



STAGECOACH HOLDINGS PLC



ANNUAL
REPORT AND
ACCOUNTS
1999

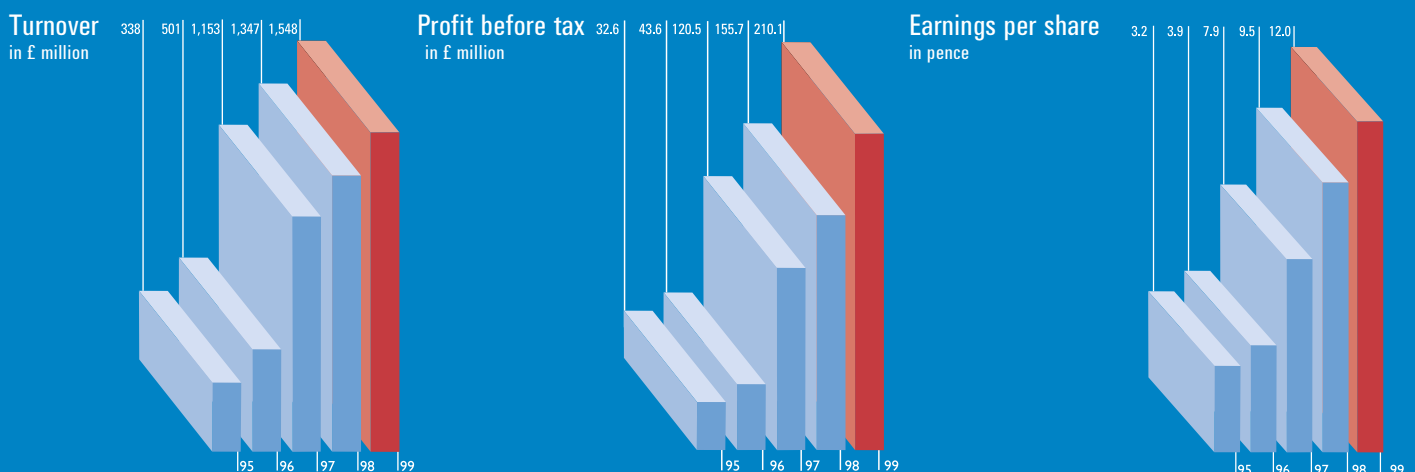
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Financial highlights

- > Total turnover £1,548.4 million, up 15%
- > Total operating profit of £274.7 million, up 27%
- > Profit before tax of £219.9 million, up 39%*
- > Basic earnings per share of 12p, up 26%
- > Adjusted earnings per share of 12.7p, up 32%*
- > Final proposed dividend for the year of 2.0p
- > Total dividend for the year of 3.0p (net), up 25%
- > Free cash flow of £279.8 million
- > Capital investment of £263.1 million

*before goodwill amortisation and exceptional items



Important Note

This document contains detailed financial and statutory information for the group for the year ended 30 April 1999. It should, however, be read in conjunction with the Annual Review which contains the Chairman's statement and the Chief Executive's review.

The financial results demonstrate the operational improvements being made and the strong contributions from recent acquisitions.

Turnover grew 15% across all of our businesses in 1999, 4% before acquisitions and disposals in the current year. Pre-tax profits before taking account of goodwill amortisation and exceptional items have increased 39%.

Adjusted earnings per share before taking account of goodwill amortisation and exceptional items grew 32% to 12.7 pence and dividend per share increased by 25% to 3.0 pence. Investment was maintained at a high level with £263.1 million on capital expenditure, £227.8 million on subsidiary acquisitions and £194.7 million on our joint venture and associate and other investments.

The group accounts include a full year's results for Stagecoach Oxford (acquired July 1997), Sheffield Supertram (acquired December 1997), Prestwick Airport (acquired April 1998) and our share of Road King (acquired April 1998) for the first time. The accounts also include partial contributions from the current year's acquisitions of Yellow Bus (acquired August 1998), Fuller's Ferries (acquired September 1998), Virgin Rail Group (49% stake acquired in October 1998) and Citybus (acquired March 1999).

The overall presentation of the financial statements has been affected by the adoption of a number of new Financial Reporting Standards ("FRS"). Most notably, the adoption of FRS 10 "Goodwill and Intangible Assets" requires goodwill arising on acquisitions to be capitalised as an intangible asset and amortised over its useful economic life. In addition, FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" has resulted in the ongoing contractual rolling stock maintenance spend at Porterbrook being capitalised and depreciated over the lives of the assets. This has resulted in a prior year adjustment to restate provisions and retained earnings at 30 April 1998 were increased by £8.6 million reflecting maintenance provisions which do not meet recognition guidelines contained within FRS 12.



Keith Cochrane, Group Finance Director

Trading results

Operating profits were £274.7 million compared to £216.3 million in 1998. Group operating costs represent 82% of group turnover compared to 84% in 1998. This reflects the continued strong margins produced by each division and the continuing drive for improved efficiency. Depreciation has reduced from £190.3 million to £186.2 million. However, the underlying charge before taking account of FRS 12 has increased from £115.4 million to £127.7 million reflecting the continued capital investment and the impact of acquisitions during the year. Restructuring costs of £4.7 million have been charged against profits and included £3.4 million at UK bus, £0.5 million at South West Trains and £0.8 million in Overseas bus. Trading losses of £1.5 million were reported in respect of the disposed Kenya operation and these have been reported as discontinued operations in the current year. A £3.8 million write off in respect of the disposal of the Kenya operation was reported and the group results also include property gains of £0.2 million.

Following the adoption of FRS 10, goodwill of £236.1 million has been recognised in relation to acquisitions during the year and is being amortised over periods between 5 and 20 years. Goodwill amortisation of £6.2 million was charged for the current year.

Net interest charges increased from £58.0 million to £61.0 million. This reflected the increased levels of debt taken on as part of overseas acquisitions and our share of Road King's net interest payable of £1.7 million. This has been offset by net interest receivable from our investment in Virgin Rail Group of £1.8 million and lower interest rates in each of our operating countries. The effective interest rate for the year was 7.2% compared to 7.6% in 1998. Interest cover was 4.4 times compared to 3.7 in 1998.

In line with the group's policy of rewarding employees for their contribution to increasing revenues and productivity, up to 3% of the UK Bus division's and 3% of SWT's pre-tax profits have been allocated to the Inland Revenue approved profit sharing scheme. This will fund the allotment of shares to the UK Employee Share Ownership Plan (ESOP).

Acquisitions

In May 1998 a share placing raised £160 million after expenses to part fund our Road King investment. On 12 June 1998, a further investment of £40.2 million was made in Road King through the purchase of 518,380 convertible preference shares. These shares may be converted to ordinary shares, representing an approximate 8% ordinary share interest, on or after 12 June 2000 and will be converted on 12 June 2003 if not previously converted. During the year we have increased our ordinary share holding by approximately 2%. The purchase of ordinary shares was made on the open market for between HK\$4.10 and HK\$5.70 per share whilst the net asset value, based on the 31 December 1998 published accounts, was HK\$6.70 per share.

The Yellow Bus Company was acquired on 28 August 1998 for a cash consideration of £35.3 million, giving rise to goodwill of £16.9 million. A NZ\$60 million (£21 million) facility was arranged locally to part fund the acquisition and the balance was funded from group resources.

Fuller's Ferries was acquired on 30 September 1998 for a consideration of £6.6 million, comprising cash of £3.4 million and deferred consideration of £3.2 million giving rise to goodwill of £2.2 million.

On 7 October 1998, a 49% stake in Virgin Rail Group was acquired. The consideration comprised 18.7 million new ordinary shares issued at £2.04 per share, cash and expenses of £88.8 million. This gave rise to goodwill of £108.7 million. As part of the acquisition, a shareholder loan of £20 million was made to Virgin Rail Group.

Following the completion of a sale and purchase agreement with the majority shareholder, a voluntary offer was made for the entire issued share capital of Citybus, a Hong Kong listed company. In January 1999 a share placing raised £139.5 million after expenses to part fund the Citybus acquisition, additional HK\$ denominated borrowings amounting to £100 million were also raised to part fund the acquisition and to part refinance Citybus' local borrowings. Over 90% acceptances to the offer were received by 24 May 1999 and it is our intention to compulsorily acquire the shares we do not currently hold and to de-list the company. The total acquisition cost is £185.4 million giving rise to goodwill of £103.8 million.

Taxation

The tax charge for the year of £51.8 million represents an effective tax rate of 24.7% compared to 27.0% in 1998 after taking account of our share of joint venture and associate's tax. This reflects the continuing high level of capital expenditure incurred during the year. In other circumstances the difference between the effective tax rate and the statutory UK rate would be a timing difference for deferred tax purposes, but a partial provision remains appropriate in view of the ongoing capital expenditure plans and requirements of the group's businesses. Before taking account of the proposed acquisition of Coach USA, Inc. we believe that the effective rate can be sustained in the current year in light of forward capital expenditure commitments.

Earnings and dividends

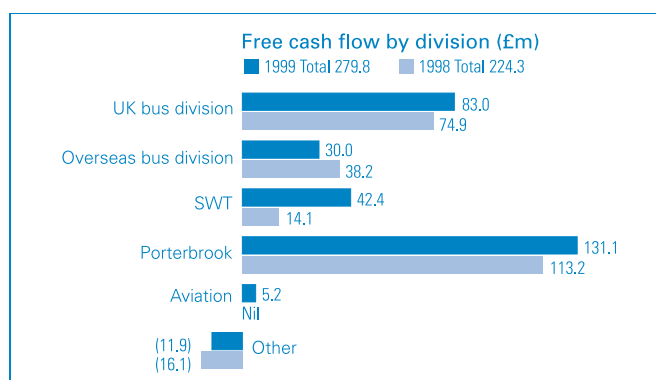
Basic earnings per share were 12.0 pence, an increase of 26% on last year's 9.5 pence. Following the introduction of the new accounting standard on goodwill we have also calculated earnings per share on a pre-goodwill amortisation and exceptional item basis to provide a comparable prior year measure with the goodwill treatment under the old accounting standard. On this basis, earnings per share was 12.7 pence, an increase of 32% compared to 1998. The weighted average number of shares in issue during the year was 1,317.9 million, 10% higher than last year reflecting 77.5 million shares placed in May 1998, 18.7 million shares issued as part consideration for Virgin Rail Group in October 1998, 65 million shares placed in January 1999, employee options, ESOP and scrip dividend issues. Shares in issue at the year end were 1,382.5 million.

The total dividend for the year is 3 pence, an increase of 25% over last year's total dividend of 2.4 pence. This represents dividend cover of 3.9 times (1998 – 3.8 times) which reflects the continuing policy of growing dividends broadly in line with earnings after taking account of the significant capital requirements of the group.

The final dividend will be paid on 14 October 1999 to shareholders on the register on 13 August 1999. As a result of the abolition of Advance Corporation Tax it is intended to discontinue the scrip dividend scheme. For those shareholders who wish to continue taking future dividend payments in the form of shares, this will be replaced by a Dividend Reinvestment Plan (DRIP). Further details will be sent to all shareholders in July 1999.

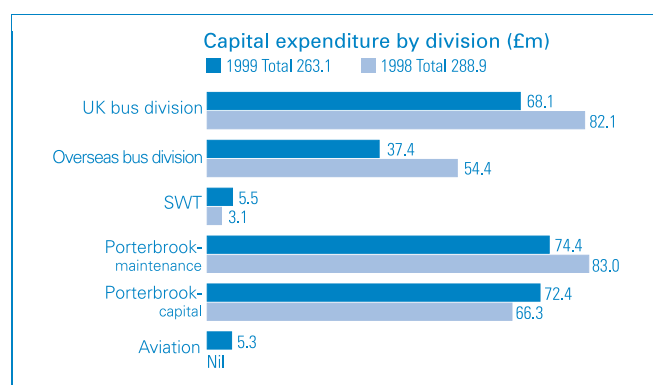
Cash flows

Cash generation across the group remained strong with free cash flows improving from £224.3 million to £279.8 million and free cash flow per share increased from 18.7 pence to 21.2 pence. Free cash flow per share is calculated after taking account of the contractual maintenance spend on rolling stock which is now reported within capital expenditure as a result of FRS 12. As expected the group continues to have a neutral working capital cycle. In overall terms, the group had net cash inflows of £160.6 million after taking account of the net funding of capital expenditure (£146.0 million), purchases of joint venture and associate investments (£152.6 million), net cash funding of acquisitions (£203.3 million) and net cash inflows from share issue proceeds (£301.8 million). All major capital expenditure plans and acquisitions are assessed using the group's weighted average cost of capital to discount expected future cash flows and the weighted average cost of capital is currently estimated to be approximately 7.6%.



Strong growth in operating profits from our UK bus division and South West Trains is reflected in free cash flows, whilst Porterbrook has benefited from a reduction in maintenance expenditure.

Total cash balances of £321.8 million include £30.0 million held in trust in support of SWT's season ticket bond, £70.5 million held as collateral for loan notes issued in connection with the acquisition of Porterbrook and £124.1 million in relation to Porterbrook deposits held to fund the manufacture of new rolling stock which will be largely released over the next year.



Total capital expenditure, excluding maintenance expenditure, was 8% lower at £188.7 million reflecting the low fleet ages in the UK and Overseas bus divisions. In the UK bus division 630 new buses and coaches were purchased at a total cost of £62.1 million. This compares to a depreciation charge of £39.3 million. At the year end capital commitments in respect of new vehicles for the UK bus division were £40 million which is based on maintaining the average age of the fleet at current levels. All buses continue to be funded on hire purchase with committed facilities in excess of £200 million, £113.9 million of which was utilised at the year end.

Overseas, 210 buses were purchased for Swebus (£25.1 million) and 113 for New Zealand (£5.9 million). In Sweden the average fleet age is 7.3 years. As in the UK, new vehicles are financed through hire purchase where we have committed facilities of £59.9 million, £58.2 million of which were utilised at the year end. The average fleet age at Citybus is 3.2 years and future capital expenditure will be minimal in the short term.

Porterbrook's capital spend reflects investment in rolling stock including orders for Anglia, London Tilbury and Southend, South West Trains, Gatwick, Chiltern, Midland Mainline and ScotRail. Porterbrook has total capital commitments of £346 million representing signed orders for delivery up until June 2000 of which we anticipate £336 million will be delivered in the next year as delays in the 1998 delivery programme are reversed.

Treasury risk management

Management of financial risks is an important aspect in ensuring that Stagecoach continues to create value for shareholders. Risk management is carried out through wide-ranging risk reviews, internal control systems, a global insurance programme and adherence to a group treasury policy. The main areas of financial risk faced by the group and managed by treasury are liquidity and funding risk, interest rate risk, currency risk and commodity price risk. The Board regularly reviews these risks and approves the treasury policy, which covers the management of these risks.

