001	July 2006
	1,842,667	381,067	2,223,734	0.4844‡	June 2003	December 2010
Brian Souter	2,930,371	873,667	3,804,038	0.3963‡	July 2005	December 2010

‡Market price exceeds exercise price as at 30 April 2004

<b>TABLE 4 SAYE OPTIONS</b>	No. of ordinary shares at 1 May 2003	Lapsed no. of ordinary shares	No. of ordinary shares at 30 April 2004
Martin Griffiths	14,843	5,343	9,500
Graham Eccles	15,833	Nil	15,833

In addition to their individual interests in shares the executive directors were, for Companies Act purposes, regarded as interested in 9,524,530 shares held at 30 April 2004 by the Stagecoach Group QUEST and other Stagecoach employee share trusts.

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

- i 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. The scheme expired for new awards in 2002.
- ii The Stagecoach Unapproved Executive Share Option Scheme – established in September 1997, when it was approved by shareholders at the AGM. 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 three directors under this scheme in 2003/2004.

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

Ewan Brown (a non-executive director of Stagecoach) is a former executive director and current non-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 (2003: £20,000). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2004 8,026,665 (2003: 8,026,665) ordinary shares in the Company, representing 0.6% (2003: 0.6%) of the ordinary shares in issue.

### 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 (amended 26 January 1996)	2 April 1993	12 months
Graham Eccles	27 October 2000	12 months
Martin Griffiths	8 August 2000	12 months

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 the Company terminates an executive director's contract, 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.

Non-executive directors are appointed by a letter which makes no specific provision for notice periods. Non-executive directors are subject to election and re-election by shareholders as described on page 20.

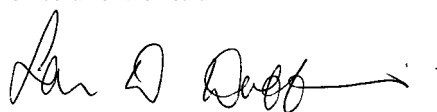
### Outside appointments

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 66. 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 2004 Annual General Meeting.

On behalf of the Board



IAIN DUFFIN  
Chairman of the Remuneration Committee

23 June 2004



# Independent auditors' report

## Independent auditors' report to the members of Stagecoach Group plc

We have audited the financial statements 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 directors' remuneration report ("the auditable part").

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements 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 directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' 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 into 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 financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' 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 financial statements, 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 directors' 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 financial statements. 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 issued in June 1998 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 financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' 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 financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 30 April 2004 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' 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

23 June 2004



# Consolidated profit and loss account

Year ended 30 April 2004

	Notes	2004			2003		
		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
<b>Turnover: Group and share of joint ventures</b>	2	<b>1,792.3</b>	<b>Nil</b>	<b>1,792.3</b>	2,076.6	Nil	2,076.6
<b>Less: Share of joint ventures' turnover</b>		<b>(290.3)</b>	<b>Nil</b>	<b>(290.3)</b>	(277.9)	Nil	(277.9)
<b>Group turnover</b>		<b>1,502.0</b>	<b>Nil</b>	<b>1,502.0</b>	1,798.7	Nil	1,798.7
Represented by:							
Continuing Group operations		<b>1,371.0</b>	<b>Nil</b>	<b>1,371.0</b>	1,305.3	Nil	1,305.3
Discontinued operations		<b>131.0</b>	<b>Nil</b>	<b>131.0</b>	493.4	Nil	493.4
Operating costs (including asset impairment)	2	<b>1,502.0</b>	<b>Nil</b>	<b>1,502.0</b>	1,798.7	Nil	1,798.7
Other operating income	3	<b>(1,501.3)</b>	<b>(8.8)</b>	<b>(1,510.1)</b>	(1,752.6)	(603.6)	(2,356.2)
		<b>129.1</b>	<b>Nil</b>	<b>129.1</b>	87.7	Nil	87.7
<b>Operating profit/(loss) of Group companies</b>	2	<b>129.8</b>	<b>(8.8)</b>	<b>121.0</b>	133.8	(603.6)	(469.8)
Share of operating profit/(loss) of joint ventures		<b>10.7</b>	<b>(8.7)</b>	<b>2.0</b>	2.6	(8.7)	(6.1)
Share of operating profit from interest in associates		<b>7.0</b>	<b>(0.3)</b>	<b>6.7</b>	10.0	(0.3)	9.7
<b>Total operating profit/(loss): Group and share of joint ventures and associates</b>	2	<b>147.5</b>	<b>(17.8)</b>	<b>129.7</b>	146.4	(612.6)	(466.2)
Represented by:							
Continuing Group operations	2	<b>128.8</b>	<b>(7.8)</b>	<b>121.0</b>	114.7	(596.0)	(481.3)
Continuing joint ventures and associates	2	<b>13.1</b>	<b>(9.0)</b>	<b>4.1</b>	6.3	(9.0)	(2.7)
Discontinued Group operations	2	<b>141.9</b>	<b>(16.8)</b>	<b>125.1</b>	121.0	(605.0)	(484.0)
Discontinued joint ventures and associates	2	<b>1.0</b>	<b>(1.0)</b>	<b>Nil</b>	19.1	(7.6)	11.5
		<b>4.6</b>	<b>Nil</b>	<b>4.6</b>	6.3	Nil	6.3
<b>Total operating profit/(loss): Group and share of joint ventures and associates</b>		<b>147.5</b>	<b>(17.8)</b>	<b>129.7</b>	146.4	(612.6)	(466.2)
Profit/(loss) on sale of properties		<b>Nil</b>	<b>0.5</b>	<b>0.5</b>	Nil	(0.5)	(0.5)
Loss on disposal of operations	13	<b>Nil</b>	<b>(7.1)</b>	<b>(7.1)</b>	Nil	Nil	Nil
<b>Profit/(loss) on ordinary activities before interest and taxation</b>		<b>147.5</b>	<b>(24.4)</b>	<b>123.1</b>	146.4	(613.1)	(466.7)
Finance charges (net)	4	<b>(27.3)</b>	<b>Nil</b>	<b>(27.3)</b>	(33.5)	Nil	(33.5)
<b>Profit/(loss) on ordinary activities before taxation</b>	5	<b>120.2</b>	<b>(24.4)</b>	<b>95.8</b>	112.9	(613.1)	(500.2)
Taxation on profit/(loss) on ordinary activities	7	<b>(32.3)</b>	<b>41.1</b>	<b>8.8</b>	(28.8)	3.8	(25.0)
<b>Profit/(loss) on ordinary activities after taxation</b>	8	<b>87.9</b>	<b>16.7</b>	<b>104.6</b>	84.1	(609.3)	(525.2)
Dividends	8	<b>(38.4)</b>	<b>Nil</b>	<b>(38.4)</b>	(34.3)	Nil	(34.3)
<b>Retained profit/(loss) for the year</b>		<b>49.5</b>	<b>16.7</b>	<b>66.2</b>	49.8	(609.3)	(559.5)
<b>Earnings/(loss) per share – Adjusted/Basic</b>	9	<b>6.7p</b>		<b>7.9p</b>	6.4p		(40.0)p
– Diluted	9	<b>6.5p</b>		<b>7.8p</b>	6.4p		(40.0)p

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

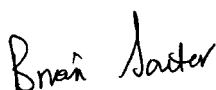
The accompanying notes form an integral part of this consolidated profit and loss account.

# Consolidated balance sheet

As at 30 April 2004

		2004	2003
	Notes	£m	£m
<b>Fixed assets</b>			
Intangible assets	11	103.5	206.9
Tangible assets	12	618.0	851.6
Investments	13		
– Investment in joint ventures			
Goodwill		57.5	72.7
Share of gross assets		98.8	167.5
Share of gross liabilities		(59.8)	(122.0)
Shareholder loan notes		10.0	10.4
<hr/>			
Total investment in joint ventures	13	106.5	128.6
<hr/>			
– Investment in associates	13	1.4	70.0
– Other investments	13	2.3	2.7
<hr/>			
		831.7	1,259.8
<hr/>			
<b>Current assets</b>			
Stocks	15	13.4	38.1
Debtors and prepaid charges – due within one year	16	169.2	192.3
– due after more than one year	16	58.0	59.9
Cash at bank and in hand		476.5	164.7
<hr/>			
		717.1	455.0
<b>Creditors:</b> Amounts falling due within one year	17	(674.6)	(504.2)
<hr/>			
<b>Net current assets/(liabilities)</b>		42.5	(49.2)
<hr/>			
<b>Total assets less current liabilities</b>		874.2	1,210.6
<b>Creditors:</b> Amounts falling due after more than one year	17	(292.2)	(640.7)
<b>Provisions for liabilities and charges</b>			
– Joint ventures	21		
Goodwill		0.3	Nil
Share of gross assets		Nil	5.3
Share of gross liabilities		(1.7)	(27.9)
Shareholder loan notes		0.4	Nil
– Other provisions	21	(191.0)	(230.2)
<hr/>			
<b>Net assets</b>	2	390.0	317.1
<hr/>			
<b>Capital and reserves</b>			
Equity share capital	22	6.7	6.6
Share premium account	24	392.4	386.1
Profit and loss account	24	(6.9)	(77.3)
Own shares	24	(3.9)	Nil
Capital redemption reserve	24	1.7	1.7
<hr/>			
<b>Shareholders' funds – Equity</b>		390.0	317.1

Signed on behalf of the Board on 23 June 2004



BRIAN SOUTER  
Chief Executive



MARTIN A GRIFFITHS  
Finance Director

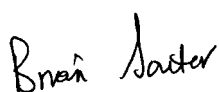
The accompanying notes form an integral part of this consolidated balance sheet.

