2002

the next stage

STAGECOACH *GROUP*
Annual Report

STAGECOACH GROUP PLC
Company No. SC100764

Contents

Stagecoach UK BUS

Our national and local managers have focused over the year on recruiting and training staff to ensure a consistent high quality of service to our passengers. We have also improved our marketing to highlight the attractiveness and accessibility of our services. The Ferrytoll Park and Ride partnership with Fife Council and the Fuel Saver marketing campaign won awards at the UK Bus industry's "Oscars".

Coach USA

We took action to cut costs immediately in the wake of the September 11 attacks and are now rebuilding the revenue by focusing on new business opportunities. These include new "twin city" line runs, new transit contracts and extending our sightseeing services. We are undertaking a full business review of Coach USA.

SOUTH WEST TRAINS

We have been focusing on improvements to our services in line with commitments made to the Strategic Rail Authority as part of the new franchise which we expect to sign shortly. Our new Desiro trains order is on schedule with first delivery later this year.

Stagecoach NEW ZEALAND

CITYBUS 城巴

Using our trolley bus experience in Wellington, New Zealand, we have continued performance trials to develop such a service for Hong Kong. We have also continued to invest in new infrastructure in Hong Kong.

Virgin trains

With the delivery of the first of the new Pendolino and Voyager trains Virgin Rail Group is stepping up the quality of the travelling experience for passengers. The recent agreement with the Strategic Rail Authority underpins the viability and long-term value of Virgin Rail Group.

STAGECOACH GROUP ONLINE
for daily updates visit
www.stagecoachgroup.com

Further information at:

www.stagecoachbus.com
www.southwesttrains.co.uk
www.island-line.co.uk
www.supertram.com
www.coachusa.com
www.citybus.com.hk
www.stagecoach.co.nz
www.virgintrains.co.uk
www.thetrainline.com
www.roadking.com.hk

2002

highlights

Business Highlights

Agreement with Strategic Rail Authority on Virgin Rail Group underpins viability of CrossCountry franchise and long-term shareholder value on West Coast franchise

South West Trains deed of amendment signed

– Discussions continuing on long-term franchise

– New franchise agreement to be signed later this year

New rolling stock deliveries progressing on our three major rail franchises

UK Bus sees strong growth in London and regional partnership centres

Rail development strategy on course; first international partnership with Wellington Regional Council

Continued strong performance from Overseas Bus

Coach USA costs under control; May/June revenues 8% below the prior year; full year operating profits expected to be no better than 2002

Full business review of Coach USA to be undertaken by December 2002

Financial Highlights

Turnover £2,111m (2001 – £2,084m)

Profit before tax[1] £107m (2001 – £123m[2])

Free cash flow £184m (2001 – £228m)

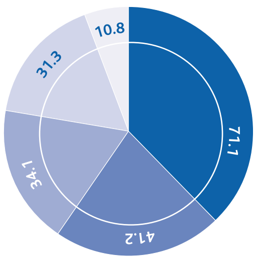
Earnings per share[1] 6.3p (2001 – 7.5p[2])

Dividend per share rebased to 2.6p (2001 – 3.8p)

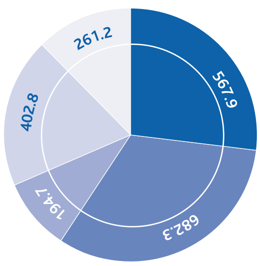
[1]Profit figures are stated before goodwill amortisation and exceptional items
[2]Prior year comparative figures have been re-stated for FRS 19, ''Deferred Tax''

Stagecoach Group is one of the world's largest transport groups, operating over 20,000 vehicles

Operating profits by division (£m) (pre goodwill and exceptionals)



Revenue breakdown by division (£m)



Key

UK Bus	Coach USA	Overseas Bus	UK Rail	Virgin Rail*

*this represents the Stagecoach Group share in Virgin Rail (49%)

The Group now has approximately 39,000 employees worldwide. It services more than a billion passengers with its operations in the UK, the USA, Canada, Hong Kong, mainland China and New Zealand. The Group's businesses include bus, train, tram, express coach, taxi and ferry operations.

The Group is organised into four principal operating divisions: UK Bus, Coach USA, Overseas Bus and Rail. The Group will continue to focus on its core bus and rail operations and develop opportunities which continue to add value for shareholders.

UK Bus

One of the largest UK Bus operators principally focused on providing scheduled passenger services. Currently has around 16% of the UK Bus market.

Comprises 12 principal operating units with over 90 depots spread throughout the UK.

Turnover: £567.9m
Operating profit: £71.1m*
Approximate fleet size: 7,000 buses and coaches.

Coach USA

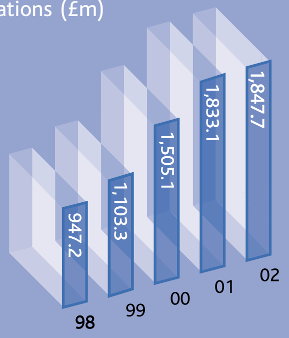
Largest provider of motorcoach charter, tour and sightseeing services in the United States. Also provides commuter and transit motorcoach services, taxi cab and other passenger ground transportation services.

Operates in 35 states of the USA and also in Canada, with more than 120 operating locations.

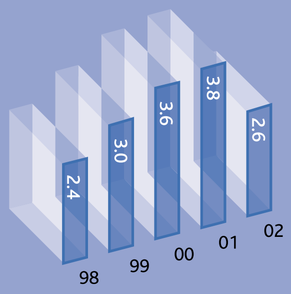
Turnover: £682.3m
Operating profit: £41.2m*
Approximate fleet size: 14,300 vehicles (including driver-owned cabs).

*Operating profit/(loss) figures are stated before goodwill amortisation and exceptional items.

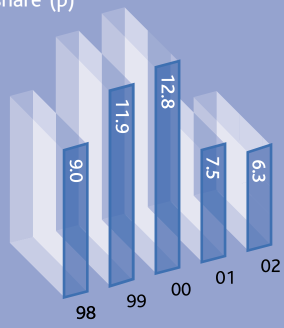
Turnover from continuing group operations (£m)



Dividend per share (p)



Adjusted earnings per share (p)



(restated following adoption of FRS 19)

Overseas Bus

Largest provider of scheduled bus services in both Hong Kong and New Zealand. Also, small bus operations in mainland China and ferry operations in Auckland, New Zealand.

Turnover: £194.7m

Operating profit: £34.1m*

Approximate fleet size: 2,150 buses and coaches.

Rail

Comprises three subsidiary operating companies: South West Trains, Island Line and Sheffield Supertram. Also comprises the Group's joint venture, Virgin Rail Group, in which it holds a 49% equity stake.

South West Trains, Island Line and Virgin Rail Group operate fixed-term franchises awarded by the UK's Strategic Rail Authority.

South West Trains operates train services in South West England.

Virgin Rail Group operates the West Coast Main Line (from Scotland to London) and the CrossCountry franchise (South West England, North of England and Scotland).

Island Line operates the train service on the Isle of Wight.

As the name suggests, Sheffield Supertram operates trams in the city of Sheffield.

Turnover: £402.8m subsidiaries
£261.2m share of Virgin Rail Group

Operating profit: £31.3m* subsidiaries
£10.8m* share of Virgin Rail Group.

Other Investments and Joint Ventures

thetrainline.com

Largest UK rail Internet and call centre booking service. A joint venture between Stagecoach and Virgin, with the Group holding a 49% equity interest.

Turnover: £11.7m share

Operating loss: £(4.4m)* share.

Road King

Operates 1,100km of toll roads throughout China on over 30 highway projects in partnership with the Chinese Provincial Authorities. The Group owns 25.2% of the ordinary shares of Road King.

Prepayment Cards

Smart card payment and ticketing systems. The Group has a 23.5% equity interest in Prepayment Cards.

RTI Stagecoach

Developer of guided bus rapid transit systems. Stagecoach owns a 50% equity interest in RTI Stagecoach Limited and other related development companies.

Chongqing

The Group owns 45% of Hong Kong Kwoon Chung Bus Investments Limited which, in turn, holds investments in bus and ferry ventures in Chongqing, South West China.

*Operating profit/(loss) figures are stated before goodwill amortisation and exceptional items.

Stagecoach is focusing on innovative solutions to passenger transport needs in all its global operations

In common with the transport sector as a whole, Stagecoach Group has faced unprecedented challenges over the past year. The economic aftermath of the tragic events of September 11 in the USA and the well-documented problems of the UK rail infrastructure network resulted in a difficult trading environment.

Turnover for the year was £2,111.4m (2001 – £2,083.5m). Operating profit before goodwill amortisation and exceptional items was £166.6m (2001 – £198.9m). Earnings per share on an equivalent basis were 6.3 pence (2001 – 7.5 pence).

The Board of Directors are recommending that a final dividend of 1.3 pence per share (2001 – 2.5 pence) is proposed, giving a total dividend of 2.6 pence (2001 – 3.8 pence). This rebasing of the dividend reflects the reduction in current year profitability and the current outlook.

The new financial year has begun with a major step forward in each of our two main rail businesses. At South West Trains, we signed a deed of amendment in June 2002 to the existing franchise which is due to expire in February 2003. This provides for additional funding to be made available by the Strategic Rail Authority to facilitate work on a number of new projects that will form part of the new long-term franchise at South West Trains. The signing of the new franchise agreement is expected later this year.

At Virgin Rail Group, we have reached an agreement with the Strategic Rail Authority that ensures the ongoing commercial viability of the West Coast Main Line and CrossCountry franchises. While discussions are continuing over the longer-term structure of both franchises, this is a very positive development in the delivery of a new inter-city rail network. Together, Virgin Rail Group and South West Trains account for around 25% of the revenues of the UK rail network and these two developments will help to secure our long-term presence in that market.

During the year, passenger services at South West Trains were disrupted by industrial action. We felt the disputes were unjustified and unnecessary. We had a clear strategy to protect our passengers' interests and this proved to be successful. We believe the strong management action adopted will make the process easier to manage in the future and we will continue to seek to create an improved industrial relations climate.

We also believe that the train operating companies must be involved with the Strategic Rail Authority in the development of its strategy for the UK rail network. Earlier in the year, we issued a document entitled "A Platform for Change". This document was intended as a discussion paper that advocated vertical integration for the railways, which would be achieved by bringing the trains and the track under a single management structure. We continue to believe that a more integrated rail industry would not only further support the delivery of a safe and reliable rail network but would also align with the interests of passengers and shareholders alike.

In North America, we were encouraged by the way Coach USA was moving forward prior to September 11. Our challenge is to regain that momentum against a backdrop of global uncertainty and a difficult operating environment.

The cost base of Coach USA is firmly under control but revenues and therefore operating profits for the first two months of the new financial year were below our expectations. Reported revenues were disappointing across Coach USA. The uncertain economic environment in North America has led to reduced spending by organisations and individuals on leisure activities and this has impacted our charter, tour, airport, taxi and sightseeing related businesses. Our scheduled line run operations have also been disappointing as commuter traffic has fallen reflecting the economic down-turn. As a result of this further setback at Coach USA the Board has asked Brian Souter to initiate a full review of our North American business. He will report to the Board the findings of this review by December 2002.

We are deeply saddened that Keith Cochrane has resigned as Chief Executive of the Group. Keith has worked very hard for Stagecoach as Chief Executive and previously as Finance Director. As a result of Keith's resignation, the Board has appointed us as Acting Chief Executive and Acting Non-Executive Chairman respectively. Following the completion of the business review of Coach USA, the Board will agree the most appropriate management structure for the Group going forward.

During the year, Iain Duffin joined our board as an independent non-executive director. His considerable managerial experience gained on both sides of the Atlantic is already benefiting the Group.

Brian Cox retired as Executive Director – UK Bus on his 55th birthday. Brian was instrumental in the reorganisation of our UK Bus operations and he has played a key role in the strengthened marketing and re-branding of our bus services. We would like to put on record our personal thanks for his strong and valued contribution to Stagecoach over the past 15 years.

It has been a particularly difficult and challenging year for the people who manage and deliver frontline services to customers. We want to record our grateful thanks for their energy, loyalty and hard work. We will continue to invest in our people; they have a crucial role to play at all levels in an increasingly competitive marketplace.

Stagecoach is focusing on innovative solutions to passenger transport needs in all its global operations. At Citybus, our excellent operational performance to date has put us in a good position to capitalise on new franchise opportunities which the Hong Kong Government has announced; in New Zealand we are working closely with Government and have introduced new services that are already delivering organic growth; in UK Rail we are working in partnership with the Strategic Rail Authority and others to deliver long-term benefits to our passengers at Virgin Rail and South West Trains; and in our UK Bus division we continue to work closely in partnership with Transport for London and a number of local authorities and make significant investment in equipment and our people to deliver long-term growth.

It is vital that the entrepreneurial drive that private ownership delivers is maintained and harnessed to keep on delivering safety and service for the travelling public and value for our shareholders.

ROBERT SPEIRS
Acting Non-Executive Chairman

Brian Souter

BRIAN SOUTER
Acting Chief Executive

Operating review

The year to April 2002 has been uniquely challenging as a result of unparalleled acts of terrorism in North America, lengthy disruption to the UK rail infrastructure and an uncertain global economic environment.

The year ahead will be a challenging time for the Group but we have begun the year with actions that should secure our long-term interests in South West Trains and Virgin Rail Group. At Coach USA we will be undertaking a full business review of our portfolio of businesses and will report the results of this by December 2002.

We are committed to modernising public transport and playing a leading role in achieving passenger growth in each of our markets. In the year ahead, we will continue to focus on enhancing business performance and improving the quality of our services by further investing in our core operations.

Across the Group, we have a portfolio of valued and trusted brands and we are working hard to develop these even further in our bus, coach and rail markets. On the ground, we are providing improved easy-to-understand networks and information, attractive value-for-money ticketing, friendly and well-trained staff, and increased comfort from new modern vehicles to ensure our customers keep coming back.

Safety remains paramount across all of our businesses and is an integral part of the culture of our organisation. Each of our management teams has clear monitoring and reporting processes in place and immediate action is taken to address any issues. A key element of our safety programme is the training of staff and the promotion of a strong safety culture.

UK Bus

Our UK Bus business, the traditional core of the Group, remains a strong source of cash flow and retains a significant share of what is a highly competitive marketplace. As one of the biggest bus operators in the UK, we are committed to playing a major role in delivering the objectives of the UK Government's 10-year Transport Plan.

Financial results

Turnover for the year in UK Bus was £567.9m, compared to £547.6m in the previous year. The results for the previous year included a full year's trading from four depots in East Lancashire, which were disposed of in April 2001. Excluding these four depots, turnover increased by 6.2%.

Underlying UK Bus passenger volumes increased by 1.4% in the year, with particularly strong growth in London. Our targeted commercial and marketing plans are generating volume growth in a number of key towns and cities, and the bus market in the UK continues to offer good organic growth opportunities, particularly in urban areas.

Operating profit was £71.1m[1], compared to £73.4m in the previous year. This represents an operating margin of 12.5% (2001 – 13.4%). The reduction in operating margin principally arises from above inflation wage increases.

Commercial development

We believe that the future of the bus industry and ultimately the long-term interests of passengers, are best served by operators, Government, local authorities and customers working together to improve our public transport system. Our common goals of passenger growth, improved reliability and reduced congestion in our towns and cities can be achieved without the need for increased regulation.

Achieving passenger growth, one of the UK Government's key transport objectives, is central to the relationships we are building with local authorities. We now have some 50 partnership schemes in place across the UK with a further 30 schemes under discussion, most of which we expect to be in place in the next 12 months. These schemes provide tangible evidence that Quality Partnerships can assist in achieving the Government's transport objectives.

[1]References to "operating profit" in the Operating review refer to profit before interest, tax, goodwill amortisation and exceptional items.

One of the Group's most comprehensive bus investment projects outside London is in the Cambridge area. Close partnerships with local authorities have delivered a 20% growth in passenger numbers over a six month period, while the environment and quality of life in one of the country's most historic cities have been improved. This growth has been achieved by the introduction of more than 40 new low-floor buses, together with improved and simplified routes and fare structures. We have also focused closely on recruiting, retaining and training staff as part of a commitment to improved customer service and reliability. The project has been achieved through a strong partnership with the local authorities, Cambridgeshire County Council and Cambridge City Council. They have invested in infrastructure for the new city centre routes, including bus gates and priority bus lanes and high specification park and ride sites. The new prominent "citi" branding, combined with a major marketing and advertising campaign using the Internet, door-to-door postcard deliveries and leaflets, has transformed the perception of public transport in Cambridge.

A similar partnership approach and targeted investment, supported by improved infrastructure provision and more bus priority measures, has improved services and generated passenger growth in many other areas of the country, including in the Blackwater Valley area in Hampshire, Exeter, Portsmouth, Nuneaton and Brackley.

We are confident that this model can be applied in many areas of the country, delivering a sustainable balance of network services, value for money for customers and growth opportunities for bus operators. The bus plays a key role in achieving social inclusion, particularly for those who have no access to other means of transport. As a result, we will continue to work closely with our local authority partners to make the bus the transport mode of choice for increasing numbers of people.

In London, our passengers are benefiting from our continuing substantial investment in new vehicles and the commitment of Transport for London to improving public transport. Passenger growth in London across all transport providers is running at around 6% per annum and we expect this to continue in light of demographic and transportation trends. Our two London bus companies have been ranked consistently high amongst the operators for reliability and punctuality in Transport for London's performance tables. We now have approximately 16% of the London bus market and are very well placed to benefit from continuing growth opportunities in the city such as the future introduction of congestion charging.

Following the success of "easy access" lo-liner buses, we have continued to invest in low-floor vehicles and have worked with local authorities in improving bus stops with level kerbs, shelters and information. In time our entire UK Bus fleet will feature lo-liner facilities.

We continue to place significant management emphasis on staff recruitment and retention to ensure we can offer the high quality of service that our passengers expect.

Marketing

Within the framework of our overall UK Bus branding, we have developed and rolled out new marketing kits for each of the individual operating companies with a consistent approach being adopted across the division. Dedicated route branding and promotion, such as "Coastliner" between Portsmouth and Brighton, is also generating additional volume growth.

We are continuing to roll out *The Guide*, the biggest commitment of any operator to improved passenger information, which was launched in November 2001. This pocket-sized publication provides an attractive and comprehensive guide to routes, times and prices of services, and is being developed for our key town and city networks across the UK. It is being delivered to every household in these areas with a guarantee to update and distribute it for at least the next three years. Areas to benefit already from *The Guide* include Cheltenham, Cambridge and Perth.

Our ticketing strategy has focused on developing simple, easy-to-understand tickets, including the Dayrider, Megarider and Goldrider products. These represent excellent value for money and suit a range of consumer lifestyles, from pay-as-you-go tickets for casual users to products devised for specific types of passengers, such as students.

We have also undertaken specific targeted marketing initiatives and have been particularly successful in encouraging more students to travel by bus. In Manchester, for example, which has the highest student population in the UK, we re-launched the Unirider student ticket range with particular focus on a route which captures traffic from three local universities. The campaign resulted in a 48% increase in ticket sales, with many students taking advantage of our online early booking discount. Similarly, in Fife, we launched a special ticket that was sold on site to attract students travelling between locations on the split Lauder College campus.

Since its launch last year, we have continued to develop and expand our UK Bus website, www.stagecoachbus.com. Offering online timetables, ticket offers and latest news of service developments, the site is now attracting more than 40,000 visitors each month.

Disposals

Further to the disposal of four depots in East Lancashire in April 2001, we sold our Eastbourne operations in April 2002.

This is consistent with our strategy to target investment and deployment of our operating assets in those parts of the business where we can maximise shareholder value.