The group holds financial instruments to finance its operations and to manage interest, currency and commodity risks arising from its operations and from its sources of finance. In addition, various financial instruments – for example, trade debtors, trade creditors, accruals and prepayments – arise from the group's operations.

The centralised treasury function uses financial instruments for financing and for hedging only and no speculative trading of financial instruments is entered into. Derivative financial instruments such as swaps, caps and floors, forward agreements and options are entered into to manage exposures and achieve greater certainty of future costs. Treasury activity is restricted to the underlying cash flows and asset/liability positions of the group.

Liquidity and funding

The group policy is that free cash flows generated from operations along with undrawn committed facilities should be sufficient to meet debt repayments. In addition there is a minimum margin of comfort (free cash plus undrawn committed facilities) level which is reviewed in line with proposed acquisitions/disposals. At the year end the group's banking facilities were £1,131 million, £858 million of which were utilised, including guarantees.

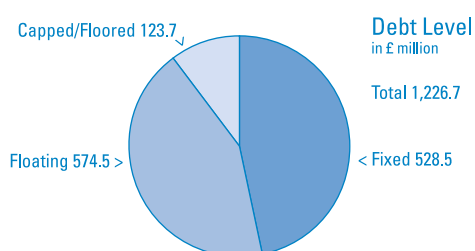
On 1 May 1998 £363.0 million of financing was raised by Porterbrook to fund new train orders. This was the first ever public financing of passenger rolling stock in Europe and consisted of a £90 million corporate facility provided by UBS and the Royal Bank of Scotland, and a £273 million securitisation. This will provide non recourse financing to both Stagecoach and Porterbrook and provides long term funding to 2011 at an interest rate of 7.5%. At 30 April 1999 the corporate facility was £23 million utilised and £124.1 million of the securitisation proceeds were included in restricted pre-funding cash deposits. The corporate facility will be utilised to make stage payments to manufacturers whilst the pre-funding deposits are released to make payments on the final manufacture of the rolling stock.

Overseas currency denominated borrowings increased by £162.5 million as a result of the acquisition of Yellow Bus and Citybus with new bank facilities put in place.

Total net borrowings at 30 April 1999 were £904.9 million against £838.0 million in 1998, mainly due to debt taken on with overseas acquisitions. This is equivalent to gearing of 124% against 320% at 30 April 1998. Stripping out the impact of securitised borrowings and restricted pre-funding cash reduces net debt to £546.3 million and gearing to 75%. Average funding maturity is 4.4 years.

Interest rate risk management

Interest rate exposure arises from the group's borrowings and deposits and is managed through the use of fixed and floating rate debt and derivative financial instruments. Derivative financial instruments are used where appropriate to generate the desired interest rate profile and those permitted by the treasury policy are swaps, caps and floors. After taking account of derivative financial instruments the actual fixed, capped and floating debt levels were as follows:



Currency risk management

The group is exposed to currency risk as a result of the foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. The operations of Stagecoach are such that foreign currency transactions are limited. Where a major foreign currency transaction is expected or known it is monitored by the treasury function and forward buying of currencies is carried out where necessary.

The group has substantial overseas investments in Sweden, New Zealand and Hong Kong. The group does not seek to hedge the impact of exchange rate movements on reported profits. The sterling balance sheet can be affected by movements in exchange rates. To minimise the translation exposure the group aims to fund overseas acquisitions and operations through borrowings denominated in their functional currency or through the use of derivative financial instruments which convert sterling borrowings into borrowings of the functional currency. In addition forward currency exchange contracts are taken out to secure the future

translation value of a proportion of foreign currency investments. The group policy is to examine each overseas investment individually and adopt a strategy based on current and forecast political and economic climates. This policy aims to allow the group to maintain a low cost of funds and to retain some potential for currency appreciation whilst partially hedging against currency depreciation.

Commodity price risk

The group is exposed to commodity price risk through its fuel usage. The risk is split between the actual fuel price that is quoted in US dollars and the exchange rate between US dollars and the functional currency of the operating companies.

The group policy is to establish maximum floating and fixed price levels that the group considers acceptable and to enter into derivative agreements where necessary to achieve these levels. During the year 90% of UK and Swebus fuel usage was hedged at a fixed price. Current fuel usage is 50% fixed and 50% floating in the UK bus division and Swebus and 25% of usage in Asia is fixed.

Credit risk

The group controls credit risk by setting counterparty credit limits by reference to published credit ratings and the counterparty's geographical location.

Balance sheet

Net assets have increased 170% from £270.1 million to £731.0 million reflecting retained profits, the issue of share capital to part fund acquisitions and goodwill arising on acquisitions which is now capitalised and amortised. The total value of shares issued during the year amounted to £343.3 million. The significant movement in balance sheet items reflect investments in capital expenditure and acquisitions made during the year.

Reserves

Following the publication of FRS 10, a resolution was passed at the AGM to transfer £460.1 million from the share premium reserve to an other reserve and to write off the goodwill write-off and capital reserve against this other reserve. Court approval for this transfer was received in December 1998.

Post balance sheet events

On 7 May 1999 the group acquired 45% of Hong Kong Kwoon Chung (Chongqing) Bus Investment Limited for a total consideration of £2.0 million.

On 3 June 1999 the group announced the proposed acquisition of an initial 35% stake in the Sogin Group, the largest privately managed operator in the Italian bus and coach market, for a consideration of approximately £23.5 million in cash. In addition, a put option has been granted to acquire a further 10% for a maximum consideration of £8.9 million.

On 14 June 1999 the group announced its proposed acquisition of Coach USA, Inc. for a consideration of approximately £773 million. In addition the group will assume Coach USA's indebtedness which as at 28 May 1999 was £474 million. The acquisition is subject to shareholder approval and full details were included in the circular sent to shareholders on 25 June 1999.

On 23 June 1999 the rating agency, Standard & Poor's assigned the group a long term credit rating and senior unsecured debt rating of BBB. The outlook for the rating is positive and is expected to be upgraded following an equity issue. This rating highlights the cash generative and stable nature of all our businesses and will enable us to diversify our funding structure and further reduce our cost of funds.

Accounting policies

During the year six new Financial Reporting Standards ("FRS") came into effect:

FRS 9 "Associates and Joint Ventures"

FRS 10 "Goodwill and Intangible Assets"

FRS 11 "Impairment of Fixed Assets and Goodwill"

FRS 12 "Provisions, Contingent Liabilities and Contingent Assets"

FRS 13 "Derivatives and other Financial Instruments: Disclosures"

FRS 14 "Earnings per Share"

The group complies fully with the accounting principles and disclosure requirements of these standards. These standards are discussed in more detail in the relevant accounting policies and notes to the accounts.

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.

Year 2000

The Year 2000 issue may give rise to a wide variety of practical consequences for both the operational and financial systems of a company, its customers and suppliers, ranging from minor errors to systems malfunctions or even major business failure. The principal areas considered most likely to potentially impact the group include the correct functioning of ticket equipment and rolling stock and our ability to procure critical supplies on a timely basis, including fuel.

The group initiated a Year 2000 project in October 1996. After an initial assessment of the potential impact of Year 2000 issues on the business, a group wide programme was developed to address these issues on a divisional basis. The project has been sponsored by the Board and project teams covering all areas of the business have been formed.

A plan has been developed to ensure that all significant risks are addressed well in advance of critical dates and with minimum disruption to the business. Each business unit is managing a Year 2000 project with overall co-ordination through a full-time manager who is responsible to the Board for ensuring that the plans address the risks identified and are progressing on schedule. The execution of this plan is progressing in line with the time scales set, with priority being given to business critical systems which, should they fail, would have a significant financial impact on the business and our ability to meet the needs of our customers. The major risks and uncertainties involved in our Year 2000 problem are common to many companies in our sector and relate to our dependence upon successful Year 2000 programmes by other commercial entities and government bodies. Our plans to address these include monitoring such organisations and obtaining written assurance on progress where appropriate. Internal Audit review all projects and where particular third party risks have been identified, the project team has reviewed third party Year 2000 test procedures. Key suppliers have been contacted and have provided Year 2000 assurances.

The Board is confident that we will achieve Year 2000 compliance in all areas that have a potential material impact on the business by the third quarter of calendar year 1999, and the status of the Year 2000 project will be the subject of periodic reports back to the Board to ensure this timescale is achieved. The group continues to charge the costs of Year 2000 projects and software costs to the profit and loss account as they are incurred except where they involve replacement or enhancement of the existing systems in which case the relevant proportion has been capitalised. Year 2000 costs amounted to £2.4 million in the year ended 30 April 1999 and with a further £2.6 million expected to be incurred in the future. These costs are based on the group's budget, taking into account the specific steps identified as requiring remedial action.



Keith Cochrane

Group Finance Director

30 June 1999

Principal activity and business review

The group's principal activity is the provision of public transport services in the United Kingdom and overseas.

A review of the group's activities and developments during the year, together with future prospects, is set out in the Chairman's Statement on pages 2 and 3 and in the Chief Executive's Review on pages 4 to 28 of the Annual Review and in the Finance Director's Review on pages 1 to 7 of this document.

Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 18.

An interim dividend of 1 pence per ordinary share (net) was paid on 18 March 1999. The directors recommend a final dividend of 2 pence per ordinary share making a

total dividend of 3 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 14 October 1999 to those ordinary shareholders on the register at 13 August 1999.

Directors and their interests

The names, responsibilities and biographical details of the current directors appear on page 29 of the Annual Review. All served throughout the year.

Brian Souter, Keith Cochrane and Ewan Brown retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election. Brian Souter and Keith Cochrane have service contracts with a rolling 12 months' notice period. Ewan Brown does not have a service contract.

The table below sets out the interests of the directors and their families in the share capital of the company:

		Number of shares	
		30 April and 30 June 1999	30 April and 30 June 1998
Ordinary shares of 0.5p each			
Brian Souter	beneficial	163,341,225	163,341,225
	non-beneficial	19,415,840	19,415,840
Ann Gloag	beneficial	131,640,818	131,640,815
	non-beneficial	20,903,190	20,953,190
Mike Kinski		24,160	2,125
Keith Cochrane		32,417	30,095
Brian Cox		573,342	527,105
Barry Hinkley		710,159	709,545
Ewan Brown		Nil	Nil
Barry Sealey		125,000	125,000
Robert Speirs		15,000	Nil
		Number of shares	
		30 April 1999	30 April 1998
Share options held by Directors			
Brian Souter		2,601	2,590
Ann Gloag		14,246	14,185
Mike Kinski		634,002	631,300
Keith Cochrane		1,414,087	1,009,765
Brian Cox		1,018,701	995,580
Barry Hinkley		1,102,996	995,580
Full details of options held as at 30 April 1999 are contained in Note 7b to the accounts.			
The following share options were granted on 16 June 1999			
	Number of shares over which options granted	Exercise price £	Period in which options may be exercised
Mike Kinski	365,998	2.1825	16 June 2002 to 16 June 2006
	300,000	2.1825	16 June 2004 to 16 June 2006
Keith Cochrane	72,997	2.1825	16 June 2004 to 16 June 2006
Brian Cox	68,188	2.1825	16 June 2004 to 16 June 2006
Barry Hinkley	85,277	2.1825	16 June 2004 to 16 June 2006

Substantial shareholdings

On 24 June 1999, the following disclosable shareholdings in excess of 3% (other than certain directors' shareholdings) had been registered:

Mercury Asset Management	5.11%
Standard Life	3.60%

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 ethnic origin.

The group recognises its obligations to give full and fair consideration to applications from disabled persons for all group vacancies, in keeping with the statutory medical requirements applicable for certain grades of staff and according to the skills and capabilities of applicants. Wherever reasonable and practicable, the group will retain an existing employee disabled during their period of employment and provide fair opportunities for their career advancement.

The group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. An Inland Revenue approved Employee Share Ownership Plan ("non-statutory ESOP") was introduced for UK employees in 1991. The group has since 1994 also allocated up to 3% of relevant profits to allot free shares to the majority of UK employees under approved profit share schemes. Employee trusts under approved ESOP share schemes held 2,383,999 ordinary shares, representing 0.2% of the issued share capital at 30 April 1999. Since flotation in 1993, there have also been two invitations to UK employees to subscribe to the group's sharesave ("SAYE") scheme, both of which have met with encouraging levels of response.

The group has also established a European Works Council in 1998, bringing together representatives from senior management and trade unions in European Community member states where the group has significant business interests and numbers of employees. The group also produces a range of internal newsletters and information circulars which keep employees abreast of developments. Employees are encouraged to discuss matters of interest to them and subjects affecting day to day operations of the group with management. Discussions also take place regularly with the trade unions representing the vast majority of the group's employees on a wide range of issues.

Directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group, and enable them to ensure that the accounts comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Arthur Andersen as auditors of the company, at remuneration to be fixed by the directors, will be proposed at the Annual General Meeting.

Supplier payment policy and practice

It is the group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the accounts of those companies. The trade creditors outstanding at the year end represented 44 days' purchases (1998 – 40 days).

Close company status

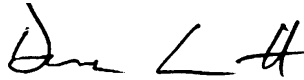
The directors are advised that at 30 April 1999 the company was not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Charitable and political contributions

Group companies made charitable commitments of £1,050,000 (1998 – £798,000) during the year. This is in line with the group's policy of setting aside 0.5% of pre-tax profits for charitable purposes.

It is the group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year.

By order of the Board



Derek Scott

Company Secretary

30 June 1999

The group has recognised since before its flotation and continues to recognise the importance of, and is committed to, high standards of corporate governance. The Hampel Committee and the London Stock Exchange issued the Combined Code on corporate governance in June 1998, and therefore the provisions have not been in effect for the full financial year. The principles of good governance contained within the Combined Code have been applied in the following way:

The Board

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. The Stagecoach Board currently comprises the Chairman, Chief Executive, four other executive directors and three non-executive directors: the offices of Chairman and Chief Executive are held separately. Their biographies appear on page 29 of the Annual Review 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 operating in the interests of both the group and the shareholders. The executive and non-executive directors have a complementary range of financial, operational and entrepreneurial experience that ensures no one director or viewpoint is dominant in the decision-making process.

All directors meet regularly with other senior management and staff of the group, have access to confidential advice from the company secretary and may take independent legal or other professional advice at the group's expense where it is considered necessary for the proper discharge of their duties as directors. All directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and one-third of directors are required to stand for re-election by shareholders each year. Each director receives training on appointment and subsequently as is considered necessary to keep abreast of matters affecting their duties as directors. The number of full Board meetings during the year was nine. The full Board also meets once a year at an operational location and regular communications, both written and verbal, are maintained by the Chairman to ensure all directors are briefed on strategic and operational issues.