# Company balance sheet

As at 30 April 2004

		2004	2003
	Notes	£m	£m
<b>Fixed assets</b>			
Tangible assets	12	4.1	7.8
Investments	13	923.8	643.2
		<b>927.9</b>	651.0
<b>Current assets</b>			
Debtors and prepaid charges – due within one year	16	18.5	21.5
– due after more than one year	16	131.9	551.8
Cash at bank and in hand		153.1	5.2
		<b>303.5</b>	578.5
<b>Creditors:</b> Amounts falling due within one year	17	<b>(320.9)</b>	(210.6)
		<b>(17.4)</b>	367.9
<b>Net current (liabilities)/assets</b>			
		<b>910.5</b>	1,018.9
<b>Total assets less current liabilities</b>			
<b>Creditors:</b> Amounts falling due after more than one year	17	<b>(44.1)</b>	(563.4)
<b>Provisions for liabilities and charges</b>	21	<b>(5.3)</b>	(3.6)
		<b>861.1</b>	451.9
<b>Net assets</b>			
		<b>861.1</b>	451.9
<b>Shareholders' funds – Equity</b>			
		<b>861.1</b>	451.9
<b>Capital and reserves</b>			
Equity share capital	22	6.7	6.6
Share premium account	24	392.4	386.1
Profit and loss account	24	464.2	57.5
Own shares	24	(3.9)	Nil
Capital redemption reserve	24	1.7	1.7

Signed on behalf of the Board on 23 June 2004



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 2004

		2004	2003
	Notes	£m	£m
<b>Net cash inflow from operating activities</b>	25	<b>214.3</b>	272.2
<b>Dividends from joint ventures and associates</b>		<b>4.1</b>	5.3
<b>Returns on investments and servicing of finance</b>			
Interest paid		(37.9)	(52.6)
Interest element of hire purchase and lease finance		(5.8)	(4.7)
Interest received		44.2	5.4
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>0.5</b>	(51.9)
<b>Taxation</b>		<b>(9.4)</b>	(7.8)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(56.0)	(52.9)
Sale of tangible fixed assets		4.2	20.1
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(51.8)</b>	(32.8)
<b>Acquisitions and disposals</b>			
Acquisition of subsidiaries	25	(7.4)	(10.1)
Purchase of goodwill		Nil	(0.8)
Purchase of investments in joint ventures and associates		Nil	(0.9)
Cash of disposed subsidiaries	13	(4.3)	Nil
Disposal of subsidiaries and other businesses	13	263.7	7.0
Disposal of investments in joint ventures and associates		64.9	Nil
<b>Net cash inflow/(outflow) from acquisitions and disposals</b>		<b>316.9</b>	(4.8)
<b>Equity dividends paid</b>		<b>(35.6)</b>	(27.6)
<b>Net cash inflow before financing</b>		<b>439.0</b>	152.6
<b>Financing</b>			
Sale of tokens		13.5	12.9
Redemption of tokens		(11.9)	(10.8)
Issue of share capital for cash		6.4	Nil
Investment in own shares		(3.9)	Nil
Decrease/(increase) in collateral balances		37.3	(32.1)
Decrease in borrowings		(158.4)	(90.9)
Repayments of hire purchase and lease finance		(60.3)	(44.4)
Cash inflows from lease finance		85.7	Nil
<b>Net cash outflow from financing</b>		<b>(91.6)</b>	(165.3)
<b>Increase/(decrease) in cash during the year</b>	25	<b>347.4</b>	(12.7)
<b>Free cash flow</b>		<b>209.5</b>	217.8
<b>Free cash flow per share</b>		<b>15.9p</b>	16.6p

Free cash flow comprises net cash inflow from operating activities, dividends from joint ventures and associates, net cash inflow/(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 2004

	2004	2003
	£m	£m
<b>Profit/(loss) for the financial year</b>	<b>104.6</b>	(525.2)
Translation differences on foreign currency net investments	(0.4)	(26.6)
UK tax effect of translation differences on foreign currency net investments	4.8	(6.4)
Share of other recognised gains and losses of associates	(0.2)	(0.1)
<b>Total recognised gains and losses relating to the year</b>	<b>108.8</b>	(558.3)

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 2004

	2004	2003
	£m	£m
<b>Profit/(loss) for the financial year</b>	<b>104.6</b>	(525.2)
Dividends	(38.4)	(34.3)
Goodwill sold, previously written off to reserves	66.2	(559.5)
Other recognised gains and losses relating to the year	Nil	0.5
– translation differences on foreign currency net investments	(0.4)	(26.6)
– UK tax effect of translation differences on foreign currency net investments	4.8	(6.4)
– share of other recognised gains and losses of associates	(0.2)	(0.1)
Share capital issued less costs	6.4	1.7
Own shares purchased	(3.9)	Nil
Distribution reserve decrease	Nil	(1.6)
<b>Net increase/(reduction) in shareholders' funds</b>	<b>72.9</b>	(592.0)
<b>Opening shareholders' funds</b>	<b>317.1</b>	909.1
<b>Closing shareholders' funds</b>	<b>390.0</b>	317.1

The accompanying notes form an integral part of these statements.

# Notes to the accounts

## Note 1 Statement of accounting policies

A summary of the principal accounting policies is set out below. All principal accounting policies, with the exception of UITF Abstract 38 "Accounting for ESOP Trusts" which was issued during the year, have been applied consistently throughout the year and the preceding year. UITF Abstract 38 has been adopted for the current year and does not impact the prior year results or net assets.

### (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 pre-disposal 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.

### (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
Information Technology and other equipment, furniture and fittings	3 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 and 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.

## Note 1 Statement of accounting policies (continued)

### (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. The Group applies its own accounting policies when accounting for its share of associates and joint ventures, making appropriate adjustments where necessary, having given due regard to all relevant factors.

### (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.

### (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.



# Notes to the accounts

## Note 1 Statement of accounting policies (continued)

### (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.

The Group's contributions to defined contribution schemes are charged to the profit and loss account in the period to which the contributions relate.

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.

### (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 net 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 the exchange rate risk of an asset or liability is hedged by a derivative, 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	2004	2003
<b>New Zealand Dollar</b>		
Year end rate	<b>2.8350</b>	2.8573
Average rate	<b>2.7600</b>	3.1031
<b>Hong Kong Dollar</b>		
Year end rate	<b>13.8317</b>	12.4648
Average rate	<b>13.3188</b>	12.1464
Average rate – Citybus*	<b>12.7803</b>	–
<b>US Dollar</b>		
Year end rate	<b>1.7734</b>	1.5982
Average rate	<b>1.7115</b>	1.5574
<b>Canadian Dollar</b>		
Year end rate	<b>2.4388</b>	2.2929
Average rate	<b>2.2985</b>	2.3985
*up to date of disposal		

### (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 (other than derivatives) 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 generally 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. 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. The provision is set after taking account of advice from third party actuaries.

### (u) Investment in own shares

In accordance with UITF Abstract 38 "Accounting for ESOP Trusts" issued during the year, own shares held by the Group's Employee Benefit Scheme and Qualifying Employee Share Trust have been classified as deductions from shareholders' funds.

## Note 2 Segmental analysis

### (a) Turnover

	2004	2003
	£m	£m
<b>Continuing operations</b>		
UK Bus	650.2	598.4
New Zealand	58.3	51.0
North America (Coach USA)	223.6	242.3
<b>Total bus continuing operations</b>	<b>932.1</b>	891.7
UK Rail	438.9	413.6
<b>Total continuing operations</b>	<b>1,371.0</b>	1,305.3
<b>Discontinued operations</b>		
Citybus	17.8	132.3
Australian Bus	Nil	0.4
North America (Coach USA)	113.2	360.7
<b>Total discontinued operations</b>	<b>131.0</b>	493.4
<b>Group turnover</b>	<b>1,502.0</b>	1,798.7
Share of joint ventures' turnover		
Continuing		
– Virgin Rail Group	288.4	276.1
Discontinued		
– thetrainline	8.1	11.0
Elimination of inter-segment turnover	(6.2)	(9.2)
<b>Group turnover and share of joint ventures' turnover</b>	<b>1,792.3</b>	2,076.6

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

## Note 2 Segmental analysis (continued)

### (b) Operating profit/(loss)

	2004			2003		
	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
<b>Continuing operations</b>						
UK Bus	<b>74.8</b>	<b>Nil</b>	<b>74.8</b>	67.0	Nil	67.0
New Zealand	<b>10.7</b>	<b>Nil</b>	<b>10.7</b>	11.2	Nil	11.2
North America (Coach USA)	<b>14.8</b>	<b>Nil</b>	<b>14.8</b>	14.0	(575.0)	(561.0)
<b>Total bus continuing operations</b>	<b>100.3</b>	<b>Nil</b>	<b>100.3</b>	92.2	(575.0)	(482.8)
UK Rail	<b>44.1</b>	<b>Nil</b>	<b>44.1</b>	38.2	Nil	38.2
<b>Total continuing operations</b>	<b>144.4</b>	<b>Nil</b>	<b>144.4</b>	130.4	(575.0)	(444.6)
Group overheads	<b>(8.4)</b>	<b>Nil</b>	<b>(8.4)</b>	(9.4)	Nil	(9.4)
Goodwill amortisation	<b>Nil</b>	<b>(7.8)</b>	<b>(7.8)</b>	Nil	(21.0)	(21.0)
Redundancy/restructuring costs	<b>(7.2)</b>	<b>Nil</b>	<b>(7.2)</b>	(6.3)	Nil	(6.3)
<b>Total operating profit/(loss) of continuing Group operations</b>	<b>128.8</b>	<b>(7.8)</b>	<b>121.0</b>	114.7	(596.0)	(481.3)
<b>Discontinued operations</b>						
- Citybus	<b>1.0</b>	<b>Nil</b>	<b>1.0</b>	19.1	Nil	19.1
- Goodwill amortisation	<b>Nil</b>	<b>(1.0)</b>	<b>(1.0)</b>	Nil	(7.6)	(7.6)
<b>Total operating profit of discontinued Group operations</b>	<b>1.0</b>	<b>(1.0)</b>	<b>Nil</b>	19.1	(7.6)	11.5
<b>Total operating profit/(loss) of Group companies</b>	<b>129.8</b>	<b>(8.8)</b>	<b>121.0</b>	133.8	(603.6)	(469.8)
Share of operating profit/(loss) of joint ventures						
Continuing						
- Virgin Rail Group	<b>13.5</b>	<b>Nil</b>	<b>13.5</b>	7.2	Nil	7.2
- other	<b>(0.4)</b>	<b>Nil</b>	<b>(0.4)</b>	(0.3)	Nil	(0.3)
Discontinued						
- thetrainline	<b>(2.4)</b>	<b>Nil</b>	<b>(2.4)</b>	(4.3)	Nil	(4.3)
Goodwill amortised on investment in continuing joint ventures	<b>Nil</b>	<b>(8.7)</b>	<b>(8.7)</b>	Nil	(8.7)	(8.7)
Share of operating profit/(loss) of associates						
Continuing						
- other	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	(0.6)	Nil	(0.6)
Discontinued						
- Road King	<b>7.0</b>	<b>Nil</b>	<b>7.0</b>	10.5	Nil	10.5
- other	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	0.1	Nil	0.1
Goodwill amortised on investment in continuing associates	<b>Nil</b>	<b>(0.3)</b>	<b>(0.3)</b>	Nil	(0.3)	(0.3)
<b>Total operating profit/(loss): Group and share of joint ventures and associates</b>	<b>147.5</b>	<b>(17.8)</b>	<b>129.7</b>	146.4	(612.6)	(466.2)

The operating profit from discontinued Group operations includes Citybus. The operating profit from the discontinued element of North America (Coach USA) is not separately shown because it is not clearly distinguishable due to certain "shared" costs that relate to North America as a whole. However, the discontinued element of North America's operating profit is not believed to be material in the context of the Group's annual operating profit as a whole.

