

# STAGECOACH *HOLDINGS PLC*

Annual Report 2001

I N V E S T I N G I N T H E F U T U R E



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# STAGECOACH HOLDINGS PLC

COMPANY NUMBER SC 100764

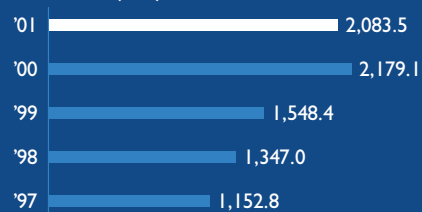
I N V E S T I N G I N T H E F U T U R E



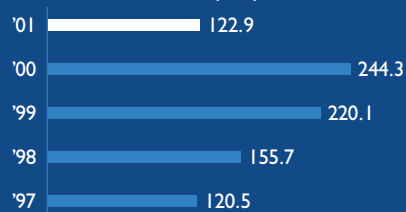
## FINANCIAL CALENDAR

|                        |                 |
|------------------------|-----------------|
| Annual General Meeting | 31 August 2001  |
| Final Dividend         | 10 October 2001 |
| Interim Report         | December 2001   |
| Interim Dividend       | March 2002      |

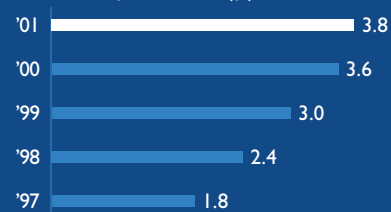
### Turnover (£m)



### Profit before tax\* (£m)

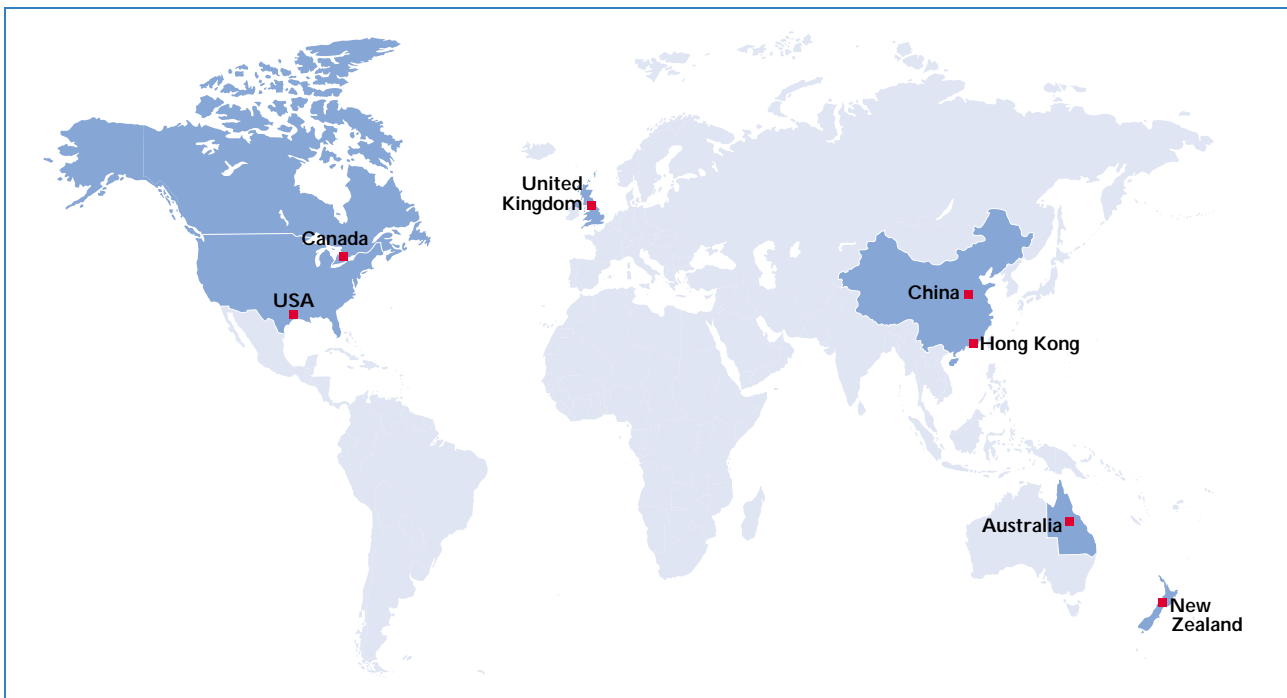


### Dividend per share (p)



\*before goodwill amortisation and exceptional items

Stagecoach continues to invest in its  
core bus and rail businesses to  
deliver tangible benefits to  
shareholders, customers and employees



## Financial Highlights

Turnover excluding discontinued operations £2,067.3 million, up 17.4%

Profit before tax, goodwill amortisation and exceptional items £122.9 million (2000 – £244.3 million)

Final proposed dividend 2.5p, up 4%, total for year 3.8p (2000 – 3.6p)

Pre-tax loss £316.5 million (2000 – profit £182.3 million)

£376 million impairment of Coach USA goodwill

Adjusted earnings per share 7.8p (2000 – 13.4p)

Basic loss per share 24.8p (2000 earnings – 9.4p)



## Chairman's statement

'The continued increase in the dividend reflects our confidence in the Group's future prospects and is underpinned by our continued strong cash flows'

This year has been a period of consolidation for the Stagecoach Group. Turnover from continuing operations for the year was £2,067.3 million (2000 – £1,760.7 million) and operating profit before exceptional items and goodwill amortisation from continuing operations was £197.8 million (2000 – £209.0 million). These results include a first full year contribution from Coach USA.

While we continue to make good progress with the integration of Coach USA the business has not met the profit expectations that we envisaged at the time of our acquisition. As a result, we have revised our expectations regarding future profitability and have recorded a write down of Coach USA goodwill of £376.0 million.

This has resulted in an overall reported pre-tax loss for the year of £316.5 million. This write down of goodwill does not affect the Group's continued strong cash flows or financing arrangements.

Earnings per share before goodwill amortisation and exceptional items were 7.8 pence (2000 – 13.4 pence). A final dividend of 2.5 pence per share (2000 – 2.4 pence) is proposed, giving a total dividend for the year of 3.8 pence (2000 – 3.6 pence). The continued increase in the dividend reflects our confidence in the Group's future prospects and is underpinned by our continued strong cash flows.

Recent events, including the tragic accident at Hatfield, have again highlighted the importance of rail safety and the safety of all customers and employees continues to be paramount. Rail operating performance has been affected during the year by emergency engineering work carried out by Railtrack. Conditions for our customers and staff at both South West Trains and Virgin Rail Group have been difficult. While South West Trains had returned to normal operating conditions by mid-February, due to the nature of its two franchise national network, progress at Virgin Rail Group was slower and this had an impact on its financial results in the year. However, I am pleased to report that a compensation settlement satisfactory to both Virgin Rail Group and Railtrack has now been agreed.

Stagecoach Group, along with others in the industry, remains firmly committed to rebuilding the confidence of passengers and

working in partnership with government and its appointed regulators to deliver a modern, efficient and safe railway.

Achieving this aim will require significant investment and Stagecoach already has a proven investment record in both bus and rail. The Group – either directly with South West Trains or through Virgin Rail Group – has now arranged investment in more rolling stock than any other train operator. As these new trains come into service all parties in the railway industry will require to work together to improve the quality of service to our customers.

We were, of course, delighted to be awarded preferred bidder status for a new 20-year franchise at South West Trains and are currently working with the Strategic Rail Authority and Railtrack to finalise a new franchise agreement that will allow us to begin introducing exciting improvements to the South West Trains network. In partnership with Siemens and Angel Trains we have already placed new rolling stock orders worth in excess of £1 billion for the new franchise for delivery from Autumn 2002 onwards. This investment will eliminate all slam door trains in South West Trains by the end of 2004.

Dr Janet Morgan joined the Board as an independent non-executive during the year and I am delighted that we will be benefiting from her knowledge and experience. Barry Sealey, our senior independent non-executive director, has expressed a desire to retire and has therefore decided not to seek re-election at the AGM in August. I would like to put on record my personal thanks to Barry for the outstanding contribution he has made to the Group over the last nine years. We wish him an enjoyable and well earned retirement. Robert Speirs will replace Barry as the senior independent non-executive and we intend to appoint another independent non-executive director in due course.

Frank Gallagher has indicated his intention to retire from his duties as CEO of Coach USA and his main Board responsibilities at the forthcoming AGM but I am pleased that we will continue to benefit from Frank's knowledge and experience as non-executive Chairman

of Coach USA. I would like to thank him for his contribution to the Stagecoach Board over the last 16 months. A new CEO for Coach USA will be appointed in early course. Keith Cochrane will continue to drive forward the ongoing business changes.

The last 18 months have been a challenging and often difficult period for our Group. However, our businesses continue to be underpinned by strong cash flows and a significant proportion of our revenues have displayed good organic growth. Our Taxi division at Coach USA and our Asia-Pacific businesses are notable examples of this. We remain focused on our core bus and rail businesses in our selected geographic markets and will continue to explore ways of generating further value for shareholders by reviewing the overall mix of our portfolio with a clear objective to maximise our return on capital employed. Trading performance to date at Coach USA has been disappointing for all of us but we remain firmly of the view that North America still provides significant growth opportunity for the Group in the longer term.

The new South West Trains franchise is a very exciting development for us and we are also working closely with our partners at Virgin to restore train performance and reliability and this is progressing well, aided by the introduction of new trains on the Cross Country network.

Our people around the world are, and always will be, our greatest assets and their commitment and support remains invaluable. We will continue to give our staff the leadership, tools and confidence to serve our customers well.

I believe we are well placed to meet the opportunities and challenges of the current financial year.



BRIAN SOUTER  
Chairman



## Chief Executive's review

'The strategy remains firmly focused on our core bus and rail businesses in the United Kingdom, North America and the Asia Pacific region'

During the last financial year, my priority has been to consolidate our existing operations and put in place a firm foundation for growth. The strategy remains firmly focused on our core bus and rail businesses in the United Kingdom, North America and the Asia Pacific region. The successful disposals of our non-core interests in Glasgow Prestwick International Airport and Portugal were consistent with this strategy.

My primary focus during the year has been the continued restructuring of Coach USA. While the overall trading performance during the year has continued to be below expectations, in the second half we have seen some improvement in underlying cost and revenue trends. I am also encouraged by the progress that has been made in a number of areas across the business. Our taxi and transit divisions have performed well, our scheduled line run businesses have continued to achieve good organic growth and each of the acquisitions completed in the last 18 months has performed strongly.

Our priority has been to increase our return on capital through improved fleet utilisation and increased operational efficiency.

We have rolled out our restructuring programme across all regions and we have also concentrated on the individual under-performing business units in our portfolio which represent in total some 25% of revenues yet only contribute 1% of operating profits. We have reallocated or retired over 400 vehicles across the business and a number of operating units have been targeted for sale or closure. Clear action plans have been identified for all under-performing units and the implementation of these is progressing. We are also now seeing the benefits of scale emerging from the restructuring programme, particularly savings in the North East region where significant cost reductions have been achieved in procurement.

I have now implemented significant management changes at Corporate, Regional and Company level. We have been successful in attracting a number of experienced and knowledgeable managers from both inside and outside the motorcoach industry in North America. We have also appointed some of our most experienced UK Bus managers to key positions at Coach USA. Frank Gallagher

has indicated his desire to retire as an executive at the forthcoming AGM and we are at an advanced stage in the search for a new CEO for Coach USA.

Improved performance at Coach USA is not just about cost reductions but also delivery of revenue growth. Key initiatives in the last year include the recent launch of a new sightseeing product in New York City that will see the introduction of 40 new double deckers. The response to the launch has been very positive and we are optimistic for the future. A similar initiative has been launched in Chicago and we plan to roll out this product to other major cities in North America in the next 12 months. In Anaheim, California, we have been working closely with the City Council to provide a new comprehensive bus service network to support the new and enlarged Disneyland theme park that opened earlier this year. Our transit division continues to win new contracts and has achieved year on year revenue growth of over 10%. We are encouraged that, despite heavy competition, Coach USA continues to win and retain contracts on sound commercial terms. Our taxi division continues to see strong revenue growth and good profitability and has achieved positive results from the introduction of wheelchair accessible cars in a number of markets.

We have made a small number of acquisitions in the current year, most of which have been in the taxi division, and all of these acquisitions have outperformed our original expectations. There remains a significant number of acquisition opportunities in the highly fragmented North American market but we will continue with our strategy of only making selective acquisitions that meet our rigid financial and non financial investment criteria and that are able to be integrated easily within our existing management structure.

Our UK bus division continues to operate in a challenging labour environment but remains very well positioned to support and take advantage of the Government's 10 year transport plan which I believe offers a number of exciting opportunities to re-invigorate the UK Bus market. We intend to play a leading part in meeting the Government's objective of at least a 10% increase in passenger volumes over the period to 2009.



## Chief Executive's review

'There remain many opportunities for obtaining organic growth and each UK Bus operating company has identified its core routes and has developed a clear strategy for further developing these routes'

Excluding those business units that were impacted by industrial action during the year, we estimate that passenger volumes increased by around 1%. We have experienced strong passenger growth within particular regions during the year, notably in London, Manchester, Cambridge, Oxford and Cheltenham. For UK Bus as a whole, the effects of industrial action and declining passenger levels in rural areas have, however, resulted in a small overall decline in passenger numbers.

The industrial action during the year combined with cost increases ahead of inflation have put pressure on our operating margins. Our strategy is to target investment and deployment of our operating assets in those parts of the business where we can maximise shareholder value. Management focus is on achieving revenue growth and a number of commercial initiatives are underway to support this strategy with an emphasis on the development of core routes. There remain many opportunities for obtaining organic growth and each UK Bus operating company has identified its core routes and has developed a clear strategy for further developing these routes. A programme of implementation for these strategies has already commenced.

We have already redeployed a number of vehicles to parts of the network where we believe we can generate additional organic growth. As part of this strategy we also disposed of four depots in the North West of England and we are continuing to review the portfolio mix to ensure that we achieve the best use of capital.

In London we have been encouraged by the progress made by Transport for London, with a renewed emphasis on quality rather than price in evaluating tenders. We anticipate growth in the London bus market as a result of the initiatives being introduced by Transport for London. Our two London companies are ranked highly for punctuality and reliability and we are therefore well positioned to benefit from the many opportunities in this market. Of our 18 contracts that were re-tendered during the year we retained 14, all at improved operating margins. We also won a further four new contracts.



Our growth strategy is being supported by the introduction of smartcard technology through Prepayment Cards Limited, in which we are a shareholder. Our first Smartcard project is due to be implemented in Manchester later this year.

Our Citybus operation in Hong Kong has again outperformed the expectations set at the time of our acquisition in 1999 and continues to show strong organic revenue growth and margin improvement with the full benefit of our restructuring programme being realised in the current year. I am also pleased to report that we have been advised by the Hong Kong SAR Government that there are no plans to carry out a mid-term franchise review at this stage and they have encouraged us to seek a renewal of our franchised operations over the coming months.

Our operations in New Zealand have seen good revenue growth and are still achieving acceptable operating margins helped by a fares increase and further passenger volume growth in Auckland. Our New Zealand operations have now achieved their eighth year of passenger volume growth. As a leading bus operator in New Zealand we are greatly encouraged by the New Zealand Government's funding support for public transport and we are working with the regional councils on a number of specific initiatives to further increase the use of public transport.

The Group announced on 18 June 2001 the disposal of its Portuguese bus operations. Portugal has been a good market for the Group over several years but the scale of the operation and its geographic location was no longer consistent with Group strategy and we felt that the price offered represented good value for our shareholders.

Our UK Rail division remains totally committed to providing a safe operating environment for passengers and employees alike. We continually review our safety standards and processes throughout all of our operations and regularly conduct extensive internal and external safety audits.

Operating performance at South West Trains and Virgin Rail Group was significantly affected by the extensive disruption to the national rail network following the imposition of emergency and temporary speed restrictions by Railtrack after the accident at Hatfield. Great credit goes to the management and staff at both businesses for their sterling efforts in trying to provide the best possible service in very difficult operating conditions. I would also like to acknowledge the continued support of all of our passengers.

However, I am pleased to report that at South West Trains, train operating conditions have improved and the rate of growth in passenger volumes is now returning to the levels being achieved before the disruption occurred. Despite the operating difficulties, continued passenger volume growth has underpinned strong revenue growth and we are able to report operating profits ahead of last year.

The underlying performance of South West Trains reinforces our view that the demand for rail travel to and from London will continue to grow in the years ahead. Innovative solutions to service this growing demand formed a key part of our bid for a new 20-year franchise for South West Trains and we were extremely pleased to be selected as preferred bidder for the new franchise by the Strategic Rail Authority. The basis of our bid is a substantial investment package of incremental improvements to increase capacity to match this growing demand with increased capacity at Waterloo station a key priority. Our challenge and priority is to deliver passenger benefits as early as possible but with minimum disruption to the service that we provide and no compromises on safety. We have already taken an important first step with a £1 billion order for new rolling stock. We are now working with the Strategic Rail Authority and Railtrack to finalise the new franchise agreement as well as adding to our strong Rail management team to meet the challenges ahead.

Like all the other major inter-city train companies, operating performance of the Virgin Rail Group franchises of West Coast and Cross Country was significantly affected. The effect on passenger

numbers and related revenues has had an impact on the financial performance of Virgin Rail Group during the year. As a result, we have had to bear our share of operating losses for the year ended 30 April 2001. However, a satisfactory agreement regarding compensation for the disruption has now been reached with Railtrack.

The inter-city rail network has still not fully returned to normal and while we are encouraged that passengers are returning to the railway it is still too early to fully evaluate what the long-term impact of Hatfield might be. The success of the Virgin Rail Group franchises is dependent on long-term passenger volume growth arising from major new investment in trains and infrastructure. The first steps in meeting this challenge have now been achieved with the introduction of the new trains on the Cross Country franchise in May 2001. On West Coast, the first Pendolino tilting train is now on test and management is committed to delivering better service to passengers. Virgin Rail Group is working closely with Railtrack on the necessary infrastructure improvements and we are confident that they will honour their contractual obligations.

thetrainline.com, Virgin Rail Group's national rail ticket distribution company was also impacted by the rail disruption during the year. Virgin and Stagecoach have continued to support the business during this difficult trading period because we believe that the ticketing solutions provided by thetrainline.com are an integral part of providing a modern and efficient rail network. The business continues to benefit from technical support from Cap Gemini – Ernst and Young who have made significant investment to support the business and I am pleased to report that a revised contractual framework necessary to underpin the future profitable development of the business in the short to medium term has been agreed.

In summary, there are many opportunities in each of our markets and I believe that the outlook for the Group is positive. Nevertheless, there are undoubtedly a number of challenges facing our management teams. The overall trading performance at

Coach USA since our acquisition has clearly been disappointing. The reported operating results, while below expectations, are the base from which we must now move forward to improve margins to a satisfactory level. While the economic environment in the USA remains uncertain, I have outlined a number of our ongoing initiatives across the business and I am confident that we will see benefits from this effort in the current year. I believe that we can now move forward in the expectation that sustainable profit improvement and revenue growth can be realised. Bolt-on acquisitions will continue to be made at Coach USA where these complement our operating strategy.

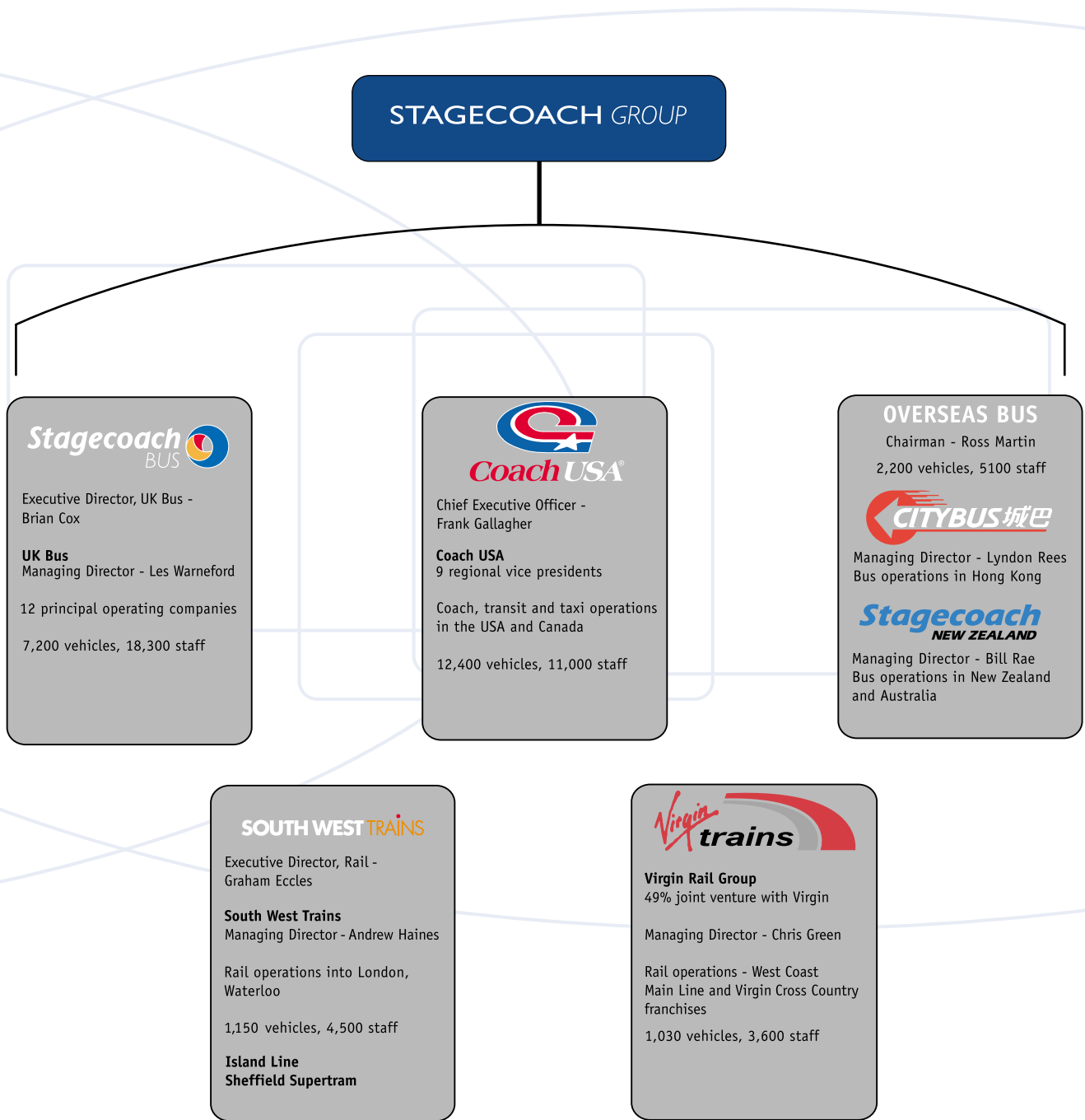
The award of a preferred bidder status for a new 20-year rail franchise at South West Trains provides the Group with a leading role in the UK rail industry with all of the opportunities that this can bring. The Group has been shortlisted for the Thameslink franchise renewal and will actively bid for the new Wessex franchise where we believe we are well placed to take advantage of economies of scale with the South West Trains franchise. The management of Virgin Rail Group will be working hard in the coming months to fully recover from the effects of Hatfield. With new trains already being introduced we remain confident about the future and would anticipate that Virgin Rail Group will be profitable in the current financial year. We believe that together with Virgin and Bechtel, we have put forward a strong bid for the new 20-year East Coast Mainline Franchise and eagerly await a decision from the Strategic Rail Authority.

We now move forward with the confidence and knowledge that we have the management capability and financial resources to deliver on the opportunities and challenges ahead.



KEITH COCHRANE  
Chief Executive

# Stagecoach Group



# Investing in the future . . . investing in people . . . investing in vehicles . . .



It was a year of change for Stagecoach's UK Bus division, with a structural reorganisation into 12 new companies, new branding and livery for the buses, and the placing of Britain's biggest bus order. UK Bus was reorganised into 12 regional companies, remaining



close to the communities they serve, but reporting through a new structure with centralised functions, including engineering and procurement, commercial and marketing, and finance, all based in Perth under the direction of Executive Director, Brian Cox.

UK Bus introduced a new logo and bus livery, retaining Stagecoach's traditional colours of red, blue and orange, but in a distinctive sweeping modern design which emphasises the fleet's low average age. The redesign includes a new interior with revised seat materials incorporating the new logo, "red carpet" flooring and orange handrails designed specifically to help the physically disabled, producing a safe bright interior which has been welcomed by groups representing people with physical disabilities.

The rebranded UK Bus division also embarked on its first nationwide bus marketing campaign, named Fuelsaver, targeted at highlighting the rising cost of running a car in comparison with travelling by bus.

At the turn of the year, Chancellor Gordon Brown met Chief Executive Keith Cochrane for the signing of Britain's biggest bus order from Transbus Alexander. The bulk of the order is destined for our London fleet as part of our quality partnership with Transport for London, where our two companies are ranked highly in the TfL performance tables.

For UK Bus, it was a year of new livery, new management, new vehicles – and a whole new image . . .



# Investing in the future . . . investing in people . . . investing in vehicles . . .



Coach USA's restructuring includes a number of initiatives to spur performance, the highest-profile of which was the launch of the first new double-deckers in North America for half a century.

The triple-axle open-top double-deckers, built by Transbus Alexander, were previewed in Scotland in March when Chief Executive Keith Cochrane took Scottish First Minister Henry McLeish through the streets of Edinburgh in a fully-liveried New York Sightseeing bus. Then in April in New York, Chairman Brian Souter hosted the introduction of the first vehicles from our





fleet of 40 new open-top double-decker buses at an event in Times Square as part of Tartan Week, complete with pipe bands, Broadway stars and politicians from Scotland and New York, under the slogan "Scottish-owned, Scottish-built".

For New York City, the key to the new fleet's success lies in the fact that the new buses are environmentally-friendly. This represents a visible step-change on the old fleets of imported double-deckers. The impact of the \$12 million investment is already being seen in a rise in take-up for Gray Line New York's sightseeing services.

Coach USA intends to introduce double-deckers to its sightseeing businesses in other cities in North America and has recently started a new open-top double-decker service in Chicago.

In other initiatives, Coach USA has won the contract for the new Disneyland theme parks in Anaheim, California. The city of Anaheim had the vision to improve public transport in the resort to carry visitors between the hotels, the theme parks and downtown. We have been working with the city and have designed a new bus network which provides for up to seven routes operating every 10 minutes from early morning until late into the night.