Management

UK Bus remains an important part of the Group and, together with our other businesses, offers the potential for future revenue and earnings growth. We are committed to developing strong managers who can drive the business forward. The streamlining of the businesses into twelve operating companies and the reorganisation of the management team is now complete and is adding value. As part of this process, we have made a number of new senior appointments to strengthen our UK Bus management team, with particular emphasis on commercial development and service delivery. New commercial teams are also in place throughout the UK.

Brian Cox retired as Executive Director – UK Bus in July 2002. Les Warneford, our UK Bus Managing Director, continues to have overall responsibility for our UK Bus operations.

Coach USA

Some of the major challenges the Group has faced over the past year have been in Coach USA. The attacks of September 11 and the continuing soft US economy have had a significant effect on the travel and transport sectors, including our North American businesses. Substantial annual cost savings have been achieved and costs remain under control. As a result of the disappointing trading at Coach USA in the first two months of the new financial year, a full business review will be carried out of our North American operations. The findings of this review will be reported to the Board by December 2002.

Financial results

Coach USA's turnover for the year was £682.3m compared to £686.4m in the previous year. Operating profit was £41.2m, compared to £67.1m in the previous year. This represents an operating margin of 6.0% (2001 – 9.8%).

We were encouraged by the financial performance of Coach USA during the early months of the financial year. Coach USA's revenues increased by 4.1% (excluding foreign exchange rate movements) in the four months to 31 August 2001. However, as we have previously reported, our progress and the results for the year were impacted by the terrorist attacks in the USA on September 11.

We took immediate action to reduce our cost base, including reducing non-driver headcount by 10%, cutting Houston head office staff by 40%, and taking 330 buses out of service.
The $25m cost reduction programme was implemented within six weeks.

The business is now operating from a lower and more efficient cost base, although revenues were down approximately 5% in the year and continue to be below prior year levels. The international tour and charter market remains weak, particularly on the West Coast. There has been some improvement in the domestic charter market, however we have still to see a full recovery in the school overnight trip market. In our taxi operations, we have seen a decline in fleet utilisation levels and increased car repossessions consistent with a post September 11 reduction in business travel and tourism, particularly evident over the winter months in Texas and Florida.

Commercial development

The outcome of the business review will determine the future direction of Coach USA. However, within each of the individual businesses, our management teams continue to evaluate a range of initiatives to support the commercial development of each business. While overall trading results are disappointing, a number of the businesses within Coach USA have had notable success in stimulating demand for selective products.

We have begun to refocus our Coach USA business by prioritising development of our line run, transit and sightseeing services, while reducing our dependence on tour and charter.

Coach USA has recently launched a new City Express scheduled service network, following our acquisition of Vectour's operations in Chicago. We are beginning to see some growth in passenger volumes following refurbishment and re-branding of the City Express fleet, enhanced schedule frequencies, additional services to the Midway airport from Wisconsin, and an advertising campaign focusing on our quality and service value to the customer.

During its first year of service, a new casino line service from George Washington Bridge Terminal in New York has carried 80,000 riders to Atlantic City, New Jersey and generated over $1.5m in revenues.

We have been successful in securing new contract and corporate business. We continue to bid for a range of new contract work, with our pricing determined by a set of rigid tender criteria. A seven year contract was signed and renegotiated with the Anaheim Resort to provide resort-wide shuttle services. Since May 2002, a network of eight routes have serviced the area which includes the Disneyland theme parks and hotels. Almost all of the hotels have signed up for the service and are expected to stop their own private shuttle services by the end of this year. In addition, new contracts were signed with Royal Caribbean Cruise Lines, Destination America and Sportmark.

The sightseeing market has been a particular area of focus for our Coach USA marketing team. Our ''hop-on hop-off'' double deck Sightseeing USA buses are already proving to be the preferred choice for tourists in New York. These services are now being rolled out into other key sightseeing locations. Going forward all Sightseeing USA locations will be marketed as a network to take advantage of cross-selling opportunities in both domestic and international markets.

Coach USA continues to undertake targeted sales and marketing to ensure that we take full advantage of current market opportunities in our core tour and charter business. For example, we have recently embarked on a direct mailing programme aimed at corporate travel, corporate contract and various university groups, including athletic directors, alumni and student affairs, and business development directors. This is principally intended to generate new business for campus shuttle services, team charters and campus event charters.

A new Coach USA website was launched in May 2002. This will be a useful marketing tool and is expected to attract even more than the one-million visitors to the former site last year.

Acquisitions and disposals

We believe that the bus and coach market in the USA will see some major long-term changes. Coach USA will look carefully at possible opportunities that this may provide. During the year, we have completed acquisitions in North America with a total enterprise value of £22.7m. These were tuck-in acquisitions of coach and taxi businesses. In March 2002, for example, we acquired high quality bus operations in San Francisco and Chicago from Vectours, which had been placed into Chapter 11. These complement our existing line run and sightseeing businesses.

As previously reported, we have also sold and closed a number of businesses during the year. The annualised turnover of these businesses was £14.0m.

Overseas Bus

Our Overseas Bus division, which encompasses operations in Hong Kong and New Zealand, continues to perform well. The strong public and government support for passenger transport in these locations has underpinned the growth of our Overseas Bus businesses.

The results for the year include a contribution from our former operations in Portugal, which were disposed of in June 2001 and our Australian operations, the final part of which was disposed of in June 2002.

Financial results

Turnover for the year in Overseas Bus was £194.7m, compared to £195.4m in the previous year. Operating profit was £34.1m, compared to £35.8m in the previous year. This represents an operating margin of 17.5% (2001 – 18.3%). The fall in turnover and operating profit in the year is largely as a result of the disposal of our Portuguese operations and reduced revenue in Hong Kong due to the impact of severe weather in the first six months of the year.

Nevertheless, our Overseas Bus businesses have continued to report good underlying growth. Under our ownership, both our Hong Kong and New Zealand businesses have been able to report strong organic growth in passenger volumes. This growth has been achieved through a commitment from both government and Stagecoach to the continuous improvement of public transport.

Passenger volumes in New Zealand grew by 5.2% in the year, while local currency revenues grew by 12.2%. This growth has been achieved by the development of new products with the support of the local authorities. The New Zealand Government has provided "kick start" funding to encourage bus operators to begin operating new services and we have worked closely with the Auckland and Wellington Regional Councils in designing and delivering leading examples of these services.

Passenger volumes and revenues in Hong Kong were impacted by 2 days of typhoons (2001 – Nil) and a further 30 days of severe rainstorms (2001 – 14). After excluding the impact of the severe weather, passenger volumes on the Hong Kong Island Franchise grew by 1% and on the Airport Franchise by 10%. The underlying growth on the Airport Franchise has been achieved against a background of a global decline in passenger air traffic during the year. Our proven track record in operational performance puts us in a good position to bid competitively for new bus franchise tender opportunities which have recently been announced.

Commercial development

Together with investment from government, we continue to invest in infrastructure, vehicles and technology in our overseas bus markets. In Hong Kong, we have commenced work on a new bus depot that will enhance the infrastructure and underpin the long-term development of the franchise. The new depot is planned for completion in 2003 and will provide facilities for over 800 vehicles as well as becoming the main office of Citybus. The estimated cost of the new depot is approximately £27m of which £3.3m has already been spent. In New Zealand, we have taken delivery of the first part of a significant order of new diesel buses to replace the existing fleet and allow expansion of our services. We are also about to commence a programme of rebuilding the 60 trolley buses that operate in Wellington.

Building on our experience of operating the trolley bus network in Wellington, performance trials are continuing in Hong Kong with Citybus' new trolley bus. The trolley bus is partly a response to increasing concerns over noise levels and emissions from conventional buses, and the trials have proven to be very successful. Citybus has also enhanced 500 of its double-decker buses by installing four flat LCD screens on each vehicle, which allow passengers to watch a range of material during their journey. Further initiatives are aimed at developing new opportunities for longer-term growth in our core overseas markets.

Our Overseas Bus businesses have undertaken a number of marketing initiatives during the year. A promotional campaign incorporating television, radio and on-bus advertising, a free phone information line and information packs with free trial use tickets was recently piloted in Wellington. The early results of this campaign have been positive. We have also entered into sponsorship agreements with Embassy Theatre in Wellington and the Starship Children's Hospital in Auckland.

In Hong Kong, we opened the Admiralty Customer Service Centre in July 2002 as part of our ongoing commitment to improving customer service. In addition, a number of special ticketing schemes were launched during the year, including a concessionary fare for senior citizens travelling at weekends and public holidays at certain times of the year.

Disposals

Our operations in Portugal were disposed of in June 2001, generating a gain on disposal of £6.0m. As part of our strategy to focus on core growth routes in our key geographic markets, we have also exited from small operations in Cairns, Australia and Mainland China. In June 2002, we disposed of our remaining Australian business in the Sunshine Coast allowing our overseas bus management to focus on our core operations in New Zealand and Hong Kong.

Rail

Our Rail division encompasses our two wholly-owned UK rail franchises – South West Trains and Island Line – and Sheffield Supertram. In addition, our rail business includes our joint venture, Virgin Rail Group, which operates the West Coast Main Line and CrossCountry franchises. The division is also responsible for evaluating other opportunities in the heavy rail and light rail markets.

In the UK, the continuing instability over infrastructure and Railtrack being placed into administration have affected every part of the rail industry, including investor sentiment, and no train operating company has been immune. Our rail division has sought to continue to deliver on our commitments and business plan within this difficult operating environment. However, with a new team and strong direction from the Strategic Rail Authority, and the emergence of Network Rail, we believe the industry can now move forward and work together in delivering a much improved service to passengers.

The quality and performance of our rail services will improve markedly over the coming years with the delivery of new trains. South West Trains and Virgin Rail Group have now arranged more than £3 billion of new trains. By the end of 2004, the entire Virgin Rail fleet and around half of South West Trains' rolling stock will have been replaced by modern, air-conditioned coaches giving quality and reliability – a clear and unambiguous statement of our belief in the future of Britain's railways.

Financial results

Turnover for our wholly-owned rail subsidiaries in the year was £402.8m (2001 – £403.7m), and operating profit was £31.3m (2001 – £45.6m). This represents an operating margin of 7.8% (2001 – 11.3%).

The operational performance at South West Trains is now slowly improving as the network benefits from some improvements in engineering reliability. Trading was, however, affected by the RMT industrial dispute earlier in this calendar year, which resulted in six days of industrial action. This has reduced reported operating profits by approximately £9m in the second half of the year and was in addition to three days of industrial action in May 2001.

Overall turnover decreased 0.2% on the prior year with passenger volumes down 2.2%. This is largely as a result of the industrial action. However, we continue to believe that South West Trains offers good prospects for further passenger volume growth but the speed of recovery depends on a positive economic outlook combined with a sustained infrastructure improvement that will restore passenger confidence in rail travel.

Commercial development

In June 2002, we signed a deed of amendment to the existing South West Trains franchise, which is due to end in February 2003. The deed of amendment provides for additional funding to be paid by the Strategic Rail Authority to South West Trains to facilitate work on a number of new projects that will form part of the new long-term franchise. The signing of a new long-term franchise agreement for South West Trains is expected later this year and will allow us to implement new measures to improve quality, service and value to passengers and to meet targets set by the Strategic Rail Authority.

Our programme for new rolling stock for South West Trains is progressing with the delivery of Class 458 trains. Discussions are continuing with Porterbrook and Alstom over continuing reliability issues related to the new rolling stock. Of the original rolling stock order, a large number of units have now been delivered with the majority entering service in the six months to 30 April 2002.

The manufacture of new Desiro trains by Siemens – Britain's biggest ever train order – is progressing well, with the first of the vehicles on test at Wildenrath, Germany. We remain on target to replace all slam-door rolling stock at South West Trains by the end of 2004 and the new trains will help increase capacity at peak times.

Marketing

Our marketing strategy at South West Trains during the year was designed to encourage incremental business in the off-peak travel market. This was primarily aimed at customers travelling on leisure journeys. Marketing is focused on two main aspects: travel to London and the convenience of Waterloo station (the main London terminus for South West Trains' services) as a centre within walking distance of many attractions; and other attractions in the South West Trains area.

In July 2002, we launched a major promotional campaign offering a free ticket give-away. This was designed both as a "passenger dividend" for customers in our area and as an encouragement to travel by non or infrequent users.

Customer Service

We continue to recognise the importance of improving all aspects of customer service within South West Trains. Our joint £15m investment with Railtrack on passenger information is leading to a step change in the quality of information available to passengers and we have continued with our award winning employee development programme. One of our stations, Andover, won the National Rail Award for Station of the Year in September. We have appointed a dedicated Customer Services Director to ensure that passengers remain at the heart of South West Trains. In June 2001, we appointed Sir Alan Greengross as a non-executive director to represent passengers' interests. We also established a Passengers' Panel, including representatives from major rail users' groups, as well as eight regular passengers, to give passengers a greater say in how their railway is run.

Safety

Safety remains our highest priority and the tragic events of Potters Bar remind all of us that there is no room for complacency. We are on target with our fitting of Train Protection Warning System (TPWS), which offers enormous benefit and reassurance to passengers. We are encouraged that the number of signals passed at danger (SPADS) remains well down on historic levels despite the large increase in new drivers. We continue to take the personal security of our passengers and employees seriously and were pleased to receive our thirtieth secure station award from HRH the Princess Royal.

Island Line

During the year, Island Line was awarded the renewal of the coveted Charter Mark Award for excellence in the provision of public services and remains the best-performing train operating company in the UK.

The SRA has issued a consultation document on the future of the railway system on the Isle of Wight after the end of the existing Island Line franchise in September 2003.

Virgin Rail Group

Financial results

Our share of the Virgin Rail Group's turnover for the year was £261.2m (2001 – £232.8m). Our share of operating profit for the train operations was £10.8m compared to a loss of £2.8m for 2001.

We are pleased that Virgin Rail Group has returned to profitability during the year, although both the West Coast Main Line and CrossCountry franchises continue to experience poor infrastructure reliability and ongoing engineering work. Passenger numbers have been gradually recovering since the disruption experienced in the period following the accident at Hatfield. We announced on 22 July 2002 that Virgin Rail Group has reached agreement with the Strategic Rail Authority with regards to revised commercial terms on both its franchises that will secure their long-term viability.

Commercial development

Under the agreement with the Strategic Rail Authority, both the West Coast Main Line and CrossCountry are to be fully funded by the Strategic Rail Authority until March 2003. The Strategic Rail Authority intends to renegotiate new franchise terms with Virgin Rail Group by March 2003 for the West Coast Main Line franchise. Until new franchise terms are agreed, Virgin Rail Group will run the franchise under a management contract for a fee of 2% of revenue. The CrossCountry franchise terms are to be renegotiated with Virgin Rail Group by March 2004. Similarly, until new franchise terms are agreed, Virgin Rail Group will run the franchise under a management contract for a fee of 1% of revenue, or alternatively the Strategic Rail Authority may offer the franchise to other bidders. Once the terms of both franchises are renegotiated, they will operate on the basis of a normal railway franchise risk with an appropriate rate of return.

Virgin Rail Group's exciting programme of introducing new rolling stock is progressing well and is improving the experience of passengers through better reliability, performance and comfort. During the year, 34 new "Voyager" trains entered service on the CrossCountry franchise and are performing well. In addition, 44 new "Super Voyager" trains will be brought into service during the current year. The Super Voyagers will begin tilt operation once the safety approvals have been obtained and the infrastructure is made ready.

On the West Coast Main Line franchise, the new Pendolinos are currently on test and driver training programmes are underway. The new trains will start to take over some existing services during 2002 travelling at 110 miles per hour as non-tilting trains. Services will be upgraded to tilt operation when the infrastructure is made ready. The inaugural journey of a Pendolino will take place on 23 July in readiness for the Commonwealth Games.

After several years of work and consultation, the current irregular timetable that exists outside the corridors to London is being replaced by a "clock-face" timetable in September 2002. This will unlock capacity bottlenecks and give passengers the simplicity of a regular interval, hourly timetable combining speed and frequency. This improved timetable is the biggest national timetable shake-up for a decade and, combined with the new trains, will provide a substantially improved service to our customers.

Rail business development

We continue to evaluate and bid for a number of heavy and light rail opportunities, particularly in markets where we see synergies with our existing operations.

In the UK, our key priorities are to finalise the commercial issues around the West Coast Main Line modernisation and to finalise the agreement for the new long-term franchise at South West Trains. We are also involved in bids to operate light rail projects in Manchester, Portsmouth, and Leeds based on our experience in running Sheffield Supertram.

In New Zealand, we have been named as a joint venture partner with Wellington Regional Council to purchase and operate the

New Zealand capital's passenger rail services. The next stage is to form a joint-venture company and then proceed to negotiate with Tranz Rail, the current owners of the rail network.

We have also been short-listed as a bidder to run the heavy rail services of the Massachusetts Bay Transportation Authority, the commuter railway serving Boston and surrounding areas. The bid, in partnership with Herzog, one of the most experienced private rail firms in the US, is for a five-year management contract to operate a vertically-integrated railway, including operation and maintenance of both rolling stock and infrastructure.

Investments

thetrainline.com

thetrainline.com now has over 6.6m registered users and offers scope for considerable growth going forward. The business is now clearly established as the market leader in direct rail retailing in the UK, and the business model is underpinned by the necessary contractual framework to produce profitable growth in the near term.

As a direct result of the growth in users and revenues, our share of trainline's operating losses has reduced from £5.7m to £4.4m.

Trainline.com Limited was de-merged from Virgin Rail Group during the year. This will allow the management of Virgin Rail Group to focus on the business of running passenger rail services and trainline management to develop the Internet and telephone retailing business. We continued to hold 49% of both businesses, with Virgin holding the remaining 51% in each of the businesses.

Road King

Our Group results for the year ended 30 April 2002 include our share of Road King's results for the year ended 31 December 2001. Our share of operating profits for the year was £12.9m (2001 – £13.8m). We are pleased that despite a reduction in certain minimum income undertakings from joint ventures during the year, Road King has maintained its strong profitability.

In September 2001, Road King received HK$1,023m for the disposal of its interests in the Jieyang Highway network project. This has further strengthened its financial position and has resulted in a very low net gearing ratio of 5% at 31 December 2001. Excluding the impact of the disposal, total traffic and toll revenue increased by 9.3% and 11.0% respectively in 2001.

The outlook for the business remains encouraging. With the benefits of the People's Republic of China's accession to the World Trade Organisation, the sustained growth in GDP and the ongoing economic development of the inner provinces, we expect there to be further opportunities for the expansion of Road King's PRC infrastructure business.

Current trading and outlook

In our Rail division, the progress we have made on a new franchise at South West Trains and in resolving the commercial issues on the West Coast Main Line and CrossCountry franchises helps ensure the future success of these operations. Both South West Trains and Virgin Rail Group offer good growth potential in the longer term.

Overall passenger revenues for the 8 weeks to 22 June 2002 are up 10.3% on the prior year at Virgin Rail Group (the prior year revenues were impacted by a heavily discounted fares promotion campaign) and were consistent year on year at South West Trains.

At Coach USA, revenues have not yet recovered to pre September 11 levels and in the first two months of the new financial year, revenues were approximately 8% below prior year levels. This reflects a softening US economy and an increasingly competitive market. We are now in the peak summer period and the disappointing start has prompted us to undertake a detailed review of the Coach USA operations. At this stage, we do not anticipate trading to improve and expect operating profits for Coach USA to be no better than 2002.

In UK Bus, we are examining a range of initiatives intended to deliver future organic growth and we have continued our success in recent Transport for London contract tenders.

Our Overseas Bus businesses continue to perform well. Despite high unemployment and the sluggish economy in Hong Kong, Citybus continues to see revenue and passenger growth. Our New Zealand business is now achieving high levels of organic growth.

The Wider Community

Stagecoach is committed as a Group to taking its wider corporate responsibilities seriously and making appropriate contributions to all our stakeholders and the wider communities in which we operate. Our long-term commitment to modernising public transport embraces customers, shareholders and the environment.