Goodwill amortisation on continuing operations of £7.8m (2003: £21.0m) is analysed as UK Bus £0.6m (2003: £0.8m), New Zealand £1.2m (2003: £1.0m) and North America £6.0m (2003: £19.2m).

Redundancy/restructuring costs of £7.2m (2003: £6.3m) are analysed as UK Bus £0.6m (2003: £1.8m), New Zealand £Nil (2003: £0.1m), North America £5.7m (2003: £3.0m), UK Rail £0.9m (2003: £0.6m) and costs incurred centrally £Nil (2003: £0.8m)

## Note 2 Segmental analysis (continued)

### (c) Operating costs

	2004			2003		
	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
Operating costs (excluding asset impairment)	<b>(1,501.3)</b>	<b>(8.8)</b>	<b>(1,510.1)</b>	(1,752.6)	(54.1)	(1,806.7)
Impairment of assets of Group companies	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	Nil	(549.5)	(549.5)
	<b>(1,501.3)</b>	<b>(8.8)</b>	<b>(1,510.1)</b>	(1,752.6)	(603.6)	(2,356.2)

### (d) Net assets

	2004	2003
	£m	£m
UK Bus	<b>306.6</b>	298.5
Overseas Bus	<b>50.2</b>	230.1
North America (Coach USA)	<b>177.4</b>	323.2
UK Rail	<b>(99.3)</b>	(76.8)
Central assets/liabilities	<b>(84.2)</b>	(73.9)
Net assets of Group companies before debt	<b>350.7</b>	701.1
Joint ventures	<b>105.5</b>	106.0
Associates	<b>1.4</b>	70.0
Total net assets before debt: Group, joint ventures and associates	<b>457.6</b>	877.1
Net debt	<b>(67.6)</b>	(560.0)
Net assets	<b>390.0</b>	317.1

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

	2004	2003
	£m	£m
Miscellaneous revenue	<b>46.8</b>	47.9
Liquidated damages received	<b>Nil</b>	8.5
Loss on disposal of tangible fixed assets, other than properties	<b>(3.6)</b>	(2.7)
Rail franchise support	<b>85.9</b>	34.0
	<b>129.1</b>	87.7

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 £Nil (2003: £8.5m) 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.

# Notes to the accounts

## Note 4 Finance charges (net)

	2004	2003
	£m	£m
Bank loans and overdrafts	19.2	27.8
Hire purchase and finance leases	5.8	4.7
Other loans	13.1	16.4
Unwinding of discount on provisions	2.8	3.1
Interest receivable	(13.6)	(5.4)
Net gain on early settlement of debt and other financial instruments	Nil	(13.1)
	<b>27.3</b>	<b>33.5</b>

Interest receivable includes £1.3m (2003: £Nil) in relation to share of joint venture net interest receivable and £1.0m (2003: £1.0m) in relation to interest receivable on joint venture shareholder loan notes. Interest payable on other loans includes £Nil (2003: £0.2m) in relation to share of joint venture net interest payable and £0.8m (2003: £1.3m) in relation to share of associates' net interest payable.

## Note 5 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):

	2004	2003
	£m	£m
Materials and consumables	162.2	208.9
Depreciation and amounts written off		
– Tangible fixed assets (owned)	49.6	87.3
– Tangible fixed assets (on hire purchase or finance lease)	17.6	18.0
– Impairment losses	Nil	162.7
Amortisation of goodwill		
– Subsidiaries	8.8	28.6
– Joint venture and associates	9.0	9.0
Impairment of North America (Coach USA) goodwill	Nil	386.8
(Gains)/losses on property disposals	(0.5)	0.5
Losses on other tangible fixed asset disposals	3.6	2.7
Operating lease rentals		
– PSVs and rolling stock	98.0	92.9
– Network Rail charges	117.3	101.5
– Land and buildings	8.0	13.1
	£'000	£'000
Audit services		
– statutory audit	655.0	722.0
– audit-related regulatory reporting	12.5	10.0
Other assurance services	38.8	1.0
Tax services		
– compliance services	27.5	31.5
– advisory services	117.5	155.9
Advice re disposal of businesses	17.6	Nil
Provision of training and related materials	6.5	Nil
Other services	26.8	41.3
	<b>902.2</b>	<b>961.7</b>
Auditors' remuneration – audit (Company)	20.0	20.0

## Note 5 Profit/(loss) on ordinary activities before taxation (continued)

The following items have been treated as exceptional:

	2004	2003
	£m	£m
Loss on disposal of operations (note 13)	<b>(7.1)</b>	Nil
Provision for losses on operations to be terminated or sold at North America (Coach USA)	<b>Nil</b>	(7.7)
Impairment of tangible fixed assets at North America (Coach USA)	<b>Nil</b>	(162.7)
Write-down of current assets to net realisable value at North America (Coach USA)	<b>Nil</b>	(17.8)
Impairment of goodwill at North America (Coach USA)	<b>Nil</b>	(386.8)
Gain/(loss) on sale of properties	<b>0.5</b>	(0.5)
	<b>(6.6)</b>	(575.5)
Tax effect of exceptional items	<b>(0.2)</b>	Nil
	<b>(6.8)</b>	(575.5)

Net exceptional charges before tax of £7.1m for the year ended 30 April 2004 relate to the total pre-tax losses arising on the disposals of various parts of our North American businesses and our investment in former associated companies operating in the Chinese city of Chongqing against the pre-tax gains arising on the disposals of Citybus, our associated undertaking, Road King Infrastructure Limited, and our joint venture, trainline.

Net exceptional charges before tax of £575.0m for the year ended 30 April 2003 largely related to write-downs of the carrying value of North America's (Coach USA's) assets following an impairment review conducted as at 31 October 2002. To the extent that the written-down values as at 31 October 2002 were based on projected cash flows, the actual cash flows to 30 April 2004 have been compared to projections. Actual cash flows are not significantly less than those projected, hence no further write-downs have been recorded. There have been no new events in the year ended 30 April 2004 that would suggest any further impairment of North America's (Coach USA's) assets.

The Directors also undertook an impairment review as at 30 April 2004 of the carrying value of the Group's 49% joint venture interest in Virgin Rail Group ("VRG") and concluded that there had been no impairment loss (see note 13).

## Note 6 Staff costs and employees

	2004	2003
	£m	£m
<b>Staff costs</b>		
Wages and salaries	<b>665.7</b>	788.8
Social security costs	<b>55.0</b>	60.6
Other pension costs (note 26d)	<b>32.9</b>	31.2
ESOP provided for	<b>Nil</b>	0.2
	<b>753.6</b>	880.8

	2004	2003
	£m	£m
<b>Summary directors' remuneration</b>		
Aggregate emoluments	<b>1.7</b>	1.8
Compensation for loss of office	<b>Nil</b>	0.5
Sums paid to third parties for directors' services	<b>0.2</b>	0.2
	<b>1.9</b>	2.5

Further information on directors' remuneration, share options, incentive schemes and pensions is contained in the Remuneration report on pages 24 to 27.

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

	2004	2003
	number	number
UK operations	<b>20,917</b>	21,292
UK administration and supervisory	<b>1,955</b>	1,945
Overseas	<b>6,291</b>	15,639
	<b>29,163</b>	38,876

# Notes to the accounts

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

### (a) Analysis of charge in the year

	2004			2003		
	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
Current tax:						
UK corporation tax at 30% (2003: 30%)	<b>21.2</b>	<b>Nil</b>	<b>21.2</b>	24.7	Nil	24.7
Prior year over provision for corporation tax	<b>Nil</b>	<b>(24.7)</b>	<b>(24.7)</b>	Nil	Nil	Nil
Share of joint ventures' current tax	<b>3.2</b>	<b>Nil</b>	<b>3.2</b>	2.4	Nil	2.4
Share of associates' current tax	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	0.3	Nil	0.3
Foreign tax (current year)	<b>2.7</b>	<b>Nil</b>	<b>2.7</b>	3.2	Nil	3.2
Foreign tax (adjustments in respect of prior years)	<b>(0.1)</b>	<b>Nil</b>	<b>(0.1)</b>	(3.6)	Nil	(3.6)
<b>Total current tax</b>	<b>27.0</b>	<b>(24.7)</b>	<b>2.3</b>	27.0	Nil	27.0
Deferred tax:						
Origination and reversal of timing differences	<b>8.5</b>	<b>(0.1)</b>	<b>8.4</b>	(0.2)	(3.8)	(4.0)
Adjustments in respect of prior years	<b>(3.2)</b>	<b>(16.3)</b>	<b>(19.5)</b>	2.0	Nil	2.0
<b>Total deferred tax</b>	<b>5.3</b>	<b>(16.4)</b>	<b>(11.1)</b>	1.8	(3.8)	(2.0)
<b>Tax on profit/(loss) on ordinary activities</b>	<b>32.3</b>	<b>(41.1)</b>	<b>(8.8)</b>	28.8	(3.8)	25.0

### (b) Factors affecting tax charge for the year

	2004	2003
	£m	£m
Profit/(loss) on ordinary activities before tax	<b>95.8</b>	(500.2)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	<b>28.7</b>	(150.1)
Effects of:		
Goodwill amortisation	<b>5.0</b>	7.7
Impairment loss	<b>Nil</b>	172.5
Non-deductible expenditure	<b>8.1</b>	4.4
Utilisation of losses not recognised	<b>(4.2)</b>	Nil
Capital allowances less/(more) than depreciation	<b>3.0</b>	(4.3)
Creation or utilisation of losses	<b>(5.9)</b>	(2.1)
Movement in general provisions and other short term timing differences	<b>(5.5)</b>	5.6
Foreign taxes differences	<b>0.4</b>	(3.1)
Adjustments to tax charge in respect of prior years	<b>(27.3)</b>	(3.6)
<b>Current tax charge for the year (note 7(a))</b>	<b>2.3</b>	27.0

### (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 (2003: £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 tax losses carried forward are provided against where the recoverability is in doubt.



## Note 8 Dividends

	2004	2003
	£m	£m
Ordinary shares – interim paid (0.9 pence (2003: 0.8 pence) per share)	11.9	10.6
– final proposed (2.0 pence (2003: 1.8 pence) per share)	26.5	23.7
	<b>38.4</b>	<b>34.3</b>

During the year, a share alternative was offered in respect of the interim dividend of 0.9 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 82.05 pence per existing ordinary share. A similar arrangement applied to last year's final dividend of 1.8 pence per share, the relevant market value being 79.67 pence per existing ordinary share.

