

# STAGECOACH GROUP

Annual Report and Financial Statements 2007

partnership • innovation • growth



## Business highlights

- Delivering excellent performance and value to shareholders
  - Continued growth in earnings per share† – up 10.4%
  - Underlying revenue growth in all core divisions
  - Around £700m in value returned to shareholders in May/June 2007
  - Dividend increased by 10.8%
- Partnerships and innovation driving growth at UK Bus
  - Continued organic passenger growth – like-for-like volumes up 6.6%
  - Strong revenue growth with like-for-like revenue up 10.3%
  - Like-for-like operating profit up 26.9%
  - Strong marketing, competitive fares strategy and concessionary travel schemes underpin growth
  - Named UK Bus Operator of the Year
- Excellent performance in UK Rail
  - Strong start to new South Western rail franchise
  - Revenue up 12.8%
  - Contract wins: East Midlands; Manchester Metrolink
- Strong growth in North America
  - Operating margin growth from 7.1% to 7.9%, excluding megabus.com
  - Continued strong revenue growth in both scheduled services and leisure markets – constant currency like-for-like revenue up 9.1%
  - Expansion of budget inter-city coach service, megabus.com, in United States
- Growth at Virgin Rail Group
  - Continued revenue growth on West Coast and CrossCountry franchises
  - Winning market share from airlines
  - Good prospects for re-negotiated West Coast franchise
- Stagecoach Group Board appointment
  - Appointment of Garry Watts as non-executive director

## Financial highlights

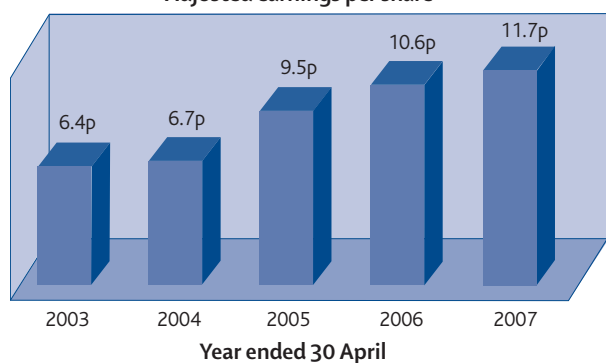
- Revenue from continuing businesses\* up 8.9%
- 10.4% increase in earnings per share †
- Full year dividend up 10.8% at 4.1 pence

	As reported		Excluding intangible asset expenses and exceptional items	
	2007	2006	2007	2006
Revenue from continuing operations (£m)	<b>1,504.6</b>	1,343.9	<b>1,504.6</b>	1,343.9
Total operating profit (£m)	<b>180.9</b>	112.5	<b>161.3</b>	133.0
Profit before taxation (£m)	<b>184.1</b>	91.5	<b>162.0</b>	117.1
Earnings per share (pence)	<b>25.4p</b>	10.7p	<b>11.7p</b>	10.6p
Proposed final dividend (pence)	<b>2.9p</b>	2.6p	<b>2.9p</b>	2.6p
Full year dividend (pence)	<b>4.1p</b>	3.7p	<b>4.1p</b>	3.7p

† excluding intangible asset expenses and exceptional items

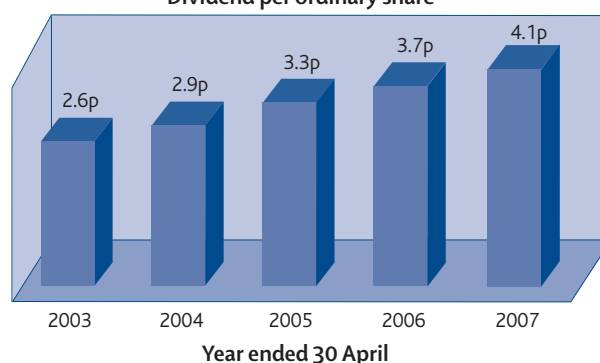
\* excluding 2005/6 acquisition of Glenvale and Traction

Adjusted earnings per share



Adjusted earnings per share is earnings per share before intangible asset expenses and exceptional items. 2003 and 2004 are UK GAAP figures and 2005 to 2007 are IFRS figures.

Dividend per ordinary share



The Group seeks to grow the dividend per ordinary share as earnings grow.

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# 1. Chairman's statement



Stagecoach has delivered a year of strong growth in its bus and rail operations in the UK and North America, providing further excellent returns to our shareholders.

We continue to achieve impressive passenger growth by providing a high quality and 'green' alternative to the car. Across the business, we have achieved strong like-for-like revenue growth and, while cost pressures remain a challenge, we have been able to improve the operating profit margin.

Capitalising on its industry leadership and entrepreneurial flair, the UK Bus division is continuing to perform strongly. The Group's North American operations are benefiting from good revenue growth and a rigorous focus on controllable costs. In Rail, both South West Trains and the Group's joint venture, Virgin Rail Group ("VRG"), are experiencing strong passenger volume and revenue growth and we are excited by the prospects for the new East Midlands rail franchise that we will begin operating in November 2007.

Group revenue from continuing operations for the year ended 30 April 2007 was up 12.0% at £1,504.6m (2006: £1,343.9m). Operating profit from continuing operations before intangible asset expenses and exceptional items\* was £161.3m (2006: £133.0m). Earnings per share before intangible asset expenses and exceptional items were 11.7p (2006: 10.6p). In addition, there were net exceptional gains before tax of £169.6m, principally arising from the profit of £132.2m on the sale of the Group's London bus operations, which was completed in August 2006.