Our commitment to our wider corporate responsibilities has been recognised by a number of interested parties. For example, we are part of the Dow Jones Sustainability Indexes which track the financial performance of the leading sustainability-driven companies world-wide. We are also a constituent of the FTSE4Good index service which aims to set a global standard for socially responsible investment.

We intend to issue a more comprehensive social responsibility report during 2002/03, which will cover all of our operations world-wide.

Safety

Safety and security are of paramount importance across all of our businesses. High profile rail accidents in the UK have re-emphasised the importance of maintaining constant attention to all issues affecting safety. We are committed to ensuring the highest standards of safety for our passengers and improving health and safety standards for our employees. This area is monitored and reported on across all of our businesses and immediate action is taken to correct any perceived weakness in our business processes.

A Main Board Executive Director has specific responsibility for safety issues across the Group and the Board is updated on safety matters at each of its meetings. Safety matters are also considered at the Board and management meetings of each of our business units.

In the UK, we welcomed the guidance issued recently by the Department of Transport, Local Government and the Regions, which sets out safety measures that can be taken by bus companies and local authorities to improve personal security for bus staff and passengers. We are actively addressing this area of growing concern. In Manchester, for example, we have set up a crime prevention unit, including the deployment of a number of vehicles with covert CCTV cameras and a management unit which ensures tactical deployment of resources and follow-up with the police, schools and parents. We are also working in partnership with schools as part of schools citizenship programmes designed to discourage anti-social behaviour.

We also welcome the announcement that extra police and traffic wardens will be introduced to patrol some of London's most crime and congestion-hit bus routes. This is another clear step towards ensuring that our passengers and employees can travel in a safer environment as well as keeping bus lanes clear for use.

At South West Trains and Island Line, safety remains a key management priority. A health and safety plan is in place, which includes specific objectives against which performance in this area can be monitored. A key element of this programme is the training of staff and the promotion of a strong safety culture throughout the organisation. We have reiterated our commitment to retain a guard on every train and not to move to driver-only operation. The fitting of the Train Protection Warning System to our fleet is on course to be completed in advance of the statutory deadline and the introduction of the new Desiro fleet will bring major safety benefits to our customers. We are using the opportunity of the introduction of this new fleet to upgrade our driver-training programme including the purchase of four "state of the art" simulators.

Our joint venture, Virgin Rail Group, is equally committed to creating a safe and secure environment for its passengers, workforce and the general public. Management has made good progress on its shorter-term initiatives which form part of a longer term plan. These include:

- the introduction of Train Protection Warning System on all new trains;
- maintenance of a close safety partnership with Railtrack on the management of Possessions and Signal Sighting as route modernisation is undertaken;
- the use of driver training simulators and introduction of interactive computer based training (CBT) assessment tools for improved safety, training and off-line experience.

At Coach USA, comprehensive training and monitoring programmes on safety are continuously updated and improved upon. Safety Managers have been appointed at all locations who are in turn supported by a Regional Safety Manager, all of whom are overseen by a Vice President of Safety at Coach USA's head office.

At Citybus, a safety officer was employed to strengthen management of safety-related issues within the organisation and in service delivery. The engineering and operations staff work together to increase safety for drivers and passengers. Regular occupational safety training for workshop staff and road safety seminars for drivers is also held to constantly remind the workforce of the importance of safety.

Our New Zealand bus and ferry operations have robust procedures in place, involving formal employee participation, to ensure the health and safety of our staff and customers. The Accident Compensation Corporation, which is the statutory provider of accident insurance for employers in New Zealand, has audited our procedures and safety record and awarded "secondary status" to Stagecoach New Zealand and Fullers Auckland. This is a rarely awarded accolade, which places our operations in the top 1% of New Zealand companies as regards health and safety.

The Environment

We believe that business needs to play an important part in the movement by societies to build a sustainable future.

A responsible attitude to the environment is a central component of Stagecoach's activities. Throughout the Group we endeavour to interact with the environment in a responsible manner.

Stagecoach is specifically aware of the impact of all forms of transport on the environment. We believe that integrated public transport systems will form the central core of future efforts to reduce pollution levels, alleviate congestion on the roads and free up our towns and cities in particular, allowing unfettered transit for all.

Across our businesses we offer customer-focused solutions to traffic congestion and pollution. Trains are one of the most energy efficient forms of transport, able to carry large numbers of people without the burden to the environment generated by other modes of transport such as private cars. Increased and effective promotion of our rail services will contribute both to shareholder value and to the wider environment.

Our continual re-investment in new bus fleets with improved energy consumption and reduced emissions is an important example of the Group taking its wider responsibilities seriously. Environmental considerations are included in all capital investment decisions taken by the company. All new Stagecoach vehicles meet tough Euro III emissions standards and in the UK all our buses have changed to use low sulphur fuel.

Stagecoach New Zealand is taking delivery of 120 new MAN buses that will comply with Euro III emission standards. This industry-leading initiative will significantly reduce exhaust emissions in New Zealand's two main centres.

We are active in developing new forms of transport which will complete our Group's portfolio offering and continue to lessen adverse impacts on the environment. An example of this is the Sheffield Supertram operation which is both reducing car use in the city and opening up previously neglected areas for development.

We are also playing a leading role in a major European project set up to harness solar energy to drive hydrogen powered fuel cell buses. The Urban Integrated Solar to Hydrogen Energy Realisation Project (''USHER'') is being driven by Cambridge University and consultant engineers Whitby Bird and Partners. By October next year, a state-of-the-art hydrogen-powered Stagecoach bus is expected to be transporting students, staff and international visitors from the centre of Cambridge to the university's new science and technology campus at West Cambridge. We believe that the USHER project has huge potential to generate significant energy savings and avoid damaging emissions and it is further evidence of our commitment to reducing the impact of our operations on the environment.

In Wellington, Stagecoach New Zealand is also planning to rebuild its 60 existing electric trolley buses with new super low floor bodies, in a stylish new design. This programme will ensure that the backbone of Wellington City's bus service will continue to be operated with zero emission vehicles for another 15 years. A prototype trolley bus is currently under construction.

In Auckland, Stagecoach New Zealand intends to trial a hybrid electric bus developed in New Zealand. This vehicle will have a battery pack powering a computer controlled electric drive motor. The batteries will be topped up during operation by a generator, driven by a small gas turbine engine. This vehicle will comply with Euro IV emission standards.

Coach USA is playing a leading role in the United States in meeting the latest air pollution control rules and regulations for its purchases of all new vehicles. We are working with local and state governments to improve commuter and line haul services to encourage more people to use our coaches instead of their cars.

In Hong Kong, Citybus is making a notable contribution to reducing pollution levels by fitting catalytic converters to some engines and upgrading others. The entire fleet has been using ultra-low sulphur diesel since 2001. Over 50% of the Citybus' fleet complies with Euro II standards. The first Euro III bus joined the company's fleet in December 2001. Citybus is also pilot testing Continuous Regenerative Traps for Euro I and II engines to further reduce emission levels as well as investigating opportunities to use ''zero emission'' electric trolley bus technology in Hong Kong and has converted a diesel bus to electric propulsion in an ongoing test programme.

Community Activity

We view our businesses as an integral part of the communities in which they operate. We seek to provide convenient and affordable public transport for all with the long-term aim of making public transport the first choice of the majority.

In addition to the contribution made by improving and modernising local public transport systems, we recognise a responsibility to share our success with the local communities. During the year £0.5m was donated to a wide range of local, national and international charities. In addition our management and staff are involved in a large number of local community projects.

Within South West Trains we sponsor a programme of school visits to make school age children aware of the dangers of railway trespass and we support this programme with targeted charitable giving which seeks to encourage child and youth activities.

In New Zealand, our businesses have been active for some years in providing significant sponsorship funding for prominent community organisations. In Wellington, we have this year commenced a three-year sponsorship of the refurbishment of the Embassy Theatre, a landmark community owned art deco style theatre. Also this year, in Auckland, we have commenced a three year sponsorship of the Starship Children's Hospital. This hospital serves children from all over New Zealand who require particularly difficult specialist care. Stagecoach's funding will initially provide extra specialist equipment for the hospital's intensive care unit.

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

The financial results for the year reflect the challenges the Group has met in the markets in which we operate

Overall

The financial results for the year ended 30 April 2002 reflect the challenges the Group has met in the markets in which we operate. Turnover for the year was £2,111.4m (2001 – £2,083.5m). Operating profit before goodwill amortisation and exceptional items was £166.6m (2001 – £198.9m). Adjusted earnings per share (before goodwill amortisation and exceptional items) fell from 7.5 pence to 6.3 pence.

Trading results

This decrease in operating profit and earnings per share largely reflects a decline in revenues earned at Coach USA following the events of September 11 and the effect of industrial action and increased costs at South West Trains. Total Group operating profit, after taking account of exceptional items and goodwill, was £96.5m (2001 – loss of £268.8m).

Joint ventures and associates

Our share of joint venture and associates' operating profits (before goodwill amortisation and exceptional items) was £18.5m compared to profits of £4.8m in the prior year reflecting Virgin Rail Group's return to profitability. In addition to Virgin Rail Group (profit £10.8m; 2001 – loss £2.8m), the results include our share of thetrainline.com's operating losses which was £4.4m (2001 – £5.7m), our share of profits in Road King of £12.9m (2001 – £13.8m) and our share of operating losses of £0.8m (2001 – £0.5m) from our other joint ventures and associates. No further exceptional marketing and development costs were incurred (2001 – £4.0m).

Restructuring costs

Restructuring costs of £6.6m (2001 – £7.8m) have been charged against operating profits, of which £4.9m relates to the restructuring at Coach USA, £1.5m relates to UK Bus and £0.2m relates to redundancy costs incurred in our other divisions.

Depreciation and amortisation

Total depreciation increased from £111.2m to £112.7m, reflecting continued capital investment and movements in the foreign exchange rates used to translate overseas depreciation charges. The annual goodwill amortisation charge was £50.5m compared to £68.2m in 2001, reflecting the fact that we recorded a goodwill impairment of £393.3m as at 30 April 2001.

Exceptional charges

Net exceptional charges before tax of £14.3m (2001 – £389.9m) were reported. These include charges of £19.6m associated with Coach USA committed business sales or closures and surplus vehicles, a gain of £6.0m on the disposal of our Portuguese bus operations, and a loss of £1.2m on the disposal of our interests in smaller operations in China and Australia. The results also include net property gains of £0.5m (2001 – £2.8m).

Finance charges

Net interest and financing charges decreased from £76.0m to £59.8m as a result of the favourable interest rate environment and gains on the repurchase of our bonds. EBITDA before exceptional items to interest cover was 4.7 times compared to 4.1 times in 2001.

Acquisitions

During the year the Group completed a number of smaller acquisitions in North America with a total enterprise value of £22.7m.

Disposals

We disposed of our Portuguese bus operations in June 2001 for a consideration of £10.8m together with the repayment of inter-company debt of £3.3m. In addition, the purchaser assumed debt in relation to the business of £1.9m and future bus purchase commitments of £1.8m. Operating profits of £0.2m were reported in respect of these operations in the period from 1 May 2001 to the date of disposal. The transaction resulted in a £6.0m gain on disposal.

We also disposed of smaller operations in North America, Australia and China during the year. The remainder of our Australian business was disposed of in June 2002.

As a result of these disposals, goodwill of £3.7m 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

We have implemented FRS 19, ''Deferred Tax'' for the year ended 30 April 2002, which replaces the previous UK practice of partial provisioning for deferred tax with full provisioning. The prior year accounts have been restated, resulting in a reduction of £88.6m to net assets as at 30 April 2001 and an increase in the tax charge for the current year of £8.4m. The reported tax charge of £15.0m represents an effective rate of 35.7% on the profit before tax for the year with the variation from a ''standard'' UK tax charge of 30% arising largely as a result of the impact of non-deductible goodwill and foreign tax differences. This is in line with our expectations.

Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items was 6.3 pence, compared to 7.5p in 2001. Basic earnings per share (taking account of all exceptional items and goodwill amortisation) was 2.1 pence, compared to last year's loss of 26.4 pence. The weighted average number of shares in issue during the year was 1,309.9m, (2001 – 1,341.7m). No shares were repurchased during the year to 30 April 2002. Shares in issue at the year-end were 1,320.9m.

The Group has authority to repurchase a further 131,878,154 shares. This authority expires at the 2002 Annual General Meeting and we will seek to renew the general authority to repurchase up to 10% of the issued share capital.

The total proposed dividend for the year is 2.6 pence (2001 – 3.8 pence). This represents dividend cover (before goodwill amortisation and exceptional items) of 2.4 times compared to 2.0 times in 2001.

Cash flows

Cash generation across the Group remained strong with free cash flows amounting to £184.3m. This compares to £228.1m last year. Free cash flow per share decreased from 17.0 pence to 14.1 pence.

At 30 April 2002 net cash balances were £150.0m, a decrease of £10.0m from 30 April 2001. The Group remains in a net borrowing position and surplus cash balances are used to repay debt where possible.

Capital Expenditure

Capital Expenditure for the year was:

	2002 £m	2001 £m
UK Bus	50.5	56.8
Coach USA	40.1	73.5
Overseas Bus	9.2	6.2
UK Rail	3.5	3.2
Discontinued – Prestwick Airport	Nil	2.1
Total	103.3	141.8

Treasury risk management

The main areas of financial risk associated with our businesses are managed by our centralised Group Treasury function. The Board regularly reviews these risks and approves the Group's treasury policy, which covers the management of these risks. Financial instruments are held to finance Group operations and to manage the financial risks associated with these operations. Derivative financial instruments are used to manage financial risk exposures and to achieve greater certainty of future costs. The use of financial instruments is restricted to financing and treasury management only.

Liquidity and funding

Our policy is to finance the Group through a mixture of bank and hire purchase debt, capital markets issues and retained earnings. Financing is generally raised centrally and on-lent to operating subsidiaries on commercial terms. As at 30 April 2002, the Group's committed credit facilities were £699.4m, £387.9m of which were utilised, including bank guarantees.

The Group's policy is to look at a variety of funding sources to minimise interest cost and to maintain access to funding. Group borrowings (after taking account of swaps and forward contracts) are denominated in the operational currencies of the Group. The maturity of borrowings as at 30 April 2002 is shown in note 19.

Interest rate risk management

To provide some certainty as to the level of interest cost, it is our policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative instruments are also used where appropriate to generate the desired interest rate profile. At 30 April 2002, 49% (30 April 2001 – 66%) of the Group's gross borrowings were covered by fixed and capped/floored interest rates.

Currency rate risk

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

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

Commodity price risk

The Group is exposed to commodity price risk through its fuel usage. It is Group policy to establish fixed price levels to hedge this exposure for up to four years and, where necessary, to enter into physical contracts or derivative agreements to achieve certainty in the short term as to fuel costs and to reduce the year on year fluctuations over the medium term. At 30 April 2002, we had fixed approximately 72% of the Group's estimated fuel usage to 30 April 2003.

Credit risk

It is our policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

Balance sheet

Net assets have decreased by 1.2% from £920.3m to £909.1m. Net debt at 30 April 2002 decreased by 1.4% to £774.6m compared to £785.7m as at 30 April 2001. Based on net assets of £909.1m and net debt of £774.6m, book gearing remains unchanged from the prior year level of 85%.

Reserves

A resolution was passed at an Extraordinary General Meeting in January 2002 to transfer £400m from the share premium reserve to another reserve. Court approval for this transfer and confirmation that this reserve constitutes a distributable reserve was received on 26 April 2002.

Accounting policies

The Group has implemented the transitional arrangements of FRS 17, "Retirement Benefits", and has provided the necessary disclosures in note 28 to the accounts. As noted above, FRS 19, "Deferred Tax", was also implemented during the year to 30 April 2002 as was UITF 34, "Pre-contract costs".

MARTIN GRIFFITHS

Finance Director

Directors

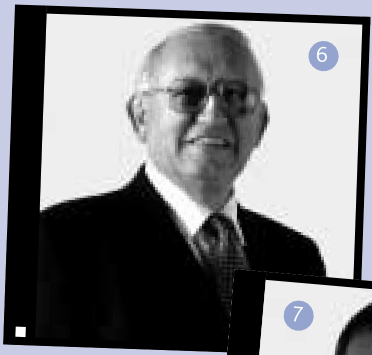
1 Brian Souter, Acting Chief Executive
A co-founder of Stagecoach, Brian Souter has extensive knowledge of the ground transportation industry around the world. Brian was Chairman of the Group throughout the year ended 30 April 2002. Following Keith Cochrane's resignation, the Board appointed him Acting Chief Executive on 21 July 2002. He is now responsible for managing all of the Group's operations. He is Chairman of the Nominations Committee and a board member of Road King Infrastructure. Brian Souter is also Chairman of ScotAirways Group Ltd and a director of Scottish Enterprise. He is a Chartered Accountant. Aged 48.

2 Keith Cochrane, former Chief Executive
Until his resignation in July 2002, Keith Cochrane had overall responsibility for managing all the Group's business operations. Aged 37.

3 Martin Griffiths, Finance Director
Appointed Finance Director in April 2000, Martin Griffiths is responsible for the Group's overall financial policy and treasury management. He also has responsibility for the overall management of the Group's property portfolio. He is a Chartered Accountant. Aged 36.

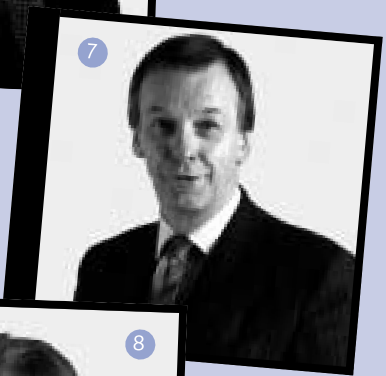
4 Brian Cox, Executive Director – UK Bus
Until his retirement in July 2002 from the Group and the Board, Brian Cox had overall management responsibility for the UK Bus operations. Aged 55.

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



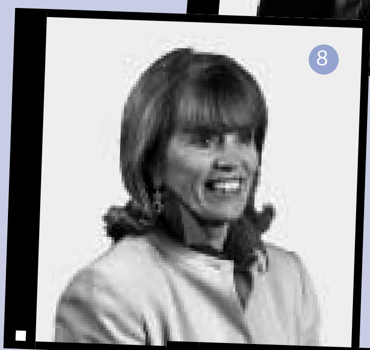
6 Robert Speirs, Acting Non-Executive Chairman

A non-executive director of the Group since March 1995, Robert Speirs became the senior non-executive director at the 2001 AGM. In July 2002, he was appointed by the Board as Acting Non-Executive Chairman. He is also the current Chairman of the Remuneration Committee. A former Group Finance Director of The Royal Bank of Scotland plc, Robert Speirs is also Chairman of the Miller Group Ltd and Bell Group plc. His other non-executive directorships include Canary Wharf Group plc, Direct Line Insurance Ltd, and Martin Currie Income and Growth Trust. Aged 65.



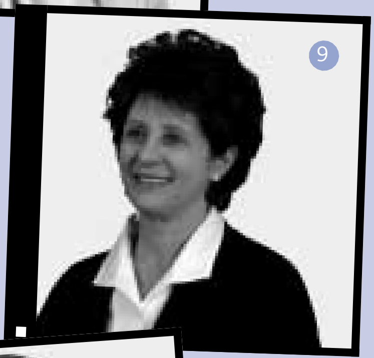
7 Ewan Brown CBE, Non-Executive Director

Ewan Brown has been a non-executive director of the Group since 1988. He is an executive director of Noble Grossart Ltd and Chairman of Lloyds TSB Scotland plc. His other non-executive directorships include John Wood Group plc and Lloyds TSB Group plc. Aged 60.