## Note 9 Earnings/(loss) per share

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

	2004			2003		
	Earnings £m	Weighted average no. of shares million	Earnings per share pence	Earnings/ (loss) £m	Weighted average no. of shares million	Earnings/ (loss) per share pence
Basic	104.6	1,321.7	7.9	(525.2)	1,314.4	(40.0)
Adjusted (pre goodwill and exceptional items)	87.9	1,321.7	6.7	84.1	1,314.4	6.4
Dilutive shares – Executive Share Option Scheme	–	20.2	(0.2)	–	2.3	Nil
– Employee SAYE Scheme	–	2.2	Nil	–	Nil	Nil
Diluted excluding goodwill and exceptional items	87.9	1,344.1	6.5	84.1	1,316.7	6.4
Include goodwill and exceptional items	16.7	–	1.3			
Diluted	104.6	1,344.1	7.8			

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 29. 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.

# Notes to the accounts

## Note 10 Profit and loss account

The movement on profit and loss account reserve is:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Retained (loss)/profit brought forward	<b>(77.3)</b>	514.8	<b>57.5</b>	670.1
Retained profit/(loss) for the year	<b>66.2</b>	(559.5)	<b>406.7</b>	(612.6)
Translation adjustment	<b>(0.4)</b>	(26.6)	<b>Nil</b>	Nil
UK tax effect of translation adjustment	<b>4.8</b>	(6.4)	<b>Nil</b>	Nil
Share of other recognised gains and losses of associates	<b>(0.2)</b>	(0.1)	<b>Nil</b>	Nil
Goodwill previously written off to reserves	<b>Nil</b>	0.5	<b>Nil</b>	Nil
Retained (loss)/profit carried forward	<b>(6.9)</b>	(77.3)	<b>464.2</b>	57.5

## Note 11 Intangible assets – goodwill

All of the intangible assets that have been recognised by the Group are amortised over periods not exceeding 20 years.

The Group movement in the year is:

	Joint ventures (included in provisions) £m	Joint ventures (included in investments) £m	Associates £m	Subsidiaries £m	Total £m
<b>Cost</b>					
Beginning of year	Nil	110.5	6.0	1,099.3	1,215.8
Additions	Nil	Nil	2.6	1.2	3.8
Disposals	Nil	(10.7)	(5.8)	(416.6)	(433.1)
Translation adjustment	Nil	Nil	Nil	(85.9)	(85.9)
Transferred to provisions	1.9	(1.9)	Nil	Nil	Nil
End of year	1.9	97.9	2.8	598.0	700.6
<b>Amortisation</b>					
Beginning of year	Nil	(37.8)	(4.6)	(892.4)	(934.8)
Charge for the year	Nil	(8.7)	(0.3)	(8.8)	(17.8)
Disposals	Nil	4.5	3.7	332.2	340.4
Translation adjustment	Nil	Nil	Nil	74.5	74.5
Transferred to provisions	(1.6)	1.6	Nil	Nil	Nil
End of the year	(1.6)	(40.4)	(1.2)	(494.5)	(537.7)
Net book value beginning of year	Nil	72.7	1.4	206.9	281.0
Net book value end of year	0.3	57.5	1.6	103.5	162.9

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

	Amortisation period Years	Goodwill additions £m
Subsidiaries – UK Bus/North America	20	1.2
Associates – Road King (subsequently disposed)	20	2.6
		3.8

## Note 12 Tangible fixed assets

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

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Land and buildings	134.5	160.6	3.3	3.4
PSVs and other assets	483.5	691.0	0.8	4.4
	<b>618.0</b>	<b>851.6</b>	<b>4.1</b>	<b>7.8</b>

The Group movement in the year is:

	Land and buildings £m	PSVs and other assets £m	Total £m
<b>Cost</b>			
Beginning of year	187.5	1,488.4	1,675.9
Additions	8.9	77.9	86.8
New subsidiary undertakings	Nil	0.6	0.6
Disposals	(1.5)	(42.7)	(44.2)
Sale/closure of subsidiary undertakings	(51.2)	(508.2)	(559.4)
Translation adjustment	(5.2)	(45.2)	(50.4)
End of year	138.5	970.8	1,109.3
<b>Depreciation</b>			
Beginning of year	(26.9)	(797.4)	(824.3)
Charge	(3.9)	(63.3)	(67.2)
Disposals	0.4	40.1	40.5
Sale/closure of subsidiary undertakings	24.3	305.8	330.1
Translation adjustment	2.1	27.5	29.6
End of year	(4.0)	(487.3)	(491.3)
Net book value, beginning of year	160.6	691.0	851.6
Net book value, end of year	134.5	483.5	618.0
Included in the above are:			
Assets on hire purchase	Nil	119.9	119.9
Leased PSV assets	Nil	82.4	82.4
Short leasehold land and buildings	0.9	Nil	0.9
Long leasehold land and buildings	16.5	Nil	16.5

Heritable and freehold land amounting to £33.0m (2003: £33.0m) has not been depreciated.

Depreciation of £17.6m (2003: £18.0m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

# Notes to the accounts

## 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
<b>Cost</b>			
Beginning of year	3.6	6.4	10.0
Additions	Nil	1.4	1.4
Disposals	Nil	(6.3)	(6.3)
End of year	3.6	1.5	5.1
<b>Depreciation</b>			
Beginning of year	(0.2)	(2.0)	(2.2)
Charge	(0.1)	(0.1)	(0.2)
Disposals	Nil	1.4	1.4
End of year	(0.3)	(0.7)	(1.0)
Net book value, beginning of year	3.4	4.4	7.8
Net book value, end of year	3.3	0.8	4.1

\* PSVs and other assets include £0.6m (2003: £4.1m) of assets 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
<b>Cost</b>				
Beginning of year	166.4	156.2	3.8	326.4
Additions	Nil	Nil	0.1	0.1
Disposals	(31.5)	(146.0)	(0.5)	(178.0)
Share of recognised profits	12.6	3.0	Nil	15.6
Share of other recognised gains and losses	Nil	(0.2)	Nil	(0.2)
Translation adjustment	Nil	(6.3)	Nil	(6.3)
Dividends received	Nil	(4.1)	Nil	(4.1)
Transferred to provisions	(0.6)	Nil	Nil	(0.6)
End of year	146.9	2.6	3.4	152.9
<b>Amounts written off</b>				
Beginning of year	(37.8)	(86.2)	(1.1)	(125.1)
Goodwill amortised during year	(8.7)	(0.3)	Nil	(9.0)
Disposals	4.5	85.3	Nil	89.8
Transferred to provisions	1.6	Nil	Nil	1.6
End of year	(40.4)	(1.2)	(1.1)	(42.7)
Net book value, beginning of year	128.6	70.0	2.7	201.3
Net book value, end of year	106.5	1.4	2.3	110.2

### Note 13 Fixed asset investments (continued)

The Group's share of the net assets of Virgin Rail Group Holdings Limited included on page 46 is analysed below. The prior year comparatives included the Group's share of other small joint ventures net assets which are classified within provisions for liabilities and charges as at 30 April 2004 as these companies now have net liabilities.

	2004	2003
	Total £m	Total £m
Fixed assets	7.6	8.3
Current assets	91.2	159.2
Creditors: Amounts falling due within one year	(53.7)	(115.2)
Creditors: Amounts falling due after more than one year	(6.1)	(6.8)
Share of net assets	39.0	45.5
Goodwill (note 11)	57.5	72.7
Shareholder loan notes	10.0	10.4
	<b>106.5</b>	<b>128.6</b>

The principal joint venture is:

	Country of incorporation/ operation	Number of shares in issue at 30 April 2004	Nominal value of share capital in issue at 30 April 2004	% held at 30 April 2004
Virgin Rail Group Holdings Limited	United Kingdom	34,780	£3,478	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.

The Virgin Rail Group Holdings shareholder agreement provides for joint decision making on key matters and equal representation on the Board. As a consequence the investment has been accounted for as a joint venture. 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.

Unless otherwise agreed by its shareholders, Virgin Rail Group Holdings Limited is restricted from paying dividends until any loans payable to its shareholders have been repaid. With the agreement of its shareholders, Virgin Rail Group Holdings Limited has declared a dividend of £30m in respect of its financial year ended 28 February 2004.

The Directors undertook an impairment review as at 30 April 2003 of the carrying value of the Group's 49% joint venture interest in Virgin Rail Group ("VRG") and concluded that there had been no impairment loss. For 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 2003 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 2004 were in line with those projected.

VRG's two train franchises are presently operating with additional subsidy support from the Strategic Rail Authority ("SRA") in line with commercial arrangements agreed on 19 July 2002. The value of Stagecoach Group's investment in VRG depends on the agreement of long-term commercial arrangements with the SRA for the operation of the franchises.

The Directors have re-assessed the value in use of our investment in Virgin Rail Group as at 30 April 2004. In accordance with FRS 11, the Directors 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 value in use of Virgin Rail Group was determined using an average pre-tax discount rate of 11.4%. The Directors of Stagecoach Group have concluded there is no impairment loss at 30 April 2004 and they continue to monitor the situation regularly and to assess any implications for the Group's investment in Virgin Rail Group.

The remaining goodwill relating to the original acquisition of Virgin Rail Group is being amortised over its remaining useful life of 7.8 years from 30 April 2004.

The Group's 49% shareholding in Trainline Holdings Limited was sold on 9 February 2004 to Virgin Investments Ltd. Gross consideration for the disposal was £4.0m. The net cash amount received was £1.1m which represents the gross consideration less the repayment of short-term loans advanced during the year.

During the year, the Group disposed of its entire shareholding in Road King Infrastructure Limited, with the majority of the shareholding being sold to Shenzhen Investment Ltd. Gross consideration for the disposal was HK\$897.8m. The net cash amount received was HK\$879.8m which represents the gross consideration less transaction costs of the sale.

# Notes to the accounts

## Note 13 Fixed asset investments (continued)

The Company movement during the year was as follows:

	Subsidiary undertakings £m	Joint ventures £m	Other investments £m	Total £m
<b>Cost</b>				
Beginning of year	1,380.2	1.8	0.8	1,382.8
Additions	1,207.0	Nil	Nil	1,207.0
Disposals	(1,664.2)	Nil	Nil	(1,664.2)
End of year	923.0	1.8	0.8	925.6
<b>Amounts written off</b>				
Beginning of year	(737.8)	(1.8)	Nil	(739.6)
During the year	(2.2)	Nil	Nil	(2.2)
Disposals	740.0	Nil	Nil	740.0
End of year	Nil	(1.8)	Nil	(1.8)
Net book value, beginning of year	642.4	Nil	0.8	643.2
Net book value, end of year	923.0	Nil	0.8	923.8

During the year, the Company undertook a legal reorganisation whereby it disposed of various subsidiary undertakings to another subsidiary for consideration in excess of book value. The result is now such that the Company has one direct subsidiary undertaking which indirectly holds the principal Group subsidiary undertakings.