Both our Transit and Taxi businesses are going from strength to strength, with Transit winning new contracts and Taxi seeing strong growth. Coach USA has also invested heavily in people and training, with the opening of Coach College, a country-wide training scheme aimed at improving individual skills of staff. Coach College facilitates the transfer of skills among our staff in North America, who are typically geographically widespread.

Investment extends to our Overseas Bus division, where both New Zealand and Hong Kong operations are performing strongly.

Hong Kong's Citybus, which has been in the vanguard of developing smart card ticketing, has now extended its investment programme to include on-bus flat-screen televisions. In an environmentally-sensitive city, Citybus has converted its fleet to low-sulphur diesel, and is also testing an electric trolley-bus.

At home or overseas, Stagecoach Group's commitment to investment remains the same . . .



Investing in the future . . . investing in people . . .

**SOUTH WEST TRAINS**

## investing in rolling stock

As the Government's franchise renewal programme gathers speed, Stagecoach's strategy of bidding for high volume commuter routes and for long-distance franchises in partnership with Virgin remains on track.

In April, Stagecoach Group was announced as preferred bidder for the South West Trains franchise, Britain's busiest railway, running 1700 trains a day into London Waterloo. Deputy Prime Minister John Prescott said: "Today marks a fresh start for our railways." Chief Executive Keith Cochrane welcomed the early decision and promised a step-change in customer service for South West Trains.

Less than a month later, Stagecoach signed Britain's biggest order for new trains, with a £1 billion order for 785 coaches from Siemens Transportation, leased through Angel Trains. Chief Executive Keith Cochrane said the deal enabled slam door trains to be eliminated from South West Trains' network by the end of 2004. "We have signed this deal at the earliest possible opportunity," said Mr Cochrane. "We will now work closely with the Strategic Rail Authority, our passengers and our staff to build a new railway for the 21st century."

Virgin Rail Group, Stagecoach's joint venture with Virgin, was – like all long-distance operators – affected by post-Hatfield speed restrictions, but our investment programme backed by strong marketing continues to attract passengers back to Britain's railways.







In May, the first Voyager trains built by Bombardier for Virgin CrossCountry went into service out of Birmingham, and will become a common sight around the country as a new train set is delivered every week. These new generation trains are set to transform the image of CrossCountry, which inherited British Rail's oldest trains.

Investment in new trains is also being made for the West Coast franchise. The first new West Coast Pendolino train has been on test since February 2001, undergoing dynamic testing at high speed. The second test train arrived in May 2001 and successfully completed its first tilting test-run on 26 June.

Investment remains the key. Stagecoach, either directly with South West Trains, or in partnership with Virgin, has now ordered more new rolling stock than any other rail company – a clear commitment to investing in the future of Britain's rail industry and a ringing endorsement of the need for a fresh start . . .



## UK Bus: Operating review

'We are placing very high priority on improved driver recruitment and retention, to enable us to run more reliable services as a foundation for growth, and to reduce the high costs associated with driver turnover'

Our UK Bus business is well positioned to benefit from the opportunities and challenges presented in the Government's 10-Year Transport Plan. Excluding those business units that were impacted by industrial action during the year, we estimate that passenger volumes increased by around 1%. We have experienced strong passenger growth within particular regions during the year, notably in London, Manchester, Cambridge, Oxford and Cheltenham. For UK Bus as a whole, the effects of industrial action and declining passenger levels in rural areas have resulted in a small overall decline in passenger numbers.

### Financial Performance

Overall, UK Bus turnover increased 3.9% to £547.6 million (2000 – £527.0 million). Operating profit before goodwill amortisation and exceptional items was £73.4 million (2000 – £80.8 million), representing a reduction in operating margin from 15.3% to 13.4%. In addition, exceptional costs of £1.5 million (2000 – £Nil) have been charged in respect of necessary environmental work required at our UK Bus depots following a change in legislation.



Operating costs have continued to increase ahead of inflation, most notably in respect of staff costs. The industry-wide pressures on wage inflation and recruitment shortages have continued during the current financial year. We are placing a very high priority on improved driver recruitment and retention, to enable us to run more reliable services as a foundation for growth, and to reduce the high costs associated with driver turnover.

Improvements during the year in the areas of driver recruitment and retention led to a 50% reduction in lost mileage in the year.

We experienced a year-on-year increase in fuel costs, although we were protected from volatility in the oil markets during the year by our hedging strategy. We presently have hedged around 70% of our expected fuel consumption for the year ending 30 April 2002, and while the hedge price is at a level in excess of the price paid during 2000/2001 the anticipated increase in UK Bus fuel costs, net of fuel duty rebate, is not substantial.

## Management

We have restructured our UK Bus management during the year.

A new management team supported by a central team of specialists has been established for UK Bus, based in Perth, leading and supporting a structure of fewer, more focused, regional operating units throughout the UK. The new structure has resulted in fewer layers of management enabling more effective communications, leadership and support.

Increased dedicated resource has been made available to focus on commercial issues, while allowing operational management to focus on the more efficient delivery of consistent high quality services.

## Marketing

The year also saw the launch of an updated identity for UK Bus, including a modernisation of bus livery. This livery will appear on new buses that are purchased and older vehicles will be updated in line with normal repainting and refurbishment programmes.

In November 2000 the UK Bus division launched its "Fuelsaver" campaign, focusing on the better value for money offered by bus travel relative to alternative modes of transport. The campaign highlighted two of the division's innovative ticketing products, "Megarider" and "Easyrider". The combination of the updated identity and Fuelsaver is part of a wider initiative to encourage people to use buses rather than cars, reinforced by the increasing public concern over fuel prices, congestion and pollution.



## Commercial Development

During the year we have progressively introduced low-floor vehicles on key growth services, with frequency enhancements where warranted. In Portsmouth, major frequency and quality improvements have seen revenue growth on particular routes in excess of 25%. In Perth, a similar programme has resulted in substantial volume growth on the key corridor targeted.

Introduction of low-floor vehicles on our key Stockport Road corridor in Manchester, as part of a quality partnership with Greater Manchester PTE, has led to growth in our market share.

## UK Bus

|                    |       |
|--------------------|-------|
| Turnover           | £548m |
| Operating margin   | 13.4% |
| Number of vehicles | 7,200 |

## UK Bus: Operating review

We have also further extended our Magicbus brand in Manchester.

Our various initiatives in Manchester resulted in improved year-on-year operating profits in this competitive market.

We further developed our Stagecoach Express network in the year with the introduction of a new Peterborough-Cambridge-Stansted Stagecoach Air Express service, conversion of our Exeter-Plymouth operation to articulated coaches, and extension of our Exeter-Torquay service to Paignton.

We continued in the year to develop quality partnerships with the local authorities in whose areas we operate. During November 2000, the Ferrytoll Park and Ride project, developed in conjunction with Fife Council commenced operation. Ferrytoll comprises a park and ride site at the north end of the Forth Road Bridge, served by frequent Stagecoach buses not only into central Edinburgh but also by new through services to other important destinations. In Cambridge, frequency increases were made during the year to meet increased demand. When the new Trumpington Road site opens in December 2001, we will have 22 vehicles in the Cambridge park and ride operation and Cambridge will be a key priority for us this year, with a comprehensive re-launch of the City network including 40 new low-floor vehicles planned for November 2001.

Other quality partnership developments took place during the year on Teesside, in Derbyshire, in Nottinghamshire, in the South East, and in South Wales, where in April we commenced our first smart card operation as part of the SWIFT project of South Wales local authorities.

### Integration

Throughout our businesses, we continue to explore and develop integrated transport opportunities. Our UK Bus operations work with South West Trains and Virgin Rail Group as well as other providers to facilitate virtually seamless travel. Our UK Bus division has contributed to our South West Trains' franchise bid in allowing us to offer further initiatives in respect of dedicated Rail-Link bus services and "through" bus/rail ticketing.



An example of this is in Basingstoke, where we are enhancing the local network to achieve a full daytime frequency on all principal services with certain connecting services at peak times diverted direct to the station.

Similarly, our Manchester bus business is supporting our UK Rail division in its partnership to bid for the extension of the Manchester Metrolink network, part of which will include a strategic network review.

**Investment**

During the year, we invested £38.9 million in fleet, £10.3 million in land and buildings and £7.6 million in information technology and other fixed assets.

Implementation of a comprehensive information technology strategy for UK Bus commenced last year and further progress has been made during the current year. The development of our information technology will support changes to our business processes and will generate cost savings, and revenue improvements in the medium term. This project encompasses a wide range of business processes. An example is our investment in technology to support our scheduling processes, which will assist in delivering greater efficiency from our key resources of people and vehicles.

427 new vehicles were purchased during the year. Around half of these vehicles entered service in the London market and displaced vehicles that were cascaded to other parts of the UK Group.



## Coach USA: Operating review



### Financial Performance

Turnover for the year to 30 April 2001 was £686.4 million (2000 – £424.9 million for 9 months), generating operating profits before goodwill amortisation of £67.1 million (2000 – £60.1 million) and giving an operating margin of 9.8%. Like for like revenue growth in the second half of the year was 3%, compared to 2% for the first six months.

Our taxi and transit divisions have traded in line with our expectations, generating strong organic growth and good operating margins during the year. The taxi operations represent approximately 18% of the turnover for the year and generated an average operating margin of 18.7%. The transit division contributed around 8% of turnover and generated an average margin of 8.2%.

In the remainder of our bus businesses, while we experienced very good organic growth in parts of the business, overall revenue growth for the year was constrained by driver shortages in some parts of North America, particularly during the summer when demand for tour and charter services is higher.

The rate of cost growth is reducing and we have made considerable progress in the control of maintenance expenditure and general and administrative overheads. Cost growth slowed to 6% in the second half, from 9% in the first six months as some benefit from our restructuring initiatives was achieved. The cost increases during the year have largely arisen as a result of increased labour costs, higher fuel prices and rising insurance premiums.

### Commercial development

During the year, we have introduced a range of initiatives designed to stimulate further organic growth throughout our businesses. While management's attention over the past year has been to a large extent focused on mitigating cost increases, we now have a renewed focus on revenue growth.

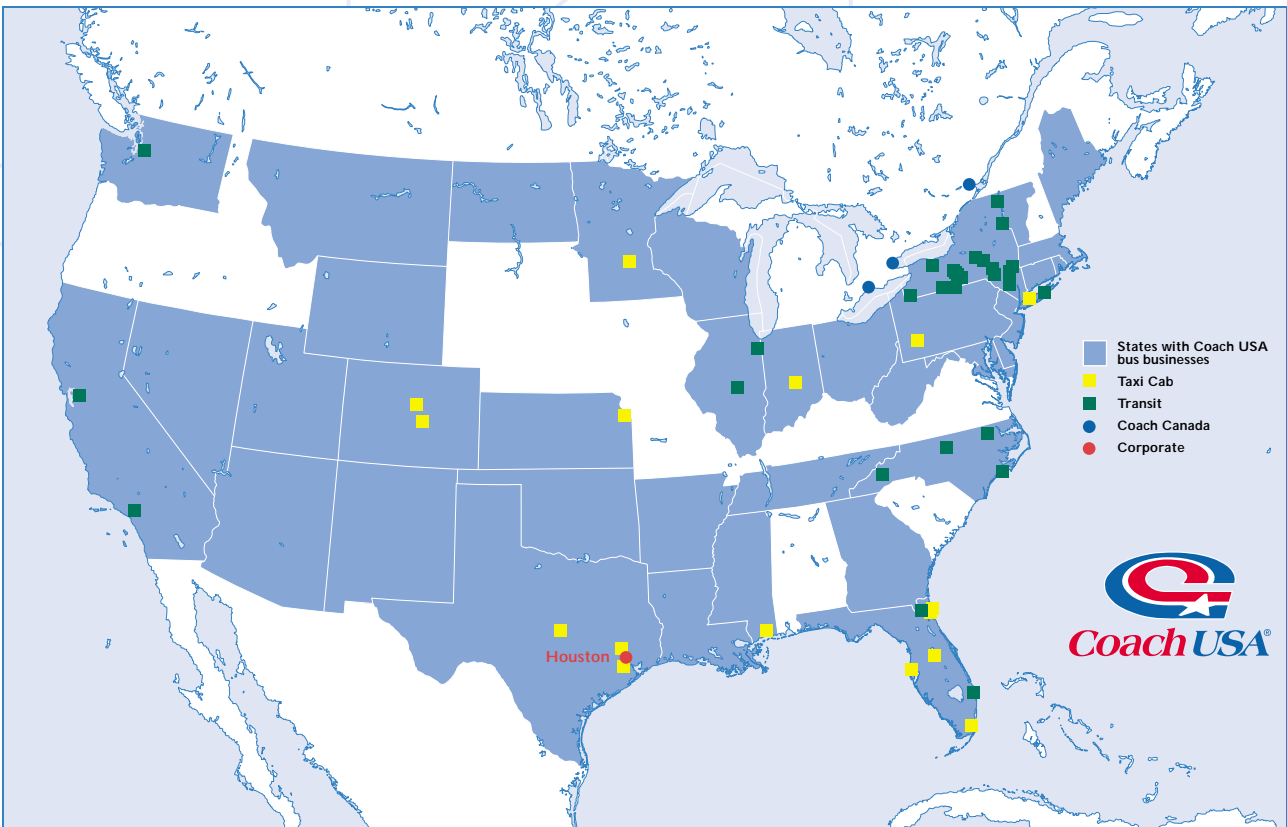
Our Transit Division has been successful in securing new contracts and has been able to generate strong revenue growth as a result. During the year, Coach USA secured new contracts with annual revenues of around \$15 million and at this time, we have tender applications pending for a further \$10 million of revenue.

Our Taxi Division has been successful in broadening the use of taxi services in the public transport market as well as introducing accessible services for the physically challenged.

Within our coach and bus operations, we continue to develop our corporate national accounts programme as well as the use of new sales channels, including the Internet, to allow us to meet a wider market place. Customer service training initiatives have also been launched in a number of regions. Each region has also been prioritising driver retention and recruitment to maximise utilisation and avoid expensive sub-contracting. It is encouraging to note a recent easing in labour pressures, particularly in the North East.

Differential pricing is now being applied to achieve better returns from charter services. Our New England operations have acted as a pilot for the introduction of differential pricing techniques consistent with market conditions and this has achieved both improved fleet utilisation and gross margins for our charter operations in what are otherwise quiet periods. In the North East, we have price differentials of up to 25% between periods of high and low demand.

‘During the year, we have introduced a range of initiatives designed to stimulate further organic growth throughout our businesses’



Local management is also encouraged to identify new revenue opportunities. For example, in the North East we have expanded our Atlantic City services with the introduction of services from the newly renovated George Washington Bridge Port Authority bus terminal. Other initiatives include our development of double deck sightseeing services in New York and Chicago and our partnership with Disney and the local authority in Anaheim to provide the bus links necessary to support the new Disneyland theme park that opened earlier this year.

### Acquisitions

The commercial development and growth strategy for Coach USA is supported by our programme of selective acquisitions. During the year, we completed fifteen acquisitions with a total enterprise value (being the total of cash payable plus debt assumed with the acquired companies) of £68.2 million. These companies have contributed £4.8 million to operating profit during the year.

All of the acquisitions are performing ahead of our initial expectations. We will continue to pursue acquisitions of smaller businesses that complement our existing operations, particularly within the Taxi Division.

### Restructuring

Our restructuring programme at Coach USA has been rolled out across all of our regions and is progressing to plan. To date, we have identified annualised savings of \$15 million as a result of the restructuring.

Our initial restructuring focus has been on the North East and New England regions with annualised savings achieved to date of \$8 million. The North East Region has the largest concentration of operations and therefore offered the greatest opportunities for consolidation. We have completed our consolidation of the region's operating facilities as well as the administrative and accounting functions. Five garages were closed in the region and new operational facilities were completed at Paramus and also in Elizabeth, New Jersey that supported the consolidation of operations and delivered reduced operating costs. The benefits of scale that have emerged from the North East restructuring programme, have also resulted in significant cost reductions being achieved in procurement. Our charter booking operation has been consolidated and we now have a single centre in Northern New Jersey that handles charter bookings for the whole of that area, therefore enabling improved fleet utilisation and co-ordination across each facility as well as improved sales service and forward visibility of bookings.

We are also in the process of reviewing the specific routes in the North East to ensure our fleet is being best utilised. A detailed review of our Rockland line run operations resulted in route changes that reduced our vehicle requirement by 20 and improved returns on investment. An analysis of our line runs to casinos in

## Coach USA

|                    |        |
|--------------------|--------|
| Turnover           | £686m  |
| Operating margin   | 9.8%   |
| Number of vehicles | 12,400 |





Atlantic City allowed us to eliminate some poor performing elements of the business and reduce costs. Similar reviews are being conducted throughout the region.

In New England, which is one of our smaller regions, we have completed the consolidation of the region's operations and as in the North East, we have consolidated the administrative and back-office activities. Five stand alone units comprising seven depots have been restructured into one integrated company, headquartered in Rhode Island.

Our operations in both Pittsburgh and Chicago have been consolidated as part of the restructuring in the North Central region. In Chicago, we have reorganised three separate operating companies into one district and a sales centre was created to cross-sell product lines for the whole district, which has presented the business with additional opportunities for revenue growth.

Similar restructuring initiatives are underway in the South East, South Central and West regions, and we continue to prioritise those under-performing units which represented 25% of revenues for the year but only 1% of operating profits. Operations in Biloxi, Louisiana and New Mexico have now been closed and a number of other units have been downsized to achieve improved fleet utilisation and profitability.

We have undertaken a nation-wide review of fleet utilisation. We have redeployed vehicles within and between regions, leading to improved vehicle utilisation. In total, some 400 vehicles have been removed from the fleet through this process.

#### Focus on safe operations

We are committed to providing safe and reliable services. We continue to develop our safe driving and accident prevention programmes.

#### Investment

During the year, further investment of £55.4 million in the fleet has been undertaken to support business development initiatives and new contract wins. We continue to invest in the information technology platform with the roll out of our fleet management and charter booking systems making good progress. Both these systems will support our business development going forward.

£23.9 million was spent on new operational facilities during the year in a number of locations including, New Jersey, Chicago, San Diego and Denver. This investment is to support the growing business in these areas.



## Overseas Bus: Operating review

Our Overseas Bus Division encompasses our operations in Hong Kong, New Zealand, Australia and Portugal. Our Portuguese operations will be disposed of in the near future.

Turnover for the year was £195.4 million, £18.6 million higher than the prior year excluding Swebus, which was disposed of during the previous year. On the same basis operating profits generated were £35.8 million compared to £29.1 million, resulting in operating margins from continuing operations increasing to 18.3% compared to 16.5% last year.



### Asia

Citybus generated like for like revenue growth of 5.5% in the year, reflecting strong passenger volume growth of 5.1%. The two franchises, which comprise around 88.0% of total revenues have performed strongly during the year. Franchise I, which operates in urban Hong Kong and has not increased fares since 1997, delivered 5.0% passenger growth during the year. The smaller franchise II, operating to Hong Kong airport, saw 11.4% growth in passenger volumes during the year.

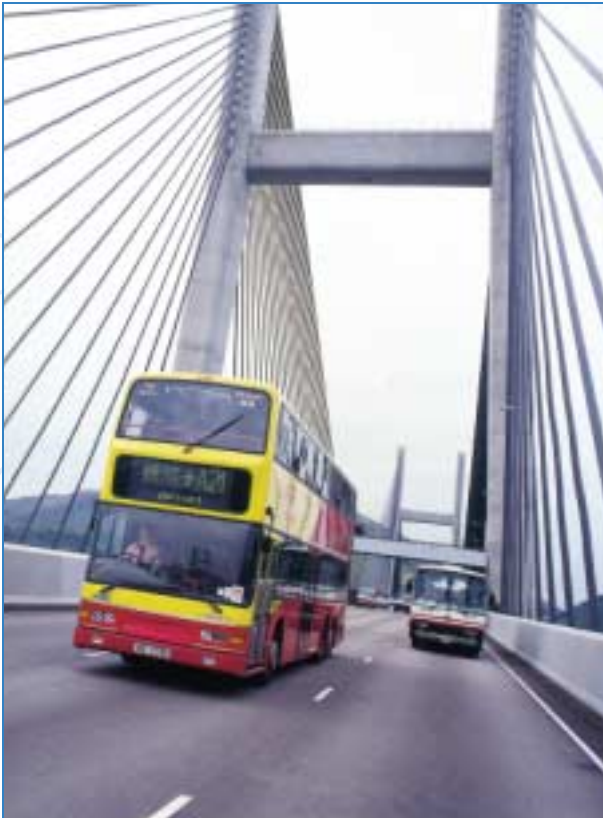
The remainder of Citybus' operations arise from a mixture of non-franchised routes in Hong Kong, joint ventures in China and cross-border services from Hong Kong into the Chinese mainland. We are in the process of withdrawing from cross-border operations as the outlook for these operations was unattractive, given the fierce competitive environment. The costs of withdrawal are reflected in the Group's results for the year.

### Overseas Bus

|                    |       |
|--------------------|-------|
| Turnover           | £195m |
| Operating margin   | 18.3% |
| Number of vehicles | 2,200 |

Operating costs increased by 2.6% on the prior year. As a result of the impact of savings from prior year restructuring initiatives, partly offset by increased fuel prices in the current year, operating margins increased from 16.6% to 18.8%.

Citybus has remained active in developing new ways of generating revenue and improving service. Among the initiatives being pursued are illuminated advertising panels on buses, on-bus plasma TV displays and vehicle positioning systems. These initiatives will help sustain the company's ability to grow revenues.



### New Zealand and Australia

Turnover growth in the operations in New Zealand and Australia was 5.0%, partly reflecting the small tuck-in acquisitions completed in Australia in April 2000. Turnover growth in New Zealand was only 3.1% although the prior year figures include the one-off revenue earned by Fuller's Ferries as a result of the Americas Cup. Reported turnover fell from £41.9 million in 2000 to £40.7 million in 2001, reflecting the effect of a weak New Zealand dollar on reported sterling profits. Passenger growth in New Zealand was 4.1%, with particularly strong growth in Auckland.

We introduced 35 new high-capacity buses during the year to take advantage of the growth in the Auckland market.

As the major operator in New Zealand, the business has benefited from the strong government and public support for public transport. The business works closely with regional and local authorities to further grow patronage, by way of increased services and further bus priority measures, with financial support from government.



### Portugal

The Portuguese operations achieved good revenue growth of 5.9% during the year to £7.2 million. Operating profit increased from £1.1 million to £1.2 million.

The Group announced on 18 June 2001 the disposal of its Portuguese bus operations for a consideration of approximately £11 million plus the repayment of inter-company debt of approximately £3 million. In addition, the purchaser will assume debt in relation to the business of £2.9 million and future bus purchase commitments of £1.8 million. Completion is expected to occur over the next few weeks, and will result in a net gain on disposal of approximately £6 million. Portugal has been a good market for the Group over several years but the scale of the operation and its geographic location was no longer consistent with Group strategy and we felt that the price offered represented good value for our shareholders.

## UK Rail: Operating review

‘Since being made preferred bidder for a new South West Trains franchise, we have signed a £1 billion order for 785 new vehicles, the biggest order for new trains in Britain’



### South West Trains

Despite the disruption caused to our rail networks during the year, turnover for our UK Rail subsidiaries increased 7.3% from £376.4 million to £403.7 million, and operating profits grew from £39.3 million to £45.6 million.

The strong performance has been driven by passenger volume growth at South West Trains which was 6.2% in the year. The second half of the year was impacted by the restrictions imposed on the rail networks: volume growth for the first half of the year was 9.2% compared to 3.7% in the second half. Off-peak volume growth was worst affected by the disruption, dropping from 9.6% in the period to October to a decline of 0.4% in the second part of the year. The rate of growth for peak-time services has now returned to the levels experienced pre-Hatfield, and while not fully recovered, off-peak growth has significantly improved in the final months of the financial year. The return to normal off-peak passenger volumes was helped by a month long “50% off” Cheap Day Ticket offer during February.

At South West Trains, the network is now largely free from emergency restrictions and we are encouraged that we are again experiencing good passenger growth.

Delivery of the new Class 458 train units during the year was further delayed as a result of quality-related issues but these are now coming into service across the network. The incremental leasing costs will be reflected in our results for the year to 30 April 2002. From December 2000, eight two-car Class 170 diesel units were introduced mainly for services to the west of England and these began to service Waterloo from May 2001.

The strong results for South West Trains demonstrate that the passenger base, largely commuters into central London, is still growing. Although we are bringing a significant number of new trains into service now, capacity remains the primary limitation on both passenger growth and our ability to provide further improvements to the quality of service. Our ability to deliver

incremental capacity improvements while minimising operational disruption was a key factor in our successful bid for an extended franchise at South West Trains.

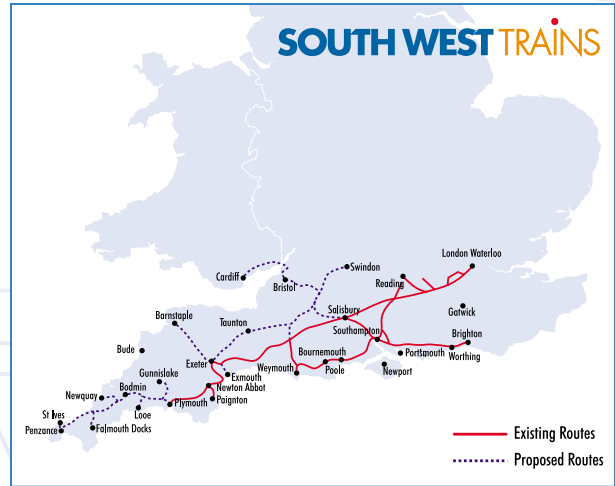
A total of £1.7 billion is committed to investment in trains and infrastructure. Since being made preferred bidder we have signed a £1 billion order for 785 new vehicles, the biggest order for new trains in Britain. These trains will enable the remaining slam-door rolling stock at South West Trains to be replaced by the end of 2004 and will help increase capacity at peak times by approximately 25% thereby reducing overcrowding on most suburban routes. In the meantime, we have completed the refurbishment of the Class 422 and Class 159 fleets. The trains have been given a more modern and colourful interior finish and have been re-branded in the new South West Trains livery. The air conditioning systems on the Class 159 fleet have been replaced, giving passengers on the west of England service a more comfortable journey.

