



STAGECOACH GROUP

Annual Report 2005



Business highlights

- strong year of organic growth in bus and rail operations in UK and overseas
- further growth in UK Bus division
 - turnover up 10.8%
 - kick start and telemarketing initiatives successfully introduced
 - investment in fleet, new product development and online sales
 - passenger volumes[†] up 1.5% in non-London operations; turnover up 7.1%
 - turnover in London bus business up 21.0%
 - operating margin* maintained at 11.5%, despite significant increases in fuel and other costs
- excellent performance by UK Rail division
 - turnover up 9.2%
 - South West Trains passenger volumes increased 4.8%
 - significant improvement in punctuality
 - first London operator to complete replacement of slam-door trains
- shortlisted for Greater Western, Thameslink/Great Northern and Integrated Kent rail franchises
- strong growth in North American operations
 - US\$ turnover growth of 12.7% from continuing operations
 - operating margin* up from 4.4% to 6.7%
 - 28.6% more tickets sold at New York Sightseeing
- market-leading positions maintained in New Zealand, despite competition and cost pressures
- management team strengthened with appointment of Ian Dobbs as Chief Executive of Rail division

*excluding restructuring costs, goodwill amortisation and exceptional items

[†]excluding megabus.com

Financial highlights

- turnover from continuing operations £1,787.6m (2004: £1,641.1m)
 - total operating profit[†] £156.7m (2004: £147.5m)
 - operating profit £132.8m (2004: £129.7m)
 - profit before tax[†] £136.8m (2004: £120.2m)
 - profit before tax £108.3m (2004: £95.8m)
 - earnings per share[†] 9.0p, up 34.3% from 6.7p
 - full year dividend up 13.8% to 3.3p (2004: 2.9p)
 - free cash flow £173.6m (2004: £209.5m)
 - £241.3m of capital returned to shareholders
- [†] excluding goodwill amortisation and exceptional items

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Chairman's statement



I am pleased to report that Stagecoach Group has had a strong year, delivering on our strategy for organic growth in our bus and rail operations in the UK and overseas. The Group has achieved excellent financial and operational performance, despite the substantial fuel and other cost pressures.

Stagecoach is continuing to lead the way in developing new ideas, innovative products and highly effective marketing to attract new passengers to public transport. By following this approach, combined with strong operational management and cost-control, we have driven up both passenger volumes and revenues across our business.

Our business is underpinned by a commitment to excellent customer service and a strong focus on the safety and security of our passengers and our people. We continue to have a proactive culture across the Group that puts safety at the top of our agenda.

The successes we have achieved are flowing through strongly to our shareholders, who benefited from the £241.3m return of capital programme during the year and also from increased dividends.

Total turnover for the year ended 30 April 2005 was £1,794.7m (2004: £1,792.3m). Operating profit before goodwill amortisation and exceptional items was £156.7m (2004: £147.5m). Earnings per share before goodwill amortisation and exceptional items were up 34.3% at 9.0p (2004: 6.7p).

Net debt increased by £147.0m from £67.6m at 30 April 2004 to £214.6m at 30 April 2005. Excluding the £265.0m of cash outflows relating to dividends and capital paid to shareholders, net debt fell by £118.0m as the Group continues to generate significant cash from its operations.

Given the Directors' confidence in the future prospects of the Group, as well as its financial strength, we are proposing a final dividend of 2.3p per share (2004: 2.0p), giving a total dividend for the year of 3.3p (2004: 2.9p). This is an increase of 13.8% and (based on continued strong cash flows and profits) we will look to continue with a policy of growing the dividends progressively. The proposed final dividend is payable to shareholders on the register at 2 September 2005 and will be paid on 5 October 2005.

We have strengthened our senior management team with the appointment of Ian Dobbs as Chief Executive of the Group's Rail Division. Ian has 28 years' experience in the rail industry in the UK and overseas. A former Divisional Director of British Rail, he was more recently Chief Executive Officer of the Victoria Public Transport Corporation in Australia, where he was responsible for the rail, tram and bus services. He will join the Group in July 2005.

Ian has a strong track record and we are confident he will drive forward Stagecoach's reputation as a first-class rail operator delivering high-quality services to passengers, value-for-money to taxpayers and an appropriate return to shareholders. He will have operational responsibility for all of the Group's rail interests, and will initially report to Graham Eccles, Stagecoach Group Executive Director – Rail, who has indicated that he intends to retire and step down from the Board in April 2006.

We have made a promising start to the new financial year and despite some industrial action in New Zealand in the early part of May, overall trading is in line with our expectations.

I am pleased that the hard work of our employees has been rewarded with another year of achievement across the Group. We believe there are significant opportunities for organic growth and the expansion of our rail portfolio, both of which can deliver increased value to our shareholders.

A handwritten signature in black ink, which appears to read 'Robert Speirs'. The signature is fluid and cursive, written over a white background.

Robert Speirs
Chairman

Chief Executive's review



Organic growth across our business has driven Stagecoach's strong performance during the year.

We have built on our excellent track record in achieving growth in our UK bus operations as a result of our innovation, targeted marketing and consistent service delivery. Despite pressure on fuel costs, we have achieved further impressive results in the year, increasing operating profits* by 10.3% in our UK Bus division from £74.8m to £82.5m.

Our new telemarketing unit has been attracting thousands of new bus users and we expect our two-year campaign focusing on a new location every six-weeks to generate further organic growth in our provincial bus operations. megabus.com, the Group's low-cost inter-city bus service, has now expanded to cover over 30 towns and cities in the UK and we expect further growth in megabus.com's revenue during the year to 30 April 2006. We have also expanded our use of online sales to increase our share in other express coach markets, such as our premier London-Oxford service.

We continue to develop positive partnerships with local authorities where pro-bus policies coupled with our operational and marketing expertise are producing strong revenue and passenger volume growth in our non-London companies. Several of our initial Government-funded Kick Start schemes are already generating significant passenger volume growth after just six months and we have again significantly increased turnover at our regulated bus operations in London.

Our UK Rail division has performed ahead of our original expectations and we are extremely pleased with the strong growth in turnover and passenger volumes at South West Trains. UK Rail operating profit is up 10.2% and the outlook for the remainder of the SWT franchise remains positive.

Customers have experienced a significantly improved service following the introduction of the new timetable at South West Trains in December 2004, with more frequent departures from the busiest stations. Train punctuality has progressively increased, with over 90% of trains now arriving on time (measured on the basis of the Strategic Rail Authority's Public Performance Measure), and we are confident that this new improved timetable and its inherent reliability will stimulate further passenger volume growth.

We have almost completed the UK's biggest introduction of new rolling stock at South West Trains with the minimum of delays for passengers. South West Trains has replaced its old slam-door rolling stock earlier than any other London operator, as part of the project to introduce 155 state-of-the-art Desiro units with a total value of around £1 billion.

Passengers have responded extremely positively to the new trains and improved service. The most recent National Rail Trends data published by the Strategic Rail Authority indicated that the number of passengers who rated their overall journey with South West Trains as satisfactory or good was 5% higher than the equivalent period in the previous year. This improvement was one of the highest for an operator in the London and South East area.

Stagecoach Group has a significant share of the UK passenger rail market and a key strategic priority is to maximise the current significant opportunities to grow our franchise portfolio. We have been shortlisted for the Greater Western and Thameslink/Great Northern franchises. We are also working hard with our partners, Danish State Railways, to win the new Integrated Kent franchise.

The South West Trains franchise runs until February 2007 and we have already started preparing for a possible tender in 2006. Under our management since 1996, South West Trains passengers have benefited from record investment in new trains, significant operational improvements and new initiatives to boost security and customer service. Our strong financial management has delivered value for money to passengers and taxpayers, as well as an excellent return to our shareholders, and we believe we will be in a strong position to retain the franchise.

*References to the operating profit or operating margin of a particular business throughout the Chief Executive's Review and Operating and Financial Review mean operating profit (or operating margin) before goodwill amortisation, exceptional items and restructuring costs.

We are pleased to have been involved in helping to shape the future direction of the railways during the Government's recent review. A number of Stagecoach proposals, including better integration on the network, have been put in place and the results are helping to reduce delays and improve network management.

At the two Virgin Rail Group ("VRG") franchises, West Coast and CrossCountry, we are particularly pleased at the improving reliability for passengers and the step-change in the travelling environment that has been delivered with the introduction of new trains.

The re-negotiation of the West Coast franchise is a key strategic priority for the Group. We look forward to continuing our discussions with Government in late 2005, following the agreement to gather more revenue, passenger and operational data to assist the re-negotiation of the franchise for the period through to 2012. Passenger volumes on the West Coast mainline have risen approximately 20% in the period since 18 September 2004 in response to the introduction of new faster Pendolino trains. Journey times on the key London-Manchester route have been reduced by more than half an hour, while the frequency of services between the two cities has been doubled, attracting many airline passengers to rail travel.

These results are extremely encouraging and many more people can be attracted back to the railways if this uplift in quality of service is matched by further and sustained progress in infrastructure provision by Network Rail. With these excellent long-term prospects, we believe we can re-negotiate a franchise agreement which is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

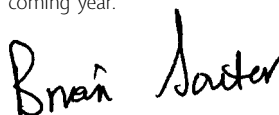
Like the West Coast franchise, Virgin CrossCountry continues to operate on the basis of annual budgets set by the Strategic Rail Authority ("SRA"). We are awaiting the SRA's decision on the future of the franchise. If the SRA decides to put the franchise out to open competition, we are confident that VRG, as the incumbent operator with an excellent track record, will be in a strong position to win the franchise.

Overseas, we have a strong set of bus businesses in the North American and New Zealand markets. In North America, we are pleased to report strong US\$ turnover growth of 26.4% in the sightseeing and tour parts of our continuing businesses. While we have significantly reduced our ongoing exposure to these markets through our restructuring programme, the leisure-related businesses we have retained are now benefiting from a more stable US economy and from the recovery in charter and sightseeing markets. To stimulate further growth we have recently launched a new website for our North American operations, which incorporates online sales as part of our revenue development strategy.

The non-leisure parts of our continuing North American businesses have also seen good growth, with US\$ turnover from scheduled services and commuter services up 7.8% on the prior year. In addition, we have continued to win and retain school bus and other contracts resulting in US\$ turnover growth of 6.2% over the prior year.

In New Zealand, while there has been increased competition from the railways in Auckland, operating margins remain satisfactory at 14.7% (2004: 18.4%) and we are satisfied with the performance of the division although ongoing industrial action in Auckland is likely to impact financial performance in the short term.

None of this could have been achieved without the tremendous commitment from our people, who have ensured the Group has delivered on its strategy. We have an excellent team of senior managers across the Group and I believe we are well placed to deliver further growth in the coming year.



Brian Souter
Chief Executive

Operating and Financial Review

Description of the business

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, United States, Canada and New Zealand. The company, which employs around 30,000 people, operates bus, coach, rail, tram and ferry services. The Group has four main divisions: UK Bus, UK Rail, North America and New Zealand.

Our UK Bus division connects communities in around 100 towns and cities across the country on a network stretching from the Highlands of Scotland to south-west England, including major city operations in Newcastle, Manchester and London. We are one of the biggest bus operators in the UK, operating a fleet of around 7,000 buses across our 16 regional companies. Most of Stagecoach's UK Bus services are operated on a commercial basis in a deregulated market. However, we also operate contracts on behalf of local authorities and provide bus services on behalf of Transport for London in the regulated London market.

Stagecoach Group has major rail operations and has an involvement in operating around a quarter of the UK passenger rail network. The Group's wholly-owned rail businesses include South West Trains, the UK's biggest commuter franchise by passenger revenue, which runs around 1,600 train services a day in south-west England out of London Waterloo. The Group's other franchise is Island Line on the Isle of Wight. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield.

Separately, the Group has a 49% shareholding in Virgin Rail Group, which operates the West Coast and CrossCountry franchises.

Stagecoach is a major provider of transport services in North America, where the market is highly fragmented with several thousand operators. Our businesses are focused on commuter services, tour, charter, sightseeing and school bus operations. The final part of our major restructuring programme was completed during the year with the disposal of our remaining taxi businesses. We now operate approximately 2,800 vehicles in North America where our operations are centred on three areas: the North East region (covering the states of New York, New Jersey and Pennsylvania), the North Central region (covering seven states in the northern Midwest of the United States) and Canada (focused on the provinces of Quebec and Ontario).

In New Zealand, our bus operations cover the metropolitan areas of Auckland and Wellington, where we are the biggest provider of scheduled services. Stagecoach also runs Fullers Ferries, which operates services on the Waitemata Harbour and Hauraki Gulf off Auckland.

Group strategy

Stagecoach Group's strategy is to focus on organic growth in local transport operations with critical mass and good future potential in our core UK, North American and New Zealand markets. We also continue to look for complementary bolt-on acquisition opportunities in these geographic locations, which offer the prospect of additional profitable growth.

Through a combination of operational expertise and applying our entrepreneurial skills in our core geographic markets, we believe we can maximise shareholder value.

We have a very strong position in UK Bus and are confident we can achieve further organic growth by continuing to demonstrate entrepreneurial vision and innovation, supported by targeted and effective marketing and a commitment to partnerships with transport authorities.

In UK Rail, where we already have a significant share of the passenger rail market, we are targeting a number of opportunities that fit with our strategy of long-distance inter-city and high-volume commuter franchises. We are currently shortlisted for the Greater Western and Thameslink/Great Northern Rail franchises and we have a 29.9% stake in the Danish State Railways bid for the Integrated Kent franchise.

A key element of our rail strategy is agreeing new long-term commercial arrangements for Virgin Rail Group's West Coast franchise. VRG would also look to bid for the CrossCountry franchise if it is put to the market and, as the incumbent operator, VRG is in a strong position to win the franchise.

In North America, our strategy is to organically grow our mix of scheduled, charter, sightseeing and school bus operations, as well as assessing potential bolt-on acquisitions in the non-leisure related parts of the business. We are targeting further growth in our New Zealand bus operations by adopting a number of marketing strategies successfully used elsewhere in the group.

Overview of Financial Results

Total turnover for the year was £1,794.7m compared to £1,792.3m in the prior year. Turnover from continuing operations at constant exchange rates increased 9.9%, reflecting excellent underlying growth. Turnover by division is summarised below:

GROUP TURNOVER	2005		2004		Growth %	
	£m	Currency	Local Currency (m)			
Continuing operations						
UK Bus	720.3	650.2	£	720.3	650.2	10.8
North America	213.7	205.3	US\$	396.0	351.3	12.7
New Zealand	59.0	58.3	NZ\$	160.6	160.9	(0.2)
Rail	479.4	438.9	£	479.4	438.9	9.2
Virgin Rail Group (49% share)	315.2	288.4	£	315.2	288.4	9.3
	1,787.6	1,641.1				
Discontinued operations						
North America	7.1	131.5	US\$	13.1	225.1	(94.2)
Citybus (Hong Kong)	Nil	17.8	HK\$	Nil	227.8	(100.0)
Trainline	Nil	1.9	£	Nil	1.9	(100.0)
	7.1	151.2				
Total turnover	1,794.7	1,792.3				

Operating profit from continuing businesses increased from £141.9m to £156.7m. Operating profit is summarised below:

OPERATING PROFIT	2005		2004		Currency	2005	2004
	£m	% of turnover	£m	% of turnover		Local Currency (m)	
Continuing operations							
UK Bus	82.5	11.5%	74.8	11.5%	£	82.5	74.8
North America	14.8	6.7%	14.8	4.4%	US\$	27.4	25.4
New Zealand	8.7	14.7%	10.7	18.4%	NZ\$	23.7	29.5
Rail	48.6	10.1%	44.1	10.0%	£	48.6	44.1
Virgin Rail Group (49% share)	12.7	4.0%	13.5	4.7%	£	12.7	13.5
Others	(0.4)	–	(0.4)	–	£	(0.4)	(0.4)
Group overheads	(8.8)	–	(8.4)	–	£	(8.8)	(8.4)
Restructuring costs	(1.4)	–	(7.2)	–	£	(1.4)	(7.2)
	156.7		141.9				
Discontinued operations							
Citybus (Hong Kong)	Nil	–	1.0	5.6%	HK\$	Nil	12.8
Trainline	Nil		(2.4)				
Road King	Nil		7.0				
	156.7		147.5				
Goodwill amortisation	(22.5)		(17.8)				
Exceptional items	(1.4)		Nil				
Total operating profit	132.8		129.7				

UK Bus Overview

UK Bus has had an excellent year and this is reflected in the strong financial performance. Turnover in our UK Bus division has increased by 10.8% to £720.3m (2004: £650.2m). Operating profit was up 10.3% to £82.5m, compared to £74.8m in the previous year. We are particularly pleased to report a continued strong operating margin, maintained at 11.5%, despite higher fuel costs, an increased use of operating leases to finance new vehicles and costs associated with the development of new products, such as megabus.com. Excluding the impact of additional operating leases and losses relating to the development of megabus.com, UK Bus operating margin was 12.6% versus 12.2% in 2004.

Investment, innovation and growth

Stagecoach's commitment to investment and innovation has delivered further growth in passenger volumes at our UK Bus division during the year. We are experiencing growth both in our deregulated provincial bus operations and in the regulated London environment. We have continued to modernise our fleet and introduce new buses, helping to change passengers' perceptions of bus travel. Supported by effective partnerships with local transport authorities, targeted strategic marketing and further development of innovative products, we have again grown our passenger volumes. Total passenger volumes, excluding London and megabus.com, were up 1.5%.

Our pioneering megabus.com product, which offers low cost intercity bus travel via the Internet, has grown sharply during the year and we now have a network of services covering over 30 towns and cities in the UK. We have recently added a telephone booking facility to complement online sales and we are confident this will further help to stimulate demand. A new fleet of luxury double-decker coaches was introduced during the year at a cost of £6.6m, driving up the quality of travel for passengers on longer distance routes. Around 1.3m passengers have travelled with megabus.com during the year and we have improved both the average load factor and the average fare.

Stagecoach has signed an agreement with Siemens Transportation Systems to develop a new optical guidance bus product for the UK. We have agreed to investigate adapting the Siemens optical guidance system for use on conventional buses and will work together to scope the technical, operational and statutory issues around the potential

introduction of the technology on a city-wide basis. Optical guidance, as part of a comprehensive package of pro-public transport measures, has huge potential to help tackle the increasing road congestion that is affecting many parts of the UK and generate further passenger volume growth.

Provincial and city networks

We are continuing to drive passenger volume growth in our provincial and city networks through our focus on customer profiling research and targeted marketing. A new telemarketing unit has been established at our headquarters in Perth and has launched a series of campaigns in the UK to encourage non-users to switch to bus travel. The campaigns, which include the offer of a week's free travel and focus in particular on parents and car users, have resulted in up to one in five of those contacted switching to the bus. Stagecoach is concentrating on a new town or city every six weeks and intends to target up to 20% of its UK bus networks over the next two years.

Significant year-on-year passenger volume growth has been achieved in a number of our provincial networks, including Bedford, Basingstoke, Corby and Peterborough. We have also attracted significant growth in areas such as Exeter, rural Devon, Gloucester, Swindon, Cheltenham, Aldershot and Northampton.

The Cambridge "citi" network continues to expand more than three years after Stagecoach invested over £4m in improved services. Boosted by a strong partnership with Cambridgeshire County Council, the city has seen one of the biggest rises in public transport use in the UK with bus use increasing by around 45% in three years.

In Oxford, we have attracted more passengers on our Oxford Tube high-frequency express coach service to and from London. This follows the introduction of a new 25-vehicle fleet of luxury, disability accessible, double-decker coaches. We have also developed our use of online sales to increase market share.

Stagecoach has continued to work successfully with Nexus Passenger Transport Executive to develop core corridors in Newcastle, Sunderland and South Shields as part of the Tyne and Wear Superoute network. We are also working with Greater Manchester Passenger Transport Executive on a number of new technology programmes including real time information, the delivery of bus times to mobile phones and smart cards to make travel easier for passengers.

Operating and Financial Review

Severe flooding affected our Carlisle operations in January 2005, with 85 vehicles in the fleet written off due to water damage. However, the company was able to maintain services to passengers and a £4m fleet of 39 low-floor vehicles was delivered in June this year, making all inner city services in Carlisle easy access for the elderly, people with disabilities and parents with young children. The financial impact of the flooding was largely mitigated by insurance, although an exceptional loss of £0.8m was reported for the year to 30 April 2005, representing the "excess" on the insurance policy and other additional costs.

London

Our London bus business has achieved further significant growth this year. Turnover increased by 21.0% during the year as a result of winning and retaining contracts operated on behalf of Transport for London ("TfL"). During the year, we began operating an £11m contract for an articulated bus service out of our new £2.3m depot in Stratford. We have also invested a further £1m in improved operational and engineering facilities at our existing depots. Our excellent operational performance, which has followed a close focus on the recruitment and retention of drivers, has resulted in quality incentive payments from TfL and increased operating profits. Nearly 90 new double-decker vehicles were introduced in our operations in the capital during the year and our London fleet is now 100% low floor.

Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision for our customers. We agree with the Government that strong partnerships are the key to improving services and delivering value for money to taxpayers. In Scotland and Wales, we continue to work with the devolved administrations to successfully deliver the concessionary fares schemes. We have been working with the Scottish Executive to help shape the new Scotland-wide concessionary fares scheme and we welcome the recent commitment by the Government to introduce free travel for the elderly in England. Stagecoach is working with a number of local authorities on smartcard, multi-operator ticketing schemes and real time information, in places such as Manchester, Cambridge 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. Our work in Devon has been identified as an example of best practice by the Energy Saving Trust, a non-profit making organisation set up by the Government to help tackle climate change and improve air quality. In Oxford, we have also established a new network in partnership with Brookes University. These partnerships are delivering results, attracting more people to bus travel and helping to address congestion in our towns and cities.

Park and ride

We believe there is significant potential to develop park and ride around the UK as a solution to the problem of increasing congestion in and around our main towns and cities. Stagecoach is a partner with local authorities in a number of major and growing park and ride sites. Ferytoll in Fife, Scotland, doubled in size this summer to offer 1,000 car parking spaces and we are now running 12 buses an hour across the Forth Road Bridge into Edinburgh as car users are attracted to the benefits of public transport. There has been significant growth in car users using the five award-winning park and ride services in and around Cambridge, where every one of the 20 buses used by Stagecoach has low-floor access for people with disabilities and parents with young children. During the year, we won a contract for a park and ride facility in east Hull to give a public transport alternative for motorists. Stagecoach is now investigating the potential of "commercial" park and ride operations around the UK, where the operator would also buy and manage the facility. This approach has been successfully delivered in the United States and we believe there is potential to introduce the concept in the UK.

Kick Start

Stagecoach was successful in the first round of funding allocations following the decision by the Department for Transport, the Scottish Executive and the devolved administration in Wales to take forward our Kick Start proposal for targeted funding to support the introduction of new bus services. We have already achieved high levels of passenger volume growth after only six months of starting partnership projects in

Thanet, Chesterfield and Caerphilly. We have achieved similar success with projects of our own, including in Swindon, following the success of our initial pilot project in Perth, Scotland, where passenger volumes are still growing nearly five years after the initial investment.