### Acquisitions

During the year a further three acquisitions have been concluded in the UK and North America for a total consideration of £1.9m in cash. The fair value of the net assets acquired was £0.7m giving rise to goodwill of £1.2m which has been capitalised and is being amortised over 20 years.

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 net assets acquired is as follows:

	£m
<b>Fair value to Group</b>	
Tangible fixed assets	0.6
Other current assets	0.3
Total assets	0.9
Creditors – within one year	(0.2)
Total liabilities	(0.2)
Net assets	0.7
Consideration	1.9
Goodwill	1.2

## Note 13 Fixed asset investments (continued)

### Disposals

During the year, the Group disposed of a number of subsidiaries and other businesses as set out below.

Various parts of our North American businesses were disposed of during the year, being the Transit Division, South East Region, South Central Region, West Region, New England Region and the bulk of the taxi division. These disposals have been aggregated in the disclosures shown below. The Group has not retained any ownership interest in any of the businesses that were disposed of in the year.

	Cash proceeds from disposal £m	Decrease/(increase) in net debt from disposal £m	Gain/(loss) on disposal £m
<b>Subsidiary undertakings</b>			
SGC (HK Group) Limited, encompassing 'Citybus' operations	128.7	171.8	0.3
Various parts of North America (Coach USA)	135.0	135.0	(12.4)
Other subsidiary undertakings	Nil	(0.1)	(0.1)
	263.7	306.7	(12.2)
<b>Joint venture</b>			
Trainline Holdings Limited	1.1	1.1	Nil
<b>Associates</b>			
Road King Infrastructure Limited	62.9	62.9	6.2
Hong Kong Kwoon Chung (Chongqing) Bus Investment Limited	0.9	0.9	(1.1)
	63.8	63.8	5.1
<b>Total: subsidiaries, joint venture and associates</b>	<b>328.6</b>	<b>371.6</b>	<b>(7.1)</b>

The operating profit attributable to disposed operations is disclosed in the segmental analysis in note 2.

In respect of the subsidiary undertakings that were disposed of during the year, the net assets disposed of were as follows:

	Citybus £m	North America (Coach USA) £m	Others £m	Total £m
<b>Fixed assets</b>				
Intangible assets – goodwill	77.7	6.7	Nil	84.4
Tangible assets	126.8	102.5	Nil	229.3
Investments	0.5	Nil	Nil	0.5
	205.0	109.2	Nil	314.2
Cash at bank and in hand	4.2	Nil	0.1	4.3
Other current assets	7.0	59.9	Nil	66.9
Total assets	216.2	169.1	0.1	385.4
Bank loans	(47.3)	Nil	Nil	(47.3)
Other creditors	(16.9)	(18.9)	Nil	(35.8)
Provisions for liabilities and charges	(23.6)	Nil	Nil	(23.6)
Total liabilities	(87.8)	(18.9)	Nil	(106.7)
<b>Net assets disposed</b>	<b>128.4</b>	<b>150.2</b>	<b>0.1</b>	<b>278.7</b>
Provisions and accruals for future costs associated with the disposals	Nil	15.9	Nil	15.9
Profit/(loss) on disposal	0.3	(12.4)	(0.1)	(12.2)
<b>Proceeds, net of directly attributable costs</b>	<b>128.7</b>	<b>153.7</b>	<b>Nil</b>	<b>282.4</b>
Satisfied by:				
Cash	128.7	135.0	Nil	263.7
Deferred consideration outstanding (net of provision for doubtful debts) as at 30 April 2004	Nil	18.7	Nil	18.7
	128.7	153.7	Nil	282.4
Net cash inflows in respect of the sale comprised:				
Cash consideration	128.7	135.0	Nil	263.7
Cash at bank and in hand sold	(4.2)	Nil	(0.1)	(4.3)
	124.5	135.0	(0.1)	259.4



# Notes to the accounts

## 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 Transport Holdings plc	Scotland	Holding & financing company
SCOTO Limited	England	Treasury company
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
Coach USA Inc.	United States	Bus and coach operator

All companies operate in the countries shown above and, except for Stagecoach Transport Holdings plc, are indirectly held. 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 2004 will be annexed to the next annual return.

## Note 15 Stocks

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Parts and consumables	11.9	19.1	Nil	Nil
Taxicabs held for resale	1.5	19.0	Nil	Nil
	<b>13.4</b>	<b>38.1</b>	<b>Nil</b>	<b>Nil</b>

There is no material difference between the carrying value of stocks held at 30 April 2004 and their estimated replacement cost.

## Note 16 Debtors and prepaid charges

Amounts falling due within one year are:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Trade debtors	<b>74.6</b>	91.0	<b>0.2</b>	0.3
Other debtors	<b>28.4</b>	30.3	<b>Nil</b>	13.7
Other prepayments and accrued income	<b>53.8</b>	62.6	<b>8.1</b>	1.2
VAT and other government debtors	<b>11.1</b>	8.4	<b>10.2</b>	6.3
Foreign tax receivable	<b>1.3</b>	Nil	<b>Nil</b>	Nil
	<b>169.2</b>	192.3	<b>18.5</b>	21.5

Amounts falling due after more than one year are:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Pension scheme prepayment (note 26d)	<b>36.9</b>	35.2	<b>Nil</b>	Nil
Amounts owed by group companies	<b>Nil</b>	Nil	<b>130.8</b>	550.6
Pre-contract costs	<b>Nil</b>	1.8	<b>Nil</b>	Nil
Other debtors	<b>21.1</b>	22.9	<b>Nil</b>	Nil
Deferred tax asset (note 21)	<b>Nil</b>	Nil	<b>1.1</b>	1.2
	<b>58.0</b>	59.9	<b>131.9</b>	551.8

## Note 17 Creditors

(a) Creditors: Amounts falling due within one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank overdrafts	<b>Nil</b>	Nil	<b>Nil</b>	59.6
Bank loans and loan notes	<b>38.9</b>	58.9	<b>38.6</b>	46.8
Euro 6% notes (note 17d)	<b>182.2</b>	Nil	<b>200.2</b>	Nil
Trade creditors	<b>96.6</b>	95.5	<b>1.7</b>	0.9
Accruals and deferred income	<b>244.0</b>	230.3	<b>21.2</b>	42.3
Dividends payable	<b>26.5</b>	23.7	<b>26.5</b>	23.7
Other creditors				
– UK corporation tax payable	<b>33.9</b>	44.9	<b>4.5</b>	9.1
– Foreign tax payable	<b>Nil</b>	4.0	<b>Nil</b>	Nil
– PAYE and NIC payable	<b>15.7</b>	12.1	<b>0.2</b>	0.2
Current portion of hire purchase and lease obligations	<b>36.8</b>	34.8	<b>Nil</b>	Nil
Amounts due to group companies	<b>Nil</b>	Nil	<b>28.0</b>	28.0
	<b>674.6</b>	504.2	<b>320.9</b>	210.6

# Notes to the accounts

## Note 17 Creditors (continued)

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

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans and loan notes	2.7	181.1	Nil	129.2
US Dollar 8.625% Notes (note 17c)	187.9	208.9	Nil	227.6
Euro 6% Notes (note 17d)	Nil	195.2	Nil	195.2
Non-current portion of hire purchase and lease obligations	95.6	45.8	Nil	Nil
Deferred income	6.0	9.7	Nil	Nil
Amounts due to group companies	Nil	Nil	44.1	11.4
	<b>292.2</b>	<b>640.7</b>	<b>44.1</b>	<b>563.4</b>

### (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\$Nil (2003: US\$45.0m) of the Notes were purchased by the Group. US\$Nil (2003: US\$135.9m) of the Notes purchased have been cancelled. The cumulative par value of Notes repurchased was US\$165.9m as at 30 April 2004 (2003: US\$165.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2004 was £187.9m (2003: £208.9m), after taking account of the notes purchased by the Group, the discount on issue, and issue costs.

### (d) 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 €5m (2003: €48.6m) of the Notes were purchased by the Group and cancelled. The cumulative par value of Notes repurchased and cancelled was €104.2m as at 30 April 2004 (2003: €99.2m).

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 consolidated carrying value of the Notes at 30 April 2004 was £182.2m (2003: £195.2m).

## Note 17 Creditors (continued)

### (e) Borrowings are repayable as follows

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>On demand or within 1 year</b>				
Bank overdraft	Nil	Nil	Nil	59.6
Bank loans and loan notes	38.9	58.9	38.6	46.8
Euro 6% Notes	182.2	Nil	200.2	Nil
Hire purchase and lease obligations	36.8	34.8	Nil	Nil
<b>Within 1-2 years</b>				
Bank loans and loan notes	Nil	130.6	Nil	118.3
Euro 6% Notes	Nil	195.2	Nil	195.2
Hire purchase and lease obligations	33.1	23.3	Nil	Nil
<b>Within 2-5 years</b>				
Bank loans and loan notes	2.7	49.5	Nil	10.9
Hire purchase and lease obligations	53.6	22.2	Nil	Nil
<b>Over 5 years</b>				
Bank loans and loan notes	Nil	1.0	Nil	Nil
US Dollar 8.625% Notes	187.9	208.9	Nil	227.6
Hire purchase and lease obligations	8.9	0.3	Nil	Nil
Total borrowings	544.1	724.7	238.8	658.4
Less current maturities	(257.9)	(93.7)	(238.8)	(106.4)
Long term portion of borrowings	286.2	631.0	Nil	552.0

Interest terms on UK borrowings (except loan notes) are at annual rates between 0.5% and 0.75% over Bank of Scotland base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates of 0.5% above applicable local market borrowing rates. Interest on loan notes are at three months LIBOR or fixed interest. Loan notes amounting to £38.6m (2003: £39.5m) 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 13 to 16.

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 2004 was as follows:

Currency	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	262.2	26.6	288.8	9.4	2.0
US Dollar	64.5	188.1	252.6	6.8	5.5
Canadian Dollar	2.7	Nil	2.7	n/a	n/a
Gross borrowings	329.4	214.7	544.1	7.1	5.1

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

## Note 18 Derivatives and other financial instruments (continued)

As at 30 April 2004 floating rate Sterling borrowings of £50.0m (2003: £50.0m) were hedged with a collar with a cap rate of 8.5% and a floor of 4.5%. The cap was not exercised during the year to 30 April 2004, the floor was exercised on £50m at a 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 £99.2m (2003: £106.6m). These are denominated in Sterling £60.2m (2003: £54.1m), US dollars £39.0m (2003: £46.8m) and Hong Kong dollars £Nil (2003: £5.7m). The weighted average maturity of these liabilities is 2.1 years (2003: 1.9 years).