Non-attendance at the Board or committees occurs only in exceptional circumstances. The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure and vet acquisitions or disposals, to monitor performance of senior management and to ensure that there are proper internal controls in place. All directors have full and timely access to information with Board papers distributed in advance of meetings. The Board intends to carry out an annual formal review of the effectiveness of the Board as a whole and the contribution made by each director. To provide effective and proper control, certain of the Board's powers have been delegated to committees.

The operational management of the group is delegated by the Board to the Chief Executive and executive directors who meet regularly as the executive group. Non-board senior management supports them. There are over 12 autonomous business units, each headed by a chairman or managing director who is responsible for the day to day performance of the business unit. The UK bus division is headed by a chairman with the individual UK bus companies reporting to him through three regional chairmen. The UK bus division has its own management board which comprises three executive directors, three regional chairmen and other senior management. The Chief Executive is responsible for the overseas bus division with each business headed by a chairman or managing director who is responsible for the performance of the business unit. At South West Trains, an executive director is chairman and this role is separate from the managing director who is responsible for the performance of the business unit. They are supported on the South West Trains board by three non-executive directors. One executive director is a member of the Porterbrook board where again the offices of chairman and managing director are separate. The group holds periodic meetings with its principal shareholders and welcomes all shareholders to its AGM. Formal notice of the 1999 meeting is enclosed within this annual report.

Audit Committee

The Audit Committee comprises the three non-executive directors and met three times during the year. Barry Sealey chairs the Audit Committee. It receives reports from management and from the group's internal and external auditors relating to the scope and results of the audit, the interim and annual accounts and the accounting and

internal control systems in place throughout the group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the external auditors. The Audit Committee approves the audit fees and reviews significant non-audit related services provided by the auditors and affiliated firms. The Committee has unrestricted access to the auditors.

Remuneration Committee

The Remuneration Committee also comprises the three non-executive directors and is chaired by Robert Speirs. The Remuneration Committee met two times during the year. It is responsible for reviewing the scale and structure of the remuneration of the executive directors and the terms of their service contracts and is also responsible for approving grants of and changes to the company's performance-related incentive schemes and executive share option schemes.

Nominations Committee

The Nominations Committee comprises the three non-executive directors and is chaired by the Chairman. The purpose of the Committee is to propose to the Board any new executive and non-executive director appointments.

Directors' remuneration

The Remuneration Committee makes recommendations to the Board for ensuring that the directors' remuneration is appropriate to attract, retain and motivate executive directors of the quality needed to run the group successfully. The Committee believes that remuneration packages should contain significant performance related elements. Performance targets are established to achieve consistency with the interests of shareholders, using an appropriate balance of long and short term targets. The constitution and operation of the Remuneration Committee complies with the principles and provisions of the Combined Code and this is detailed in the remuneration report laid out on pages 15 and 16.

Relations with shareholders

The Board considers communications with shareholders, whether large or small, external or employees, to be extremely important. The group holds periodic meetings with 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 principal issues are being effectively communicated and shareholder objectives are known. During the year written responses are given to letters or e-mail received from shareholders and all shareholders receive Interim and Annual Reports or the summary financial statement. In order to provide a more focused communication with shareholders and to meet their varying requirements, the Annual Report and Accounts are split into two separate sections. Section one contains the Annual Review and Summary Financial Statement and section two contains the Report and Accounts. Information is also available on the company website (<http://www.stagecoachplc.com>). Private and institutional shareholders are encouraged to attend and participate at the AGM. The chairmen of the Audit, Remuneration and Nomination Committees are available at the AGM to answer questions. The AGM provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the AGM on all the group's principal business activities. The Chairman formally announced details of all proxy votes lodged for each resolution after each show of hands at the 1998 AGM and this practice will continue.

Accountability and audit

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

The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or transferred to third parties. Internal controls are used to identify and manage acceptable levels of risk. In accordance with Internal Control and Financial Reporting guidance the directors acknowledge their responsibility for establishing and maintaining the group's system of internal control. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the group's system is designed to provide the directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The group has established an ongoing process of review and certification by the business heads of each operating unit. They identify with their line managers the business risks most important to their unit, consider the financial implications and assess the effectiveness of the control processes in

place to mitigate these risks. The group considers risk assessment to be the most effective method of ensuring adequate internal controls are in place. Business risk matrices are presented to the Audit Committee and include a consideration of regulatory, political, reputational and financial risks to which the group is exposed.

In reporting on provision D.2.1 of the Combined Code which deals with internal controls, the group has adopted the approach permitted by the London Stock Exchange in its letter to listed companies of 10 December 1998 which permits companies to refer only to internal financial controls. The Board has also considered guidance on internal controls contained in the consultation draft issued by the “Turnbull” working party of the ICAEW.

This process, together with the key procedures noted below, enables the directors to confirm that they have reviewed the effectiveness of the system of internal financial control of the group during the year. The key procedures, which the directors have established, are as follows:

- an internal audit function which reviews key business processes and financial controls, reporting directly to the Audit Committee.
- a Year 2000 project team which has assessed Year 2000 compliance within the group and monitors progress on achieving Year 2000 compliance on critical business systems (a Year 2000 report is contained in the finance director’s review on page 7).
- a decentralised organisation structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- a performance management appraisal system is in place which covers over 100 of the group’s senior management and is based on agreed financial and other performance objectives many of which incorporate identifying and managing risk.
- an annual budgeting process with regular reforecasting of outturn, identifying key risks and opportunities. All budgets are presented to a panel of the executive directors by each business unit’s management team, before being approved by the Board prior to the commencement of the financial year.
- four-weekly reporting of financial information to the Board encompassing profit and loss, cash flow and balance sheet and key operating ratios. All results are monitored throughout the year by the group executives.
- 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 insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.
- each operating unit maintains controls and procedures appropriate to the business. It is a key requirement of the procedures that a written certificate is provided annually by the managing director and financial manager of each business confirming that they have reviewed the effectiveness of the system of internal financial control during the year. As might be expected, a number of minor internal financial control weaknesses were identified by this procedure, all of which have been, or are being, addressed. None of the weaknesses has resulted in any material losses, contingencies or uncertainties that would require disclosure in the group’s Annual Report.
- a commitment to best practice in external reporting.
- a competition compliance programme which has been approved by the Board and which is subject to regular monitoring.

The Audit Committee considered the external auditors' performance during the year to be satisfactory and recommended re-appointment. The audit fees of £0.5 million and non-audit related fees of £0.6 million were discussed at length and considered appropriate given the current size of the group and the level of corporate activity undertaken during the year. The Committee believes the level of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a clear understanding of the group's operations.

Compliance with the Combined Code

The group has complied with the provisions of the Code throughout the financial year except the following:

- Provision A.2.1. – During the year there was no formally recognised senior independent non-executive director. Barry Sealey was formally appointed the senior non-executive director on 14 May 1999.
- Three of the nine directors have service contracts that are terminable by the group with two years' notice. The Board believes it is in the best interests of shareholders to retain key executive directors. The length of directors' service contracts will be reviewed on an annual basis having regard to prevailing market conditions and practice amongst UK public companies.

Furthermore, the group has acquired a number of businesses during the year and the group is identifying any additional procedures that may be necessary to bring these companies into line with the group's corporate governance procedures.

Pension schemes

The assets of the group's pension schemes are totally separate from the assets of the group and are invested with independent fund managers. There are ten trustees for the principal UK scheme of whom five are employee representatives nominated by the members on a regional basis. Three of the executive directors are trustees together with two senior management colleagues. Derek Scott, who is an elected member of the NAPF's investment committee, acts as chairman of the board of trustees and in 1998 was also re-elected to the 16-member board of the industry-wide Railways Pension Scheme. The auditors and actuaries of the principal UK pension scheme are both independent of the group. Similar arrangements are in place for the SWT, Island Line and Porterbrook sections of the Railways Pension Scheme. The Newcastle office of Arthur Andersen audits the Railways Pension Scheme.

The Board has applied the principles of good corporate governance relating to directors' remuneration as described below:

Composition

The Remuneration Committee is chaired by Robert Speirs and the other members are Ewan Brown and Barry Sealey, all non-executive directors. The Committee, which was established in December 1992, is responsible for determining the remuneration and terms and conditions of employment of the executive directors, including the Chairman and the Chief Executive, on behalf of the Board and shareholders.

The non-executives' own fees and expenses are set by the Board of Directors as a whole. Non-executive directors do not hold any share options, nor do they participate in any incentive plans or pension schemes. As members of the Remuneration Committee, non-executive directors also 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.

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

Remuneration policy

In determining appropriate levels of remuneration for the executive directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving the Stagecoach group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the group's overall performance. The Remuneration Committee believes that such packages should contain significant performance related elements. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short and long-term targets.

To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Chairman, Brian Souter, and the Chief Executive, Mike Kinski, making comparisons with

peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the growth prospects for the Stagecoach group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach group and of average earnings for all employees.

The Committee has also taken advice from a firm of executive remuneration consultants, who were instructed to review the existing remuneration of all the directors and senior executives during the year.

Executive directors' remuneration

A detailed analysis of directors' remuneration appears in Note 7 to the accounts on pages 31 and 32.

Basic salary

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

Performance related bonuses

A discretionary bonus scheme for the executive directors was first introduced in 1993, payments being conditional on the achievement of target operating profits, specific performance and additional responsibilities. Bonuses are non-pensionable.

In making its judgement of performance for the last financial year the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report: relative total return to shareholders over the period, improvement in earnings per share, and the overall profit achieved by the group, as well as other strategic developments and operating improvements. Bonuses for executive directors ranged from 27.5% to 60.5% of basic salary.

Other benefits

Certain executive directors receive car, fuel, telephone and healthcare taxable benefits.

Pensions

Under the terms of their service agreements, executive directors are entitled to become members of one of the Stagecoach group's contributory defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary into an approved personal pension

scheme. 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.

Share option schemes and long term incentive schemes

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

- (i) The Stagecoach Profit Sharing Scheme – established in September 1991, this scheme is used to reward most UK employees in the group with free shares based on up to 3% per annum of profits before taxation. Three of the directors were awarded shares under this scheme in 1998/99.
- (ii) The Stagecoach Executive Share Option Scheme – established in March 1992 when it was formally approved by the Inland Revenue, this scheme was also used to reward senior executives throughout the group, at the Board's discretion. Awards have in the past been made to certain executive directors as a proportion of annual salary. No awards were made to directors under this scheme in 1998/99.
- (iii) The Stagecoach Unapproved Executive Share Option Scheme – established in September 1997, when it was approved by shareholders at the AGM, to take account of the changed tax treatment announced in 1995 and confirmed in the Finance Act 1996. This scheme is also used to reward senior executives throughout the group, at the Board's discretion. Normal options awarded under the scheme are exercisable between three and ten years, but the scheme also permits "super options" exercisable between five and seven years. Exercise of super options is subject to earnings per share outperforming inflation by more than 5% per annum cumulatively and top quartile total shareholders' return compared to other Transport Sector shares in the UK (excluding FTSE 100).
- (iv) The Stagecoach Long Term Bonus Scheme – established in April 1995 for two directors, and extended in September 1998 with shareholders' approval for another two directors, bonuses are conditional on the relevant director continuing to be employed by the group after years ending

30 April 2000 to 2003. The bonuses are also subject to earnings per share outperforming inflation by more than 5% per annum cumulatively. These bonuses are not pensionable and can be taken as cash or additional pension contributions.

Directors' service agreements

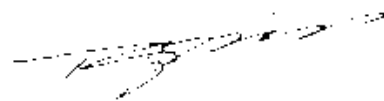
No executive directors' contract provides for a notice period of more than two years. Due to the nature of the group's businesses, the service contracts contain restrictive covenants that will be rigorously applied. The Remuneration Committee is aware that the term of three of these contracts is longer than the one year recommended by Section B of the Best Practice Provisions, but the Committee believes that notice periods of up to two years are reasonable and in the best interests of the shareholders, having regard to prevailing market conditions and current practice among UK public companies.

If an executive director's contract is terminated by the company, the benefits for which the company is liable may vary depending on length of service and are subject to mitigation. The benefits will not be more than a termination payment of up to twice salary and benefits, retention of long-term incentive plan awards held for more than 18 months, and enhanced early retirement benefits funded under the company's pension schemes.

Outside appointments

Under the terms of their service agreements, executive directors require Board approval before accepting any appointment.

On behalf of the Board



Robert Speirs

Non-executive director

Chairman of the Remuneration Committee

30 June 1999

We have audited the accounts on pages 18 to 56 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 9, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and the group is not disclosed.

We review whether the statement on pages 11 to 14 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

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

Basis of audit opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the group as at 30 April 1999 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors
191 West George Street
Glasgow G2 2LB
30 June 1999

Consolidated profit and loss account

for the year ended 30 April 1999

	Notes	1999 £m	1998 Restated £m
Turnover: Group and share of joint venture	2	1,548.4	1,347.0
Less: Share of joint venture turnover		(134.9)	Nil
Group turnover		1,413.5	1,347.0
Continuing operations		1,368.7	1,319.3
Acquisitions during the current year		38.9	Nil
		1,407.6	1,319.3
Discontinued operations		5.9	27.7
		1,413.5	1,347.0
Operating costs (including goodwill amortisation £1.8m (1998 – £Nil))		(1,248.0)	(1,219.2)
Other operating income	3	106.7	99.4
Group overheads		(14.9)	(10.9)
Operating profit of group companies		257.3	216.3
Share of operating profit from interest in joint venture		9.4	Nil
Goodwill amortised on joint venture		(4.4)	Nil
Share of operating profit from interest in associate		12.4	Nil
Total operating profit: group and share of joint venture and associate	2	274.7	216.3
Represented by:			
Continuing group operations		254.9	217.5
Acquisitions of subsidiary operations during the year		3.9	Nil
Joint ventures and associates		17.4	Nil
		276.2	217.5
Discontinued operations		(1.5)	(1.2)
Total operating profit: group and share of joint venture and associate		274.7	216.3
Profit on sale of properties – continuing operations		0.2	0.3
Loss on disposal of investments in Africa		(3.8)	(2.9)
Profit on ordinary activities before interest and taxation		271.1	213.7
Interest payable (net)	4	(61.0)	(58.0)
Profit on ordinary activities before taxation	5	210.1	155.7
Taxation on profit on ordinary activities	8	(51.8)	(42.1)
Profit on ordinary activities after taxation		158.3	113.6
Minority interests	30	0.1	(0.1)
Profit for the financial year		158.4	113.5
Dividends	9	(40.9)	(30.0)
Retained profit for the year	12	117.5	83.5
Earnings per share			
– Basic	10	12.0p	9.5p
– Basic before goodwill amortisation and exceptional items	10	12.7p	9.6p
– Diluted	10	11.9p	9.4p

A statement of movement on the profit and loss account is given in Note 12. The accompanying notes form an integral part of this profit and loss account.