North America

Overview

North American trading has been very encouraging. Excluding discontinued operations, turnover increased 12.7% from US\$351.3m to US\$396.0m. Including discontinued operations, turnover at our North American operations was US\$409.1m compared to US\$576.4m in the previous year. Operating profit was US\$27.4m (2004: US\$25.4m), representing an improvement in operating margin from 4.4% to 6.7%. Converted to sterling, turnover was £220.8m (2004: £336.8m) and operating profit was £14.8m (2004: £14.8m).

North East

In the North East region, we have achieved further significant passenger and revenue growth in our highly successful New York Sightseeing operation. 28.6% more tickets were sold in the year following the addition of new tours to our product offering. A fleet of 20 new open-top double-decker sightseeing coaches entered service in spring 2005, bringing the fleet to 74 open-top vehicles for the 2005-06 season. A further six new trolley buses have also entered service on a new tour in partnership with the History Channel.

Express and commuter coach services have also performed well. Services between New York City and New York State/Eastern Pennsylvania, for example, have generated turnover growth of 6.8% while a marketing campaign targeted at Newark Airport has produced further growth in our Newark Airport Express service.

During the year, we have won a number of new contracts with private and public sector organisations, including business operated on behalf of New Jersey Transit and Newark Airport.

North Central

Scheduled services in the North Central region have seen significant growth, partly as a result of increased air travel in the United States and following a bolt-on acquisition of a small business in Rockford, Illinois.

Charter sales have grown steadily over the period following increased marketing, operational improvements and targeted pricing initiatives.

North Central's Sightseeing and tour operations have seen overall turnover growth of 11.7%. Our Chicago Sightseeing and tour operation, which offers a mix of double decker and trolley tours, has achieved significant turnover growth. Plans are in place to develop new and improved tours in the coming year.

We have won a number of college shuttle contracts in the Pittsburgh market and our growing Wisconsin school bus business, which accounts for around 27.3% of the North Central region's turnover, has successfully retained a number of contracts that were re-tendered during the year.

Canada

Coach Canada's charter C\$ turnover is up 34.7% on the previous year. Charter business, which was impacted by the SARS outbreak in Toronto two years ago, has recovered strongly.

During the year, we purchased a small sightseeing operation in Montreal and have introduced four heritage double-decker buses from the UK as part of the expansion of the operation.

A major three-year contract to run services on behalf of the town of Whitby was renewed in November 2004, with annual revenues worth C\$3.7m.

We are pleased that our retained North American operations have delivered our plan to out-perform the operating margins being achieved by the division prior to restructuring. This has been achieved despite a background of rising fuel and insurance costs and an unpredictable claims environment.

New Zealand

Turnover and operating profit from our New Zealand businesses were in line with our expectations. Turnover was similar to last year at NZ\$160.6m (2004: NZ\$160.9m). Operating profit was NZ\$23.7m (2004: NZ\$29.5m). The operating margin of 14.7% (2004: 18.4%) remains satisfactory but does reflect ongoing cost pressures and increased competition from railways in the Auckland market. Converted to sterling, turnover was £59.0m (2004: £58.3m) and operating profit was £8.7m (2004: £10.7m).

Trading in the Auckland region continued to be challenging due to a combination of fewer foreign language students, competition from the upgraded local rail system and a tougher tendering environment for service contracts. However, contracts for services in the North Shore sector of the Auckland region were re-tendered during the year and we successfully retained a similar volume of work to that covered by previous contracts. We have launched a trial of a Unirider pass at Auckland University to encourage the 30,000 students and staff to purchase discounted travel for a year or a semester in advance.

In Wellington, turnover was 9.0% more than the previous year and there has been particularly good passenger volume growth in the Hutt Valley sector. A number of contracts for services in the region were also retained at re-tender. The companies are also adopting the telemarketing programmes that were successful in the UK, and the New Zealand roll-out of the initiative has started successfully in the Lyall Bay area of Wellington.

The New Zealand businesses operate with three-year labour agreements with the trade unions. The labour contracts for Auckland and Wellington are both due to be re-negotiated in the year to 30 April 2006 and in Auckland the process is already underway. The parties have not yet reached agreement and the Auckland business was disrupted by a six-day strike in May 2005. We are continuing negotiations to try and reach agreement but further industrial action cannot be ruled out. This action is likely to impact overall financial performance in New Zealand in the year to 30 April 2006.

Rail Overview

Our UK Rail division has had an excellent year. We are extremely pleased with the strong growth in turnover and passenger volumes at South West Trains, which has been stimulated by improvements for customers centred on punctuality and the quality of the travelling environment.

Turnover for our wholly-owned rail subsidiaries in the year was £479.4m (2004: £438.9m), with passenger volumes at South West Trains up 4.8% on the prior year. Operating profit was up 10.2% to £48.6m (2004: £44.1m), representing an operating margin of 10.1% (2004: 10.0%). This includes liquidated damages of £2.6m in relation to late delivery of new Desiro trains and reliability of class 458 trains.

Our strong performance at South West Trains has also benefited the taxpayer, with £46.0m (2004: £27.9m) in revenue and profit sharing payments being payable to the SRA in respect of the financial year ended 30 April 2005.

Stagecoach Group has taken a leading role in helping to shape the future direction of the railways during the Government's recent review. A number of Stagecoach proposals on better integration on the network have been put in place and the results are assisting our own measures to improve services for passengers.

South West Trains

The new three-year franchise at South West Trains, which commenced in February 2004, is running extremely well and management has achieved significant improvements in train service delivery and passenger satisfaction. Therefore, we are well placed to continue to operate services beyond the end of the existing South West Trains franchise in February 2007.

New trains and technology improvements

Our programme to introduce 155 new Desiro trains is almost complete. This has been achieved with very few delays affecting passengers. We are the first London operator to have phased out the last of the old Mark I slam door trains and have completed the fleet replacement programme more quickly than any other train company.

We are also working with the SRA, Transport for London, rolling stock leasing company Porterbrook, and the train manufacturer, Bombardier, on a £67m project to refurbish our 91 unit Class 455 fleet. Launched in November 2004, the project will deliver improved reliability and a better train layout for passengers on suburban routes.

A major initiative to update ticketing systems and infrastructure technology is to be implemented at South West Trains in the summer and autumn of 2005. Passengers will benefit from new touch screen ticket machines, faster ticket printing, more ticket machines and acceptance of credit cards at most self service outlets.

Punctuality and customer improvements

South West Trains has achieved a major improvement in train punctuality during the year. Since the introduction of the new timetable in December 2004, punctuality has progressively improved, with over 90% of trains now arriving on time (measured using the SRA's Public Performance Measure). This is one of the best performances of any operator on the London and South East network. We are confident the new improved timetable and its inherent reliability will stimulate further passenger volume growth.

This dramatic improvement for passengers has followed the most radical timetable change for nearly 40 years. The new timetable provides consistency for customers, additional peak time services and capacity into London Waterloo and a series of measures to reduce the effect of incidents and promote better timekeeping.

We are also pleased that the Wessex Integrated Control Centre at London Waterloo, a concept pioneered by Stagecoach and operated in conjunction with Network Rail, is continuing to improve our joint response to incidents and ensure delays and disruption to passengers are minimised.

South West Trains has placed excellent operational management and customer service at the heart of its business during the year and has been rewarded with a number of awards. Our customer service team at London Waterloo was named the top Frontline Customer Service Team at the National Customer Service Awards, which cover a wide range of sectors including transport. South West Trains also achieved its highest customer satisfaction score in the National Passenger Survey, out-ranking most other commuter operators. E-motion, our innovative customer magazine and website, also received a Best in Business award from the National Association of Publishing Agencies.

At the National Rail Awards, South West Trains won Maintenance Team of the Year, London Operational Team of the Year, Major Station of the Year for London Waterloo, and Project of the Year for the introduction of the new Desiro trains with Siemens, while a number of our frontline employees were shortlisted for their own personal contribution.

Further measures have been undertaken to improve passenger and employee safety and security at South West Trains, which already has one of the best records in the UK rail industry. The TravelSafe Officers initiative, our ground-breaking security and anti-crime partnership with British Transport Police, has played a major part in cutting crime on the network by 20% in the last six months of 2004, compared with the same period in 2003. We are also pleased to report that seven more South West Trains stations have received the Secure Station award. This brings the total number of stations on our network with this status to 43 – the highest of any of the UK's train operating companies.

Commercial activity

Marketing activity at South West Trains has been focused on two key areas: developing leisure off-peak travel to increase revenue and a wider campaign to improve customer perception of our services. We have achieved further success with our Apex and SuperAdvance ticket promotions, and our leisure and reduced fare income is increasing at a faster rate than other train operators in London and the South East.

Around 400,000 passengers use South West Trains' services every day and a major newspaper, TV and cinema advertising campaign was undertaken in autumn 2004 to promote our improvements for customers. New Mori research suggests that the campaign to reinforce the benefits of the new Desiro trains, refurbishments to other rolling stock and personal security initiatives has delivered a marked improvement in passenger attitudes.

Operating and Financial Review

Island Line

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

Sheffield Supertram

Sheffield Supertram, Britain's first state-of-the-art tramway, has achieved further passenger volume growth during the year. The network has carried a record 12.8m passengers during the year and has delivered further growth in profits. Passenger volume growth has been achieved, boosted by the regeneration of residential areas along the tram routes as well as improved leisure and retail facilities in Sheffield. A number of passenger improvements are being introduced across the network, including the roll-out of CCTV technology and the launch of an automated passenger announcement system.

Rail business development

The Group is in an excellent position to expand its rail portfolio and currently has an involvement in three shortlisted franchise bids that are an excellent fit with our strategy of concentrating on long-distance inter-city and high-volume commuter franchises.

Stagecoach is shortlisted for the Greater Western and Thameslink/Great Northern Rail franchises. Covering the West Country to London, the Greater Western franchise includes long-distance, regional and local services in the Thames Valley, Cotswolds, Bristol and the surrounding area and the West of England, with some cross-border services into South Wales. The seven-year franchise will run from 1 April 2006 with a potential three-year automatic extension if agreed performance targets are met. The enlarged Thameslink/Great Northern franchise, serving large numbers of commuters, will cover services between Bedford and Brighton, as well as between Peterborough, King's Lynn, Cambridge and London. The four-year franchise is expected to begin operations on 1 April 2006, with two extra years if agreed performance targets are met. There is also a possible further extension for up to three years to facilitate work on the Thameslink 2000 project.

While we were disappointed that our joint bid with Virgin for the Inter City East Coast franchise was unsuccessful earlier this year, we believe we can develop strong bids for these new franchises that deliver first-class passenger service, excellent value for taxpayers and a good return to shareholders.

We also have a 29.9% stake in the Danish State Railways ("DSB") bid for the Integrated Kent 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. We believe our UK experience of both commuter and inter-city services will help deliver a powerful bid for the franchise.

Virgin Rail Group

Stagecoach has a 49% share in Virgin Rail Group ("VRG"), which operates the West Coast and CrossCountry inter-city rail franchises that link more than 130 stations across the UK. Both franchises continue to operate on the basis of annual budgets set by the SRA.

Our share of Virgin Rail Group's turnover for the year amounted to £315.2m (2004: £288.4m) and our share of operating profit was £12.7m (2004: £13.5m).

Both VRG's franchises operate on the basis of a Letter Agreement signed with the SRA in July 2002. Negotiations will re-commence on the West Coast franchise in September 2005 with a view to agreeing revised commercial terms for the franchise through to 2012. The SRA has terminated negotiations on the CrossCountry franchise and has the right to re-tender this franchise, although it is required to give at least 12 months' notice to VRG if it intends to terminate the existing franchise.

Under the Letter Agreement, the SRA sets an annual budget, including the level of financial support, for each franchise. The SRA has set challenging budgets for VRG's financial year to 4 March 2006. In particular, discussions are continuing with the SRA regarding CrossCountry's requirement for additional cash funding from July 2005.

West Coast

A £1.2 billion fleet of Pendolino tilting trains, operating at up to 125mph, has successfully entered passenger service on what is one of the main arteries of the UK rail network. Journey times for passengers on some routes are being cut by more than 20%. On the key London-Manchester route, journey times have been reduced by more than half an hour, while the frequency of services between the two cities has been doubled.

As predicted, the twin challenges of infrastructure work and introducing new trains impacted performance on the West Coast mainline during the autumn and winter of 2004. However, now that teething issues around the new trains have largely been resolved, West Coast's performance has markedly improved and there is a continuing focus on driving up punctuality.

Increasing numbers of customers have been attracted to travel on the new state-of-the-art trains. Passenger volumes on the West Coast mainline have risen by approximately 20% in the period since the new Red Revolution timetable and faster Pendolino trains were introduced in September 2004.

The new trains and timetables have increased VRG's share of the Manchester-London travel market with an 39% increase in the number of rail journeys from north-west England to London between September 2004 and January 2005. In the same period, the number of passengers using the Manchester-London air route dropped by more than 7%.

VRG will recommence negotiations with the Government in the autumn of this year with a view to agreeing a re-negotiated franchise through to 2012. Earlier this year, VRG and the SRA agreed that more time was required to assess revenue, passenger and operational data. Both parties agreed to allow a full year's impact of the new West Coast timetable to be assessed up to September 2005. In the meantime, VRG will continue to operate the West Coast franchise under the terms of the Letter Agreement signed in July 2002 and is committed to working with all other stakeholders to further improve services to passengers. We believe this sensible and constructive approach will help deliver a re-negotiated franchise agreement that is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

CrossCountry

CrossCountry, which is serviced by a fleet of modern Voyager trains, has achieved further improvement in performance during the year. Since the start of 2005, more than 80% of trains are arriving on time (as measured by the SRA's Public Performance Measure) and, VRG is working hard to improve this further.

The improvements have helped transform travellers' perceptions, with CrossCountry being named the top performer in the InterCity sector of the SRA-commissioned National Passenger Survey last year.

Like the West Coast Mainline franchise, the Virgin CrossCountry franchise continues to operate on the basis of annual budgets set by the SRA, while we await its decision on the future of the franchise. If the SRA decides to put the franchise out to open competition, we are confident that VRG, as the incumbent operator with an excellent track record of sustained improvement, will be in a strong position to win the franchise.

Joint ventures and associates

Our share of joint venture and associates' operating profits (before goodwill amortisation) was £12.3m compared to £17.7m in the prior year. This includes £12.7m (2004: £13.5m) in respect of the Group's share of operating profits in Virgin Rail Group, as referred to earlier in this report. £0.4m (2004: £0.4m) of losses arose from other smaller joint ventures and associates. The prior year's results included our share of trainline's operating losses which, up to the date of disposal, was £2.4m, and our share of profits in Road King, up to the date of disposal, of £7.0m.

Depreciation and amortisation

Earnings before interest, taxation, depreciation, goodwill amortisation and exceptional items (pre-exceptional EBITDA) amounted to £224.4m (2004: £214.7m). Total depreciation for the year was £67.7m (2004: £67.2m). The annual goodwill amortisation charge was £22.5m compared to £17.8m in 2004. Total goodwill amortisation has increased by £4.7m, with the principal movement being a £6.5m increase in the amortisation of goodwill related to the Group's investment in Virgin Rail Group. The Directors reviewed the period over which the goodwill in respect of Virgin Rail Group was being amortised, in light of the status of the negotiations on Virgin Rail Group's franchises and the possibility that the SRA could terminate the CrossCountry franchise with 12 months' notice. As a result, the amortisation of goodwill in respect of Virgin Rail Group has been accelerated, resulting in an increased charge.

Restructuring costs

Non-exceptional restructuring costs included within operating profit amounted to £1.4m (2004: £7.2m). The prior year figure included £5.7m relating to the restructuring at North America. The restructuring costs at North America for the year ended 30 April 2005 were £0.1m as the restructuring programme was largely completed in the prior year.

Exceptional Items

Net exceptional charges before tax of £6.0m (2004: £6.6m) were recorded of which £1.4m (2004: £Nil) is included within operating profit: £0.8m (2004: £Nil) relating to flooding at the UK Bus Division's Carlisle depot, £0.3m (2004: £Nil) relating to costs associated with the return of capital and £0.3m (2004: £Nil) relating to the write-down of an investment. Non-operating exceptional charges comprised a loss of £5.9m (2004: £7.1m) on the disposals and closures of businesses and a net gain of £1.3m (2004: £0.5m) on the sale of properties.

A tax credit of £1.6m (2004: charge of £0.2m) was recognised in respect of exceptional items resulting in net exceptional charges after tax of £4.4m (2004: £6.8m).

Finance charges

Net finance charges decreased from £27.3m to £19.9m as a result of a lower average net debt during the year and favourable foreign exchange rate movements. The ratio of pre-exceptional EBITDA to net finance charges was 11.3 times compared to 7.9 times in 2004, reflecting the reduced finance charges.

Taxation

Profit before tax for the year was £108.3m. The Group's tax charge of £29.5m represents an effective rate of 27.2% on this profit (2004: 33.6% excluding impact of exceptional tax credit of £41.0m).

Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items were 9.0 pence, compared to 6.7 pence in 2004, reflecting the strong performance at each of our core divisions. Basic earnings per share (taking account of all exceptional items and goodwill amortisation) were 6.8 pence (2004: 7.9 pence); the prior year amount of 7.9 pence included 3.1 pence in respect of the exceptional tax credit.

The total proposed dividend in respect of ordinary shares for the year is 3.3 pence (2004: 2.9 pence). This represents dividend cover (before goodwill amortisation and exceptional items) of 2.9 times (2004: 2.3 times). £0.4m (2004: £Nil) of dividends on 'B' shares have been recognised in the year.

Shares in issue

The weighted average number of ordinary shares during the year used to calculate basic earnings per share was 1,154.5m (2004: 1,321.7m). Following the return of capital in September 2004 and the related 19 for 24 consolidation of ordinary shares, the number of shares ranking for dividend at 30 April 2005 was 1,063.0m, with a further 6.5m of ordinary shares held by employee trusts and not ranking for dividend.

The Group has authority to repurchase a further 134,073,290 ordinary shares. This authority expires at the 2005 AGM and we will seek to renew the general authority to repurchase up to 10% of the issued ordinary share capital.

Net assets

Net assets at 30 April 2005 were £219.0m (2004: £390.0m) with the decrease principally reflecting the return of capital and dividends during the year, partly offset by the strong reported profits.

Net debt

During the year, we returned £241.3m of capital to shareholders by issuing new redeemable 'B' shares. Of the £241.3m shares issued, £227.4m have been redeemed for cash during the year and are included in the increase in net debt which has increased from £67.6m to £214.6m. £13.9m of the 'B' shares have yet to be redeemed and are therefore not included in the net debt of £214.6m as at 30 April 2005.

Excluding the impact of the redeemed 'B' shares of £227.4m, net debt reduced by £80.4m. This includes the benefit of ongoing cash generation from our core operations, £30.2m received in respect of joint ventures and £14.7m received from the disposal of businesses including a negotiated early settlement of the deferred consideration from the prior year disposal of Coach USA's West and South Central Regions.

The strong cash generative nature of the Group is once again highlighted by free cash flow of £173.6m (2004: £209.5m). Free cash flow per share decreased from 15.9 pence to 15.0 pence. The prior year free cash flows included one-off tax refunds of £25.6m and £23.6m of one-off cash inflows arising from the close-out of fixed to floating interest rate swaps.

The impact of capital expenditure for the year on net debt was £100.0m (2004: £83.0m), partly offset by proceeds from the sale of tangible fixed assets of £7.1m (2004: £4.2m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £73.8m (2004: £56.0m) and new hire purchase debt of £26.2m (2004: £27.0m).

Capital Expenditure

Additions to tangible fixed assets for the year were:

	2005	2004
	£m	£m
UK Bus	51.4	50.5
North America	33.8	23.1
New Zealand	10.8	7.0
Citybus (Hong Kong)	Nil	3.0
UK Rail	7.8	3.2
	103.8	86.8

The differences between the amounts shown above and the impact of capital expenditure on net debt arose from movements in fixed asset deposits and creditors.

Acquisitions and disposals

Cash of £4.8m was paid on new acquisitions in the year, and £1.1m was paid in respect of deferred consideration on acquisitions completed in previous years.

Cash of £14.7m was received during the year in respect of disposals, which included the negotiated early settlement of deferred consideration on disposals completed during last financial year.

Return of Capital

Following the passing of a special resolution at the 2004 AGM, we have successfully completed the return of £241.3m of capital to shareholders, with 77.2m 'B' shares (£13.9m) still to be redeemed.

Having taken account of the cashflow generation of the Group and the potential bonding requirements on current rail franchise bids, the Board is now comfortable with the Group's current capital structure. The Board will, however, continue to keep the Group's capital structure under review.

Operating and Financial Review

Fuel hedging

We currently use the equivalent of 1.8m to 1.9m barrels per annum of diesel fuel in our bus operations. As a result, we are exposed to the movement in the underlying price of crude oil, which is the major driver of diesel prices. We manage the year on year volatility in our fuel costs by maintaining an ongoing fuel hedging programme where we use derivatives to effectively fix or cap the variable unit cost of a percentage of our current and future diesel volumes. If we had no hedging in place a US\$10 a barrel movement in the underlying prices would affect our fuel costs by US\$18m-US\$19m per annum.

For the financial year to 30 April 2006, we have fixed or capped approximately 85% of our variable fuel costs at an equivalent crude oil price of US\$48 a barrel. If crude oil prices remain at around US\$55 a barrel, fuel costs for the year ending 30 April 2006 could increase by a further £15m to £20m, when compared to 2004/5.

We continue to manage fuel costs as part of our overall cost base, and our total costs of operation are taken into account when setting fares and contract prices.

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. As at 30 April 2005, the Group's committed credit facilities were £688.8m (2004: £430.1m), £327.4m (2004: £310.5m) of which were utilised, including bank guarantees.

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, to manage the financial risk exposures and to achieve greater certainty of future costs. The use of financial instruments is restricted to financing and treasury management only.

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 2005, 63% (30 April 2004: 49%) of the Group's gross borrowings were fixed or capped.

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 effectively 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 to adopt a strategy based on current and forecast political and economic climates. The 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.

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 low.

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 2005 were £38.6m (2004: £32.9m). The charge for the year includes additional costs relating to the funding of past service deficits, and is similar to the cash contributions paid by the Group in the year that amounted to £38.0m.

Under the transitional arrangements of FRS 17, "Retirement Benefits", the Group continues to account for pensions in accordance with SSAP 24 as explained above and also provides the additional disclosures required by FRS 17. The Group contributes to a number of defined benefit pension schemes for its bus and head office employees, and also to the relevant sections of the Railway Pension Scheme ("RPS"). Under both FRS 17 and International Financial Reporting Standards, we would expect to recognise only that part of the RPS deficit (or surplus) that the Group is expected to fund over the life of the franchise, as calculated by independent actuaries. This revised basis of estimate is considered by the Directors to best reflect the Group's obligations. The Group is continuing to discuss the calculation and reporting of RPS arrangements with its advisors. Excluding any adjustments required to reflect the revised basis of estimate for RPS, the post-tax deficit on our defined benefit schemes, measured in accordance with FRS 17, was £177.7m at 30 April 2005, up from £130.0m at 30 April 2004. The deficit has increased primarily because FRS 17 requires liabilities to be discounted using the yield on AA-rated bonds of similar maturity. Bond yields are now close to record lows and the reduction on bond yields results in an increase in FRS 17 liabilities. 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 2005 of £148.0m (2004: £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 £29.7m (2004: £14.2m) after deferred tax.