The Group's policies on managing interest rate risk and currency risk are explained in the Finance Director's review on pages 13 to 16.

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 £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed 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
Canadian Dollar	6.5	Nil	6.5	n/a	n/a
<b>Gross Borrowings</b>	<b>479.0</b>	<b>245.7</b>	<b>724.7</b>	<b>7.7</b>	<b>1.5</b>

The maturity profile of the Group's financial liabilities at 30 April 2004 was as follows:

	2004	2003
	£m	£m
Expiring within one year	<b>280.6</b>	136.8
Expiring in more than one year but less than two years	<b>67.9</b>	371.0
Expiring in more than two years but less than five years	<b>94.5</b>	88.4
Expiring beyond five years	<b>200.3</b>	235.1
	<b>643.3</b>	831.3
Represented by:		
Gross borrowings	<b>544.1</b>	724.7
Financial liabilities on which no interest is paid		
– insurance provisions	<b>71.9</b>	80.2
– token provisions	<b>27.3</b>	26.4
	<b>643.3</b>	831.3

### (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 £476.5m (2003: £164.7m). The cash deposits comprise deposits placed on money market at call, seven day, monthly rates and cash deposited with counterparty banks at commercially negotiated interest rates. The currency analysis is as follows:

Currency	Floating rate	
	2004 £m	2003 £m
Sterling	<b>413.7</b>	98.0
US Dollar	<b>59.1</b>	58.7
Hong Kong Dollar	<b>Nil</b>	5.0
New Zealand and Australian Dollar	<b>3.2</b>	2.3
Canadian Dollar	<b>0.5</b>	0.7
<b>Cash at bank and in hand</b>	<b>476.5</b>	164.7

## Note 18 Derivatives and other financial instruments (continued)

Financial assets on which no interest is receivable total £2.3m (2003: £4.2m) and comprise other investments of £2.3m (2003: £2.7m) and other debtors greater than one year of £Nil (2003: £1.5m). These assets are denominated in Sterling £0.5m (2003: £0.9m), US dollars £Nil (2003: £1.2m) and others £1.8m (2003: £2.1m). The weighted average period to maturity of other debtors greater than one year is Nil (2003: 1.5 years). Financial assets on which fixed interest is receivable total £16.4m (2003: £6.5m) and comprise US\$ denominated loan notes receivable. They have a weighted average interest rate of 8.4% (2003: 13.0%) and an average maturity of 4.5 years (2003: 2.7 years).

### (c) Currency exposures

As explained in the Finance Director's review on pages 13 to 16, 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 2004 and 30 April 2003 there were no material net transactional foreign currency exposures.

### (d) Borrowing facilities

At 30 April 2004 the Group had the following undrawn committed banking and hire purchase facilities:

	2004	2003
	£m	£m
Expiring within one year	68.5	59.2
Expiring in more than one year but no more than two years	Nil	207.9
Expiring beyond two years	51.1	44.4
	<b>119.6</b>	<b>311.5</b>

## 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.

	2004		2003	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Other financial assets</b>	<b>18.7</b>	<b>18.7</b>	10.7	10.7
<b>Primary financial instruments to finance the Group's operation</b>				
Cash deposits and bank overdrafts	476.5	476.5	164.7	164.7
US Dollar 8.625% Notes	(187.9)	(216.8)	(208.9)	(216.4)
Euro 6% Notes	(199.9)	(203.9)	(210.4)	(210.0)
Foreign currency swaps hedging currency debt	17.7	23.9	15.2	25.4
Short term borrowings and current portion of long term debt	(75.7)	(75.7)	(93.7)	(93.7)
Other long term borrowings	(98.3)	(98.3)	(226.9)	(226.9)
<b>Derivative financial instruments held to manage the interest rate, currency and commodity risk profiles</b>				
Interest rate swaps and similar instruments	Nil	(3.5)	Nil	15.5
Forward foreign currency contracts and swaps hedging overseas investments	Nil	(0.1)	0.7	(0.9)
Fuel price swaps and options	Nil	6.5	Nil	1.4
<b>Other financial liabilities</b>	<b>(99.2)</b>	<b>(99.2)</b>	<b>(106.6)</b>	<b>(106.6)</b>

# Notes to the accounts

## Note 20 Hedge accounting

	2004			2003		
	Gains £m	Losses £m	Total £m	Gains £m	Losses £m	Total £m
Unrecognised gains or losses on hedges at start of year	<b>59.0</b>	<b>(33.5)</b>	<b>25.5</b>	35.5	(31.5)	4.0
Gains or losses arising in previous years that were recognised in the year	<b>(46.6)</b>	<b>30.0</b>	<b>(16.6)</b>	22.3	0.3	22.6
Gains or losses arising in previous years that were not recognised in the year	<b>12.4</b>	<b>(3.5)</b>	<b>8.9</b>	57.8	(31.2)	26.6
Gains or losses arising in the year that were not recognised in the year	<b>0.3</b>	<b>(0.1)</b>	<b>0.2</b>	1.2	(2.3)	(1.1)
Unrecognised gains or losses on hedges at end of year	<b>12.7</b>	<b>(3.6)</b>	<b>9.1</b>	59.0	(33.5)	25.5
Of which:						
Gains or losses expected to be recognised within one year	<b>12.2</b>	<b>(3.2)</b>	<b>9.0</b>	19.4	(16.9)	2.5
Gains or losses expected to be recognised after one year	<b>0.5</b>	<b>(0.4)</b>	<b>0.1</b>	39.6	(16.6)	23.0
	<b>12.7</b>	<b>(3.6)</b>	<b>9.1</b>	59.0	(33.5)	25.5

As explained in the Finance Director's review on pages 13 to 16, 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	
	2004 £m	2003 £m	2004 £m	2003 £m
Deferred taxation	<b>76.2</b>	104.8	<b>Nil</b>	Nil
Token redemption provision	<b>27.3</b>	26.4	<b>Nil</b>	Nil
Insurance provisions	<b>71.9</b>	80.2	<b>Nil</b>	Nil
Environmental provisions	<b>3.5</b>	2.4	<b>1.8</b>	0.8
Pension provision (note 26d)	<b>10.2</b>	11.8	<b>3.5</b>	2.8
Restructuring provision	<b>1.9</b>	4.6	<b>Nil</b>	Nil
	<b>191.0</b>	230.2	<b>5.3</b>	3.6
Joint ventures				
– goodwill	<b>(0.3)</b>	Nil	<b>Nil</b>	Nil
– share of gross assets	<b>Nil</b>	(5.3)	<b>Nil</b>	Nil
– share of gross liabilities	<b>1.7</b>	27.9	<b>Nil</b>	Nil
– shareholder loan	<b>(0.4)</b>	Nil	<b>Nil</b>	Nil
	<b>1.0</b>	22.6	<b>Nil</b>	Nil
Total provisions	<b>192.0</b>	252.8	<b>5.3</b>	3.6

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 in North America, where an obligation exists at the balance sheet date.

Share of joint venture net liabilities as at 30 April 2004 relates to the Group's interest in the consolidated net liabilities of various small joint ventures. The share of joint venture net liabilities as at 30 April 2003 relates to Trainline Holdings Limited, which was disposed of during the year.



## Note 21 Provisions for liabilities and charges (continued)

The Group movement during the year was as follows:

	Deferred taxation £m	Token redemption provision £m	Insurance provisions £m	Environmental provisions £m	Pension provisions £m	Restructuring provision £m	Share of joint ventures' net liabilities £m
Beginning of year	104.8	26.4	80.2	2.4	11.8	4.6	22.6
– (credited)/provided during year	(11.1)	Nil	58.4	2.5	11.5	4.1	3.8
– less joint ventures	0.4	Nil	Nil	Nil	Nil	Nil	Nil
Unwinding of discount	Nil	Nil	2.8	Nil	Nil	Nil	Nil
Utilised in the year	Nil	Nil	(59.4)	(0.2)	(13.1)	(6.4)	Nil
Arising on sale of tokens during year	Nil	12.1	Nil	Nil	Nil	Nil	Nil
Redemption of tokens	Nil	(11.2)	Nil	Nil	Nil	Nil	Nil
Translation differences	(0.1)	Nil	(4.3)	(1.2)	Nil	(0.4)	Nil
Disposed of with subsidiaries	(17.8)	Nil	(5.8)	Nil	Nil	Nil	Nil
Disposed of with joint ventures	Nil	Nil	Nil	Nil	Nil	Nil	(25.4)
End of year	76.2	27.3	71.9	3.5	10.2	1.9	1.0

The Company movement during the year was as follows:

	Deferred taxation £m	Environmental provisions £m	Pension provisions £m
Beginning of year	(1.2)	0.8	2.8
Provided during year	0.1	1.5	0.8
Payments in year	Nil	(0.5)	(0.1)
End of year	(1.1)	1.8	3.5

Deferred taxation is calculated as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Accelerated capital allowances	86.4	193.6	0.5	0.5
Pension timing differences	8.0	7.0	(0.9)	(0.8)
Short term timing differences	(18.2)	(95.8)	(0.7)	(0.9)
	76.2	104.8	(1.1)	(1.2)

## Note 22 Equity share capital

	2004	2003
	£m	£m
Authorised 1,840,000,000 (2003: 1,840,000,000) ordinary shares of 0.5p each	9.2	9.2
Allotted, called-up and fully-paid 1,335,358,600 (2003: 1,320,946,012) ordinary shares of 0.5p each	6.7	6.6

In accordance with UITF 38, all shares held by employee trusts are deducted from shareholders' funds and are not classified as assets.

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. 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 2003 6,598,348 shares were transferred to option holders. During the year to 30 April 2004, a further 14,046 shares were transferred to option holders. The remaining 4,887,606 (2003: 4,901,652) shares are held by the QUEST. At 30 April 2004 the market valuation of shares held was £4.0m (2003: £2.2m).

In December 2003, the Company established an Employee Benefit Trust ("EBT") for the purpose of satisfying executive share options. In accordance with UITF 38, shares purchased in the market by the EBT are shown as a deduction from shareholders' funds. The number of own shares held by the EBT at 30 April 2004 was 4,636,924 (2003: Nil) and the market valuation of the shares held was £3.8m (2003: Nil).