As well as our proposals to increase capacity, we remain committed to providing a high quality of customer service in all respects. Customer service training has continued during the year through the “Centre Stage” and “Meeting the On Train Challenge” programmes and the majority of our customer-serving staff have now undergone the relevant training. Customer comment reflects a noticeable improvement in service skills and further training is scheduled for the foreseeable future across a wider range of staff groups.

A customer service centre has been set up in Southampton to provide a “one-stop shop” for customer enquiries and contacts. Our “Customer First” team has been re-focused to develop action plans for improvements based on the finding of customer satisfaction surveys.

**Island Line**

We are pleased to have agreed an extension to the Island Line franchise on the Isle of Wight. The award-winning franchise will now expire on 27 September 2003, and we are working with a number of parties to examine the nature of future transport provision on the island.



| UK Rail          |       |
|------------------|-------|
| Turnover         | £404m |
| Operating margin | 11.3% |
| Train units      | 1,190 |

## UK Rail: Operating review

### Virgin Rail Group

Like all the other major inter-city train companies, operating performance of the Virgin Rail Group franchises of West Coast and CrossCountry was significantly affected. The effect on passenger numbers and related revenues has had an impact on the financial performance of Virgin Rail Group during the year. As a result, we have had to bear our share of operating losses for the year ended 30 April 2001. However, a satisfactory agreement regarding compensation for the disruption has now been reached with Railtrack.

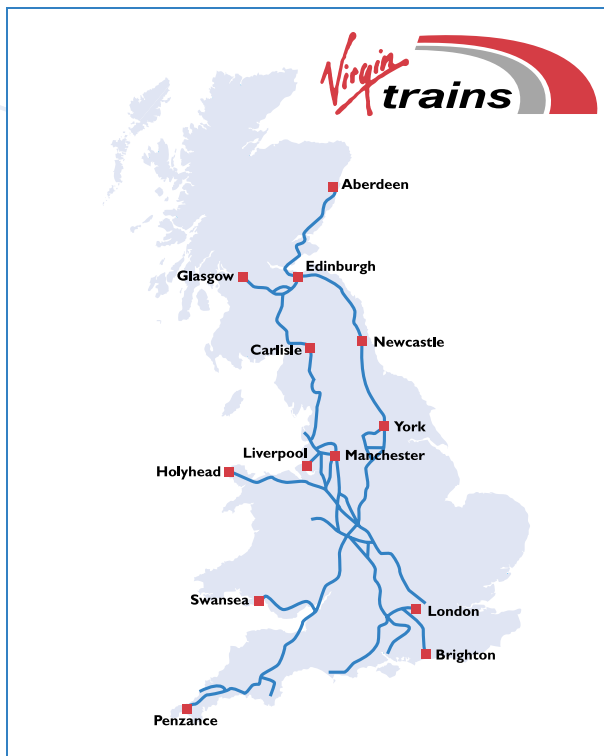
This share of operating losses (before goodwill amortisation and exceptional items) of Virgin Rail Group's train operations amounted to £2.8 million, compared to a £14.0 million share of operating profits last year. Our share of turnover has fallen from £255.6 million to £234.2 million. In addition, goodwill amortisation of £8.0 million (2000 – £8.0 million) and exceptional costs of £0.7 million (2000 – £Nil) have been charged.

We were very satisfied with the overall financial performance of Virgin Rail Group in the period from the beginning of the financial year until the tragic Hatfield accident. During that period growth in passenger numbers year on year was approximately 4%.

During the period from the Hatfield accident to the financial year-end, the year on year fall in passenger journeys was approximately 17%. However, we are now seeing recovery in both journeys and income in line with our predictions.

During February 2001, Virgin Rail Group took the industry lead by encouraging customers back to rail with a successful "World's Greatest Rail Offer" promotion. This offered 50% off all of the Virgin Rail Group's fares that it sets within the industry. While passenger volumes have improved, passenger journeys in April 2001 were still 9% lower than in the previous year but by May 2001, this had reduced to 2%.

On 4 May 2001, Virgin Rail Group signed an agreement with Railtrack for £15 million of compensation for the consequences of the Hatfield disruption, over and above the contractual performance regime



entitlements within the Track Access Agreements. Our share of this additional compensation will be recognised in the year ended 30 April 2002, and will be partly offset by the lost revenue in that period.

Virgin Rail Group, with the benefit of the Railtrack compensation, continues to seek innovative ways of attracting passengers back to rail. Since the year-end we have announced a high profile promotional campaign, committing to a range of special discount arrangements and other ticketing initiatives.

The first phase of the infrastructure work to develop the West Coast mainline is on target and is currently around 60% complete.

New rolling stock delivery is also on schedule. The first CrossCountry new train, "Maiden Voyager", entered passenger services on the Birmingham to Reading services on Monday 21 May, in accordance with the contractual commitments. This commences the delivery of the vision committed to at the outset of the franchise. The first West Coast Pendolino new train has been on test at Asfordby Test Centre since February 2001, undergoing dynamic testing at high speed as planned. The second test train arrived in May 2001 and successfully completed its first tilting test-run on 26 June.

## Business Development

We are currently awaiting a decision from the Strategic Rail Authority regarding the joint Virgin-Stagecoach bid for the East Coast Main Line franchise. We have submitted a strong bid and we believe we have much to offer in the delivery of a cohesive inter-city network.

We have pre-qualified for both the Thameslink and Wessex UK passenger rail franchises and a decision on short listing for both franchises is expected in the near future.

We have also been short listed, along with our consortium partners Alstom, Mowlem and Nuttall, to tender for the Manchester Metrolink tram system. The tender consists of both the existing operations and the new lines to Manchester International Airport, Oldham/Rochdale and Ashton. When completed, Metrolink will be one of the largest tram operations in Europe. Our respected Sheffield Supertram operation, together with our expertise in heavy rail, provides us with the operational experience to contribute to a credible bid for Manchester Metrolink.



## Investments: Operating review

### thetrainline.com

thetrainline.com, Virgin Rail Group's national rail ticket distribution company was also impacted by the rail disruption during the year. Our share of operating losses before goodwill amortisation and exceptional items of thetrainline.com was £5.7 million, compared to £1.4 million last year. In addition, our share of marketing costs was £4.0 million (£6.2 million last year). Virgin and Stagecoach have continued to support the business during this difficult trading period because we believe that the ticketing solutions provided by thetrainline.com are an integral part of providing a modern and efficient rail network. The business continues to benefit from technical support from Cap Gemini - Ernst and Young who have made significant investment to support the business.

The Internet and call centre ticketing service continues to be well used, with in excess of 4 million registered users of the Internet site.



### Road King Infrastructure

Road King Infrastructure continued its strong performance during the year with our share of operating profits for its financial year to 31 December 2000 being £13.8 million compared to £15.2 million last year. After excluding gains on the disposal of toll roads of £3.7 million in the previous year, this represents an increase of £2.3 million. Total traffic volume on the company's road projects reached 98 million vehicles, 8.4% higher than the previous year. Growth on a like for like basis was 13.4%, after excluding the disposed interest in the Meiguan Expressway in the prior year.

The core activity of the company continues to be investment in, together with development and management of, toll-based highway projects in mainland China.

### Other investments

We reported a share of losses for the year of £0.2 million from our other investments in Prepayment Cards and the Chongqing operations. These ventures are part of the Group's long-term strategy and we are satisfied with progress to date.

### Discontinued operations

#### Prestwick Airport

The Group sold its interest in Prestwick Airport on 20 January 2001 for £33.4 million, including the repayment of intercompany debt, having previously indicated our intention to focus on core bus and rail operations. A £6.8 million gain was realised on the disposal.



## The Wider Community: Operating review

We aim to provide public transport services in all the countries in which we operate, that offer a good service to passengers and are supportive to local communities and industry, as well as offering value to our shareholders. In our day to day operations, we aim to treat passengers, employees, suppliers and the wider community fairly.

### People

Our businesses depend on having good people. We remain committed to offering our people opportunities for their own development that will generate benefits both for them as individuals and for the business units in which we work.

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. We are 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 is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. An Employee Share Ownership Plan (non-statutory ESOP) approved by the Inland Revenue is in place for the majority of our employees in the UK. A similar ESOP exists for our employees in New Zealand.

Our investment in people has continued this year with a number of training events having taken place. At Coach USA, a large number of our managers have participated in "Coach College" which has provided a range of training and has enabled knowledge transfer between managers who, on a day to day basis, are geographically widespread. In the UK, our UK Bus division has commenced an intensive series of commercial training workshops to help deliver our growth targets for the business.

South West Trains has introduced a competence-based performance management and development process. Comprehensive training programmes have been implemented to ensure we have the ability to meet the emerging development needs, have the right leadership in the future and to maximise the skills of our employees to further improve service to our customers. Courses include management and supervisory development, customer service and technical training. Customer service training for front line staff has continued during the year with over 1,800 of our customer service staff having undergone the initial training and over 1,400 the full programme.

Customer comment is already beginning to reflect an improvement in service skills among some of our staff and the training is scheduled to continue for the foreseeable future.

The UK Bus division participates in a national joint consultative forum twice yearly, with trade unions. These meetings provide a forum for managers and staff representatives to meet and help ensure good communication of the issues affecting our businesses and employees.

Furthermore, the year saw Stagecoach New Zealand's inaugural works council. This proved the basis of a useful discussion of the challenges and opportunities facing the company involving senior managers and employee organisations.



## Environment

During 2000, Stagecoach published its Environmental Strategy. As a Group, we are committed at every level to taking a proactive approach in lessening the impact of our operations on the environment.

A responsible approach to the environment is a key component of Stagecoach's current and future activities. Throughout the organisation, continual endeavour is made to interact with the natural environment in a responsible manner. We recognise that growth and prosperity must be achieved along with respect and care for the environment because damage is possible at any stage in the business cycle.

Across our businesses, we offer solutions to traffic congestion and traffic pollution. Trains, for example, are one of the most energy efficient forms of transport, carrying much larger numbers of passengers than cars, buses or trams. Given the heavy burden on the environment generated by the use of private cars, we are working with others to promote the use of public transport, thereby reducing unnecessary consumption of fuel and consequent generation of pollutants. Nevertheless, we do acknowledge that as a business we consume fuel and other resources and minimising the environmental impact of our operations remains an important issue for the Group.

Our bus fleets have an average age of 6.7 years in the UK, 7.2 years in Coach USA, and 5.1 years in Hong Kong. We have invested in new buses with reduced gas emissions and improved energy consumption. Environmental considerations are included in the review of all capital expenditure plans and proposals. In our UK Rail division, although we do not own the rolling stock which is operated, environmental considerations are included in the evaluation of train leasing plans and other purchasing options. In evaluating suppliers for new trains at Virgin Rail Group and South West Trains, environmental implications were among the factors considered.

In the UK, all our buses have changed to use ultra-low sulphur fuel. Trials with alternative fuels have taken place but as yet these are not being used on a large scale. We are active in the development of other modes of transport such as the Sheffield Supertram operation.

Coach USA purchases low sulphur fuel to minimise its emissions from the fleet. Wherever possible, Coach USA uses new technology which enables diesel engine remanufactures to reduce the amount of exhaust emissions from older engines. Coach USA is operating several alternative fuelled vehicles throughout North America in conjunction with public transit agencies and universities.



Hong Kong continues to suffer from increasing levels of air pollution. Citybus initiated steps to contribute meaningfully to a reduction of the pollution levels by embarking on a programme to fit catalytic converters to non-Euro II compliant engines and to modify 89 non-Euro I buses with Euro I engines. In addition, Citybus has tested an electric trolley bus and we are investigating opportunities to utilise this technology in Hong Kong.

In a further bid to improve Hong Kong's air quality, Citybus launched a publicity sticker campaign during the year to enlist public support for its plan to stop bus engines "idling" at termini and switched completely to ultra-low sulphur fuel from February 2001.

All new sites and facilities are developed to promote the minimum use of energy through the deployment of appropriate design and construction practices.

## Community

We view our businesses as part of the local communities in each of the areas we operate. As well as our commitment to improving the local transport services in each of the localities where we operate, we recognise a responsibility to pass an element of our success on to the community.

The management of each of our key businesses has a range of financial and non-financial objectives, which include "Community Targets". These targets cover aspects of our service such as safety, customer satisfaction, and relations with the local media.

During the year £0.7 million was donated to a wide range of local, national and international charities. As well as this financial contribution by the company, our management and staff are involved in a large number of local community projects.

We have continued to support transport-related initiatives. As an example, we are an official sponsor of the Transport Challenge 2001. Organised by the Institute of Logistics and Transport, the

competition invites schoolchildren to take a fresh look at a number of transport-related topics either in an essay or through a project.

We are committed to facilitating wider access to public transport. Over a number of years, we have invested in low-floor vehicles and have worked closely with local authorities in lowering pavements and improving bus shelters. These have helped facilitate greater access for people with physical disabilities. In designing our new bus interiors in the UK, we worked with representatives of people with physical disabilities and this is reflected, for example, in the positioning of handrails and interior colour-coding.

We will endeavour to work with local communities and provide transport solutions that offer mutual benefit.

We recognise that maintaining rigorous safety standards throughout our operations is one of our key duties to the community and our customers. In both bus and rail, safety is an overriding objective of our management. The rail industry's safety record has been publicly questioned in recent months and like everyone in the industry we are committed to providing the safest possible operating environment for our all our passengers and employees.



## Directors

### Brian Souter (47), Chairman

Brian Souter was a co-founder of Stagecoach and has extensive experience and knowledge of the ground transportation industry across a number of countries. He is responsible for the Group's new business development and corporate governance matters. He is also a board member of Road King Infrastructure. Brian Souter is Chairman of the Nominations Committee.

### Keith Cochrane (36), Chief Executive

Keith Cochrane has overall responsibility for the management of all the Group's business operations. Keith Cochrane joined Stagecoach eight years ago and prior to his appointment as Chief Executive in February 2000, he was Finance Director from 1996. He is a qualified Chartered Accountant and is a board member of Road King Infrastructure and co-Chairman of Virgin Rail Group.

### Martin Griffiths (35), Finance Director

Martin Griffiths was appointed Finance Director in April 2000, having previously been the Group's Business Development Manager since 1998. He is responsible for the Group's overall financial policy and treasury management. He also has responsibility for the overall management of the Group's property portfolio and supports the Chairman with respect to new business development. He is a qualified Chartered Accountant.

### Graham Eccles (54), Executive Director – Rail

Graham Eccles was appointed a Director in September 2000 and prior to his appointment, he was Managing Director of South West Trains from 1999. He has over 35 years' experience in the UK rail industry and has held a number of senior management posts within the industry. He is responsible for the management of all of the Group's rail operations as well as for business development opportunities in the rail market. He also has Main Board responsibility for safety matters across the Group. Graham Eccles is a director of Virgin Rail Group.

### Brian Cox (53), Executive Director – UK Bus

Brian Cox assumed responsibility for the overall management of our UK Bus operations in July 2000. He has been a director of the Group since 1992 and has been involved in the development of both our UK Bus and UK Rail businesses over a number of years. As well as having overall responsibility for UK Bus, Brian Cox is also responsible for intensifying integrated transport and for commercial development opportunities across the business.

### Frank Gallagher (57), Executive Director – Coach USA

Frank Gallagher is Chairman and Chief Executive Officer of Coach USA. Prior to this, he was Chief Operating Officer of Coach USA and was formerly president of Community Coach, one of the founding companies of Coach USA. Frank Gallagher has indicated his intention to retire from his duties as Chief Executive Officer of Coach USA and his Main Board responsibilities at the 2001 AGM.



Left to right: Brian Souter, Keith Cochrane, Martin Griffiths, Graham Eccles, Brian Cox, Frank Gallagher

### Barry Sealey CBE (65), Senior Non-Executive Director

Barry Sealey was appointed in December 1992. He spent the major part of his career with Christian Salvesen plc serving as Managing Director from 1981 to 1989. He is currently an independent director serving as Chairman of Lothian University Hospitals NHS Trust, Wilson Byard Ltd and Optos plc. He is also a director of other companies. Barry Sealey has indicated his intention to retire at the 2001 AGM.

### Robert Speirs (64), Non-Executive Director

Robert Speirs was appointed in March 1995 and is Chairman of the Remuneration Committee. He was formerly the Group Finance Director of The Royal Bank of Scotland plc. He is Chairman of The Miller Group Limited and Bell Group plc and is a Non-Executive Director of Canary Wharf Group plc, Direct Line Insurance Limited and Martin Currie Income and Growth Trust plc, amongst other companies. Robert Speirs will be appointed as the Group's Senior Non-Executive Director when Barry Sealey retires at the 2001 AGM.

### Ewan Brown CBE (59), Non-Executive Director

Ewan Brown joined the Board in December 1988. He is an Executive Director of Noble Grossart Ltd, Chairman of Lloyds TSB Scotland plc and Dunedin Income Growth Investment Trust plc, and a Non-Executive Director of John Wood Group plc, Lloyds TSB Group plc and other companies.

### Dr Janet Morgan (55), Non-Executive Director

Dr Janet Morgan, Lady Balfour of Burleigh, joined the Board in April 2001. She is a non-executive director of Cable & Wireless, BPB and NMT as well as other companies. She was formerly a director of Pitney Bowes, WH Smith and Midlands Electricity. She is a Fellow of the Royal Society of Edinburgh, and is also a Trustee of the Carnegie Trust for the Universities of Scotland and Chairman of the Scottish Cultural Resources Access Network. She was formerly group board adviser to Granada Group, and was special adviser to the director-general of the BBC. She has also been a member of the Central Policy Review Staff at the Cabinet Office.

### Ann Gloag (58), Non-Executive Director

Ann Gloag co-founded Stagecoach in 1980 and has significant experience of the transport industry, having served as an Executive Director until May 2000. She is a past winner of Businesswoman of the Year and European Women in Achievement awards, a trustee of the Princess Royal Trust for Carers and Chairman of the Mercy Ships Appeal.

### Russell Walls (57), Non-Executive Director

Russell Walls was appointed as a Director in June 2000, and he is currently Chairman of the Audit Committee. He is Group Finance Director of BAA plc and a Non-Executive Director of Hilton Group plc. He was previously Group Finance Director of Wellcome plc. Prior to that he spent many years working overseas with Coats Viyella plc of which he was Group Finance Director from January 1990. He is a fellow of the Association of Chartered Certified Accountants.



Left to right: Barry Sealey, Robert Speirs, Ewan Brown, Dr Janet Morgan, Ann Gloag, Russell Walls



## Finance Director's review

'The financial results for the year ending 30 April 2001 continue to demonstrate the underlying cash flow generation of the Group'

### Overall

The financial results for the year ending 30 April 2001 continue to demonstrate the underlying cash flow generation of the Group.

The financial statements reflect the first full-year results following the acquisition of Coach USA in July 1999 and the disposals of Swebus in January 2000 and Porterbrook in April 2000. These transactions substantially changed the shape of the Group and the financial results reflect this.

Turnover for the year was £2,083.5 million (2000 – £2,179.1 million).

Excluding discontinued operations (principally Swebus and Porterbrook), this represents a growth in turnover of 17.4%.

Earnings before interest, tax, depreciation and goodwill charges ("EBITDA") were £313.5 million (2000 – £623.0 million) for the year, £310.1 million (2000 – £587.0 million) before exceptional items. Pre-tax profits before goodwill amortisation and exceptional items were £122.9 million (2000 – £244.3 million), a decrease of 49.7%. As a result of the impairment of Coach USA goodwill, we reported a pre-tax loss of £316.5 million (2000 – profit of £182.3 million) after goodwill amortisation and exceptional items.

Adjusted earnings per share before taking account of goodwill amortisation and exceptional items fell from 13.4 pence to 7.8 pence, following the disposals of Porterbrook and Swebus.

The reported results are significantly affected by the substantial charge for goodwill impairment in respect of Coach USA.

The charge reflects our view that the future profitability of Coach USA is below that expected at the time that we acquired the business. This charge, which does not affect the Group's strong reported cash flows, will result in reduced goodwill amortisation being charged to the profit and loss account in future years.

The accounts reflect the early adoption of a new Financial Reporting Standard ("FRS") 18, "Accounting Policies", which codifies the principles to be followed in selecting accounting policies. Whilst

FRS 18 has not required any changes to the policies applied by the Group, more extensive disclosure in respect of certain of our accounting policies has been provided to comply with the new standard. A further two new FRSs have been issued (FRS 17, "Retirement Benefits" and FRS 19, "Deferred Tax") but these will not be implemented until future financial years. The Urgent Issues Task Force has issued a number of new abstracts that are effective for these accounts, however none of these materially impact the reported results for the year.

### Trading results

Operating profit before goodwill and exceptional items from continuing Group operations increased by 6.5% to £193.0 million (2000 – £181.2 million). Total Group operating losses, after taking account of exceptional items and goodwill, were £250.1 million (2000 – profit of £199.7 million). Total depreciation decreased from £218.7 million to £111.2 million, whilst that element of the charge relating to continuing businesses increased from £95.1 million to £110.2 million, reflecting the continued capital investment and the full-year impact of acquisitions during the current and prior years. Restructuring costs of £7.8 million (2000 – £6.5 million) have been charged against operating profits and include £2.4 million at UK Bus and head office, £0.2 million at South West Trains, £1.2 million in Overseas Bus and £4.0 million at Coach USA. Exceptional goodwill impairment of £376.0 million has been charged in respect of the carrying value of goodwill at Coach USA. The annual goodwill amortisation charge was £66.8 million compared to £47.4 million in 2000. The results also include net property gains of £2.8 million (2000 – £2.4 million).

Our share of joint ventures' and associates' operating profits (excluding all costs associated with thetrainline.com, goodwill and exceptional items) was impacted by the significant disruption to the UK Rail network during the year. Our share of profits was £10.5 million compared to profits of £29.2 million in the prior year.

Our share of thetrainline.com total operating losses was £9.7 million (2000 – £7.6 million), including exceptional marketing and development costs of £4.0 million (2000 – £6.2 million). No further exceptional marketing and development costs will be incurred – any future spend on marketing will be part of the normal operations of the business.

### Finance charges

Net interest and financing charges decreased from £144.6 million to £76.0 million. This reflected the impact of the reduction in net debt arising from the disposals of Porterbrook and Swebus. The effective interest rate payable on gross debt for the year was 7.6% compared to 7.1% in 2000. Interest cover (excluding goodwill and exceptional items) was 2.6 times compared to 3.0 times in 2000. EBITDAE (earnings before interest, tax, depreciation, amortisation and exceptional items) to interest was 4.1 times compared to 4.7 times in 2000.

### Acquisitions

During the year the Group has completed a number of smaller acquisitions of businesses that are complementary to and integrate with our existing businesses in North America. In total, Coach USA acquired 15 additional businesses during the year, with annualised revenues of approximately £43.6 million, for a total enterprise value of £68.2 million, including net debt assumed. These acquisitions contributed £4.8 million to operating profit in the year.

### Disposals

The disposal of Prestwick Airport took place on 20 January 2001 for a cash consideration of £33.4 million including the repayment of inter-company debt of £7.3 million. The disposal resulted in a net gain on sale of £6.8 million being reported in the year. Operating profits of £1.1 million were reported in respect of Prestwick Airport for the period from 1 May 2000 to the date of disposal.

Part of our UK bus business in North West England was disposed of on 15 April 2001 for a consideration of £12.8 million. A gain of under £0.1 million arose on the disposal.

As a result of these disposals, goodwill of £2.5 million that was previously written off prior to the introduction of FRS 10, "Goodwill and Intangible Assets", has been written back from reserves to the profit and loss account during the year.

### Taxation

Before taking account of the gain on the disposal of Prestwick Airport and the exceptional goodwill write-off, profit before tax for the year was £52.7 million. The tax charge of £15.8 million represents an effective rate of 30.0% on this profit compared to 22.7% in 2000. The Prestwick Airport gain and goodwill write-off have no tax impact.

The increase in the effective tax rate in the year is principally due to the removal of tax allowances previously enjoyed by Porterbrook from recurring investment in new rolling stock and the increase in the proportion of non tax-deductible goodwill amortisation relative to net profits.

We will implement FRS 19, "Deferred Tax" for the year ending 30 April 2002, which requires provision to be made for most timing differences irrespective of whether these are expected to reverse or not. While this does not impact cash tax payable, it will result in an increase in our reported effective tax rate.

### Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items was 7.8 pence, a decrease of 41.8% compared to 2000. Basic loss per share (taking account of all exceptional items and goodwill amortisation) was 24.8 pence, compared to last year's earnings of 9.4 pence. The weighted average number of shares in issue during the year was 1,341.7 million, 10.9% lower than last year principally reflecting 339.2 million shares repurchased since the commencement of the share repurchase programme in April 2000. Under the share repurchase general authorities granted at the 1999 Annual General Meeting and the Extraordinary General Meetings in April and June 2000, 248.1 million shares were repurchased prior to 30 April 2000 at an average price of 65 pence. During the year to April 2001, a further 91.1 million shares were repurchased at an average price of 68 pence. Shares in issue at the year-end were 1,318.6 million.

The Group has authority to repurchase a further 92.2 million shares. This authority expires at the 2001 AGM and we will seek to renew the general authority to repurchase up to 10% of the issued share capital at the 2001 Annual General Meeting.

The total proposed dividend for the year is 3.8 pence, an increase of 5.6% on last year's total dividend of 3.6 pence. This represents dividend cover (before goodwill amortisation and exceptional items) of 2.1 times compared to 3.7 times in 2000.

The final dividend will be paid on 10 October 2001 to shareholders on the register on 7 September 2001. For those shareholders who wish to take dividend payments in the form of shares, this can be achieved through the Dividend Reinvestment Plan (DRIP).



## Cash flows

Cash generation across the Group remained strong with free cash flows amounting to £228.1 million. This compares to £283.9 million last year, which included Porterbrook and Swebus. Free cash flow per share declined by 1.9 pence to 17.0 pence.

At 30 April 2001 total cash balances were £160.0 million, a decrease of £655.5 million from 30 April 2000. This decrease resulted from £178.8 million of share repurchases, £574.6 million being used to repay debt, including the redemption of the 2007 Sterling bond and reduction of term and revolving credit facilities. The Group remains in a net borrowing position and surplus cash balances are used to repay debt where possible.

Included in cash at bank and in hand is £30.5 million held in trust in support of SWT's season ticket bond, £41.5 million held as collateral for loan notes, £7.3 million in respect of SWT's performance bond and £1.4 million as collateral for Letters of Credit issued by Coach USA.