Consolidated balance sheet

as at 30 April 1999

	<i>Notes</i>	1999 £m	1998 Restated £m
Fixed assets			
Intangible assets	<i>13</i>	123.5	Nil
Tangible assets	<i>14</i>	1,720.4	1,468.7
Investments	<i>15</i>		
– Investment in joint venture			
Goodwill		104.3	Nil
Share of gross assets		87.4	Nil
Share of gross liabilities		(60.4)	Nil
Shareholder loan notes		20.0	Nil
		151.3	Nil
– Investment in associates		108.1	49.8
– Other investments		2.5	1.6
		2,105.8	1,520.1
Current assets			
Debtors and prepaid charges – due within one year	<i>17</i>	167.0	145.5
– due after more than one year	<i>17</i>	27.6	22.0
Cash at bank and in hand		321.8	163.5
		516.4	331.0
Creditors: Amounts falling due within one year	<i>18</i>	(706.3)	(600.0)
Net current liabilities		(189.9)	(269.0)
Total assets less current liabilities		1,915.9	1,251.1
Creditors: Amounts falling due after more than one year	<i>18</i>	(950.8)	(741.7)
Provisions for liabilities and charges	<i>26</i>	(234.1)	(239.3)
Net assets		731.0	270.1
Capital and reserves			
Equity share capital	<i>27</i>	6.9	6.1
Share premium account	<i>29</i>	391.4	509.0
Profit and loss account	<i>29</i>	325.0	207.4
Revaluation reserve	<i>29</i>	5.6	5.9
ESOP distribution reserve	<i>29</i>	2.1	1.5
Other reserves	<i>29</i>	Nil	(460.1)
Shareholders' funds – Equity		731.0	269.8
Minority interests – Equity	<i>30</i>	Nil	0.3
Total capital employed	<i>2</i>	731.0	270.1

Signed on behalf of the Board on 30 June 1999



Brian Souter
Chairman



Keith Cochrane
Group Finance Director

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

Company balance sheet

as at 30 April 1999

	<i>Notes</i>	1999 £m	1998 £m
Fixed assets			
Tangible assets	<i>14</i>	1.3	0.7
Investments	<i>15</i>	813.7	734.3
		815.0	735.0
Current assets			
Debtors and prepaid charges – due within one year	<i>17</i>	26.1	15.3
– due after more than one year	<i>17</i>	514.2	213.0
Cash at bank and in hand		79.2	81.5
		619.5	309.8
Creditors: Amounts falling due within one year	<i>18</i>	(203.2)	(184.6)
Net current assets		416.3	125.2
Total assets less current liabilities		1,231.3	860.2
Creditors: Amounts falling due after more than one year	<i>18</i>	(205.9)	(231.2)
Provisions for liabilities and charges	<i>26</i>	Nil	(2.9)
Net assets		1,025.4	626.1
Capital and reserves			
Equity share capital	<i>27</i>	6.9	6.1
Share premium account	<i>29</i>	391.4	509.0
Other reserve	<i>29</i>	460.1	Nil
Profit and loss account	<i>29</i>	164.9	109.5
ESOP distribution reserve	<i>29</i>	2.1	1.5
Total capital employed		1,025.4	626.1

Signed on behalf of the Board on 30 June 1999



Brian Souter
Chairman



Keith Cochrane
Group Finance Director

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

Consolidated cash flow statement

for the year ended 30 April 1999

	<i>Notes</i>	1999 £m	1998 Restated £m
Net cash inflow from operating activities	31	452.3	413.4
Dividends from joint venture and associate		3.1	Nil
Returns on investments and servicing of finance			
Interest paid		(82.1)	(69.1)
Interest element of HP and lease finance		(11.4)	(10.9)
Interest received		36.6	21.9
Eurobond issue costs		Nil	(0.6)
Net cash outflow from returns on investments and servicing of finance		(56.9)	(58.7)
Taxation		(44.3)	(47.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(93.6)	(129.9)
Maintenance capital expenditure		(74.4)	(83.0)
Sale of tangible fixed assets		22.0	18.6
Net cash outflow for capital expenditure and financial investment		(146.0)	(194.3)
Acquisitions and disposals			
Acquisition of subsidiaries		(203.3)	(13.5)
Net cash/(overdraft) acquired with subsidiaries		8.8	(4.0)
Purchase of goodwill		Nil	(4.8)
Purchase of investments in joint venture and associate		(152.6)	(67.5)
Purchase of other investments		(0.1)	(0.7)
Disposal of subsidiaries net of cash		0.6	2.2
Net cash outflow from acquisitions and disposals		(346.6)	(88.3)
Equity dividends paid		(32.3)	(22.5)
Net cash (outflow)/inflow before management of liquid resources and financing		(170.7)	2.2
Financing			
Issue of Eurobonds		Nil	124.1
Sale of tokens		15.6	17.4
Redemption of tokens		(14.7)	(12.6)
Issue of share capital for cash		307.2	0.2
Costs of issuing new shares		(5.4)	(0.1)
Increase/(decrease) in collateral balances		1.3	(7.9)
Repayment of loan notes		(1.0)	(2.7)
Increase in overseas borrowings		56.3	7.3
Increase/(decrease) in UK borrowings		65.5	(85.4)
Repayments of hire purchase and lease finance		(93.5)	(68.7)
Net cash inflow/(outflow) from financing		331.3	(28.4)
Increase/(decrease) in cash during the year	31	160.6	(26.2)
Free cash flow		279.8	224.3
Free cash flow per share		21.2p	18.7p

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

Consolidated statement of total recognised gains and losses

for the year ended 30 April 1999

	1999 £m	1998 Restated £m
Profit for the financial year	158.4	113.5
Translation differences on foreign currency net investments	(0.2)	(4.6)
Malawi ESOP written off on disposal	Nil	(0.8)
Total recognised gains and losses relating to the year	158.2	108.1
Prior year adjustment (as explained in Note 11)	8.6	
Total recognised gains and losses recognised since last Annual Report and Accounts	166.8	

Reconciliation of movements in shareholders' funds

for the year ended 30 April 1999

	1999 £m	1998 Restated £m
Profit for the financial year	158.4	113.5
Dividends	(40.9)	(30.0)
	117.5	83.5
Other recognised gains and losses relating to the year (see above)	(0.2)	(5.4)
New share capital issued less costs	343.3	40.1
ESOP distribution reserve increase	0.6	0.8
Goodwill written off on consolidation	Nil	(37.0)
Purchased goodwill written off	Nil	(4.8)
Net additions to shareholders' funds	461.2	77.2
Opening shareholders' funds as previously stated	261.2	181.2
Prior year adjustment (see Note 11)	8.6	11.4
Opening shareholders' funds as restated	269.8	192.6
Closing shareholders' funds	731.0	269.8

There is no material difference between the reported profit for the years ended 30 April 1999 and 1998 and the profit for these years restated on a historical cost basis.

The accompanying notes form an integral part of these statements.

1. Statement of accounting policies

A summary of the principal accounting policies is set out below. Except for the impact of the new Financial Reporting Standards discussed below all principal accounting policies have been applied consistently throughout the year and the preceding year.

(a) Basis of accounts

The accounts have been prepared under the historical cost convention (modified to include the revaluation of certain tangible fixed assets) and in accordance with applicable accounting standards in the United Kingdom.

(b) Changes in presentation of financial information

The following Financial Reporting Standards ("FRS") have been adopted in these financial statements.

FRS 9 – "Associates and Joint Ventures" has been adopted and, consequently, the group's profit and loss and balance sheet have been presented in accordance with the new requirements.

FRS 10 – "Goodwill and Intangible Assets" has been adopted and, consequently, goodwill arising on acquisitions made after 30 April 1998 appears on the balance sheet.

FRS 11 – "Impairment of Fixed Assets and Goodwill" came into effect during the year. In assessing any impairment a discount rate approximating the group's weighted average cost of capital is used.

FRS 12 – "Provisions, Contingent Liabilities and Contingent Assets" has been adopted and the treatment of rolling stock maintenance expenditure has been amended to take into account the definition of a present obligation as a result of a past event. Under the new standard rolling stock maintenance costs are capitalised and amortised. The rolling stock maintenance provision as at 30 April 1997, which meets the recognition criteria, has been reclassified to accumulated depreciation. The balance, £11.4 million of rolling stock maintenance provisions, which does not meet the recognition criteria, at 30 April 1997 has been written back to profit and loss as a prior year adjustment. FRS 12 requires all provisions to be included within Provisions for Liabilities and Charges. Accordingly the prior year treatment of insurance, token redemption and pension provisions within creditors falling due within one year has been amended. Additional disclosures required by FRS 12 have also been made (see Note 11 and Note 26).

FRS 13 – "Derivatives and other Financial Instruments: Disclosures" has been adopted and where the information is readily available prior year information has been disclosed.

FRS 14 – "Earnings per Share" has been adopted and, consequently, the basic and diluted earnings per share have been calculated in accordance with the standard. Prior year earnings per share have been restated on the same basis.

All comparative figures have been restated to reflect the prior year adjustments.

(c) Basis of consolidation

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

Associate – the group's share of associates operating profit is based on the results of Road King Infrastructure Limited for the period to 31 December 1998.

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 Stagecoach Holdings plc as permitted by Section 230 of the Companies Act 1985.

1. Statement of accounting policies (continued)

(d) Intangible assets

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. In accordance with FRS 10 “Goodwill and Intangible Assets” acquisition goodwill arising on acquisitions after 30 April 1998 appears as an asset on the balance sheet at cost less amortisation. Each acquisition is reviewed and where the business and 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 estimated useful life of goodwill arising on the acquisitions made during the year is estimated by the directors to be between 5 and 20 years.

As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. At the Annual General Meeting on 4 September 1998 a special resolution was passed to cancel £460.1 million of the share premium reserve. The Court of Session approved this on 4 December 1998. Consequently £460.1 million of the share premium was transferred to another reserve and the goodwill write off and capital reserve were offset against this new reserve. 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 revaluation of certain fixed assets on an existing use basis, discounting of long term liabilities and other changes in accounting policies required to comply with group policies. Fair value adjustments based on provisional estimates are amended in the following year’s accounts where necessary, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post-acquisition.

(e) Tangible fixed assets

Tangible fixed assets are shown at their original historic cost or subsequent valuation as set out in Note 14 below. 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:

Airport runways and aprons	100 years
Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	Over period of lease
Public service vehicles (“PSVs”)	7 to 16 years, depending on type
Equipment, furniture and fittings	5 to 10 years
Motor cars and other vehicles	3 to 5 years
Rolling stock	20 to 35 years, depending on type
Heritable and freehold land is not depreciated.	

Surpluses or deficits arising on the revaluation of tangible fixed assets are credited or debited to a non-distributable reserve called the revaluation reserve. Depreciation charges based on the revalued amount are charged to the profit and loss account in subsequent years. An amount equivalent to the additional depreciation is transferred annually to the profit and loss account. On disposal of a revalued asset, the revaluation surplus or deficit relating to the item is transferred to the profit and loss account, below the profit for the financial year.

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

Rolling stock heavy maintenance costs required to restore the service potential of certain component parts of rolling stock are accounted for in accordance with FRS 12 “Provisions, Contingent Liabilities and Contingent Assets”. Such costs are capitalised within fixed assets as incurred and written off over the remaining useful life of the asset.

1. Statement of accounting policies (continued)

(f) Investments

Fixed asset investments are shown at cost less amounts written off, or directors' valuation.

In the company's accounts investments in subsidiary undertakings are stated at cost, less amounts written off.

(g) 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 under the gross equity method. The consolidated profit and loss account includes the group's share of associates' and joint venture's profits less losses, while the group's shares of net assets is shown in the consolidated balance sheet. Goodwill arising on the acquisition is accounted for in accordance with the policy set out above.

(h) Hire purchase and lease obligations

Assets acquired under hire purchase and lease finance 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.

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

(i) Taxation

Corporation tax is provided on taxable profits at the current rate. Advance corporation tax payable on dividends paid up to 5 April 1999 is written off, except when recoverability against corporation tax payable is considered to be reasonably assured.

Deferred tax (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and tax computations) is calculated on the liability method. Provision is made for timing differences which, in the opinion of the directors, will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. However, the amount of all deferred tax, including that which will probably not reverse, is shown in Note 26.

(j) 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.

(k) Tokens

Tokens issued by National Transport Tokens Limited 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. Under FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" the treatment of the redemption provision estimated to be payable within one year is now included in provisions and as a result the prior year disclosures have been amended accordingly.

1. Statement of accounting policies (continued)

(l) 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.

Certain employees are required to retire from their current positions in advance of the normal retirement date, due to the physically demanding nature of their employment. On early retirement, these employees may be entitled to receive one-off lump sum payments. Provision for the cost of the early retirement of these employees is made on a systematic basis over their remaining service lives.

Full details of the principal group pension schemes are given in Note 32d. Under FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" the treatment of the pension provision estimated to be payable within one year is now included in provisions and as a result the prior year comparatives have been amended accordingly.

(m) Foreign currencies

The trading results of overseas subsidiary undertakings, except for those operating in economies which are considered to be more volatile, are translated into sterling using average rates of exchange. Trading results of overseas subsidiary undertakings in economies which are considered to be more volatile are translated at the rate of exchange ruling at the year end since this is considered by the directors to be more prudent.

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end except in those instances where forward contracts are in place, in which case the contract rate is used where appropriate. 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	1999	1998
Swedish Krona		
Year end rate	13.54	12.81
Average rate	13.18	12.83
New Zealand Dollar		
Year end rate	2.88	3.01
Average rate	3.14	2.66
Hong Kong Dollar		
Year end rate	12.48	12.91
Average rate	12.79	12.80

(n) 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 in respect of the accounting period.

1. Statement of accounting policies (continued)

(o) 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 incurred.

(p) Derivatives and financial investments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Discounts and premia are charged or credited to the profit and loss account over the life of the asset or liability to which they relate. Derivative financial instruments are accounted for using hedge accounting to the extent that they are held to hedge a financial asset or liability. For the purposes of Note 24 short term debtors and creditors have been excluded from financial instruments.