International Financial Reporting Standards

The Group will be required to produce consolidated 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. Interim IFRS accounts, including comparatives, will be prepared for the six months to 31 October 2005.

Our steering committee, set up to oversee the convergence to IFRS, has identified the main differences between IFRS and the current Group UK GAAP policies and has established the accounting policies or changes required. The adjustments required to reconcile our UK GAAP numbers to those that will be reported under IFRS as at 1 May 2004 and for the six months to 31 October 2004 have been calculated.

The Group has chosen not to re-state its results for the year ended 30 April 2005 for financial instruments. The figures for the year ended 30 April 2005 will therefore not fully reflect the requirements of IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement". The Group will apply IAS 32 and IAS 39 with effect from 1 May 2005.

The most significant areas of difference affecting net assets and EPS are expected to be in respect of pensions, goodwill, share based payment, dividends, and from 1 May 2005, 'B' shares and other financial instruments.

We expect to publish our results for the year ended 30 April 2005, re-stated to IFRS, prior to the next half year-end at 31 October 2005.

Current trading and outlook

While still early in the new financial year we have made a promising start and, despite some industrial action in New Zealand in the early part of May, overall trading is in line with our expectations.

There are a number of exciting new opportunities across the Group that we are pursuing this year and this, combined with our focus on innovation in our existing businesses and our strong cash generation, means there is real potential to deliver further growth and shareholder value.

Corporate social responsibility

As well as providing a range of economic and environmental benefits, our bus and rail services help cement social inclusion and bring people together. We are committed to encouraging more people to use public transport. It is central to our growth strategy, to the future success of our Group, and also important to the future of the communities in which we operate around the world. In short, we have the same long-term goal of sustainable development as our numerous stakeholders and it is in our collective interest to have an ongoing dialogue on how that can be achieved.

It is easy to have a vision, but how that is delivered in practice is equally important. For the past 25 years since it was founded, Stagecoach has taken its wider corporate responsibilities seriously. The responsible way we do business has always been firmly embedded in our Group's culture, from our approach to safety and the environment, to how we treat our people, our customers and our local communities.

Like any business in any sector, we can get better. We are continually striving to improve our processes and service delivery to make an increasingly positive impact on society and the environment. Building trust with our stakeholders in the wider community is vital and providing clear information on our performance is part of that process.

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 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 UK Index, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards.

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 ongoing 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, the Welsh Assembly and Transport for London.

Transport Authorities – we 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 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.

A people business

Stagecoach is a people business and it is the quality of our employees, from drivers and engineers to customer service and support staff that ensure we can deliver a first-class quality of service day in, day out. They are crucial to our objective of attracting more people to public transport. None of this happens by chance. We invest significant time and resources to ensure we have the right people on board to deliver the best possible service to customers.

We respect and value our staff, and we have a strong commitment to equal opportunities and partnership working with trade unions. Stagecoach also offers its UK employees the opportunity to join a pension scheme as well as providing attractive pay and conditions packages.

As a major employer, we also recognise the need for ongoing 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 one of the best vocational training programmes of any operator, designed to raise standards among and recognise the key contribution of our people. To date, some 50.7% of our current UK Bus drivers and 72.6% of our UK Bus engineers have either achieved or are working towards the S/NVQ qualification. During the year, we have focused closely on recruitment and retention of drivers and have made significant progress as a result of a number of measures, including improved pay, better training and mentoring schemes. We have also established links overseas, as part of the expansion of the EU, to recruit drivers to complement our employment campaigns in the UK. We have worked with Aberdeen City Council as part of an initiative focused on recruitment from Malta and have set up a recruitment project in Poland, with the first of the drivers from these schemes having started work in the UK.

At South West Trains, our centralised Recruitment Centre and the state of the art Operations Training Centre are continuing to deliver benefits to our employees and better service to our customers. We also have in place vocational training, support for managers, employee recognition programmes and round-the-clock open learning access for our staff. Our people-centred approach has again been recognised externally with our work at South West Trains shortlisted at both the Personnel Today and Rail Innovation Awards.

In North America, we have set up a new centralised driver training school in our North East division, which has improved the quality and consistency of provision. Our Canada division has focused closely on harnessing the power of the Internet to attract new employees and has been working in partnership with Workopolis, Canada's leading internet recruitment service.

Stagecoach has been working with the Department of Labour in New Zealand on a project to source employees outwith the country under established quota arrangements. A recruitment team from Stagecoach and the New Zealand Immigration Department visited Samoa to interview prospective employees and nearly 30 drivers have taken up positions with the company in Auckland.

We are also looking to develop the managers of the future through our graduate recruitment initiative. Our engineering apprenticeship programme in the UK promotes careers through local schools and career development agencies. 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.

Stagecoach wants to support its 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 are one of six employers across the UK involved in a pilot scheme that aims to research and test various ways to improve financial capability in the workplace. The multi-agency project – co-ordinated by the Financial Services Authority ("FSA"), the independent financial watchdog – involves offering our staff one to one surgeries and hard copy material. The workplace is seen as an ideal way to get information and education on finance to adults and active participation by employers is vital. The pilot is part of a national strategy to improve access to information, advice and personal finance education, so that consumers are better equipped to make sound choices when looking after their money and their future financial security.

Operating and Financial Review

Improving accessibility

Every customer we serve is unique, each with their own specific individual needs. We recognise that accessibility is crucial in providing attractive public transport services and, as far as possible within the resources we have available, we are making it easier to use our bus and rail services.

We have made further progress during the year on our programme that will ultimately result in all our buses in the UK being fully low-floor. Each year, hundreds of new, more easily accessible vehicles are added to our fleet and already all buses operated in London are entirely low floor with wheelchair access. We are also helping provide new demand responsive transport services, which are meeting the needs of those with mobility problems who require a service from their front door. In Hastings, for example, we are working with East Sussex County Council to transport the less mobile direct from their homes to main line bus services.

Significant investment is also taking place in our North American business in partnership with federal agencies. This year, our New York Sightseeing business introduced a fleet of 20 new open-top double-decker vehicles with improved wheelchair access ramps for disabled customers.

On the South West Trains network, we provide station-based ramps to enable wheelchair users to board and alight our new accessible Desiro trains with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis to and from stations with step-free access at no extra charge.

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. At Sheffield Supertram, for example, we are currently refreshing the interiors of our vehicles, which will feature textured grab rails and improved seating layouts to help passengers with visual impairment. We are also currently undertaking trials of new higher visibility destination blinds and investigating the potential for automated public address announcements.

Stagecoach is also working with key stakeholders to improve accessibility across the transport industry. In New Zealand, we have assisted the Human Rights Commission inquiry into the provision of accessible transport. We are introducing new LED screens on our new buses, which provide improved visibility for people with visual impairment.

Many people now access transport information online and our recently relaunched Stagecoach Group website, www.stagecoachgroup.com, has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind.

Health and safety

Stagecoach has a proactive culture across the Group that puts health and safety at the very top of our agenda. Bus, coach and rail travel is significantly safer than similar journeys by car, and the safety and security of both our customers and our people are at the core of how we operate our business.

Health and safety is monitored and reported on in every company across Stagecoach Group and immediate action is taken to address issues in our business processes. Safety is part of a well-defined risk management process across our business. A main Board executive director, Graham Eccles, has 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 to the Board on these matters. They have access to internal safety executives and external consultants.

In our UK Bus division, we are working in partnership with the Government and other agencies to improve bus safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses. We continue to invest in CCTV

technology, driver safety screens and other measures to protect our passengers and our people. We have a number of joint programmes in place with schools and the police to deter anti-social behaviour and educate the next generation of public transport users. Stagecoach is also working with a number of local authorities in areas such as Oxford, Mansfield, Cheltenham and Gloucester to develop late night bus networks to help reduce town centre crime. At an operational level, we have in place a process of route risk assessments to identify potential safety issues. As well as our own investment in on-going driver training, we are supporting the work of the Road Operators' Safety Council to drive up standards in the industry. Stagecoach has also helped fund safety campaigns focused on other road users, including cyclists and drivers of agricultural vehicles.

Rail travellers on the South West Trains network are benefiting from a safer environment on our new, state-of-the-art Desiro trains and on our refurbished Class 455 trains, which are being fitted with CCTV technology. All South West Trains rolling stock is fitted with the Train Protection Warning System, which stops a train automatically at red signals. Our award-winning TravelSafe Officers partnership with British Transport Police, which helps ensure passenger safety, has been extended further in the past year to cover more routes and stations on the South West Trains network. Investment in both TravelSafe Officers and CCTV has helped cut crime on the network by 8.6% in the first half of 2004 and 20% in the second half of the year. Work is continuing 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.

In North America, we carry out regular safety audits of our facilities to ensure high standards of health and safety are maintained. Along with other major operators, we have assisted national bodies to put in place processes to address 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 anti-terrorism workshops for our employees and are beginning to put in place anti-theft and GPS tracking, monitoring and communication systems. In Canada, we have a dedicated Occupational Health and Safety Policy Committee whose members are drawn equally from management and workforce representatives.

Our business in New Zealand has a programme in place to reduce the incidence of workplace injury and sickness and we conduct regular workplace inspections. An annual review of health and safety issues is carried out jointly by management and union representatives. We also have a special project team in place to address the issue of driver assaults.

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.

Part of the community

For nearly 25 years, Stagecoach has been a key part of communities. As well as providing lifeline transport services and significant job opportunities, we take an active role in the communities where we operate.

We want local people to share in our success and that is why every year we help fund the vital work of local, national and international charities. During the year ended 30 April 2005, £0.3m (2004: £0.3m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects in areas where Stagecoach provides lifeline bus services.

Like many companies, Stagecoach and its employees were touched by the Asian tsunami disaster and its impact on people living in the area. The Group pledged £100,000 to help the relief effort and building work, and also matched pound for pound the £40,000 raised by our employees in the UK, North America and New Zealand. The £180,000 raised was channelled through four charities – Save the Children, British Red Cross, Tearfund and World Vision – which are part of the Disasters Emergency Committee.

Stagecoach's support for the community is not just about money. Hundreds of our employees devote their own time every day to local projects that make a real difference in their area. Our businesses provide much-needed in-kind support, while our people also give charities the benefit of their expertise during secondments. Earlier this year, for example, we provided transport for a group of children from Beslan in Russia who were on a month-long stay in Scotland following the terrorist siege at a school in their homeland. We have provided similar assistance to groups of children affected by the Chernobyl disaster and its aftermath.

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 bus company in Warwickshire, for example, is a partner in an innovative "text2talk" anti-bullying initiative with the police and other agencies. We are also a key partner in Kent People's Trust, a police and business initiative in the county targeted at reducing youth crime. In Strathclyde, we have two information and training vehicles, which are used by the police to work with youngsters in housing estates in Glasgow and Ayrshire to cut crime and vandalism. At South West Trains, there is a focus on projects designed to give young people alternatives to anti-social behaviour, particularly highlighting the dangers of trespassing on railway lines.

Stagecoach is also helping promote social inclusion with our communities and help those who are the most vulnerable. We have a national agreement with Guide Dogs for the Blind that allows the dog trainers free travel on our buses.

We have 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. We have also supported a number of arts initiatives and this year marked the 10th anniversary of our sponsorship of the Mari Markus Gomori children's concerts, which have been attended by more than 40,000 schoolchildren.

Overseas, our businesses support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services. We have again provided transport facilities to assist the annual Tartan Day celebrations in New York, while similar support has been provided to a group of British police officers that make an annual visit to the city to honour the Britons killed in the September 11 terrorist attacks.

In New Zealand, Stagecoach is a long-standing supporter of the Starship Foundation, which helps the country's leading specialist paediatric hospital. 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. Money raised has purchased a ventilator for the paediatric intensive care unit, a new incubator and has also helped fund the training of senior transport nurses. In Wellington, Stagecoach has been a supporter of the New Zealand Festival, converting a bus into a mobile performing stage and providing transport for participants.

Supporting the community. Working with the community. Part of the community. That is the cornerstone of our business philosophy and the key to building positive relationships with our stakeholders.

Building a sustainable environment

Stagecoach has made good progress this year in improving the environmental management and sustainability of its operations. Public transport has a key role to play in reducing pollution levels, alleviating road congestion and improving the quality of life in our towns and cities. However, we are also working hard to ensure our own day-to-day transport operations are carried out in a responsible manner.

Stagecoach worked with consultants, Arthur D. Little, to update and improve our Group Environmental Policy two years ago. That policy sets out our commitment to good environmental stewardship and we have put in place stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling.

The Group has put in place a number of internal measures to minimise the impact of our operations on the environment. We have also improved

the processes designed to track environmental data, which has produced more accurate information from which to analyse performance. Details of our performance, compiled by Arthur D. Little, can be found on the Stagecoach Website at <http://www.stagecoachgroup.com>

We have achieved a significant improvement in the direct emissions per passenger journey from our bus and train fleets. There has been a reduction across all measures, with some decreasing by more than 25%. This has been achieved through the introduction of newer vehicles and rolling stock, which meet the latest stringent environmental standards. We are also looking at new fuels and cleaner technologies to improve our performance, as well as providing further training for our drivers.

Following a 12-month trial, we are now rolling out the use of the Envirox fuel additive across our UK Bus division. In tests on 1,000 vehicles, the product has delivered a 5% fuel efficiency saving and associated reductions in emissions. In Sunderland, we have fitted exhaust gas recirculation systems to a number of our vehicles with Euro II engines to bring them up to Euro IV standard as part of a Local Transport Plan/Energy Savings Trust project. We have also launched a biodiesel trial in a number of our buses in New Zealand.

Stagecoach has showcased a futuristic hybrid electric bus across the UK to encourage local authorities to introduce the environmentally-friendly vehicle in their areas. The state-of-the-art vehicle, which has been successfully operated by Stagecoach in Auckland, New Zealand, has the advantage of being able to run emission-free in densely populated areas and the battery-powered technology means it is extremely quiet on the road. Special regenerative braking technology means the batteries on the bus are charged when the brakes are applied, while a diesel turbine can also charge the batteries. Stagecoach has already won a local authority contract to run the vehicles on a new route on the Quayside in Newcastle and the service is now in operation.

Water consumption in our bus and train operations has reduced per passenger journey by over 10%, assisted by the introduction of upgraded wash facilities, better bus wash management and initiatives to identify and repair water system leaks. In North America, for example, we have introduced new water recycling units at two of our main facilities in New York and New Jersey, which have the potential to reduce water usage by 70%.

The Group has continued to make progress in controlling the production of vehicle maintenance and other waste in its UK and overseas operations, while there has been a significant increase in recycling of waste from our bus operations in particular, rising from 20.4% in the 12 months to 30 April 2004 to 31.9% the following year.

While we have achieved a further improvement in some measures of indirect emissions from our bus and train operations, we note that there has been an increase in CO₂ produced by our bus and train depots and offices, as well as our train operations. The main reason for the increase has been the step-change we have delivered in the working environment for our people and the rail travelling environment for our customers. While we have installed new energy efficient heating systems and low energy lighting at several bus depots in the UK, many depot refurbishments have included extra internal and external lighting for a better and more secure working environment. There has also been an increase in the use of electronic communication. Overseas, two additional depots have been included in the collection of data in New Zealand. Moving forward, a number of our UK Bus sites are to be fitted with a smart energy metering system to help identify savings opportunities and benchmark performance as part of a major Carbon Trust pilot project.

At South West Trains, the new Desiro trains have provided a major uplift in travel comfort with improved air-conditioning, on-board information systems and better safety features. These improvements are helping to generate modal shift from car to public transport, which has a positive impact on the environment. However, the rolling stock is heavier and, combined with the improved acceleration, this means there is a greater draw on the electricity supply. Controlled Emission Toilet-emptying facilities and upgraded tanking facilities at a number of locations have resulted in increased water and electricity usage. Station improvement projects have involved additional air conditioning systems, better exterior and platform lighting and new customer information systems. While these have been designed using energy efficient systems and have significantly improved passenger satisfaction, there has been an impact on electricity, gas and water consumption.

Operating and Financial Review

In line with the targets set out in our Environmental Policy document, we have taken further steps to improve our environmental management across our global operations. We have improved the quality and accuracy of the data, as well as the calculation methodology. Emissions in our UK Bus division have been calculated based on the proportions of different types of bus in service pre-Euro, Euro I, Euro II and Euro III providing significantly more accurate calculations. In New Zealand, we have developed and implemented a new method of monitoring water use, which has identified bus washes for future water usage reduction programmes. Waste monitoring has improved at our Supertram operations, which is also now tracking general waste data. There has also been improved waste calculations at South West Trains and Island Line as a result of using more specific factors from the Department for the Environment, Food and Rural Affairs ("DEFRA") and SITA to estimate weight to volume ratios of general waste.

We have continued to provide support and training for our employees to ensure compliance with legislation, effective waste management, improved energy consumption and better environmental performance. Our UK Bus division, for example, has run a comprehensive environmental training programme for around 200 managers over the past two years. The division is also working with the road safety charity BRAKE and other companies to benchmark and share good practice in safe driving and driving methods which increase fuel efficiency. During 2005-06, following the evaluation of measures undertaken in our Manchester depots, we are running an electrical energy reduction campaign across the UK Bus

division. We have appointed specialist company Inenco to manage our gas and electricity purchasing in the UK Bus division. Inenco will be making recommendations on a utility purchasing policy, expected to include alternative energy sources, and measures to reduce energy consumption. South West Trains has undertaken a review of its environmental management system to ensure it continues to comply with legislation. All train services are no smoking, improving the travelling environment for our passengers and the working environment for our people. South West Trains is also working hard to accommodate cyclists and its Surbiton Station was named best cycle facility at the London Cycling Campaign awards.

Major employers are working with us to develop travel plans that reduce dependence on the car to get to work. Stagecoach's work to promote bus use among businesses in Exeter – including the Met Office and the Royal Devon & Exeter Hospital – has been identified as an example of best practice within the industry. TransportEnergy, a non-profit organisation which encourages businesses to help reduce greenhouse gas emissions and improve air quality in cities and towns, has highlighted Stagecoach's use of staff travel surveys with city businesses, the offer of discounts and vouchers, and the provision of information about bus services.

Despite the improvements and investment we have made in the area of environmental sustainability over the past year, we recognise more work has still to be done. But we remain committed to building on the progress we have made and exceeding the stretching targets we have set our business.



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. He is currently a non-executive director of Victoria Mortgage Funding Ltd and Chairman of the Miller Group Ltd. He is a former Group Finance Director of The Royal Bank of Scotland plc. Robert Speirs is a member of the Nomination Committee. Aged 68.

2 Brian Souter, Chief Executive

The co-founder of Stagecoach, Brian Souter is the 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. He was named Businessman of the Year at the Insider Elite Awards 2004 and is a Chartered Accountant. Brian Souter is a member of the Nomination Committee. Aged 51.

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 and supports the Group Chief Executive in all aspects of new business development across the Group. He won the Young Scottish Finance Director of the Year Award in 2004 and is a Chartered Accountant. Aged 39.

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 and is a member of the Health, Safety and Environmental Committee. Graham Eccles is co-chairman of Virgin Rail Group Holdings. Aged 58.

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 and is a member of the Audit Committee. 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 Tie Ltd. Aged 63.

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 and is also a member of the Audit Committee and Health, Safety and Environmental Committee. 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, LucasVaryity plc, ITT Corporation and Hughes Aircraft. Aged 58.

7 Ann Gloag OBE, Non-Executive Director

Ann Gloag co-founded Stagecoach in 1980 and served as an executive director until May 2000. She became a member of the Health, Safety and Environmental Committee in June 2005. 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 62.

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 and is a member of the Audit and Remuneration Committees. She is also Chairman of the Nuclear Liabilities Fund and is a non-executive director of BPB plc and other companies. She was a non-executive director of Cable & Wireless until 23 July 2004. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and a Trustee of the National Library of Scotland. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 59.

9 Russell Walls, Non-Executive Director

Appointed as a non-executive director in June 2000, Russell Walls is the Chairman of the Audit Committee and is a member of the Remuneration Committee. He 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 61.

Key to photograph

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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 and the Operating and Financial Review on pages 4 to 14.

Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 31.

An interim dividend of 1.0 pence per ordinary share (net) was paid on 9 March 2005. The Directors recommend a final dividend of 2.3 pence per ordinary share making a total dividend of 3.3 pence per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 5 October 2005 to those ordinary shareholders on the register at 2 September 2005.

A dividend of 0.346828 pence per "B" share was paid on 31 March 2005. The Company continues to accrue dividends on the "B" shares at the agreed rate of 70% of 6 months LIBOR. The next dividend on the "B" shares is due to be paid on 30 September 2005.

Directors and their interests

The names, responsibilities and biographical details of the Directors appear on page 15. Their participation in full Board meetings and meetings of committees is given in the Corporate Governance report on page 19.

The Board reviews the development plans for the Board at least annually as part of its performance evaluation. The assessment involves a consideration of the balance of skills, knowledge and experience of the Directors. The Board also considers whether the Directors have sufficient time to properly discharge their duties, which includes a consideration of any other appointments that each director has. The re-elections of Brian Souter, Iain Duffin, Robert Speirs, Ewan Brown and Ann Gloag will be proposed at the 2005 Annual General Meeting and are consistent with the results of the Board's assessment. The Board believes that the performance of each of these Directors continues to be effective and that they continue to demonstrate commitment to their respective roles. The Board therefore considers it is appropriate that each of these Directors be re-elected at the 2005 Annual General Meeting.

Brian Souter and Iain Duffin retire by rotation at the 2005 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. As explained in the Corporate Governance report on page 18, Ewan Brown is considered to be an independent non-executive director by the Board. However, in recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown offers himself for annual re-election. Robert Speirs, Chairman, and Ann Gloag, who is a Non-Executive Director but is not independent, also offer themselves for annual re-election.

Tables A, B and C, set out opposite, give the interests of the Directors and their families in the share capital of the Company.

Company Secretary

Derek Scott, who has a long association with the Group, stood down as Company Secretary at the 2004 Annual General Meeting. Ross Paterson, the Group's Financial Controller, was appointed as Company Secretary from that time. He is also Secretary to all Board Committees.