## Capital Expenditure

Capital Expenditure by division is summarised as follows:

|  | 2001         | 2000         |
|--|--------------|--------------|
|  | £m           | £m           |
| UK Bus                                   | 56.8         | 66.8         |
| Coach USA                                | 73.5         | 56.3         |
| Overseas Bus                             | 6.2          | 7.5          |
| UK Rail                                  | 3.2          | 3.4          |
| Discontinued – Porterbrook – maintenance | Nil          | 139.4        |
| – capital                                | Nil          | 63.6         |
| – Swebus                                 | Nil          | 27.3         |
| – Prestwick Airport                      | 2.1          | 5.4          |
| Other                                    | Nil          | 7.0          |
| <b>Total</b>                             | <b>141.8</b> | <b>376.7</b> |

In the UK Bus division, 427 new buses and coaches were purchased at a total cost of £38.9 million, compared to £51.3 million in 2000. 201 of these new buses were purchased in respect of our London operations. At the year end capital commitments in respect of new vehicles for the UK Bus division were £39.4 million. Coach USA purchased some 422 new vehicles for £55.4 million and capital commitments at 30 April 2001 amount to £7.0 million.

We have also invested £37.9 million in land and buildings, and continue to invest in technology-driven solutions to develop fully the potential of our businesses.

Proceeds from asset disposals in the year were £10.1 million.

Our commitments in respect of railway rolling stock will be funded through operating leases and will not involve any initial capital spend.

## Treasury risk management

Management of financial risks is an important aspect in ensuring that Stagecoach creates value for shareholders. Risk management is carried out through 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 Group 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 Group Treasury function uses financial instruments for financing and treasury management only. 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. Group Treasury activity is restricted to the underlying cash flows and asset/liability positions of the Group.

### Liquidity and funding

Our general policy is to finance the Group through a mixture of bank debt, capital markets issues and retained earnings. Financing is generally raised centrally and on-lent to operating subsidiaries on commercial terms.

The Group policy is that free cash flows generated from operations along with undrawn committed facilities should be sufficient to meet annual debt repayments. At the year end the Group's committed banking facilities were £586.0 million, £119.0 million of which were utilised, including guarantees.

Following the announcement of the Porterbrook disposal the Group issued a redemption notice in relation to its £125 million Sterling bonds, due 2007. These bonds were redeemed on 15 May 2000 at a redemption price of £1.1182 per £1 nominal value.

During the year, the Group repurchased approximately \$49 million of the \$500 million US dollar Notes, due 2009 and €8 million of the €400 million Eurobond Notes, due 2004.

In addition, on 14 June 2001, the Group arranged the first European Investment Bank funding totalling £40.0 million in relation to its UK Bus capital programme. The Group will continue to look to a variety of funding sources to minimise interest cost and maintain the most appropriate funding sources and maturity.

The Group was the first, and currently is the only, UK ground transportation company to be assessed by three independent credit rating agencies. During the year, the Group has maintained its long-term investment grade credit rating by Standard and Poors, Fitch IBCA and Moody's. On 30 May 2001, Moody's reiterated its view that the Group remains an investment grade credit.

We believe, given the cash generative and stable nature of each of our core businesses along with our strong financial profile, that we can maintain an investment grade rating.

Foreign currency denominated borrowings reduced by £274.4 million. The currency of borrowings is used as a partial, long-term hedge of the cash flows arising from overseas investments and as a hedge against future translation value of foreign currency investments. The Group's borrowings (after swaps and forward contracts) are denominated in the operational currencies of the Group. The maturity of borrowings is shown in note 18.

Total net borrowings at 30 April 2001 increased by 43.0% to £785.7 million compared to £549.6 million as at 30 April 2000.

However, excluding the effect of share repurchases of £178.8 million and the impact of currency exchange movements of £74.3 million, net debt decreased by £17.0 million.

Book gearing was 77.9% at 30 April 2001 compared to 39.5% at 30 April 2000. The increase in gearing has largely arisen due to the fall in net assets resulting from the accelerated amortisation of goodwill in relation to Coach USA, and the repurchases of shares.

## 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 our treasury policy are swaps, caps and floors. At 30 April 2001 65.6% of gross debt was fixed or capped. The remaining debt is held at floating rate or protected from significant increases in short term rates through the use of interest rate caps. Interest rate floors are used to reduce or offset the cost of entering into interest rate caps.

The average interest rate payable on gross debt during the year was 7.6% against 7.1% in 2000. The interest rate payable on year end debt was 7.4% and is expected to reduce during the coming year as a result of the recent reductions in global interest rates.

## 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 minimal. Where a major foreign currency transaction is expected or known, it is monitored by the Group Treasury function and forward buying of currencies is carried out where necessary.

The Group has substantial overseas investments in the USA, New Zealand and Hong Kong. The Group does not seek to hedge the impact of exchange rate movements on reported profits as the impact of US\$ and HK\$ exchange rate movements on operating profits are offset by foreign currency denominated interest and fuel costs. Movements in exchange rates can affect our sterling denominated balance sheet. 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 consists of two distinct elements: 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 floating and fixed priced levels that the Group considers acceptable and to enter into physical supply or derivative agreements where necessary to achieve these levels. During the year 100.0% of the Group's fuel usage was hedged at a fixed price. We have fixed approximately 70.0% of the Group's estimated fuel usage to 30 April 2002. This hedging has occurred over the last twelve months and was carried out during a period of extreme volatility in the oil markets and as a result our fuel price for the next year will be higher than in the year ended 30 April 2001.

## Credit risk

The Group Treasury function seeks to invest cash assets safely and profitably and controls credit risk by setting counterparty credit limits by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

## Balance sheet

Net assets have decreased by 27.5% from £1,391.2 million to £1,008.9 million reflecting the impact of the impairment of goodwill at Coach USA, and the share repurchases of £62.0 million. During the year net foreign exchange gains of £55.7 million were recorded primarily as a result of the translation of net foreign currency denominated investments in Coach USA and Citybus. The other significant movements in balance sheet items reflect investments in capital expenditure and acquisitions and disposals made during the year.

## Post balance sheet events

Details of post balance sheet events are provided in the Directors' report on page 45.

## 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.

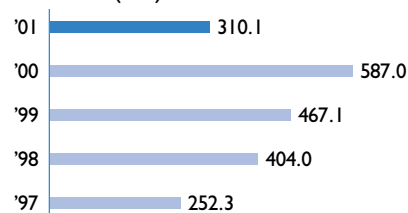


MARTIN A GRIFFITHS

Finance Director

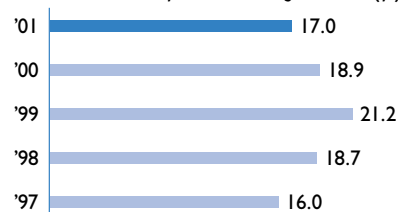
20 June 2001

## EBITDA\* (£m)

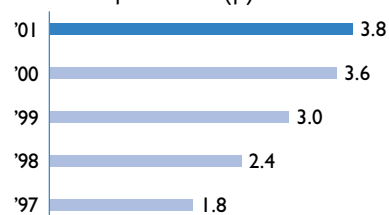


\*excluding exceptional items

## Free cashflow per ordinary share (p)



## Dividend per share (p)



## Directors' report

### Principal activity and business review

The Group's principal activity is the provision of public transport services.

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, the Chief Executive's Review on pages 4 to 8, the Operating Review on pages 16 to 33 and in the Finance Director's Review on pages 36 to 42.

### Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 54.

An interim dividend of 1.3 pence per ordinary share (net) was paid on 14 March 2001. The directors recommend a final dividend of 2.5 pence per ordinary share making a total dividend of 3.8 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 10 October 2001 to those ordinary shareholders on the register at 7 September 2001.

### Directors and their interests

The names, responsibilities and biographical details of the current directors appear on pages 34 and 35.

Russell Walls was appointed a director on 30 June 2000 and his election was approved by shareholders at the 2000 Annual General Meeting.

Graham Eccles and Janet Morgan were appointed directors on 11 September 2000 and 27 April 2001 respectively and offer themselves for election at the next Annual General Meeting.

Graham Eccles has a service contract with a rolling 12 months' notice period. Janet Morgan does not have a service contract.

Barry Sealey has announced his intention to retire as a director and will not seek re-election at the 2001 Annual General Meeting.

Frank Gallagher has also announced his intention to retire as a director and will not seek re-election at the 2001 Annual General Meeting.

Barry Hinkley resigned as a director on 25 July 2000.

Robert Speirs and Brian Cox retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election. Robert Speirs does not have a service contract. Brian Cox has a service contract with a rolling 24 months' notice period. Table A set out on page 44 gives the interests of the directors and their families in the share capital of the company.

### Substantial shareholdings

On 31 May 2001 (being the latest practical date prior to the date of this report), the only disclosable shareholdings in excess of 3% (other than certain directors' shareholdings) were as follows:

|                                |       |
|--------------------------------|-------|
| Franklin Templeton Investments | 9.96% |
| Standard Life Assurance Co     | 3.66% |
| Marathon Asset Management      | 3.96% |
| Baillie Gifford & Co           | 3.97% |

### 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 gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's profit sharing schemes and are encouraged to invest through participation in share option schemes. An Inland Revenue approved Employee Share Ownership Plan ("non-statutory ESOP") was introduced for UK employees in 1991 and a similar plan was introduced in 2000 for New Zealand employees. The Group has since 1994 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 15,418,001 ordinary shares, representing 1.17% of the issued share capital at 30 April 2001. Since flotation in 1993, there have also been two invitations to UK employees to subscribe to the Group's sharesave ("SAYE") schemes, both of which have met with encouraging levels of response.

The Group 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. In 2000, a similar Works Council was established in New Zealand. 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.

TABLE A

|                                 |                | Number of shares     |                      |
|---------------------------------|----------------|----------------------|----------------------|
|                                 |                | 30 April and 20 June | 30 April and 14 June |
|                                 |                | 2001                 | 2000                 |
| Ordinary shares of 0.5p each    |                |                      |                      |
| Brian Souter                    | beneficial     | 160,341,225          | 163,341,225          |
|                                 | non-beneficial | 22,415,840           | 19,415,840           |
| Keith Cochrane                  |                | 35,160               | 33,178               |
| Brian Cox                       |                | 688,490              | 688,390              |
| Graham Eccles                   |                | 15,569               | 14,585               |
| Frank Gallagher                 |                | 780,500              | 780,500              |
| Martin Griffiths                |                | 7,635                | 7,535                |
| Ewan Brown                      |                | Nil                  | Nil                  |
| Ann Gloag                       | beneficial     | 125,653,161          | 131,640,818          |
|                                 | non-beneficial | 20,903,190           | 20,903,190           |
| Janet Morgan                    |                | Nil                  | Nil                  |
| Barry Sealey                    |                | 252,115              | 252,115              |
| Robert Speirs                   |                | 18,240               | 18,240               |
| Russell Walls                   |                | 6,000                | 4,000                |
|                                 |                | Number of shares     |                      |
|                                 |                | 30 April             | 30 April             |
|                                 |                | 2001                 | 2000                 |
| Share options held by Directors |                |                      |                      |
| Brian Souter                    |                | 2,685                | 2,601                |
| Keith Cochrane                  |                | 3,197,525            | 1,487,084            |
| Brian Cox                       |                | 1,282,074            | 1,086,889            |
| Graham Eccles                   |                | 317,920              | 98,725               |
| Frank Gallagher                 |                | 1,278,976            | 78,050               |
| Martin Griffiths                |                | 451,482              | 68,478               |
| Ewan Brown                      |                | Nil                  | Nil                  |
| Ann Gloag                       |                | 14,707               | 14,246               |
| Janet Morgan                    |                | Nil                  | Nil                  |
| Barry Sealey                    |                | Nil                  | Nil                  |
| Robert Speirs                   |                | Nil                  | Nil                  |
| Russell Walls                   |                | Nil                  | Nil                  |

Full details of options held as at 30 April 2001 are contained in Note 7b to the accounts.

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

The Group supports continuous learning and continuous improvement. The Group promotes the "open learning" concept and has established a number of open learning centres to facilitate its employees' development.

### 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 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. As the company is a holding company, trade creditor days is not a relevant figure. For the Group as a whole, the trade creditors outstanding at the year end represented 34 days' purchases (2000 – 36 days).

### Close company status

The directors are advised that at 30 April 2001 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 £0.7 million (2000 – £1.3 million) during the year. This is in line with the Group's policy of setting aside approximately 0.5% of budgeted 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.

### Authority for company to purchase its own shares

The Company has repurchased 91,077,021 ordinary shares of 0.5p each during the year under authorities granted by its shareholders under section 166 of the Companies Act 1985. This represents 6.5% of the shares in issue at the beginning of the financial year. The shares were repurchased at an average price of 68.1 pence per share. The total consideration in respect of the shares repurchased during the year was £62.0 million. All of the shares that were repurchased were immediately cancelled.

The Company considers that these purchases were beneficial to shareholders as they will result in an increase in earnings per share. Under the existing authority, the company may repurchase up to a further 92,193,021 shares. A resolution will be placed at the next Annual General Meeting that the company be authorised to repurchase up to 10% of its ordinary shares of 0.5p each, and this will replace the existing authority.

### Change of name

The directors propose the Company name be changed from Stagecoach Holdings plc to Stagecoach Group plc. The proposal will be put to shareholders at the 2001 Annual General Meeting.

### Electronic communication with shareholders

As a result of recent changes to legislation, the Company is proposing to update its articles of association to allow electronic communication with shareholders, where shareholders choose this medium of communication with the Company. There are several references to shareholder communications throughout the articles of association and in light of this, it is convenient to adopt new articles of association which will also include other minor amendments. The principal changes between the existing articles and the new articles are set out in the circular to shareholders enclosed with the Annual Report.

### Post balance sheet events

The Group announced on 18 June 2001 the disposal of its Portuguese bus operations for a consideration of approximately £11 million plus the repayment of inter-company debt of approximately £3 million. In addition, the purchaser will assume debt in relation to the business of £2.9 million and future bus purchase commitments of £1.8 million. Completion is expected to occur over the next few weeks, and will result in a net gain on disposal of approximately £6 million.

By order of the Board



DEREK SCOTT

Company Secretary

20 June 2001

## Corporate governance

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

### The Board

The Stagecoach Board currently comprises the Chairman, Chief Executive, four other executive directors and six non-executive directors: the offices of Chairman and Chief Executive are held separately. The directors' biographies appear on pages 34 and 35 of this Annual Report and illustrate the directors' range of experience, which ensures an effective Board to lead and control the Group.

The non-executive directors bring an independent viewpoint and create an overall balance operating in the interests of both the Group and the shareholders. The senior independent non-executive director is currently Barry Sealey. Barry Sealey has indicated his intention not to seek re-election as a non-executive director at the Annual General Meeting on 31 August 2001. It is the Board's intention that following the retirement of Barry Sealey, Robert Speirs will become the senior independent non-executive director. A further non-executive director will be appointed in due course.

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. During the financial year ending 30 April 2001, we have appointed Russell Walls and Janet Morgan as non-executive directors, and Graham Eccles as an executive director.

These appointments further broaden the collective experience of the Board.

All directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the company secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as directors.

All directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all directors are required to stand for re-election by shareholders every three years. Each director receives 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 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 very exceptional circumstances. The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure 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 carries out an annual 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 with non-board senior management. There are four principal operating divisions (Coach USA; UK Bus; UK Rail; Overseas Bus) which each comprise a varying number of autonomous business units each headed by a chairman or managing director who is responsible for the day to day performance of the business unit. The UK Bus division is headed by an executive director of the Group and the UK Bus managing director, who are supported by a small team of senior management and other specialists. The division is divided into twelve principal operating units, each headed by a managing director who reports to the managing director of UK Bus. The UK Bus division has its own management board which includes three Group executive directors (the Group Chief Executive, Group Finance Director and Executive Director – UK Bus), and other senior management. Coach USA is headed by the Coach USA Chairman (who is an executive director of the Group) who reports to the Group's Chief Executive. Coach USA has its own management board that comprises the Coach USA Chairman, the



Group Chief Executive, the Group Finance Director and other senior management. The division comprises eight regions, each headed by a regional vice-president who reports to the Coach USA Chairman. The Overseas Bus division is headed by the Overseas Bus Chairman and each business is headed by a managing director who is responsible for the performance of the business unit. The Group Chief Executive generally attends the Board and management meetings of the principal overseas bus operations. However, to allow the Group Chief Executive to devote more attention to Coach USA, the Group Chairman has attended the overseas bus meetings during the year whilst the Chief Executive has attended periodically. At South West Trains, an executive director is the Chairman and this role is separate from the managing director who is responsible for the performance of the business unit. They are supported on the South West Trains board by the Group Chief Executive and two non-executive directors. Virgin Rail Group is headed by a Chief Executive and Board meetings are attended by two Stagecoach executive directors. Stagecoach is involved in all key decisions at Virgin Rail Group. Road King Board meetings are attended by two Stagecoach executive directors.

The Group holds periodic meetings with its principal shareholders and welcomes all shareholders to its AGM. Formal notice of the 2001 meeting is enclosed within this annual report.

### Audit Committee

The Audit Committee comprises four non-executive directors and at the present time, its members are Russell Walls (Chairman), Janet Morgan, Robert Speirs and Ewan Brown. Barry Sealey served on the Audit Committee during the year and was replaced by Janet Morgan subsequent to year-end. The Audit Committee met four times during the year. 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, the risk management process 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, and vice-versa.

The Chairman of the Audit Committee reports to the Board on the work undertaken by the committee.

### Remuneration Committee

The Remuneration Committee during the year comprised four non-executive directors (Barry Sealey, Robert Speirs, Russell Walls and Ewan Brown) and was chaired by Robert Speirs. The Remuneration Committee met four 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 currently comprises three non-executive directors (Janet Morgan, Robert Speirs and Ewan Brown) and is chaired by the Group's Chairman, Brian Souter. The purpose of the Committee is to propose to the Board any new executive and non-executive director appointments. The Committee was convened three times during the year.

### 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 51 and 52.

### 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 statements. In order to provide a more focused communication with shareholders and to meet their varying requirements, each shareholder receives either a full annual report or a summary annual report. Each shareholder is given the opportunity to elect which document they require and this allows our reporting to be more focused towards the needs of individual shareholders. Information is also available on the company website ([www.stagecoachgroup.com](http://www.stagecoachgroup.com)). Private and institutional shareholders are welcome to attend and participate at the AGM. The Group aims to ensure that the chairmen of the Audit, Remuneration and Nominations 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 1999 and 2000 AGMs 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. Where the Board considers a risk to be of an unacceptable level such risks are either avoided or insured through third parties. Internal controls are used to identify and manage acceptable levels of risk. The directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group's system is designed to provide the directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of review and certification by the business heads of each operating unit.

Certain of the Group's businesses are subject to significant risk. We have, for example, experienced during the year, the disruption to the UK rail network arising from the actions outwith the Group's control. Each identified business risk is assessed for its probability of occurrence and its severity of occurrence. Where necessary, the

Board considers whether it is appropriate to accept certain risks (such as railway disruption) that cannot be fully controlled or mitigated by the Group. The Group's risk management process was embedded throughout its businesses during the year ended 30 April 2001. The Board has carried out a review of the effectiveness of the Group's internal control environment and such reviews are conducted on an ongoing basis. The Board is satisfied that the process is in place to ensure that risks are mitigated to an acceptable level.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains the ultimate responsibility for these processes. The Board believes that it is important that these processes are embedded throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit. As part of the risk management process it is intended that the non-executive directors will periodically meet with the managing directors of each operating unit because this is one method by which an independent appraisal of risk management is obtained.

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

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

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

Virgin Rail Group has its own audit committee and internal audit function. The Group's risk management process does not

specifically cover Virgin Rail Group at present, but the Group maintains an overview of risk management at Virgin Rail Group. Members of the Board and the internal audit function meet with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures. Road King Infrastructure has its own audit committee and internal audit function. The Group's Audit Committee review the financial statements of Virgin Rail Group and Road King Infrastructure together with the minutes, external audit presentations, management presentations and internal audit presentations from the respective audit committee meetings of these companies.

### Internal control

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

- an annual budgeting process with regular 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, balance sheet and key performance indicators and operating ratios. All results are monitored throughout the year by the Group executives.
- an internal audit function which reviews key business processes and financial controls, reporting directly to the Audit Committee.
- third party reviews commissioned by the Group of areas where significant inherent risks have been identified, such as treasury management and competition policy.
- a decentralised organisation structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- control over the activities of joint ventures and associated undertakings through Stagecoach representation on the Boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system is in place which covers over 100 of the Group's senior management and is based on agreed financial and other performance objectives many of which incorporate identifying and managing risk.
- significant emphasis is placed on cash flow management. Bank balances are reviewed on a daily basis, cash flows are compared to budget on a four-weekly basis and any material variances between earnings and expected cash flows are investigated.
- regular Board reporting on specific matters including 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 have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the continuous improvement of our risk management procedures.
- a commitment to best practice in external reporting.
- a competition compliance programme which has been approved by the Board and which is subject to regular monitoring.

The Audit Committee, having considered the external auditors' performance during the year, recommended re-appointment. The audit fees of £0.7 million and non-audit related fees of £0.2 million were discussed 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. Other accounting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified.

## Compliance with the Combined Code

The Group has complied with the provisions of the Code throughout the financial year except that one director has a service contract that is 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.

## 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 twelve trustees for the principal UK scheme of whom five are employee representatives nominated by the members on a regional basis and one is a pensioner trustee. Three of the executive directors are trustees together with two senior management colleagues. Derek Scott, the Company Secretary, who is an elected member of the NAPF's investment council, 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 and Island Line sections of the Railways Pension Scheme. The London and Newcastle offices of Arthur Andersen audit the Railways Pension Scheme, but Arthur Andersen does not audit any other significant pension schemes in which the Group participates.

# Remuneration report

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

## Composition

During the year, the Remuneration Committee was chaired by Robert Speirs and the other members were Ewan Brown, Russell Walls and Barry Sealey, all non-executive directors. The Committee, which was established in December 1992, is responsible for considering the remuneration and terms and conditions of employment of the executive directors, including the 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 with the exception of Ann Gloag who receives a pension accrued whilst she was an executive director and who also holds SAYE options from that time. The members of the Remuneration Committee have no personal interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Stagecoach Group.

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 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, Keith Cochrane, 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 further advice from a firm of executive remuneration consultants, who were previously instructed to review the existing remuneration of all the directors and senior executives during 1999.

## Executive directors' remuneration

A detailed analysis of directors' remuneration appears in Note 7 to the accounts on pages 66 to 68.

## 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, 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 Nil to 20% 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 a 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 of the relevant parts of the Group. Four of the directors were awarded shares under this scheme in 2000/2001.
- (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.
- (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 seven 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). Four awards were made to directors under this scheme in 2000/2001.

- (iv) The Stagecoach Long Term Bonus Scheme – two directors currently have long term bonus arrangements, details of which are given in note 7 to the financial statements.

## Directors' service agreements

With one exception, no executive director's contract provides for a notice period of more than one year. 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 one of these contracts is two years – this 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 certain benefits will not be more than a termination payment of up to twice (in the case of one of the directors this is three times) salary and certain benefits 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

20 June 2001

## Auditors' report

To the Shareholders of Stagecoach Holdings plc

We have audited the accounts on pages 54 to 90 which have been prepared under the historical cost convention and the accounting policies set out on pages 59 to 62.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 45, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, 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 corporate governance statement on pages 46 to 50 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

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 2001 and of the Group's loss 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

20 June 2001

# Consolidated profit and loss account

Year ended 30 April 2001

|  | Notes    | 2001                                     |                                |                      | 2000                                     |                                |                      |
|--|----------|--|--------------------------------|----------------------|--|--------------------------------|----------------------|
|  |          | Performance pre goodwill and exceptional | Goodwill and exceptional items | Results for the year | Performance pre goodwill and exceptional | Goodwill and exceptional items | Results for the year |
|  |          | £m                                       | £m                             | £m                   | £m                                       | £m                             | £m                   |
| Turnover: Group and share of joint ventures  | 2        | 2,083.5                                  | Nil                            | 2,083.5              | 2,179.1                                  | Nil                            | 2,179.1              |
| Less: Share of joint ventures' turnover  |          | (234.2)                                  | Nil                            | (234.2)              | (255.6)                                  | Nil                            | (255.6)              |
| <b>Group turnover</b>  |          | <b>1,849.3</b>                           | <b>Nil</b>                     | <b>1,849.3</b>       | <b>1,923.5</b>                           | <b>Nil</b>                     | <b>1,923.5</b>       |
| Continuing group operations  |          | 1,833.1                                  | Nil                            | 1,833.1              | 1,505.1                                  | Nil                            | 1,505.1              |
| Discontinued operations  |          | 16.2                                     | Nil                            | 16.2                 | 418.4                                    | Nil                            | 418.4                |
|  |          | 1,849.3                                  | Nil                            | 1,849.3              | 1,923.5                                  | Nil                            | 1,923.5              |
| Operating costs (excluding asset impairment)   |          | (1,729.3)                                | (59.7)                         | (1,789.0)            | (1,670.8)                                | (39.2)                         | (1,710.0)            |
| Impairment of assets of group companies  |          | Nil                                      | (376.0)                        | (376.0)              | Nil                                      | (30.0)                         | (30.0)               |
| Other operating income   | 3        | 95.2                                     | Nil                            | 95.2                 | 109.5                                    | Nil                            | 109.5                |
| Group overheads  |          | (21.1)                                   | Nil                            | (21.1)               | (21.7)                                   | Nil                            | (21.7)               |
| <b>Operating (loss)/profit of group companies</b>                                      | <b>2</b> | <b>194.1</b>                             | <b>(435.7)</b>                 | <b>(241.6)</b>       | <b>340.5</b>                             | <b>(69.2)</b>                  | <b>271.3</b>         |
| Share of operating (loss)/profit of joint ventures                                     |          | (8.8)                                    | (4.7)                          | (13.5)               | 12.6                                     | (6.2)                          | 6.4                  |
| Goodwill amortised on joint ventures   |          | Nil                                      | (8.3)                          | (8.3)                | Nil                                      | (8.0)                          | (8.0)                |
| Share of operating profit from interest in associates                                  |          | 13.6                                     | Nil                            | 13.6                 | 15.2                                     | Nil                            | 15.2                 |
| Impairment of investment in associates   |          | Nil                                      | Nil                            | Nil                  | Nil                                      | (85.0)                         | (85.0)               |
| Goodwill amortised on associates   |          | Nil                                      | (0.3)                          | (0.3)                | Nil                                      | (0.2)                          | (0.2)                |
| <b>Total operating (loss)/profit: group and share of joint ventures and associates</b> | <b>2</b> | <b>198.9</b>                             | <b>(449.0)</b>                 | <b>(250.1)</b>       | <b>368.3</b>                             | <b>(168.6)</b>                 | <b>199.7</b>         |
| Represented by:  |          |  |                                |                      |  |                                |                      |
| Continuing group operations  |          | 193.0                                    | (435.7)                        | (242.7)              | 181.2                                    | (39.2)                         | 142.0                |
| Joint ventures and associates  |          | 4.8                                      | (13.3)                         | (8.5)                | 27.8                                     | (99.4)                         | (71.6)               |
|  |          | 197.8                                    | (449.0)                        | (251.2)              | 209.0                                    | (138.6)                        | 70.4                 |
| Discontinued operations  |          | 1.1                                      | Nil                            | 1.1                  | 159.3                                    | (30.0)                         | 129.3                |
| <b>Total operating (loss)/profit: group and share of joint ventures and associates</b> |          | <b>198.9</b>                             | <b>(449.0)</b>                 | <b>(250.1)</b>       | <b>368.3</b>                             | <b>(168.6)</b>                 | <b>199.7</b>         |
| Profit on sale of properties – continuing operations                                   |          | Nil                                      | 2.8                            | 2.8                  | Nil                                      | 2.4                            | 2.4                  |
| Profit on disposal of Porterbrook  |          | Nil                                      | Nil                            | Nil                  | Nil                                      | 135.5                          | 135.5                |
| Profit on disposal of Prestwick Airport  |          | Nil                                      | 6.8                            | 6.8                  | Nil                                      | Nil                            | Nil                  |
| Loss on disposal of overseas operations  |          | Nil                                      | Nil                            | Nil                  | Nil                                      | (10.7)                         | (10.7)               |
| <b>(Loss)/profit on ordinary activities before interest and taxation</b>               |          | <b>198.9</b>                             | <b>(439.4)</b>                 | <b>(240.5)</b>       | <b>368.3</b>                             | <b>(41.4)</b>                  | <b>326.9</b>         |
| Finance charges (net)  | 4        | (76.0)                                   | Nil                            | (76.0)               | (124.0)                                  | (20.6)                         | (144.6)              |
| <b>(Loss)/profit on ordinary activities before taxation</b>                            | <b>5</b> | <b>122.9</b>                             | <b>(439.4)</b>                 | <b>(316.5)</b>       | <b>244.3</b>                             | <b>(62.0)</b>                  | <b>182.3</b>         |
| Taxation on (loss)/profit on ordinary activities                                       | 8        | (18.6)                                   | 2.8                            | (15.8)               | (42.5)                                   | 1.1                            | (41.4)               |
| <b>(Loss)/profit on ordinary activities after taxation</b>                             |          | <b>104.3</b>                             | <b>(436.6)</b>                 | <b>(332.3)</b>       | <b>201.8</b>                             | <b>(60.9)</b>                  | <b>140.9</b>         |
| Dividends  | 9        | (49.3)                                   | Nil                            | (49.3)               | (54.0)                                   | Nil                            | (54.0)               |
| <b>Retained (loss)/profit for the year</b>   |          | <b>55.0</b>                              | <b>(436.6)</b>                 | <b>(381.6)</b>       | <b>147.8</b>                             | <b>(60.9)</b>                  | <b>86.9</b>          |
| <b>(Loss)/earnings per share</b>   |          |  |                                |                      |  |                                |                      |
| – Adjusted/Basic   | 10       | 7.8p                                     |                                | (24.8)p              | 13.4p                                    |                                | 9.4p                 |
| – Diluted  | 10       | 7.8p                                     |                                | (24.8)p              | 13.3p                                    |                                | 9.3p                 |

A statement of movements on the profit and loss account reserve is given in Note 11.