# Notes to the accounts

## Note 23 Share option schemes

### (a) Savings related share option schemes

The Company had an Inland Revenue approved savings related share option scheme in operation during the year. The scheme is 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. Two issues from the scheme were in operation during the year as follows:

Issue	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:

	Issue B		Issue C	
	Number of employees	Ordinary shares	Number of employees	Ordinary shares
Beginning of year	462	1,316,891	3,580	12,353,453
Options exercised	Nil	Nil	6	14,046
Options lapsed	462	1,316,981	536	1,593,561
End of year	Nil	Nil	3,038	10,745,846

### (b) Executive share options

Award date	At 1 May 2003	Granted	Exercised	Lapsed	At 30 April 2004	Exercise price £	Date from which exercisable	Expiry date
9 September 1994	53,296	Nil	Nil	Nil	53,296	0.3030	9 September 1997	9 September 2004
13 October 1995	339,353	Nil	306,454	Nil	32,899	0.4820	13 October 1998	13 October 2005
11 October 1996	1,332,276	Nil	Nil	725,754	606,522	1.0900	11 October 1999	11 October 2006
8 September 1997	558,569	Nil	Nil	Nil	558,569	1.2810	8 September 2000	8 September 2004
8 September 1997	41,472	Nil	Nil	Nil	41,472	1.2810	8 September 2000	8 September 2007
8 September 1997	725,754	Nil	Nil	725,754	Nil	1.2810	8 September 2002	8 September 2004
19 October 1998	328,753	Nil	Nil	26,031	302,722	2.2280	19 October 2001	19 October 2005
19 October 1998	738,874	Nil	Nil	738,874	Nil	2.2280	19 October 2003	19 October 2005
1 February 1999	27,130	Nil	Nil	27,130	Nil	2.5060	1 February 2002	1 February 2006
16 June 1999	145,755	Nil	Nil	145,755	Nil	2.1140	16 June 2004	16 June 2006
19 July 1999	638,760	Nil	Nil	57,750	581,010	2.0310	19 July 2002	19 July 2006
1 October 1999	78,050	Nil	39,025	39,025	Nil	0.0050	1 October 2002	1 October 2006
15 June 2000	6,710,164	Nil	1,446,476	271,533	4,992,155	0.6250	15 June 2003	15 June 2007
15 June 2000	1,822,301	Nil	Nil	1,822,301	Nil	0.6250	15 June 2005	15 June 2007
20 June 2001	6,466,075	Nil	2,356,550	248,500	3,861,025	0.7075	20 June 2004	20 June 2008
23 July 2002	22,297,813	Nil	8,092,788	556,519	13,648,506	0.3750	23 July 2005	23 July 2009
5 December 2002	15,835,032	Nil	2,054,766	370,370	13,409,896	0.2700	5 December 2005	5 December 2009
26 June 2003	Nil	5,460,358	116,529	123,967	5,219,862	0.6050	26 June 2006	26 June 2010
12 December 2003	Nil	3,445,752	Nil	Nil	3,445,752	0.8075	12 December 2006	12 December 2010
Totals	58,139,427	8,906,110	14,412,588	5,879,263	46,753,686			

All options were granted for nil consideration. The mid-market price for these shares at 30 April 2004 was £0.82. The Company's shares traded in the range £0.44 to £0.93 during the year to that date.

## Note 24 Reserves

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Share premium account	<b>392.4</b>	386.1	<b>392.4</b>	386.1
Profit and loss account (note 10)	<b>(6.9)</b>	(77.3)	<b>464.2</b>	57.5
Capital redemption reserve	<b>1.7</b>	1.7	<b>1.7</b>	1.7
Own shares	<b>(3.9)</b>	Nil	<b>(3.9)</b>	Nil

Of the Company's profit and loss account balance £378.5m (2003: £57.5m) is distributable and £85.7m (2003: £Nil) is non-distributable. None of the other above reserves as at 30 April 2004 are regarded as distributable.

Details of own shares held are given in note 22.

The consolidated profit/(loss) for the financial year includes £445.1m (2003: loss of £578.3m) in respect of the Company.

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	Group and company: capital redemption reserve
	£m	£m
Beginning of year	386.1	1.7
Arising on new share issues	6.3	Nil
End of year	392.4	1.7

Cumulative goodwill of £113.8m (2003: £113.8m) has been written off against reserves in periods prior to the adoption of FRS 10 "Goodwill and Intangible Assets".

# Notes to the accounts

## Note 25 Consolidated cash flows

### (a) Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2004	2003
	£m	£m
Operating profit/(loss) of Group companies	121.0	(469.8)
Depreciation	67.2	105.3
Impairment of tangible fixed assets at North America (Coach USA)	Nil	162.7
Impairment of goodwill at North America (Coach USA)	Nil	386.8
Loss on disposal of tangible fixed assets, other than properties	3.6	2.7
Goodwill amortisation	8.8	28.6
Provision for losses on operations to be terminated or sold	Nil	7.7
Decrease in stocks	7.3	11.7
(Increase)/decrease in debtors	(11.7)	13.6
Distribution reserve	Nil	0.2
Increase/(decrease) in creditors	24.3	(1.7)
(Decrease)/increase in provisions	(6.2)	24.4
Net cash inflow from operating activities	214.3	272.2

### (b) Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash	347.4	(12.7)
Bond repayments	10.4	40.0
Cash flow from decrease in debt and lease financing	122.6	95.3
	480.4	122.6
Loans of disposed subsidiaries	47.3	Nil
Other movements	2.0	59.9
Movement in cash collateral	(37.3)	32.1
Decrease in net debt	492.4	214.6
Opening net debt	(560.0)	(774.6)
Closing net debt	(67.6)	(560.0)

### (c) Analysis of net debt

	Opening £m	Cash flows £m	Cash collateral £m	Disposals £m	Other movements £m	Total £m
Cash	90.1	347.4	Nil	Nil	1.7	439.2
Cash collateral	74.6	(36.8)	(0.5)	Nil	Nil	37.3
Hire purchase and lease obligations	(80.6)	(25.4)	Nil	Nil	(26.4)	(132.4)
Bank loans and loan stock	(240.0)	147.5	0.5	47.3	3.1	(41.6)
Bonds	(404.1)	10.4	Nil	Nil	23.6	(370.1)
Totals	(560.0)	443.1	Nil	47.3	2.0	(67.6)

The net total of cash and cash collateral of £476.5m (2003: £164.7m) is classified in the balance sheet as £476.5m (2003: £164.7m) in cash at bank and in hand.

### (d) Restricted cash

The cash collateral balance as at 30 April 2004 of £37.3m (2003: £74.6m) comprises balances held in trust in respect of loan notes of £33.7m (2003: £34.3m) and North America restricted cash balances of £3.6m (2003: £40.3m). In addition, cash includes train operating company cash of £71.6m (2003: £42.9m). 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

	£m
Net assets acquired at fair value (see note 13)	0.7
Goodwill	1.2
	1.9
Consideration	
Cash and acquisition expenses paid in year	1.9

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)	1.9
Deferred consideration in respect of businesses acquired in prior years	5.5
	7.4

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.

Businesses disposed of in the year contributed £14.6m to the Group's net operating cash flows, £4.1m to dividends received from joint ventures and associates, paid £0.2m in respect of net returns on investment and servicing of finance, paid £Nil in respect of taxation and utilised £3.1m for capital expenditure. The cash flows from the discontinued element of North America (Coach USA) are not included because they are not clearly distinguishable due to certain "shared" costs that relate to North America as a whole. However, the discontinued element of North America's cash flows is not believed to be material to the Group.

## 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 £80.9m was outstanding at 30 April 2004 (2003: £81.0m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

### (b) Capital commitments

Capital commitments are as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Contracted for but not provided For delivery in one year	81.7	50.5	60.2	16.8

At 30 April 2004, £16.8m of the total capital commitments relates to overseas operations (30 April 2003: £32.6m).

# Notes to the accounts

## Note 26 Guarantees and other financial commitments (continued)

### (c) Operating lease and similar commitments

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

Commitments for payments in the next year under these operating leases are as follows:

	2004	2003
	£m	£m
Under one year	<b>19.8</b>	72.9
Between one year and five years	<b>217.2</b>	131.6
Five years and over	<b>0.9</b>	0.8

Commitments for payments in the next year under other operating leases are as follows:

	2004		2003	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Under one year	Nil	0.5	3.6	3.0
Between one year and five years	1.5	9.0	5.8	9.5
Five years and over	5.8	6.4	6.9	1.9

### (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 2004 can be analysed as follows:

	Pension cost		Cash outflow	
	2004 £m	2003 £m	2004 £m	2003 £m
UK Bus/Group overheads				
– SGPS	<b>16.9</b>	14.0	<b>18.6</b>	15.5
– LGPS	<b>3.4</b>	2.7	<b>3.6</b>	3.0
– Other	<b>0.4</b>	0.8	<b>0.1</b>	0.9
Rail				
– RPS	<b>11.3</b>	12.1	<b>13.0</b>	5.9
Coach USA	<b>0.9</b>	1.6	<b>0.9</b>	1.6
	<b>32.9</b>	31.2	<b>36.2</b>	26.9

The balance sheet position of each scheme as at 30 April 2004 is analysed below. It should be noted that the balance sheet position under SSAP 24 that is shown on page 63 is not equivalent to an actuarial estimate of the scheme's funding position at the balance sheet date. The net balance sheet asset of £26.7m (2003: £23.4m) shown on page 63 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	
	2004	2003	2004	2003	2004	2003
UK Bus/Group overheads						
– SGPS	<b>22.0</b>	20.3	<b>Nil</b>	Nil	<b>22.0</b>	20.3
– LGPS	<b>14.9</b>	14.9	<b>Nil</b>	(0.2)	<b>14.9</b>	14.7
– Other	<b>Nil</b>	Nil	<b>(3.6)</b>	(3.3)	<b>(3.6)</b>	(3.3)
Rail						
– RPS	<b>Nil</b>	Nil	<b>(6.6)</b>	(8.3)	<b>(6.6)</b>	(8.3)
	<b>36.9</b>	35.2	<b>(10.2)</b>	(11.8)	<b>26.7</b>	23.4

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 2004 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:

	2004	2003	2002
	%	%	%
Rate of increase in salaries	<b>4.3</b>	4.0	4.0
Rate of increase of pensions in payment			
– SGPS	<b>2.6</b>	2.3	2.3
– Other defined benefit schemes	<b>2.8</b>	2.5	2.5
Discount rate	<b>5.8</b>	5.5	6.1
Inflation	<b>2.8</b>	2.5	2.5
Expected long-term rate of return as at 30 April were:			
Equities*	<b>8.5</b>	8.5	8.5
Bonds	<b>5.8</b>	5.3	5.9
Cash	<b>4.0</b>	3.8	4.0
Property	<b>7.5</b>	8.0	8.0

\*includes private equity

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 relevant sections 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 64.