Substantial shareholdings

On 21 June 2005 (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:

Marathon Asset Management Ltd	4.90%
Capital International Ltd	4.38%
Standard Life Investments Ltd	4.23%
Legal & General Investment Management Ltd	3.59%
Morley Fund Management Ltd (UK)	3.13%
Barclays Global Investors (UK) Ltd	3.09%

Directors interests

TABLE A	Number of ordinary shares	
	30 April and 22 June 2005	30 April and 23 June 2004

Ordinary shares of 12/19th p each (2004: 0.5p each)

Brian Souter	beneficial	141,910,060	179,254,818
	non-beneficial	14,108,591	17,821,379
Graham Eccles		109,229	115,048
Martin Griffiths		15,830	7,997
Ewan Brown		Nil	Nil
Ann Gloag	beneficial	116,352,145	146,971,155
	non-beneficial	1,598,820	2,019,564
Janet Morgan		2,058	2,600
Robert Speirs		14,645	18,500
Russell Walls		15,833	20,000
Iain Duffin		31,670	40,000

TABLE B	Number of "B" shares	
	30 April and 22 June 2005	30 April and 23 June 2004

Redeemable B shares of 18p each

Brian Souter	beneficial	1,388,888	n/a
	non-beneficial	Nil	n/a
Graham Eccles		257	n/a
Martin Griffiths		257	n/a
Ewan Brown		Nil	n/a
Ann Gloag	beneficial	1,388,888	n/a
	non-beneficial	Nil	n/a
Janet Morgan		Nil	n/a
Robert Speirs		Nil	n/a
Russell Walls		Nil	n/a
Iain Duffin		Nil	n/a

TABLE C	Number of ordinary shares under option	
	30 April and 22 June 2005	30 April and 23 June 2004

Number of Ordinary shares of 12/19th p each held under option (2004: 0.5p each)

Brian Souter	4,585,671	3,804,038
Graham Eccles	2,172,157	2,297,373
Martin Griffiths	1,958,066	2,298,573
Ewan Brown	Nil	Nil
Ann Gloag	Nil	Nil
Janet Morgan	Nil	Nil
Robert Speirs	Nil	Nil
Russell Walls	Nil	Nil
Iain Duffin	Nil	Nil

In addition to their individual interests in shares, Brian Souter, Graham Eccles and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 4,690,333 (30 April 2004: 4,636,924) ordinary shares of 12/19th pence (2004: 0.5 pence) each as at 30 April 2005. Graham Eccles and Martin Griffiths are also potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 1,811,212 (30 April 2004: 4,887,606) ordinary shares of 12/19th pence each as at 30 April 2005. Full details of options held as at 30 April 2005 are contained in the Remuneration Report on pages 23 to 29.

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

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 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 four invitations to UK employees to subscribe to the Group's Sharesave ("SAYE") schemes, all of which have met with encouraging levels of response. 4,310 employees applied to participate in the most recent SAYE invitation, and the savings contracts commenced on 1 April 2005.

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 that 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.

The Group is committed to developing a culture of openness across all its businesses and ensuring the highest standards of probity and accountability. The Board actively encourages employees with serious concerns about the interests of others or the Company to come forward. During the financial year ended 30 April 2005, the Group issued an updated policy called "speaking up" to employees, which is designed to ensure processes exist where employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year that 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.

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 31 days' purchases (2004: 33 days).

Fixed assets

In the opinion of the Directors, the open market value of the Group's interest in land and buildings exceeds the net book value. As part of the transition to International Financial Reporting Standards, the net book value of certain land and buildings is expected to be revalued upwards by approximately £53m as of 1 May 2004. The revaluation is not expected to give rise to additional tax liabilities.

Close company status

The Directors are advised that at 30 April 2005 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 (2004: £0.3m) 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 (2004: £Nil).

Authority for company to purchase its own shares

At the 2004 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. During the year, no ordinary shares were repurchased. Under the existing authority, the Company may repurchase up to a further 134,073,290 shares. This authority will expire on 26 February 2006 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 12/19th pence each, which, if passed, will lapse on or before 31 December 2006. If the resolution is approved, the existing authority that was granted at the 2004 Annual General Meeting will lapse.

Return of Capital

Following the passing of a special resolution at the 2004 Annual General Meeting, we have successfully completed the return of £241.3m of capital to shareholders by the issue of redeemable B shares, of which 77,189,641 'B' shares (£13.9m) have still to be redeemed.

Having taken account of the cashflow generation of the Group and the potential bonding requirements on current rail franchise bids, the Board is now comfortable with the Group's current capital structure. The Board will, however, continue to keep the Group's capital structure under review.

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.

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.

By order of the Board



ROSS PATERSON
Company Secretary

22 June 2005

Corporate governance

Introduction

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 July 2003, a revised Combined Code ("the Combined Code") was issued for financial years commencing on or after 1 November 2003.

This section of the report discusses Stagecoach Group's corporate governance arrangements and management structures. It also includes the disclosures recommended by the Combined Code, and describes how the principles of good corporate governance that are set out in the Combined Code have been applied. In line with best practice, separate reports are provided from each of the Audit Committee, Nomination Committee and Remuneration Committee.

Compliance with the Combined Code

The Directors believe that the Group currently complies with all of the recommendations contained in the Combined Code, other than that one of the Non-Executive Directors regarded as independent by the Board does not satisfy all of the criteria suggested by the Combined Code for determining Directors' independence.

Composition of the Board

The Combined Code suggests that independent Non-Executive Directors should make up at least half of the Board (excluding the Chairman). The Company's Board comprises nine Directors. Excluding the Chairman, the Board considers there to be four independent Non-Executive Directors.

		Chairman	Independent Non-Executive Director	Other Director
Robert Speirs	Chairman	✓		
Ewan Brown	Non-Executive Director		✓	
Iain Duffin	Non-Executive Director		✓	
Janet Morgan	Non-Executive Director		✓	
Russell Walls	Senior Independent Non-Executive Director		✓	
Ann Gloag	Non-Executive Director			✓
Brian Souter	Chief Executive			✓
Graham Eccles	Executive Director – Rail			✓
Martin Griffiths	Finance Director			✓

Ewan Brown, one of the four independent Non-Executive Directors, has served on the Board since 1988 and is a non-executive director of Noble Grossart, which is an advisor to the Company. The Company recognises and understands investor concerns over longer-serving Non-Executive Directors but nevertheless continues to regard Ewan Brown as independent. Ewan Brown's long association with the Group enables him to provide a robust and effective challenge to management because of the sound and detailed knowledge of the Group's business that he has developed. The Board believes that Ewan Brown's length of service enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. In recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown will stand for annual re-election as a director. In addition, Ewan Brown does not serve on the Remuneration Committee and while he does serve on the Audit Committee, the other three Independent Non-Executive Directors also serve on that Committee. In assessing independence, the Board takes into account the wider composition and balance of the Board as a whole.

Operation of the Board

The Board is scheduled to meet six times each year. Additional meetings of the Board are held to consider matters arising between scheduled Board meetings, where a decision of the Board is required prior to the next scheduled meeting.

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 split of the Chairman's and Chief Executive's responsibilities is in writing and has been approved by the Board.

The Directors' biographies appear on page 15 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.

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. The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present: these meetings generally follow each meeting of the full Board. In addition, the Non-Executive Directors, led by the Senior Independent Non-Executive Director, meet without the Chairman at least annually.

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. The Company Secretary, whose appointment and removal is a matter for the Board as a whole, is responsible to the Board for ensuring the Board procedures are complied with.

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 at least every three years. Non-Executive Directors who are not considered by the Board to be independent, or are considered independent but have served on the Board for more than nine years submit themselves for annual re-election. 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 Chairman endeavours to ensure that all Directors (including any newly appointed Directors) attend the Annual General Meeting, providing an opportunity for shareholders to meet the Directors.

The number of full Board meetings during the year was six. 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. The schedule of matters reserved for the Board was reviewed and updated in April 2005. The 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 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.

Minutes are taken of each meeting of the Board and its Committees. Where any director has significant concerns that cannot be resolved about the running of the Group or a proposed action, these concerns are recorded in the minutes. It is also the Group's policy that where a director resigns, the director is asked to provide a written statement to the Chairman of any concerns leading to his or her resignation.

Operational Management of the Group

The Board delegates the operational management of the Group 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, New Zealand 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.

A managing director, who reports to the Group Chief Executive, heads the UK Bus division. A small team of senior management and other specialists support the UK Bus managing director. 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.

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 New Zealand business is headed by a chairman, who reports to the Group Chief Executive. A managing director is responsible for the overall performance of the business unit.

A Rail Business Development Committee, comprising the three Group Executive Directors and other senior management, oversees the performance and development of the Group's rail business, including bidding on new rail franchises.

The Group's principal train operating interests are its wholly owned subsidiary, South West Trains, and its joint venture, Virgin Rail Group. The Group Executive Director for Rail chairs the South West Trains Board, and this role is separate from the managing director who is responsible for the performance of the business unit. However, the former managing director of South West Trains left the Group in March 2005 and the Group Executive Director for Rail is presently undertaking this function until a new managing director is appointed. The South West Trains Board also includes the Group's Company Secretary and three Non-Executive Directors. A Chairman and Chief Executive head Virgin Rail Group. Virgin Rail Group board meetings are attended by the Stagecoach Group Executive Director for Rail and the Company Secretary. Stagecoach is involved in all key decisions at Virgin Rail Group.

Directors and Officers' liabilities

The Group maintains Directors and Officers' insurance. In addition, the Group proposes to provide indemnities to its Directors and Officers in light of recent changes to UK law in this regard. A resolution will be presented to the 2005 Annual General Meeting proposing to adopt new Articles of Association which will, amongst other matters, permit the granting of indemnities to the fullest extent permitted by law.

Performance evaluation

The Board assesses its own performance and the performance of each individual Board member; this assessment is co-ordinated and directed by the Chairman with the support of the Company Secretary. The Senior Independent Non-Executive Director co-ordinates the Board's assessment of the performance of the Chairman. As part of the assessment process, the Non-Executive Directors meet without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present. The Chairman obtains feedback from each individual director on the performance of the Board and other Board members – this involves the completion of a questionnaire and a follow-up discussion. In the same way, the Senior Independent Non-Executive director obtains feedback from each individual director on the performance of the Chairman. A similar process is undertaken to assess the performance of each of the Board's Committees.

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 who are considered by the Board to be independent. It receives reports from all of the Group's major business functions including the Risk Assurance Function. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual accounts and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The Audit Committee Report is set out on pages 21 and 22.

Remuneration Committee

The Remuneration Committee makes recommendations to the Board for ensuring that the Executive Directors' remuneration is appropriate to attract, motivate and retain Executive Directors of the quality needed to run the Group's business successfully. 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 23 to 29.

Nomination Committee

The Nomination Committee currently comprises two Non-Executive Directors (one of whom is the Chairman of the Company) that the Board considers to be independent, and one Executive Director. The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments.

The Nomination Committee Report is set out on page 22.

Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director, Janet Morgan, and during the financial year comprised one other independent Non-Executive Director, Iain Duffin who joined the Committee in May 2004 and one Executive Director, Graham Eccles. Ann Gloag joined the Committee from June 2005. 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 2005.

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at <http://www.stagecoachplc.com/sgc/investorinfo/corpgov>

Individual director participation at meetings

The following is a table of participation in full Board meetings and meetings of committees by director during the year ended 30 April 2005:

PARTICIPATION IN MEETINGS	Full Board meetings	Audit Committee	Remuneration Committee	Health, Safety and Environmental Committee	Nomination Committee
No. of meetings	6	3	4	2	1
Robert Speirs	6	n/a	n/a	n/a	1
Brian Souter	6	n/a	n/a	n/a	1
Martin Griffiths	6	n/a	n/a	n/a	n/a
Graham Eccles	6	n/a	n/a	2	n/a
Ewan Brown	6	3	n/a	n/a	1
Iain Duffin	6	3	4	2	n/a
Ann Gloag	6	n/a	n/a	n/a	n/a
Janet Morgan	6	3	4	2	n/a
Russell Walls	6	3	4	n/a	n/a

Relations with shareholders

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

Corporate governance

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-mails 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 Group's website (www.stagecoachgroup.com).

The Group holds periodic meetings with its principal shareholders. The Board receives regular updates on the views of shareholders through briefings from the Chairman and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants. The Senior Independent Non-Executive Director is available to shareholders where contact through the normal channels is inappropriate, or has failed to resolve concerns.

Private and institutional shareholders are welcome to attend and participate at the Annual General Meeting and any Extraordinary General Meetings. The Group aims to ensure that all Directors, including the chairmen of the Audit, Remuneration, Nomination and Health, Safety and Environmental Committees are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other Directors on a variety of topics and further information is provided at the Annual General Meeting on all the Group's principal business activities. Notice of the Annual General Meeting and related papers are distributed to shareholders at least 20 working days before the meeting. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. Resolutions are proposed annually in respect of the Report and Accounts, and the Remuneration Report. At each Annual General Meeting, the Chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution, and the number of abstentions. Details of the proxy votes are also published on the Group's website at <http://www.stagecoachplc.com/sgc/investorinfo/agminfo/>. The Company and its Registrars have established procedures to ensure that votes cast are properly received and recorded.

Risk management

The Group has an ongoing process for identifying, evaluating and managing the significant risks that it faces. The Board regularly reviews the process, and the Board considers that the process accords with the Turnbull Guidance on internal control.

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, and reviewing its effectiveness. 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 financial year ended 30 April 2005 and up to the date of the approval of this report. 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.

The Group Risk Assurance function, which is outsourced to and managed by Deloitte, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls 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.

The Audit Committee reviews Group Risk Assurance plans, as well as 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, 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 and the key procedures noted below, enable the Directors 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. Group management monitor the results throughout each financial year.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned periodically 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 the Group's senior management and is based on agreed financial and other performance objectives, many of which incorporate 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. A written certificate is provided at least annually by the management 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 the Board has approved and which is subject to regular monitoring.

Pension schemes

The assets of the Group's pension schemes are held under trust, 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 chairman of the trustees of the principal UK scheme is an elected member of the National Association of Pension Funds' investment council. 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.

During the financial year ended 30 April 2005, a Pensions Oversight Committee was established. This Committee is chaired by a Non-Executive Director and also comprises one Executive Director and other members of senior management. The Committee operates at a strategic level and its remit covers all matters affecting the Group's pension schemes from the perspective of the Company, and it will consider, develop and propose recommendations to the Board in respect of such issues as may arise. The Committee reviews pension scheme funding issues and implications, investment strategy, and the related administration for all of the employee pension schemes of the Company and its wholly owned subsidiaries.

Audit Committee Report

In line with best practice, the Audit Committee has decided to present a separate annual report. This report relates to the financial year ended 30 April 2005.

Composition of the Audit Committee

The Audit Committee comprises four Non-Executive Directors, all of who 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, Russell Walls is a former Finance Director of a FTSE 100 company and Ewan Brown is currently the chairman of an audit committee of a FTSE 100 company. The Committee has significant recent and relevant financial expertise and is appropriately qualified to undertake its duties in an effective manner.

Operation of the Audit Committee

The Audit Committee met three times during the year and has met a further time in June 2005. It receives reports from all of the Group's major business functions including the Risk Assurance Function (internal audit), which is 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.

The terms of reference of the Audit Committee are available on the Group's website at <http://www.stagecoachplc.com/sgc/investorinfo/corpgov>

Review of External Auditors

The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid 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.

The Committee formally assesses the effectiveness of the external audit process on an annual basis.

The Audit Committee, having considered the external auditors' performance during their period in office, recommends re-appointment. The audit fees of £0.6m for PricewaterhouseCoopers LLP and non-audit related fees of £0.4m 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 and scope 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.

Policy on the Auditors Providing Non-Audit Services

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.

Review of Risk Assurance Function

The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function (internal auditors). There have been no instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Audit Committee conducts a continuous review of the relationship between the Group and the Risk Assurance Function. This review includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

Corporate governance

The Committee formally assesses the effectiveness of the risk assurance process on an annual basis.

“Speaking Up” Policy

The Audit Committee reviews the Group’s “Speaking Up” policy, which provides a mechanism for employees with serious concerns about the interests of others or the Group to come forward. The Committee ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. The Committee takes a particular interest in any reports of possible improprieties in financial reporting.



RUSSELL WALLS
Chairman of the Audit Committee

22 June 2005

Nomination Committee Report

In line with best practice, the Nomination Committee has decided to present a separate annual report. This report relates to the financial year ended 30 April 2005.

Composition of Nomination Committee

The Nomination Committee currently comprises two Non-Executive Directors that the Board considers to be independent, Robert Speirs and Ewan Brown (who acts as Chairman) and one Executive Director, Brian Souter. The Committee may also include, by invitation, the other Non-Executive Directors, as necessary.

Operation of the Nomination Committee

The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggest new appointments. Based on its assessment, the Committee will prepare a description of the role and the required attributes for each particular appointment. The description will include a job specification, the estimate of the time commitment expected, and the Group’s policy on Directors

having other significant commitments. Potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their commitments as they arise. The Committee will identify suitable candidates and make proposals for each appointment, although final appointments are the responsibility of the Board as a whole.

Non-Executive Directors receive a letter of appointment. For any new appointments, the letter of appointment will set out the expected time commitment.

No Director of the Company is a chairman of a FTSE 100 company.

The terms of reference of the Nomination Committee are available on the Group’s website at <http://www.stagecoachplc.com/sgc/investorinfo/corpgov>.

Succession Planning Arrangements

The Board and the Nomination Committee recognise the importance of succession planning to ensure that the Group continues to prosper in the longer term. The Group operates a decentralised organisational structure with clearly defined limits of responsibility and authority, and oversight from head office. This structure provides the opportunity for managers to develop in some of the Group’s smaller business units before progressing to wider and more responsible roles. The Group has a history of developing good managers who have progressed to take on senior positions within the Group. The Group operates a graduate recruitment programme, and some of the graduates recruited have went on to become Managing Directors of individual business units.

The Nomination Committee is mindful of the need to ensure appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seeks to identify new Directors and senior managers to ensure succession of Directors is conducted in a managed way, without significant disruption to the ongoing business of the Group.



EWAN BROWN
Chairman of the Nomination Committee

22 June 2005

Remuneration Committee report

Remuneration Committee 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 of the Remuneration Committee

During the year ended 30 April 2005, 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, has delegated responsibility for approving the remuneration and terms of employment for the Executive Directors and the Chairman, including pensions rights and any compensation payments. The Remuneration Committee also monitors and makes appropriate recommendations with respect to the remuneration of other senior management.

The Board of Directors as a whole, having given due regard to the required time commitment and responsibilities, sets the fees and expenses payable to the Non-Executive Directors. 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.

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

The terms of reference of the Remuneration Committee are available on the Group's website at <http://www.stagecoachplc.com/sgc/investorinfo/corpgov>.

Performance graph

The graph below charts the performance of the Stagecoach Group Total Shareholder Return ("TSR") (share value movement plus reinvested dividends) over the 5 years to 30 April 2005 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 2005.

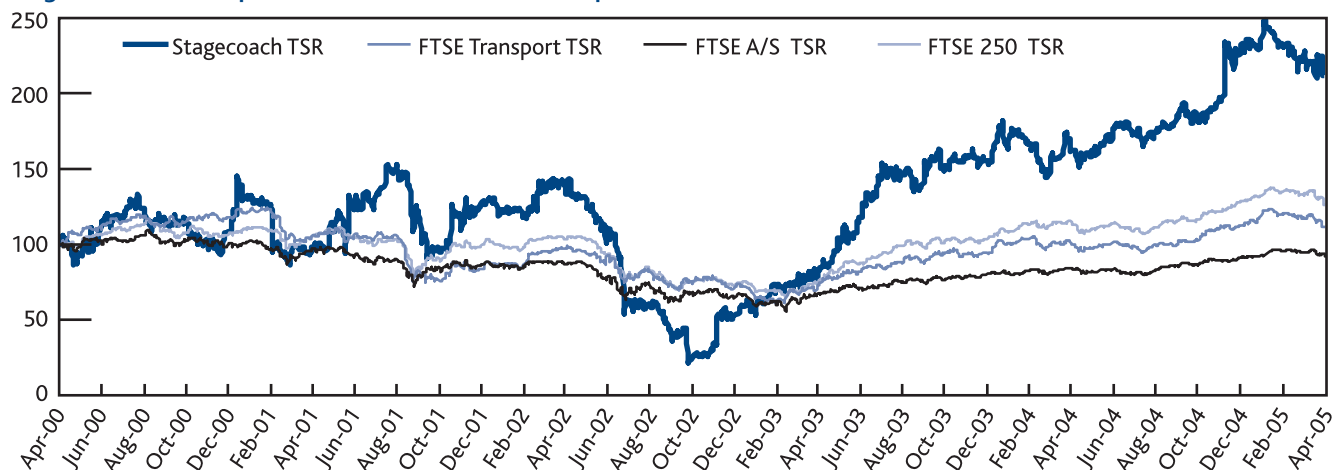
In assessing the performance of the Company's TSR the Board believes the comparator groups it has chosen represent a fair benchmark both in terms of the nature of the business activity and size of company.

Remuneration Policy

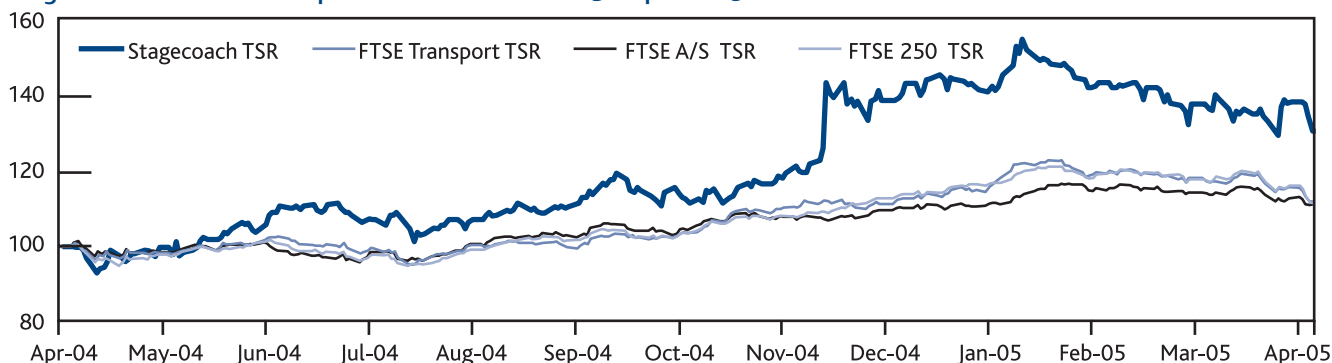
The Remuneration Policy is consistent with our prior year policy, which was approved by the shareholders at the 2004 Annual General Meeting. However, the Committee has, with the assistance of the Group's advisers, KPMG LLP (UK), been reviewing the structure of remuneration for Executive Directors and senior management. Proposals will be submitted to shareholders at the 2005 Annual General Meeting to make changes to the various elements of remuneration in the context of the overall objectives of the Remuneration Policy. The Remuneration Committee follows Schedule A of the Combined Code in designing performance-related remuneration schemes.

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 and that these performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders. 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 traditional financial indicators and personal targets, successful investment, innovation, staff development, customer satisfaction and achievement of regulatory requirements, including health and safety and environmental targets.

Stagecoach TSR Comparative Performance since 30 April 2000



Stagecoach 1 Year TSR Comparative Performance to 30 April 2005



Remuneration Committee report

To this end, the Remuneration Committee reviews the existing remuneration of the Executive Directors, in consultation with the Chief Executive, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the prospects for the 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 taken advice during the financial year from a firm of independent executive remuneration consultants, Inbucon Consulting. Also, KPMG LLP (UK) provided guidance on the implementation of the proposed changes to the remuneration arrangements as described later in this report. Inbucon has no other relationship with the Group. KPMG LLP (UK) has from time to time provided other consultancy services to the Group and is the auditor of the Stagecoach Group Pension Scheme ("SGPS").