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



# Consolidated balance sheet

As at 30 April 2001

|  | Notes | 2001<br>£m | 2000<br>£m |
|--|-------|------------|------------|
| <b>Fixed assets</b>  |       |            |            |
| Intangible assets  | 12    | 692.9      | 953.0      |
| Tangible assets  | 13    | 1,157.1    | 1,127.7    |
| Investments  | 14    |            |            |
| – Investment in joint ventures                                 |       |            |            |
| Goodwill   |       | 89.0       | 96.2       |
| Share of gross assets  |       | 101.6      | 106.3      |
| Share of gross liabilities                                     |       | (83.4)     | (74.4)     |
| Shareholder loan notes   |       | 10.0       | 10.0       |
|  |       | 117.2      | 138.1      |
| – Investment in associates                                     |       | 70.2       | 59.1       |
| – Other investments  |       | 3.1        | 2.7        |
|  |       | 2,040.5    | 2,280.6    |
| <b>Current assets</b>  |       |            |            |
| Stocks   | 16    | 48.4       | 37.4       |
| Debtors and prepaid charges – due within one year              | 17    | 205.0      | 199.0      |
| – due after more than one year                                 | 17    | 34.7       | 34.4       |
| Cash at bank and in hand                                       |       | 160.4      | 816.0      |
|  |       | 448.5      | 1,086.8    |
| <b>Creditors: Amounts falling due within one year</b>          | 18    | (557.6)    | (836.0)    |
| <b>Net current (liabilities)/assets</b>                        |       | (109.1)    | 250.8      |
| <b>Total assets less current liabilities</b>                   |       | 1,931.4    | 2,531.4    |
| <b>Creditors: Amounts falling due after more than one year</b> | 18    | (816.8)    | (1,039.4)  |
| <b>Provisions for liabilities and charges</b>                  | 26    | (105.7)    | (100.8)    |
| <b>Net assets</b>  | 2     | 1,008.9    | 1,391.2    |
| <b>Capital and reserves</b>                                    |       |            |            |
| Equity share capital   | 27    | 6.6        | 7.1        |
| Share premium account  | 29    | 781.5      | 779.7      |
| Profit and loss account  | 29    | 217.3      | 601.4      |
| ESOP distribution reserve                                      | 29    | 1.8        | 1.8        |
| Capital redemption reserve                                     | 29    | 1.7        | 1.2        |
| <b>Shareholders' funds – Equity</b>                            |       | 1,008.9    | 1,391.2    |

Signed on behalf of the Board on 20 June 2001



KEITH COCHRANE  
Chief Executive



MARTIN A GRIFFITHS  
Finance Director

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

# Company balance sheet

As at 30 April 2001

|   | Notes | 2001<br>£m     | 2000<br>£m     |
|---|-------|----------------|----------------|
| <b>Fixed assets</b>                                     |       |                |                |
| Tangible assets   | 13    | 7.8            | 7.5            |
| Investments   | 14    | 375.4          | 377.6          |
|   |       | <u>383.2</u>   | <u>385.1</u>   |
| <b>Current assets</b>                                   |       |                |                |
| Debtors and prepaid charges – due within one year       | 17    | 9.1            | 12.3           |
| – due after more than one year                          | 17    | 1,671.5        | 1,820.8        |
| Cash at bank and in hand                                |       | Nil            | 634.8          |
|   |       | <u>1,680.6</u> | <u>2,467.9</u> |
| Creditors: Amounts falling due within one year          | 18    | (197.5)        | (433.4)        |
| <b>Net current assets</b>                               |       | <u>1,483.1</u> | <u>2,034.5</u> |
| <b>Total assets less current liabilities</b>            |       | <u>1,866.3</u> | <u>2,419.6</u> |
| Creditors: Amounts falling due after more than one year | 18    | (725.0)        | (852.7)        |
| Provisions for liabilities and charges                  | 26    | (43.2)         | (31.3)         |
| <b>Net assets</b>                                       |       | <u>1,098.1</u> | <u>1,535.6</u> |
| <b>Capital and reserves</b>                             |       |                |                |
| Equity share capital                                    | 27    | 6.6            | 7.1            |
| Share premium account                                   | 29    | 781.5          | 779.7          |
| Other reserve   | 29    | Nil            | 460.1          |
| Profit and loss account                                 | 29    | 306.5          | 285.7          |
| ESOP distribution reserve                               | 29    | 1.8            | 1.8            |
| Capital redemption reserve                              | 29    | 1.7            | 1.2            |
| <b>Shareholders' funds – Equity</b>                     |       | <u>1,098.1</u> | <u>1,535.6</u> |

Signed on behalf of the Board on 20 June 2001



KEITH COCHRANE  
Chief Executive



MARTIN A GRIFFITHS  
Finance Director

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

# Consolidated cash flow statement

Year ended 30 April 2001

|   | Notes | 2001<br>£m | 2000<br>£m |
|---|-------|------------|------------|
| Net cash inflow from operating activities                                     | 30    | 306.4      | 511.7      |
| Dividends from joint ventures and associates                                  |       | 6.1        | 6.7        |
| Returns on investments and servicing of finance                               |       |            |            |
| Interest paid   |       | (82.2)     | (138.3)    |
| Interest element of HP and lease finance                                      |       | (8.9)      | (9.6)      |
| Interest received   |       | 14.9       | 26.9       |
| Net cash outflow from returns on investments and servicing of finance         |       | (76.2)     | (121.0)    |
| Taxation  |       | (8.2)      | (49.9)     |
| Capital expenditure and financial investment                                  |       |            |            |
| Purchase of tangible fixed assets   |       | (93.7)     | (258.6)    |
| Maintenance capital expenditure   |       | Nil        | (63.6)     |
| Sale of tangible fixed assets   |       | 10.1       | 17.4       |
| Net cash outflow from capital expenditure and financial investment            |       | (83.6)     | (304.8)    |
| Acquisitions and disposals  |       |            |            |
| Acquisition of subsidiaries   | 30    | (38.7)     | (768.0)    |
| Net cash acquired with subsidiaries   | 30    | 0.8        | 49.2       |
| Purchase of goodwill  |       | (0.1)      | (0.8)      |
| Purchase of investments in joint venture and associates                       |       | (2.5)      | (9.8)      |
| Repayment of shareholder loan   |       | Nil        | 10.0       |
| Purchase of other investments   |       | (1.2)      | Nil        |
| Cash of disposed subsidiaries   | 14    | (0.2)      | (196.1)    |
| Disposal of subsidiaries and other businesses                                 | 14    | 37.6       | 872.2      |
| Disposal of other investments   |       | 2.9        | Nil        |
| Net cash outflow from acquisitions and disposals                              |       | (1.4)      | (43.3)     |
| Equity dividends paid   |       | (50.2)     | (47.4)     |
| Net cash inflow/(outflow) before management of liquid resources and financing |       | 92.9       | (48.0)     |
| Financing   |       |            |            |
| Sale of tokens  |       | 16.0       | 14.5       |
| Redemption of tokens  |       | (14.6)     | (14.6)     |
| Issue of share capital for cash   |       | 0.3        | 400.4      |
| Costs of issuing new shares   |       | Nil        | (12.6)     |
| Repurchase of own shares  |       | (178.8)    | (45.3)     |
| Cost of bond redemption   |       | (15.4)     | Nil        |
| Decrease in collateral balances   |       | 23.5       | 3.6        |
| Repayment of loan notes   |       | (33.6)     | (28.5)     |
| (Decrease)/increase in borrowings   |       | (471.6)    | 295.1      |
| Repayments of hire purchase and lease finance                                 |       | (54.0)     | (68.2)     |
| Net cash (outflow)/inflow from financing                                      |       | (728.2)    | 544.4      |
| (Decrease)/increase in cash during the year                                   | 30    | (635.3)    | 496.4      |
| Free cash flow  |       | 228.1      | 283.9      |
| Free cash flow per share  |       | 17.0p      | 18.9p      |

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

## Consolidated statement of total recognised gains and losses

Year ended 30 April 2001

|  | 2001<br>£m     | 2000<br>£m   |
|--|----------------|--------------|
| (Loss)/profit for the financial year   | (332.3)        | 140.9        |
| Translation differences on foreign currency net investments                  | 55.7           | 13.5         |
| UK tax effect of translation differences on foreign currency net investments | Nil            | (1.4)        |
| Share of other recognised gains and losses of associates                     | 1.3            | Nil          |
| <b>Total recognised gains and losses relating to the year</b>                | <b>(275.3)</b> | <b>153.0</b> |

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

## Reconciliation of movements in consolidated shareholders' funds

Year ended 30 April 2001

|  | 2001<br>£m     | 2000<br>£m   |
|--|----------------|--------------|
| (Loss)/profit for the financial year                               | (332.3)        | 140.9        |
| Dividends  | (49.3)         | (54.0)       |
|  | (381.6)        | 86.9         |
| Goodwill sold, previously written off to reserves                  | 2.5            | 339.5        |
| Other recognised gains and losses relating to the year (see above) | 57.0           | 12.1         |
| New share capital issued less costs                                | 1.8            | 389.7        |
| ESOP distribution reserve decrease                                 | Nil            | (0.3)        |
| Shares repurchased   | (62.0)         | (162.1)      |
| <b>Net (reduction)/increase in shareholders' funds</b>             | <b>(382.3)</b> | <b>665.8</b> |
| Opening shareholders' funds  | 1,391.2        | 725.4        |
| Closing shareholders' funds  | 1,008.9        | 1,391.2      |

The accompanying notes form an integral part of these statements.

# Notes to the accounts

## 1. Statement of accounting policies

A summary of the principal accounting policies is set out below. All principal accounting policies have been applied consistently throughout the year and the preceding year. A change to an estimation technique is described in note 1(e).

The Group has adopted FRS 18, "Accounting Policies" in respect of these accounts. This has not resulted in any changes to the Group's accounting policies, which have been reviewed in light of FRS 18. As required by FRS 18, some additional details are provided below in respect of the estimation techniques applied by the Group where there is significant uncertainty over the monetary amount at which an item is to be measured.

A number of new pronouncements by the Urgent Issues Task Force apply to these accounts but have not resulted in any significant changes to the Group's accounting policies.

### (a) Basis of accounts

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

### (b) Presentation of profit and loss account

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

### (c) Basis of consolidation

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

Associates – The Group's share of the operating profit of Road King Infrastructure Limited is based on the results of that company for the year to 31 December 2000. The Group's share of the operating profit of other associates is based on the results for the period covered by the Group's financial year.

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

### (d) Intangible assets

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 is estimated by the directors to be between 5 and 20 years. Provision is made for any impairment, with impairment reviews being undertaken in accordance with FRS 11, "Impairment of fixed assets and goodwill". Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to reserves in accordance with the accounting standard then in force.

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

Fair value accounting adjustments have been made to take account of the revaluation of certain fixed assets on an existing use basis, discounting of long term liabilities and other changes in accounting policies required to comply with Group policies. Fair value adjustments based on provisional estimates are amended in the following year's accounts where necessary, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post-acquisition.

**(e) Tangible fixed assets**

Tangible fixed assets are shown at their original historic cost or fair value on acquisition net of depreciation and any provision for impairment as set out in Note 14.

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

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

Heritable and freehold land is not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

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.

In prior years, tangible fixed assets held by South West Trains Limited were depreciated on a straight-line basis over a period ending on the expected date of the expiry of the existing South West Trains' franchise in February 2003. The Group has become preferred bidder for a new 20-year South West Trains' franchise and the remaining net book value of the tangible fixed assets is now being depreciated on a straight-line basis to the end of their estimated useful lives. The effect of this change in estimation technique is to increase the profit before tax for the year ended 30 April 2001 by £1.7 million.

**(f) Investments**

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

**(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 using the gross equity method. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profits less losses, while the Group's share of associates' and joint ventures' net assets is shown in the consolidated balance sheet. Goodwill arising on the acquisition is accounted for in accordance with the policy set out above. Any unamortised goodwill is included in the carrying value of the Group's investments.

**(h) Stocks**

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

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

**(i) 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.

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

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

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

**(j) Taxation**

Corporation tax is provided on taxable profits at the current rate.

Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

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.

**(k) Turnover**

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

Compensation received by UK Rail companies in respect of lost revenue is recognised in the period in which the associated loss of revenue arises.

**(l) 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.

The estimation of the balance sheet provision for token redemption is based on the value of tokens issued by the Group but not yet redeemed at the balance sheet date. Allowance is made for the estimated proportion of tokens in issue that will never be redeemed. This allowance is estimated with reference to historic redemption rates. At 30 April 2001, it has been estimated that 97% of tokens in issue will be redeemed.

**(m) 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 may be 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 31d.

**(n) Foreign currencies**

The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange. Exchange differences arising on the translation of the opening net assets and results of overseas operations, together with exchange differences arising on foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in overseas operations, are dealt with through reserves.

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.

| <b>Principal rates of exchange</b> | <b>2001</b> | <b>2000</b> |
|------------------------------------|-------------|-------------|
| <b>New Zealand Dollar</b>          |             |             |
| Year end rate                      | 3.47        | 3.22        |
| Average rate                       | 3.39        | 3.13        |
| <b>Hong Kong Dollar</b>            |             |             |
| Year end rate                      | 11.16       | 12.19       |
| Average rate                       | 11.44       | 12.50       |
| <b>US Dollar</b>                   |             |             |
| Year end rate                      | 1.43        | 1.56        |
| Average rate                       | 1.47        | 1.61        |

**(o) 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.

**(p) 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.

Revenue grants receivable in respect of the operation of rail franchises in the UK are charged or credited to the profit and loss account in the year in which payment is due.

**(q) 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 (that summarises the respective fair values and book values of financial instruments) short term debtors and creditors have been excluded from financial instruments.

Where a derivative financial instrument ceases to be a hedge, the instrument is marked to market and any profit or loss is recognised in the profit and loss account at that time.

**(r) Marketing costs**

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

**(s) Insurance**

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

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

**2. Segmental analysis****(a) Turnover**

|   | 2001<br>£m     | 2000<br>£m     |
|---|----------------|----------------|
| <b>Continuing operations</b>                                |                |                |
| UK bus  | 547.6          | 527.0          |
| Overseas bus  | 195.4          | 176.8          |
| Acquisitions – 1999/2000:                                   |                |                |
| Coach USA   | 686.4          | 424.9          |
| <b>Total bus continuing operations</b>                      | <b>1,429.4</b> | <b>1,128.7</b> |
| Rail  | 403.7          | 376.4          |
| <b>Total continuing operations</b>                          | <b>1,833.1</b> | <b>1,505.1</b> |
| <b>Discontinued operations</b>                              |                |                |
| Prestwick Airport   | 16.2           | 23.1           |
| Swebus  | Nil            | 159.3          |
| Porterbrook   | Nil            | 275.0          |
|   | 16.2           | 457.4          |
| <b>Elimination of inter-segment turnover</b>                | <b>Nil</b>     | <b>(39.0)</b>  |
| <b>Group turnover</b>                                       | <b>1,849.3</b> | <b>1,923.5</b> |
| Share of joint ventures' turnover                           | 234.2          | 255.6          |
| <b>Group turnover and share of joint ventures' turnover</b> | <b>2,083.5</b> | <b>2,179.1</b> |

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



## 2. Segmental analysis (continued)

## (b) Operating (loss)/profit

|   | 2001   |                                      |                            | 2000   |                                      |                            |
|---|--|--------------------------------------|----------------------------|--|--------------------------------------|----------------------------|
|   | Performance pre goodwill and exceptional items<br>£m | Goodwill and exceptional items<br>£m | Results for the year<br>£m | Performance pre goodwill and exceptional items<br>£m | Goodwill and exceptional items<br>£m | Results for the year<br>£m |
| <b>Continuing operations</b>  |  |                                      |                            |  |                                      |                            |
| UK bus  | 73.4   | (1.5)                                | 71.9                       | 80.8   | Nil                                  | 80.8                       |
| Overseas bus  | 35.8   | Nil                                  | 35.8                       | 29.1   | Nil                                  | 29.1                       |
| Acquisitions – 1999/2000:   |  |                                      |                            |  |                                      |                            |
| Coach USA   | 67.1   | Nil                                  | 67.1                       | 60.1   | Nil                                  | 60.1                       |
| Total bus continuing operations                                     | 176.3  | (1.5)                                | 174.8                      | 170.0  | Nil                                  | 170.0                      |
| Rail  | 45.6   | Nil                                  | 45.6                       | 39.3   | Nil                                  | 39.3                       |
| Total continuing operations   | 221.9  | (1.5)                                | 220.4                      | 209.3  | Nil                                  | 209.3                      |
| <b>Discontinued operations</b>                                      |  |                                      |                            |  |                                      |                            |
| Swebus  | Nil  | Nil                                  | Nil                        | 6.7  | Nil                                  | 6.7                        |
| Porterbrook   | Nil  | Nil                                  | Nil                        | 150.4  | Nil                                  | 150.4                      |
| Prestwick Airport   | 1.1  | Nil                                  | 1.1                        | 2.3  | Nil                                  | 2.3                        |
| Prestwick Airport – impairment of assets                            | Nil  | Nil                                  | Nil                        | Nil  | (30.0)                               | (30.0)                     |
|   | 1.1  | Nil                                  | 1.1                        | 159.4  | (30.0)                               | 129.4                      |
| Group overheads   | (21.1)   | Nil                                  | (21.1)                     | (21.7)   | Nil                                  | (21.7)                     |
| Goodwill impairment   | Nil  | (376.0)                              | (376.0)                    | Nil  | Nil                                  | Nil                        |
| Annual goodwill amortisation  | Nil  | (58.2)                               | (58.2)                     | Nil  | (39.2)                               | (39.2)                     |
| Redundancy/restructuring costs                                      |  |                                      |                            |  |                                      |                            |
| – 1999/2000 acquisitions  | (4.0)  | Nil                                  | (4.0)                      | (0.8)  | Nil                                  | (0.8)                      |
| – Other continuing operations                                       | (3.8)  | Nil                                  | (3.8)                      | (5.6)  | Nil                                  | (5.6)                      |
| – Discontinued  | Nil  | Nil                                  | Nil                        | (0.1)  | Nil                                  | (0.1)                      |
| Total operating (loss)/profit of Group companies                    | 194.1  | (435.7)                              | (241.6)                    | 340.5  | (69.2)                               | 271.3                      |
| Share of operating (loss)/profit of joint ventures                  |  |                                      |                            |  |                                      |                            |
| – train operating companies   | (2.8)  | (0.7)                                | (3.5)                      | 14.0   | Nil                                  | 14.0                       |
| – thetrainline.com  | (5.7)  | (4.0)                                | (9.7)                      | (1.4)  | (6.2)                                | (7.6)                      |
| – other   | (0.3)  | Nil                                  | (0.3)                      | Nil  | Nil                                  | Nil                        |
| Goodwill amortised on investment in joint ventures                  | Nil  | (8.3)                                | (8.3)                      | Nil  | (8.0)                                | (8.0)                      |
| Share of operating profit of associates                             | 13.6   | Nil                                  | 13.6                       | 15.2   | Nil                                  | 15.2                       |
| Impairment of investment in associates                              | Nil  | Nil                                  | Nil                        | Nil  | (85.0)                               | (85.0)                     |
| Goodwill amortised on investment in associates                      | Nil  | (0.3)                                | (0.3)                      | Nil  | (0.2)                                | (0.2)                      |
| Total operating (loss)/profit: Group, joint ventures and associates | 198.9  | (449.0)                              | (250.1)                    | 368.3  | (168.6)                              | 199.7                      |

## (c) Operating costs

## Total operating costs comprise:

|  | 2001   |                                      |                            | 2000   |                                      |                            |
|--|--|--------------------------------------|----------------------------|--|--------------------------------------|----------------------------|
|  | Performance pre goodwill and exceptional items<br>£m | Goodwill and exceptional items<br>£m | Results for the year<br>£m | Performance pre goodwill and exceptional items<br>£m | Goodwill and exceptional items<br>£m | Results for the year<br>£m |
| Operating costs (excluding asset impairment) | (1,729.3)  | (59.7)                               | (1,789.0)                  | (1,670.8)  | (39.2)                               | (1,710.0)                  |
| Impairment of assets of group companies      | Nil  | (376.0)                              | (376.0)                    | Nil  | (30.0)                               | (30.0)                     |
|  | (1,729.3)  | (435.7)                              | (2,165.0)                  | (1,670.8)  | (69.2)                               | (1,740.0)                  |

## 2. Segmental analysis (continued)

### (d) Net assets

|  | 2001<br>£m | 2000<br>£m |
|--|------------|------------|
| UK bus   | 93.1       | 114.3      |
| Overseas bus   | 215.0      | 220.8      |
| Coach USA  | 79.4       | 393.9      |
| Rail   | (3.7)      | (0.6)      |
| Aviation   | Nil        | 19.1       |
| Central assets   | 437.7      | 446.5      |
| Net assets of Group companies                          | 821.5      | 1,194.0    |
| Joint ventures   | 117.2      | 138.1      |
| Associates   | 70.2       | 59.1       |
| Total net assets: Group, joint ventures and associates | 1,008.9    | 1,391.2    |

## 3. Other operating income

|   | 2001<br>£m | 2000<br>£m |
|---|------------|------------|
| Miscellaneous revenue                                       | 51.6       | 50.2       |
| (Losses)/gains on disposal of assets, other than properties | (0.5)      | 0.7        |
| OPRAF franchise support                                     | 44.1       | 58.6       |
|   | 95.2       | 109.5      |

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

## 4. Finance charges (net)

|   | 2001<br>£m | 2000<br>£m |
|---|------------|------------|
| Bank loans and overdrafts                   | 26.7       | 68.4       |
| Hire purchase and leases                    | 8.8        | 9.6        |
| Other loans                                 | 57.0       | 73.3       |
| Interest received                           | (14.9)     | (27.3)     |
| Net (gain)/loss on early settlement of debt | (1.6)      | 20.6       |
|   | 76.0       | 144.6      |

Interest receivable includes £0.3 million (2000—£0.3 million) in relation to share of joint venture net interest receivable and £1.0 million (2000—£2.0 million) in relation to interest receivable on joint venture shareholder loan notes. Interest payable includes £2.2 million (2000—£1.7 million) in relation to share of associates' net interest payable.

## 5. (Loss)/profit on ordinary activities before taxation

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

|  | 2001<br>£m | 2000<br>£m |
|--|------------|------------|
| Depreciation and amounts written off     |            |            |
| – Tangible fixed assets (owned)          | 92.2       | 193.5      |
| – Tangible fixed assets (on HP or lease) | 19.0       | 25.2       |
| Amortisation of goodwill                 |            |            |
| – subsidiaries                           | 58.2       | 39.2       |
| – joint venture and associates           | 8.6        | 8.2        |
| Impairment of Coach USA goodwill         | 376.0      | Nil        |
| Gains on property disposals              | (2.8)      | (2.4)      |
| Losses/(gains) on other asset disposals  | 0.5        | (0.7)      |
| Operating lease rentals                  |            |            |
| – PSVs and rolling stock                 | 78.7       | 76.3       |
| – Railtrack charges                      | 138.1      | 162.6      |
| Auditors' remuneration – audit           | 0.7        | 0.6        |

Payments to the auditors for non-audit services of £0.2 million (2000 – £1.7 million) were made during the year. These have been included in the cost of investments or charged against share premium, the capital element of new debt issued or charged to the profit and loss account as appropriate.