We are proposing a final dividend of 2.9p per share (2006: 2.6p), giving a total dividend for the year of 4.1p (2006: 3.7p). This is an increase of 10.8% and we will look to continue to grow the dividend progressively. The proposed final dividend is payable to shareholders on the register at 31 August 2007 and will be paid on 3 October 2007.

In March 2007, the Board announced plans to return approximately £700m to shareholders in view of the proceeds from the sale of the New Zealand and London bus businesses and continuing strong cash generation across the Group. The proposals, approved by shareholders on 27 April 2007, give the Group a more efficient capital structure. The return of value, which equated to 63.0p per ordinary share, was completed in June 2007.

In February 2007, a Virgin Rail Group Pendolino train travelling from London Euston to Glasgow was derailed near Lambrigg in Cumbria. We were deeply

saddened at the incident, and our condolences go to the family of the passenger who lost her life and those who were injured. The Rail Accident Investigation Board has identified the cause of the accident as a faulty set of points. Responsibility for maintaining the points rests with Network Rail. Virgin Rail Group has been working with Network Rail to ensure lessons are learnt from this serious incident. Network Rail responded quickly to the incident and with a clear chain of command. Precautionary checks on similar sets of points suggested the fault at Lambrigg was an isolated one. It is clear that the quality of the train itself prevented further loss of life. Customers can remain assured that the safety and security of our passengers and our people is paramount for the Group and all its businesses, and this is underpinned by a proactive safety culture.

During the year, Russell Walls stepped down from the Board of Directors and Sir George Mathewson joined the Board as a non-executive director. The Group benefited significantly over six years from Russell's skills and experience and I thank him for his strong contribution. In addition, I am pleased that Garry Watts will join the Group as a non-executive director with effect from 1 July 2007. Garry brings a wide range of experience and I am sure he will make a strong contribution to the Board.

I would again like to thank our employees across our international operations who have ensured that our strategy has been delivered on the ground. Putting passengers first is at the heart of what we do every day and we can look forward with confidence to growing our public transport operations further in the year ahead.

We have made a strong start to the new financial year and current trading of the Group remains in line with our expectations.

A handwritten signature in black ink, appearing to read 'Robert Speirs'.

Robert Speirs  
Chairman

27 June 2007

\* Exceptional items are defined in note 4 of the consolidated financial statements on page 57 of this Annual Report

## 2. Chief Executive's review



We have achieved another strong set of results across the Group, driving growth in our businesses through innovation, partnership and service. Our investment in our operations is attracting increasing numbers of passengers to public transport.

I am delighted that for the second year in a row, we have been independently recognised as running Britain's best bus operator and we are continuing to lead the way in developing new products and new ideas. Our integrated budget websites, megabus.com and megatrain.com, for example, are making access to low-cost bus and rail travel even easier for customers.

During the year, we made a number of small bolt-on asset purchases in our UK Bus business, which have strengthened our existing operations and allowed us to grow the market for bus travel. We have also progressed the integration of our acquired operations in Merseyside, Yorkshire, Lincolnshire and Tayside, which are now making a positive financial contribution to the Group.

The UK Bus division has achieved its fifth successive year of like-for-like passenger volume growth with our continued investment in new, accessible vehicles and industry-leading marketing campaigns. There has also been significant additional travel under the Government's concessionary fares schemes in Scotland, England and Wales.

Our market-leading budget inter-city coach service, megabus.com, has achieved further revenue growth this year, while our joint venture with ComfortDelGro to provide inter-city coach services in Scotland has attracted significant numbers of new passengers following the introduction of an improved network of services.

Stagecoach continues to develop productive partnerships with local authorities and this approach has produced good passenger volume growth at our regional bus companies in the UK. We welcome the UK Government's review of bus services and have been working closely with the Department for Transport ("DfT") and other stakeholders to ensure partnerships between bus operators and local authorities are strengthened as a result of the Draft Local Transport Bill. Buses can play a key role in tackling the twin challenges of congestion and climate change. If the legislation is right, we believe we can build on the growth in bus use we have seen in many towns and cities across the UK and deliver a further step-change in services.

The completion of the sale of our London bus business has allowed our UK Bus division to focus on our strong regional bus operations where we can drive growth through innovation, investment and strong marketing.

Our UK Rail division continues to perform very strongly, combining further profitability with good operational performance. We are working closely with Network Rail to ensure these improvements are supported by a better and more consistent level of infrastructure performance.

We were delighted to win the new South Western rail franchise, which started in February 2007, combining the operations of South West Trains and Island Line. We have transformed services to passengers over the past 10 years by investing in new trains, driving up punctuality and improving customer satisfaction. The new 10-year franchise has started well and we look forward to building on our achievements.

The two Virgin Rail Group ("VRG") franchises, West Coast and CrossCountry, have delivered improved punctuality over the last year. A record 23 million passenger journeys were made on Virgin CrossCountry during the year, following the replacement of the entire train fleet and improved services and connections. On West Coast, passenger volumes have increased by 45% in the last nine years, with the improved service offering resulting in rail services winning market share from airlines, and encouraging travellers to switch from travelling by car to travelling by rail.

The agreement, in December 2006, of new terms for West Coast has put the franchise on a firm commercial footing through to 2012, allowing VRG to focus on growing the railway on a sustainable basis in the long-term interests of passengers, taxpayers and shareholders. Virgin CrossCountry continues to operate on the basis of annual budgets set by the DfT, while we await the outcome of the competition for the New Cross Country franchise.