Shareholders are invited to specifically approve all new long-term remuneration plans (whether share-settled or cash-settled plans) and any significant changes to existing plans, except where otherwise permitted by the Listing Rules.

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 the greatest responsibility for delivering corporate strategy that 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 scheme.

Remuneration of Executive Directors and Other Executives (audited)

The remuneration of the Executive Directors and other executives may comprise a number of elements from the following:

- Basic Salary;
- Performance-related annual cash bonuses;
- Benefits in kind and other allowances;
- Pension arrangements;
- Share options;
- Long Term Bonus Scheme ("LTBS");
- Executive Participation Programme ("EPP") – proposed;
- Long Term Incentive Plan ("LTIP") – proposed.

The participation of the three Executive Directors in the above arrangements is summarised in Table 1.

Each Executive Director's remuneration package is tailored to the individual to ensure an appropriate balance of reward for responsibilities, motivation, retention and share participation, whilst ensuring the overall packages are appropriate to recruit and retain high quality executives capable of achieving the Group's objectives.

Directors' remuneration for the year ended 30 April 2005 is shown in Table 2 and Directors' pension benefits are shown in Table 3.

TABLE 1 – DIRECTORS' PARTICIPATION	Basic Salary/Annual Bonus	Benefits in kind	Pension	Share Options	LTBS	EPP (proposed)	LTIP (proposed)
Brian Souter	YES	YES	YES	YES*	NO	YES	YES
Graham Eccles	YES	YES	YES	YES*	YES†	NO‡	NO‡
Martin Griffiths	YES	YES	YES	YES*	YES†	YES	YES

*The Executive Directors are not expected to receive further awards of executive share options, following and subject to the approval of the proposed EPP and LTIP.

†The existing LTBS will be unwound subject to the approval of the proposed EPP and LTIP.

‡Graham Eccles will not participate in the EPP nor the LTIP because he intends to retire as a Director in April 2006.

TABLE 2 – DIRECTORS' REMUNERATION (amounts in £000)	Salary/fees		Performance related bonus		Benefits in kind		Non-pensionable allowances*		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Executive Directors										
Brian Souter	484	470	339	329	17	18	n/a	n/a	840	817
Graham Eccles	261	250	183	175	24	21	46	44	514	490
Martin Griffiths	220	205	154	143	20	20	33	29	427	397
Non-Executive Directors										
Ewan Brown	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Ann Gloag	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Robert Speirs	90	90	Nil	Nil	Nil	Nil	n/a	n/a	90	90
Russell Walls	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Janet Morgan	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Iain Duffin	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Total	1,215	1,165	676	647	61	59	79	73	2,031	1,944

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

Remuneration of Executive Directors and Other Executives (audited) (continued)

TABLE 3 – DIRECTORS’ PENSION BENEFITS (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	2005	2004	2005	2004	2005	2004	
Executive Directors									
Brian Souter	47	66	244	226	439	391	146	127	116
Graham Eccles	10	14	21	18	64	53	33	29	33
Martin Griffiths	11	13	26	23	78	68	12	10	12

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. This provided her with an initial annual pension of £90,000, reduced to £81,000 from 1 March 2004. Employer contributions to the SSAS ceased in 2000 for Ann Gloag and in 2001 for Brian Souter.

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.

Each of the elements of remuneration is discussed further below.

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 annual cash bonuses

An annual discretionary bonus scheme for the Executive Directors was first introduced in 1993. Bonuses are non-pensionable.

At the start of each financial year, the Board agrees specific objectives for each Executive Director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual cash bonus for each Executive Director for the year just ended. This is based on the Director’s performance in achieving the objectives agreed. These comprise both financial and non-financial objectives. For Executive Directors, the financial objectives for the year ending 30 April 2006 are to better the Group’s financial targets for the financial year with respect to measures of earnings before interest and taxation, earnings per share, and net debt. The non-financial objectives are specific to each Executive Director and cover matters such as safety targets, environmental targets, successful investment, innovation, staff development, customer satisfaction, successful business acquisitions/disposals and regulatory requirements.

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. Bonuses awarded to Executive Directors in respect of the year ended 30 April 2005 were:

Director	Actual bonus as a percentage of basic salary	Maximum potential bonus as a percentage of basic salary
Brian Souter	70%	70%
Graham Eccles	70%	70%
Martin Griffiths	70%	70%

For the year ending 30 April 2006, Brian Souter and Martin Griffiths will each have a maximum potential bonus of up to 100% of basic salary, 70%

for meeting financial objectives and 30% for meeting personal non-financial objectives. The change in potential bonus is part of the wider proposals to update remuneration arrangements, including the new proposed EPP and LTIP. As Graham Eccles is expected to retire in April 2006 and is therefore not participating in the new remuneration arrangements, his maximum potential bonus for the year ending 30 April 2006 will be up to 70% of basic salary, 40% for meeting financial objectives and 30% for meeting personal non-financial objectives.

Benefits in kind and other allowances

Certain Executive Directors receive car, fuel, telephone and healthcare taxable benefits. Other allowances may be provided as an additional cash payment: for example, an Executive Director may receive a cash allowance in lieu of a company car. The value of such benefits is included within Table 2 on page 24 of this report.

Pension arrangements

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 cash contributions to them for the part of their salary that exceeds the cap. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided under the Group pension scheme.

The Remuneration Committee is reviewing the implications of the new pensions regime introduced by the Pensions Act 2004. No changes have been made to date and where possible the Committee will look to work to the general principle of not increasing the rate of accrual of pensions benefit nor to increase the annual cost to the Group as a result of the new regime.

Share options (audited)

The Executive Directors are not expected to receive further awards of executive share options, following and subject to the approval of the proposed EPP and LTIP. However, the Executive Directors continue to hold executive share options that were previously awarded.

Two Directors exercised Executive share options during the year. Details are shown in Table 4 on page 26.

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 5 on page 26. All of the share options were granted for nil consideration. The exercise price of the share options reflects the mid-market price immediately preceding the time of the award: the Group’s policy is not to offer executive share options at a discount to the mid-market price. The mid-market price of the underlying ordinary shares at 30 April 2005 was £1.03 per share (30 April 2004: £0.82 per share). The Company’s ordinary shares traded in the range £0.76 to £1.23 (year ended 30 April 2004: £0.44 to £0.93) during the year to that date.

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

In addition to the share options shown in Table 5 on page 26, one Director has been granted and two Directors have exercised options during the year under the Group’s Save As You Earn scheme. Details are shown in Table 7 on page 27.

Further information on these options is detailed in note 23 to the accounts on page 58.

Remuneration Committee report

TABLE 4 – OPTIONS EXERCISED IN YEAR Original date of grant	Date of exercise/sale	Number of ordinary shares under option	Exercise price per share £	Average selling price per share/ market price at exercise £	Gain before transaction costs and taxes £
Graham Eccles					
<i>Shares sold immediately on exercise of options</i>					
15 June 2000	24 January 2005	216,000	0.6250	1.120000	106,920
20 June 2001	24 January 2005	315,200	0.7075	1.120000	130,020
<i>Shares retained on exercise of options</i>					
15 February 2002	1 April 2005	15,833	0.6000	1.097500	7,877
		<u>547,033</u>			<u>244,817</u>
Martin Griffiths					
<i>Shares sold immediately on exercise of options</i>					
15 June 2000	9 December 2004	380,800	0.6250	1.107558	183,758
20 June 2001	9 December 2004	315,200	0.7075	1.107558	126,098
<i>Shares retained on exercise of options</i>					
15 February 2002	1 April 2005	9,500	0.6000	1.097500	4,726
		<u>705,500</u>			<u>314,582</u>

TABLE 5 – EXECUTIVE SHARE OPTIONS Grant Date	As at 1 May 2004	Granted in year	Exercised in year (see Table 4)	As at 30 April 2005	Exercise price £	Date from which exercisable	Expiry date
Brian Souter							
23 July 2002	1,226,667	Nil	Nil	1,226,667	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	1,703,704	Nil	Nil	1,703,704	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	582,645	Nil	Nil	582,645	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	291,022	Nil	Nil	291,022	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	Nil	564,548	Nil	564,548	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	Nil	217,085	Nil	217,085	1.1150	10 Dec 2007	10 Dec 2011
	<u>3,804,038</u>	<u>781,633</u>	<u>Nil</u>	<u>4,585,671</u>			
Graham Eccles							
19 October 1998	40,396	Nil	Nil	40,396	2.2280	19 Oct 2001	19 Oct 2005
19 July 1999	61,524	Nil	Nil	61,524	2.0310	19 Jul 2002	19 Jul 2006
15 June 2000	216,000	Nil	(216,000)	Nil	0.6250	15 Jun 2003	15 Jun 2007
20 June 2001	315,200	Nil	(315,200)	Nil	0.7075	20 Jun 2004	20 Jun 2008
23 July 2002	480,000	Nil	Nil	480,000	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	703,704	Nil	Nil	703,704	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	309,917	Nil	Nil	309,917	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	154,799	Nil	Nil	154,799	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	Nil	304,665	Nil	304,665	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	Nil	117,152	Nil	117,152	1.1150	10 Dec 2007	10 Dec 2011
	<u>2,281,540</u>	<u>421,817</u>	<u>(531,200)</u>	<u>2,172,157</u>			
Martin Griffiths							
19 October 1998	29,820	Nil	Nil	29,820	2.2280	19 Oct 2001	19 Oct 2005
19 July 1999	35,519	Nil	Nil	35,519	2.0310	19 Jul 2002	19 Jul 2006
15 June 2000	380,800	Nil	(380,800)	Nil	0.6250	15 Jun 2003	15 Jun 2007
20 June 2001	315,200	Nil	(315,200)	Nil	0.7075	20 Jun 2004	20 Jun 2008
23 July 2002	480,000	Nil	Nil	480,000	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	666,667	Nil	Nil	666,667	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	254,132	Nil	Nil	254,132	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	126,935	Nil	Nil	126,935	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	Nil	256,997	Nil	256,997	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	Nil	98,822	Nil	98,822	1.1150	10 Dec 2007	10 Dec 2011
	<u>2,289,073</u>	<u>355,819</u>	<u>(696,000)</u>	<u>1,948,892</u>			

The executive share options shown in Table 5 that were awarded on or before 20 June 2001 have vested and may be exercised at any time. The executive shares options shown in Table 5 that were awarded on 23 July 2002 are expected to vest on 23 July 2005.

All of the outstanding executive share options shown in Table 5 were issued under The Stagecoach Unapproved Executive Share Option Scheme ("the Scheme"). The Scheme was established in September 1997, when it was approved by shareholders at the Annual General Meeting. 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.

In December 2004, the Board and the Remuneration Committee agreed to remove from the Scheme, the ability to award "Super Options". Therefore, all executive share options awarded on or after 4 December 2004, are "Ordinary Options" which are exercisable between three and seven years after the date of award. The maximum level of executive share options that can now be issued to a given individual in any financial year is two times that individual's salary, calculated by comparing the salary to the total number of shares covered by the options multiplied by the exercise price. The Board and the Remuneration Committee also agreed to remove from the Scheme, the facility for the performance condition to be re-tested. Re-testing is now prohibited for all executive share options awarded on or after 4 December 2004. Accordingly, the exercise of executive share options awarded on or after 4 December 2004 is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum cumulatively – the base year is the latest financial year ended prior to the award of the option and the performance condition may not be re-tested.

For ordinary options awarded up until June 2001, exercise of the options is subject to earnings per share outperforming inflation over three consecutive financial years by 2% per annum cumulatively. For ordinary options awarded after June 2001 but prior to 4 December 2004, exercise of the options is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum, or

earnings per share outperforming inflation over four consecutive financial years by 4% per annum, or earnings per share outperforming inflation over five consecutive financial years by 5% per annum.

Awards were made to three Directors under this scheme in the financial year ended 30 April 2005, and are shown in Table 6.

Under the rules of the Company's share option schemes, and consistent with guidance issued by the Association of British Insurers ("ABI"), there are limits on the number of share options that can be granted that are to be satisfied with the issue of new shares. Following the consolidation of ordinary shares related to the return of capital in September 2004, the number of executive share options that had been granted in the previous 10 years exceeded 5% of the issued number of ordinary shares – therefore, it is not possible to satisfy any new grants of share options under the executive share option schemes with newly issued shares since to do so would exceed the limits under the share schemes. Accordingly, the Board and the Remuneration Committee has determined that all future grants of share options under the executive share option schemes will be satisfied with existing shares until such time as there is sufficient headroom available under the new issue share limits.

The Group's Employee Share Ownership Trusts are used to acquire and finance shares to meet contingent obligations under share-based incentive schemes that are not expected to be satisfied through the issue of new shares. At 30 April 2005, these trusts held 6,501,545 12/19th Ordinary Shares in the Company, representing 0.6% of the total issued Ordinary Shares. The Company follows the ABI guideline that the shares held by Employee Share Ownership Trusts should not exceed 5% of the total shares in issue. The Employee Share Ownership Trusts have waived the right to receive dividends on the shares held by them.

In determining the amounts shown above, issues of new shares and the re-issuing of shares from Treasury are both treated as being dilutive. The Group do not, however, treat shares released from Employee Share Ownership Trusts as being dilutive.

TABLE 6 – EXECUTIVE SHARE OPTIONS GRANTED IN YEAR	Options granted in year	Fair value at grant date* £	Intrinsic value at grant date £	Exercise price £	Total cost to exercise £	Date from which exercisable	Expiry date
Grant Date							
Brian Souter							
25 June 2004	564,548	0.20	Nil	0.8575	484,100	25 Jun 2007	25 June 2011
10 December 2004	217,085	0.26	Nil	1.1150	242,050	10 Dec 2007	10 Dec 2011
Graham Eccles							
25 June 2004	304,665	0.20	Nil	0.8575	261,250	25 Jun 2007	25 June 2011
10 December 2004	117,152	0.26	Nil	1.1150	130,624	10 Dec 2007	10 Dec 2011
Martin Griffiths							
25 June 2004	256,997	0.20	Nil	0.8575	220,375	25 Jun 2007	25 June 2011
10 December 2004	98,822	0.26	Nil	1.1150	110,187	10 Dec 2007	10 Dec 2011

*estimated using the Black Scholes Model and assumptions set by the Board.

TABLE 7 SAYE OPTIONS	At 1 May 2004 No of ordinary shares	Granted No of ordinary shares	Exercised No of ordinary shares (see Table 4)	At 30 April 2005 No of ordinary shares
Martin Griffiths	9,500	9,174	(9,500)	9,174
Graham Eccles	15,833	Nil	(15,833)	Nil

Remuneration Committee report

Long Term Bonus Scheme

The Long Term Bonus Scheme is intended to motivate and retain certain key executives at the Board's discretion.

Graham Eccles and Martin Griffiths are presently the only participants 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 conditions in respect of the years ended 30 April 2004 and 30 April 2005 were satisfied and therefore subject to the relevant individual remaining a full-time employee of the Group, the bonus in respect of those years will be paid at the end of the three or five year period.

In conjunction with the proposals set out below to introduce new long-term remuneration schemes, it is proposed that Martin Griffiths waives his entitlement to any current or future amounts under the existing Long Term Bonus Scheme and, subject to shareholder approval for the new schemes being obtained, the Remuneration Committee proposes to make a cash payment to buy out any amounts of the earned bonus accrued up until 30 April 2005. As Graham Eccles is expected to retire in April 2006 his existing arrangement under the Long Term Bonus Scheme will remain in place.

Executive Participation Programme

A new Executive Participation Programme ("EPP") is proposed and shareholder approval will be sought at the 2005 Annual General Meeting. Subject to shareholder approval, the first awards under the EPP will be for the financial year ending 30 April 2006, with deferred shares expected to be allocated in June 2006.

The intention of the EPP is to further align the interests of senior executives with shareholders by giving senior executives a greater direct interest in the performance of the Company's shares. The EPP is such that the executives can benefit from both capital growth (i.e. increases in share price) and dividend yield. This avoids one of the issues with the executive share option scheme that could be seen as discouraging management from increasing dividends at the expense of capital growth. The EPP is also designed to provide an incentive for senior executives to remain with the Group and would form a core part of the Group's succession and management development plans.

Awards under the EPP can be to Executive Directors and other senior executives. Participants would be required to sacrifice 50% of their actual annual bonus award and would be awarded deferred shares with an initial market value approximately equal to the amount of the actual cash bonus foregone.

Absolute and full entitlement to the shares would be deferred for three years.

There would be no specific performance conditions attaching to the release of deferred shares because the annual bonus is already subject to performance conditions and there will be no awards of matching shares in respect of annual bonuses – the EPP is to encourage executives to invest an element of their annual bonus in the Company's shares. The EPP would be an effective retention programme in that a participant would lose his or her entitlement to the deferred shares if he/she left of his/her own volition during the three-year deferral period.

Further details are provided in the circular sent to shareholders.

It is intended that where an individual receives an award under the EPP, he or she would not also receive an award of executive share options in the same financial year.

Long Term Incentive Plan

For a small number of senior executives, including Executive Directors, a new long-term incentive plan ("LTIP") is proposed. The LTIP would introduce stringent performance criteria related to total shareholder return ("TSR"). TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR would be measured against a comparator group, which would be the list of FTSE 250 companies. Subject to shareholder approval, the first awards under the LTIP will be in August 2005.

Under the proposed LTIP, executives would be awarded notional units with a value equal to one of the Company's ordinary shares, at the discretion of the Remuneration Committee. The maximum award in any year to an individual would be limited to 150% of the individual's basic salary.

The individual would need to remain with the Company for three years in order to receive full entitlement to the deferred shares. The number of shares that would be released after the three years would be calculated as follows:

- If TSR is negative, irrespective of the TSR of the comparator group, no shares would be released;
- If TSR is positive but is less than the median TSR of the comparator group, no shares would be released;
- If TSR exceeds the median of the comparator group, 33% of the shares would be released;
- If TSR is in the top quartile of the comparator group, 100% of the shares would be released;
- If TSR is higher than the median but less than the top quartile, the proportion of shares to be released would be between 33% and 100% depending on the exact ranking against the comparator group.

Accordingly, the awards are closely tied to the rewards to shareholders as a whole. The participants will only benefit if TSR is positive and TSR is above the median of FTSE 250 companies.

An independent third party will calculate the TSR measures for the purposes of determining the extent to which the performance condition is satisfied.

There would be no re-testing of performance conditions.

Further details are provided in the circular sent to shareholders.

Directors' service agreements

The details of the Executive Directors' service contracts are summarised in the table below:

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

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.

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 18.

Early termination

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 annual salary only and certain benefits and retirement benefits funded under the Company's pension schemes.

Change of control

The following apply where there is a change in control of the Company:

- Executive Directors are entitled to normal termination benefits as outlined above, except where the director is offered and has refused employment on terms and conditions that were no less favourable to those in place prior to the change of control;
- With respect to Executive Share Options, options can be exercised within six months of the change of control. For options granted prior to 14 January 2002, the performance condition will not apply. For options granted on or after 14 January 2002, the extent to which the performance condition is applied shall be determined by the Remuneration Committee;

- Under the proposed EPP, shares deferred would automatically vest on a change of control.
- Under the proposed LTIP, LTIP units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the TSR performance condition.

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.

Transition to International Financial Reporting Standards

The Finance Director's Review summarises the status of the Group's transition from UK Generally Accepted Accounting Principles ("UK GAAP") to International Financial Reporting Standards ("IFRS").

The Remuneration Committee has introduced measures to ensure a consistent measurement of financial performance during the transition to IFRS. The Group will report IFRS financial information for the year ending 30 April 2006, with comparative information for the year ending 30 April 2005. Where financial performance is being assessed with reference to a base year ending on or after 30 April 2005, the Remuneration Committee will assess performance based on IFRS financial information. Where financial performance is being assessed with reference to an earlier financial year, the Remuneration Committee will assess performance based on UK GAAP financial information. To enable this, the Group will continue to produce key UK GAAP financial measures for the Remuneration Committee as required. Similarly, adjustments will be made for any other changes in accounting policies to ensure financial performance is measured consistently.

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

(a) Noble Grossart Limited

Ewan Brown (a Non-Executive Director of Stagecoach) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year amounted to £145,950 (2004: £20,000), including £125,500 (2004: £Nil) in respect of Noble Grossart's role as financial advisor in connection with the return of capital in September 2004. Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2005 6,354,443 (2004: 8,026,665) ordinary shares in the Company, representing 0.6% (2004: 0.6%) of the ordinary shares in issue and 8,026,665 B shares in the Company, representing 10.4% of the B shares in issue.

(b) Alexander Dennis Limited

With effect from 21 May 2004, Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a Non-Executive Director of Stagecoach) together control 40.0% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (a) above) controls a further 30.0% of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

In the period from 21 May 2004 to 30 April 2005, the Group purchased £25.5m of vehicles from Alexander Dennis Limited and £2.4m of spare parts and other services. Of the £25.5m worth of vehicles, £20.4m was ordered from Transbus prior to its administration and Alexander Dennis Limited inherited the orders from Transbus. Transbus was not a related party of the Group.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules. In the period from 21 May 2004 to 30 April 2005, the Group has placed orders totalling £49.3m with Alexander Dennis for the purchase of new vehicles. Of this £49.3m, vehicles accounting for £5.1m were delivered prior to 30 April 2005 and are included in the total purchases of £25.5m referred to above.

(c) ScotAirways Group Ltd

Brian Souter is Chairman of ScotAirways Group Ltd. During the year the Group purchased flights from ScotAirways Group Ltd totalling £74,905 (2004: £99,123).

Remuneration policy approval

An ordinary resolution to receive and approve this Remuneration Report will be proposed at the 2005 Annual General Meeting.