2. Segmental analysis

(a) Turnover

	1999	1998
	£m	Restated £m
UK bus core operations	502.4	477.3
Bus acquisitions – 1997/98	14.5	12.9
UK bus continuing operations	516.9	490.2
Swebus	229.4	259.1
Other overseas	11.2	14.7
Overseas acquisitions – 1997/98	9.3	3.7
Total bus continuing operations	766.8	767.7
Rail	339.6	314.9
Acquisition – 1997/98 – Supertram	9.0	2.2
Porterbrook	269.5	269.0
Acquisition – 1997/98 – Aviation	22.3	Nil
Total continuing operations	1,407.2	1,353.8
Acquisitions – 1998/99:		
Overseas bus – New Zealand	18.0	Nil
Overseas bus – Hong Kong	20.9	Nil
Total acquisitions	38.9	Nil
Discontinued operations	5.9	27.7
Elimination of intra-segment turnover	(38.5)	(34.5)
Group turnover	1,413.5	1,347.0
Share of joint venture turnover	134.9	Nil
Group turnover and share of joint venture turnover	1,548.4	1,347.0

Discontinued operations represent the disposal of the group's operations in Kenya in the year to 30 April 1999 and Malawi and Denmark in the year to 30 April 1998.

1998 turnover and operating costs have been restated to identify and eliminate intra-segment activity on a consistent basis. This has no effect on operating profit. There is no material difference between the analysis of turnover by origin and destination.

2. Segmental analysis (continued)

(b) Operating profit

	1999 £m	1998 Restated £m
UK bus core operations	79.3	71.3
UK bus acquisitions – 1997/98	2.4	1.3
UK bus continuing operations	81.7	72.6
Swebus	14.4	13.7
Other overseas	2.2	2.5
Overseas acquisitions – 1997/98	1.7	0.8
Total bus continuing operations	100.0	89.6
Rail	34.5	21.1
Acquisitions – 1997/98 – Supertram	(0.7)	(1.0)
Porterbrook	140.2	130.5
Acquisitions – 1997/98 – Aviation	3.6	Nil
	277.6	240.2
Acquisitions – 1998/99:		
Overseas bus – New Zealand	2.1	Nil
Overseas bus – Hong Kong	2.6	Nil
Total acquisitions	4.7	Nil
	282.3	240.2
Discontinued operations	(1.5)	(1.2)
Group overheads	(14.9)	(10.9)
Goodwill amortisation	(1.8)	Nil
Redundancy/restructuring costs		
– continuing operations	(3.9)	(10.0)
– acquisitions	(0.8)	Nil
ESOP distribution	(2.1)	(1.8)
Total operating profit of group companies	257.3	216.3
Share of operating profit of joint venture	9.4	Nil
Goodwill amortised on investment in joint venture	(4.4)	Nil
Share of operating profit of associate	12.4	Nil
Total operating profit: group and share of joint venture and associate	274.7	216.3

2. Segmental analysis (continued)

(c) Net assets

	1999 £m	1998 Restated £m
United Kingdom	330.3	138.0
Scandinavia	74.4	74.3
Hong Kong	290.5	44.4
Other overseas	35.8	13.1
	731.0	269.8
Minority interests	Nil	0.3
Total net assets	731.0	270.1

From 1 May 1998, goodwill arising on acquisitions has been capitalised as an intangible asset and is included in the geographical sector in which the acquisition occurred.

3. Other operating income

	1999 £m	1998 £m
Miscellaneous revenue	43.8	33.8
Gains on disposal of assets other than properties	0.7	0.1
OPRAF franchise support	62.2	65.5
	106.7	99.4

4. Interest payable

	1999 £m	1998 £m
Bank loans, overdrafts and other loans		
– repayable within 5 years, by instalments	47.7	52.9
– repayable within 5 years, not by instalments	29.1	18.5
– repayable after 5 years	23.3	8.5
Interest receivable	(39.1)	(21.9)
	61.0	58.0

The above includes finance charges payable under hire purchase contracts and finance leases of £11.4 million (1998 – £10.9 million). Interest receivable includes £0.7 million (1998 – £Nil) in relation to net interest receivable from joint venture and £1.1 million in relation to interest receivable on joint venture shareholder loan notes. Interest payable includes £1.7 million (1998 – £Nil) in relation to share of associate's net interest payable.

5. Profit on ordinary activities before taxation

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

	1999	1998
	£m	Restated £m
Depreciation and amounts written off		
– Tangible fixed assets (owned)	153.9	166.8
– Tangible fixed assets (on HP or lease)	32.3	23.5
Amortisation of goodwill		
– subsidiaries	1.8	Nil
– joint venture and associate	4.4	Nil
Gains on property disposals	(0.2)	(0.3)
Gains on other asset disposals	(0.7)	(0.1)
Operating lease rentals	229.0	238.6
Auditors' remuneration – audit	0.5	0.5

Payments to the auditors for non-audit services of £0.6 million (1998 – £0.5 million) were made during the year. These have been included in the cost of investments or charged to the profit and loss account as appropriate.

6. Staff costs and employees

	1999	1998
	£m	£m
Staff costs		
Wages and salaries	478.2	436.4
Social security costs	59.2	58.0
Other pension costs	19.1	22.3
ESOP distribution	2.1	1.8
	558.6	518.5

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

	1999	1998
	Number	Number
UK operations	21,808	21,477
UK administration and supervisory	1,105	1,175
Overseas	9,007	9,988
	31,920	32,640

7. Directors

(a) Directors' remuneration

Directors' remuneration was made up as follows (amounts in £000):

	Salary/fees		Performance related bonus		Benefits in kind		Money purchase contributions		Non-pensionable allowances		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Executive directors												
Brian Souter	400	334	200	200	1	1	50	50	n/a	n/a	651	585
Mike Kinski	360	31	218	250	8	Nil	n/a	n/a	191	Nil	777	281
Keith Cochrane	185	150	60	70	13	13	n/a	n/a	20	Nil	278	233
Brian Cox	185	175	51	40	11	11	n/a	n/a	n/a	n/a	247	226
Ann Gloag	85	85	25	20	9	14	50	50	n/a	n/a	169	169
Barry Hinkley	200	180	55	60	11	10	n/a	n/a	n/a	n/a	266	250
Sandy Anderson	n/a	57	n/a	Nil	n/a	5	n/a	n/a	n/a	n/a	n/a	62
Non-executive directors												
Ewan Brown	20	17	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	20	17
Barry Sealey	35	28	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	35	28
Robert Speirs	20	20	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	20	20
Total	1,490	1,077	609	640	53	54	100	100	211	Nil	2,463	1,871

Non-pensionable allowances represent additional taxable remuneration paid to provide pension entitlements which are broadly aligned with those provided to certain other executive directors.

The following directors had accrued pension entitlements under the group's final salary retirement and death benefits schemes (amounts in £000):

	Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)	
	1999	1998	1999	1998	1999	1998
Executive directors						
Brian Souter	99	73	90	63	193	172
Mike Kinski	102	91	n/a	n/a	19	260
Keith Cochrane	24	15	71	46	47	38
Brian Cox	78	69	84	66	141	146
Ann Gloag	25	24	20	16	9	5
Barry Hinkley	90	76	91	68	234	150

With the exception of Mike Kinski and Keith Cochrane, all the executive directors were members of the group pension schemes before the introduction of the pensionable salary cap in June 1989. In respect of Mike Kinski and Keith Cochrane, pension arrangements have been established through FURBS, based upon the independent advice of actuaries to provide final salary benefits commensurate with the current market practice for equivalent executive positions. These arrangements were put into place in March 1998 and April 1997 respectively and took effect from date of appointment as a director. In addition, contributions of £50,000 each were paid to a small, self-administered money purchase scheme established for Brian Souter and Ann Gloag in April 1991.

Brian Cox and Barry Hinkley were each awarded a performance related bonus of £250,000 on 23 May 1995. In each case, £125,000 of the bonus is conditional on the relevant director continuing to be employed by the group on 30 April 2000, with the balance being conditional on the relevant director remaining in the group's employment on 30 April 2001. They are also subject to growth in earnings per share outperforming inflation by more than 5% per annum cumulatively. These bonuses are not pensionable and can be taken in cash or additional pension contributions. Mike Kinski's incentive arrangements include a service related bonus of £75,000 for each year ended on 30 September 2000 to 2004 and is conditional on him being Chief Executive on each such date. The bonus must be applied in acquiring

7. Directors (continued)

(a) Directors' remuneration (continued)

ordinary shares in the company. He is also entitled to an earnings per share related bonus of £75,000 in respect of each financial year commencing on 1 May 1999 and ending prior to 30 September 2004. The bonus is payable subject to earnings per share outperforming inflation by at least 5%. Keith Cochrane participates in The Stagecoach Executive Directors' Bonus Scheme. An annual bonus of £75,000 per financial year, for the five years commencing 1 May 1998, is payable subject to growth in earnings per share in each financial year outperforming inflation by at least 5%. The bonus is payable subject to Keith Cochrane continuing in employment at the end of the five year period.

(b) Directors' share options

The interests of directors who have options to subscribe for ordinary shares of the company, together with movements during the year, are shown in the table below. All were granted for nil consideration. Details of the share price during the year are given in Note 28b.

	At 1 May 1998 number	Placing adjustments	Granted number	Exercised number	At 30 April 1999 number	Exercise price £	Date from which exercisable	Expiry date
Keith Cochrane	295,580	1,265	Nil	Nil	296,845	0.4980	13 October 1998	13 October 2005
	350,000	1,498	Nil	Nil	351,498	1.1250	11 October 1999	11 October 2006
	350,000	1,498	Nil	Nil	351,498	1.3220	8 September 2002	8 September 2004
	Nil	Nil	400,000	Nil	400,000	2.3000	18 October 2003	18 October 2005
Brian Cox	295,580	Nil	Nil	(295,580)	Nil	0.5006	13 October 1998	13 October 2005
	350,000	1,498	Nil	Nil	351,498	1.1250	11 October 1999	11 October 2006
	350,000	1,498	Nil	Nil	351,498	1.3220	8 September 2002	8 September 2004
	Nil	Nil	315,705	Nil	315,705	2.3000	18 October 2003	18 October 2005
Barry Hinkley	295,580	Nil	Nil	(295,580)	Nil	0.5006	13 October 1998	13 October 2005
	350,000	1,498	Nil	Nil	351,498	1.1250	11 October 1999	11 October 2006
	350,000	1,498	Nil	Nil	351,498	1.3220	8 September 2002	8 September 2004
	Nil	Nil	400,000	Nil	400,000	2.3000	18 October 2003	18 October 2005
Mike Kinski	631,300	2,702	Nil	Nil	634,002	2.2710	30 April 2001	30 April 2005
Total	3,618,040	12,955	1,115,705	(591,160)	4,155,540			

Brian Cox and Barry Hinkley each realised gross gains of £533,000 during the year by exercising options (being the market price of the shares on the date of exercise – £2.304 on 15 October 1998 – less the amount paid for the shares).

On 1 July 1996 and 1 April 1998, the following directors were granted options under the group's Save As You Earn scheme following an invitation to all eligible UK employees:

	No. of ordinary shares
Brian Souter	2,601
Keith Cochrane	14,246
Ann Gloag	14,246

Further information on these options is detailed in Note 28a.

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

Ewan Brown (a non-executive director) is an executive director of Noble Grossart Limited which provided advisory services to the company during the year. Total fees and underwriting commission for these services, which were principally in connection with the share issues and acquisitions made during the year, amounted to £220,000 (1998 – Nil). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, holds 7,962,622 ordinary shares in the company.

Robert Speirs (a non-executive director) was an executive director of The Royal Bank of Scotland plc until his retirement from that company on 23 October 1998. The group's principal UK banking facility is provided by a syndicate which includes The Royal Bank of Scotland plc.

8. Taxation on profit on ordinary activities

The taxation charge comprises:	1999 £m	1998 £m
Corporation tax at 30.9% (1998 – 31%)	49.4	38.9
Share of joint venture's tax	1.4	Nil
Share of associate's tax	0.1	Nil
Overseas taxation	0.3	0.3
Prior year under/(over) provision for corporation tax	2.9	(1.1)
Deferred taxation	(2.3)	4.0
	51.8	42.1

The charge for UK corporation tax is stated after taking credit for relief in respect of losses in prior years and available group loss relief in the current year, including the surrender of advance corporation tax paid on dividends. Of the above net deferred taxation (credit)/charge, a credit of £Nil (1998 – £5.4 million) can be attributed to the forthcoming change in UK corporation tax rate to 30%.

9. Dividends

	1999 £m	1998 £m
Ordinary shares – interim paid (1.0 pence (1998 – 0.8 pence) per share)	13.2	9.6
– final proposed (2.0 pence (1998 – 1.6 pence) per share)	27.7	20.4
	40.9	30.0

During the year, a share alternative was offered in respect of the interim dividend of 1 pence per share. The alternative comprised the issue of new ordinary shares with a market value of 244.4 pence per existing ordinary share. The total amount of the cash dividend that would otherwise have been paid is included in the above analysis.

10. Earnings per share

Earnings per share have been calculated in accordance with FRS 14 “Earnings per Share” by calculating group profit on ordinary activities after tax and minority interests, divided by the weighted average number of shares in issue during the period based on the following:

	1999	1998 Restated
Profit for the year after taxation and minority interests (£ million)	158.4	113.5
Basic weighted average share capital (number of shares, million)	1,317.9	1,200.1
Diluted shares – Executive Share Option Scheme	2.0	2.5
– Employee SAYE Scheme	9.3	4.7
Diluted weighted average share capital (number of shares, million)	1,329.2	1,207.3

With effect from 19 October 1998, the company's ordinary shares were subdivided into ordinary shares of 0.5 pence (1998 – 2.5 pence). Comparative earnings per share have been calculated in accordance with FRS 14 “Earnings per Share” and are restated to take into account this sub-division.

Earnings per share before goodwill and exceptional items is calculated after adding back goodwill amortisation of £6.2 million (1998 – Nil) and exceptional items after taking account of taxation of £2.7 million (1998 – £2.0 million) to profit for the year and has been presented to allow the shareholders to gain a clearer understanding of the underlying performance.

11. Prior year adjustment

The group policy for accounting for rolling stock maintenance expenditure was changed during the year to comply with FRS 12. The comparative figures in the primary statements and notes have been restated to reflect the new policy. Token redemption, insurance and pension provisions were previously classified as creditors due within one year. Following the introduction of FRS 12 these provisions have been included within Provisions for liabilities and charges. Prior year comparatives have been restated.