We are delighted to have been awarded the new East Midlands rail franchise, which is planned to run from November 2007 to March 2015. We are excited by the opportunities to grow our rail portfolio, along with our partners, Virgin. We have submitted joint bids for the New Cross Country and InterCity East Coast rail franchises and we look forward to the Government's announcement of the successful bidders in due course.

In North America, we have achieved further like-for-like revenue growth in our operations in the United States and Canada. We have focused closely on strong operational delivery, particularly in delivering a high quality and safe service, marketing of our core scheduled and leisure services, and winning and retaining contract business. We have been able to grow our successful sightseeing operations by the addition of new products and services, and by offering improved online sales initiatives.

I believe we can look forward to the year ahead with confidence. Future developments in road-pricing and congestion charging, as well as the growing awareness of the environmental impact of car and airline travel, will be positive drivers for the development of our bus, coach and rail businesses.

We have a first-class team of employees and managers who have been central to our success in the past year and we remain committed to delivering for our customers and our shareholders.

A handwritten signature in black ink that reads "Brian Souter". The signature is written in a cursive style and is positioned above a horizontal line.

Brian Souter  
Chief Executive

27 June 2007

## 3. Operating and Financial Review

### 3.1 Introduction

The Directors are pleased to present their report on the Group for the year ended 30 April 2007.

This section 3 contains the Operating and Financial Review, which includes the information that the Group is required to produce to meet the need for a business review in accordance with section 234ZZB of the Companies Act 1985. The Operating and Financial Review also provides significant information over and above the statutory minimum. Biographies of each director are contained in section 4 of this Annual Report and the remainder of the Directors' report is set out in section 5.

The Operating and Financial Review that follows is intended largely to reflect the recommendations of the Accounting Standards Board's 2006 reporting statement of best practice on the Operating and Financial Review. We continue to monitor developments in best practice with a view to further tailoring our Operating and Financial Review to enhance its usefulness to readers of the Annual Report.

### 3.2 Cautionary statement

The Operating and Financial Review has been prepared for the shareholders of the Company, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. This Operating and Financial Review contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this Operating and Financial Review will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

### 3.3 Description of the business

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, United States and Canada. The Group employs around 27,000 people, and operates bus, coach, rail, and tram services. The Group has three main divisions – UK Bus, UK Rail and North America.

Stagecoach Group plc is a public limited company that is incorporated, domiciled and has its registered office in Scotland. Its ordinary shares are publicly traded and it is not under the control of any single shareholder.

Throughout this Annual Report, Stagecoach Group plc is referred to as "the Company" and the group headed by it is referred to as "Stagecoach" or "the Group".

#### 3.3.1 UK Bus

Our UK Bus division connects communities in more than 100 towns and cities across the UK on networks stretching from the Highlands of Scotland to south-west England. These include major city bus operations in Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield and Cambridge.

Our UK Bus division operates a fleet of almost 7,000 buses across a number of regional operating units. Each regional operating unit is managed independently and is led by a Managing Director, reporting directly to the head of the UK Bus division.

Stagecoach operates express coach services linking major towns within its regional operating company areas. The Group also runs the market-leading budget inter-city coach service, megabus.com, which has a network covering around 40 locations. Our joint venture with ComfortDelGro to provide inter city coach services in Scotland has attracted a significant number of new passengers, following the introduction of an improved network of services.

In August 2006, Stagecoach completed the sale of its London bus operations to Macquarie Bank Limited. The sale of the London bus business will allow the UK Bus division to focus on its successful growth strategy outside London.

Following the sale of the Group's London bus operations, our local and express bus services on average carry around 2 million passengers a weekday. Stagecoach's bus and coach services in the UK are operated on a commercial basis in a largely deregulated market. We also operate tendered services, including schools contracts, on behalf of local authorities.

#### 3.3.2 North America

Stagecoach, principally through its Coach USA and Coach Canada brands, is a major provider of transport services in North America. Our businesses include commuter services, tour and charter, sightseeing and school bus operations.

The United States business is headed by a Chief Operating Officer. Stagecoach operates approximately 2,500 vehicles in the United States where our operations are mainly in the states of New York, New Jersey, Pennsylvania, West Virginia, Ohio, Indiana, Illinois and Wisconsin. Our services operate in major cities such as New York City, Newark, Pittsburgh, Chicago and Milwaukee.

In Canada, we own two operating companies, which together operate around 500 vehicles in the Provinces of Quebec and Ontario. The Canadian business is also headed by a Chief Operating Officer.

#### 3.3.3 UK Rail

Stagecoach Group has major rail operations and has an involvement in operating around a quarter of the UK passenger rail network. The UK rail market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the DfT on the basis of bids by train operators.

Our principal wholly-owned rail business is South Western, which incorporates the South West Trains and Island Line networks. South West Trains runs around 1,600 train services a day in south-west England out of London Waterloo railway station, while Island Line operates on the Isle of Wight. The South Western franchise is expected to run until February 2017. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. In May 2007, we signed a contract with Greater Manchester Passenger Transport Executive ("GMPTÉ") to operate and maintain the Manchester Metrolink tram network and expect to commence operations under the 10-year contract in July 2007.

The division will also commence operations of the new East Midlands franchise in November 2007, which combines mainline services from London St. Pancras railway station with regional services in the East Midlands region. The new franchise will run until 1 April 2015 assuming the Group meets agreed performance targets.

Stagecoach Group's rail division is headed by a Chief Executive, who reports directly to the Group Chief Executive. South West Trains and Supertram each has a Managing Director, who reports to the Chief Executive of the Group's rail division, who is also Chairman of the South Western franchise.