The following items have been treated as exceptional:

|   | Current year<br>cash flow<br>effect<br>£m | 2001<br>£m | 2000<br>£m |
|---|---|------------|------------|
| Provision for environmental work          | Nil                                       | (1.5)      | Nil        |
| Impairment of goodwill at Coach USA       | Nil                                       | (376.0)    | Nil        |
| Impairment of assets at Prestwick airport | Nil                                       | Nil        | (30.0)     |
| Share of joint venture exceptional items  | (4.7)                                     | (4.7)      | (6.2)      |
| Impairment in investment in associates    | Nil                                       | Nil        | (85.0)     |
| Profit on disposal of Porterbrook         | Nil                                       | Nil        | 135.5      |
| Profit on disposal of Prestwick Airport   | 26.4                                      | 6.8        | Nil        |
| Loss on disposal of overseas operations   | Nil                                       | Nil        | (10.7)     |
| Profit on sale of properties              | 5.5                                       | 2.8        | 2.4        |
| Finance charges                           | Nil                                       | Nil        | (20.6)     |
|   | 27.2                                      | (372.6)    | (14.6)     |
| Tax effect of exceptional items           | Nil                                       | Nil        | 1.1        |
|   | 27.2                                      | (372.6)    | (13.5)     |

Following the introduction of new legislation, the Group has an obligation to undertake environmental work, including the elimination of any presence of asbestos at some of its UK properties. A provision for the estimated cost of this work has been recorded in accordance with FRS 12, "Provisions, Contingent Liabilities and Contingent Assets", to recognise the Group's obligation as at the balance sheet date. Note 26 summarises the movement in provisions during the year.

The impairment of goodwill at Coach USA of £376.0 million was determined in accordance with FRS 11, "Impairment of fixed assets and goodwill" to ensure that the assets of Coach USA were stated at no more than their recoverable amount, being the higher of net realisable value and value in use. The loss of £376.0 million is the aggregate loss determined as the sum of the losses estimated from impairment reviews of each individual income generating unit within Coach USA. The impairment loss restated the assets to value in use and was determined using an average pre-tax discount rate of 10%.

The impairment of assets at Prestwick airport of £30.0 million in the prior year was determined in accordance with FRS 11. The write-down restated the assets to value in use and was determined using a pre-tax discount rate of 13%. The business was sold prior to 30 April 2001.

Our share of joint venture exceptional items principally comprise thetrainline.com marketing costs being our share of initial marketing costs in respect of an internet and call centre booking service operated as a part of a joint venture.

The impairment of investments in associates in the prior year represents the effect of writing-down our investment in Road King Infrastructure Limited which was re-stated to realisable value determined by applying the mid market closing share price of Road King Infrastructure Limited on 30 April 2000. No adjustment to the prior year impairment loss is considered necessary as at 30 April 2001.

Details of disposals in the year are given in note 14.

The exceptional finance charges in the prior year related to the early extinguishment of debt arising from acquisition and disposals. The principal element related to the redemption of Sterling Eurobonds, following the disposal of Porterbrook.

## 6. Staff costs and employees

|                                | 2001<br>£m | 2000<br>£m |
|--------------------------------|------------|------------|
| <b>Staff costs</b>             |            |            |
| Wages and salaries             | 753.6      | 686.4      |
| Social security costs          | 56.5       | 66.9       |
| Other pension costs (Note 31d) | 16.8       | 17.2       |
| ESOP distribution              | 1.8        | 1.4        |
|                                | 828.7      | 771.9      |

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

|                                   | 2001<br>Number | 2000<br>Number |
|-----------------------------------|----------------|----------------|
| UK operations                     | 22,147         | 22,220         |
| UK administration and supervisory | 1,376          | 1,143          |
| Overseas                          | 16,479         | 17,891         |
|                                   | 40,002         | 41,254         |

## 7. Directors

### (a) Directors' remuneration

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

|                                | 2001        | 2000  | 2001                      | 2000 | 2001             | 2000 | 2001                         | 2000 | 2001                       | 2000 | 2001  | 2000  |
|--------------------------------|-------------|-------|---------------------------|------|------------------|------|------------------------------|------|----------------------------|------|-------|-------|
|                                | Salary/fees |       | Performance related bonus |      | Benefits in kind |      | Money purchase contributions |      | Non-pensionable allowances |      | Total |       |
| <b>Executive directors</b>     |             |       |                           |      |                  |      |                              |      |                            |      |       |       |
| Brian Souter                   | 430         | 430   | Nil                       | Nil  | 18               | 1    | 50                           | 50   | n/a                        | n/a  | 498   | 481   |
| Keith Cochrane                 | 325         | 234   | 50                        | 75   | 18               | 15   | Nil                          | Nil  | 60                         | 14   | 453   | 338   |
| Brian Cox                      | 200         | 199   | 16                        | 36   | 13               | 13   | Nil                          | Nil  | n/a                        | n/a  | 229   | 248   |
| Graham Eccles                  | 107         | n/a   | 21                        | n/a  | 8                | n/a  | Nil                          | n/a  | n/a                        | n/a  | 136   | n/a   |
| Frank Gallagher                | 272         | 39    | Nil                       | Nil  | Nil              | Nil  | Nil                          | 1    | n/a                        | n/a  | 272   | 40    |
| Martin Griffiths               | 125         | 2     | 25                        | 1    | 14               | 1    | n/a                          | n/a  | n/a                        | n/a  | 164   | 4     |
| Barry Hinkley                  | 65          | 222   | Nil                       | 46   | 5                | 13   | n/a                          | n/a  | n/a                        | n/a  | 70    | 281   |
| Larry King                     | n/a         | 82    | n/a                       | Nil  | n/a              | Nil  | n/a                          | Nil  | n/a                        | Nil  | n/a   | 82    |
| Mike Kinski                    | n/a         | 306   | n/a                       | Nil  | n/a              | 14   | n/a                          | Nil  | n/a                        | 165  | n/a   | 485   |
| <b>Non-executive directors</b> |             |       |                           |      |                  |      |                              |      |                            |      |       |       |
| Ewan Brown                     | 25          | 20    | Nil                       | Nil  | Nil              | Nil  | n/a                          | n/a  | n/a                        | n/a  | 25    | 20    |
| Ann Gloag*                     | 25          | 85    | Nil                       | Nil  | Nil              | Nil  | n/a                          | 50   | n/a                        | n/a  | 25    | 135   |
| Jim Leng                       | n/a         | 4     | n/a                       | Nil  | n/a              | Nil  | n/a                          | n/a  | n/a                        | n/a  | n/a   | 4     |
| Barry Sealey                   | 43          | 38    | Nil                       | Nil  | Nil              | Nil  | n/a                          | n/a  | n/a                        | n/a  | 43    | 38    |
| Robert Speirs                  | 25          | 20    | Nil                       | Nil  | Nil              | Nil  | n/a                          | n/a  | n/a                        | n/a  | 25    | 20    |
| Russell Walls                  | 21          | n/a   | Nil                       | n/a  | Nil              | n/a  | n/a                          | n/a  | n/a                        | n/a  | 21    | n/a   |
| Janet Morgan                   | 1           | n/a   | Nil                       | n/a  | Nil              | n/a  | n/a                          | n/a  | n/a                        | n/a  | 1     | n/a   |
| <b>Total</b>                   | 1,664       | 1,681 | 112                       | 158  | 76               | 57   | 50                           | 101  | 60                         | 179  | 1,962 | 2,176 |

\*Ann Gloag's remuneration in 2000 is in respect of her former duties as an executive director.

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

## 7. Directors (continued)

## (a) Directors' remuneration (continued)

|                            | 2001            | 2000 | 2001             | 2000 | 2001   | 2000 |
|----------------------------|-----------------|------|------------------|------|--|------|
|                            | Accrued pension |      | Accrued lump sum |      | Transfer value of increase (excluding inflation) |      |
| <b>Executive directors</b> |                 |      |                  |      |  |      |
| Brian Souter               | 131             | 120  | 130              | 97   | 63   | 125  |
| Keith Cochrane             | 58              | 50   | 173              | 149  | 46   | 195  |
| Brian Cox                  | 99              | 86   | 121              | 102  | 212  | 118  |
| Graham Eccles              | 2               | n/a  | 5                | n/a  | 18   | n/a  |
| Frank Gallagher            | n/a             | n/a  | n/a              | n/a  | n/a  | n/a  |
| Martin Griffiths           | 7               | 4    | 22               | 12   | 14   | 5    |
| Barry Hinkley              | n/a             | 119  | n/a              | 133  | n/a  | 541  |
| Ann Gloag                  | n/a             | 26   | n/a              | 20   | n/a  | 4    |

Keith Cochrane, Graham Eccles, Martin Griffiths and Frank Gallagher were not members of the Group pension schemes before the introduction of the pensionable salary cap in June 1989. In respect of Keith Cochrane, pension arrangements 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 April 1997. In addition, annual 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. The contributions in respect of Ann Gloag ceased in April 2000.

Brian Cox was awarded a five-year performance-related loyalty bonus of £250,000 in 1995 subject to EPS growth measured to 2000 and him remaining in service at 30 April 2002. The bonus is payable in the form of additional pension contributions, shares or cash. As Brian Cox's notice period means that the 2002 service condition is effectively already met, a first instalment of the bonus was paid during the year, partly as additional pension which is reflected in the disclosure of pension benefits above and partly as a cash bonus of £32,000. The second instalment of £125,000 will be payable in the year ending 30 April 2002.

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.

Barry Hinkley was paid £385,000 by the company as reduced compensation for loss of office following his resignation from the Board on 25 July 2000. He was also entitled to an annual pension of £102,000 from 1 August 2000 and a lump sum of £116,000.

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

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

## 7. Directors (continued)

### (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<br>2000<br>number | Placing<br>adjustment<br>number | Granted<br>number | At 30 April<br>2001<br>number | Exercise<br>price £ | Date from which<br>exercisable | Expiry date      |
|------------------|----------------------------|---------------------------------|-------------------|-------------------------------|---------------------|--------------------------------|------------------|
| Keith Cochrane   | 296,845                    | 9,609                           | Nil               | 306,454                       | 0.4820              | 13 October 1998                | 13 October 2005  |
|                  | 351,498                    | 11,379                          | Nil               | 362,877                       | 1.0900              | 11 October 1999                | 11 October 2006  |
|                  | 351,498                    | 11,379                          | Nil               | 362,877                       | 1.2810              | 8 September 2002               | 8 September 2004 |
|                  | 400,000                    | 12,949                          | Nil               | 412,949                       | 2.2280              | 19 October 2003                | 19 October 2005  |
|                  | 72,997                     | 2,363                           | Nil               | 75,360                        | 2.1140              | 16 June 2004                   | 16 June 2006     |
| Brian Cox        | Nil                        | Nil                             | 1,662,301         | 1,662,301                     | 0.6250              | 15 June 2005                   | 15 June 2007     |
|                  | 351,498                    | 11,379                          | Nil               | 362,877                       | 1.0900              | 11 October 1999                | 11 October 2006  |
|                  | 351,498                    | 11,379                          | Nil               | 362,877                       | 1.2810              | 8 September 2002               | 8 September 2004 |
|                  | 315,705                    | 10,220                          | Nil               | 325,925                       | 2.2280              | 19 October 2003                | 19 October 2005  |
|                  | 68,188                     | 2,207                           | Nil               | 70,395                        | 2.1140              | 16 June 2004                   | 16 June 2006     |
| Graham Eccles    | Nil                        | Nil                             | 160,000           | 160,000                       | 0.6250              | 15 June 2005                   | 15 June 2007     |
|                  | 39,130                     | 1,266                           | Nil               | 40,396                        | 2.2280              | 19 October 2001                | 19 October 2005  |
|                  | 59,595                     | 1,929                           | Nil               | 61,524                        | 2.0310              | 19 July 2002                   | 19 July 2006     |
| Frank Gallagher  | Nil                        | Nil                             | 216,000           | 216,000                       | 0.6250              | 15 June 2003                   | 15 June 2007     |
|                  | 78,050                     | 2,526                           | Nil               | 80,576                        | 0.0050              | 1 October 2002                 | 1 October 2006   |
| Martin Griffiths | Nil                        | Nil                             | 1,198,400         | 1,198,400                     | 0.6250              | 15 June 2003                   | 15 June 2007     |
|                  | 28,885                     | 935                             | Nil               | 29,820                        | 2.2280              | 19 October 2001                | 19 October 2005  |
|                  | 34,406                     | 1,113                           | Nil               | 35,519                        | 2.0310              | 19 July 2002                   | 19 July 2006     |
|                  | Nil                        | Nil                             | 380,800           | 380,800                       | 0.6250              | 15 June 2003                   | 15 June 2007     |

Share options are subject to certain performance criteria as discussed on page 52.

No director realised gains during the year by exercising options.

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:

|                  | At 1 May<br>2000<br>no. of ordinary<br>shares | Placing<br>adjustments<br>no. of ordinary<br>shares | At 30 April<br>2001<br>no. of ordinary<br>shares |
|------------------|---|---|--|
| Brian Souter     | 2,601   | 84  | 2,685  |
| Keith Cochrane   | 14,246  | 461   | 14,707   |
| Martin Griffiths | 5,187   | 156   | 5,343  |
| Ann Gloag        | 14,246  | 461   | 14,707   |

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 paid to Noble Grossart Limited during the year, amounted to £20,000 (2000 – £840,000). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, holds 8,026,665 (2000 – 8,026,665) ordinary shares in the company.

## 8. Taxation on (loss)/profit on ordinary activities

The taxation charge comprises:

|   | 2001   |                                      |                            | 2000   |                                      |                            |
|---|--|--------------------------------------|----------------------------|--|--------------------------------------|----------------------------|
|   | Performance pre goodwill and exceptional items<br>£m | Goodwill and exceptional items<br>£m | Results for the year<br>£m | Performance pre goodwill and exceptional items<br>£m | Goodwill and exceptional items<br>£m | Results for the year<br>£m |
| Corporation tax at 30% (2000 – 30%)                   | 17.0   | Nil                                  | 17.0                       | 38.5   | (1.1)                                | 37.4                       |
| Share of joint ventures' tax                          | 0.9  | Nil                                  | 0.9                        | 1.9  | Nil                                  | 1.9                        |
| Share of associates' tax                              | 0.4  | Nil                                  | 0.4                        | 0.2  | Nil                                  | 0.2                        |
| Foreign taxation                                      | 2.8  | Nil                                  | 2.8                        | 2.6  | Nil                                  | 2.6                        |
| Prior year (over)/under provision for corporation tax | (1.2)  | Nil                                  | (1.2)                      | 0.2  | Nil                                  | 0.2                        |
| Deferred taxation                                     | (1.3)  | (2.8)                                | (4.1)                      | (0.9)  | Nil                                  | (0.9)                      |
|   | 18.6   | (2.8)                                | 15.8                       | 42.5   | (1.1)                                | 41.4                       |

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.

## 9. Dividends

|   | 2001<br>£m | 2000<br>£m |
|---|------------|------------|
| Ordinary shares – interim paid (1.3 pence (2000 – 1.2 pence) per share) | 16.6       | 20.4       |
| – final proposed (2.5 pence (2000 – 2.4 pence) per share)               | 32.7       | 33.6       |
|   | 49.3       | 54.0       |

During the year, a share alternative was offered in respect of the interim dividend of 1.3 pence per share. The cash cost to the company is unaffected but the cash is used by the company's registrars to acquire shares to be provided to shareholders as an alternative to the cash dividend. The alternative comprised ordinary shares with a market value of 56.98 pence per existing ordinary share. A similar arrangement applied to last year's final dividend of 2.4 pence per share, the relevant market value being 71.62 pence per existing ordinary share.

## 10. (Loss)/earnings per share

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

|  | 2001    | 2000    |
|--|---------|---------|
| (Loss)/profit for the year after taxation (£ million)              | (332.3) | 140.9   |
| Basic weighted average share capital (number of shares, million)   | 1,341.7 | 1,505.2 |
| Dilutive shares – Executive Share Option Scheme                    | 0.1     | 2.0     |
| – Employee SAYE Scheme   | 0.3     | 5.7     |
| Diluted weighted average share capital (number of shares, million) | 1,342.1 | 1,512.9 |

(Loss)/earnings per share before goodwill and exceptional items is calculated after adding back goodwill amortisation and exceptional items after taking account of taxation, as shown on the consolidated profit and loss account on page 54. This has been presented to allow the shareholders to gain a clearer understanding of the underlying performance.

## 11. Profit and loss account

The movement on profit and loss account reserve is:

|  | 2001    | Group | 2000    | 2001    | Company | 2000    |
|--|---------|-------|---------|---------|---------|---------|
|  | £m      |       | £m      | £m      |         | £m      |
| Retained profit brought forward                          | 601.4   |       | 325.0   | 285.7   |         | 164.9   |
| Retained (loss)/profit for the year                      | (381.6) |       | 86.9    | (377.3) |         | 282.9   |
| Translation adjustment                                   | 55.7    |       | 12.1    | Nil     |         | Nil     |
| Share of other recognised gains and losses of associates | 1.3     |       | Nil     | Nil     |         | Nil     |
| Goodwill previously written off to reserves              | 2.5     |       | 339.5   | Nil     |         | Nil     |
| Repurchase of shares                                     | (62.0)  |       | (162.1) | (62.0)  |         | (162.1) |
| Transfer from other reserves                             | Nil     |       | Nil     | 460.1   |         | Nil     |
| Retained profit carried forward                          | 217.3   |       | 601.4   | 306.5   |         | 285.7   |

## 12. Intangible assets – goodwill

The Group movement in the year is:

|                                  | Joint ventures | Associates | Subsidiaries | Total   |
|----------------------------------|----------------|------------|--------------|---------|
|                                  | £m             | £m         | £m           | £m      |
| <b>Cost</b>                      |                |            |              |         |
| Beginning of year                | 108.6          | 8.1        | 995.0        | 1,111.7 |
| Additions                        | 1.1            | (2.2)      | 87.3         | 86.2    |
| Translation adjustment           | Nil            | Nil        | 91.9         | 91.9    |
| End of year                      | 109.7          | 5.9        | 1,174.2      | 1,289.8 |
| <b>Amortisation</b>              |                |            |              |         |
| Beginning of year                | (12.4)         | (3.6)      | (42.0)       | (58.0)  |
| Charge for the year              | (8.3)          | (0.3)      | (58.2)       | (66.8)  |
| Impairment write-down (note 5)   | Nil            | Nil        | (376.0)      | (376.0) |
| Translation adjustment           | Nil            | Nil        | (5.1)        | (5.1)   |
| End of the year                  | (20.7)         | (3.9)      | (481.3)      | (505.9) |
| Net book value beginning of year | 96.2           | 4.5        | 953.0        | 1,053.7 |
| Net book value end of year       | 89.0           | 2.0        | 692.9        | 783.9   |

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

|                                       | Amortisation period (years) | Goodwill additions £m |
|---------------------------------------|-----------------------------|-----------------------|
| <b>Subsidiaries</b>                   |                             |                       |
| North American acquisitions           | 20                          | 52.6                  |
| Other                                 | 5                           | 0.5                   |
| Adjustment re prior year acquisitions | 20                          | 34.2                  |
| Joint ventures                        | 5 – 10                      | 1.1                   |
| Associates                            | 10                          | (2.2)                 |
|                                       |                             | <u>86.2</u>           |



### 13. Tangible fixed assets

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

|                       | 2001    | 2000    | 2001    | 2000    |
|-----------------------|---------|---------|---------|---------|
|                       | Group   | Group   | Company | Company |
|                       | £m      | £m      | £m      | £m      |
| Land and buildings    | 175.1   | 170.2   | 3.5     | 3.6     |
| PSVs and other assets | 982.0   | 957.5   | 4.3     | 3.9     |
|                       | 1,157.1 | 1,127.7 | 7.8     | 7.5     |

The Group movement in the year is:

|                                    | Land and buildings<br>£m | PSVs and other assets<br>£m | Total<br>£m |
|------------------------------------|--------------------------|-----------------------------|-------------|
| <b>Cost or valuation</b>           |                          |                             |             |
| Beginning of year                  | 206.4                    | 1,398.6                     | 1,605.0     |
| Additions                          | 37.9                     | 103.9                       | 141.8       |
| New subsidiary undertakings        | 0.2                      | 14.3                        | 14.5        |
| Disposals                          | (3.0)                    | (35.3)                      | (38.3)      |
| Sale of subsidiary undertakings    | (63.0)                   | (21.2)                      | (84.2)      |
| Translation adjustment             | 4.0                      | 66.7                        | 70.7        |
| End of year                        | 182.5                    | 1,527.0                     | 1,709.5     |
| <b>Depreciation</b>                |                          |                             |             |
| Beginning of year                  | (36.2)                   | (441.1)                     | (477.3)     |
| Charge                             | (5.3)                    | (105.9)                     | (111.2)     |
| Fair value adjustments (see below) | (0.8)                    | (23.7)                      | (24.5)      |
| Disposals                          | 0.3                      | 30.2                        | 30.5        |
| Sale of subsidiary undertakings    | 35.2                     | 12.6                        | 47.8        |
| Translation adjustment             | (0.6)                    | (17.1)                      | (17.7)      |
| End of year                        | (7.4)                    | (545.0)                     | (552.4)     |
| Net book value, beginning of year  | 170.2                    | 957.5                       | 1,127.7     |
| Net book value, end of year        | 175.1                    | 982.0                       | 1,157.1     |

Included in the above are:

|                                    |      |       |       |
|------------------------------------|------|-------|-------|
| Assets on hire purchase            | Nil  | 205.9 | 205.9 |
| Leased PSV assets                  | Nil  | 63.8  | 63.8  |
| Short leasehold land and buildings | 1.0  | Nil   | 1.0   |
| Long leasehold land and buildings  | 13.1 | Nil   | 13.1  |

Heritable and freehold land amounting to £32.8 million (2000 – £34.0 million) has not been depreciated.

Depreciation of £19.0 million (2000 – £25.2 million) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

The adjustments to the carrying value of fixed assets shown above relate to corrections to the fair value of tangible fixed assets acquired with the acquisition of Coach USA during the prior year.

### 13. Tangible fixed assets (continued)

The company movement in the year is:

|                                   | Land and<br>buildings<br>£m | PSVs and<br>other assets*<br>£m | Total<br>£m |
|-----------------------------------|-----------------------------|---------------------------------|-------------|
| <b>Cost</b>                       |                             |                                 |             |
| Beginning of year                 | 3.6                         | 4.6                             | 8.2         |
| Additions                         | Nil                         | 4.3                             | 4.3         |
| Disposals                         | Nil                         | (3.6)                           | (3.6)       |
| End of year                       | 3.6                         | 5.3                             | 8.9         |
| <b>Depreciation</b>               |                             |                                 |             |
| Beginning of year                 | Nil                         | (0.7)                           | (0.7)       |
| Charge                            | (0.1)                       | (0.4)                           | (0.5)       |
| Disposals                         | Nil                         | 0.1                             | 0.1         |
| End of year                       | (0.1)                       | (1.0)                           | (1.1)       |
| Net book value, beginning of year | 3.6                         | 3.9                             | 7.5         |
| Net book value, end of year       | 3.5                         | 4.3                             | 7.8         |

\* PSV and other assets include £Nil (2000 – £2.5 million) of PSV's not yet allocated to Group operating companies and £3.6 million (2000 – £Nil) of information technology in progress not yet allocated to Group operating companies.

### 14. Fixed asset investments

The Group movement during the year was as follows:

|                                      | Joint venture<br>£m | Associates<br>£m | Other<br>investments<br>£m | Total<br>£m |
|--------------------------------------|---------------------|------------------|----------------------------|-------------|
| <b>Cost or valuation</b>             |                     |                  |                            |             |
| Beginning of year                    | 150.5               | 144.3            | 3.2                        | 298.0       |
| Additions                            | 1.5                 | Nil              | 1.2                        | 2.7         |
| Disposals                            | Nil                 | Nil              | (0.9)                      | (0.9)       |
| Share of recognised (losses)/profits | (14.1)              | 12.5             | Nil                        | (1.6)       |
| Translation adjustment               | Nil                 | 5.0              | 0.1                        | 5.1         |
| Dividends received                   | Nil                 | (6.1)            | Nil                        | (6.1)       |
| End of year                          | 137.9               | 155.7            | 3.6                        | 297.2       |
| <b>Amounts written off</b>           |                     |                  |                            |             |
| Beginning of year                    | (12.4)              | (85.2)           | (0.5)                      | (98.1)      |
| Goodwill amortised during year       | (8.3)               | (0.3)            | Nil                        | (8.6)       |
| End of year                          | (20.7)              | (85.5)           | (0.5)                      | (106.7)     |
| Net book value, beginning of year    | 138.1               | 59.1             | 2.7                        | 199.9       |
| Net book value, end of year          | 117.2               | 70.2             | 3.1                        | 190.5       |

#### 14. Fixed asset investments (continued)

The principal associate is:

|                                  | Country of operation | Number of shares in issue at 30 April 2001 | Nominal value of share capital in issue at 30 April 2001 | % held at 30 April 2001 |
|----------------------------------|----------------------|--|--|-------------------------|
| Road King Infrastructure Limited | China                |  |  |                         |
| – ordinary shares                |                      | 510.9m                                     | HK\$51.1m  | 23.3                    |
| – 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 2001 was HK\$336.1 million (2000 – HK\$442.9 million). The investment in 518,380 7.5% convertible preference shares at HK\$1,000 per share in Road King Infrastructure Limited, 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, being the results for the year ended 31 December 2000.

An impairment write-down of £85.0 million was recorded during the prior year in respect of the investment in Road King Infrastructure Limited. This was allocated as follows:

|   | £m          |
|---|-------------|
| Goodwill previously written off to reserves | 23.1        |
| Capitalised goodwill impaired               | 3.4         |
| Share of net assets impaired                | 58.5        |
|   | <u>85.0</u> |

The carrying value of the Group's interest in Road King Infrastructure Limited as at 30 April 2001 was £61.6 million.