The effect of the change is summarised below:

	1999 £m	1998 £m
Profit and loss account		
Decrease/(increase) in operating costs	1.0	(2.8)
Increase/(decrease) in profit for the financial year	1.0	(2.8)
	1999 £m	1998 £m
Balance sheet		
Increase/(decrease) in fixed assets	1.0	(79.7)
Decrease in creditors due within one year	Nil	36.2
Decrease in provisions	Nil	52.1
Increase in net assets	1.0	8.6

12. Profit and loss account

The movement on profit and loss account reserve is:

	1999 £m	Group 1998 Restated £m	1999 £m	Company 1998 £m
Retained profit brought forward as previously stated	198.8	117.6	109.5	20.8
Prior year adjustment (Note 11)	8.6	11.4	Nil	Nil
Retained profit brought forward as restated	207.4	129.0	109.5	20.8
Retained profit for the year	117.5	83.5	55.4	88.7
Transfer from revaluation reserve	0.3	0.3	Nil	Nil
Translation adjustment	(0.2)	(4.6)	Nil	Nil
Malawi ESOP written off	Nil	(0.8)	Nil	Nil
Retained profit carried forward	325.0	207.4	164.9	109.5

13. Intangible assets – goodwill

The group movement in the year is:

	Joint venture & associate £m	Subsidiaries £m	Total £m
Cost			
Beginning of year	Nil	Nil	Nil
Additions	112.6	123.5	236.1
Translation adjustment	Nil	1.9	1.9
End of year	112.6	125.4	238.0
Amortisation			
Beginning of year	Nil	Nil	Nil
Charge for the year	(4.4)	(1.8)	(6.2)
Translation adjustment	Nil	(0.1)	(0.1)
End of the year	(4.4)	(1.9)	(6.3)
Net book value beginning of year	Nil	Nil	Nil
Net book value end of year	108.2	123.5	231.7

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

	Goodwill £m	Amortisation period Years
Subsidiaries		
Transportation Auckland Corporation Limited (Yellow Bus Company)	16.9	20
Fullers Group Limited	2.2	20
Citybus Group Limited	103.8	15
Other	0.6	5
Joint venture and associate		
Virgin Rail Group Limited	108.7	13.5
Road King Infrastructure Limited	3.9	20

14. Tangible fixed assets

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

	Group		Company	
	1999	1998	1999	1998
	£m	Restated £m	£m	£m
Land and buildings	176.2	172.2	Nil	Nil
Rolling stock	794.7	763.9	Nil	Nil
PSVs and other assets	749.5	532.6	1.3	0.7
	1,720.4	1,468.7	1.3	0.7

14. Tangible fixed assets (continued)

The group movement in the year is:	Land and buildings £m	Rolling stock £m	PSVs and other assets £m	Total £m
Cost or valuation				
Beginning of year	179.7	1,037.8	833.4	2,050.9
Additions	11.9	141.0	110.2	263.1
New subsidiary undertakings	6.0	Nil	262.8	268.8
Disposals	(9.9)	(0.5)	(43.4)	(53.8)
Sale of subsidiary undertakings	(0.9)	Nil	(16.3)	(17.2)
Translation adjustment	(0.8)	Nil	(9.6)	(10.4)
End of year	186.0	1,178.3	1,137.1	2,501.4
Depreciation				
Beginning of year	(7.5)	(273.9)	(300.8)	(582.2)
Charge	(5.6)	(109.9)	(70.7)	(186.2)
New subsidiary undertakings	(0.2)	Nil	(53.5)	(53.7)
Disposals	3.5	0.2	28.7	32.4
Sale of subsidiary undertakings	0.2	Nil	5.1	5.3
Translation adjustment	(0.2)	Nil	3.6	3.4
End of year	(9.8)	(383.6)	(387.6)	(781.0)
Net book value, beginning of year	172.2	763.9	532.6	1,468.7
Net book value, end of year	176.2	794.7	749.5	1,720.4

Included in the above are:

Assets on hire purchase	Nil	Nil	272.8	272.8
Leased PSV assets	Nil	Nil	51.8	51.8
Short leasehold land and buildings	1.1	Nil	Nil	1.1
Long leasehold land and buildings	35.7	Nil	Nil	35.7

Land and buildings are stated at the following cost or valuation (on the basis of open-market value for the existing use as valued by Oliver Liggins, Chartered Surveyors as at 30 April 1996) less depreciation:

	1999 £m
At 1996 external valuation	66.0
At directors' valuation	49.7
At valuation	115.7
At cost	60.5
	176.2

If the above revaluations had not taken place the historical cost and accumulated depreciation at 30 April 1999 would have been £112.9 million (1998 – £96.5 million) and £9.5 million (1998 – £3.9 million). Heritable and freehold land amounting to £31.5 million (1998 – £27.9 million) has not been depreciated.

14. Tangible fixed assets (continued)

The company movement in the year is:

	PSVs and other assets £m
Cost	
Beginning of year	1.1
Additions	0.9
Disposals	(0.2)
End of year	1.8
Depreciation	
Beginning of year	(0.4)
Charge	(0.2)
Disposals	0.1
End of year	(0.5)
Net book value, beginning of year	0.7
Net book value, end of year	1.3

15. Fixed asset investments

The group movement during the year was as follows:

	Joint venture £m	Associates £m	Other investments £m	Total £m
Cost or valuation				
Beginning of year	Nil	72.9	1.7	74.6
Additions	147.0	47.6	0.1	194.7
Arising on new subsidiary undertakings	Nil	Nil	1.0	1.0
Share of profits	8.7	10.6	Nil	19.3
Translation adjustment	Nil	3.2	Nil	3.2
Dividends received	Nil	(3.1)	Nil	(3.1)
End of year	155.7	131.2	2.8	289.7
Amounts written off				
Beginning of year	Nil	(23.1)	(0.1)	(23.2)
Goodwill amortised during year	(4.4)	Nil	Nil	(4.4)
Amounts written off other investments	Nil	Nil	(0.2)	(0.2)
End of year	(4.4)	(23.1)	(0.3)	(27.8)
Net book value, beginning of year	Nil	49.8	1.6	51.4
Net book value, end of year	151.3	108.1	2.5	261.9

15. Fixed asset investments (continued)

The principal associate is:

	Country of operation	Number of shares in issue	Nominal value of share capital in issue	% held
Road King Infrastructure Limited – ordinary shares	China	536.7m	HK\$53.7m	21.8
– preference shares		0.5m	HK\$0.05m	100.0

The market value of the group's ordinary share investment in Road King Infrastructure Limited, a Bermudan incorporated company, listed on the Hong Kong Stock Exchange, at 30 April 1999 was £49.2 million. On 12 June 1998 the group subscribed for 518,380 7.5% convertible preference shares at HK\$1,000 per share in Road King Infrastructure Limited. These shares may be converted to ordinary shares, representing a further 8% interest, on or after 12 June 2000 and will be converted on 12 June 2003 if not previously converted. The coupon received on the preference shares has been included in the share of associate's operating profit. The group's share of operating profit is based on the most recent publicly available information which are the results for the year ended 31 December 1998.

The principal joint venture is:

	Country of incorporation/operation	Number of shares in issue	Nominal value of share capital in issue	% held
Virgin Rail Group Limited	United Kingdom	35m	£3.5m	49

On 7 October 1998 the group acquired 49% of Virgin Rail Group Limited. The consideration comprised 18.7 million new ordinary shares issued at £2.04 per share, cash of £88 million and expenses of £0.8 million. The fair value of net assets acquired was £18.3 million giving rise to goodwill of £108.7 million. The shareholders' agreement provides for joint decision making on key matters and equal representation on the Virgin Rail Group Limited Board. As a consequence the acquisition has been accounted for as a Joint Venture. As part of the acquisition, the group acquired a £20 million shareholder loan to Virgin Rail Group Limited. The shareholder loan carries a 10% coupon and must be repaid prior to any shareholder distributions.

The company movement during the year was as follows:

	Subsidiary undertakings £m	Joint venture £m	Associate £m	Other investments £m	Total £m
Cost and net book value					
Beginning of year	666.1	Nil	67.5	0.7	734.3
Additions	0.1	147.0	Nil	Nil	147.1
Transfer of holding to subsidiary undertaking	Nil	Nil	(67.5)	Nil	(67.5)
Disposal of Kenya	(0.2)	Nil	Nil	Nil	(0.2)
End of year	666.0	147.0	Nil	0.7	813.7

15. Fixed asset investments (continued)

Acquisition of Transportation Auckland Corporation Limited

Transportation Auckland Corporation Limited (the holding company for Yellow Bus Company) was acquired on 28 August 1998. The consideration was cash and expenses of £35.3 million. The fair value of the net assets acquired was £18.4 million giving rise to goodwill of £16.9 million which has been capitalised and is being amortised over 20 years.

	Initial book value £m	Restatement to fair value £m	Fair value to the group £m
Fixed assets	18.2	0.5*	18.7
Cash at bank	1.0	Nil	1.0
Other current assets	1.9	Nil	1.9
Total assets	21.1	0.5	21.6
Creditors – within one year	(3.2)	Nil	(3.2)
Total liabilities	(3.2)	Nil	(3.2)
Net assets	17.9	0.5	18.4

*Revaluation of land and buildings based on directors' valuation.

In the last full financial year to 30 June 1998 Transportation Auckland Corporation Limited made a profit after tax and minority interest of £2.3 million. From 1 July 1998 to 28 August 1998, Transportation Auckland Corporation Limited made a profit after taxation of £0.4 million. The above results have been translated at the exchange rates of £1 : NZ\$3.25 for the period to 28 August 1998 and £1 : NZ\$2.66 for the year ended 30 June 1998. The pre-acquisition figures noted above do not reflect any adjustment for Stagecoach accounting policies and were prepared under local accounting policies.

Acquisition of Fullers Group Limited

Fullers Group Limited was acquired on 30 September 1998. The consideration comprised £3.4 million cash and deferred consideration of £3.2 million. The fair value of net assets acquired was £4.4 million giving rise to goodwill of £2.2 million. Goodwill has been capitalised and is being amortised over 20 years.

	Initial book value and fair value £m
Fixed assets	8.6
Cash at bank	0.2
Other current assets	0.5
Total assets	9.3
Bank loans	(3.7)
Other creditors and provisions	(1.2)
Total liabilities	(4.9)
Net assets	4.4

In the last full financial year to 30 June 1998 Fullers Group Limited made a profit after tax and minority interest of £0.3 million. From 1 July 1998 to 30 September 1998, Fullers Group Limited made a loss after taxation of £0.3 million. The above results have been translated at the exchange rates of £1 : NZ\$3.32 for the period to 30 September 1998 and £1 : NZ\$2.66 for the year ended 30 June 1998. The pre-acquisition figures noted above do not reflect any adjustment for Stagecoach accounting policies and were prepared under local accounting policies.

15. Fixed asset investments (continued)

Acquisition of Citybus Group Limited

A voluntary offer for the issued share of Citybus Group Limited was made on 15 February 1999 and the results have been consolidated from 1 March 1999, the date on which a controlling interest was secured. Consideration comprised cash and expenses of £185.4 million. The fair value of the net assets acquired was £81.6 million giving rise to goodwill of £103.8 million which has been capitalised and is being amortised over 15 years.

	Initial book value £m	Restatement to fair value £m	Fair value to the group £m
Intangible fixed assets	2.5	(2.5)*	Nil
Tangible fixed assets	187.4	Nil	187.4
Fixed asset investment	3.6	(2.6)†	1.0
Cash at bank	7.6	Nil	7.6
Other current assets	14.2	(2.0)‡	12.2
Total assets	215.3	(7.1)	208.2
Creditors – within one year	(22.4)	Nil	(22.4)
Creditors – after one year	(104.2)	Nil	(104.2)
Total liabilities	(126.6)	Nil	(126.6)
Net assets	88.7	(7.1)	81.6

* Alignment of policies with those of the group.

† Amounts written off investments to reflect fair value.

‡ Amounts written off debtors and other current assets to reflect fair values and alignment of accounting policies to those of the group.

In the last full financial year to 31 December 1998 Citybus Group Limited made a loss after tax and minority interest of £3.5 million. From 1 January 1999 to the effective date of acquisition, Citybus Group Limited made a profit after taxation of £0.2 million. The above results have been translated at the exchange rates of £1 : HK\$12.7 for the period from 1 January 1999 to date of acquisition and £1 : HK\$12.8 for the year ended 31 December 1998. The pre-acquisition figures noted above do not reflect any adjustment for Stagecoach accounting policies and were prepared under local accounting policies.

The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 January 1999 to the effective date of acquisition, shown on the basis of the accounting policies of Citybus Group Limited prior to acquisition, are as follows:

Profit and loss account	£m
Turnover	19.9
Operating profit	1.5
Interest payable	(1.3)
Profit before taxation	0.2
Taxation	Nil
Profit after taxation	0.2

16. Principal business units

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

Company	Country of Registration or Incorporation	Principal activity
Stagecoach (South) Ltd*	England	Bus and coach operator
Stagecoach (North West) Ltd	England	Bus and coach operator
Stagecoach International Services Ltd	Scotland	Overseas services
East Midland Motor Services Ltd	England	Bus and coach operator
Stagecoach Scotland Ltd	Scotland	Bus and coach operator
Wellington City Transport Ltd*	New Zealand	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
Porterbrook Leasing Co Ltd*	England	Rolling stock leasing co.
Swebus AB*	Sweden	Bus and coach operator
Island Line Ltd	England	Train operating company
South Yorkshire Supertram Ltd	England	Tram operator
Glasgow Prestwick International Airport Ltd*	Scotland	Airport
Stagecoach Portugal Transportes Rodoviários Lda*	Portugal	Bus and coach operator
Stagecoach Queensland Pty Ltd*	Australia	Bus and coach operator
Transportation Auckland Corporation Limited*	New Zealand	Bus and coach operator
Fullers Group Limited*	New Zealand	Ferry operator
Citybus Group Limited*	Hong Kong	Bus and coach operator

*indirectly held

All companies operate in the countries shown above.

The companies listed above include all those which principally affect the amount of profit and assets of the group. A full list of subsidiary undertakings at 30 April 1999 will be annexed to the next annual return.