#### 3.3.4 Joint Ventures

##### 3.3.4.1 Virgin Rail Group

Stagecoach Group has a 49% shareholding in Virgin Rail Group ("VRG"), which operates the West Coast and CrossCountry rail franchises. The other shareholder in VRG is the Virgin Group of Companies. The Chief Executive of Stagecoach Group's rail division is Joint Chairman of VRG. The joint venture has submitted a bid for a new expanded Cross Country franchise, which is being tendered by the Government and will run from November 2007. New commercial terms for the West Coast franchise were agreed in December 2006 and the renegotiated franchise runs through until 2012. VRG has a Chief Executive, who reports to the VRG board, which includes Stagecoach Group representatives.

##### 3.3.4.2 Scottish Citylink Coaches Limited

In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro, to operate megabus.com and Scottish Citylink coach services. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading provider of express coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.

##### 3.3.4.3 New York Splash Tours

In North America, Stagecoach has a joint venture, New York Splash Tours LLC, with Port Imperial Duck Charters, LLC. Splash Tours began operating sightseeing tours in May 2007 using amphibious vehicles. The vehicles operate in the Hudson River and on land in the city of New York. Splash Tours complements the Group's wholly owned New York sightseeing tours business, Grayline New York.

## 3.4 Resources and relationships

### 3.4.1 Resources

Stagecoach Group has a range of resources that underpin its business and support its strategy. These assist in giving the Group a competitive advantage in the markets in which it operates. We continue to invest in the areas listed below to maintain our position among the market leaders in the public transportation sector.

#### 3.4.1.1 Employees

Stagecoach Group's most important resource is its employees. We seek to recruit and retain the best employees in our sector, offering an excellent package of benefits, which allows us to deliver good customer service to our passengers. The Group's individual divisions invest significantly in the training and development of our people and we operate a successful graduate training scheme which provides one source of training for the managers of the future. We also encourage our people to give something back to their local community and many are regularly involved in fundraising, payroll giving and in-kind support to a wide range of good causes. Further information about our commitment to corporate social responsibility is set out on pages 16 to 19.

#### 3.4.1.2 Market research

An important element of the Group's success in growing its customer base lies in a track record of product innovation and new ideas on developing effective public transport systems. The Group invests significantly each year in market research. We have a dedicated telemarketing unit in the UK that communicates with current customers and non-users to build a detailed profile of what attracts people to use our services.

#### 3.4.1.3 Corporate reputation, brand strength, and market position

Stagecoach is one of the best known public transport operators in the UK and is consistently rated highly for the quality of its services in research by Government and other independent organisations. We value our reputation, both as a public transport provider and as a key part of the communities in which we operate. Stagecoach has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

#### 3.4.1.4 Natural resources and manufacturing technology

Operating our bus and rail services requires considerable use of natural resources, including diesel and electricity. We have arrangements in place to ensure that these resources are sourced as efficiently as possible and that our supplies are maintained to ensure the smooth functioning of our business. A number of experienced manufacturers supply our buses, coaches, trains and trams, which are produced to detailed specifications relevant to the individual markets in which they are required. We have carried out consultation with customer groups to ensure vehicle interiors meet the needs of our passengers.

#### 3.4.1.5 Licences

Various licences are held by Stagecoach giving authority to operate our public transport services and these are maintained up to date as required.

### 3.4.2 Relationships

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

- Our People – we have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.
- Investors and the financial community – our shareholders are critical to our business success. We have a regular programme of meetings with investors and provide frequent updates to the markets and financial community on our performance. We are a constituent of the FTSE4Good index, which sets standards and tracks the performance of the leading socially responsible companies around the globe.
- Customers – millions of people use our services every day. We conduct extensive customer research to monitor our performance and to determine how we can improve the delivery and accessibility of our services.

- Customer Interest Groups – our businesses have a regular and ongoing dialogue with bus and rail user groups. This includes presentations from senior managers on detailed aspects of our service as well as consultation and information sharing on particular issues.
- Government – senior executives have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. In the UK, we work closely with the Department for Transport ('DfT'), the Scottish Executive, Transport Scotland, the Welsh Assembly, and Transport for London ('TfL').
- Transport Authorities – we work closely with local authorities, including Passenger Transport Executives, Regional Transport Committees and Transit Authorities, in the delivery and planning of bus and rail services. Many of our businesses have partnership agreements in place to improve the delivery of public transport in their areas.
- Government Advisory Bodies and Lobbying Groups – we also have constructive dialogue with organisations such as the Commission for Integrated Transport, which provides advice to the UK Government, and lobbying groups such as Transport 2000.
- Transport and Industry Representation Groups – we are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail) and the Association of Train Operating Companies.
- Suppliers – we rely on a range of suppliers to provide goods and services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers

## 3.5 Group business objectives and long-term strategy

### 3.5.1 Business objectives and long-term strategy

The key elements of Stagecoach Group's business strategy to deliver long-term shareholder value are:

- To deliver organic growth across all of the Group's operations;
- To acquire businesses that are complementary to the Group's existing operations, in areas where the Group's management has proven expertise and which offer prospective returns on capital in excess of the Group's weighted average cost of capital;
- In addition to organic and acquisition growth, to maintain and grow the Group's Rail business by bidding for selected rail franchises and to seek to secure new franchises where the risk/return trade-off is acceptable.

A fundamental objective underlying this strategy is the continued provision of safe and reliable services to passengers.