8 Ann Gloag, Non-Executive Director

Ann Gloag co-founded Stagecoach in 1980 and served as an executive director until May 2000. She is a past winner of the Businesswoman of the Year Award and European Women in Achievement Award. She is a trustee of the Princess Royal Trust for Carers and an international Board member of Mercy Ships. Aged 59.



9 Dr Janet Morgan, Non-Executive Director

Dr Janet Morgan, Lady Balfour of Burleigh, became a non-executive director in April 2001. She is also a non-executive director of Cable & Wireless plc, BPB plc, NMT plc and other companies. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and Chairman of the Scottish Cultural Resources Access Network. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 56.

10 Russell Walls, Non-Executive Director

Appointed as a non-executive director in June 2000, Russell Walls is the current Chairman of the Audit Committee. He is Group Finance Director of BAA plc until he retires from that position on 31 July 2002. He is a non-executive director of Hilton Group plc, Signet Group plc and was previously Group Finance Director of Wellcome PLC. For many years he worked abroad with Coats Viyella plc where he was Group Finance Director from January 1990. He is a fellow of the Association of Chartered Certified Accountants. Aged 58.

11 Iain Duffin, Non-Executive Director

The most recent addition to the Board, Iain Duffin became a non-executive director of the Group in September 2001. He is Chief Executive of Macfarlane Group plc and non-executive Chairman of Origo Services. He has previously held executive positions in the UK and the US with a number of organisations including Hughes MicroElectronics, ITT Canon and LucasVarity. Aged 55.

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 business performance, developments during the year, its position at the year end and likely future prospects, is set out in the Chairman’s and Chief Executive’s statement on pages 4 to 5, the Operating review on pages 6 to 17, and in the Finance Director’s review on pages 18 to 21.

Change of name

At the Annual General Meeting on 31 August 2001, a resolution was passed by shareholders to change the Company name from Stagecoach Holdings plc to Stagecoach Group plc.

Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 34.

An interim dividend of 1.3 pence per ordinary share (net) was paid on 13 March 2002. The directors recommend a final dividend of 1.3 pence per ordinary share making a total dividend of 2.6 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 9 October 2002 to those ordinary shareholders on the register at 6 September 2002.

Directors and their interests

The names, responsibilities and biographical details of the directors appear on pages 22 and 23.

Keith Cochrane resigned as Group Chief Executive on 21 July 2002. The Board have subsequently appointed the Group Chairman, Brian Souter, as Acting Chief Executive, and Robert Speirs, Senior Independent Non-Executive Director, as Acting Non-Executive Chairman.

Iain Duffin was appointed a director on 12 September 2001 and will offer himself for election at the next Annual General Meeting. Barry Sealey and Frank Gallagher retired as directors at the Annual General Meeting on 31 August 2001. Brian Cox retired as a director on 3 July 2002.

Brian Souter and Ewan Brown retire by rotation at the 2002 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election.

Table A set out on page 26 gives the interests of the directors and their families in the share capital of the company:

Substantial shareholdings

On 17 July 2002 (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	10.16%
Marathon Asset Management	4.35%
Standard Life Assurance Co	3.99%
Merrill Lynch Investment Managers	3.12%
Legal & General Assurance Society Ltd	3.07%

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 14,505,250 ordinary shares, representing 1.10% of the issued share capital at 30 April 2002. Since flotation in 1993, there have also been three invitations to UK employees to subscribe to the Group's sharesave (''SAYE'') schemes, all of which have met with encouraging levels of response.

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

The Group supports both continuous learning and improvement. The Group promotes learning through external and internal training courses as well as through continuous ''on the job'' training.

Directors' responsibilities

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

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

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

Auditors

On 11 April 2002, Andersen resigned as auditors of the Company. As a result, the directors appointed PricewaterhouseCoopers to fill the casual vacancy. Accordingly, a resolution to confirm PricewaterhouseCoopers as continuing auditors of the Company, at remuneration to be fixed by the directors, will be proposed at the 2002 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 32 days' purchases (2001 – 34 days).

Fixed assets

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

Table A

		Number of shares		
		30 April 2002	22 July 2002	30 April and 20 June 2001*
Ordinary shares of 0.5p each				
Brian Souter	beneficial	167,306,920	167,306,920	160,341,225
	non-beneficial	15,450,145	15,450,145	22,415,840
Keith Cochrane		40,251	40,251	35,160
Brian Cox		688,595	688,595	688,490
Graham Eccles		16,622	16,622	15,569
Martin Griffiths		7,740	7,740	7,635
Frank Gallagher		780,500	780,500	780,500
Ewan Brown		Nil	Nil	Nil
Ann Gloag	beneficial	143,751,787	143,851,787	125,653,161
	non-beneficial	2,804,564	2,804,564	20,903,190
Janet Morgan		Nil	Nil	Nil
Robert Speirs		18,500	18,500	18,240
Russell Walls		6,000	6,000	6,000
Iain Duffin		Nil	40,000	Nil

	Equivalent number of shares	
	30 April 2002	30 April 2001
Share options held by Directors		
Brian Souter	Nil	2,685
Keith Cochrane	3,196,423	3,197,526
Brian Cox	1,282,074	1,282,074
Graham Eccles	648,953	317,920
Martin Griffiths	776,182	451,482
Frank Gallagher	1,276,450	1,276,450
Ewan Brown	Nil	Nil
Ann Gloag	12,022	14,707
Janet Morgan	Nil	Nil
Robert Speirs	Nil	Nil
Russell Walls	Nil	Nil
Iain Duffin	Nil	Nil

*or date of appointment, if later.

Full details of options held as at 30 April 2002 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.

Close company status

The directors are advised that at 30 April 2002 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 £0.5m (2001 – £0.7m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year (2001 – £Nil).

Authority for company to purchase its own shares

At the 2001 Annual General Meeting, the Company was granted authority by its shareholders under section 166 of the Companies Act 1985 to repurchase up to 10% of its ordinary shares of 0.5p each. During the year, no shares were repurchased.

Under the existing authority, the Company may repurchase up to a further 131,878,154 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.

Post balance sheet events

On 22 July 2002, Virgin Rail Group announced that it had agreed revised commercial terms with the UK's Strategic Rail Authority for its two UK rail franchises. We have considered the implications of the agreement for our net investment in Virgin Rail Group, as explained in note 15.

Going concern

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

By order of the Board

DEREK SCOTT
Company Secretary
22 July 2002

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

Following the Chief Executive Keith Cochrane's resignation on 21 July 2002, the Board appointed Brian Souter, who was Chairman until that date, as Acting Chief Executive. Robert Speirs, the Group's senior independent non-executive director, was appointed Acting Non-Executive Chairman. As a result, when referring to the composition of management committees and other groups, the Corporate Governance statement below reflects the Group's corporate governance practices during the year to 30 April 2002. Brian Souter will assume the responsibilities of Chief Executive but the precise composition of management committees and other groups referred to below has yet to be fully determined going forward.

The Board

The Stagecoach Board now comprises the Acting Non-Executive Chairman, Acting Chief Executive, two other executive directors and five other non-executive directors: the offices of Chairman and Chief Executive are held separately. The Chairman leads strategic thinking, proposes developments to the Board and galvanises the whole enterprise. The Chief Executive has day-to-day responsibility for all business of the Group and carries out the decisions of the Board. The directors' biographies appear on pages 22 and 23 of this Annual Report and illustrate the directors' range of experience, which ensures an effective Board to lead and control the Group. The non-executive directors bring an independent viewpoint and create an overall balance. Following the retirement of Barry Sealey at the Annual General Meeting on 31 August 2001, Robert Speirs became the senior independent non-executive director. Iain Duffin was appointed as a non-executive director on 12 September 2001.

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

All directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the company secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as directors. All directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all directors are required to stand for re-election by shareholders every three years. Each director receives 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 written and verbal communications 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 keeps the roles and contribution made by each director under review and changes in responsibilities (for example in the composition of Board committees during the year) are made where necessary to improve the Board's effectiveness. To provide 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 (UK Bus; Coach USA; Overseas Bus; Rail) which each comprise a varying number of autonomous business units, each headed by a chairman or managing director who is responsible for the day to day performance of the business unit. The UK Bus division is headed by a managing director, who reports to the Chief Executive and is 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 comprises two Group executive directors, and other senior management. Coach USA is presently headed by the Chief Executive. Coach USA's executive management board comprises the 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 Chief Executive. The Overseas Bus division is headed by a chairman and comprises two principal business units, each of which is headed by a managing director who is responsible for the performance of the business unit. The Chief Executive generally attends the Board and management meetings of the principal Overseas Bus operations. However, to allow the Chief Executive to devote more attention to Coach USA, the Chairman attended the Overseas Bus meetings during the year ended 30 April 2002 whilst the Chief Executive attended periodically. A Rail board, comprising three executive directors and other senior management, oversees the development of the Group's rail business. At South West Trains, an executive director is the chairman and this role is separate from the managing director who is responsible for the performance of the business unit. They are supported on the South West Trains board by the Chief Executive and three 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 also attended by two Stagecoach executive directors.

The Group holds periodic meetings with its principal shareholders and welcomes all shareholders to its AGM and EGMs. Formal notice of the 2002 AGM is enclosed within this annual report.

Audit Committee

The Audit Committee comprises five non-executive directors and at the present time, its members are Russell Walls (Chairman), Janet Morgan, Robert Speirs, Ewan Brown and Iain Duffin. The Audit Committee met four times during the year. It receives reports from many of the Group's business functions including the risk assurance function. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual accounts and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the external auditors. Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

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

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

- Audit related services – These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services.
- Tax consulting – It is the Group's policy to select the advisor for each specific piece of tax consulting work who has the most appropriate skills and experience for the work required. The Group uses a range of advisors for tax consulting, including the auditors where they are best suited to the work being undertaken.
- General consulting – For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken. The auditors are only permitted to provide general consulting when both the Group and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest.

Remuneration Committee

The Remuneration Committee during the year comprised five non-executive directors, Robert Speirs (Chairman), Ewan Brown (until September 2001), Russell Walls, Iain Duffin, Janet Morgan and Ann Gloag. 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. Exercise of options, which is always subject to the rules of the schemes, is approved by a Committee of the main Board.

Nominations Committee

The Nominations Committee currently comprises two non-executive directors (Robert Speirs and Ewan Brown) and is chaired by Brian Souter. The Committee may also include, by invitation on an ad hoc basis, the other non-executive directors, as necessary. The purpose of the Committee is to propose to the Board any new executive director appointments. Final appointments are the responsibility of the whole Board. The Committee did not meet during the year. The appointment of Iain Duffin during the year as a non-executive director was dealt with through the main Board.

Directors' remuneration

The Remuneration Committee makes recommendations to the Board for ensuring that the directors' remuneration is appropriate to attract, motivate and retain executive directors of the quality needed to run the Group's business successfully. The Committee believes that remuneration packages should contain significant performance-related elements. Performance targets are established to achieve consistency with the interests of shareholders, using an appropriate balance of long and short-term targets. These include not only traditional financial indicators but also personal targets, successful investment, innovation, customer satisfaction, achievement of regulatory requirements, including health and safety, and environmental targets. The constitution and operation of the Remuneration Committee complies with the principles and provisions of the Combined Code and this is detailed in the remuneration report laid out on pages 31 and 32.

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 representatives of major institutional shareholders, other fund managers and representatives of the financial press. The programme of investor relations includes presentations in London of the full year and interim results and meetings with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure 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 annual report. Each shareholder is given

the opportunity to elect which document they require and this allows our reporting to be more focused towards the needs of individual shareholders. Information is also available on the company website (www.stagecoachgroup.com). Private and institutional shareholders are welcome to attend and participate at the AGM and any EGMs. The Group aims to ensure that the chairmen of the Audit, Remuneration 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 reported details of all proxy votes lodged for each resolution after each show of hands at the 2000 and 2001 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 and unacceptable levels of risk are avoided or transferred to third parties. Internal controls are used to identify and manage acceptable levels of risk. The directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group's system is designed to provide the directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

Certain of the Group's businesses are subject to significant risk. We have, for example, experienced during the year, the aftermath of the tragic events on 11 September 2001 arising from 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 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 2002. The Board has carried out a review of the effectiveness of the Group's internal control environment and such reviews are supported on an ongoing basis by the work of executive committees and the Audit Committee. 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 remain 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 the Audit Committee meets with representatives of operating units because this is one method in which an independent appraisal of risk management is obtained.

Self assessment of risk conducted by the directors and senior management is ongoing. Risk has been considered at several levels and each division maintains 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 Group Risk Assurance function is utilised in monitoring risk management processes to determine whether internal controls (operational, compliance and financial) are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for continually improving the risk management process in the context of the Group's overall goals.

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

Virgin Rail Group has its own audit committee and internal audit function. The Group's risk management process does not specifically cover Virgin Rail Group at present, but the Group maintains an overview of risk management at Virgin Rail Group through representation on the board and audit committee. Members of the Stagecoach Board and Group Risk Assurance 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 re-forecasting 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.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned by the Group of areas where significant inherent risks have been identified, such as treasury management 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 control during the year. As might be expected, a number of minor internal control weaknesses were identified by this procedure, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.
  This process is considered to be an integral part of the continuous improvement of our risk management procedures.
- a commitment to best practice in external reporting.
- a competition compliance programme which has been approved by the Board and which is subject to regular monitoring.

With regard to social, environmental and ethical matters, representatives of the Board have reviewed the Association of British Insurers' ('ABI') recently issued disclosure guidelines on corporate social responsibility. It is the Group's intention that procedures and reporting in this area be developed to follow best practice and to enhance value for our shareholders.

On 11 April 2002, Andersen resigned as auditors of the Company. As a result the directors appointed PricewaterhouseCoopers to fill the casual vacancy. A resolution to confirm PricewaterhouseCoopers as continuing auditors will be proposed at the Annual General Meeting.

The Audit Committee, having considered the external auditors' performance during their period in office, recommend that PricewaterhouseCoopers be confirmed as continuing auditors. The audit fees of £0.3m for Andersen and £0.5m for PricewaterhouseCoopers and non-audit related fees of £0.4m and £0.3m respectively 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 good understanding of the Group's operations. Other accounting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified.

Compliance with the Combined Code

The Group has complied with the provisions of the Code throughout the financial year except that:

- one director, who has now retired, had a service contract that was 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.
- one director who is not independent of management is a member of the remuneration committee. The remuneration committee comprises a majority of independent non-executive directors.

Pension schemes

The assets of the Group's pension schemes are totally separate from the assets of the Group and are invested with independent fund managers. There are ten trustees for the principal UK scheme of whom five are employee representatives nominated by the members on a regional basis. The other trustees include executive directors and senior Group and UK Bus executives. Derek Scott, the Company Secretary, who is an elected member of the NAPF's Investment Council, acts as chairman of the trustees and in 1998 was also re-elected for a six year term 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 South West Trains and Island Line sections of the Railways Pension Scheme. The London and Newcastle offices of Andersen audit the Railways Pension Scheme, but neither Andersen nor PricewaterhouseCoopers conducts the external audit of any other significant pension schemes in which the Group participates. PricewaterhouseCoopers provides internal audit services to the Railways Pension Scheme.

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

Composition

During the year, the Remuneration Committee was chaired by Robert Speirs and the other members were Ewan Brown (until September 2001), Russell Walls, Iain Duffin, Janet Morgan and Ann Gloag, all non-executive directors, a majority of whom are independent. 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 when 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 to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance related elements. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short and long-term targets. Performance targets include not only traditional financial indicators but also personal targets, successful investment, innovation, customer satisfaction, achievement of regulatory requirements, including health and safety, and environmental targets.

To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Chairman and the Chief Executive making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the growth prospects for the Stagecoach Group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach Group and of average earnings for all employees. The Committee has also taken further advice from a firm of executive remuneration consultants, Towers Perrin, who were previously instructed to review the existing remuneration of all the directors and senior executives during 1999 and 2000.

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

Executive directors' remuneration

A detailed analysis of directors' remuneration for the year with prior year comparatives appears in note 7 to the accounts on pages 49 to 51.

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 and after-tax profits, specific individual performance and additional responsibilities. Bonuses are non-pensionable.

In making its judgement of performance for the last financial year the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, 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. The maximum potential bonus for executive directors in 2002/2003 ranges from 60% to 75% of basic salary. Actual bonuses awarded in respect of 2001/2002 ranged from Nil to 25%.

Other benefits

Certain executive directors receive car, fuel, telephone and healthcare taxable benefits. The value of such benefits is included within the analysis of directors' remuneration presented in note 7 to the accounts on pages 49 to 51.

Pensions

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

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 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 2001/2002.

(ii) The Stagecoach Executive Share Option Scheme – established in March 1992 when it was formally approved by the Inland Revenue, this scheme was also used to reward senior executives throughout the Group, 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. The scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. This scheme is also used to reward senior executives throughout the Group, at the Board's discretion. Normal options awarded under the scheme are exercisable between three and seven years, but the scheme also permits "super options" exercisable between five and seven years. Exercise of normal options is subject to earnings per share outperforming inflation by 2% per annum cumulatively (for options awarded up until 2001) and by 3% to 5% per annum cumulatively for more recent options. Exercise of super options is subject to achievement of top quartile total shareholders' return compared to other Transport Sector shares in the UK (excluding FTSE 100). Two awards were made to directors under this scheme in 2001/2002.

(iv) The Stagecoach Long Term Bonus Scheme – One director had an outstanding long term bonus arrangement at 30 April 2002, details of which are given in note 7 to the accounts.

Directors' service agreements

With the exception of one director who has now retired, 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.

If an executive director's contract is terminated by the company, the benefits for which the Company is liable may vary depending on length of service and are subject to mitigation. The benefits will not be more than a termination payment of up to one times salary and certain benefits and retirement benefits funded under the Company's pension schemes.