On behalf of the Board



IAIN DUFFIN
Chairman of the Remuneration Committee

22 June 2005

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 and Financial Review, the Corporate Governance statement, the Audit Committee report, the Nomination Committee report, 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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 2005 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

22 June 2005

Consolidated profit and loss account

Year ended 30 April 2005

	Notes	2005			2004		
		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
Turnover: Group and share of joint ventures	2	1,794.7	Nil	1,794.7	1,792.3	Nil	1,792.3
Less: Share of joint ventures' turnover		(315.2)	Nil	(315.2)	(290.3)	Nil	(290.3)
Group turnover		1,479.5	Nil	1,479.5	1,502.0	Nil	1,502.0
Represented by:							
Continuing Group operations		1,472.4	Nil	1,472.4	1,352.7	Nil	1,352.7
Discontinued operations		7.1	Nil	7.1	149.3	Nil	149.3
Operating costs		(1,509.0)	(8.1)	(1,517.1)	(1,501.3)	(8.8)	(1,510.1)
Other operating income	3	173.9	(0.6)	173.3	129.1	Nil	129.1
Operating profit of Group companies	2	144.4	(8.7)	135.7	129.8	(8.8)	121.0
Share of operating (loss)/profit of joint ventures		12.7	(14.9)	(2.2)	10.7	(8.7)	2.0
Share of operating (loss)/profit from interest in associates		(0.4)	(0.3)	(0.7)	7.0	(0.3)	6.7
Total operating profit:							
Group and share of joint ventures and associates	2	156.7	(23.9)	132.8	147.5	(17.8)	129.7
Represented by:							
Continuing Group operations	2	144.4	(8.7)	135.7	128.8	(7.8)	121.0
Continuing joint ventures and associates	2	12.3	(15.2)	(2.9)	13.1	(9.0)	4.1
Discontinued Group operations	2	156.7	(23.9)	132.8	141.9	(16.8)	125.1
Discontinued joint ventures and associates	2	Nil	Nil	Nil	1.0	(1.0)	Nil
Total operating profit:							
Group and share of joint ventures and associates		156.7	(23.9)	132.8	147.5	(17.8)	129.7
Profit on sale of properties		Nil	1.3	1.3	Nil	0.5	0.5
Loss on disposal of operations	13	Nil	(5.9)	(5.9)	Nil	(7.1)	(7.1)
Profit on ordinary activities before interest and taxation		156.7	(28.5)	128.2	147.5	(24.4)	123.1
Finance charges (net)	4	(19.9)	Nil	(19.9)	(27.3)	Nil	(27.3)
Profit on ordinary activities before taxation	5	136.8	(28.5)	108.3	120.2	(24.4)	95.8
Taxation on profit on ordinary activities	7	(32.2)	2.7	(29.5)	(32.3)	41.1	8.8
Profit on ordinary activities after taxation		104.6	(25.8)	78.8	87.9	16.7	104.6
Equity dividends	8	(35.1)	Nil	(35.1)	(38.4)	Nil	(38.4)
Non-equity dividends	8	(0.4)	Nil	(0.4)	Nil	Nil	Nil
Retained profit for the year		69.1	(25.8)	43.3	49.5	16.7	66.2
Earnings per share – Adjusted/Basic	9	9.0p		6.8p	6.7p		7.9p
– Diluted	9	8.8p		6.6p	6.5p		7.8p

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

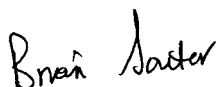
The accompanying notes form an integral part of this consolidated profit and loss account.

Consolidated balance sheet


As at 30 April 2005

		2005	2004
	Notes	£m	£m
Fixed assets			
Intangible assets	11	89.5	103.5
Tangible assets	12	640.2	618.0
Investments	13		
– Investment in joint ventures			
Goodwill		42.8	57.5
Share of gross assets		131.3	98.8
Share of gross liabilities		(106.2)	(59.8)
Shareholder loan notes		3.3	10.0
Total investment in joint ventures	13	71.2	106.5
– Investment in associates	13	0.7	1.4
– Other investments	13	1.7	2.3
		803.3	831.7
Current assets			
Stocks	15	12.5	13.4
Debtors and prepaid charges – due within one year	16	174.1	169.2
– due after more than one year	16	48.7	58.0
Cash at bank and in hand		140.0	476.5
		375.3	717.1
Creditors: Amounts falling due within one year	17	(541.8)	(674.6)
Net current (liabilities)/assets		(166.5)	42.5
Total assets less current liabilities		636.8	874.2
Creditors: Amounts falling due after more than one year	17	(236.2)	(292.2)
Provisions for liabilities and charges			
– Joint ventures	21		
Goodwill		Nil	0.3
Share of gross liabilities		Nil	(1.7)
Shareholder loan notes		Nil	0.4
– Other provisions	21	(181.6)	(191.0)
Net assets	2	219.0	390.0
Capital and reserves			
Equity share capital	22	6.8	6.7
Redeemable 'B' preference shares	22	13.9	Nil
Share premium account	24	163.4	392.4
Profit and loss account	24	(187.4)	(6.9)
Capital redemption reserve	24	229.1	1.7
Own shares	24	(6.8)	(3.9)
Shareholders' funds		219.0	390.0
Analysis of shareholders' funds			
Equity		205.1	390.0
Non-equity		13.9	Nil
		219.0	390.0

Signed on behalf of the Board on 22 June 2005



BRIAN SOUTER
Chief Executive



MARTIN A GRIFFITHS
Finance Director

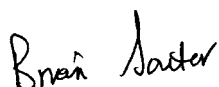
The accompanying notes form an integral part of this consolidated balance sheet.

Company balance sheet

As at 30 April 2005

		2005	2004
	Notes	£m	£m
Fixed assets			
Tangible assets	12	0.1	4.1
Investments	13	923.0	923.8
		923.1	927.9
Current assets			
Debtors and prepaid charges – due within one year	16	21.6	18.5
– due after more than one year	16	168.1	131.9
Cash at bank and in hand		Nil	153.1
		189.7	303.5
Creditors: Amounts falling due within one year	17	(376.0)	(320.9)
Net current liabilities		(186.3)	(17.4)
Total assets less current liabilities		736.8	910.5
Creditors: Amounts falling due after more than one year	17	(38.3)	(44.1)
Provisions for liabilities and charges	21	(3.7)	(5.3)
Net assets		694.8	861.1
Capital and reserves			
Equity share capital	22	6.8	6.7
Redeemable 'B' preference shares	22	13.9	Nil
Share premium account	24	163.4	392.4
Profit and loss account	24	288.4	464.2
Capital redemption reserve	24	229.1	1.7
Own shares	24	(6.8)	(3.9)
Shareholders' funds		694.8	861.1
Analysis of shareholders' funds			
Equity		680.9	861.1
Non-equity		13.9	Nil
		694.8	861.1

Signed on behalf of the Board on 22 June 2005



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 2005

		2005	2004
	Notes	£m	£m
Net cash inflow from operating activities	25	198.5	214.3
Dividends from joint ventures and associates		23.5	4.1
Returns on investments and servicing of finance			
Interest paid		(26.2)	(37.9)
Interest element of hire purchase and lease finance		(8.3)	(5.8)
Interest received		13.6	44.2
Non-equity dividends paid		(0.4)	Nil
Net cash (outflow)/inflow from returns on investments and servicing of finance		(21.3)	0.5
Taxation		(27.1)	(9.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(73.8)	(56.0)
Sale of tangible fixed assets		7.1	4.2
Net cash outflow from capital expenditure and financial investment		(66.7)	(51.8)
Acquisitions and disposals			
Acquisition of subsidiaries	25	(5.9)	(7.4)
Purchase of other investments		(0.2)	Nil
Movement in loans to joint ventures		6.7	Nil
Cash of disposed subsidiaries	13	Nil	(4.3)
Disposal of subsidiaries and other businesses	13	14.7	263.7
Disposal of investments in joint ventures and associates		Nil	64.9
Disposal of other investments		0.6	Nil
Net cash inflow from acquisitions and disposals		15.9	316.9
Equity dividends paid		(37.2)	(35.6)
Net cash inflow before financing		85.6	439.0
Financing			
Sale of tokens		10.2	13.5
Redemption of tokens		(10.9)	(11.9)
Issue of ordinary share capital for cash		5.3	6.4
Redemption of 'B' shares		(227.4)	Nil
Expenses on issue of 'B' shares		(0.4)	Nil
Redemption of 'B' shares by employee share ownership trusts		1.7	Nil
Investment in own ordinary shares by employee share ownership trusts		(1.9)	(3.9)
Sale of own ordinary shares by employee share ownership trusts		4.8	Nil
Decrease in collateral balances		3.0	37.3
Decrease in borrowings		(110.1)	(158.4)
Repayments of hire purchase and lease finance		(92.5)	(60.3)
Cash inflows from lease finance		Nil	85.7
Net cash outflow from financing		(418.2)	(91.6)
(Decrease)/increase in cash during the year	25	(332.6)	347.4
Free cash flow		173.6	209.5
Free cash flow per share		15.0p	15.9p

Free cash flow comprises net cash inflow from operating activities, dividends from joint ventures and associates, net cash (outflow)/inflow 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 2005

	2005	2004
	£m	£m
Profit for the financial year	78.8	104.6
Translation differences on foreign currency net investments, net of hedging	3.6	(0.4)
Tax effect of translation differences on foreign currency net investments	Nil	4.8
Share of other recognised gains and losses of associates	Nil	(0.2)
Total recognised gains and losses relating to the year	82.4	108.8

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 2005

	2005	2004
	£m	£m
Profit for the financial year	78.8	104.6
Equity dividends	(35.1)	(38.4)
Non-equity dividends	(0.4)	Nil
	43.3	66.2
Other recognised gains and losses relating to the year		
– translation differences on foreign currency net investments, net of hedging	3.6	(0.4)
– UK tax effect of translation differences on foreign currency net investments	Nil	4.8
– share of other recognised gains and losses of associates	Nil	(0.2)
Equity ordinary share capital issued less costs	12.8	6.4
Movements in shares held by employee share ownership trusts	(2.9)	(3.9)
Redemption of 'B' shares	(227.4)	Nil
Expenses on issue of 'B' shares set against share premium	(0.4)	Nil
Net (reduction)/increase in shareholders' funds	(171.0)	72.9
Opening shareholders' funds	390.0	317.1
Closing shareholders' funds	219.0	390.0

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 have been applied consistently throughout the year and the preceding year.

(a) Basis of accounting

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

(b) Presentation of profit and loss account

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

(c) Basis of consolidation

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

Associates – The Group's share of the profit of Road King Infrastructure Limited 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 2 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.

As explained in note 13 to the accounts, during the year ended 30 April 2005, the Directors revised the period over which goodwill in respect of the Group's interest in Virgin Rail Group is being amortised.

(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.

As part of the restructuring of the Group's North American business, the Directors reviewed the estimated residual values and estimated useful lives of public service vehicles operated in North America. The estimates were revised. The effect of this change in estimate is to reduce profit before tax for the year ended 30 April 2005 by £2.7m.

(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.

Note 1 Statement of accounting policies (continued)

(g) Investments

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

(h) Associates and joint ventures

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

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

Miscellaneous revenue comprises income from advertising and other activities and is recognised as the income is earned.

Net 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 26e.

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

(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	2005	2004
New Zealand Dollar		
Year end rate	2.6088	2.8350
Average rate	2.7240	2.7600
Hong Kong Dollar		
Year end rate	–	13.8317
Average rate	–	13.3188
Average rate – Citybus*	–	12.7803
US Dollar		
Year end rate	1.9099	1.7734
Average rate	1.8530	1.7115
Canadian Dollar		
Year end rate	2.3969	2.4388
Average rate	2.3621	2.2985
*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 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", 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

	2005	2004
	£m	£m
Continuing operations		
UK Bus	720.3	650.2
North America	213.7	205.3
New Zealand	59.0	58.3
Total bus continuing operations	993.0	913.8
UK Rail	479.4	438.9
Total continuing operations	1,472.4	1,352.7
Discontinued operations		
North America	7.1	131.5
Citybus	Nil	17.8
Total discontinued operations	7.1	149.3
Group turnover	1,479.5	1,502.0
Share of joint ventures' turnover		
Continuing		
– Virgin Rail Group	315.2	288.4
Discontinued		
– thetrainline	Nil	8.1
Elimination of inter-segment turnover	Nil	(6.2)
Group turnover and share of joint ventures' turnover	1,794.7	1,792.3

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

	2005			2004		
	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m
Continuing operations						
UK Bus	82.5	(0.8)	81.7	74.8	Nil	74.8
North America	14.8	Nil	14.8	14.8	Nil	14.8
New Zealand	8.7	Nil	8.7	10.7	Nil	10.7
Total bus continuing operations	106.0	(0.8)	105.2	100.3	Nil	100.3
UK Rail	48.6	Nil	48.6	44.1	Nil	44.1
Total continuing operations	154.6	(0.8)	153.8	144.4	Nil	144.4
Group overheads	(8.8)	(0.6)	(9.4)	(8.4)	Nil	(8.4)
Goodwill amortisation	Nil	(7.3)	(7.3)	Nil	(7.8)	(7.8)
Redundancy/restructuring costs	(1.4)	Nil	(1.4)	(7.2)	Nil	(7.2)
Total operating profit of continuing Group operations	144.4	(8.7)	135.7	128.8	(7.8)	121.0
Discontinued operations						
- Citybus	Nil	Nil	Nil	1.0	Nil	1.0
- Goodwill amortisation	Nil	Nil	Nil	Nil	(1.0)	(1.0)
Total operating profit of discontinued Group operations	Nil	Nil	Nil	1.0	(1.0)	Nil
Total operating profit of Group companies	144.4	(8.7)	135.7	129.8	(8.8)	121.0
Share of operating profit/(loss) of joint ventures						
Continuing						
- Virgin Rail Group	12.7	Nil	12.7	13.5	Nil	13.5
- other	Nil	Nil	Nil	(0.4)	Nil	(0.4)
Discontinued						
- thetrainline	Nil	Nil	Nil	(2.4)	Nil	(2.4)
Goodwill amortised on investment in continuing joint ventures	Nil	(14.9)	(14.9)	Nil	(8.7)	(8.7)
Share of operating (loss)/profit of associates						
Continuing						
- other	(0.4)	Nil	(0.4)	Nil	Nil	Nil
Discontinued						
- Road King	Nil	Nil	Nil	7.0	Nil	7.0
Goodwill amortised on investment in continuing associates	Nil	(0.3)	(0.3)	Nil	(0.3)	(0.3)
Total operating profit: Group and share of joint ventures and associates	156.7	(23.9)	132.8	147.5	(17.8)	129.7

The operating profit from discontinued Group operations includes Citybus. The operating profit from the discontinued element of North America 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, for neither the year ended 30 April 2005 nor the year ended 30 April 2004.

Goodwill amortisation on continuing operations of £7.3m (2004: £7.8m) is analysed as UK Bus £0.7m (2004: £0.6m), New Zealand £1.2m (2004: £1.2m) and North America £5.4m (2004: £6.0m).

Redundancy/restructuring costs of £1.4m (2004: £7.2m) are analysed as UK Bus £0.4m (2004: £0.6m), North America £0.1m (2004: £5.7m), UK Rail £0.8m (2004: £0.9m) and costs incurred centrally £0.1m (2004: £Nil)

Note 2 Segmental analysis (continued)

(c) Net assets

	2005	2004
	£m	£m
UK Bus	295.2	306.6
North America	170.0	177.4
Overseas Bus	67.2	50.2
UK Rail	(92.1)	(99.3)
Central assets/liabilities	(78.6)	(84.2)
Net assets of Group companies before debt	361.7	350.7
Joint ventures	71.2	105.5
Associates	0.7	1.4
Total net assets before debt: Group, joint ventures and associates	433.6	457.6
Net debt	(214.6)	(67.6)
Net assets	219.0	390.0

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

	2005	2004
	£m	£m
Miscellaneous revenue	48.3	46.8
Loss on disposal of tangible fixed assets, other than properties	(3.0)	(3.6)
Rail franchise support, excluding incentive payments	90.2	107.7
Rail incentive payments	35.2	(21.8)
Rail liquidated damages	2.6	Nil
	173.3	129.1

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

The loss on disposal of tangible fixed assets of £3.0m (2004: £3.6m) includes an exceptional loss of £0.6m (2004: £Nil) in relation to the difference between the net book value and the amounts recovered through insurance on vehicles that were scrapped as a result of flooding at the UK Bus division's Carlisle depot.

Rail franchise support is the gross amount of financial support receivable from the Strategic Rail Authority ("SRA"). Partly offsetting this, South West Trains recognised amounts payable to the SRA under revenue and profit share agreements totalling £46.0m (2004: £27.9m) which are included within operating costs.

Rail incentive payments comprise receipts from/payments to the SRA in respect of the operational performance of our rail companies measured against benchmarks set by the SRA. Payments are made to the SRA when performance is worse than the target benchmarks and conversely payments are received from the SRA when performance is better than that set by the benchmarks. The year on year movement in these payments is primarily due to new benchmarks being set by the Regulator for Network Rail and is largely offset by payments to/from Network Rail, which are included within operating costs. Network Rail makes payments to our rail companies when punctuality deteriorates due to the actions of Network Rail and our rail companies make payments to Network Rail where the rail companies' actions cause punctuality to deteriorate.

Rail liquidated damages of £2.6m (2004: £Nil) relate to amounts received by South West Trains for the late delivery and reliability of trains.

Note 4 Finance charges (net)

	2005	2004
	£m	£m
Bank loans and overdrafts	4.0	19.2
Hire purchase and finance leases	8.3	5.8
Other loans	19.7	13.1
Unwinding of discount on provisions	3.2	2.8
Interest receivable	(15.3)	(13.6)
	19.9	27.3

Interest receivable includes £1.7m (2004: £1.3m) in relation to share of joint venture net interest receivable and £0.7m (2004: £1.0m) in relation to interest receivable on joint venture shareholder loan notes. Interest payable on other loans includes £Nil (2004: £0.8m) in relation to share of associates' net interest payable.

Notes to the accounts

Note 5 Profit on ordinary activities before taxation

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

	2005	2004
	£m	£m
Materials and consumables	158.3	162.2
Depreciation and amounts written off		
– Tangible fixed assets (owned)	47.2	49.6
– Tangible fixed assets (on hire purchase or finance lease)	20.5	17.6
Amortisation of goodwill		
– Subsidiaries	7.3	8.8
– Joint venture and associates	15.2	9.0
Gains on property disposals	(1.3)	(0.5)
Losses on other tangible fixed asset disposals	3.0	3.6
Network Rail charges	128.2	117.3
Operating lease rentals		
– PSVs and rolling stock	116.7	98.0
– Land and buildings	6.1	8.0
	£'000	£'000
Audit services		
– statutory audit	635.0	655.0
– audit-related regulatory reporting	72.0	12.5
Other assurance services	76.4	38.8
Tax services		
– compliance services	6.4	27.5
– advisory services	67.0	117.5
Advice re disposal of businesses	Nil	17.6
Provision of training and related materials	0.5	6.5
Advice re return of capital and related matters	140.0	Nil
Other services	Nil	26.8
	997.3	902.2
Auditors' remuneration – audit (Company)	20.0	20.0

The following items have been treated as exceptional:

	2005	2004
	£m	£m
Loss on disposal of operations (note 13)	(5.9)	(7.1)
Return of capital costs	(0.3)	Nil
Impairment of minority investment	(0.3)	Nil
Loss re flooding at Carlisle depot	(0.8)	Nil
Gain on sale of properties	1.3	0.5
	(6.0)	(6.6)
Tax effect of exceptional items	1.6	(0.2)
	(4.4)	(6.8)

The loss on disposal of operations of £5.9m comprises pre-tax losses arising on the disposals and closures of parts of our North American businesses.

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 partly offset by the pre-tax gains arising on the disposals of Citybus, our associated undertaking, Road King Infrastructure Limited, and our joint venture, trainline.

The Directors also undertook an impairment review as at 30 April 2005 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

	2005	2004
	£m	£m
Staff costs		
Wages and salaries	652.9	665.7
Social security costs	53.8	55.0
Other pension costs (note 26e)	38.6	32.9
	745.3	753.6

	2005	2004
	£m	£m
Summary directors' remuneration		
Aggregate emoluments	2.0	1.7
Sums paid to third parties for directors' services	–	0.2
	2.0	1.9

Further information on directors' remuneration, share options, incentive schemes and pensions is contained in the Remuneration Committee report on pages 23 to 29.

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

	2005	2004
	number	number
UK operations	21,105	20,917
UK administration and supervisory	2,266	1,955
Overseas	6,286	6,291
	29,657	29,163

Note 7 Taxation on profit on ordinary activities

(a) Analysis of charge in the year

	2005			2004		
	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% (2004: 30%)	25.3	(0.3)	25.0	21.2	Nil	21.2
Prior year under/(over) provision for corporation tax	0.3	Nil	0.3	Nil	(24.7)	(24.7)
Share of joint ventures' tax	4.8	Nil	4.8	3.2	Nil	3.2
Foreign tax (current year)	1.7	Nil	1.7	2.7	Nil	2.7
Foreign tax (adjustments in respect of prior years)	(0.1)	Nil	(0.1)	(0.1)	Nil	(0.1)
Total current tax	32.0	(0.3)	31.7	27.0	(24.7)	2.3
Deferred tax:						
Origination and reversal of timing differences	2.1	(2.4)	(0.3)	8.5	(0.1)	8.4
Adjustments in respect of prior years	(1.9)	Nil	(1.9)	(3.2)	(16.3)	(19.5)
Total deferred tax	0.2	(2.4)	(2.2)	5.3	(16.4)	(11.1)
Tax on profit on ordinary activities	32.2	(2.7)	29.5	32.3	(41.1)	(8.8)

Notes to the accounts

Note 7 Taxation on profit on ordinary activities (continued)

(b) Factors affecting tax charge for the year

	2005	2004
	£m	£m
Profit on ordinary activities before tax	108.3	95.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	32.5	28.7
Effects of:		
Goodwill amortisation	5.8	5.0
Goodwill allowances/deductions	(2.2)	Nil
Non-deductible expenditure	5.3	8.1
Utilisation of losses not recognised	(11.3)	(4.2)
Capital allowances (more)/less than depreciation	(4.5)	3.0
Creation or utilisation of losses	Nil	(5.9)
Movement in general provisions and other short term timing differences	6.9	(5.5)
Foreign taxes differences	(1.0)	0.4
Adjustments to tax charge in respect of prior years	0.2	(27.3)
Current tax charge for the year (note 7a)	31.7	2.3

(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 (2004: £3.3m).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries 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 not sufficiently certain.

Note 8 Dividends

	2005	2004
	£m	£m
Equity dividends		
Ordinary shares – interim paid (1.0 pence (2004: 0.9 pence) per share)	10.7	11.9
– final proposed (2.3 pence (2004: 2.0 pence) per share)	24.4	26.5
	35.1	38.4
Non-equity dividends		
Redeemable 'B' preference shares – paid: 116,502,944 shares of 18.0 pence @ 3.534125% for 199 days (£404,065)	0.4	Nil
– accrued: 77,189,641 shares of 18.0 pence @ 3.526691% for 30 days (£40,274)	–	Nil
	0.4	Nil

During the year, a share alternative was offered in respect of the interim dividend of 1.0 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. A similar arrangement applied to last year's final dividend of 2.0 pence per share.

The redeemable 'B' preference shares attract a non-cumulative preferential dividend set at 70% of 6 months' LIBOR. The dividend is payable on the nominal amount of 18 pence per 'B' share and is paid twice yearly in arrears on 31 March and 30 September.

Note 9 Earnings per share

Earnings per share has been calculated in accordance with Financial Reporting Standard 14 "Earnings per Share" by calculating Group profit on ordinary activities after tax and non-equity dividends, divided by the weighted average number of shares in issue during the year based on the following:

	2005			2004		
	Earnings/(loss) £m	Weighted average no. of shares million	Earnings/(loss) per share pence	Earnings £m	Weighted average no. of shares million	Earnings/ (loss) per share pence
Basic	78.4	1,154.5	6.8	104.6	1,321.7	7.9
Adjusted (pre goodwill and exceptional items)	104.2	1,154.5	9.0	87.9	1,321.7	6.7
Dilutive shares – Executive Share Option Scheme	–	21.9	(0.2)	–	20.2	(0.2)
– Employee SAYE Scheme	–	3.6	–	–	2.2	–
Diluted excluding goodwill and exceptional items	104.2	1,180.0	8.8	87.9	1,344.1	6.5
Include goodwill and exceptional items	(25.8)	–	(2.2)	16.7	–	1.3
Diluted	78.4	1,180.0	6.6	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 31. This has been presented to allow shareholders to gain a clearer understanding of the underlying performance.