17. Debtors and prepaid charges

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Trade debtors	76.3	73.1	Nil	Nil
Other debtors	10.5	6.0	Nil	Nil
Prepaid stocks of spares and fuel	13.8	11.5	Nil	Nil
Amounts owed by group undertakings	Nil	Nil	514.2	213.0
Pension scheme prepayment (Note 32d)	21.4	19.5	3.6	1.4
Other prepayments and accrued income	52.8	38.2	10.6	4.8
ACT recoverable	8.1	5.6	8.1	5.2
VAT and other government debtors	11.7	13.6	3.8	3.9
	194.6	167.5	540.3	228.3

Amounts falling due after more than one year included above are:

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Pension scheme prepayment (Note 32d)	21.4	19.5	Nil	Nil
Amounts owed by group undertakings	Nil	Nil	514.2	213.0
Other debtors	6.2	2.5	Nil	Nil
	27.6	22.0	514.2	213.0

18. Creditors

(a) Creditors: Amounts falling due within one year

	Group		Company	
	1999 £m	1998 Restated £m	1999 £m	1998 £m
Bank overdrafts	Nil	0.5	36.5	46.0
Bank loans	49.3	28.6	26.2	19.8
Securitised bonds (Note 18d)	84.1	80.5	Nil	Nil
Loan notes (Note 18c)	78.3	79.3	78.3	79.3
Trade creditors	145.1	128.4	1.2	0.2
Accruals and deferred income	191.4	133.5	17.9	10.0
Dividends payable	27.0	20.4	27.0	20.4
Other creditors				
– UK corporation tax payable	50.4	33.3	15.7	3.6
– ACT payable	Nil	5.2	Nil	5.2
– Overseas tax payable	1.0	0.1	Nil	Nil
– PAYE and NIC payable	15.5	19.3	0.2	0.1
Current portion of HP and lease obligations	64.2	70.9	0.2	Nil
	706.3	600.0	203.2	184.6

18. Creditors (continued)

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

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank loans	318.2	173.8	81.5	107.7
Securitised bonds (Note 18d)	398.6	339.6	Nil	Nil
Eurobonds (Note 18e)	123.7	123.5	123.7	123.5
Non-current portion of HP and lease obligations	110.3	104.8	0.7	Nil
	950.8	741.7	205.9	231.2

(c) Loan notes

The loan notes pay interest at three months Libor and are repayable on demand or if not previously repaid on expiry of the loan notes. £3.4 million of the loan notes expire prior to 1 March 2001 and the balance expires between 31 July 2019 and 31 October 2021.

(d) Securitised bonds

On 18 October 1996 the group issued £545.2 million of bonds, secured on the underlying future lease rental stream payable by train operating companies to Porterbrook Leasing Co Ltd, which are substantially guaranteed by HM Government. Interest on the bonds is payable monthly in arrears on each interest payment date at an annual rate equal to one month LIBOR plus 0.04% to 0.16% in the case of Class A notes and one month LIBOR plus 0.50% in the case of Class B notes. The floating interest rate liabilities were swapped for a fixed rate of 7.19% plus the relevant margin. The bonds will be redeemed in part on each interest date up until the dates noted above. Total repayments of £80.5 million were made in the year to 30 April 1999.

On 1 May 1998 the group issued £140.2 million of asset backed notes ("notes"), secured on the future lease rental stream of new rolling stock. The notes issued comprise:

- £61,358,000 Class A Asset Backed Floating Rate Notes due February 2011
- £53,800,000 Class B Asset Backed Floating Rate Notes due May 2011
- £25,000,000 Class C Asset Backed Floating Rate Notes due May 2011

The notes pay interest quarterly in arrears at an annual rate equal to three month Libor plus 0.375% in the case of Class A notes, 0.75% in the case of Class B notes and 1.2% in the case of Class C notes.

On 1 May 1998 the group also raised £223 million of facilities, secured on the future lease rental stream of new rolling stock. The facilities raised were as follows:

- £110,000,000 European Investment Bank Senior Facility due May 2011
- £23,000,000 Subordinated Facility due May 2011
- £90,000,000 Corporate Facility

The proceeds from the notes and the senior facility are deposited in a pre-funding deposit account. The corporate facility is drawn to make contractual stage payments to manufacturers. As the new trains are delivered amounts are released from the pre-funding account and drawn from the subordinated facilities to make further contractual payments and to repay the corporate facility. The notes and facilities have a first mortgage over certain new rolling stock and a subordinated floating charge over all Porterbrook assets.

Porterbrook has entered into interest rate swaps to swap the floating rate interest liabilities on the notes, senior facility and sub-ordinated facility to a fixed rate of 6.995% plus the relevant margin. The corporate facility floating interest rate has been capped and collared at 7.49% and 6.94% plus the relevant margin.

18. Creditors (continued)

(e) Eurobonds

On 31 October 1997 the group issued £125 million of 7.625% Eurobonds due 2007. Interest on the bonds is payable annually in arrears. Unless previously redeemed or purchased and cancelled, the bonds will be redeemed at their principal amount on 31 October 2007. After taking account of the discount on issue, issue costs and finance costs for the year, the carrying amount at 30 April 1999 was £123.7 million.

(f) Borrowings are repayable as follows

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
On demand or within 1 year				
Bank loans	49.3	28.6	26.2	19.8
Securitised bonds	84.1	80.5	Nil	Nil
Loan notes	78.3	79.3	78.3	79.3
Hire purchase and lease obligations	64.2	70.9	0.2	Nil
Within 1-2 years				
Bank loans	157.7	35.0	53.1	26.2
Securitised bonds	88.9	84.1	Nil	Nil
Hire purchase and lease obligations	46.2	41.6	Nil	Nil
Within 2-5 years				
Bank loans	155.8	134.2	28.4	81.5
Securitised bonds	212.0	218.3	Nil	Nil
Hire purchase and lease obligations	64.1	63.2	0.7	Nil
Over 5 years				
Bank loans	4.7	4.6	Nil	Nil
Eurobonds	123.7	123.5	123.7	123.5
Securitised bonds	97.7	37.2	Nil	Nil
Total borrowings	1,226.7	1,001.0	310.6	330.3
Less current maturities	(275.9)	(259.3)	(104.7)	(99.1)
Long term portion of borrowings	950.8	741.7	205.9	231.2

Interest terms on UK borrowings (except loan notes and Eurobonds) are at annual rates between 0.4% and 0.85% over Bank of Scotland base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates between 4% and 17% and are based on applicable local market borrowing rates.

UK and Swedish Bank loans, overdrafts and Eurobonds are unsecured.

19. Financial liabilities by type and currency

Analysis of financial liabilities by type and currency at 30 April 1999 was as follows:

Currency	HP and lease obligations £m	Bank loans £m	Securitised bonds £m	Eurobonds £m	Loan notes £m	Total £m
Sterling	113.9	132.4	482.7	123.7	78.3	931.0
Swedish Krona	58.2	51.8	Nil	Nil	Nil	110.0
Hong Kong Dollar	Nil	152.9	Nil	Nil	Nil	152.9
New Zealand Dollar	Nil	26.8	Nil	Nil	Nil	26.8
Other	2.4	3.6	Nil	Nil	Nil	6.0
Gross Borrowings	174.5	367.5	482.7	123.7	78.3	1,226.7

Analysis of financial liabilities by type and currency of the group at 30 April 1998 was as follows:

Currency	HP and lease obligations £m	Bank loans £m	Securitised bonds £m	Eurobonds £m	Loan notes £m	Total £m
Sterling	115.2	129.7	420.1	123.5	79.3	867.8
Swedish Krona	57.7	63.1	Nil	Nil	Nil	120.8
New Zealand Dollar	Nil	3.6	Nil	Nil	Nil	3.6
Other	2.8	6.0	Nil	Nil	Nil	8.8
Gross Borrowings	175.7	202.4	420.1	123.5	79.3	1,001.0

20. Interest rate and currency profile of gross borrowings

The interest rate profile of the financial liabilities of the group at 30 April 1999 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	485.5	445.5	931.0	7.4%	3.9
Swedish Krona	110.0	Nil	110.0	n/a	n/a
Hong Kong Dollar	76.0	76.9	152.9	7.0%	1.9
New Zealand Dollar	20.7	6.1	26.8	5.7%	3.0
Other	6.0	Nil	6.0	n/a	n/a
Gross Borrowings	698.2	528.5	1,226.7	7.3%	3.6

As at 30 April 1999 Sterling borrowings of £123.7 million (1998 – £123.5 million) were hedged with a cap and collar with a cap rate of 7.88% and a floor of 5.28%.

The group's policies on managing interest rate risk and currency risk are explained on page 5 of the finance director's review.

20. Interest rate and currency profile of gross borrowings (continued)

The interest rate profile of the financial liabilities of the group at 30 April 1998 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
Sterling	366.1	501.7	867.8	7.5%	5.6
Swedish Krona	120.8	Nil	120.8	n/a	n/a
New Zealand Dollar	3.6	Nil	3.6	n/a	n/a
Other	8.8	Nil	8.8	n/a	n/a
Gross Borrowings	499.3	501.7	1,001.0	7.5%	5.6

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to three months.

21. Interest rate profile of financial net assets

The group has no financial assets other than cash deposits and cash in hand of £321.8 million (1998 – £163.5 million).

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

Currency	Floating rate 1999 £m	Floating rate 1998 £m
Sterling	300.6	150.0
Swedish Krona	12.8	10.8
Hong Kong Dollar	4.1	Nil
New Zealand Dollar	3.2	1.9
Other	1.1	0.8
Cash at bank and in hand	321.8	163.5

22. Currency exposures

As explained on pages 4 and 5 of the finance director's review, the group's objective in managing currency 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. Gains and losses arising from these currency 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 1999 and 30 April 1998 there were no material net transactional exposures.

23. Borrowing facilities

At 30 April 1999 the group had the following undrawn committed borrowing facilities

	1999 £m	1998 £m
Expiring within one year	49.3	20.1
Expiring in more than one year but no more than two years	8.0	3.9
Expiring beyond two years	303.5	115.0
	360.8	139.0

24. 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.

	1999		1998	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments to finance the group's operation				
Cash deposits	321.8	321.8	163.5	163.5
Eurobonds	(123.7)	(131.3)	(123.5)	(124.5)
Short term borrowings and current portion of long term debt	(275.9)	(275.9)	(259.8)	(259.8)
Other long term borrowings	(827.1)	(827.1)	(618.2)	(618.2)
Derivative financial instruments held to manage the interest rate, currency and commodity risk profiles				
Interest rate swaps and similar instruments	Nil	6.0	Nil	5.3
Forward foreign currency contracts, swaps and options	Nil	(3.8)	Nil	1.9
Fuel price swaps	Nil	0.1	Nil	Nil

Interest rate derivatives linked to rolling stock lease contracts have a Fair Value of £(29.7) million at 30 April 1999 (30 April 1998 – £(13.7) million). These have been excluded from the Fair Value table above since they are offset by equivalent gains in the related fixed income lease contracts.

25. Hedge accounting

	Gains £m	Losses £m	Net £m
Unrecognised gain or losses on hedges at start of year	9.5	(2.3)	7.2
Gains or losses arising in previous years that were recognised in the year to 30 April 1999	(0.4)	0.8	0.4
Gains or losses arising in previous years that were not recognised in the year to 30 April 1999	9.1	(1.5)	7.6
Gains or losses arising in the year to 30 April 1999 that were not recognised	8.5	(13.8)	(5.3)
Unrecognised gain or losses on hedges at end of year	17.6	(15.3)	2.3
Of which:			
Gains or losses expected to be recognised within one year	1.8	(1.8)	Nil
Gains or losses expected to be recognised after one year	15.8	(13.5)	2.3
	17.6	(15.3)	2.3

As explained in the finance director's review on page 4, 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.

26. Provisions for liabilities and charges

	Group		Company	
	1999	1998	1999	1998
	£m	Restated £m	£m	£m
Deferred taxation	170.3	172.6	Nil	Nil
Maintenance provision	3.5	3.2	Nil	Nil
Token redemption provision	24.9	24.0	Nil	Nil
Insurance provisions	26.2	26.0	Nil	Nil
Pension provision (Note 32d)	9.2	10.6	Nil	Nil
Other provisions	Nil	2.9	Nil	2.9
	234.1	239.3	Nil	2.9

The maintenance provision relates to contracted maintenance on leased rolling stock used by Sheffield Supertram.

The token redemption provision relates to tokens issued to third parties.

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 pension provision relates to unfunded liabilities established by actuarial review.

Other provisions related to deferred consideration in relation to a recent acquisition. The sale agreement relating to the acquisition was amended during the year and the consideration is no longer contingent on any future performance measures and has been transferred to creditors.

The movement during the year was as follows:

	Deferred taxation £m	Maintenance provision £m	Token redemption provision £m	Insurance provisions £m	Pension provision £m	Other provisions £m
Beginning of year	172.6	3.2	24.0	26.0	10.6	2.9
Charged/(credited) during year	(2.3)	0.3	Nil	0.2	(1.4)	Nil
Arising on sale of tokens during year	Nil	Nil	15.6	Nil	Nil	Nil
Redemption of tokens	Nil	Nil	(14.7)	Nil	Nil	Nil
Reclassification to current liabilities	Nil	Nil	Nil	Nil	Nil	(2.9)
End of year	170.3	3.5	24.9	26.2	9.2	Nil

Deferred taxation has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that only part of the deferred tax liability will crystallise. Deferred taxation has been provided on overseas retained earnings except where capital expenditure and exchange control regulations mean that timing differences will probably not reverse in the near future.

26. Provisions for liabilities and charges (continued)

Deferred taxation is provided as follows:

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Excess of tax allowances over				
book depreciation of fixed assets	157.8	173.1	Nil	Nil
Pension timing differences	5.9	3.3	Nil	Nil
Timing differences related to overseas retained earnings	11.3	10.9	Nil	Nil
Benefit of tax losses	Nil	(2.1)	Nil	Nil
Short term timing differences	(4.7)	(12.6)	Nil	Nil
	170.3	172.6	Nil	Nil

The full potential amount of group deferred taxation (company – £Nil) on all timing differences was as follows:

	1999 £m	1998 £m
Excess of tax allowances over book depreciation of fixed assets	263.3	270.1
Rolled over capital gains	2.7	3.0
Potential taxation that would arise if revalued assets were to be disposed of		
at their revalued amounts	19.0	24.5
Pension timing differences	5.9	3.3
Overseas timing differences	12.5	10.9
Benefit of tax losses	Nil	(2.1)
Short term timing differences	(5.0)	(12.6)
	298.4	297.1

27. Equity share capital

With effect from 19 October 1998, the company's ordinary shares were sub-divided into ordinary shares of 0.5p each.

The comparative figures have been restated to take into account this sub division.