Stagecoach Group has demonstrated particular strength in managing bus and coach businesses that operate scheduled services in a relatively deregulated environment. The Group's focus is on operations with critical mass in their own local markets. In rail, Stagecoach's skill centres on organic revenue and passenger volume growth, the management of significant change projects, the delivery of improved operational performance, and driving up customer satisfaction.

Our overall business strategy is supported by a financial strategy whereby we seek to maintain a long-term efficient capital structure.

### 3.5.2 Key Performance Indicators

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level. The most important of these KPIs at a Group level focus on five key areas:

- Safety
- Profitability
- Organic growth
- Service delivery
- Staff retention

## Operating and Financial Review

### 3.5.2.1 Safety

In addition to providing reliable services, we seek to ensure the safety of our passengers, staff and others. Health and safety matters are discussed on page 17 of this Annual Report. Safety is monitored in various ways, including through a range of KPIs. Three of the more important KPIs are reported below. Disposed businesses are excluded from the safety KPIs.

The safety KPIs were as follows:

	Target	Year ended 30 April 2007	Year ended 30 April 2006
UK Bus – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	33.2	33.8
US – number of blameworthy accidents per 1 million miles travelled		12.0	13.5
South West Trains – workforce lost time injuries per 1,000 staff		1.8	1.5

### 3.5.2.2 Profitability

The Group seeks to increase long-term value to its shareholders. While the Group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. For the Group as a whole, the key measure of short-term financial performance is earnings per share, before exceptional items and intangible asset expenses ("Adjusted EPS"). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude exceptional items and intangible asset expenses) divided by the weighted average number of ordinary shares ranking for dividend during the relevant period.

Adjusted EPS was as follows:

	Target	Year ended 30 April		
		2007 pence	2006 pence	2005 pence
Adjusted EPS	To increase in excess of inflation	11.7p	10.6p	9.5p

### 3.5.2.3 Organic growth

A key element underpinning the Group's strategy is to deliver organic growth in revenue. The following measures of organic growth are monitored in respect of the Group's three divisions:

- UK Bus – growth in passenger journeys measured as the percentage increase in the number of passenger journeys relative to the equivalent period in the previous year.
- Rail – growth in passenger miles measured as the percentage increase in the number of miles travelled by passengers relative to the equivalent period in the previous year.
- North America – growth in constant currency revenue from continuing operations (excluding closed units) measured as the percentage increase in revenue relative to the equivalent period in the previous year.

The measures vary by division reflecting differences in the underlying business – for example, not all passenger revenue in North America is determined on a "per passenger" basis.

Throughout this Annual Report, references to passenger volume growth for UK Bus or Rail businesses mean growth determined on the basis set out here.

All of these growth KPIs involve a degree of estimation in respect of passenger volumes and are normalised to exclude businesses that have not been held by the Group for the whole of both periods.

The organic growth KPIs were as follows:

	Target	Year ended 30 April 2007 Growth %	Year ended 30 April 2006 Growth %
UK Bus passenger journeys	Positive growth each year	6.6%	2.1%
UK Rail passenger miles		8.9%	1.3%
– South West Trains		11.1%	21.3%
– VRG - West Coast		11.0%	4.3%
– VRG - CrossCountry		9.1%	11.0%
North America revenue			

### 3.5.2.4 Service delivery

We aim to provide a reliable service to support our organic growth strategy. Our measures of service delivery include:

- UK Bus – reliability measured as the percentage of planned miles to be operated that were operated, adjusted to exclude the discontinued London operations.
- Rail – punctuality measured on the basis of the DfT's Public Performance Measure (moving annual average) being the percentage of trains that arrive at their final destination within 5 minutes (or 10 minutes for inter-city services) of their scheduled arrival time having called at all scheduled stations.

Due to the nature of the North American business, there is no single measure of service delivery for the North American division as a whole.

The service delivery KPIs were as follows:

	Target	Year ended 30 April		
		2007 %	2006 %	2005 %
UK Bus reliability	>99.0%	<b>99.4%</b>	99.4%	99.4%
UK Rail punctuality				
– South West Trains	>90.0%	<b>90.0%</b>	90.0%	82.5%
– VRG - West Coast	>85.0%	<b>85.8%</b>	84.2%	72.5%
– VRG - CrossCountry	>80.0%	<b>82.9%</b>	81.3%	77.5%

### 3.5.2.5 Staff retention

As noted on page 16, the Group's most important resource is its employees. We monitor staff turnover which is measured as the number of employees who left the Group (other than through business disposals) during the period as a proportion of the total average employees during the period.

Staff turnover for the last three years in our continuing businesses was as follows:

	Target	Year ended 30 April		
		2007 %	2006 %	2005 %
UK Bus staff turnover		<b>23.3%</b>	22.7%	28.1%
UK Rail staff turnover				
– South West Trains	To decrease each year	<b>10.9%</b>	8.8%	10.7%
– VRG		<b>5.8%</b>	6.2%	7.7%
North America staff turnover		<b>21.2%</b>	21.9%	24.0%



# Operating and Financial Review

## 3.6 Overview of financial results

Stagecoach Group has produced an excellent set of results for the year ended 30 April 2007.