On 10 September 2004, the Company issued 1,340,732,902 18 pence redeemable 'B' shares at the rate of 1 redeemable 'B' share for every 1 ordinary share held.

The issue of redeemable 'B' shares was followed by a share consolidation whereby shareholders received 19 consolidated ordinary shares for every 24 ordinary shares held. In determining the consolidated earnings per share, no adjustment has been made to the number of ordinary shares outstanding before the event where the issue of redeemable 'B' shares was combined with the share consolidation. The weighted average number of ordinary shares outstanding for the year ended 30 April 2005 has been adjusted for the reduction in the number of ordinary shares from the date on which the issue of redeemable 'B' shares and share consolidation took place. This treatment is consistent with paragraph 26 of Financial Reporting Standard 14, "Earnings per Share".

Note 10 Profit and loss account

The movement on profit and loss account reserve is:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Retained (loss)/profit brought forward	(6.9)	(77.3)	464.2	57.5
Retained profit for the year	43.3	66.2	51.6	406.7
Translation adjustment	3.6	(0.4)	Nil	Nil
UK tax effect of translation adjustment	Nil	4.8	Nil	Nil
Share of other recognised gains and losses of associates	Nil	(0.2)	Nil	Nil
Redemption of 'B' shares	(227.4)	Nil	(227.4)	Nil
Retained (loss)/profit carried forward	(187.4)	(6.9)	288.4	464.2

Notes to the accounts

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
Cost					
Beginning of year	1.9	97.9	2.8	598.0	700.6
Additions	Nil	Nil	Nil	2.4	2.4
Disposals	(1.9)	Nil	Nil	(44.6)	(46.5)
Translation adjustment	Nil	Nil	Nil	(37.2)	(37.2)
End of year	Nil	97.9	2.8	518.6	619.3
Amortisation					
Beginning of year	(1.6)	(40.4)	(1.2)	(494.5)	(537.7)
Charge for the year	(0.2)	(14.7)	(0.3)	(7.3)	(22.5)
Disposals	1.8	Nil	Nil	39.9	41.7
Translation adjustment	Nil	Nil	Nil	32.8	32.8
End of the year	Nil	(55.1)	(1.5)	(429.1)	(485.7)
Net book value beginning of year	0.3	57.5	1.6	103.5	162.9
Net book value end of year	Nil	42.8	1.3	89.5	133.6

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

	Amortisation period Years	Goodwill additions £m
Subsidiaries – UK Bus	2	2.2
– UK Bus	3	0.2
		2.4

There were no adjustments to goodwill arising on prior year acquisitions (2004: £Nil).

Note 12 Tangible fixed assets

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Land and buildings	142.8	134.5	Nil	3.3
Passenger Service Vehicles (“PSVs”) and other assets	497.4	483.5	0.1	0.8
	640.2	618.0	0.1	4.1

Note 12 Tangible fixed assets (continued)

The Group movement in the year is:

	Land and buildings £m	PSVs and other assets £m	Total £m
Cost			
Beginning of year	138.5	970.8	1,109.3
Additions	14.9	88.9	103.8
New subsidiary undertakings	Nil	1.3	1.3
Disposals	(3.6)	(46.6)	(50.2)
Sale/closure of subsidiary undertakings	(2.0)	(3.1)	(5.1)
Translation adjustment	(1.3)	(5.6)	(6.9)
End of year	146.5	1,005.7	1,152.2
Depreciation			
Beginning of year	(4.0)	(487.3)	(491.3)
Charge	(4.4)	(63.3)	(67.7)
Disposals	2.8	35.3	38.1
Sale/closure of subsidiary undertakings	1.5	3.0	4.5
Translation adjustment	0.4	4.0	4.4
End of year	(3.7)	(508.3)	(512.0)
Net book value, beginning of year	134.5	483.5	618.0
Net book value, end of year	142.8	497.4	640.2
Included in the above net book value at end of year are:			
Assets on hire purchase	Nil	124.3	124.3
Leased PSV assets	Nil	2.6	2.6
Short leasehold land and buildings	1.0	Nil	1.0
Long leasehold land and buildings	20.2	Nil	20.2

Heritable and freehold land amounting to £35.9m (2004: £33.0m) has not been depreciated.

Depreciation of £20.5m (2004: £17.6m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

The Company movement during the year was as follows:

	Land and buildings £m	PSVs and other assets* £m	Total £m
Cost			
Beginning of year	3.6	1.5	5.1
Additions	Nil	1.1	1.1
Intra-group transfer	(3.6)	(1.7)	(5.3)
End of year	Nil	0.9	0.9
Depreciation			
Beginning of year	(0.3)	(0.7)	(1.0)
Charge	Nil	(0.1)	(0.1)
Intra-group transfer	0.3	Nil	0.3
End of year	Nil	(0.8)	(0.8)
Net book value, beginning of year	3.3	0.8	4.1
Net book value, end of year	Nil	0.1	0.1

* PSVs and other assets include £Nil (2004: £0.6m) of assets in progress not yet allocated to Group operating companies.

Notes to the accounts

Note 13 Fixed asset investments

The Group movement during the year was as follows:

	Joint ventures £m	Associates £m	Other investments £m	Total £m
Cost				
Beginning of year	146.9	2.6	3.4	152.9
Additions	Nil	Nil	0.3	0.3
Disposals	Nil	Nil	(2.0)	(2.0)
Share of recognised profits/(losses)	9.6	(0.4)	Nil	9.2
Translation adjustment	Nil	Nil	0.1	0.1
Dividends received	(23.5)	Nil	Nil	(23.5)
Loan repayment	(6.7)	Nil	Nil	(6.7)
End of year	126.3	2.2	1.8	130.3
Amounts written off				
Beginning of year	(40.4)	(1.2)	(1.1)	(42.7)
Goodwill amortised during year	(14.7)	(0.3)	Nil	(15.0)
Impairment of minority investment	Nil	Nil	(0.3)	(0.3)
Other amounts written-off	Nil	Nil	(0.1)	(0.1)
Disposals	Nil	Nil	1.4	1.4
End of year	(55.1)	(1.5)	(0.1)	(56.7)
Net book value, beginning of year	106.5	1.4	2.3	110.2
Net book value, end of year	71.2	0.7	1.7	73.6

The Group's share of the net assets of Virgin Rail Group Holdings Limited included above is analysed below.

	2005	2004
	£m	£m
Fixed assets	4.9	7.6
Current assets	126.4	91.2
Creditors: Amounts falling due within one year	(102.9)	(53.7)
Creditors: Amounts falling due after more than one year	(3.3)	(6.1)
Share of net assets	25.1	39.0
Goodwill (note 11)	42.8	57.5
Shareholder loan notes	3.3	10.0
	71.2	106.5

The principal joint venture is:

	Country of incorporation/ operation	Number of shares in issue at 30 April 2005	Nominal value of share capital in issue at 30 April 2005	% held at 30 April 2005
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 bears interest at a fixed rate of 10% per annum. £10m of the original £20m loan was repaid on 28 April 2000, £3.3m was repaid on 23 September 2004, and a further £3.4m was repaid on 27 September 2004.

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 £18m in respect of its financial year ended 5 March 2005. This dividend was paid prior to 30 April 2005.

Note 13 Fixed asset investments (continued)

The Directors 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. For five years following the 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 2004 impairment review. This indicated that the actual net cash flows earned by the Group from its investment in VRG during the year ended 30 April 2005 exceeded those projected, therefore under this 'look-back' test no impairment has arisen.

Both VRG's franchises operate on the basis of a Letter Agreement signed with the Strategic Rail Authority ("SRA") in July 2002. Negotiations will re-commence on the West Coast franchise in September 2005 with a view to agreeing revised commercial terms for the franchise through to 2012. The SRA has terminated negotiations on the CrossCountry franchise and has the right to re-tender this franchise, although it is required to give at least 12 months' notice to VRG if it intends to terminate the existing franchise.

Under the Letter Agreement, the SRA sets an annual budget, including the level of financial support, for each franchise. The SRA has set challenging budgets for VRG's financial year to 4 March 2006. In particular, discussions are continuing with the SRA regarding CrossCountry's requirement for additional cash funding from July 2005.

The Directors have re-assessed the carrying value of the Group's investment in VRG as at 30 April 2005. In accordance with FRS 11, the Directors have compared the carrying value of our net investment in VRG, with its estimated recoverable amount, being the higher of net realisable value and value in use. The value in use of VRG was determined using an average pre-tax discount rate of 10.7%. The Directors of Stagecoach Group have concluded there is no impairment loss at 30 April 2005 and they continue to monitor the situation regularly and to assess any implications for the Group's investment in VRG.

The Directors reviewed the period over which the goodwill in respect of VRG was being amortised, in light of the status of negotiations on VRG's franchises and the possibility that the SRA could terminate the CrossCountry franchise with 12 months' notice. As a result, the amortisation of goodwill in respect of VRG has been accelerated, resulting in an increased charge of £14.7m (2004: £8.2m). The remaining goodwill relating to the original acquisition of VRG is being amortised over its remaining useful life of 6.8 years from 30 April 2005.

Investments – Company

The Company movement during the year was as follows:

	Subsidiary undertakings £m	Joint ventures £m	Other investments £m	Total £m
Cost				
Beginning of year	923.0	1.8	0.8	925.6
Disposals	Nil	(1.8)	(0.8)	(2.6)
End of year	923.0	Nil	Nil	923.0
Amounts written off				
Beginning of year	Nil	(1.8)	Nil	(1.8)
Disposals	Nil	1.8	Nil	1.8
End of year	Nil	Nil	Nil	Nil
Net book value, beginning of year	923.0	Nil	0.8	923.8
Net book value, end of year	923.0	Nil	Nil	923.0

Acquisitions

During the year a further 8 acquisitions have been concluded in the UK and North America for a total consideration of £4.8m in cash. The fair value of the net assets acquired was £2.4m giving rise to goodwill of £2.4m which has been capitalised and is being amortised over 2 to 3 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
Fair value to Group	
Tangible fixed assets	1.3
Other current assets	1.1
Total assets	2.4
Consideration	4.8
Goodwill	2.4

Notes to the accounts

Note 13 Fixed asset investments (continued)

Disposals

During the year, the Group disposed of and closed parts of its North American businesses as set out below.

The Group has not retained any ownership interest in any of the businesses that were disposed of in the year.

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

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

	North America £m
Fixed assets	
Intangible assets – goodwill	4.7
Tangible assets	0.6
	5.3
Other current assets	3.5
Total assets	8.8
Other creditors	(0.3)
Total liabilities	(0.3)
Net assets disposed	8.5
Provisions and accruals for future costs associated with the disposals	7.9
Release of provision against receivable on prior year disposals	(1.7)
Loss on disposal	(5.9)
Proceeds, net of directly attributable costs	8.8
Satisfied by:	
Cash	7.1
Deferred consideration outstanding (net of provision for doubtful debts) as at 30 April 2005	1.7
	8.8
Net cash inflows in respect of disposals comprised:	
Cash consideration	7.1
Deferred consideration in respect of businesses disposed in prior years	7.6
	14.7

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 company
SCOTO Limited	England	Holding 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.

Note 15 Stocks

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Parts and consumables	12.5	11.9	Nil	Nil
Taxicabs held for resale	Nil	1.5	Nil	Nil
	12.5	13.4	Nil	Nil

There is no material difference between the carrying value of stocks held at 30 April 2005 and their estimated replacement cost.

Note 16 Debtors and prepaid charges

Amounts falling due within one year are:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Trade debtors	74.2	74.6	0.2	0.2
Other debtors	25.4	28.4	Nil	Nil
Other prepayments and accrued income	63.7	53.8	11.2	8.1
VAT and other government debtors	9.8	11.1	9.8	10.2
Foreign tax receivable	1.0	1.3	Nil	Nil
UK corporation tax debtor	Nil	Nil	0.4	Nil
	174.1	169.2	21.6	18.5

Notes to the accounts

Note 16 Debtors and prepaid charges (continued)

Amounts falling due after more than one year are:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Pension scheme prepayment (note 26e)	36.1	36.9	Nil	Nil
Amounts owed by group companies	Nil	Nil	166.6	130.8
Other debtors	8.5	21.1	Nil	Nil
Deferred tax asset (note 21)	4.1	Nil	1.5	1.1
	48.7	58.0	168.1	131.9

Note 17 Creditors

(a) Creditors: Amounts falling due within one year

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank overdrafts	1.5	Nil	197.0	Nil
Bank loans and loan notes	104.9	38.9	104.8	38.6
Euro 6% notes (note 17d)	Nil	182.2	Nil	200.2
Trade creditors	98.9	96.6	1.7	1.7
Accruals and deferred income	241.9	244.0	15.9	21.2
Dividends payable	24.4	26.5	24.4	26.5
Other creditors				
– UK corporation tax payable	33.3	33.9	Nil	4.5
– PAYE and NIC payable	16.8	15.7	0.2	0.2
Current portion of hire purchase and lease obligations	20.1	36.8	Nil	Nil
Amounts due to group companies	Nil	Nil	32.0	28.0
	541.8	674.6	376.0	320.9

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank loans and loan notes	7.2	2.7	Nil	Nil
US Dollar 8.625% Notes (note 17c)	174.9	187.9	Nil	Nil
Non-current portion of hire purchase and lease obligations	46.0	95.6	Nil	Nil
Accruals and deferred income	8.1	6.0	0.8	Nil
Amounts due to group companies	Nil	Nil	37.5	44.1
	236.2	292.2	38.3	44.1

(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.

The cumulative par value of Notes repurchased was US\$165.9m as at 30 April 2005 (2004: US\$165.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2005 was £174.9m (2004: £187.9m), 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. The Notes were issued at 99.937% of their principal amount. The cumulative par value of Notes repurchased and cancelled at 30 April 2004 was €104.2m. The remaining Notes were redeemed at their principal amount on 24 November 2004.

Note 17 Creditors (continued)

(e) Borrowings are repayable as follows

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
On demand or within 1 year				
Bank overdraft	1.5	Nil	197.0	Nil
Bank loans and loan notes	104.9	38.9	104.8	38.6
Euro 6% Notes	Nil	182.2	Nil	200.2
Hire purchase and lease obligations	20.1	36.8	Nil	Nil
Within 1-2 years				
Bank loans and loan notes	0.7	Nil	Nil	Nil
Hire purchase and lease obligations	12.1	33.1	Nil	Nil
Within 2-5 years				
Bank loans and loan notes	6.5	2.7	Nil	Nil
US Dollar 8.625% Notes	174.9	Nil	Nil	Nil
Hire purchase and lease obligations	22.3	53.6	Nil	Nil
Over 5 years				
US Dollar 8.625% Notes	Nil	187.9	Nil	Nil
Hire purchase and lease obligations	11.6	8.9	Nil	Nil
Total borrowings	354.6	544.1	301.8	238.8
Less current maturities	(126.5)	(257.9)	(301.8)	(238.8)
Long term portion of borrowings	228.1	286.2	Nil	Nil

Interest terms on UK borrowings (except loan notes) are at annual rates between 0.35% and 0.65% 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 £38.3m (2004: £38.6m) 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 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 Operating and Financial Review on page 10.

Short term debtors and creditors (defined as amounts due within one year of the balance sheet date) have been excluded from the disclosures below except for note 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 2005 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	170.9	31.4	202.3	6.8	4.5
US Dollar	1.5	143.5	145.0	6.8	4.5
Canadian Dollar	7.3	Nil	7.3	n/a	n/a
Gross borrowings	179.7	174.9	354.6	6.8	4.5

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

As at 30 April 2005 floating rate Sterling borrowings of £50.0m (2004: £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 2005, the floor was exercised on £50m at a rate of 4.5% until July 2004, at which point floating rates were above the floor level.

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.

The Directors have reviewed how they define and identify financial liabilities as part of the transition to IFRS and have concluded that there are no (2004 restated: £Nil) financial liabilities on which interest is paid. The prior year comparatives have been restated.

The Group's policies on managing interest rate risk and currency risk are explained in the Operating and Financial Review on page 10.

Notes to the accounts

Note 18 Derivatives and other financial instruments (continued)

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 maturity profile of the Group's financial liabilities at 30 April 2005 was as follows:

	2005	2004 Restated
	£m	£m
Expiring within one year	126.5	257.9
Expiring in more than one year but less than two years	12.8	33.1
Expiring in more than two years but less than five years	203.7	56.3
Expiring beyond five years	11.6	196.8
Gross borrowings	354.6	544.1

(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 £140.0m (2004: £476.5m). 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	
	2005 £m	2004 £m
Sterling	124.5	413.7
US Dollar	10.3	59.1
New Zealand Dollar	4.7	3.2
Canadian Dollar	0.5	0.5
Cash at bank and in hand	140.0	476.5

Financial assets on which no interest is receivable total £1.7m (2004: £2.3m) and comprise other investments of £1.7m (2004: £2.3m). These assets are denominated in Sterling £0.4m (2004: £0.5m), US dollars £0.1m (2004: £Nil) and others £1.2m (2004: £1.8m). Net financial assets on which fixed interest is receivable total £5.4m (2004: £16.4m) and comprise US\$ denominated loan notes receivable. The net amount of £5.4m (2004: £16.4m) includes a provision for doubtful debts of £2.4m (2004: £9.9m). The net financial assets have a weighted average interest rate of 7.8% (2004: 8.4%) and an average maturity of 3.5 years (2004: 4.5 years).

(c) Currency exposures

As explained in the Operating and Financial Review on page 10, 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 2005 and 30 April 2004 there were no material net transactional foreign currency exposures.

Note 18 Derivatives and other financial instruments (continued)

(d) Borrowing facilities

At 30 April 2005, the Group had the following undrawn committed banking and hire purchase facilities:

	2005	2004
	£m	£m
Expiring within one year	43.8	68.5
Expiring in more than one year but no more than two years	Nil	Nil
Expiring beyond two years	317.6	51.1
	361.4	119.6

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.

	2005		2004 Restated	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments to finance the Group's operation				
Cash deposits and bank overdrafts	140.0	140.0	476.5	476.5
US Dollar 8.625% Notes	(174.9)	(199.5)	(187.9)	(216.8)
Euro 6% Notes	Nil	Nil	(199.9)	(203.9)
Foreign currency swaps hedging currency debt	Nil	(0.1)	17.7	23.9
Short term borrowings and current portion of long term debt	(126.5)	(126.5)	(75.7)	(75.7)
Other long term borrowings	(53.2)	(53.2)	(98.3)	(98.3)
Net debt (note 25c)	(214.6)	(239.3)	(67.6)	(94.3)
Derivative financial instruments held to manage the interest rate, currency and commodity risk profiles				
Interest rate swaps and similar instruments	Nil	(0.3)	Nil	(3.5)
Forward foreign currency contracts and swaps hedging overseas investments	Nil	(0.5)	Nil	(0.1)
Fuel price swaps, caps and options	2.1	8.7	Nil	6.5
Other financial assets	7.1	7.1	18.7	18.7
	(205.4)	(224.3)	(48.9)	(72.7)

Note 20 Hedge accounting

	2005			2004		
	Gains £m	Losses £m	Total £m	Gains £m	Losses £m	Total £m
Unrecognised gains or losses on hedges at start of year	12.7	(3.6)	9.1	59.0	(33.5)	25.5
Gains or losses arising in previous years that were recognised in the year	(11.4)	3.2	(8.2)	(46.6)	30.0	(16.6)
Gains or losses arising in previous years that were not recognised in the year	1.3	(0.4)	0.9	12.4	(3.5)	8.9
Gains or losses arising in the year that were not recognised in the year	5.3	(0.5)	4.8	0.3	(0.1)	0.2
Unrecognised gains or losses on hedges at end of year	6.6	(0.9)	5.7	12.7	(3.6)	9.1
Of which:						
Gains or losses expected to be recognised within one year	6.6	(0.8)	5.8	12.2	(3.2)	9.0
Gains or losses expected to be recognised after one year	Nil	(0.1)	(0.1)	0.5	(0.4)	0.1
	6.6	(0.9)	5.7	12.7	(3.6)	9.1

The table above shows the unrecognised gains or losses on derivatives that were in place during the year ended 30 April 2005. In addition at 30 April 2005 there was £19.6m (2004: £22.6m) of unrecognised net gains arising from the close out, during the year ended 30 April 2004, of interest rate derivatives. These will be recognised as follows: £3.5m within one year (2004: £3.0m) and £16.1m after one year (2004: £19.6m). During the year £3.0m (2004: £4.1m) of net gains were recognised.

As explained in the Operating and Financial Review on page 10, 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.

Notes to the accounts

Note 21 Provisions for liabilities and charges

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Deferred taxation	78.7	76.2	Nil	Nil
Token redemption provision	25.5	27.3	Nil	Nil
Insurance provisions	63.5	71.9	Nil	Nil
Environmental provisions	3.9	3.5	Nil	1.8
Pension provision (note 26d)	10.0	10.2	3.7	3.5
Restructuring provision	Nil	1.9	Nil	Nil
	181.6	191.0	3.7	5.3
Joint ventures				
– goodwill	Nil	(0.3)	Nil	Nil
– share of gross liabilities	Nil	1.7	Nil	Nil
– shareholder loan	Nil	(0.4)	Nil	Nil
	Nil	1.0	Nil	Nil
Total provisions	181.6	192.0	3.7	5.3

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 as at 30 April 2004 related to the estimated costs of completing the sale or closure of operations in North America, where an obligation existed at the balance sheet date.

Share of joint venture net liabilities as at 30 April 2004 was in relation to the Group's interest in the consolidated net liabilities of various small joint ventures. The joint ventures were unwound during the year ended 30 April 2005.

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	76.2	27.3	71.9	3.5	10.2	1.9	1.0
– (credited)/provided during year	(2.2)	Nil	37.9	1.3	13.0	Nil	Nil
Unwinding of discount	Nil	Nil	3.2	Nil	Nil	Nil	Nil
Utilised in the year	Nil	Nil	(47.0)	(0.9)	(13.2)	(1.8)	Nil
Arising on sale of tokens during year	Nil	10.5	Nil	Nil	Nil	Nil	Nil
Redemption of tokens	Nil	(12.3)	Nil	Nil	Nil	Nil	Nil
Translation differences	0.6	Nil	(2.5)	Nil	Nil	(0.1)	Nil
Disposed of with joint ventures	Nil	Nil	Nil	Nil	Nil	Nil	(1.0)
End of year	74.6	25.5	63.5	3.9	10.0	Nil	Nil

The net deferred tax liability of £74.6m (2004: £76.2m) is made up of deferred tax liabilities of £78.7m (2004: £76.2m) disclosed within provisions for liabilities and charges and a deferred tax asset of £4.1m (2004: £Nil) disclosed within debtors and prepaid charges (note 16).

The Company movement during the year was as follows:

	Deferred taxation £m	Environmental provisions £m	Pension provisions £m
Beginning of year	(1.1)	1.8	3.5
Provided during year	(0.4)	Nil	0.3
Utilised in year	Nil	(1.8)	Nil
Payments in year	Nil	Nil	(0.1)
End of year	(1.5)	Nil	3.7

The deferred tax asset of £1.5m (2004: £1.1m) is disclosed within debtors and prepaid charges (note 16).