# Notes to the accounts

## Note 26 Guarantees and other financial commitments (continued)

### (d) Pension commitments (continued)

The following amounts at 30 April 2004 were measured in accordance with the requirements of FRS 17:

	SGPS/Other	RPS	LGPS	Total	Total	Total
	2004 £m	2004 £m	2004 £m	2004 £m	2003 £m	2002 £m
Equities	360.2	217.7	117.9	695.8	519.9	638.9
Bonds	Nil	22.5	35.1	57.6	46.8	48.5
Cash	15.1	0.1	16.3	31.5	41.4	30.0
Property	Nil	1.3	7.7	9.0	13.0	14.3
Total market value of assets	375.3	241.6	177.0	793.9	621.1	731.7
Present value of scheme liabilities	(498.5)	(261.9)	(219.3)	(979.7)	(879.0)	(762.4)
Pension liability before tax	(123.2)	(20.3)	(42.3)	(185.8)	(257.9)	(30.7)
Related deferred tax asset	37.0	6.1	12.7	55.8	77.4	9.3
Net pension liability	(86.2)	(14.2)	(29.6)	(130.0)	(180.5)	(21.4)

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

	2004	2003
	£m	£m
Charge to operating profits		
– Current service cost	37.9	30.9
– Past service cost	Nil	Nil
	37.9	30.9
Finance (income)/cost		
– Expected return on assets	(50.4)	(60.7)
– Interest cost	48.3	48.1
	(2.1)	(12.6)

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

	2004	2003
	£m	£m
Actual return less expected return on pension scheme assets	91.8	(185.6)
Experience gains and losses arising on the scheme liabilities	(22.1)	38.8
Changes in assumptions underlying the present value of the scheme liabilities	2.0	(85.6)
Actuarial gain/(loss) reported in STRGL	71.7	(232.4)

Actuarial gain as a percentage of scheme assets and liabilities at 30 April 2004 were as follows:

	2004	2003
	%	%
Actual return less expected return on pension scheme assets as a percentage of scheme assets	11.6	(29.9)
Experience gains and losses arising on the scheme liabilities as a percentage of the present value of scheme liabilities	2.3	4.4
Total actuarial gain/(loss) recognised in STRGL as a percentage of the present value of scheme liabilities	7.3	(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:

	2004	2003
	£m	£m
Deficit in schemes at the beginning of the year	<b>(257.9)</b>	(34.1)
Movement in the year:		
Current service cost	<b>(37.9)</b>	(30.9)
Contributions	<b>36.2</b>	26.9
Other finance income	<b>2.1</b>	12.6
Actuarial gain/(loss)	<b>71.7</b>	(232.4)
Deficit in schemes at the end of the year	<b>(185.8)</b>	(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 2004 would have been as follows:

	2004		2003	
	Profit and loss reserve £m	Net assets £m	Profit and loss reserve £m	Net assets £m
As currently stated	<b>(6.9)</b>	<b>390.0</b>	(77.3)	317.1
Net pension liability on FRS 17 basis	<b>(130.0)</b>	<b>(130.0)</b>	(180.5)	(180.5)
SSAP 24 net pension asset that will reverse on implementation of FRS 17	<b>(26.7)</b>	<b>(26.7)</b>	(23.4)	(23.4)
Deferred tax related to SSAP 24 items	<b>8.0</b>	<b>8.0</b>	7.0	7.0
Adjustment to net interest in joint ventures	<b>(18.4)</b>	<b>(18.4)</b>	(17.8)	(17.8)
Net assets on FRS 17 basis	<b>(174.0)</b>	<b>222.9</b>	(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 2004.
- (iii) A performance bond backed by a bank facility for £44.3m (2003: £20.9m), a season ticket bond backed by an insurance arrangement for £30.4m (2003: £31.3) and a holding company guarantee of £15.7m (2003: £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 2004. 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.
- (vi) The Group and the Company are from time to time party to legal actions arising in the ordinary course of business. Liabilities have been recognised in the accounts for the best estimate of the expenditure required to settle obligations arising under such legal actions. Having considered relevant legal advice, the Directors believe that there are no current actions that will have a material adverse effect on the Group's financial position as presented in these accounts.

# Notes to the accounts

## Note 26 Guarantees and other financial commitments (continued)

### (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:

			2004	2003
	Joint venture £m	Associates £m	Total £m	Total £m
Annual commitments under non-cancellable operating leases	73.0	Nil	<b>73.0</b>	73.5
Capital commitments	0.5	Nil	<b>0.5</b>	0.5
Franchise performance bonds	14.7	Nil	<b>14.7</b>	14.7
Bank guarantee	Nil	Nil	<b>Nil</b>	2.4
Season ticket bond	1.1	Nil	<b>1.1</b>	1.1
Infrastructure investment commitments	Nil	Nil	<b>Nil</b>	0.9

### 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 24 to 27.

At 30 April 2004, the Company had loan notes receivable of £10.0m (2003: £10.0m) from Virgin Rail Group Limited. The Company earned interest of £1.0m (2003: £1.0m) on the loan notes during the year.

During the year, Graham Eccles and another member of the Group's management were non-executive directors of Virgin Rail Group Holdings Limited. Fees of £25,000 (2003: £25,000) were payable to the Group by Virgin Rail Group Holdings Limited in this regard.

During the year, Brian Souter and another member of the Group's management were non-executive directors of Road King Infrastructure Limited. Fees of £12,788 (2003: £35,981) were paid to the Group by Road King Infrastructure Limited in this regard.

Brian Souter is Chairman of ScotAirways Group Ltd. During the year the Group purchased flights from ScotAirways Group Ltd totalling £99,123 (2003: £87,376).

### Note 28 Post balance sheet events

During June 2004, the Group cancelled existing bank facilities amounting to £195m which were due to expire in the period to December 2004 and replaced these with revolving credit facilities amounting to approximately £440m which primarily mature in June 2009. These facilities provide significant undrawn headroom.

# Shareholder information

## Analysis of shareholders as at 30 April 2004

Range of holdings	No. of holders	%	Shares held	%
1 – 25,000	62,250	98.38	102,163,077	7.65
25,001 – 250,000	740	1.17	49,065,098	3.67
250,001 – 500,000	89	0.14	31,299,678	2.34
500,001 – 3,750,000	137	0.22	191,558,616	14.35
Over 3,750,000	56	0.09	961,272,131	71.99
	63,272	100.00	1,335,358,600	100.00

Classification of shareholders	No. of holders	%	Shares held	%
Individuals	61,094	96.58	410,871,050	30.77
Other corporate bodies	71	0.11	6,354,494	0.48
Banks and Nominees	1,892	2.99	851,255,984	63.75
Insurance and assurance companies	1	0.00	152,616	0.01
Limited companies	205	0.32	66,656,781	4.99
Pension funds	9	0.00	67,675	0.00
	63,272	100.00	1,335,358,600	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. Registrar forms can be obtained on-line at <http://www.stagecoachgroup.com/sgc/investorinfo/forms/>

### 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

	2004	2003	2002	2001*	2000*
	£m	£m	£m	£m	£m
<b>Results</b>					
Total turnover	1,792.3	2,076.6	2,114.4	2,083.5	2,179.1
Operating profit/(loss)	129.7	(466.2)	96.5	(268.8)	198.6
Finance charges (net)	(27.3)	(33.5)	(59.8)	(76.0)	(144.6)
Profit/(loss) before tax	95.8	(500.2)	42.0	(335.2)	255.3
Tax credit/(charge)	8.8	(25.0)	(15.0)	(19.1)	(50.1)
Profit/(loss) attributable to ordinary shareholders	104.6	(525.2)	27.0	(354.3)	205.2
<b>Net assets</b>					
Fixed assets	831.7	1,259.8	1,981.0	2,047.3	2,304.1
Net current assets/(liabilities)	42.5	(49.2)	(40.4)	(109.1)	250.8
Long term creditors	(292.2)	(640.7)	(808.1)	(816.8)	(1,039.4)
Provisions	(192.0)	(252.8)	(223.4)	(201.1)	(192.9)
<b>Tangible fixed assets</b>					
Additions	86.8	71.1	103.3	141.8	376.7
Depreciation	(67.2)	(105.3)	(112.7)	(111.2)	(218.7)
<b>Cash and debt</b>					
Cash at bank and in hand	476.5	164.7	150.0	160.4	816.0
Gross debt	544.1	(724.7)	(924.6)	(946.1)	(1,365.6)
Net debt	(67.6)	(560.0)	(774.6)	(785.7)	(549.6)
<b>Cash flow</b>					
Free cash flow	209.5	217.8	184.3	228.1	283.9
<b>Ratios</b>					
Earnings per share‡	6.7p	6.4p	6.3p	7.5p	12.8p
Dividends per ordinary share	2.9p	2.6p	2.6p	3.8p	3.6p
Free cash flow per ordinary share	15.9p	16.6p	14.1p	17.0p	18.9p
Shares in issue at year end	1,335.4m	1,320.9m	1,320.9m	1,318.6m	1,407.0m
Average number of employees	29,163	38,876	38,783	40,002	41,254

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

‡before goodwill amortisation and exceptional items

# Registered office, advisers and financial calendar

## Company Secretary

Derek Scott

## Registered Office

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Email [info@stagecoachgroup.com](mailto:info@stagecoachgroup.com)

## Company number

SC 100764

## Registrars

Lloyds TSB Registrars Scotland

PO Box 28448

Finance House

Orchard Brae

Edinburgh EH4 1WQ

Telephone +44 (0) 870 601 5366

## Merchant Bankers

Noble Grossart Limited

48 Queen Street

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## Auditors

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Kintyre House

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## Stockbrokers

Credit Suisse First Boston (Europe) Limited

1 Cabot Square

London E14 4QJ

## Principal Bankers

Bank of Scotland

New Ueberior House

11 Earl Grey Street

Edinburgh EH3 9BN

## Solicitors

Shepherd & Wedderburn, WS

Saltire Court

20 Castle Terrace

Edinburgh EH1 2ET

Herbert Smith

Exchange House

Primrose Street

London EC2A 2HS

## Financial Calendar

Annual General Meeting

27 August 2004

Final Dividend

6 October 2004

Interim Report

December 2004

Interim Dividend

March 2005

In addition to the key dates shown above, a separate circular has been sent to all shareholders which includes a proposed timetable for the issue and redemption of B Shares.

**STAGECOACH** *GROUP*

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