Outside appointments

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

On behalf of the Board

ROBERT SPEIRS
Senior Independent Non-Executive Director
Chairman of the Remuneration Committee
22 July 2002

Independent auditors' report to the members of Stagecoach Group plc (formerly Stagecoach Holdings plc)

We have audited the accounts which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 25.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 30 April 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
Chartered Accountants and Registered Auditors
Glasgow
22 July 2002

Consolidated profit and loss account

Year ended 30 April 2002

	Notes	2002 Performance pre goodwill and exceptionals £m	2002 Goodwill and exceptional items £m	2002 Results for the year £m	2001 Restated Performance pre goodwill and exceptionals £m	2001 Restated Goodwill and exceptional items £m	2001 Restated Results for the year £m
Turnover: Group and share of joint ventures	2	2,111.4	Nil	2,111.4	2,083.5	Nil	2,083.5
Less: Share of joint ventures' turnover		(263.7)	Nil	(263.7)	(234.2)	Nil	(234.2)
Group turnover		1,847.7	Nil	1,847.7	1,849.3	Nil	1,849.3
Continuing group operations		1,847.7	Nil	1,847.7	1,833.1	Nil	1,833.1
Discontinued operations		Nil	Nil	Nil	16.2	Nil	16.2
		1,847.7	Nil	1,847.7	1,849.3	Nil	1,849.3
Operating costs (including asset impairment)	2	(1,753.8)	(61.3)	(1,815.1)	(1,750.4)	(454.4)	(2,204.8)
Other operating income	3	54.2	Nil	54.2	95.2	Nil	95.2
Operating profit/(loss) of group companies	2	148.1	(61.3)	86.8	194.1	(454.4)	(260.3)
Share of operating loss of joint ventures		6.1	(8.4)	(2.3)	(8.8)	(13.0)	(21.8)
Share of operating profit from interest in associates		12.4	(0.4)	12.0	13.6	(0.3)	13.3
Total operating profit/(loss): group and share of joint ventures and associates	2	166.6	(70.1)	96.5	198.9	(467.7)	(268.8)
Represented by:							
Continuing group operations		148.1	(61.3)	86.8	193.0	(454.4)	(261.4)
Joint ventures and associates		18.5	(8.8)	9.7	4.8	(13.3)	(8.5)
		166.6	(70.1)	96.5	197.8	(467.7)	(269.9)
Discontinued operations		Nil	Nil	Nil	1.1	Nil	1.1
Total operating profit/(loss): group and share of joint ventures and associates		166.6	(70.1)	96.5	198.9	(467.7)	(268.8)
Profit on sale of properties – continuing operations		Nil	0.5	0.5	Nil	2.8	2.8
Profit on disposal of Prestwick Airport		Nil	Nil	Nil	Nil	6.8	6.8
Profit on disposal of overseas operations		NIl	4.8	4.8	Nil	Nil	Nil
Profit/(loss) on ordinary activities before interest and taxation		166.6	(64.8)	101.8	198.9	(458.1)	(259.2)
Finance charges (net)	4	(59.8)	Nil	(59.8)	(76.0)	Nil	(76.0)
Profit/(loss) on ordinary activities before taxation	5	106.8	(64.8)	42.0	122.9	(458.1)	(335.2)
Taxation on profit/(loss) on ordinary activities	8	(24.2)	9.2	(15.0)	(21.9)	2.8	(19.1)
Profit/(loss) on ordinary activities after taxation		82.6	(55.6)	27.0	101.0	(455.3)	(354.3)
Dividends	9	(34.1)	Nil	(34.1)	(49.3)	Nil	(49.3)
Retained loss for the year		48.5	(55.6)	(7.1)	51.7	(455.3)	(403.6)
Earnings/(loss) per share – Adjusted/Basic	10	6.3p		2.1p	7.5p		(26.4)p
– Diluted	10	6.3p		2.1p	7.5p		(26.4)p

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 2002

	Notes	2002 £m	2001 Restated £m
Fixed assets			
Intangible assets	13	665.4	699.7
Tangible assets	14	1,108.9	1,157.1
Investments	15		
– Investment in joint ventures			
Goodwill		81.4	89.0
Share of gross assets		136.7	101.6
Share of gross liabilities		(97.4)	(83.4)
Shareholder loan notes		10.0	10.0
		130.7	117.2
– Investment in associates		72.8	70.2
– Other investments		3.2	3.1
		1,981.0	2,047.3
Current assets			
Stocks	17	50.9	48.4
Debtors and prepaid charges – due within one year	18	228.5	205.0
– due after more than one year	18	54.2	34.7
Cash at bank and in hand		150.0	160.4
		483.6	448.5
Creditors: Amounts falling due within one year	19	(524.0)	(557.6)
Net current liabilities		(40.4)	(109.1)
Total assets less current liabilities		1,940.6	1,938.2
Creditors: Amounts falling due after more than one year	19	(808.1)	(816.8)
Provisions for liabilities and charges			
– Joint ventures – thetrainline.com	23		
Share of gross assets		5.1	Nil
Share of gross liabilities		(21.8)	Nil
– Other provisions	23	(206.7)	(201.1)
Net assets	2	909.1	920.3
Capital and reserves			
Equity share capital	24	6.6	6.6
Share premium account	26	384.4	781.5
Profit and loss account	26	514.8	128.7
ESOP distribution reserve	26	1.6	1.8
Capital redemption reserve	26	1.7	1.7
Shareholders' funds – Equity		909.1	920.3

Signed on behalf of the Board on 22 July 2002

Brian Souter　　Martin A Griffiths

BRIAN SOUTER
Acting Chief Executive

MARTIN A GRIFFITHS
Finance Director

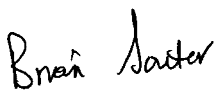
The accompanying notes form an integral part of this consolidated balance sheet.

Company balance sheet

As at 30 April 2002

	Notes	2002 £m	2001 Restated £m
Fixed assets			
Tangible assets	14	8.5	7.8
Investments	15	373.9	375.4
		382.4	383.2
Current assets			
Debtors and prepaid charges – due within one year	18	22.3	9.1
– due after more than one year	18	1,656.9	1,671.5
Cash at bank and in hand		Nil	Nil
		1,679.2	1,680.6
Creditors: Amounts falling due within one year	19	(177.2)	(197.5)
Net current assets		1,502.0	1,483.1
Total assets less current liabilities		1,884.4	1,866.3
Creditors: Amounts falling due after more than one year	19	(812.0)	(725.0)
Provisions for liabilities and charges	23	(8.0)	(7.3)
Net assets		1,064.4	1,134.0
Capital and reserves			
Equity share capital	24	6.6	6.6
Share premium account	26	384.4	781.5
Profit and loss account	26	670.1	342.4
ESOP distribution reserve	26	1.6	1.8
Capital redemption reserve	26	1.7	1.7
Shareholders' funds – Equity		1,064.4	1,134.0

Signed on behalf of the Board on 22 July 2002



BRIAN SOUTER
Acting Chief Executive

MARTIN A GRIFFITHS
Finance Director

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

Year ended 30 April 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	27	256.9	306.4
Dividends from joint ventures and associates		5.0	6.1
Returns on investments and servicing of finance			
Interest paid		(61.7)	(82.2)
Interest element of hire purchase and lease finance		(7.6)	(8.9)
Interest received		8.4	14.9
Net cash outflow from returns on investments and servicing of finance		(60.9)	(76.2)
Taxation		(16.7)	(8.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(82.4)	(93.7)
Sale of tangible fixed assets		5.4	10.1
Net cash outflow from capital expenditure and financial investment		(77.0)	(83.6)
Acquisitions and disposals			
Acquisition of subsidiaries	27	(25.2)	(38.7)
Net cash acquired with subsidiaries		0.3	0.8
Purchase of goodwill		(0.1)	(0.1)
Purchase of investments in joint ventures and associates		(1.5)	(2.5)
Purchase of other investments		(0.3)	(1.2)
Cash of disposed subsidiaries	15	(0.8)	(0.2)
Disposal of subsidiaries and other businesses	15	16.1	37.6
Disposal of other investments		2.0	2.9
Net cash outflow from acquisitions and disposals		(9.5)	(1.4)
Equity dividends paid		(49.8)	(50.2)
Net cash inflow before financing		48.0	92.9
Financing			
Sale of tokens		14.8	16.0
Redemption of tokens		(13.4)	(14.6)
Issue of share capital for cash		1.3	0.3
Repurchase of own shares		Nil	(178.8)
Cost of bond redemption		Nil	(15.4)
Decrease in collateral balances		38.2	23.5
Decrease in borrowings		(12.2)	(505.2)
Repayments of hire purchase and lease finance		(48.2)	(54.0)
Net cash outflow from financing		(19.5)	(728.2)
Increase/(decrease) in cash during the year	27	28.5	(635.3)
Free cash flow		184.3	228.1
Free cash flow per share		14.1p	17.0p

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

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

Consolidated statement of total recognised gains and losses

Year ended 30 April 2002

	2002 £m	2001 Restated £m
Profit/(loss) for the financial year	27.0	(354.3)
Translation differences on foreign currency net investments	(5.5)	57.7
UK tax effect of translation differences on foreign currency net investments	(4.8)	Nil
Share of other recognised gains and losses of associates	(0.2)	1.3
Total recognised gains and losses relating to the year	16.5	(295.3)
Prior year adjustment (as explained in note 12)	(88.6)	
Total recognised gains and losses recognised since last Annual Report and Accounts	(72.1)	

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 2002

	2002 £m	2001 Restated £m
Profit/(loss) for the financial year	27.0	(354.3)
Dividends	(34.1)	(49.3)
	(7.1)	(403.6)
Goodwill sold, previously written off to reserves	3.7	2.5
Other recognised gains and losses relating to the year (see above)	(10.5)	59.0
New share capital issued less costs	2.9	1.8
ESOP distribution reserve decrease	(0.2)	Nil
Shares repurchased	Nil	(62.0)
Net reduction in shareholders' funds	(11.2)	(402.3)
Opening shareholders' funds as previously stated	1,008.9	1,391.2
Prior year adjustment (as explained in note 12)	(88.6)	(68.6)
Opening shareholders' funds as restated	920.3	1,322.6
Closing shareholders' funds	909.1	920.3

The accompanying notes form an integral part of these statements.

1 Statement of accounting policies

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

The Group has adopted FRS 19, ''Deferred Tax'', in these accounts. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of this change is explained in note 12.

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 accounting

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

(b) Presentation of profit and loss account

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

(c) Basis of consolidation

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

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

The consolidated profit and loss account includes the results of businesses purchased from the effective date of acquisition and excludes the results of discontinued operations and businesses sold from the effective date of disposal. No profit and loss account is presented for the parent company, Stagecoach Group plc (formerly 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'', goodwill arising on acquisitions after 30 April 1998 is recorded as an asset on the balance sheet at cost less amortisation. Each acquisition is reviewed and where the goodwill has a finite economic life, goodwill is amortised over that life. In estimating the useful economic life of goodwill, account has been taken of the nature of the business acquired, stability of the industry sector, extent of barriers to entry and expected future impact of competition. The useful life of goodwill arising on the acquisitions made is estimated by the directors to be between 5 and 20 years. Provision is made for any impairment, with impairment reviews being undertaken in accordance with FRS 11, ''Impairment of fixed assets and goodwill''. Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to reserves in accordance with the accounting standard then in force.

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

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

1 Statement of accounting policies (continued)

(e) Tangible fixed assets

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

(f) Pre-contract costs

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

(g) Investments

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

(h) Associates and Joint Ventures

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

(i) Stocks

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

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

(j) Hire purchase and lease obligations

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

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

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

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

The standard term of the majority of finance and hire purchase obligation agreements is 4 to 5 years. The principal restriction on property held under finance or hire purchase agreements is a restriction on the right to dispose of the property during the period of the agreement.

1 Statement of accounting policies (continued)

(k) Taxation

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

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

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

(l) Turnover

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

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

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

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

(m) 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 2002, it has been estimated that 97% (2001 – 97%) of tokens in issue will be redeemed.

(n) Pension costs

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

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

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 28d.

The transitional disclosures required under FRS 17, ''Retirement Benefits'', are also included in note 28d.

1 Statement of accounting policies (continued)

(o) Foreign currencies

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

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

Principal rates of exchange	2002	2001
New Zealand Dollar		
Year end rate	3.40	3.47
Average rate	3.26	3.39
Hong Kong Dollar		
Year end rate	11.37	11.16
Average rate	11.17	11.44
US Dollar		
Year end rate	1.46	1.43
Average rate	1.43	1.47

(p) Accounting for finance costs and debt

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

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance costs recognised in respect of each accounting period.

(q) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is 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. The above amounts are disclosed within Other Operating Income.

1 Statement of accounting policies (continued)

(r) Derivatives and financial investments

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

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

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

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

For interest rate and commodity swaps to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate or fuel cost by converting a fixed rate to a variable rate or vice versa. Cash flows under these swaps are recognised by adjusting net interest payable and fuel costs over the periods of the contracts. Gains and losses arising from the termination of these contracts are recognised immediately.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position no longer exists, the instrument is marked to market and any resulting profit or loss recognised at that time.

(s) Marketing costs

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

(t) Insurance

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

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

2 Segmental analysis

(a) Turnover	2002 £m	2001 £m
Continuing operations		
UK bus	567.9	547.6
Overseas bus	194.7	195.4
Coach USA	682.3	686.4
Total bus continuing operations	1,444.9	1,429.4
Rail	402.8	403.7
Total continuing operations	1,847.7	1,833.1
Discontinued operations		
Prestwick Airport	Nil	16.2
Group turnover	1,847.7	1,849.3
Share of joint ventures' turnover		
– Train operating companies	261.2	232.8
– thetrainline.com	11.7	5.7
– Elimination of inter-segment turnover	(9.2)	(4.3)
Group turnover and share of joint ventures' turnover	2,111.4	2,083.5

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 profit/(loss)

	2002 Performance pre goodwill and exceptionals £m	2002 Goodwill and exceptional items £m	2002 Results for the year £m	2001 Restated Performance pre goodwill and exceptionals £m	2001 Restated Goodwill and exceptional items £m	2001 Restated Results for the year £m
Continuing operations						
UK bus	71.1	Nil	71.1	73.4	(1.5)	71.9
Overseas bus	34.1	Nil	34.1	35.8	Nil	35.8
Coach USA	41.2	(19.6)	21.6	67.1	Nil	67.1
Total bus continuing operations	146.4	(19.6)	126.8	176.3	(1.5)	174.8
Rail	31.3	Nil	31.3	45.6	Nil	45.6
Total continuing operations	177.7	(19.6)	158.1	221.9	(1.5)	220.4
Discontinued operations						
Prestwick Airport	Nil	Nil	Nil	1.1	Nil	1.1
	177.7	(19.6)	158.1	223.0	(1.5)	221.5
Group overheads	(23.0)	Nil	(23.0)	(21.1)	Nil	(21.1)
Goodwill impairment	Nil	Nil	Nil	Nil	(393.3)	(393.3)
Annual goodwill amortisation	Nil	(41.7)	(41.7)	Nil	(59.6)	(59.6)
Restructuring costs						
– Continuing operations	(6.6)	Nil	(6.6)	(7.8)	Nil	(7.8)
Total operating profit/(loss) of group companies	148.1	(61.3)	86.8	194.1	(454.4)	(260.3)
Share of operating profit/(loss) of joint ventures						
– Train operating companies	10.8	Nil	10.8	(2.8)	(0.7)	(3.5)
– thetrainline.com	(4.4)	Nil	(4.4)	(5.7)	(4.0)	(9.7)
– other	(0.3)	Nil	(0.3)	(0.3)	Nil	(0.3)
Goodwill amortised on investment in joint ventures	Nil	(8.4)	(8.4)	Nil	(8.3)	(8.3)
Share of operating profit of associates	12.4	Nil	12.4	13.6	Nil	13.6
Goodwill amortised on investment in associates	Nil	(0.4)	(0.4)	Nil	(0.3)	(0.3)
Total operating profit/(loss): group and share of joint ventures and associates	166.6	(70.1)	96.5	198.9	(467.7)	(268.8)

Goodwill amortisation of £41.7m (2001: £59.6m) is analysed as UK Bus £0.7m (2001: £0.5m), Overseas Bus £9.2m (2001: £9.0m) and Coach USA £31.8m (2001: £50.1m).

(c) Operating costs

	2002 Performance pre goodwill and exceptionals £m	2002 Goodwill and exceptional items £m	2002 Results for the year £m	2001 Restated Performance pre goodwill and exceptionals £m	2001 Restated Goodwill and exceptional items £m	2001 Restated Results for the year £m
Operating costs (excluding asset impairment)	(1,753.8)	(51.6)	(1,805.4)	(1,750.4)	(61.1)	(1,811.5)
Impairment of assets of group companies	Nil	(9.7)	(9.7)	Nil	(393.3)	(393.3)
	(1,753.8)	(61.3)	(1,815.1)	(1,750.4)	(454.4)	(2,204.8)

2 Segmental analysis (continued)

(d) Net assets

	2002 £m	2001 Restated £m
UK bus	344.3	346.3
Overseas bus	271.0	308.0
Coach USA	1,032.3	1,031.0
Rail	(83.2)	(69.4)
Central assets/liabilities	(67.5)	(97.3)
Net assets of Group companies before debt	1,496.9	1,518.6
Joint ventures	114.0	117.2
Associates	72.8	70.2
Total net assets before debt: Group, joint ventures and associates	1,683.7	1,706.0
Net debt	(774.6)	(785.7)
Net assets	909.1	920.3

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

The allocation of net assets by division for the year ended 30 April 2001 has been restated to reflect a reassessment of the allocation of certain net assets. This has been achieved by showing net assets by division before net debt.

3 Other operating income

	2002 £m	2001 £m
Miscellaneous revenue	47.5	51.6
Losses on disposal of assets, other than properties	(0.1)	(0.5)
Rail franchise support	6.8	44.1
	54.2	95.2

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

As a result of the Office of the Rail Regulator's review of access charges, the charges payable by South West Trains Limited to Railtrack have reduced during the year. There has been a corresponding decrease in franchise receipts, which have been reduced under Schedule 18.1 of the Track Access Agreement, to offset, on a no-gain no-loss basis, the lower track access charges. The £6.8m (2001 – £44.1m) rail franchise support shown above reflects these modifications.

4 Finance charges (net)

	2002 £m	2001 £m
Bank loans and overdrafts	35.3	26.7
Hire purchase and leases	7.6	8.8
Other loans	30.3	57.0
Interest receivable	(7.9)	(14.9)
Net gain on early settlement of debt	(5.5)	(1.6)
	59.8	76.0

Interest receivable includes £0.7m (2001 – £0.3m) in relation to share of joint venture net interest receivable and £1.0m (2001 – £1.0m) in relation to interest receivable on joint venture shareholder loan notes. Interest payable on other loans includes £2.0m (2001 – £2.2m) in relation to share of associates' net interest payable.

5 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):	2002 £m	2001 Restated £m
Materials and consumables	215.8	224.7
Depreciation and amounts written off		
– Tangible fixed assets (owned)	95.1	92.2
– Tangible fixed assets (on HP or lease)	17.6	19.0
– Impairment losses	9.7	Nil
Amortisation of goodwill		
– Subsidiaries	41.7	59.6
– Joint venture and associates	8.8	8.6
Impairment of Coach USA goodwill	Nil	393.3
Gains on property disposals	(0.5)	(2.8)
Losses on other asset disposals	0.1	0.5
Operating lease rentals		
– PSVs and rolling stock	93.8	78.7
– Railtrack charges (note 3)	103.4	138.1
Auditors' remuneration – audit (Group)		
– Andersen	0.3	0.7
– PricewaterhouseCoopers	0.5	Nil
Auditors' remuneration – audit (Company)		
– Andersen	Nil	Nil
– PricewaterhouseCoopers	Nil	Nil

Payments to the auditors for non-audit services of £0.4m (2001 – £0.2m) were made to Andersen while auditors of the Company. Payments for non-audit services of £0.3m (2001 – £0.3m) were made to PricewaterhouseCoopers during the year prior to being appointed auditors.

The following items have been treated as exceptional:	2002 £m	2001 Restated £m
Provision for losses on operations to be terminated or sold	(9.9)	Nil
Impairment of tangible fixed assets at Coach USA	(9.7)	Nil
Provision for environmental work	Nil	(1.5)
Impairment of goodwill at Coach USA	Nil	(393.3)
Share of joint venture exceptional items	Nil	(4.7)
Profit on disposal of Prestwick Airport	Nil	6.8
Profit on disposal of overseas operations	4.8	Nil
Profit on sale of properties	0.5	2.8
	(14.3)	(389.9)
Tax effect of exceptional items	5.6	Nil
	(8.7)	(389.9)

Following the terrorist attacks in the USA on September 11, the Group took immediate steps to reduce the cost base of Coach USA. Two exceptional items are related to this. Approximately 330 vehicles that were not required to meet volumes following September 11 were withdrawn from service. Since these vehicles will not generate revenue for a period of time, an exceptional impairment loss of £9.7m was recorded against the carrying value of the vehicles. Also, the Group committed to the sale or closure of a number of businesses. The sale or closure of these businesses gave rise to an exceptional charge of £9.9m, being the write-down of irrecoverable asset values (including goodwill) together with termination payments and other closure costs.

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

The prior year impairment of goodwill at Coach USA of £393.3m 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 £393.3m was the aggregate loss determined as the sum of the losses estimated from impairment reviews of each individual income generating unit within Coach USA.

In accordance with FRS 11 ''Impairment of fixed assets and goodwill'', the carrying value of Coach USA goodwill as at 30 April 2002 has been compared to its estimated recoverable amount, represented by its value in use to the Group. The value in use has been derived from discounted cash flow projections which cover the period to 30 April 2007. After 30 April 2007 the projections use a long-term growth rate compatible with projections for the US economy. The average discount rate used to arrive at this calculation was 8.85% on a pre-tax basis. The remaining goodwill relating to the original acquisition of Coach USA in July 1999 is being amortised over its remaining useful life of 17.25 years from 30 April 2002.