Note 21 Provisions for liabilities and charges (continued)

Deferred taxation is calculated as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Accelerated capital allowances	89.8	86.4	Nil	0.5
Pension timing differences	7.8	8.0	(0.9)	(0.9)
Short-term timing differences	(23.0)	(18.2)	(0.6)	(0.7)
	74.6	76.2	(1.5)	(1.1)

Note 22 Called up share capital

	Group and Company	
	2005	2004
	£m	£m
Authorised		
1,456,666,666 (2004: 1,840,000,000) ordinary shares of 12/19 pence (2004: 0.5 pence) each	9.2	9.2
1,388,888,889 redeemable 'B' preference shares of 18 pence each	250.0	Nil
Total	259.2	9.2
Allotted, called-up and fully-paid		
1,069,545,227 (2004: 1,335,358,600) ordinary shares of 12/19 pence (2004: 0.5 pence) each	6.8	6.7
77,189,641 redeemable 'B' preference shares of 18 pence each	13.9	Nil
Total	20.7	6.7

The redeemable 'B' preference shares attract a non-cumulative preferential dividend set at 70% of 6 months' LIBOR. The dividend is payable on the nominal amount of 18 pence per 'B' share and is paid twice yearly in arrears on 31 March and 30 September. The redeemable 'B' shares are redeemable at their nominal value of 18 pence per share at the option of holders on 31 March and 30 September each year. As a result of the number of 'B' shares already redeemed, the Company is able to compulsorily redeem all the outstanding 'B' shares at any time on or after 30 September 2005. The 'B' shares are not listed on a recognised Stock Exchange.

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

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust 2003 ("EBT"). Shares held by these trusts are treated as a deduction from the shareholders' funds in the Group's accounts. Other assets and liabilities of the trusts are consolidated in the Group's accounts as if they were assets and liabilities of the Group. As at 30 April 2005, the QUEST held 1,811,212 (2004: 4,887,606) ordinary shares in the Company and the EBT held 4,690,333 (2004: 4,636,924) ordinary shares in the Company.

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 relevant bank or building society 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	Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
C	15 February 2002	1 April 2002	60.0p	1 April 2005	30 September 2005
D	11 February 2005	1 April 2005	103.275p	1 April 2008	30 September 2008

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

	Issue C		Issue D	
	Number of employees	Ordinary shares	Number of employees	Ordinary shares
Beginning of year	3,038	10,745,846	Nil	Nil
Options issued	Nil	Nil	4,310	12,272,931
Options exercised	(2,129)	(8,098,880)	Nil	Nil
Options lapsed	(264)	(840,777)	(19)	(74,482)
End of year	645	1,806,189	4,291	12,198,449

(b) Executive share options

Award date	At 1 May 2004	Granted	Exercised	Lapsed	At 30 April 2005	Exercise price £	Date from which exercisable	Expiry date
9 September 1994	53,296	Nil	(53,296)	Nil	Nil	0.3030	9 September 1997	9 September 2004
13 October 1995	32,899	Nil	(32,899)	Nil	Nil	0.4820	13 October 1998	13 October 2005
11 October 1996	606,522	Nil	Nil	Nil	606,522	1.0900	11 October 1999	11 October 2006
8 September 1997	558,569	Nil	Nil	(558,569)	Nil	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
19 October 1998	302,722	Nil	Nil	(29,174)	273,548	2.2280	19 October 2001	19 October 2005
19 July 1999	581,010	Nil	Nil	(61,852)	519,158	2.0310	19 July 2002	19 July 2006
15 June 2000	4,992,155	Nil	(4,148,635)	(459,600)	383,920	0.6250	15 June 2003	15 June 2007
20 June 2001	3,861,025	Nil	(3,076,525)	(80,000)	704,500	0.7075	20 June 2004	20 June 2008
23 July 2002	13,648,506	Nil	(1,067,219)	(356,328)	12,224,959	0.3750	23 July 2005	23 July 2009
5 December 2002	13,409,896	Nil	Nil	(247,200)	13,162,696	0.2700	5 December 2005	5 December 2009
26 June 2003	5,219,862	Nil	Nil	(85,222)	5,134,640	0.6050	26 June 2006	26 June 2010
12 December 2003	3,445,752	Nil	(62,987)	(36,814)	3,345,951	0.8075	12 December 2006	12 December 2010
25 June 2004	Nil	5,424,281	Nil	(37,159)	5,387,122	0.8575	25 June 2007	25 June 2011
10 December 2004	Nil	1,601,538	Nil	(9,525)	1,592,013	1.1150	10 December 2007	10 December 2011
Totals	46,753,686	7,025,819	(8,441,561)	(1,961,443)	43,376,501			

All options were granted for nil consideration. The mid-market price for the ordinary shares at 30 April 2005 was £1.03 (2004: £0.82). The Company's ordinary shares traded in the range £0.76 to £1.23 (2004: £0.44 to £0.93) during the year to that date.

Note 24 Reserves

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Share premium account	163.4	392.4	163.4	392.4
Profit and loss account (note 10)	(187.4)	(6.9)	288.4	464.2
Capital redemption reserve	229.1	1.7	229.1	1.7
Own shares	(6.8)	(3.9)	(6.8)	(3.9)

Of the Company's profit and loss account balance £281.6m (2004: £378.5m) is distributable and £Nil (2004: £85.7m) is non-distributable. None of the other above reserves as at 30 April 2005 are regarded as distributable.

Details of own shares held are given in note 22.

The consolidated profit on ordinary activities after taxation for the financial year includes £87.1m (2004: £445.1m) 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	Group and Company: own shares
	£m	£m	£m
Beginning of year	392.4	1.7	(3.9)
'B' shares issued from share premium	(241.3)	–	–
Expenses on issue of 'B' shares	(0.4)	–	–
'B' shares redeemed	–	227.4	–
Arising on new ordinary share issues	12.7	–	–
Own shares purchased	–	–	(5.4)
Own shares sold	–	–	2.5
End of year	163.4	229.1	(6.8)

Cumulative goodwill of £113.8m (2004: £113.8m) has been written off against reserves in periods prior to the adoption of FRS 10 "Goodwill and Intangible Assets".

Note 25 Consolidated cash flows**(a) Reconciliation of operating profit to net cash flow from operating activities**

	2005	2004
	£m	£m
Operating profit of Group companies	135.7	121.0
Depreciation	67.7	67.2
Loss on disposal of tangible fixed assets, other than properties	3.0	3.6
Goodwill amortisation	7.3	8.8
Impairment and amounts written off of investments	0.4	Nil
(Increase)/decrease in stocks	(0.4)	7.3
Increase in debtors	(9.8)	(11.7)
Increase in creditors	8.9	24.3
Decrease in provisions	(14.3)	(6.2)
Net cash inflow from operating activities	198.5	214.3

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

(Decrease)/increase in cash	(332.6)	347.4
Bond repayments	181.0	10.4
Cash flow from decrease in debt and lease financing	21.6	122.6
	(130.0)	480.4
Loans of disposed subsidiaries	Nil	47.3
Other movements	(14.0)	2.0
Movement in cash collateral	(3.0)	(37.3)
(Increase)/decrease in net debt	(147.0)	492.4
Opening net debt	(67.6)	(560.0)
Closing net debt	(214.6)	(67.6)

Notes to the accounts

Note 25 Consolidated cash flows (continued)

(c) Analysis of net debt

	Opening £m	Cash flows £m	Cash collateral £m	New hire purchase £m	Foreign exchange movements £m	Closing £m
Cash	439.2	(332.6)	Nil	Nil	(2.4)	104.2
Cash collateral	37.3	(2.7)	(0.3)	Nil	Nil	34.3
Hire purchase and lease obligations	(132.4)	92.5	Nil	(26.2)	Nil	(66.1)
Bank loans and loan stock	(41.6)	(71.2)	0.3	Nil	0.4	(112.1)
Bonds	(370.1)	181.0	Nil	Nil	14.2	(174.9)
	(67.6)	(133.0)	Nil	(26.2)	12.2	(214.6)

The net total of cash and cash collateral of £138.5m (2004: £476.5m) is classified in the balance sheet as £140.0m (2004: £476.5m) in cash at bank and in hand and £1.5m (2004: £Nil) as bank overdrafts.

(d) Restricted cash

The cash collateral balance as at 30 April 2005 of £34.3m (2004: £37.3m) comprises balances held in trust in respect of loan notes of £33.5m (2004: £33.7m) and North America restricted cash balances of £0.8m (2004: £3.6m). In addition, cash includes train operating company cash of £61.3m (2004: £71.6m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

(e) Purchase of subsidiary undertakings

	£m
Net assets acquired at fair value (see note 13)	2.4
Goodwill	2.4
	4.8
Consideration	
Cash and acquisition expenses paid in year	4.8

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)	4.8
Deferred consideration in respect of businesses acquired in prior years	1.1
	5.9

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.

The cash flows from the discontinued element of North America are not shown 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 £81.4m was outstanding at 30 April 2005 (2004: £80.9m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments

Capital commitments are as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Contracted for but not provided For delivery in one year	57.8	81.7	53.4	60.2

At 30 April 2005, £2.0m of the total capital commitments relates to overseas operations (30 April 2004: £16.8m).

Note 26 Guarantees and other financial commitments (continued)

(c) Operating lease commitments

South West Trains 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 rolling stock operating leases are as follows:

	2005	2004
	£m	£m
Under one year	0.1	19.8
Between one year and five years	122.3	76.6
Five years and over	Nil	Nil

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

	2005		2004	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Under one year	0.6	5.0	Nil	0.5
Between one year and five years	7.8	10.0	1.5	9.0
Five years and over	3.4	1.6	5.8	6.4

The following are the contractual lease payments due under unexpired operating leases as at 30 April 2005:

	Land & Buildings £m	Buses & other road transportation equipment £m	Trains & rolling stock £m	Plant & machinery £m	Total £m
Lease payments due in respect of:					
Year ending 30 April 2006	11.8	13.8	122.4	2.8	150.8
Year ending 30 April 2007	10.0	11.7	87.3	2.0	111.0
Year ending 30 April 2008	5.5	7.7	Nil	0.4	13.6
Year ending 30 April 2009	4.0	9.4	Nil	0.2	13.6
Year ending 30 April 2010	3.7	0.6	Nil	0.1	4.4
1 May 2010 and thereafter	13.8	Nil	Nil	Nil	13.8
	48.8	43.2	209.7	5.5	307.2

All operating lease commitments associated with South West Trains are assumed to terminate in February 2007, in line with the franchise end.

(d) Network Rail charges

South West Trains has contracts with Network Rail for access to the railway infrastructure (track, stations and depots) until February 2007.

Commitments for payments under these contracts are as follows:

	2005	2004
	£m	£m
Under one year	Nil	Nil
Between one year and five years	101.3	141.5
Five years and over	Nil	Nil

Notes to the accounts

Note 26 Guarantees and other financial commitments (continued)

(e) 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 SSAP 24, "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 2005 can be analysed as follows:

	Pension cost		Cash outflow	
	2005 £m	2004 £m	2005 £m	2004 £m
UK Bus/Group overheads				
– SGPS	19.1	16.9	21.0	18.6
– LGPS	7.0	3.4	3.1	3.6
– Other	0.3	0.4	0.1	0.1
Rail				
– RPS	11.6	11.3	13.2	13.0
North America	0.6	0.9	0.6	0.9
	38.6	32.9	38.0	36.2

The balance sheet position of each scheme as at 30 April 2005 is analysed below. It should be noted that the balance sheet position under SSAP 24 that is shown below is not equivalent to an actuarial estimate of the scheme's funding position at the balance sheet date. The net balance sheet asset of £26.1m (2004: £26.7m) shown below is the sum of the cumulative differences between contributions paid by the employers into the schemes and the charge to the profit and loss account.

	Prepayment		Provision		Net	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
UK Bus/Group overheads						
– SGPS	23.9	22.0	Nil	Nil	23.9	22.0
– LGPS	12.2	14.9	(1.2)	Nil	11.0	14.9
– Other	Nil	Nil	(3.8)	(3.6)	(3.8)	(3.6)
Rail						
– RPS	Nil	Nil	(5.0)	(6.6)	(5.0)	(6.6)
	36.1	36.9	(10.0)	(10.2)	26.1	26.7

Note 26 Guarantees and other financial commitments (continued)

(e) Pension commitments (continued)

(ii) Accounting for pensions under SSAP 24 (continued)

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 2004	30 April 2004	90	179.4
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 2.8% 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 2005 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:

	2005	2004	2003
	%	%	%
Rate of increase in salaries	4.3	4.3	4.0
Rate of increase of pensions in payment			
– SGPS	2.6	2.6	2.3
– Other defined benefit schemes	2.8	2.8	2.5
Discount rate	5.4	5.8	5.5
Inflation	2.8	2.8	2.5
Expected long-term rate of return as at 30 April were:			
Equities*	8.5	8.5	8.5
Bonds	5.3	5.8	5.3
Cash	4.7	4.0	3.8
Property	7.5	7.5	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 of the South West Trains franchise to February 2007 take account of the cash cost of pension scheme funding during the franchise term. Accordingly, the Directors believe that to best meet the requirements of IFRS and FRS 17, only that element of any deficit (or surplus) for each franchise that is expected to be funded (or recovered) during the period of the current franchise should be recognised as a liability (or asset). However, the FRS 17 disclosures have not yet been represented on that basis, and the Group is continuing to discuss how best to address this matter.

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)

(e) Pension commitments (continued)

(iii) Accounting for pensions under FRS 17 (continued)

The following amounts at 30 April 2005 were measured in accordance with the requirements of FRS 17:

	SGPS/Other	RPS	LGPS	Total	Total	Total
	2005 £m	2005 £m	2005 £m	2005 £m	2004 £m	2003 £m
Equities	411.4	235.6	127.5	774.5	695.8	519.9
Bonds	Nil	16.9	36.6	53.5	57.6	46.8
Cash	20.7	14.5	17.6	52.8	31.5	41.4
Property	Nil	2.9	7.2	10.1	9.0	13.0
Total market value of assets	432.1	269.9	188.9	890.9	793.9	621.1
Present value of scheme liabilities	(595.4)	(312.4)	(237.1)	(1,144.9)	(979.7)	(879.0)
Pension liability before tax	(163.3)	(42.5)	(48.2)	(254.0)	(185.8)	(257.9)
Related deferred tax asset	49.0	12.8	14.5	76.3	55.8	77.4
Net pension liability	(114.3)	(29.7)	(33.7)	(177.7)	(130.0)	(180.5)

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

	2005	2004
	£m	£m
Charge to operating profits		
– Current service cost	39.4	37.9
– Past service cost	Nil	Nil
	39.4	37.9
Finance (income)/cost		
– Expected return on assets	(65.6)	(50.4)
– Interest cost	56.9	48.3
	(8.7)	(2.1)

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

	2005	2004	2003
	£m	£m	£m
Actual return less expected return on pension scheme assets	2.3	91.8	(185.6)
Experience gains and losses arising on the scheme liabilities	14.2	(22.1)	38.8
Changes in assumptions underlying the present value of the scheme liabilities	(92.0)	2.0	(85.6)
Actuarial (loss)/gain reported in STRGL	(75.5)	71.7	(232.4)

Actuarial (loss)/gain as a percentage of scheme assets and liabilities at 30 April 2005 were as follows:

	2005	2004	2003
	%	%	%
Actual return less expected return on pension scheme assets as a percentage of scheme assets	0.3	11.6	(29.9)
Experience gains and losses arising on the scheme liabilities as a percentage of the present value of scheme liabilities	1.2	2.3	4.4
Total actuarial (loss)/gain recognised in STRGL as a percentage of the present value of scheme liabilities	(6.6)	7.3	(26.4)

Note 26 Guarantees and other financial commitments (continued)

(e) Pension commitments (continued)

(iii) Accounting for pensions under FRS 17 (continued)

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

	2005	2004
	£m	£m
Deficit in schemes at the beginning of the year	(185.8)	(257.9)
Movement in the year:		
Current service cost	(39.4)	(37.9)
Contributions	38.0	36.2
Other finance income	8.7	2.1
Actuarial (loss)/gain	(75.5)	71.7
Deficit in schemes at the end of the year	(254.0)	(185.8)

If FRS 17 had been adopted in these accounts, the Group's consolidated net assets and profit and loss reserve at 30 April 2005 would have been as follows:

	2005		2004	
	Profit and loss reserve £m	Net assets £m	Profit and loss reserve £m	Net assets £m
As currently stated	(187.4)	219.0	(6.9)	390.0
Net pension liability on FRS 17 basis	(177.7)	(177.7)	(130.0)	(130.0)
SSAP 24 net pension asset that will reverse on implementation of FRS 17	(26.1)	(26.1)	(26.7)	(26.7)
Deferred tax related to SSAP 24 items	7.8	7.8	8.0	8.0
Adjustment to net interest in joint ventures	(14.0)	(14.0)	(18.4)	(18.4)
Net assets on FRS 17 basis	(397.4)	9.0	(174.0)	222.9

(f) Contingent liabilities

- (i) A performance bond backed by a bank facility for £44.3m (2004: £44.3m), a season ticket bond backed by an insurance arrangement for £32.5m (2004: £30.4) and a holding company guarantee of £15.7m (2004: £15.7m) 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 2005. These contingent liabilities are not expected to crystallise.
- (ii) 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.
- (iii) 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.
- (iv) 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. As at 30 April 2005, the accruals in the consolidated accounts for such claims total £4.6m.

Notes to the accounts

Note 26 Guarantees and other financial commitments (continued)

(g) Joint venture

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

	2005	2004
	£m	£m
Annual commitments under non-cancellable operating leases	71.4	73.0
Capital commitments	Nil	0.5
Franchise performance bonds	14.7	14.7
Season ticket bond	1.2	1.1

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 Committee report on pages 23 to 29.

At 30 April 2005, the Company had loan notes receivable of £3.3m (2004: £10.0m) from Virgin Rail Group Limited. The Company earned interest of £0.7m (2004: £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 (2004: £25,000) were payable to the Group by Virgin Rail Group Holdings Limited in this regard.

During the previous year, Brian Souter and another member of the Group's management were non-executive directors of Road King Infrastructure Limited. Fees of £Nil (2004: £12,788) were payable 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 £74,905 (2004: £99,123).

With effect from 21 May 2004, Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a Non-Executive Director of Stagecoach) together control 40.0% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited controls a further 30.0% of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

In the period from 21 May 2004 to 30 April 2005, the Group purchased £25.5m of vehicles from Alexander Dennis Limited and £2.4m of spare parts and other services. Of the £25.5m worth of vehicles, £20.4m was ordered from Transbus prior to its administration and Alexander Dennis Limited inherited the orders from Transbus. Transbus was not a related party of the Group.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules. In the period from 21 May 2004 to 30 April 2005, the Group has placed orders totalling £49.3m with Alexander Dennis for the purchase of new vehicles. Of this £49.3m, vehicles accounting for £5.1m were delivered prior to 30 April 2005 and are included in the total purchases of £25.5m referred to above.

Shareholder information

Analysis of shareholders as at 30 April 2005

Range of holdings	No. of holders	%	Ordinary shares held	%
1 – 25,000	60,984	98.61	82,082,721	7.67
25,001 – 250,000	586	0.95	42,625,619	3.99
250,001 – 500,000	74	0.12	26,844,224	2.51
500,001 – 3,750,000	152	0.24	213,096,926	19.92
Over 3,750,000	48	0.08	704,895,737	65.91
	61,844	100.00	1,069,545,227	100.00

Classification of shareholders	No. of holders	%	Ordinary shares held	%
Individuals	59,865	96.80	322,679,328	30.17
Other corporate bodies	62	0.10	3,005,241	0.28
Banks and Nominees	1,723	2.79	678,097,604	63.40
Insurance and assurance companies	2	0.00	3,014,757	0.28
Limited companies	185	0.30	62,705,690	5.86
Pension funds	7	0.01	42,607	0.01
	61,844	100.00	1,069,545,227	100.00

Registrar

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), 81 George Street, Edinburgh EH2 3ES. 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 0.5% 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, 81 George Street, Edinburgh EH2 3ES.

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

	2005	2004	2003	2002	2001*
	£m	£m	£m	£m	£m
Results					
Total turnover	1,794.7	1,792.3	2,076.6	2,114.4	2,083.5
Operating profit/(loss)	132.8	129.7	(466.2)	96.5	(268.8)
Finance charges (net)	(19.9)	(27.3)	(33.5)	(59.8)	(76.0)
Profit/(loss) before tax	108.3	95.8	(500.2)	42.0	(335.2)
Tax (charge)/credit	(29.5)	8.8	(25.0)	(15.0)	(19.1)
Profit/(loss) attributable to ordinary shareholders	78.4	104.6	(525.2)	27.0	(354.3)
Net assets					
Fixed assets	803.3	831.7	1,259.8	1,981.0	2,047.3
Net current (liabilities)/assets	(166.5)	42.5	(49.2)	(40.4)	(109.1)
Long term creditors	(236.2)	(292.2)	(640.7)	(808.1)	(816.8)
Provisions	(181.6)	(192.0)	(252.8)	(223.4)	(201.1)
Tangible fixed assets					
Additions	103.8	86.8	71.1	103.3	141.8
Depreciation	(67.7)	(67.2)	(105.3)	(112.7)	(111.2)
Cash and debt					
Cash at bank and in hand	140.0	476.5	164.7	150.0	160.4
Gross debt	354.6	544.1	(724.7)	(924.6)	(946.1)
Net debt	(214.6)	(67.6)	(560.0)	(774.6)	(785.7)
Cash flow					
Free cash flow	173.6	209.5	217.8	184.3	228.1
Ratios					
Earnings per ordinary share‡	9.0p	6.7p	6.4p	6.3p	7.5p
Dividends per ordinary share	3.3p	2.9p	2.6p	2.6p	3.8p
Free cash flow per ordinary share	15.0p	15.9p	16.6p	14.1p	17.0p
Shares in issue at year end	1,069.5m	1,335.4m	1,320.9m	1,320.9m	1,318.6m
Average number of employees	29,657	29,163	38,876	38,783	40,002

*2001 has been restated following adoption of FRS 19, "Deferred Tax"

‡before goodwill amortisation and exceptional items

Registered office, advisers and financial calendar

Company Secretary

Ross Paterson

Registered Office

10 Dunkeld Road

Perth PH1 5TW

Telephone +44 (0) 1738 442 111

Facsimile +44 (0) 1738 643 648

Email 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

Edinburgh EH2 3NH

Auditors

PricewaterhouseCoopers LLP

Kintyre House

209 West George Street

Glasgow G2 2LW

Stockbrokers

Credit Suisse

1 Cabot Square

London E14 4QJ

Principal Bankers

Bank of Scotland

New Uberior 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

26 August 2005

Payment Date – Ordinary Shares

Final Dividend

5 October 2005

Interim Report

December 2005

Interim Dividend

March 2006



STAGECOACH *GROUP*

Group Headquarters 10 Dunkeld Road Perth PH1 5TW Scotland
T +44 (0) 1738 442 111 F +44 (0) 1738 643 648 www.stagecoachgroup.com