Revenue by division (excluding discontinued operations) is summarised below:

REVENUE	2007	2006		2007	2006	
	£m		Currency	Local Currency (m)		Growth %
<b>Continuing Group operations</b>						
UK Bus	608.0	551.1	£	608.0	551.1	10.3%
North America – excluding megabus.com and closed units	238.0	235.3	US\$	454.6	417.6	8.9%
North America – megabus.com	2.4	Nil	US\$	4.7	Nil	
North America – closed units	2.3	12.3	US\$	4.3	21.9	
UK Rail	571.5	506.7	£	571.5	506.7	12.8%
	<b>1,422.2</b>	<b>1,305.4</b>				
<b>Acquisitions during 2005/06</b>						
UK Bus – Glenvale	21.3	17.4	£	21.3	17.4	
UK Bus – Traction	61.1	21.1	£	61.1	21.1	
	<b>82.4</b>	<b>38.5</b>				
<b>Total Group revenue</b>	<b>1,504.6</b>	<b>1,343.9</b>				

Operating profit/(loss) by division (excluding discontinued operations) is summarised below:

OPERATING PROFIT/(LOSS)	2007		2006			2007	2006
	£m	% of revenue	£m	% of revenue	Currency	Local Currency (m)	
<b>Continuing Group operations</b>							
UK Bus	82.5	13.6%	65.0	11.8%	£	82.5	65.0
North America – excluding megabus.com, including closed units	19.1	7.9%	17.7	7.1%	US\$	36.6	31.5
North America – megabus.com	(1.0)	(41.7)%	(0.8)	n/a	US\$	(2.0)	(1.5)
UK Rail	58.8	10.3%	58.9	11.6%	£	58.8	58.9
Group overheads	(11.1)		(10.0)				
Restructuring costs	(3.2)		(1.5)				
	<b>145.1</b>		<b>129.3</b>				
<b>Acquisitions during 2005/06</b>							
UK Bus – Glenvale	(0.3)		(2.3)				
UK Bus – Traction	2.3		0.4				
<b>Joint ventures and associates</b>							
Virgin Rail Group	13.5		5.5				
Citylink	0.9		0.1				
Splash Tours	(0.2)		Nil				
<b>Total operating profit before intangible asset expenses and exceptional items</b>	<b>161.3</b>		<b>133.0</b>				
Share of VRG exceptional gain on Trainline	5.4		Nil				
Pension past service adjustment	28.9		Nil				
Intangible asset expenses	(14.7)		(20.5)				
<b>Total operating profit</b>	<b>180.9</b>		<b>112.5</b>				

## 3.7 Divisional Performance

### 3.7.1 UK Bus

Revenue in our UK Bus division, excluding acquisitions during 2005/6 and discontinued operations, increased by 10.3% to £608.0m (2006: £551.1m) and equivalent operating profit\* was £82.5m, compared to £65.0m in the previous year. Operating margin was 13.6% compared to 11.8% in 2006. The increased profit and margin reflects the benefits of continued strong revenue growth, stable insurance and claims costs, returns on additional pension contributions and close control of costs generally.

The integration of Glenvale Transport Limited and Traction Group Limited, the regional bus operations we acquired last year, is progressing well. Revenue for the year ended 30 April 2007 for these businesses was £82.4m (2006: £38.5m) and the operating profit was £2.0m (2006: operating loss of £1.9m).

We are particularly pleased to have grown the total UK Bus operating profit in a year where we also collected £267.8m in cash from the sale of our London bus operations. This is illustrated below:

	2007	2006
	£m	£m
Like-for-like UK Bus	82.5	65.0
2005/06 UK Bus acquisitions	2.0	(1.9)
London Bus	5.2	23.6
<b>Total UK Bus</b>	<b>89.7</b>	<b>86.7</b>

The division performed particularly well in the second half of the year to 30 April 2007 reflecting continued strong revenue growth, management action to mitigate increasing pension costs, more stable fuel costs and improving profitability at businesses acquired in 2005/6.

### Investment, innovation and growth

Stagecoach was named Bus Operator of the Year for the second year running at the 2006 UK Bus Awards for its West Scotland operations. Our strong track record in operating high-quality bus and coach services has delivered a fifth successive year of like-for-like passenger volume growth in our UK Bus division. New product development, investment and tailored marketing initiatives, combined with concessionary travel schemes in Scotland, England and Wales, has driven a 6.6% growth in like-for-like passenger volumes. We estimate that underlying full fare passenger volume growth was around 2.4% with the remaining growth coming from concessionary travel schemes.

We have invested £58.5m in the year to 30 April 2007 in the continuing modernisation of our UK Bus fleet, delivering more low-floor accessible buses and a more comfortable travelling environment for passengers. Stagecoach has strong confidence in the potential for future organic growth and we have already committed to introduce a further 540 new vehicles in 2007/8 at a total cost of around £65m. This investment and innovation has again grown our customer base as we attract more people out of their cars and on to our public transport services.

We have also progressed the integration of the Glenvale and Traction Group operations into our UK Bus division. Our significant investment in new vehicles and improved services in these businesses is stimulating passenger growth. The integrated bus and tram network in Sheffield is performing particularly strongly.

Our market-leading budget inter-city coach service, megabus.com, has achieved further revenue growth this year, while our joint venture with ComfortDelGro to provide inter-city coach services in Scotland has attracted significant numbers of new passengers following the introduction of an improved network of services.

megabus.com, the UK's market-leading inter-city bus service, has generated increased revenue during the year and made an operating profit of £0.2m. We have a network of services covering around 40 locations in the UK. Around 2 million passenger journeys have been made on megabus.com branded services during the year and we have improved both the average load factor and average fare. More modern double-decker coaches and a comprehensive package of press, billboard, radio and web-based marketing emphasising the environmental benefits of coach travel have helped drive further passenger growth during the year.