For five years following an impairment, the Group is required to review its initial projections, in the light of the actual cash flows. The review of the projections made in determining last year's impairment has identified an additional impairment loss as a result of the downturn of activity in Coach USA following the immediate aftermath of September 11. However, the Group took prompt action to establish a lower and more efficient cost base. Activity has subsequently recovered albeit not to the levels that were being experienced prior to September 11. Although underlying revenues in May and June 2002 are below the prior year, the directors believe that no further impairment write-down is required at this time. The Group has announced that a full review of its North American business will be undertaken by December 2002.

Details of disposals of fixed asset investments in the year are given in note 15.

6 Staff costs and employees

	2002 £m	2001 £m
Staff costs		
Wages and salaries	774.6	753.6
Social security costs	61.3	56.5
Other pension costs (note 28d)	18.0	16.8
ESOP provided for	1.8	1.8
	855.7	828.7

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

	2002 number	2001 number
UK operations	21,403	22,147
UK administration and supervisory	1,337	1,376
Overseas	16,043	16,479
	38,783	40,002

7 Directors

(a) Directors' remuneration

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

	Salary/fees		Performance related bonus		Benefits in kind		Money purchase contributions		Non-pensionable allowances		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Executive directors												
Brian Souter	447	430	Nil	Nil	18	18	Nil	50	n/a	n/a	465	498
Keith Cochrane	338	325	85	50	18	18	Nil	Nil	81	60	522	453
Brian Cox	206	200	16	16	13	13	Nil	Nil	n/a	n/a	235	229
Graham Eccles	175	107	25	21	14	8	Nil	Nil	16	n/a	230	136
Frank Gallagher	93	272	Nil	Nil	Nil	Nil	Nil	Nil	n/a	n/a	93	272
Martin Griffiths	150	125	25	25	19	14	Nil	n/a	11	n/a	205	164
Barry Hinkley	n/a	65	n/a	Nil	n/a	5	n/a	n/a	n/a	n/a	n/a	70
Non-executive directors												
Ewan Brown	25	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	25	25
Ann Gloag	25	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	25	25
Barry Sealey	14	43	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	14	43
Robert Speirs	25	25	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	25	25
Russell Walls	25	21	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	25	21
Janet Morgan	25	1	Nil	Nil	Nil	Nil	n/a	n/a	n/a	n/a	25	1
Iain Duffin	16	n/a	Nil	n/a	Nil	n/a	n/a	n/a	n/a	n/a	16	n/a
Total	1,564	1,664	151	112	82	76	Nil	50	108	60	1,905	1,962

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

	Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)	
	2002	2001	2002	2001	2002	2001
Executive directors						
Brian Souter	192	131	305	130	147	63
Keith Cochrane	68	58	205	173	54	46
Brian Cox	107	99	140	121	123	212
Graham Eccles	4	2	12	5	22	18
Frank Gallagher	n/a	n/a	n/a	n/a	n/a	n/a
Martin Griffiths	16	7	50	22	6	14
Barry Hinkley	n/a	n/a	n/a	n/a	n/a	n/a

In addition to their remuneration detailed above, Keith Cochrane, Brian Cox, Graham Eccles and Martin Griffiths each received 105 free shares during the year under the Stagecoach Profit Sharing Scheme.

Keith Cochrane, Graham Eccles, Martin Griffiths and Frank Gallagher were not members of the Group pension schemes before the introduction of the pensionable salary cap in June 1989. In respect of Keith Cochrane, pension arrangements 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 respect of Graham Eccles and Martin Griffiths, they are each paid a non-pensionable allowance which is equivalent to the cost of a money purchase contribution of 20% of their salary in excess of the pensionable salary cap.

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

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 was payable in two instalments in the form of additional pension contributions, shares or cash. Both instalments have now been paid.

7 Directors (continued)

Keith Cochrane participated in The Stagecoach Executive Directors' Long Term Bonus Scheme. An additional annual bonus of £75,000 per financial year, for each of the five years commencing 1 May 1998, was payable subject to growth in earnings per share in each financial year outperforming inflation by at least 5%. The bonus was payable subject to Keith Cochrane continuing in employment at the end of the five year period. No amount in relation to this additional bonus was payable for 2002 or 2001 because the performance criteria were not achieved.

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.

(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 25b.

	At 1 May 2001 number	Granted number	At 30 April 2002 number	Exercise price £	Date from which exercisable	Expiry date
Keith Cochrane	306,454	Nil	306,454	0.4820	13 October 1998	13 October 2002
	362,877	Nil	362,877	1.0900	11 October 1999	11 October 2003
	362,877	Nil	362,877	1.2810	8 September 2002	8 September 2004
	412,949	Nil	412,949	2.2280	19 October 2003	19 October 2005
	75,360	Nil	75,360	2.1140	16 June 2004	16 June 2006
	1,662,301	Nil	1,662,301	0.6250	15 June 2005	15 June 2007
Brian Cox	362,877	Nil	362,877	1.0900	11 October 1999	11 October 2003
	362,877	Nil	362,877	1.2810	8 September 2002	8 September 2004
	325,925	Nil	325,925	2.2280	19 October 2003	19 October 2005
	70,395	Nil	70,395	2.1140	16 June 2004	16 June 2006
	160,000	Nil	160,000	0.6250	15 June 2005	15 June 2007
Graham Eccles	40,396	Nil	40,396	2.2280	19 October 2001	19 October 2005
	61,524	Nil	61,524	2.0310	19 July 2002	19 July 2006
	216,000	Nil	216,000	0.6250	15 June 2003	15 June 2007
	Nil	315,200	315,200	0.7075	20 June 2004	20 June 2008
Frank Gallagher	78,050	Nil	78,050	0.0050	1 October 2002	1 October 2006
	1,198,400	Nil	1,198,400	0.6250	15 June 2003	15 June 2007
Martin Griffiths	29,820	Nil	29,820	2.2280	19 October 2001	19 October 2005
	35,519	Nil	35,519	2.0310	19 July 2002	19 July 2006
	380,800	Nil	380,800	0.6250	15 June 2003	15 June 2007
	Nil	315,200	315,200	0.7075	20 June 2004	20 June 2008

Share options are subject to certain performance criteria as discussed on page 32.

No director realised gains during the year by exercising options.

On 1 July 1996, 1 April 1998 and 1 April 2002, 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 2001 no. of ordinary shares	Granted no. of ordinary shares	Lapsed no. of ordinary shares	Exercised no. of ordinary shares	At 30 April 2002 no. of ordinary shares
Brian Souter	2,685	Nil	2,685	Nil	Nil
Keith Cochrane	14,708	1,583	Nil	2,686	13,605
Martin Griffiths	5,343	9,500	Nil	Nil	14,843
Ann Gloag	14,707	Nil	2,685	Nil	12,022
Graham Eccles	Nil	15,833	Nil	Nil	15,833

Further information on these options is detailed in note 25a.

7 Directors (continued)

(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 £15,000 (2001 – £20,000). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, holds 8,026,665 (2001 – 8,026,665) ordinary shares in the Company.

8 Taxation on profit/(loss) on ordinary activities

(a) Analysis of charge in the year	2002 Performance pre goodwill and exceptionals £m	2002 Goodwill and exceptional items £m	2002 Results for year £m	2001 Restated Performance pre goodwill and exceptionals £m	2001 Restated Goodwill and exceptional items £m	2001 Restated Results for year £m
Current tax:						
Corporation tax at 30% (2001 – 30%)	12.6	Nil	12.6	17.0	Nil	17.0
Prior year over provision for corporation tax	Nil	Nil	Nil	(1.2)	Nil	(1.2)
Share of joint ventures' current tax	0.2	Nil	0.2	0.9	Nil	0.9
Share of associates' current tax	3.1	Nil	3.1	0.4	Nil	0.4
Foreign taxation	2.5	Nil	2.5	2.8	Nil	2.8
Total current tax	18.4	Nil	18.4	19.9	Nil	19.9
Deferred tax:						
Origination and reversal of timing differences	7.4	(9.2)	(1.8)	2.0	(2.8)	(0.8)
Adjustments in respect of prior periods	(1.6)	Nil	(1.6)	Nil	Nil	Nil
Total deferred tax	5.8	(9.2)	(3.4)	2.0	(2.8)	(0.8)
Tax on profit on ordinary activities	24.2	(9.2)	15.0	21.9	(2.8)	19.1

(b) Factors affecting tax charge for the year	2002 £m	2001 Restated £m
Profit/(loss) on ordinary activities before tax	42.0	(335.2)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	12.6	(100.6)
Effects of:		
Goodwill amortisation	11.6	16.4
Impairment loss	Nil	117.5
Non-deductible expenditure	0.7	4.8
Capital allowances for period in excess of depreciation	(7.1)	(10.3)
Losses not utilised	4.1	6.0
Movement in general provisions and other short term timing differences	2.8	4.0
Foreign taxes differences	(5.1)	(16.6)
Adjustments to tax charge in respect of prior periods	(1.2)	(1.3)
Current tax charge for the year (note 8(a))	18.4	19.9

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on rolled over gains. The total amount unprovided for is £3.3m (2001 – £3.3m).

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

No provision has been made for losses carried forward within UK companies where the recoverability is in doubt.

9 Dividends

	2002 £m	2001 £m
Ordinary shares – interim paid (1.3 pence (2001 – 1.3 pence) per share)	17.1	16.6
– final proposed (1.3 pence (2001 – 2.5 pence) per share)	17.0	32.7
	34.1	49.3

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 71.0 pence per existing ordinary share. A similar arrangement applied to last year's final dividend of 2.5 pence per share, the relevant market value being 59.17 pence per existing ordinary share.

10 Earnings/(loss) per share

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

	2002 Earnings/ (loss) £m	2002 Weighted average no. of shares million	2002 Earnings/ (loss) per share pence	2001 Restated Earnings/ (loss) £m	2001 Restated Weighted average no. of shares million	2001 Restated Earnings/ (loss) per share pence
Adjusted (pre goodwill and exceptional items)	82.6	1,309.9	6.3	101.0	1,341.7	7.5
Basic	27.0	1,309.9	2.1	(354.3)	1,341.7	(26.4)
Dilutive shares – Executive Share Option Scheme	–	0.1	Nil	–	0.1	Nil
– Employee SAYE Scheme	–	0.2	Nil	–	0.3	Nil
Diluted	27.0	1,310.2	2.1	(354.3)	1,342.1	(26.4)
Exclude goodwill and exceptional items	55.6	–	4.2	455.3	–	33.9
Diluted excluding goodwill and exceptional items	82.6	1,310.2	6.3	101.0	1,342.1	7.5

Earnings/(loss) 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 34. This has been presented to allow the shareholders to gain a clearer understanding of the underlying performance.

In accordance with FRS 14, share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of ordinary shares at less than fair value. Potential ordinary shares are only treated as dilutive where the effect is to reduce earnings per share or increase loss per share.

11 Profit and loss account

The movement on profit and loss account reserve is:

	Group 2002 £m	Group 2001 Restated £m	Company 2002 £m	Company 2001 Restated £m
Retained profit brought forward – as previously restated	217.3	601.4	306.5	285.7
Prior year restatement (note 12)	(88.6)	(68.6)	35.9	35.4
Retained profit brought forward – restated	128.7	532.8	342.4	321.1
Retained loss for the year	(7.1)	(403.6)	(72.3)	(376.8)
Translation adjustment	(5.5)	57.7	Nil	Nil
UK tax effect of translation adjustment	(4.8)	Nil	Nil	Nil
Share of other recognised gains and losses of associates	(0.2)	1.3	Nil	Nil
Goodwill previously written off to reserves	3.7	2.5	Nil	Nil
Repurchase of shares	Nil	(62.0)	Nil	(62.0)
Transfer from share premium/other reserve	400.0	Nil	400.0	460.1
Retained profit carried forward	514.8	128.7	670.1	342.4

12 Prior year adjustment

The Group policy for accounting for deferred tax was changed during the year to comply with FRS 19. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

The effect of the change is summarised below:

	2002 £m	2001 £m
Profit and loss account		
Increase in goodwill amortisation	(0.5)	(1.4)
Increase in impairment of goodwill	Nil	(17.3)
Increase in tax charge	(8.4)	(3.3)
Decrease in profit for the financial year	(8.9)	(22.0)
Statement of total recognised gains and losses		
Increase in translation gain	0.9	2.0
Balance sheet		
Increase in intangible assets – goodwill	6.2	6.8
Increase in deferred tax provision	(102.8)	(95.4)
Decrease in net assets	(96.6)	(88.6)
Decrease in profit and loss account reserve	(96.6)	(88.6)

13 Intangible assets – goodwill

The Group movement in the year is:

	Joint ventures £m	Associates £m	Subsidiaries £m	Total £m
Cost				
Beginning of year	109.7	5.9	1,174.2	1,289.8
Prior year restatement (note 12)	Nil	Nil	26.8	26.8
Cost at beginning of year – restated	109.7	5.9	1,201.0	1,316.6
Additions	0.8	(0.4)	22.4	22.8
Disposals	Nil	Nil	(4.4)	(4.4)
Translation adjustment	Nil	Nil	(20.3)	(20.3)
End of year	110.5	5.5	1,198.7	1,314.7
Amortisation				
Beginning of year	(20.7)	(3.9)	(481.3)	(505.9)
Prior year restatement (note 12)	Nil	Nil	(20.0)	(20.0)
Beginning of year – restated	(20.7)	(3.9)	(501.3)	(525.9)
Charge for the year	(8.4)	(0.4)	(41.7)	(50.5)
Disposals	Nil	Nil	0.3	0.3
Translation adjustment	Nil	Nil	9.4	9.4
End of the year	(29.1)	(4.3)	(533.3)	(566.7)
Net book value beginning of year – restated	89.0	2.0	699.7	790.7
Net book value end of year	81.4	1.2	665.4	748.0

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

	Amortisation period Years	Goodwill additions £m
Subsidiaries		
North American acquisitions	20	20.5
UK Bus acquisitions	5	0.8
Adjustment re prior year acquisitions	20	1.1
Joint ventures	5-10	0.8
Associates	10	(0.4)
		22.8

14 Tangible fixed assets

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

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Land and buildings	176.9	175.1	3.4	3.5
PSVs and other assets	932.0	982.0	5.1	4.3
	1,108.9	1,157.1	8.5	7.8

The Group movement in the year is:	Land and buildings £m	PSVs and other assets £m	Total £m
Cost			
Beginning of year	182.5	1,527.0	1,709.5
Additions	16.6	86.7	103.3
New subsidiary undertakings	0.3	3.7	4.0
Disposals	(10.2)	(35.5)	(45.7)
Sale/closure of subsidiary undertakings	(2.9)	(10.9)	(13.8)
Translation adjustment	(1.3)	(12.8)	(14.1)
End of year	185.0	1,558.2	1,743.2
Depreciation			
Beginning of year	(7.4)	(545.0)	(552.4)
Charge	(6.8)	(105.9)	(112.7)
Impairment losses	Nil	(9.7)	(9.7)
New subsidiary undertakings	(0.1)	(0.9)	(1.0)
Disposals	5.4	28.4	33.8
Sale/closure of subsidiary undertakings	0.5	2.7	3.2
Translation adjustment	0.3	4.2	4.5
End of year	(8.1)	(626.2)	(634.3)
Net book value, beginning of year	175.1	982.0	1,157.1
Net book value, end of year	176.9	932.0	1,108.9
Included in the above are:			
Assets on hire purchase	Nil	207.3	207.3
Leased PSV assets	Nil	12.0	12.0
Short leasehold land and buildings	2.3	Nil	2.3
Long leasehold land and buildings	22.6	Nil	22.6

Heritable and freehold land amounting to £33.0m (2001 – £32.8m) has not been depreciated.

Depreciation of £17.6m (2001 – £19.0m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

14 Tangible fixed assets (continued)

The Company movement during the year was as follows:

	Land and buildings £m	PSVs and other assets* £m	Total £m
Cost			
Beginning of year	3.6	5.3	8.9
Additions	Nil	1.7	1.7
Disposals	Nil	(0.6)	(0.6)
End of year	3.6	6.4	10.0
Depreciation			
Beginning of year	(0.1)	(1.0)	(1.1)
Charge	(0.1)	(0.9)	(1.0)
Disposals	Nil	0.6	0.6
End of year	(0.2)	(1.3)	(1.5)
Net book value, beginning of year	3.5	4.3	7.8
Net book value, end of year	3.4	5.1	8.5

* PSV and other assets include £4.7m (2001 – £3.6m) of information technology in progress not yet allocated to Group operating companies.

15 Fixed asset investments

The Group movement during the year was as follows:

	Joint ventures £m	Associates £m	Other investments £m	Total £m
Cost				
Beginning of year	137.9	155.7	3.6	297.2
Additions	1.2	0.4	0.3	1.9
Disposals	Nil	Nil	(0.2)	(0.2)
Share of recognised profits	4.0	9.2	Nil	13.2
Share of other recognised gains and losses	Nil	(0.2)	Nil	(0.2)
Translation adjustment	Nil	(1.4)	Nil	(1.4)
Dividends received	Nil	(5.0)	Nil	(5.0)
Transferred to provisions (see below)	16.7	Nil	Nil	16.7
End of year	159.8	158.7	3.7	322.2
Amounts written off				
Beginning of year	(20.7)	(85.5)	(0.5)	(106.7)
Goodwill amortised during year	(8.4)	(0.4)	Nil	(8.8)
End of year	(29.1)	(85.9)	(0.5)	(115.5)
Net book value, beginning of year	117.2	70.2	3.1	190.5
Net book value, end of year	130.7	72.8	3.2	206.7

The £16.7m shown above as transferred to provisions arises because during the year ended 30 April 2002, thetrainline.com was de-merged from Virgin Rail Group Limited. The Group's overall investment remains unchanged but it now has separate investments in Virgin Rail Group Holdings Limited and Trainline Holdings Limited. thetrainline.com is now a subsidiary of Trainline Holdings Limited. In continuing to apply the gross equity method to each joint venture the Group has an interest in net liabilities rather than net assets for Trainline Holdings Limited. In accordance with FRS 9, ''Associates and Joint Ventures'', the interest in net liabilities is shown as a provision.

15 Fixed asset investments (continued)

The principal associate is:	Country of operation	Number of shares in issue at 30 April 2002	Nominal value of share capital in issue at 30 April 2002	% held at 30 April 2002
Road King Infrastructure Limited	China			
– ordinary shares		515.6m	HK$51.6m	25.2%
– preference shares		0.4m	HK$0.04m	100.0%

The market value of the Group's ordinary share investment in Road King Infrastructure Limited, a Bermudan incorporated company, listed on the Hong Kong Stock Exchange, at 30 April 2002 was HK$392.6m (2001 – HK$336.1m). In February 2002, the Group converted 100,000 of its 518,380 7.5% HK$1,000 convertible preference shares in Road King Infrastructure Limited to ordinary shares. The remaining 418,380 preference shares may be converted to ordinary shares representing a further 9% interest, on or after 12 June 2001 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 associates' operating profits. The Group's share of operating profit is based on the most recent publicly available information, being the results for the year ended 31 December 2001.

The carrying value of the Group's interest in Road King Infrastructure Limited as at 30 April 2002 was £64.7m.

The principal joint ventures are:	Country of incorporation/ operation	Number of shares in issue at 30 April 2002	Nominal value of share capital in issue at 30 April 2002	% held at 30 April 2002
Virgin Rail Group Holdings Limited	United Kingdom	34.8m	£3.5m	49%
Trainline Holdings Limited	United Kingdom	3.4m	£3.4m	49%

Virgin Rail Group Holdings Limited is the holding company of Virgin Rail Group Limited, which in turn is the holding company of CrossCountry Trains Limited and West Coast Trains Limited. Trainline Holdings Limited is the holding company of thetrainline.com Limited.