The principal joint venture is:

|                           | Country of incorporation/operation | Number of shares in issue at 30 April 2001 | Nominal value of share capital in issue at 30 April 2001 | % held at 30 April 2001 |
|---------------------------|------------------------------------|--|--|-------------------------|
| Virgin Rail Group Limited | United Kingdom                     | 60m  | £6.0m  | 49                      |

The Virgin Rail Group shareholders' agreement provides for joint decision making on key matters and equal representation on the Virgin Rail Group Limited Board. As a consequence the investment 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 £10 million was repaid on 28 April 2000.

The company movement during the year was as follows:

|                                       | Subsidiary undertakings<br>£m | Joint ventures<br>£m | Other investments<br>£m | Total<br>£m  |
|---------------------------------------|-------------------------------|----------------------|-------------------------|--------------|
| <b>Cost and net book value</b>        |                               |                      |                         |              |
| Beginning of year                     | 239.9                         | 137.0                | 0.7                     | 377.6        |
| Additions                             | 16.1                          | 1.5                  | Nil                     | 17.6         |
| Disposals                             | (5.8)                         | Nil                  | Nil                     | (5.8)        |
| Transfers to other Group undertakings | (15.5)                        | Nil                  | Nil                     | (15.5)       |
| Translation gain                      | 1.5                           | Nil                  | Nil                     | 1.5          |
| End of year                           | <u>236.2</u>                  | <u>138.5</u>         | <u>0.7</u>              | <u>375.4</u> |

#### 14. Fixed asset investments (continued)

##### Acquisition of other North American bus operations

During the year a further 15 acquisitions have been concluded for a total consideration of £56.2 million, comprising £37.0 million of cash paid, £15.3 million of loan notes issued and £3.9 million of deferred consideration. The fair value of the net assets acquired was £3.6 million giving rise to goodwill of £52.6 million which has been capitalised and is being amortised over 20 years.

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

|                             | Fair value to<br>the Group<br>£m |
|-----------------------------|----------------------------------|
| Tangible fixed assets       | 13.5                             |
| Cash at bank                | 0.8                              |
| Other current assets        | 5.5                              |
| <b>Total assets</b>         | <b>19.8</b>                      |
| Creditors – within one year | (3.4)                            |
| Creditors – after one year  | (12.8)                           |
| <b>Total liabilities</b>    | <b>(16.2)</b>                    |
| <b>Net assets</b>           | <b>3.6</b>                       |

##### Sale of subsidiary undertakings and businesses

On 22 January 2001, the Group announced the disposal of its 100% interest in the ordinary share capital of Glasgow Prestwick International Airport Limited. The consolidated profit after tax of Glasgow Prestwick International Airport Limited from 1 May 2000 to the date of disposal was £0.6 million, and for its last financial year was £1.2 million.

During the year, the Group disposed of certain of its UK Bus interests in East Lancashire. The consolidated profit after tax for the disposed businesses from 1 May 2000 to the date of disposal was £0.7 million, and for its last financial year was £1.1 million.

|   | Prestwick<br>Airport<br>£m | East<br>Lancashire<br>£m | Total<br>£m |
|---|----------------------------|--------------------------|-------------|
| Tangible fixed assets   | 27.8                       | 8.6                      | 36.4        |
| Cash at bank  | 0.2                        | Nil                      | 0.2         |
| Other current assets  | 4.1                        | 1.3                      | 5.4         |
| Creditors   | (12.4)                     | Nil                      | (12.4)      |
| <b>Net assets</b>   | <b>19.7</b>                | <b>9.9</b>               | <b>29.6</b> |
| Profit on disposal (before goodwill)                          | 6.8                        | Nil                      | 6.8         |
| Goodwill previously written off to reserves                   | (0.4)                      | 2.9                      | 2.5         |
| <b>Proceeds on disposal</b>                                   | <b>26.1</b>                | <b>12.8</b>              | <b>38.9</b> |
| Satisfied by:   |                            |                          |             |
| Cash  | 26.1                       | 11.5                     | 37.6        |
| Deferred consideration  | Nil                        | 1.3                      | 1.3         |
|   | <b>26.1</b>                | <b>12.8</b>              | <b>38.9</b> |
| <b>Net cash inflows in respect of the disposal comprised:</b> |                            |                          |             |
| Cash consideration  | 26.1                       | 11.5                     | 37.6        |
| Cash at bank and in hand on disposal                          | (0.2)                      | Nil                      | (0.2)       |
|   | <b>25.9</b>                | <b>11.5</b>              | <b>37.4</b> |

## 15. Principal business units

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

| Company  | Country of registration or incorporation | Principal activity      |
|--|--|-------------------------|
| Stagecoach (South) Ltd*                          | England                                  | Bus and coach operator  |
| Stagecoach (North West) Ltd                      | England                                  | Bus and coach operator  |
| East Midland Motor Services Ltd                  | England                                  | Bus and coach operator  |
| Stagecoach Scotland Ltd                          | Scotland                                 | Bus and coach operator  |
| 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 |
| Island Line Ltd                                  | England                                  | Train operating company |
| South Yorkshire Supertram Ltd                    | England                                  | Tram operator           |
| 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  |
| Coach USA Inc.*                                  | United States                            | Bus and coach operator  |

\*indirectly held

All companies operate in the countries shown above.

The companies listed above include all those which principally affect the amount of profit and assets of the Group. A full list of subsidiary undertakings at 30 April 2001 will be annexed to the next annual return.

## 16. Stocks

|                          | 2001 | Group | 2000 | 2001 | Company | 2000 |
|--------------------------|------|-------|------|------|---------|------|
|                          | £m   |       | £m   | £m   |         | £m   |
| Parts and consumables    | 18.9 |       | 15.8 | Nil  |         | Nil  |
| Taxicabs held for resale | 29.5 |       | 21.6 | Nil  |         | Nil  |
|                          | 48.4 |       | 37.4 | Nil  |         | Nil  |

There is no material difference between the carrying value of stocks held at 30 April 2001 and their estimated replacement cost.

## 17. Debtors and prepaid charges

Amounts falling due within one year are:

|                                      | 2001  | Group | 2000  | 2001 | Company | 2000 |
|--------------------------------------|-------|-------|-------|------|---------|------|
|                                      | £m    |       | £m    | £m   |         | £m   |
| Trade debtors                        | 121.7 |       | 117.7 | 0.2  |         | Nil  |
| Other debtors                        | 17.0  |       | 21.7  | 4.1  |         | 4.2  |
| Other prepayments and accrued income | 54.9  |       | 57.5  | 2.0  |         | 4.8  |
| VAT and other government debtors     | 11.4  |       | 2.1   | 2.8  |         | 3.3  |
|                                      | 205.0 |       | 199.0 | 9.1  |         | 12.3 |

Amounts falling due after more than one year are:

|                                      | 2001 | Group | 2000 | 2001    | Company | 2000    |
|--------------------------------------|------|-------|------|---------|---------|---------|
|                                      | £m   |       | £m   | £m      |         | £m      |
| Pension scheme prepayment (Note 31d) | 30.1 |       | 25.9 | 14.6    |         | 8.0     |
| Amounts owed by Group undertakings   | Nil  |       | Nil  | 1,656.9 |         | 1,803.5 |
| Other debtors                        | 4.6  |       | 8.5  | Nil     |         | 9.3     |
|                                      | 34.7 |       | 34.4 | 1,671.5 |         | 1,820.8 |

## 18. Creditors

### (a) Creditors: Amounts falling due within one year

|   | 2001  | Group | 2000  | 2001  | Company | 2000  |
|---|-------|-------|-------|-------|---------|-------|
|   | £m    |       | £m    | £m    |         | £m    |
| Bank overdrafts                             | 0.4   |       | 0.5   | 51.5  |         | Nil   |
| Bank loans                                  | 29.7  |       | 102.8 | Nil   |         | 63.1  |
| Loan notes (Note 18c)                       | 59.8  |       | 52.9  | 47.7  |         | 54.2  |
| Sterling Eurobonds (Note 18d)               | Nil   |       | 125.0 | Nil   |         | 125.0 |
| Creditor for shares repurchased             | Nil   |       | 116.8 | Nil   |         | 116.8 |
| Trade creditors                             | 111.3 |       | 106.1 | 1.8   |         | 1.1   |
| Accruals and deferred income                | 246.1 |       | 229.5 | 58.0  |         | 39.7  |
| Dividends payable                           | 32.7  |       | 33.5  | 32.7  |         | 33.5  |
| Other creditors                             |       |       |       |       |         |       |
| – UK corporation tax payable                | 17.0  |       | 10.1  | 5.6   |         | Nil   |
| – Foreign tax payable                       | 5.8   |       | 1.9   | Nil   |         | Nil   |
| – PAYE and NIC payable                      | 11.0  |       | 11.9  | 0.2   |         | Nil   |
| Current portion of HP and lease obligations | 43.8  |       | 45.0  | Nil   |         | Nil   |
|   | 557.6 |       | 836.0 | 197.5 |         | 433.4 |

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

|   | 2001  | Group | 2000    | 2001  | Company | 2000  |
|---|-------|-------|---------|-------|---------|-------|
|   | £m    |       | £m      | £m    |         | £m    |
| Bank loans                                      | 138.9 |       | 346.5   | 100.1 |         | 271.4 |
| Loan notes (Note 18c)                           | Nil   |       | 24.4    | Nil   |         | Nil   |
| US Dollar 8.625% Notes (Note 18e)               | 313.8 |       | 318.3   | 348.2 |         | 318.3 |
| US Dollar 9.375% Notes (Note 18g)               | 2.2   |       | 2.1     | Nil   |         | Nil   |
| Euro 6% Notes (Note 18f)                        | 276.7 |       | 263.0   | 276.7 |         | 263.0 |
| Non-current portion of HP and lease obligations | 80.8  |       | 85.1    | Nil   |         | Nil   |
| Other creditors                                 | 4.4   |       | Nil     | Nil   |         | Nil   |
|   | 816.8 |       | 1,039.4 | 725.0 |         | 852.7 |

### (c) Loan notes

The loan notes pay floating interest at three months Libor or fixed interest at 5.25%. The loan notes are repayable on demand or within one year.

### (d) Sterling Eurobonds

On 31 October 1997 the Group issued £125 million of 7.625% Sterling Eurobonds due 2007. Interest on the bonds was payable annually in arrears.

On 15 May 2000, the Group redeemed the Sterling Eurobonds at a redemption price of 111.82% of the principal amount. The premium on redemption together with the unexpensed elements of the discount on issue and issue costs were fully expensed as exceptional finance charges in the prior year.

### (e) US Dollar 8.625% Notes

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

During the year US \$49 million of the Notes were purchased by the Group.

The Notes were issued at 99.852% of their principal amount. The carrying value of the Notes at 30 April 2001 was £313.8 million (2000 – £318.3 million), after taking account of the notes purchased by the Group during the year, the discount on issue, and issue costs.

## 18. Creditors (continued)

### (f) Euro 6% Notes

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

During the year €8 million of the Notes were purchased by the Group and cancelled.

The Notes were issued at 99.937% of their principal amount. The Group has effectively swapped the carrying value into US Dollars and Sterling with a currency swap. After taking account of the notes repurchased and cancelled, the discount on issue, issue costs and the currency swap, the carrying value of the Notes at 30 April 2001 was £276.7 million (2000 – £263.0 million).

### (g) US Dollar 9.375% Notes

In June 1997, Coach USA, Inc. issued \$150 million 9.375% senior subordinated notes due 2007. Following the acquisition of Coach USA, Inc. a tender offer for all the outstanding notes was made at a price of 101% of principal. \$0.2 million of notes were tendered and redeemed at this time. On 18 November 1999 a tender and consent offer was made for all the outstanding notes. On 17 December 1999 \$146.4 million of notes were tendered and redeemed. Following the tender the terms of the notes were amended to remove amongst other clauses, restrictive covenants and events of default. \$3.2 million of these notes remain outstanding.

The remaining notes are redeemable at the option of the company at prices decreasing from a premium of 104.7% on 1 July 2002 to par on 1 July 2005. Interest on the notes is paid semi-annually.

### (h) Borrowings are repayable as follows

|  | 2001           | Group | 2000           | 2001          | Company | 2000           |
|--|----------------|-------|----------------|---------------|---------|----------------|
|  | £m             |       | £m             | £m            |         | £m             |
| <b>On demand or within 1 year</b>      |                |       |                |               |         |                |
| Bank overdraft                         | 0.4            |       | 0.5            | Nil           |         | Nil            |
| Bank loans                             | 29.7           |       | 102.8          | Nil           |         | 63.1           |
| Sterling Eurobonds                     | Nil            |       | 125.0          | Nil           |         | 125.0          |
| Loan notes                             | 59.8           |       | 52.9           | 47.7          |         | 54.2           |
| Hire purchase and lease obligations    | 43.8           |       | 45.0           | Nil           |         | Nil            |
| <b>Within 1-2 years</b>                |                |       |                |               |         |                |
| Bank loans                             | 18.0           |       | 96.1           | Nil           |         | 63.0           |
| Loan notes                             | Nil            |       | 20.2           | Nil           |         | Nil            |
| Hire purchase and lease obligations    | 36.9           |       | 32.4           | Nil           |         | Nil            |
| <b>Within 2-5 years</b>                |                |       |                |               |         |                |
| Bank loans                             | 115.9          |       | 246.3          | 100.1         |         | 208.4          |
| Euro 6% Notes                          | 276.7          |       | 263.0          | 276.7         |         | 263.0          |
| Loan notes                             | Nil            |       | 4.2            | Nil           |         | Nil            |
| Hire purchase and lease obligations    | 43.9           |       | 50.1           | Nil           |         | Nil            |
| <b>Over 5 years</b>                    |                |       |                |               |         |                |
| Bank loans                             | 5.0            |       | 4.1            | Nil           |         | Nil            |
| US Dollar 8.625% Notes                 | 313.8          |       | 318.3          | 348.2         |         | 318.3          |
| US Dollar 9.375% Notes                 | 2.2            |       | 2.1            | Nil           |         | Nil            |
| Hire purchase and lease obligations    | Nil            |       | 2.6            | Nil           |         | Nil            |
| <b>Total borrowings</b>                | <b>946.1</b>   |       | <b>1,365.6</b> | <b>772.7</b>  |         | <b>1,095.0</b> |
| <b>Less current maturities</b>         | <b>(133.7)</b> |       | <b>(326.2)</b> | <b>(47.7)</b> |         | <b>(242.3)</b> |
| <b>Long term portion of borrowings</b> | <b>812.4</b>   |       | <b>1,039.4</b> | <b>725.0</b>  |         | <b>852.7</b>   |

Interest terms on UK borrowings (except loan notes) are at annual rates between 0.4% and 1.0% over Bank of Scotland base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates between 5% and 21% and are based on applicable local market borrowing rates.

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



## 19. Financial liabilities by type and currency

Analysis of financial liabilities by type and currency at 30 April 2001 was as follows:

| Currency           | HP and lease obligations | Bank loans and overdrafts | Eurobonds and notes | Loan notes | Total |
|--------------------|--------------------------|---------------------------|---------------------|------------|-------|
|                    | £m                       | £m                        | £m                  | £m         | £m    |
| Sterling           | 102.5                    | 0.4                       | 58.9                | 47.7       | 209.5 |
| US Dollar          | 19.3                     | 90.9                      | 533.8               | 12.1       | 656.1 |
| Hong Kong Dollar   | Nil                      | 60.4                      | Nil                 | Nil        | 60.4  |
| New Zealand Dollar | Nil                      | 15.0                      | Nil                 | Nil        | 15.0  |
| Other              | 2.8                      | 2.3                       | Nil                 | Nil        | 5.1   |
| Gross Borrowings   | 124.6                    | 169.0                     | 592.7               | 59.8       | 946.1 |

The analysis reflects the impact of foreign exchange swaps.

The Euro 6% Notes issued on 24 November 1999 were swapped on issue into US Dollars and Sterling by entering into US\$312 million and £64 million cross currency swaps which expire on maturity of the notes. The cross currency swaps have been adjusted for the cancellation of Notes during the year and the principal as at 30 April 2001 is US \$312 million and £58.9 million.

Analysis of financial liabilities by type and currency of the Group at 30 April 2000 was as follows:

| Currency           | HP and lease obligations | Bank loans and overdrafts | Eurobonds and notes | Loan notes | Total   |
|--------------------|--------------------------|---------------------------|---------------------|------------|---------|
|                    | £m                       | £m                        | £m                  | £m         | £m      |
| Sterling           | 110.9                    | 0.5                       | 189.0               | 54.2       | 354.6   |
| US Dollar          | 16.4                     | 292.6                     | 519.4               | 23.1       | 851.5   |
| Hong Kong Dollar   | Nil                      | 132.8                     | Nil                 | Nil        | 132.8   |
| New Zealand Dollar | Nil                      | 21.5                      | Nil                 | Nil        | 21.5    |
| Other              | 2.8                      | 2.4                       | Nil                 | Nil        | 5.2     |
| Gross Borrowings   | 130.1                    | 449.8                     | 708.4               | 77.3       | 1,365.6 |

## 20. Interest rate and currency profile of gross borrowings

The interest rate profile of the financial liabilities of the Group at 30 April 2001 was as follows:

| Currency           | Floating rate | Fixed rate | Total | Weighted average fixed interest rate | Weighted average period for which rate is fixed years |
|--------------------|---------------|------------|-------|--------------------------------------|---|
|                    | £m            | £m         | £m    | %                                    |   |
| Sterling           | 186.7         | 22.8       | 209.5 | 7.8                                  | 1.5   |
| US Dollar          | 256.7         | 399.4      | 656.1 | 8.1                                  | 1.7   |
| Hong Kong Dollar   | Nil           | 60.4       | 60.4  | 7.8                                  | 1.0   |
| New Zealand Dollar | 2.0           | 13.0       | 15.0  | 6.9                                  | 3.8   |
| Other              | 5.1           | Nil        | 5.1   | n/a                                  | n/a   |
| Gross Borrowings   | 450.5         | 495.6      | 946.1 | 8.0                                  | 1.7   |

As at 30 April 2001 Sterling borrowings of £125 million (2000—£125 million) were hedged with a cap and collar with an average cap rate of 7.88% and an average floor of 5.28%. The cap was not exercised during the year to 30 April 2001, and the floor was exercised on £25 million at a rate of 6.05%.

The Group's policies on managing interest rate risk and currency risk are explained in the Finance Director's review on page 41.

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

The interest rate profile of the financial liabilities of the Group at 30 April 2000 was as follows:

| Currency           | Floating rate | Fixed rate | Total   | Weighted average fixed interest rate | Weighted average period for which rate is fixed years |
|--------------------|---------------|------------|---------|--------------------------------------|---|
|                    | £m            | £m         | £m      | %                                    |   |
| Sterling           | 308.3         | 46.3       | 354.6   | 7.7                                  | 2.2   |
| US Dollar          | 382.7         | 468.8      | 851.5   | 7.6                                  | 5.6   |
| Hong Kong Dollar   | 60.2          | 72.6       | 132.8   | 7.7                                  | 3.4   |
| New Zealand Dollar | 7.9           | 13.6       | 21.5    | 6.2                                  | 5.2   |
| Other              | 5.2           | Nil        | 5.2     | n/a                                  | n/a   |
| Gross borrowings   | 764.3         | 601.3      | 1,365.6 | 7.6                                  | 5.1   |

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 £160.4 million (2000—£816.0 million). The cash deposits comprise deposits placed on money market at call, seven day and monthly rates. The currency analysis is as follows:

| Currency                 | 2001                | 2000                |
|--------------------------|---------------------|---------------------|
|                          | Floating rate<br>£m | Floating rate<br>£m |
| Sterling                 | 134.2               | 750.5               |
| US Dollar                | 18.2                | 46.9                |
| Hong Kong Dollar         | 4.4                 | 15.5                |
| New Zealand Dollar       | 2.8                 | 2.1                 |
| Other                    | 0.8                 | 1.0                 |
| Cash at bank and in hand | 160.4               | 816.0               |

## 22. Currency exposures

As explained in the Finance Director's review on page 41, 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 2001 and 30 April 2000 there were no material net transactional exposures.

## 23. Borrowing facilities

At 30 April 2001 the Group had the following undrawn committed banking and hire purchase facilities:

|   | 2001  | 2000  |
|---|-------|-------|
|   | £m    | £m    |
| Expiring within one year                                  | 39.8  | 14.3  |
| Expiring in more than one year but no more than two years | Nil   | Nil   |
| Expiring beyond two years                                 | 490.7 | 560.3 |
|   | 530.5 | 574.6 |

## 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.

|  | 2001             |                  | 2000             |                  |
|--|------------------|------------------|------------------|------------------|
|  | Book value<br>£m | Fair value<br>£m | Book value<br>£m | Fair value<br>£m |
| <b>Primary financial instruments to finance the Group's operation</b>  |                  |                  |                  |                  |
| Cash deposits and bank overdrafts  | 160.0            | 160.0            | 815.5            | 815.5            |
| Sterling Eurobonds   | Nil              | Nil              | (125.0)          | (139.9)          |
| US Dollar Notes  | (313.8)          | (283.7)          | (318.3)          | (264.2)          |
| Euro Notes   | (276.7)          | (221.6)          | (263.0)          | (207.9)          |
| Short term borrowings and current portion<br>of long term debt   | (133.3)          | (133.3)          | (200.7)          | (200.7)          |
| Other long term borrowings   | (221.9)          | (221.9)          | (458.1)          | (458.1)          |
| <b>Derivative financial instruments held to manage the<br/>interest rate, currency and commodity risk profiles</b> |                  |                  |                  |                  |
| Interest rate swaps and similar instruments  | Nil              | (0.5)            | Nil              | (2.7)            |
| Forward foreign currency contracts, swaps<br>and options   | Nil              | (57.6)           | Nil              | (43.4)           |
| Fuel price swaps   | Nil              | 3.6              | Nil              | 6.8              |

## 25. Hedge accounting

|  | Gains<br>£m | Losses<br>£m | Total<br>£m |
|--|-------------|--------------|-------------|
| Unrecognised gains or losses on hedges at start of year  | 18.3        | (57.6)       | (39.3)      |
| Gains or losses arising in previous years that were recognised<br>in the year to 30 April 2001     | (13.9)      | 8.1          | (5.8)       |
| Gains or losses arising in previous years that were not recognised<br>in the year to 30 April 2001 | 4.4         | (49.5)       | (45.1)      |
| Gains or losses arising in the year to 30 April 2001 that were<br>not recognised                   | 22.1        | (31.5)       | (9.4)       |
| Unrecognised gains or losses on hedges at end of year  | 26.5        | (81.0)       | (54.5)      |
| Of which:  |             |              |             |
| Gains or losses expected to be recognised within one year  | 7.4         | (27.3)       | (19.9)      |
| Gains or losses expected to be recognised after one year   | 19.1        | (53.7)       | (34.6)      |
|  | 26.5        | (81.0)       | (54.5)      |

As explained in the Finance Director's review, 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

|                              | 2001  | Group | 2000  | 2001 | Company | 2000 |
|------------------------------|-------|-------|-------|------|---------|------|
|                              | £m    |       | £m    | £m   |         | £m   |
| Deferred taxation            | 14.1  |       | 21.3  | 38.6 |         | 28.0 |
| Token redemption provision   | 25.9  |       | 24.9  | Nil  |         | Nil  |
| Insurance provisions         | 58.2  |       | 48.2  | Nil  |         | Nil  |
| Environmental provisions     | 3.6   |       | 1.1   | 1.5  |         | Nil  |
| Pension provision (Note 31d) | 3.9   |       | 5.3   | 3.1  |         | 3.3  |
|                              | 105.7 |       | 100.8 | 43.2 |         | 31.3 |

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

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

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

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

The Group movement during the year was as follows:

|                                       | Deferred taxation | Token redemption provision | Insurance provisions | Environmental provisions | Pension provisions |
|---------------------------------------|-------------------|----------------------------|----------------------|--------------------------|--------------------|
|                                       | £m                | £m                         | £m                   | £m                       | £m                 |
| Beginning of year                     | 21.3              | 24.9                       | 48.2                 | 1.1                      | 5.3                |
| (Credited)/provided during year       | (4.1)             | Nil                        | 44.7                 | 2.6                      | Nil                |
| Payments in the year                  | Nil               | Nil                        | (37.1)               | (0.3)                    | (1.4)              |
| Arising on sale of tokens during year | Nil               | 15.9                       | Nil                  | Nil                      | Nil                |
| Redemption of tokens                  | Nil               | (14.9)                     | Nil                  | Nil                      | Nil                |
| Translation differences               | (1.9)             | Nil                        | 2.4                  | 0.2                      | Nil                |
| Arising on acquired subsidiaries      | (0.2)             | Nil                        | Nil                  | Nil                      | Nil                |
| Disposed of with subsidiaries         | (1.0)             | Nil                        | Nil                  | Nil                      | Nil                |
| End of year                           | 14.1              | 25.9                       | 58.2                 | 3.6                      | 3.9                |

The company movement during the year was as follows:

|                      | Deferred taxation | Environmental provisions | Pension provisions |
|----------------------|-------------------|--------------------------|--------------------|
|                      | £m                | £m                       | £m                 |
| Beginning of year    | 28.0              | Nil                      | 3.3                |
| Provided during year | 10.6              | 1.5                      | Nil                |
| Payments in year     | Nil               | Nil                      | (0.2)              |
| End of year          | 38.6              | 1.5                      | 3.1                |

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:

|  | 2001   | Group | 2000   | 2001 | Company | 2000 |
|--|--------|-------|--------|------|---------|------|
|  | £m     |       | £m     | £m   |         | £m   |
| Accelerated capital allowances                           | 37.9   |       | 28.5   | 2.6  |         | 2.5  |
| Pension timing differences                               | 7.9    |       | 5.9    | 7.9  |         | 5.9  |
| Timing differences related to overseas retained earnings | 6.2    |       | 10.5   | 6.2  |         | 10.5 |
| Short term timing differences                            | (37.9) |       | (23.6) | 21.9 |         | 9.1  |
|  | 14.1   |       | 21.3   | 38.6 |         | 28.0 |

Deferred taxation on UK timing differences are recorded in the company consistent with the centralised payment of UK tax liabilities.