### Provincial and city networks

Growth in our provincial and city networks has been supported by our focus

on customer profiling research and targeted marketing. Our expanded telemarketing unit at our headquarters in Perth has encouraged non-users, including motorists, to switch to bus travel through a package including the offer of a week's free travel. We have now completed more than 50 projects in the UK, covering around 500,000 potential customers. In addition, we are now working with a number of local authorities, Passenger Transport Executives and bus operator partners on similar telemarketing initiatives.

### London

In August 2006, Stagecoach completed the sale of its London bus operations to Macquarie Bank Limited for £267.8m in cash, resulting in a consolidated gain on disposal of £132.2m. The cash proceeds and gain on disposal are higher than reported in our results for the six months ended 31 October 2006 principally as a result of the impact of finalising and agreeing the disposal completion accounts in January 2007. Stagecoach London provided bus services on routes within and from London, principally under contract from TfL. The London bus operations were a highly successful part of Stagecoach's UK Bus division since 1994. After assessing Macquarie's offer and the prospects for the London bus operations, the Board concluded that the disposal was in the best interests of shareholders. The sale of the London bus business has allowed the UK Bus division to focus on its successful growth strategy outside London. The Group's results for the 12 months ended 30 April 2007 include profit after tax (before the exceptional gain on disposal) from the discontinued London bus operations of £4.0m (2006: £17.4m) for the period up until disposal.

### Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to increase the quality of bus provision for our customers. We believe strong partnerships are the key to improving services for passengers. Buses have a crucial role to play in meeting the transport challenges facing our country and we have been engaging with the DfT and other stakeholders as part of the UK Government's current review of bus services. Stagecoach has consistently attracted more people on board its buses in both metropolitan areas and shire counties for the past five years. It is crucial that any new legislation recognises the strengths of the private sector in delivering and improving public transport, avoids unnecessary regulation and works in the best interests of passengers, taxpayers and the future of the bus industry.

In Scotland and Wales, we continue to work with the devolved administrations to successfully deliver national concessionary fares schemes. Stagecoach is also working with local authorities in England to deliver the Government's commitment to free local bus travel for senior citizens and people with disabilities. We believe it is crucial that these schemes are fully funded and bus operators are properly reimbursed in line with the legislation.

Our bus companies have built close relationships with the National Transport Agency for Scotland and Regional Transport Partnerships. We are also helping make travel easier for customers by partnership with local authorities on smartcard, multi-operator ticketing schemes and real time information. Several of our companies also have close links with businesses and educational establishments to encourage travel by public transport and help reduce congestion in our towns and cities. In Cambridge, we are working with the county council on timetables, ticketing and other operational issues linked to the development of the world's longest bus-only route, a 25km guided busway between Cambridge and St Ives, due to open in 2009.

### Park and ride

We believe there is major opportunity to develop park and ride around the UK as a solution to the problem of increasing congestion in and around our main towns and cities. Stagecoach is a partner with local authorities in a number of high-quality park and ride sites where there has been significant growth. We believe there is also a significant untapped potential in metropolitan areas to use a network of bus-based park and ride sites to tackle urban traffic congestion.

### Kickstart

Stagecoach is continuing to achieve excellent passenger growth from a series of Kickstart schemes around the country. We are involved in a range of successful projects using the pump-priming model in partnership with local authorities in Scotland, England and Wales. These partnership projects have achieved particularly impressive growth in areas such as Ayrshire, Fife, North-east Scotland, Teeside, Tyne and Wear, Lancashire, Greater Manchester, Lincolnshire, Oxfordshire, Gloucestershire, Hampshire, Kent, Surrey, Sussex, Devon and South Wales.

\* References to the operating margin, profit or loss of a particular business in the Operating and Financial Review refer to margin, profit or loss before interest, taxation, restructuring costs, intangible asset expenses and exceptional items.

# Operating and Financial Review

## 3.7.2 North America

North American trading continues to be encouraging and has benefited from good revenue growth. While the claims environment in the United States remains challenging, we anticipate growth will continue in the year ahead.

Revenue for the year was US\$463.6m (2006: US\$439.5m). On a like-for-like basis, excluding closed businesses, constant currency revenue was up by 9.1%. Operating profit was US\$34.6m (2006: US\$30.0m), resulting in an operating margin of 7.5%, compared to 6.8% the previous year. Converted to sterling, revenue for the year was £242.7m (2006: £247.6m). Operating profit for the year was £18.1m (2006: £16.9m). Excluding the early-stage North American megabus.com operations, which reported an operating loss of US\$2.0m (2006: US\$1.5m) on revenue of US\$4.7m (2006: US\$Nil) for the year, the operating margin was up from 7.1% to 7.9%.

Our highly successful sightseeing businesses in New York and Chicago continue to experience strong revenue growth, up 12.7% on the prior year. We have continued to invest in the quality of our fleet, strong marketing and the development of new and innovative tours. Through our Splash Tours joint venture with Port Imperial Duck Charters, a new amphibious bus tour is being added to our product offering in New York for the current season.

We have seen continued revenue and passenger growth in our express, commuter and scheduled airport services. Revenue growth has been particularly strong in our US scheduled service businesses, with a like-for-like increase of 9.8% over the prior year. Charter revenue growth also continues to be encouraging.

Our budget coach operation, megabus.com, was launched in the United States in spring 2006. It has now carried around 400,000 passengers, attracted by fares as low as US\$1, and has generated more than US\$4.7m in revenue. The success of our initial trial network between Chicago and eight other Midwest cities resulted in the extension of the concept to an additional five cities in April 2007. megabus.com, which is ahead of our original business plan, now covers the states of Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio and Pennsylvania. We have attracted significant numbers of passengers from the car, budget airlines, the train and competing coach operators and we believe there is significant potential to develop the brand. As part of our development plans, we are looking at other areas of the US suited to the budget inter-city coach model, including states in the south west where we can franchise the megabus.com concept. We are also continuing to invest in the quality of our megabus.com fleet in the US and we expect to introduce new vehicles on the network later this year.