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

Virgin Rail Group has been significantly impacted by the performance of Railtrack plc during the year. Railtrack is contractually responsible for upgrading certain railway infrastructure, on which the future revenue growth of Virgin Rail Group's train operations is dependent. The infrastructure upgrade has been subject to significant delays and cost over-runs. In addition, Railtrack was placed into administration during the year.

The directors believe that these uncertainties give rise to a need to carry out an impairment review and we have therefore conducted a review of our net investment in Virgin Rail Group. Revised terms have been agreed with the UK's Strategic Rail Authority in respect of Virgin Rail Group's two rail franchises. In assessing the value of our investment in Virgin Rail Group, we have taken account of the revised agreement with the Strategic Rail Authority.

In accordance with FRS 11, we have compared the carrying value of our net investment in Virgin Rail Group with its estimated recoverable amount, being the higher of net realisable value and value in use. This indicates that there is no impairment loss. The value in use of Virgin Rail Group was determined using an average pre-tax discount rate of 11.4%.

Any estimation of value in use is subjective because it is based on estimates of future cash flows. The value in use for Virgin Rail Group is derived from forecast cash flows to the end of the two franchises in 2012 based on the formal business plans compiled by Virgin Rail Group's management. In the opinion of the directors, the assumptions underlying the forecasts are reasonable. They include, amongst other things, assumptions on significant revenue growth from the introduction of new infrastructure and new trains and the agreement of new commercial franchise terms with the Strategic Rail Authority. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

The remaining goodwill relating to the original acquisition of Virgin Rail Group is being amortised over its remaining useful life of 9.8 years from 30 April 2002.

15 Fixed asset investments (continued)

The Company movement during the year was as follows:

	Subsidiary undertakings £m	Joint ventures £m	Other investments £m	Total £m
Cost				
Beginning of year	236.2	138.5	0.7	375.4
Additions	Nil	0.9	0.1	1.0
Disposals	(0.3)	Nil	Nil	(0.3)
Translation gain	(0.4)	Nil	Nil	(0.4)
End of year	235.5	139.4	0.8	375.7
Amounts written off				
Beginning of year	Nil	Nil	Nil	Nil
During the year	(1.8)	Nil	Nil	(1.8)
End of year	(1.8)	Nil	Nil	(1.8)
Net book value, beginning of year	236.2	138.5	0.7	375.4
Net book value, end of year	233.7	139.4	0.8	373.9

Acquisitions

During the year a further 7 acquisitions have been concluded by Coach USA for a total consideration of £21.4m, comprising £20.5m of cash paid, £0.6m of loan notes issued and £0.3m of deferred consideration. The fair value of the net assets acquired was £0.9m giving rise to goodwill of £20.5m which has been capitalised and is being amortised over 20 years.

UK Bus acquired businesses for a total consideration of £0.8m, paid in cash. The fair value of the net assets acquired was £Nil giving rise to goodwill of £0.8m which has been capitalised and is being amortised over 5 years.

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

	Fair value to Group		
	Coach USA £m	UK Bus £m	Total £m
Tangible fixed assets	3.0	Nil	3.0
Cash at bank	0.3	Nil	0.3
Other current assets	1.6	Nil	1.6
Total assets	4.9	Nil	4.9
Creditors – within one year	(2.6)	Nil	(2.6)
Creditors – after one year	(1.4)	Nil	(1.4)
Total liabilities	(4.0)	Nil	(4.0)
Net assets	0.9	Nil	0.9
Consideration	21.4	0.8	22.2
Goodwill	20.5	0.8	21.3

Disposal of subsidiary undertakings and businesses

The Group disposed of and closed a number of businesses within Coach USA during the year. A provision of £9.9m for the losses on the operations to be sold or terminated was recorded as at 31 October 2001.

On 18 June 2001, the Group announced the disposal of its 100% interest in the ordinary share capital of Stagecoach Portugal Transportes Rodoviários Lda. The consolidated profit after tax of Stagecoach Portugal Transportes Rodoviários Lda from 1 May 2001 to the date of disposal was £0.2m, and for its last financial year was £0.5m.

The Group also sold small businesses in Australia and China during the year. The consolidated profit after tax of the businesses was not material to the Group.

15 Fixed asset investments (continued)

The net assets disposed of were as follows:

	Coach USA £m	Stagecoach Portugal £m	Other Overseas £m	Total £m
Intangible fixed assets	4.1	Nil	Nil	4.1
Tangible fixed assets	1.6	7.6	1.4	10.6
Cash at bank	Nil	0.8	Nil	0.8
Other current assets	3.3	0.5	Nil	3.8
Creditors	Nil	(7.1)	Nil	(7.1)
Net assets disposed	9.0	1.8	1.4	12.2
Provisions for losses on operations to be sold or terminated	(9.9)	Nil	Nil	(9.9)
Unutilised provision as at 30 April 2002	1.7	Nil	Nil	1.7
Profit/(loss) on disposal	Nil	6.0	(1.2)	4.8
Goodwill previously written off to reserves	Nil	3.0	0.7	3.7
Proceeds on disposal	0.8	10.8	0.9	12.5
Satisfied by:				
Cash	0.8	10.8	0.9	12.5
Net cash inflows in respect of the disposals comprised:				
Cash consideration	0.8	10.8	0.9	12.5
Cash at bank and in hand on disposal	Nil	(0.8)	Nil	(0.8)
	0.8	10.0	0.9	11.7
Cash received in year relating to deferred consideration on disposals in prior years				3.6
				15.3

16 Principal business units

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

Company	Country of registration or incorporation	Principal activity
Stagecoach (South) Ltd*	England	Bus and coach operator
Stagecoach (North West) Ltd	England	Bus and coach operator
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 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
SGC (HK Group) Limited (formerly Citybus Group Limited)*	Hong Kong	Bus and coach operator
Coach USA Inc.*	United States	Bus and coach operator

*indirectly held

All companies operate in the countries shown above. The companies listed above include all those which principally affect the amount of profit and assets of the Group. A full list of subsidiary undertakings at 30 April 2002 will be annexed to the next annual return.

17 Stocks

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Parts and consumables	19.1	18.9	Nil	Nil
Taxicabs held for resale	31.8	29.5	Nil	Nil
	50.9	48.4	Nil	Nil

There is no material difference between the carrying value of stocks held at 30 April 2002 and their estimated replacement cost.

18 Debtors and prepaid charges

Amounts falling due within one year are:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Trade debtors	107.7	121.7	0.2	0.2
Other debtors	36.2	17.0	13.0	4.1
Other prepayments and accrued income	73.2	54.9	0.9	2.0
VAT and other government debtors	11.4	11.4	8.2	2.8
	228.5	205.0	22.3	9.1

Amounts falling due after more than one year are:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Pension scheme prepayment (note 28d)	33.8	30.1	13.9	14.6
Amounts owed by group companies	Nil	Nil	1,643.0	1,656.9
Pre-contract costs	4.4	Nil	Nil	Nil
Other debtors	16.0	4.6	Nil	Nil
	54.2	34.7	1,656.9	1,671.5

19 Creditors

(a) Creditors: Amounts falling due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank overdrafts	Nil	0.4	17.7	51.5
Bank loans and loan notes	76.7	89.5	54.8	47.7
Trade creditors	110.3	111.3	1.2	1.8
Accruals and deferred income	242.8	246.1	52.5	58.0
Dividends payable	17.0	32.7	17.0	32.7
Other creditors				
– UK corporation tax payable	20.2	17.0	7.8	5.6
– Foreign tax payable	6.1	5.8	Nil	Nil
– PAYE and NIC payable	10.2	11.0	0.2	0.2
Current portion of HP and lease obligations	40.7	43.8	Nil	Nil
Amounts due to group companies	Nil	Nil	26.0	Nil
	524.0	557.6	177.2	197.5

19 Creditors (continued)

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

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans and loan notes	237.3	138.9	190.7	100.1
US Dollar 8.625% Notes (note 19c)	259.3	313.8	342.0	348.2
US Dollar 9.375% Notes (note 19e)	0.1	2.2	Nil	Nil
Euro 6% Notes (note 19d)	244.7	276.7	244.7	276.7
Non-current portion of HP and lease obligations	65.8	80.8	Nil	Nil
Other creditors	0.9	4.4	Nil	Nil
Amounts due to group companies	Nil	Nil	34.6	Nil
	808.1	816.8	812.0	725.0

(c) US Dollar 8.625% Notes

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

During the year US$71.5m of the Notes were purchased by the Group but not cancelled.

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2002 was £259.3m (2001 – £313.8m), after taking account of the notes purchased by the Group during the year, the discount on issue, and issue costs.

(d) Euro 6% Notes

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

During the year €42.6m 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 2002 was £244.7m (2001 – £276.7m).

(e) US Dollar 9.375% Notes

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

19 Creditors (continued)

(f) Borrowings are repayable as follows

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
On demand or within 1 year				
Bank overdraft	Nil	0.4	17.7	51.5
Bank loans and loan notes	76.7	89.5	54.8	47.7
Hire purchase and lease obligations	40.7	43.8	Nil	Nil
Within 1-2 years				
Bank loans and loan notes	25.2	18.0	8.0	Nil
Hire purchase and lease obligations	32.8	36.9	Nil	Nil
Within 2-5 years				
Bank loans and loan notes	207.4	115.9	182.7	100.1
Euro 6% Notes	244.7	276.7	244.7	276.7
Hire purchase and lease obligations	32.0	43.9	Nil	Nil
Over 5 years				
Bank loans and loan notes	4.7	5.0	Nil	Nil
US Dollar 8.625% Notes	259.3	313.8	342.0	348.2
US Dollar 9.375% Notes	0.1	2.2	Nil	Nil
Hire purchase and lease obligations	1.0	Nil	Nil	Nil
Total borrowings	924.6	946.1	849.9	824.2
Less current maturities	(117.4)	(133.7)	(72.5)	(99.2)
Long term portion of borrowings	807.2	812.4	777.4	725.0

Interest terms on UK borrowings (except loan notes) are at annual rates between 0.4% and 0.875% over Bank of Scotland base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates between 2.4% and 8.3% and are based on applicable local market borrowing rates. Interest on loan notes are at three months LIBOR or fixed interest. Loan notes amounting to £46.8m (2001 – £47.7m) are backed by guarantees provided under group banking facilities.

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

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

20 Derivatives and other financial instruments

Treasury policy and the use of financial instruments are both discussed in the Finance Director's review on pages 18 to 21.

Short term debtors and creditors have been excluded from the disclosures below except for 20(c) on currency exposures.

(a) Interest rate and currency profile of financial liabilities

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

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

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

20 Derivatives and other financial instruments (continued)

As at 30 April 2002 floating rate Sterling borrowings of £125m (2001 – £125m) were hedged with a cap and collar with an average cap rate of 7.88% and an average floor of 5.28%. During the year to 30 April 2002, the floor was exercised on £125m at a rate of 5.28% and the cap was not exercised.

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to three months based on market rates outlined in note 19.

Financial liabilities on which no interest is paid comprise certain provisions totalling £91.6m (2001 – £88.5m). These are denominated in Sterling £49.9m (2001 – £51.0m), US dollars £36.1m (2001 – £33.9m) and Hong Kong dollars £5.6m (2001 – £3.6m). The weighted average maturity of these liabilities is 2.1 years (2001 – 2.1 years).

The Group's policies on managing interest rate risk and currency risk are explained in the Finance Director's review on pages 18 to 21.

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

Currency	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	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 and Australian 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

The maturity profile of the Group's financial liabilities at 30 April 2002 was as follows:

	2002 £m	2001 £m
Expiring within one year	155.7	172.7
Expiring in more than one year but less than two years	76.9	72.5
Expiring in more than two years but less than five years	516.0	466.3
Expiring beyond five years	267.6	323.1
	1,016.2	1,034.6

20 Derivatives and other financial instruments (continued)

(b) Interest rate profile of financial net assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £150.0m (2001 – £160.4m). The cash deposits comprise deposits placed on money market at call, seven day and monthly rates. The currency analysis is as follows:

	Floating rate	
Currency	2002 £m	2001 £m
Sterling	119.1	134.2
US Dollar	20.8	18.2
Hong Kong Dollar	4.6	4.4
New Zealand and Australian Dollar	2.0	2.8
Other	3.5	0.8
Cash at bank and in hand	150.0	160.4

Financial assets on which no interest is receivable total £4.7m (2001 – £7.6m) and comprise other investments of £3.2m (2001 – £3.1m) and other debtors greater than one year of £1.5m (2001 – £4.5m). These assets are denominated in Sterling £1.1m (2001 – £1.0m), US dollars £1.7m (2001 – £1.7m) and others £1.9m (2001 – £4.9m). The weighted average period to maturity of other debtors greater than one year is 1.5 years (2001 – 2.8 years). Financial assets on which fixed interest is receivable total £21.5m (2001 – £21.5m) and comprise US$ denominated loan notes receivable. They have a weighted average interest rate of 12.9% (2001 – 12.9%) and an average maturity of 2.5 years (2001 – 2.5 years).

(c) Currency exposures

As explained in the Finance Director's review on pages 18 to 21, the Group's objective in managing currency borrowings and net exposures arising from its investments in net assets of overseas subsidiaries is to maintain a low cost of borrowing and to retain some potential for currency related appreciation whilst partially hedging against currency depreciation. All foreign currency borrowings are taken out to provide for or to hedge against foreign net investments. Gains and losses arising from these currency borrowings and net exposures are recognised in the statement of total recognised gains and losses.

The Group generally hedges actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2002 and 30 April 2001 there were no material net transactional exposures.

(d) Borrowing facilities

At 30 April 2002 the Group had the following undrawn committed banking and hire purchase facilities:

	2002 £m	2001 £m
Expiring within one year	28.9	39.8
Expiring in more than one year but no more than two years	Nil	Nil
Expiring beyond two years	282.6	490.7
	311.5	530.5

21 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.

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 Fair value £m
Other financial assets	26.2	26.2	7.6	7.6
Primary financial instruments to finance the Group's operation				
Cash deposits and bank overdrafts	150.0	150.0	160.0	160.0
US Dollar 8.625% Notes	(259.3)	(247.2)	(313.8)	(283.7)
Euro 6% Notes	(215.8)	(203.1)	(276.7)	(221.6)
Foreign currency swaps hedging currency debt	(28.9)	(25.6)	Nil	Nil
Short term borrowings and current portion of long term debt	(117.4)	(117.4)	(133.3)	(133.3)
Other long term borrowings	(303.2)	(303.2)	(221.9)	(221.9)
Derivative financial instruments held to manage the interest rate, currency and commodity risk profiles				
Interest rate swaps and similar instruments	Nil	(0.2)	Nil	(0.5)
Forward foreign currency contracts and swaps hedging overseas investments	(5.3)	(5.9)	Nil	(57.6)
Fuel price swaps	Nil	1.5	Nil	3.6
Other financial liabilities	(91.6)	(91.6)	(88.5)	(88.5)

22 Hedge accounting

	2002 Gains £m	2002 Losses £m	2002 Total £m	2001 Gains £m	2001 Losses £m	2001 Total £m
Unrecognised gains or losses on hedges at start of year	26.5	(81.0)	(54.5)	18.3	(57.6)	(39.3)
Gains or losses arising in previous years that were recognised in the year	7.6	55.4	63.0	(13.9)	8.1	(5.8)
Gains or losses arising in previous years that were not recognised in the year	34.1	(25.6)	8.5	4.4	(49.5)	(45.1)
Gains or losses arising in the year that were not recognised	1.4	(5.9)	(4.5)	22.1	(31.5)	(9.4)
Unrecognised gains or losses on hedges at end of year	35.5	(31.5)	4.0	26.5	(81.0)	(54.5)
Of which:						
Gains or losses expected to be recognised within one year	11.1	(13.5)	(2.4)	7.4	(27.3)	(19.9)
Gains or losses expected to be recognised after one year	24.4	(18.0)	6.4	19.1	(53.7)	(34.6)
	35.5	(31.5)	4.0	26.5	(81.0)	(54.5)

As explained in the Finance Director's review on pages 18 to 21, the Group's policy is to hedge against interest rate risk, currency risk and commodity price risk.

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

23 Provisions for liabilities and charges

	Group 2002 £m	Group 2001 Restated £m	Company 2002 £m	Company 2001 Restated £m
Deferred taxation	105.3	109.5	3.6	2.7
Token redemption provision	25.5	25.9	Nil	Nil
Insurance provisions	65.2	58.2	Nil	Nil
Environmental provisions	2.9	3.6	1.2	1.5
Pension provision (note 28d)	6.1	3.9	3.2	3.1
Restructuring provision	1.7	Nil	Nil	Nil
	206.7	201.1	8.0	7.3
Joint ventures				
– share of gross assets	(5.1)	Nil	Nil	Nil
– share of gross liabilities	21.8	Nil	Nil	Nil
	16.7	Nil	Nil	Nil
Total provisions	223.4	201.1	8.0	7.3

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

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

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

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

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

Share of joint venture's net liabilities relates to the Group's interest in the net liabilities of Trainline Holdings Limited (see note 15).

The Group movement during the year was as follows:

	Deferred taxation £m	Token redemption provision £m	Insurance provisions £m	Environmental provisions £m	Pension provisions £m	Restructuring provision £m	Share of joint venture's net liabilities £m
Beginning of year	14.1	25.9	58.2	3.6	3.9	Nil	Nil
Prior year restatement (note 12)	95.4	Nil	Nil	Nil	Nil	Nil	Nil
Beginning of year – restated	109.5	25.9	58.2	3.6	3.9	Nil	Nil
– (credited)/provided during year	(3.4)	Nil	77.1	0.2	2.6	9.9	Nil
– less deferred tax charge in profit and loss account re associates/joint ventures	(0.6)	Nil	Nil	Nil	Nil	Nil	Nil
Transferred from investments (note 15)	Nil	Nil	Nil	Nil	Nil	Nil	16.7
Utilised in the year	Nil	Nil	(69.5)	(1.0)	(0.4)	(8.2)	Nil
Arising on sale of tokens during year	Nil	13.4	Nil	Nil	Nil	Nil	Nil
Redemption of tokens	Nil	(13.8)	Nil	Nil	Nil	Nil	Nil
Translation differences	(0.1)	Nil	(0.6)	Nil	Nil	Nil	Nil
Arising on acquired subsidiaries	Nil	Nil	Nil	0.1	Nil	Nil	Nil
Disposed of with subsidiaries	(0.1)	Nil	Nil	Nil	Nil	Nil	Nil
End of year	105.3	25.5	65.2	2.9	6.1	1.7	16.7

23 Provisions for liabilities and charges (continued)

The Company movement during the year was as follows:

	Deferred taxation £m	Environmental provisions £m	Pension provisions £m
Beginning of year	38.6	1.5	3.1
Prior year restatement	(35.9)	Nil	Nil
Beginning of year – restated	2.7	1.5	3.1
Provided during year	0.9	Nil	0.1
Payments in year	Nil	(0.3)	Nil
End of year	3.6	1.2	3.2

The prior year adjustment relates to the implementation of FRS 19 (as explained in note 12).

As part of the implementation of FRS 19 in the current year, it has been decided that the deferred tax balances which were previously accounted for in the holding company in respect of UK subsidiaries will be accounted for in the relevant subsidiary's accounts. This results in a release of the deferred tax provision, producing a credit to reserves in the holding company (being matched by an equal and opposite charge in the relevant company's accounts). There is no impact on the consolidated deferred tax provision.