The full potential amount of Group deferred taxation on all timing differences was as follows:

|                                | 2001   | Group | 2000   |
|--------------------------------|--------|-------|--------|
|                                | £m     |       | £m     |
| Accelerated capital allowances | 177.5  |       | 154.2  |
| Rolled over capital gains      | 3.3    |       | 2.7    |
| Pension timing differences     | 7.9    |       | 5.9    |
| Overseas timing differences    | 39.7   |       | 15.2   |
| Short term timing differences  | (80.8) |       | (79.8) |
|                                | 147.6  |       | 98.2   |

## 27. Equity share capital

|   | 2001<br>£m | 2000<br>£m |
|---|------------|------------|
| <b>Authorised</b>   |            |            |
| 1,840,000,000 (2000 – 1,840,000,000) ordinary shares of 0.5p each | 9.2        | 9.2        |
| <b>Allotted, called-up and fully-paid</b>                         |            |            |
| 1,318,640,250 (2000 – 1,406,968,276) ordinary shares of 0.5p each | 6.6        | 7.1        |

The movement in issued share capital comprises:

|  | No. of<br>shares | Par value<br>£m | Share<br>premium £m |
|--|------------------|-----------------|---------------------|
| At beginning of year                   | 1,406,968,276    | 7.1             | 779.7               |
| Shares repurchased                     | (91,077,021)     | (0.5)           | Nil                 |
| Shares issued in conjunction with ESOP | 1,891,210        | Nil             | 1.4                 |
| Shares issued on exercise of options   | 857,785          | Nil             | 0.4                 |
| At end of year                         | 1,318,640,250    | 6.6             | 781.5               |

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

Between 29 October 1999 and 30 April 2000 61,284 shares were transferred to option holders. During the year to 30 April 2001, a further 30,848 shares were transferred to option holders. The remaining 11,407,868 shares are held by the QUEST. At 30 April 2001 the market valuation of shares held was £6.7 million.

## 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   | 64.2p          |
| B      | 1 April 1998  | 129.1p         |

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

|                    | Scheme A            |                 | Scheme B            |                 |
|--------------------|---------------------|-----------------|---------------------|-----------------|
|                    | Number of employees | Ordinary shares | Number of employees | Ordinary shares |
| Beginning of year  | 3,157               | 7,147,895       | 3,046               | 6,620,881       |
| Placing adjustment | Nil                 | 236,951         | Nil                 | 217,626         |
| Options exercised  | (16)                | (29,052)        | Nil                 | Nil             |
| Options lapsed     | (489)               | (1,132,709)     | (911)               | (2,067,865)     |
| End of year        | 2,652               | 6,223,085       | 2,135               | 4,770,642       |

### (b) Executive share options

| Award date       | Number of executives and directors | At 1 May 2000 | Granted    | Placing adjustment | Exercised | Lapsed      | At 30 April 2001 | Exercise price £ | Expiry date      |
|------------------|------------------------------------|---------------|------------|--------------------|-----------|-------------|------------------|------------------|------------------|
| 3 April 1992     | 0                                  | 61,949        | Nil        | 2,005              | (63,954)  | Nil         | Nil              | 0.0560           | 3 April 2002     |
| 7 August 1992    | 0                                  | 247,796       | Nil        | 8,021              | (255,817) | Nil         | Nil              | 0.0560           | 7 August 2002    |
| 9 September 1994 | 1                                  | 168,332       | Nil        | 5,447              | (120,483) | Nil         | 53,296           | 0.3030           | 9 September 2004 |
| 13 October 1995  | 3                                  | 477,130       | Nil        | 15,443             | (91,931)  | Nil         | 400,642          | 0.4820           | 13 October 2005  |
| 11 October 1996  | 9                                  | 1,865,449     | Nil        | 58,764             | Nil       | (50,214)    | 1,873,999        | 1.0900           | 11 October 2006  |
| 8 September 1997 | 14                                 | 2,306,079     | Nil        | 73,025             | Nil       | (50,214)    | 2,328,890        | 1.2810           | 8 September 2004 |
| 30 April 1998    | 0                                  | 634,002       | Nil        | 20,524             | Nil       | (654,526)   | Nil              | 2.2000           | 30 April 2005    |
| 19 October 1998  | 24                                 | 1,756,660     | Nil        | 56,061             | Nil       | (24,620)    | 1,788,101        | 2.2280           | 19 October 2005  |
| 1 February 1999  | 2                                  | 54,106        | Nil        | 1,750              | Nil       | Nil         | 55,856           | 2.5060           | 1 February 2006  |
| 16 June 1999     | 0                                  | 365,998       | Nil        | 11,848             | Nil       | (377,846)   | Nil              | 2.1140           | 16 June 2006     |
| 16 June 1999     | 3                                  | 526,462       | Nil        | 17,042             | Nil       | (309,712)   | 233,792          | 2.1140           | 16 June 2006     |
| 19 July 1999     | 26                                 | 858,025       | Nil        | 27,765             | Nil       | Nil         | 885,790          | 2.0310           | 19 July 2006     |
| 1 October 1999   | 1                                  | 156,100       | Nil        | Nil                | Nil       | (78,050)    | 78,050           | 0.0050           | 1 October 2006   |
| 15 June 2000     | 74                                 | Nil           | 10,966,537 | Nil                | (325,600) | Nil         | 10,640,937       | 0.6250           | 15 June 2007     |
| Totals           |                                    | 9,478,088     | 10,966,537 | 297,695            | (857,785) | (1,545,182) | 18,339,353       |                  |                  |

All options were granted for nil consideration. The mid-market price for these shares at 30 April 2001 was £0.588. The company's shares traded in the range £0.515 to £0.878 during the year to that date.

Following on from the Open Offer in November 1999 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:

|                                   | 2001  | Group | 2000  | 2001  | Company | 2000  |
|-----------------------------------|-------|-------|-------|-------|---------|-------|
|                                   | £m    |       | £m    | £m    |         | £m    |
| <b>Distributable</b>              |       |       |       |       |         |       |
| Profit and loss account (Note 11) | 217.3 |       | 601.4 | 306.5 |         | 285.7 |
| <b>Non-distributable</b>          |       |       |       |       |         |       |
| Share premium account             | 781.5 |       | 779.7 | 781.5 |         | 779.7 |
| ESOP distribution reserve         | 1.8   |       | 1.8   | 1.8   |         | 1.8   |
| Capital redemption reserve        | 1.7   |       | 1.2   | 1.7   |         | 1.2   |
| Other reserve                     | Nil   |       | Nil   | Nil   |         | 460.1 |

(Loss)/profit for the financial year comprises:

|  | 2001    | 2000   |
|--|---------|--------|
|  | £m      | £m     |
| Company  | (328.0) | 174.8  |
| Subsidiary undertakings, joint ventures and associates | (4.3)   | (33.9) |
|  | (332.3) | 140.9  |

The movement on non-distributable reserves is as follows:

|                                     | Group and company: share premium | Group and company: ESOP distribution reserve | Group and company: capital redemption reserve | Company: other reserve |
|-------------------------------------|----------------------------------|--|---|------------------------|
|                                     | £m                               | £m   | £m  | £m                     |
| Beginning of year                   | 779.7                            | 1.8  | 1.2   | 460.1                  |
| Arising on new share issues         | 1.8                              | Nil  | Nil   | Nil                    |
| Repurchase of shares                | Nil                              | Nil  | 0.5   | Nil                    |
| Transfer to profit and loss account | Nil                              | Nil  | Nil   | (460.1)                |
| ESOP distributed during year        | Nil                              | (1.8)  | Nil   | Nil                    |
| ESOP provided during year           | Nil                              | 1.8  | Nil   | Nil                    |
| End of year                         | 781.5                            | 1.8  | 1.7   | Nil                    |

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

Cumulative goodwill of £118.0 million (2000 – £120.5 million) has been written off against reserves in periods prior to the adoption of FRS 10 “Goodwill and Intangible Assets”.

The balance of the Other reserve in the accounts of the company has been transferred to the profit and loss account. In accordance with an undertaking given to the Court during the year ended 30 April 1999, the amount outstanding to the credit of the Other reserve may be reduced by the amount of any increase in its share capital or share premium as a result of any new issue of shares paid up by receipt of new consideration. The reserve transfer was approved by the Board on 9 March 2001.



### 30. Consolidated cash flows

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

|  | 2001<br>£m   | 2000<br>£m   |
|--|--------------|--------------|
| Operating (loss)/profit of Group companies               | (241.6)      | 271.3        |
| Depreciation   | 111.2        | 218.7        |
| Impairment of tangible fixed assets at Prestwick airport | Nil          | 30.0         |
| Impairment of goodwill at Coach USA                      | 376.0        | Nil          |
| Loss/(profit) on sale of tangible fixed assets           | 0.5          | (0.7)        |
| Goodwill amortisation                                    | 58.2         | 39.2         |
| Increase in stocks                                       | (7.9)        | (0.8)        |
| Increase in debtors                                      | (0.7)        | (20.3)       |
| ESOP distribution  | 1.9          | 1.4          |
| Increase/(decrease) in creditors                         | 6.4          | (30.0)       |
| Increase in provisions                                   | 2.4          | 2.9          |
| <b>Net cash inflow from operating activities</b>         | <b>306.4</b> | <b>511.7</b> |

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

|  | 2001<br>£m     | 2000<br>£m     |
|--|----------------|----------------|
| (Decrease)/increase in cash                                | (635.3)        | 496.4          |
| Bond repayments/(issues)                                   | 160.6          | (468.0)        |
| Cash flow from increase in debt and lease financing        | 398.6          | 269.6          |
|  | (76.1)         | 298.0          |
| Loans and finance leases of acquired/disposed subsidiaries | (27.4)         | 124.2          |
| New HP and lease obligations                               | (34.7)         | (53.3)         |
| Bank facility costs and bond discounts                     | (0.1)          | (1.3)          |
| Translation adjustment                                     | (74.3)         | (8.7)          |
| Movement in cash collateral                                | (23.5)         | (3.6)          |
| (Increase)/decrease in net debt                            | (236.1)        | 355.3          |
| Opening net debt   | (549.6)        | (904.9)        |
| <b>Closing net debt</b>                                    | <b>(785.7)</b> | <b>(549.6)</b> |

#### (c) Analysis of net debt

|                          | Opening<br>£m  | Cash flows<br>£m | Cash<br>collateral<br>£m | Other<br>non cash<br>£m | Acquisition/<br>disposal<br>£m | Exchange<br>movement<br>£m | Closing<br>£m  |
|--------------------------|----------------|------------------|--------------------------|-------------------------|--------------------------------|----------------------------|----------------|
| Cash                     | 711.3          | (635.3)          | Nil                      | Nil                     | Nil                            | 3.3                        | 79.3           |
| Cash collateral          | 104.2          | (18.0)           | (5.5)                    | Nil                     | Nil                            | Nil                        | 80.7           |
| HP and lease obligations | (130.1)        | 54.0             | Nil                      | (34.7)                  | (12.0)                         | (1.8)                      | (124.6)        |
| Loan stock               | (77.3)         | 28.1             | 5.5                      | Nil                     | (15.4)                         | (0.7)                      | (59.8)         |
| Bank loans               | (449.3)        | 311.0            | Nil                      | (4.0)                   | Nil                            | (26.3)                     | (168.6)        |
| Bonds                    | (708.4)        | 160.6            | Nil                      | 3.9                     | Nil                            | (48.8)                     | (592.7)        |
| <b>Totals</b>            | <b>(549.6)</b> | <b>(99.6)</b>    | <b>Nil</b>               | <b>(34.8)</b>           | <b>(27.4)</b>                  | <b>(74.3)</b>              | <b>(785.7)</b> |

The net total of cash and cash collateral of £160.0 million (2000 – £815.5 million) is classified in the balance sheet as £160.4 million (2000 – £816.0 million) in cash at bank and in hand and £0.4 million (2000 – £0.5 million) in bank overdrafts within creditors: amounts falling due within one year.

#### (d) Restricted cash

Included in cash at 30 April 2001 are balances held in trust in respect of loan stock of £41.5 million (2000 – £47.0 million), South West Trains season tickets of £30.5 million (2000 – £29.9 million), South West Trains performance bond cash of £7.3 million (2000 – £7.3 million), and Coach USA Letter of Credit Collateral cash of £1.4 million (2000 – £20.1 million).

### 30. Consolidated cash flows (continued)

#### (e) Purchase of subsidiary undertakings

North  
American  
bus operations  
£m

##### Net assets

|                                |        |
|--------------------------------|--------|
| Tangible fixed assets          | 13.5   |
| Other current assets           | 5.5    |
| Cash at bank                   | 0.8    |
| Bank loans and other debt      | (12.8) |
| Other creditors and provisions | (3.4)  |

|            |     |
|------------|-----|
| Net assets | 3.6 |
|------------|-----|

|          |      |
|----------|------|
| Goodwill | 52.6 |
|----------|------|

##### Consideration

|  |      |
|--|------|
| Cash and acquisition expenses paid in year | 37.0 |
| Loan notes issued                          | 15.3 |
| Deferred consideration                     | 3.9  |
|  | 56.2 |

The cash paid during the year in respect of the purchase of subsidiary undertakings was as follows:

|   |      |
|---|------|
|   | £m   |
| Cash paid in respect of North American bus acquisitions in year (see above) | 37.0 |
| Deferred consideration in respect of Citybus                                | 0.2  |
| Other acquisition payment in year   | 1.5  |
|   | 38.7 |

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

#### (f) Sale of businesses

Details of net assets disposed of and the related sales proceeds are set out in Note 14.

Companies disposed of in the year contributed £2.2 million to the Group's net operating cash flows, paid £0.3 million in respect of net returns on investment and servicing of finance, paid £0.9 million in respect of taxation and utilised £2.4 million for capital expenditure.

### 31. Guarantees and other financial commitments

#### (a) Guarantees

The company is a party to bank guarantees in respect of guarantees, loans, overdrafts and other facilities provided to certain Group undertakings of which £89.3 million was outstanding at 30 April 2001 (2000—£116.3 million) and provides cross-guarantees to certain subsidiary undertakings under VAT Group provisions.

#### (b) Capital commitments

Capital commitments are as follows:

|                                 | 2001  | 2000 | 2001    | 2000 |
|---------------------------------|-------|------|---------|------|
|                                 | £m    | £m   | £m      | £m   |
|                                 | Group |      | Company |      |
| Contracted for but not provided |       |      |         |      |
| For delivery in one year        | 65.4  | 63.3 | 39.4    | 38.2 |

At 30 April 2001, £24.9 million of the total capital commitments relates to overseas operations (30 April 2000—£31.9 million).

### 31. Guarantees and other financial commitments (continued)

#### (c) Operating lease and similar commitments

The annual commitments due under operating leases are as follows:

|                                 | 2001<br>£m | 2000<br>£m |
|---------------------------------|------------|------------|
| Under one year                  | 9.8        | 5.5        |
| Between one year and five years | 248.4      | 226.4      |
| Five years and over             | 4.5        | 6.8        |

South West Trains Limited has contracts with Railtrack plc for access to the railway infrastructure (track, stations and depots) for the period until 3 February 2003. South West Trains Limited also has contracts which commit it to lease rolling stock from Angel Trains Contracts Ltd, Forward Trust Leasing Ltd and Porterbrook Leasing Limited.

#### (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 was also made in the previous year for unfunded obligations for the employees of Swebus.

The UK defined benefit schemes are fully funded. The employers' SSAP24 funding rate for contributions varies between 4.5% and 11.0% 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 earnings growth by an average of at least 3.5% per annum and that dividend growth will keep pace with inflation. Present and future pensions are assumed to increase at an average rate of 2.25% per annum.

The key details of each UK scheme are as follows:

|      | Latest actuarial review | Funding level % | Market value<br>£m | Employer's cost |      | Balance sheet asset (net) |      |
|------|-------------------------|-----------------|--------------------|-----------------|------|---------------------------|------|
|      |                         |                 |                    | 2001            | 2000 | 2001                      | 2000 |
|      |                         |                 |                    | £m              | £m   | £m                        | £m   |
| SGPS | April 2000              | 127             | 291                | 11.2            | 9.5  | 13.0                      | 7.0  |
| RPS  | December 1998           | 125             | 232                | 2.3             | 0.2  | (0.7)                     | Nil  |
| LGPS | March 1998              | 128             | 169                | 1.4             | 1.7  | 13.9                      | 13.6 |
|      |                         |                 | 692                | 14.9            | 11.4 | 26.2                      | 20.6 |

Overseas companies show a balance sheet asset at 30 April 2001 of £Nil (2000 – £Nil) – the related employer's pension cost during the year was £1.9 million (2000 – £5.8 million, including £4.8 million in respect of Swebus).

Unfunded pension liabilities in respect of certain UK employees are included in the balance sheet amounts shown above.

A net prepayment at 30 April 2001 of £26.2 million (30 April 2000 – £20.6 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.

### 31. 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) Certain of the Group's properties are the subject of contractual obligations to pay a share of the open market value to the former owners but only on the occurrence of certain specified events. The periods of these contractual obligations lapse on various dates between 2001 and 2005. There are no intentions to dispose of any of these properties at 30 April 2001.
- (iii) A performance bond backed by Bank of Scotland for £21.0 million (2000 – £21.0 million) and a holding company guarantee of £20.9 million (2000 – £20.9 million) have been provided to the Strategic Rail Authority in support of the Group's franchise obligations at South West Trains Limited at 30 April 2001. These contingent liabilities are not expected to crystallise.
- (iv) The Group and its joint venture have, in the normal course of business, entered into a number of long term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.
- (v) Under the Franchise Agreements, the Group and its joint venture have agreed with the Strategic Rail Authority annual amounts receivable or payable in respect of the operation of the franchises for future periods.

Under the Franchise Agreement, there is a requirement on the company to comply with a number of obligations. Failure to comply with these obligations would be a breach of the franchise.

#### (f) Joint venture and associates

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

|   | Joint<br>ventures | Associates | 2001<br>Total | 2000<br>Total |
|---|-------------------|------------|---------------|---------------|
|   | £m                | £m         | £m            | £m            |
| Annual commitments under non-cancellable operating leases | 59.1              | Nil        | 59.1          | 47.9          |
| Capital commitments                                       | 0.8               | Nil        | 0.8           | 0.2           |
| Franchise performance bonds                               | 14.7              | Nil        | 14.7          | 14.7          |
| Bank guarantee  | Nil               | 3.2        | 3.2           | 14.7          |
| Season ticket bond  | 1.1               | Nil        | 1.1           | 1.0           |
| Infrastructure investment commitments                     | Nil               | 2.8        | 2.8           | 2.5           |

### 32. Related party transactions

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

Transactions in which directors have had a material interest are disclosed in Note 7.

At 30 April 2001, the company had loan notes receivable of £10.0 million (2000 – £10.0 million) from Virgin Rail Group Limited. The company earned interest of £1.0 million (2000 – £2.0 million) on the loan notes during the year.

Keith Cochrane was a non-executive director of Virgin Rail Group Limited throughout the year. Brian Cox and Graham Eccles were non-executive directors for part of the year. Fees of £23,219 were paid to the Group by Virgin Rail Group Limited in this regard.

Brian Souter and Keith Cochrane are non-executive directors of Road King Infrastructure Limited. Fees of £32,600 were paid to the Group by Road King Infrastructure Limited in this regard.

### 33. Post balance sheet events

The Group announced on 18 June 2001 the disposal of its Portuguese bus operations for a consideration of approximately £11 million plus the repayment of inter-company debt of approximately £3 million. In addition, the purchaser will assume debt in relation to the business of £2.9 million and future bus purchase commitments of £1.8 million. Completion is expected to occur over the next few weeks, and will result in a net gain on disposal of approximately £6 million.

## Shareholder information

### Analysis of shareholders as at 30 April 2001

| Range of holdings | Number of holders | %      | Shares held   | %      |
|-------------------|-------------------|--------|---------------|--------|
| 1– 25,000         | 58,548            | 98.30  | 100,065,085   | 7.59   |
| 25,001– 250,000   | 722               | 1.21   | 53,697,225    | 4.08   |
| 250,001– 500,000  | 94                | 0.16   | 34,080,091    | 2.58   |
| 500,000–3,750,000 | 148               | 0.25   | 191,995,165   | 14.56  |
| Over 3,750,001    | 51                | 0.08   | 938,802,684   | 71.19  |
|                   | 59,563            | 100.00 | 1,318,640,250 | 100.00 |

| Classification of shareholders    | Number of holders | %      | Shares held   | %      |
|-----------------------------------|-------------------|--------|---------------|--------|
| Individuals                       | 55,864            | 93.79  | 392,806,041   | 29.79  |
| Other corporate bodies            | 93                | 0.16   | 6,164,174     | 0.47   |
| Banks and Nominees                | 3,271             | 5.48   | 870,203,682   | 65.99  |
| Insurance and assurance companies | 3                 | 0.01   | 168,051       | 0.01   |
| Limited companies                 | 320               | 0.54   | 49,212,957    | 3.73   |
| Pension funds                     | 12                | 0.02   | 85,345        | 0.01   |
|                                   | 59,563            | 100.00 | 1,318,640,250 | 100.00 |

### Registrar and transfer office

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the company's registrar and clearly state the shareholder's name and address. Please write to: Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED. Telephone 0870 601 5366.

## Advisers

### Company Secretary

Derek Scott

### Registered office

Group Headquarters  
10 Dunkeld Road  
Perth PH1 5TW  
Telephone +44 (0) 1738 442 111  
Facsimile +44 (0) 1738 643 648  
Email [info@stagecoachgroup.com](mailto:info@stagecoachgroup.com)

Company number SC 100764

### Registrars

Lloyds TSB Registrars Scotland  
117 Dundas Street  
Edinburgh EH3 5ED  
Tel: +44 (0) 870 601 5366

### Merchant Bankers

Noble Grossart Limited  
48 Queen Street  
Edinburgh EH2 3NH

### Auditors

Arthur Andersen  
191 West George Street  
Glasgow G2 2LB

### Stockbrokers

Credit Suisse First Boston  
1 Cabot Square  
London E14 4QJ

### Principal Bankers

Bank of Scotland  
New Uberior House  
11 Earl Grey Street  
Edinburgh EH3 9BN

The Royal Bank of Scotland plc  
Drummond House  
1 Redheugh Avenue  
Edinburgh EH12 9JN

### Solicitors

Shepherd & Wedderburn, WS  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2ET

Herbert Smith  
Exchange House  
Primrose Street  
London EC2A 2HS

### Stagecoach individual savings accounts

The company has appointed Bank of Scotland as an ISA provider and shareholders who would like further information should contact their help desk on 0131 442 8271.

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

### Low cost share dealing facility

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

### Payment of dividends by BACS

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

## Five year financial summary

|   | 2001<br>£m | 2000<br>£m | 1999*<br>£m | 1998§<br>£m | 1997<br>£m |
|---|------------|------------|-------------|-------------|------------|
| <b>Results</b>                                      |            |            |             |             |            |
| Total turnover                                      | 2,083.5    | 2,179.1    | 1,548.4     | 1,347.0     | 1,152.8    |
| Operating (loss)/profit                             | (250.1)    | 199.7      | 274.9       | 216.3       | 148.0      |
| Net interest payable                                | (76.0)     | (144.6)    | (61.0)      | (58.0)      | (44.6)     |
| (Loss)/profit before tax                            | (316.5)    | 182.3      | 210.4       | 155.7       | 120.5      |
| Tax   | (15.8)     | (41.4)     | (51.8)      | (42.1)      | (34.6)     |
| (Loss)/profit attributable to ordinary shareholders | (332.3)    | 140.9      | 158.7       | 113.5       | 85.5       |
| <b>Net assets</b>                                   |            |            |             |             |            |
| Fixed assets  | 2,040.5    | 2,280.6    | 2,100.2     | 1,520.1     | 1,439.9    |
| Net current (liabilities)/assets                    | (109.1)    | 250.8      | (189.9)     | (269.0)     | (269.3)    |
| Long term creditors                                 | (816.8)    | (1,039.4)  | (950.8)     | (741.7)     | (684.5)    |
| Provisions  | (105.7)    | (100.8)    | (234.1)     | (239.3)     | (300.9)    |
| <b>Tangible fixed assets</b>                        |            |            |             |             |            |
| Additions   | 141.8      | 376.7      | 263.1       | 289.9       | 110.8      |
| Depreciation  | (111.2)    | (218.7)    | (186.0)     | (190.3)     | (87.2)     |
| <b>Cash and debt</b>                                |            |            |             |             |            |
| Cash at bank and in hand                            | 160.4      | 816.0      | 321.8       | 163.0       | 181.5      |
| Gross debt  | (946.1)    | (1,365.6)  | (1,226.7)   | (1,001.0)   | (915.2)    |
| Securitised debt (included within gross debt)       | Nil        | Nil        | (482.7)     | (420.1)     | (503.8)    |
| Net debt  | (785.7)    | (549.6)    | (904.9)     | (838.0)     | (733.7)    |
| <b>Cash flow</b>                                    |            |            |             |             |            |
| Free cash flow                                      | 228.1      | 283.9      | 279.8       | 224.3       | 172.7      |
| <b>Ratios†</b>                                      |            |            |             |             |            |
| Earnings per share‡                                 | 7.8p       | 13.4p      | 12.7p       | 9.6p        | 6.3p       |
| Dividends per ordinary share                        | 3.8p       | 3.6p       | 3.0p        | 2.4p        | 1.8p       |
| Free cash flow per ordinary share                   | 17.0p      | 18.9p      | 21.2p       | 18.7p       | 16.0p      |
| Shares in issue at year end                         | 1,318.6m   | 1,407.0m   | 1,382.5m    | 1,216.9m    | 1,198.8m   |
| Average number of employees                         | 40,002     | 41,254     | 31,920      | 32,640      | 31,418     |

\*1999 summary information has been restated following adoption of FRS 15

§1998 summary information has been restated following adoption of FRS 12

†restated to take account of 5 for 1 share split in October 1998

‡before goodwill amortisation and exceptional items

## UK BUS

EAST  
EAST MIDLANDS  
EAST SCOTLAND  
LONDON  
MANCHESTER  
NORTH EAST  
NORTH WEST  
SOUTH EAST

SOUTH MIDLANDS  
SOUTH WEST  
WEST AND WALES  
WEST SCOTLAND

ALSO:  
NATIONAL  
TRANSPORT TOKENS

## COACH USA

NORTH EAST REGION  
NEW ENGLAND REGION  
NORTH CENTRAL REGION  
SOUTH CENTRAL REGION  
SOUTH EAST REGION  
WEST REGION  
CANADA  
TRANSIT DIVISION  
TAXI DIVISION

## OVERSEAS BUS

AUSTRALIA  
HONG KONG CITYBUS  
NEW ZEALAND  
PORTUGAL

## RAIL

SOUTH WEST TRAINS  
ISLAND LINE  
SUPERTRAM  
VIRGIN RAIL (Joint venture)

Stagecoach also has investments in:

thetrainline.com  
PREPAYMENT CARDS  
ROAD KING  
INFRASTRUCTURE  
RTI STAGECOACH

### GROUP HEADQUARTERS

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