	1999 £m	1998 £m
Authorised		
1,400,000,000 (1998 – 1,300,000,000) ordinary shares of 0.5p each	7.0	6.5
Allotted, called-up and fully-paid		
1,382,528,507 (1998 – 1,216,922,305) ordinary shares of 0.5p each	6.9	6.1

The movement in issued share capital comprises:

	No. of shares	Par value £m	Share premium £m
At beginning of year	1,216,922,305	6.1	509.0
Shares issued in connection with acquisitions	19,722,110	0.1	38.3
Share issues	142,504,970	0.7	299.8
Shares issued in lieu of payment of dividend	843,862	0.0	1.8
Shares issued in conjunction with approved profit sharing scheme	636,206	0.0	1.5
Shares issued on exercise of options	1,899,054	0.0	1.1
Transfer to Other reserve	Nil	0.0	(460.1)
At end of year	1,382,528,507	6.9	391.4

28. Share option schemes

(a) Savings related share option schemes

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

Scheme	Date of issue	Exercise price
A	1 July 1996	66.6p
B	1 April 1998	133.8p

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

	Scheme A		Scheme B	
	Number of employees	Ordinary shares	Number of employees	Ordinary shares
Beginning of year	3,904	8,753,885	4,131	8,885,330
2 for 31 placing adjustment	n/a	34,660	n/a	36,456
Options exercised	(53)	(47,892)	(29)	(11,293)
Lost due to lapsed	(312)	(757,918)	(448)	(1,006,149)
End of year	3,539	7,982,735	3,654	7,904,344

(b) Executive share options

Award Date	Number of executives and directors	At 1 May 1998	Granted	Placing adjustment	Exercised	At 30 April 1999	Exercise price £	Expiry date
3 April 1992	1	61,685	Nil	264	Nil	61,949	0.058	2 April 2002
7 August 1992	2	246,740	Nil	1,056	Nil	247,796	0.058	6 August 2002
9 September 1994	8	373,235	Nil	1,597	(206,500)	168,332	0.313	8 September 2004
13 October 1995	16	1,915,335	Nil	8,196	(1,357,352)	566,179	0.498	12 October 2005
11 October 1996	17	2,241,250	Nil	9,591	(128,046)	2,122,795	1.125	19 October 2006
8 September 1997	23	2,626,250	Nil	11,241	(144,365)	2,493,126	1.322	7 September 2004/07
30 April 1998	1	631,300	Nil	2,702	Nil	634,002	2.271	29 April 2005
19 October 1998	26	Nil	1,785,550	Nil	Nil	1,785,550	2.300	18 October 2005
1 February 1999	2	Nil	54,106	Nil	Nil	54,106	2.5875	31 January 2009
Totals		8,095,795	1,839,656	34,647	(1,836,263)	8,133,835		

All options were granted for nil consideration. The mid-market price for these shares at 30 April 1999 was £2.0975. The company's shares traded in the range £2.04 to £2.925 during the year to that date.

Following on from the placing and open offer in May 1998, both the Savings related and Executive share option schemes were adjusted in terms of both the number of shares and option price. The adjustments were calculated using a formula approved by the Inland Revenue.

29. Reserves

The following amounts are regarded as distributable or otherwise:

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Distributable				
Profit and loss account (Note 12)	325.0	207.4	164.9	109.5
Non-distributable				
Share premium account	391.4	509.0	391.4	509.0
Revaluation reserve	5.6	5.9	Nil	Nil
ESOP distribution reserve	2.1	1.5	2.1	1.5
Capital reserve on consolidation	Nil	3.3	Nil	Nil
Goodwill write off reserve	Nil	(463.4)	Nil	Nil
Other reserve	Nil	Nil	460.1	Nil
Other reserves	Nil	(460.1)	460.1	Nil

Profit for the financial year comprises:

	1999 £m	1998 £m
Company	96.3	118.7
Subsidiary undertakings	62.1	(5.2)
	158.4	113.5

The movement on non-distributable reserves is as follows:

	Group and Company: Share premium £m	Group: Revaluation reserve £m	Group and Company: ESOP Distribution Reserve £m	Group: Capital reserve £m	Group: Goodwill write-off reserve £m	Company: Other reserve £m
Beginning of year	509.0	5.9	1.5	3.3	(463.4)	Nil
Arising on new share issues	347.9	Nil	Nil	Nil	Nil	Nil
Expenses on issue of shares	(5.4)	Nil	Nil	Nil	Nil	Nil
Transfer between reserves	(460.1)	Nil	Nil	(3.3)	463.4	460.1
Revaluation reserve release	Nil	(0.2)	Nil	Nil	Nil	Nil
Revaluation reserve realised on disposal	Nil	(0.1)	Nil	Nil	Nil	Nil
ESOP distributed during year	Nil	Nil	(1.5)	Nil	Nil	Nil
ESOP provided during year	Nil	Nil	2.1	Nil	Nil	Nil
End of year	391.4	5.6	2.1	Nil	Nil	460.1

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

30. Minority interests

The movement in minority interests is as follows:

	£m
At beginning of year	0.3
Share of loss for year	(0.1)
Eliminated on disposal	(0.2)
End of year	Nil

At 30 April 1998, the minority interest represented the interests of 5% in Kenya Bus Services, held by the municipal authority in Nairobi. During the year the group disposed of its 95% interest in Kenya Bus Services.

31. Consolidated cash flows

(a) Reconciliation of operating profit to net cashflow from operating activities

	1999 £m	1998 £m
Operating profit of group companies	257.3	216.3
Depreciation	186.2	190.3
Profit on sale of tangible fixed assets	(0.7)	(0.1)
Goodwill amortisation	1.8	Nil
Increase in debtors	(12.3)	(8.1)
ESOP distribution	2.1	1.8
Increase/(decrease) in creditors	20.6	(11.1)
(Decrease)/increase in provisions	(2.7)	24.3
Net cash inflow from operating activities	452.3	413.4

(b) Reconciliation of net cashflow to movement in net debt

	1999 £m	1998 £m
Increase/(decrease) in cash	160.6	(26.2)
Eurobond issue	Nil	(123.5)
Cash flow from (increase)/decrease in debt and lease financing	(27.3)	149.5
	133.3	(0.2)
Loans and finance leases of acquired/disposed subsidiaries	(110.1)	(14.1)
New HP and lease obligations	(95.4)	(102.2)
Eurobond issue costs	(0.2)	Nil
Translation adjustment	6.8	4.3
Movement in cash collateral	(1.3)	7.9
Increase in net debt	(66.9)	(104.3)
Opening net debt	(838.0)	(733.7)
Closing net debt	(904.9)	(838.0)

31. Consolidated cash flows (continued)

(c) Analysis of net debt

	Opening £m	Cash flows £m	Cash collateral £m	Other non cash £m	Acquisition/ disposal £m	Exchange movement £m	Closing £m
Cash	53.9	160.6	Nil	Nil	Nil	(0.5)	214.0
Cash collateral	109.1	(0.7)	(0.6)	Nil	Nil	Nil	107.8
HP and lease obligations	(175.7)	93.5	Nil	(95.4)	Nil	3.1	(174.5)
Loan notes	(79.3)	0.4	0.6	Nil	Nil	Nil	(78.3)
Bank loans	(202.4)	(59.2)	Nil	Nil	(110.1)	4.2	(367.5)
Eurobonds	(123.5)	Nil	Nil	(0.2)	Nil	Nil	(123.7)
Securitised bonds	(420.1)	(62.6)	Nil	Nil	Nil	Nil	(482.7)
Totals	(838.0)	132.0	Nil	(95.6)	(110.1)	6.8	(904.9)

The total of cash and cash collateral is shown in the balance sheet in cash at bank and in hand of £321.8 million (1998 – cash at bank and in hand of £163.5 million less bank overdrafts of £0.5 million).

(d) Restricted cash

Included in cash at 30 April 1999 are balances held in trust in respect of Porterbrook loan stock of £70.5 million (1998 – £71.1 million), South West Trains season tickets of £30.0 million (1998 – £29.1 million), a South West Trains performance bond of £7.3 million (1998 – £7.3 million), and Porterbrook restricted prefunding cash of £124.1 million (1998 – Nil).

(e) Purchase of subsidiary undertakings

	Yellow Bus £m	Fullers £m	Citybus £m	Other acquisitions £m	Total £m
Net assets					
Tangible fixed assets	18.7	8.6	187.4	0.4	215.1
Fixed asset investments	Nil	Nil	1.0	Nil	1.0
Other current assets	1.9	0.5	12.2	Nil	14.6
Cash at bank	1.0	0.2	7.6	Nil	8.8
Bank loans	Nil	(3.7)	(108.3)	Nil	(112.0)
Other creditors	(3.2)	(1.2)	(18.3)	(0.5)	(23.2)
Fair Value	18.4	4.4	81.6	(0.1)	104.3
Goodwill	16.9	2.2	103.8	0.6	123.5
Consideration					
Cash paid in year	35.3	3.4	164.1	0.5	203.3
Deferred consideration	Nil	3.2	Nil	Nil	3.2
Accrued consideration	Nil	Nil	21.3	Nil	21.3
	35.3	6.6	185.4	0.5	227.8

None of the subsidiary undertakings acquired during the year to 30 April 1999 had a material impact on cash flows.

31. Consolidated cash flows (continued)

(f) Sale of businesses

	Kenya £m
Net assets	
Tangible fixed assets	11.9
Other current assets	1.4
Bank loans	(1.9)
Bank overdrafts	(0.6)
Other creditors	(4.0)
	6.8
Loss on disposal	(3.8)
	3.0
Satisfied by:	
Deferred consideration	3.0

The subsidiary undertaking disposed of during the year did not have a material impact on cash flows.

32. Guarantees and other financial commitments

(a) Guarantees

The company is a party to bank guarantees in respect of guarantee and overdraft facilities provided to certain group undertakings of which £5.2 million was outstanding at 30 April 1999 (1998 – £4.9 million) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments

Capital commitments are as follows:

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Contracted for but not provided				
For delivery in one year	415.3	182.5	40.0	49.3
in two years	10.4	250.6	Nil	Nil
in three years and beyond	Nil	1.8	Nil	Nil
Authorised but not contracted for	21.9	92.8	3.6	Nil
	447.6	527.7	43.6	49.3

At 30 April 1999, £39.9 million of the total capital commitments relates to overseas operations (30 April 1998 – £18.1 million).

(c) Operating lease and similar commitments

South West Trains Limited has contracts with Railtrack plc for access to the railway infrastructure (track, stations and depots) for a period of four years. South West Trains Limited also has contracts which commit it to lease rolling stock from Angel Trains Contracts Ltd and Forward Trust Leasing Ltd.

The annual commitments due under these operating leases are as follows:

	1999 £m	1998 £m
Under one year	1.3	Nil
Between one year and five years	169.7	170.9
Five years and over	Nil	Nil

32. Guarantees and other financial commitments (continued)

(d) Pension commitments

The group operates or participates in a number of defined benefit occupational pension schemes in the UK, covering the majority of employees. These schemes are devised in accordance with local employment terms and conditions, administered independently of the employers and assets are held in trust which are managed independently of the group's finances by investment managers appointed by the schemes' trustees.

The principal schemes are those operated for bus employees under the Stagecoach Group Pension Scheme ("SGPS"), or where group subsidiary undertakings are members of the Railways Pension Scheme ("RPS"), an industry-wide arrangement for employees of those companies previously owned by British Railways Board, or where group subsidiary undertakings are participating employers in schemes operated by local authorities ("LGPS") and subject to relevant local government regulations. Provision is also made for unfunded obligations for employees of Swebus.

The UK defined benefit schemes are fully funded. The employers' SSAP24 funding rate for contributions varies between 6.6% and 7.5% per annum. Contribution rates are determined by independent actuaries on the basis of triennial valuations using the projected unit method. The assumptions having the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in earnings and pensions. It is assumed for SSAP24 that investment returns, net of management expenses, will exceed long term earnings growth by an average of at least 3% per annum and that dividend growth will keep pace with inflation. Present and future pensions are assumed to increase at an average rate of 4.5% per annum.

The key details of each UK scheme are as follows:

	Latest actuarial review	Funding level %	Market value £m	Employer's cost		Balance sheet asset (net)	
				1999 £m	1998 £m	1999 £m	1998 £m
SGPS	April 1997	123	142	10.4	10.4	5.0	2.8
RPS	March 1996	164	144	1.4	2.4	Nil	0.3
LGPS	March 1998	128	169	1.6	2.3	14.3	15.1
Other UK	1995–1997	100	22	Nil	0.2	Nil	Nil
			477	13.4	15.3	19.3	18.2

In addition to the above Swebus has a provision at 30 April 1999 for unfunded liabilities of £5.7 million (1998 – £7.0 million). The UK bus division has a total provision at 30 April 1999 for unfunded liabilities of £3.5 million (1998 – £3.6 million). The Swebus employer's pension cost during the year to 30 April 1999 was £5.7 million (1998 – £7.0 million). Other overseas companies show a balance sheet asset at 30 April 1999 of £0.5 million (1998 – £0.2 million).

A net prepayment at 30 April 1999 of £12.2 million (30 April 1998 – £8.9 million) is included in the group's consolidated balance sheet in respect of the sum of cumulative differences between contributions paid by the employers into the schemes, the charge to the profit and loss account and the employers' share of surpluses and unfunded liabilities remaining in the schemes.

32. Guarantees and other financial commitments (continued)

(e) Contingent liabilities

- (i) The group's contingent liability for the full potential amount of deferred taxation on all timing differences is detailed in Note 26.
- (ii) Twenty-one of the group's properties are the subject of contractual obligations to pay a share of the open market value to the former owners but only on the occurrence of certain specified events. The periods of these contractual obligations lapse on various dates between 1999 and 2005. There are no intentions to dispose of any of these properties at 30 April 1999.
- (iii) A performance bond backed by Bank of Scotland for £21 million and a holding company guarantee of £20.9 million have been provided to the Director of Passenger Rail Franchising in support of the group's franchise obligations at South West Trains Limited at 30 April 1999. These contingent liabilities are not expected to crystallise.

33. Post Balance Sheet Events

On 7 May 1999 the group acquired 45% of Hong Kong Kwoon Chung (Chongqing) Bus Investment Limited "HK Kwoon Chung" for a total consideration of £2.0 million. HK Kwoon Chung has a 55% interest in a joint venture which operates 576 buses in Chongqing in South West China.

On 3 June 1999 the group announced the proposed acquisition of an initial 35% stake in the Sogin Group, the largest privately managed operator in the Italian bus and coach market, for a consideration of approximately £23.5 million in cash. In addition, a put option has been granted to acquire a further 10% for a maximum consideration of £8.9 million.

On 14 June 1999 the group announced its proposed acquisition of Coach USA, Inc. for a consideration of approximately £773 million. In addition the group will assume Coach USA's indebtedness which as at 28 May 1999 was £474 million. The acquisition is subject to shareholder approval and full details were included in the circular sent to shareholders on 25 June 1999.

On 23 June 1999 the rating agency, Standard & Poor's assigned the group a long term credit rating and senior unsecured debt rating of BBB.

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STAGECOACH *HOLDINGS PLC*

**CHARLOTTE HOUSE
20 CHARLOTTE STREET
PERTH PH1 5LL**

**TELEPHONE 01738 442 111
FACSIMILE 01738 643 648**

WEBSITE www.stagecoachplc.com