Deferred taxation is provided as follows:

	Group		Company	
	2002 £m	2001 Restated £m	2002 £m	2001 Restated £m
Accelerated capital allowances	198.2	177.5	0.9	0.1
Pension timing differences	8.4	7.9	3.1	3.4
Timing differences related to overseas retained earnings	0.1	0.3	Nil	Nil
Short term timing differences	(101.4)	(76.2)	(0.4)	(0.8)
	105.3	109.5	3.6	2.7

24 Equity share capital

	2002 £m	2001 £m
Authorised		
1,840,000,000 (2001 – 1,840,000,000) ordinary shares of 0.5p each	9.2	9.2
Allotted, called-up and fully-paid		
1,320,946,012 (2001 – 1,318,640,250) ordinary shares of 0.5p each	6.6	6.6

The movement in issued share capital comprises:

	No. of shares	Par value £m	Share premium £m
At beginning of year	1,318,640,250	6.6	781.5
Shares issued in conjunction with ESOP	1,936,993	Nil	1.6
Shares issued on exercise of options	368,769	Nil	1.3
Transfer to profit and loss account reserve	Nil	Nil	(400.0)
At end of year	1,320,946,012	6.6	384.4

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

Between 29 October 1999 and 30 April 2001 92,132 shares were transferred to option holders. During the year to 30 April 2002, a further 1,677,204 shares were transferred to option holders. The remaining 9,730,664 shares are held by the QUEST. At 30 April 2002 the market valuation of shares held was £7.4m.

25 Share option schemes

(a) Savings related share option schemes

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

Scheme	Date of issue	Exercise price	Duration
A	1 July 1996	64.2p	5 years
B	1 April 1998	129.1p	5 years
C	1 April 2002	60.0p	3 years

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

	Scheme A		Scheme B		Scheme C	
	Number of employees	Ordinary shares	Number of employees	Ordinary shares	Number of employees	Ordinary shares
Beginning of year	2,652	6,223,085	2,135	4,770,642	Nil	Nil
Granted	Nil	Nil	Nil	Nil	4,430	15,731,818
Options exercised	(732)	(1,677,204)	Nil	Nil	Nil	Nil
Options lapsed	(1,920)	(4,545,881)	(410)	(923,283)	(16)	(77,766)
End of year	Nil	Nil	1,725	3,847,359	4,414	15,654,052

(b) Executive share options

Award date	Number of executives & directors	At 1 May 2001	Granted	Exercised	Lapsed	At 30 April 2002	Exercise price £	Date from which exercisable	Expiry date
9 September 1994	1	53,296	Nil	Nil	Nil	53,296	0.3030	9 September 1997	9 September 2004
13 October 1995	3	400,642	Nil	61,289	Nil	339,353	0.4820	13 October 1998	13 October 2002
11 October 1996	9	1,873,999	Nil	Nil	541,723	1,332,276	1.0900	11 October 1999	11 October 2003
8 September 1997	9	657,064	Nil	Nil	98,495	558,569	1.2810	8 September 2000	8 September 2004
8 September 1997	2	41,472	Nil	Nil	Nil	41,472	1.2810	8 September 2000	8 September 2007
8 September 1997	3	1,088,631	Nil	Nil	362,877	725,754	1.2810	8 September 2002	8 September 2004
19 October 1998	21	636,278	Nil	Nil	243,772	392,506	2.2280	19 October 2001	19 October 2005
19 October 1998	3	1,151,823	Nil	Nil	412,949	738,874	2.2280	19 October 2003	19 October 2005
1 February 1999	1	55,856	Nil	Nil	28,726	27,130	2.5060	1 February 2002	1 February 2006
16 June 1999	3	233,792	Nil	Nil	88,037	145,755	2.1140	16 June 2004	16 June 2006
19 July 1999	26	885,790	Nil	Nil	213,233	672,557	2.0310	19 July 2002	19 July 2006
1 October 1999	1	78,050	Nil	Nil	Nil	78,050	0.0050	1 October 2002	1 October 2006
15 June 2000	72	8,875,436	Nil	307,480	1,165,295	7,402,661	0.6250	15 June 2003	15 June 2007
15 June 2000	2	1,822,301	Nil	Nil	Nil	1,822,301	0.6250	15 June 2005	15 June 2007
20 June 2001	77	Nil	6,924,925	Nil	172,000	6,752,925	0.7075	20 June 2004	20 June 2008
23 July 2001	1	Nil	828,300	Nil	Nil	828,300	0.7625	23 July 2004	23 July 2008
Totals		17,854,430	7,753,225	368,769	3,327,107	21,911,779			

All options were granted for nil consideration. The mid-market price for these shares at 30 April 2002 was £0.76. The Company's shares traded in the range £0.523 to £0.908 during the year to that date.

26 Reserves

The following amounts are regarded as distributable or otherwise:	Group 2002 £m	Group 2001 Restated £m	Company 2002 £m	Company 2001 Restated £m
Distributable				
Profit and loss account (note 11)	514.8	128.7	670.1	342.4
Non-distributable				
Share premium account	384.4	781.5	384.4	781.5
ESOP distribution reserve	1.6	1.8	1.6	1.8
Capital redemption reserve	1.7	1.7	1.7	1.7

Profit/(loss) for the financial year comprises:	2002 £m	2001 Restated £m
Company	(38.1)	(327.6)
Subsidiary undertakings, joint ventures and associates	65.1	(26.7)
	27.0	(354.3)

The movement on non-distributable reserves is as follows:	Group and company: share premium £m	Group and company: ESOP distribution reserve £m	Group and company: capital redemption reserve £m
Beginning of year	781.5	1.8	1.7
Arising on new share issues	2.9	Nil	Nil
Transfer to profit and loss account	(400.0)	Nil	Nil
ESOP distributed during year	Nil	(2.0)	Nil
ESOP provided during year	Nil	1.8	Nil
End of year	384.4	1.6	1.7

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

Cumulative goodwill of £114.3m (2001 – £118.0m) has been written off against reserves in periods prior to the adoption of FRS 10 ''Goodwill and Intangible Assets''.

A resolution was passed at an Extraordinary General Meeting in January 2002 to transfer £400.0m from the share premium reserve to another reserve. Court approval for this transfer and confirmation that this reserve constitutes a distributable reserve was received on 26 April 2002.

27 Consolidated cash flows

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

	2002 £m	2001 Restated £m
Operating profit/(loss) of Group companies	86.8	(260.3)
Depreciation	112.7	111.2
Impairment of tangible fixed assets at Coach USA	9.7	Nil
Impairment of goodwill at Coach USA	Nil	393.3
Loss on sale of tangible fixed assets, other than properties	0.1	0.5
Goodwill amortisation	41.7	59.6
Provision for losses on operations to be terminated or sold	9.9	Nil
Increase in stocks	(3.1)	(7.9)
Increase in debtors	(6.6)	(0.7)
ESOP provided for	1.8	1.9
(Decrease)/increase in creditors	(4.1)	6.4
Increase in provisions	8.0	2.4
Net cash inflow from operating activities	256.9	306.4

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

	2002 £m	2001 £m
Increase/(decrease) in cash	28.5	(635.3)
Bond repayments	77.7	160.6
Cash flow from (decrease)/increase in debt and lease financing	(17.3)	398.6
	88.9	(76.1)
Loans and finance leases of acquired/disposed subsidiaries	0.5	(27.4)
Other movements	(40.1)	(109.1)
Movement in cash collateral	(38.2)	(23.5)
Decrease/(increase) in net debt	11.1	(236.1)
Opening net debt	(785.7)	(549.6)
Closing net debt	(774.6)	(785.7)

(c) Analysis of net debt

	Opening £m	Cash flows £m	Cash collateral £m	Acquisitions/ disposals £m	Other movements £m	Closing £m
Cash	79.3	28.5	Nil	Nil	(0.3)	107.5
Cash collateral	80.7	(37.8)	(0.4)	Nil	Nil	42.5
HP and lease obligations	(124.6)	48.2	Nil	2.6	(32.7)	(106.5)
Bank loans and loan stock	(228.4)	(65.9)	0.4	(2.1)	(18.0)	(314.0)
Bonds	(592.7)	77.7	Nil	Nil	10.9	(504.1)
Totals	(785.7)	50.7	Nil	0.5	(40.1)	(774.6)

The net total of cash and cash collateral of £150.0m (2001 – £160.0m) is classified in the balance sheet as £150.0m (2001 – £160.4m) in cash at bank and in hand and £Nil (2001 – £0.4m) in bank overdrafts within creditors: amounts falling due within one year.

(d) Restricted cash

Included in cash at 30 April 2002 are balances held in trust in respect of loan stock of £41.1m (2001 – £41.5m), South West Trains season tickets of £Nil (2001 – £30.5m), South West Trains performance bond cash of £Nil (2001 – £7.3m), and Coach USA Letter of Credit Collateral cash of £1.4m (2001 – £1.4m).

27 Consolidated cash flows (continued)

(e) Purchase of subsidiary undertakings

	Coach USA £m	UK Bus £m	Total £m
Net assets acquired (see note 15)	0.9	Nil	0.9
Goodwill	20.5	0.8	21.3
	21.4	0.8	22.2
Consideration			
Cash and acquisition expenses paid in year	20.5	0.8	21.3
Loan notes issued	0.6	Nil	0.6
Deferred consideration	0.3	Nil	0.3
	21.4	0.8	22.2

The cash paid during the year in respect of the purchase of subsidiary undertakings was as follows:	£m
Cash paid in respect of acquisitions in year (see above)	21.3
Deferred consideration in respect of Fullers Ferries	1.5
Deferred consideration in respect of Coach USA acquisitions	2.4
	25.2

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

(f) Disposal of subsidiaries and other businesses

Details of net assets disposed of and the related sales proceeds are set out in note 15.

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

28 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 £75.7m was outstanding at 30 April 2002 (2001 – £89.3m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments

Capital commitments are as follows:	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Contracted for but not provided				
For delivery in one year	73.1	65.4	11.8	39.4

At 30 April 2002, £55.6m of the total capital commitments relates to overseas operations (30 April 2001 – £24.9m).

28 Guarantees and other financial commitments (continued)

(c) Operating lease and similar commitments

The annual commitments due under operating leases are as follows:	2002 £m	2001 £m
Under one year	77.9	9.8
Between one year and five years	134.0	248.4
Five years and over	74.4	4.5

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, HSBC Rail (UK) 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 trusts 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.

The UK defined benefit schemes are fully funded. The employers' SSAP24 ''Accounting for pension costs'' funding rate for contributions varies between 3.2% and 6.6% 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. Present and future pensions are assumed to increase at an average rate of 2.25% per annum for SGPS and 2.50% per annum for other schemes.

The key details of each UK scheme are as follows:

				Employer's cost		Balance sheet asset (net)	
	Latest actuarial review for SSAP 24	Funding level %	Market value £m	2002 £m	2001 £m	2002 £m	2001 £m
SGPS	April 2001	118	305	12.6	11.2	15.4	13.0
RPS	April 2001	115	266	1.8	2.3	(2.1)	(0.7)
LGPS	April 2001	121	187	1.9	1.4	14.4	13.9
			758	16.3	14.9	27.7	26.2

Overseas companies show a net balance sheet asset at 30 April 2002 of £Nil (2001 – £Nil) – the related employer's pension cost during the year was £1.7m (2001 – £1.9m).

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

A net prepayment at 30 April 2002 of £27.7m (30 April 2001 – £26.2m) 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.

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

28 Guarantees and other financial commitments (continued)

(d) Pension commitments (continued)

The calculations used for FRS 17 disclosures have been based on the most recent actuarial valuations which have then been updated by independent professionally qualified actuaries to take account of the requirements of FRS 17.

The main financial assumptions were as follows:

	%
Rate of increase in salaries	4.0
Rate of increase of pensions in payment – SGPS	2.3
– other schemes	2.5
Discount rate	6.1
Inflation assumption	2.5

The value of the assets in the schemes and the expected long-term rate of return as at 30 April 2002 were:

	Rate of return (%)	SGPS £m	RPS £m	LGPS £m	Total £m
Equities	8.5	313.3	213.5	112.1	638.9
Bonds	5.9	Nil	11.6	36.9	48.5
Other	6.5	12.6	0.6	31.1	44.3
		325.9	225.7	180.1	731.7

The following amounts at 30 April 2002 were measured in accordance with the requirements of FRS 17.

	SGPS £m	RPS £m	LGPS £m	Total £m
Total market value of assets	325.9	225.7	180.1	731.7
Present value of scheme liabilities	(361.4)	(213.6)	(187.4)	(762.4)
(Deficit)/surplus in the schemes	(35.5)	12.1	(7.3)	(30.7)
Pension asset				
Related deferred tax asset/(liability)	10.7	(3.6)	2.2	9.3
Net pension (liability)/asset	(24.8)	8.5	(5.1)	(21.4)

If FRS 17 had been adopted in these financial statements, the Group's net assets and profit and loss reserve at 30 April 2002 would have been as follows:

	Profit and loss reserve £m	Net assets £m
As currently stated	514.8	909.1
Net pension liability on FRS 17 basis (see above)	(21.4)	(21.4)
SSAP 24 net pension asset that will reverse on implementation of FRS 17	(31.0)	(31.0)
Deferred tax related to SSAP 24 items	9.3	9.3
Adjustment to net interest in joint ventures	14.4	14.4
Net assets on FRS 17 basis	486.1	880.4

28 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 23.

(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 2002 and 2005. There are no intentions to dispose of any of these properties at 30 April 2002.

(iii) A performance bond backed by an insurance arrangement for £21.0m (2001 – £21.0m), a season ticket bond backed by an insurance arrangement for £28.7m (2001 – £Nil) and a holding company guarantee of £20.9m (2001 – £20.9m) have been provided to the Strategic Rail Authority in support of the Group's franchise obligations at South West Trains Limited at 30 April 2002. These contingent liabilities are not expected to crystallise.

(iv) The Group and its joint venture have, in the normal course of business, entered into a number of long term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.

(v) Under UK Rail franchise agreements, the Group and its joint venture have agreed with the UK Strategic Rail Authority annual amounts receivable or payable in respect of the operation of rail franchises for future periods.

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

(f) Joint venture and associates

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

	Joint ventures £m	Associates £m	2002 Total £m	2001 Total £m
Annual commitments under non-cancellable operating leases	68.7	0.4	69.1	59.1
Capital commitments	2.2	Nil	2.2	0.8
Franchise performance bonds	14.7	Nil	14.7	14.7
Bank guarantee	Nil	3.1	3.1	3.2
Season ticket bond	1.2	Nil	1.2	1.1
Infrastructure investment commitments	Nil	1.8	1.8	2.8

29 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 2002, the Company had loan notes receivable of £10.0m (2001 – £10.0m) from Virgin Rail Group Limited. The Company earned interest of £1.0m (2001 – £1.0m) on the loan notes during the year.

During the year, Keith Cochrane and Graham Eccles were non-executive directors of Virgin Rail Group Limited and became directors of Virgin Rail Group Holdings Limited, which was established following a reorganisation of the Virgin Rail companies. Fees of £25,000 (2001 – £23,219) were paid to the Group by Virgin Rail Group Limited in this regard.

During the year, Brian Souter and Keith Cochrane were non-executive directors of Road King Infrastructure Limited. Fees of £33,795 (2001 – £32,600) were paid to the Group by Road King Infrastructure Limited in this regard.

30 Post balance sheet events

On 22 July 2002, Virgin Rail Group announced that it had agreed revised commercial terms with the UK's Strategic Rail Authority for its two UK rail franchises. We have considered the implications of the agreement for our net investment in Virgin Rail Group, as explained in note 15.

Shareholder information

Analysis of shareholders as at 30 April 2002

Range of holdings	No. of holders	%	Shares held	%
1 – 25,000	58,943	98.31	92,839,029	7.03
25,001 – 250,000	731	1.22	55,412,777	4.19
250,001 – 500,000	83	0.14	30,061,811	2.28
500,000 – 3,750,000	148	0.25	195,656,282	14.81
Over 3,750,001	49	0.08	946,976,113	71.69
	59,954	100.00	1,320,946,012	100.00

Classification of shareholders	No. of holders	%	Shares held	%
Individuals	56,902	94.91	384,046,939	29.07
Other corporate bodies	79	0.13	9,283,316	0.70
Banks and Nominees	2,676	4.46	877,639,560	66.44
Insurance and assurance companies	1	0.00	152,616	0.01
Limited companies	287	0.48	49,755,906	3.77
Pension funds	9	0.02	67,675	0.01
	59,954	100.00	1,320,946,012	100.00

Registrar and transfer office

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

Stagecoach individual savings accounts

The Company has appointed 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 overleaf) to send them a dividend/interest mandate form or alternatively complete the mandate form attached to the next dividend tax voucher they receive.

Registered office and advisers

Company Secretary
Derek Scott

Registered Office
10 Dunkeld Road
Perth PH1 5TW
Telephone +44 (0) 1738 442 111
Facsimile +44 (0) 1738 643 648
Email info@stagecoachgroup.com

Company number
SC 100764

Registrars
Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone +44 (0) 870 601 5366

Merchant Bankers
Noble Grossart Limited
48 Queen Street
Edinburgh EH2 3NH

Auditors
PricewaterhouseCoopers
Kintyre House
209 West George Street
Glasgow G2 2LW

Stockbrokers
Credit Suisse First Boston (Europe) Limited
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
24/25 St Andrew Square
Edinburgh EH2 1AS

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

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Financial calendar

Annual General Meeting
6 September 2002

Final Dividend
9 October 2002

Interim Report
December 2002

Interim Dividend
March 2003

Five year financial summary

	2002 £m	2001 £m	2000 £m	1999* £m	1998† £m
Results					
Total turnover	2,114.4	2,083.5	2,179.1	1,548.4	1,347.0
Operating profit/(loss)	96.5	(268.8)	198.6	274.9	216.5
Finance charges (net)	(59.8)	(76.0)	(144.6)	(61.0)	(58.0)
Profit/(loss) before tax	42.0	(335.2)	255.3	210.4	156.0
Tax charge	(15.0)	(19.1)	(50.1)	(60.5)	(50.7)
Profit/(loss) attributable to ordinary shareholders	27.0	(354.3)	205.2	150.0	105.2
Net assets					
Fixed assets	1,981.0	2,047.3	2,304.1	2,107.6	1,514.2
Net current (liabilities)/assets	(40.4)	(109.1)	250.8	(189.9)	(269.0)
Long term creditors	(808.1)	(816.8)	(1,039.4)	(950.8)	(741.7)
Provisions	(223.4)	(201.1)	(192.9)	(374.8)	(364.0)
Tangible fixed assets					
Additions	103.3	141.8	376.7	263.1	289.9
Depreciation	(112.7)	(111.2)	(218.7)	(186.0)	(190.3)
Cash and debt					
Cash at bank and in hand	150.0	160.4	816.0	321.8	163.5
Gross debt	(924.6)	(946.1)	(1,365.6)	(1,226.7)	(1,001.5)
Securitised debt (included within gross debt)	Nil	Nil	Nil	(482.7)	(420.1)
Net debt	(774.6)	(785.7)	(549.6)	(904.9)	(838.0)
Cash flow					
Free cash flow	184.3	228.1	283.9	279.8	224.3
Ratios†					
Earnings per share‡	6.3p	7.5p	12.8p	11.9p	9.0p
Dividends per ordinary share	2.6p	3.8p	3.6p	3.0p	2.4p
Free cash flow per ordinary share	14.1p	17.0p	18.9p	21.2p	18.7p
Shares in issue at year end	1,320.9m	1,318.6m	1,407.0m	1,382.5m	1,216.9m
Average number of employees	38,783	40,002	41,254	31,920	32,640

All years have been restated following adoption of FRS 19
*1999 summary information has been restated following adoption of FRS 15
†1998 summary information has been restated following adoption of FRS 12 and FRS 15
†restated to take account of 5 for 1 share split in October 1998
‡before goodwill amortisation and exceptional items

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STAGECOACH *GROUP*

10 DUNKELD ROAD
PERTH
PH1 5TW

Tel: +44 (0)1738 442 111
Fax: +44 (0)1738 643 648

www.stagecoachgroup.com