Student transportation services in Wisconsin have continued to perform well and we have been awarded a number of district contract renewals for an additional three years.

In Canada, Canadian dollar revenue has grown by 10.7% despite a very competitive environment. During the year, we secured a nine-year contract to provide employee transport at Trudeau International Airport in Montreal. Charter and scheduled service revenues have seen satisfactory growth.

## 3.7.3 UK Rail

The Group's rail division has had another excellent year. Revenue from our UK Rail subsidiaries for the year ended 30 April 2007 was up by 12.8% to £571.5m (2006: £506.7m), which includes some recovery from the impact of the terrorist bombings in London in July 2005. Operating profit was £58.8m (2006: £58.9m), giving an operating margin of 10.3% (2006: 11.6%) - this includes 12 weeks' results from the new South Western franchise where, as we expected, the operating margin is less than that we earned under the previous franchises.

Rail bid costs of £13.0m (2006: £11.7m) were expensed during the year in arriving at the UK Rail operating profit of £58.8m (2006: £58.9m).

### 3.7.3.1 South West Trains

Stagecoach Group began operating the new 10-year South Western franchise, which is made up of the South West Trains and Island Line networks, in February 2007. Management is fully focused on delivery of our commitments to passengers, Government and our shareholders.

Passenger volumes at South West Trains are continuing to grow strongly and were up 8.9% in the year. UK rail has continued to benefit from a strong

economy, new housing developments, modal shift as passengers prefer the train to their cars and from the impact of inward migration to the UK.

We are continuing to deliver high operational performance across what is arguably the most complex rail network in the UK. The delay minutes caused by South West Trains are now less than half the level they were before the GNER train accident at Hatfield in 2000. It is disappointing that delay minutes caused by Network Rail to South West Trains services remain above the pre-Hatfield level. In the year to 30 April 2007, while South West Trains' delay minutes fell 16.3%, Network Rail's increased 13.9%. We will continue to work closely with Network Rail to help deliver the improvements to infrastructure performance that allow our customers to experience the high level of service they deserve.

Our fleet of state-of-the-art Desiro trains, which have delivered a step-change in passenger comfort, is running well. Our focus on providing a safe and secure travelling environment has also resulted in significant cuts in crime on the network.

South West Trains has already taken a number of initiatives to improve services to passengers in line with its commitments under the new franchise. The plans include £20m of car parking improvements, refurbishment of 14 major stations, installation of ticket barriers at 13 more stations, and the introduction of Smartcard ticket technology, compatible with the Oyster system in the London area. We are also committed to providing 21% more mainline peak seats and a 20% increase in peak suburban capacity.

megatrain.com, the Group's innovative budget rail initiative, has now attracted more than 200,000 passenger bookings. Up to 1,000 customers a day are taking advantage of the bargain off-peak fares from £1 on offer on the South West Trains and Virgin CrossCountry rail franchises, covering around 20 destinations across the UK. The website has also been integrated with megabus.com to make access to low cost bus and rail travel even easier for customers. We plan to extend megatrain.com to the new East Midlands franchise, which we will begin operating in November 2007.

In March 2007, we introduced a new range of off-peak flexible ticket options, with different prices depending on the time of travel. This is in line with a number of other train companies that use a similar pricing structure and allows us to better match demand and pricing.

Making the best use of capacity within existing infrastructure is a critical challenge and under the new franchise we are committed to providing 21% more mainline peak seats and a 20% increase in peak suburban capacity.

A fleet of 17 Desiro class 450s, which provides an extra 4,500 seats during peak times, is now in passenger service. We have also introduced nine three-car Class 158s to replace existing two-car trains on the West of England line.

The £67m refurbishment of the 91-unit Class 455 fleet operating on suburban routes is progressing well. The partnership project with the DfT, TfL, Porterbrook (the train lessor) and Bombardier (the train manufacturer) is expected to be completed by spring 2008, delivering improved reliability and better passenger circulation due to the revised internal layout of the units.

### 3.7.3.2 Island Line

Island line, which is now part of the enlarged South Western franchise, became the first rail operation in the UK to be designated as a Community Rail route by the DfT. Designation changes the approach to running the line, with greater emphasis on local management and meeting local needs. In March 2007, Island Line's six two-car Class 483 electric trains were bought by Stagecoach for a nominal sum from HSBC Rail, which previously leased the trains to Island Line. The trains, which provide 68 services a day between Ryde Pier and Shanklin, are now being repainted, along with some of the stations.

### 3.7.3.3 Supertram

Passenger volumes at Sheffield Supertram continue to grow and the tram operation is now carrying a record 14 million people a year. A major three-year project is underway to refresh the livery and interiors of the 25-strong tram fleet and 10 improved vehicles have entered service. The programme is improving comfort and accessibility for passengers, as well as helping to maintain the fleet's high standard of reliability. Stagecoach's integrated tram and bus network in Sheffield, which offers joint tram and bus ticketing, has succeeded in attracting more passengers to both modes of transport.

### 3.7.3.4 Rail franchising opportunities

Stagecoach is continuing to target rail franchise opportunities where we believe we can develop high quality, innovative, value-for-money and deliverable proposals that can add value to passengers, Government and our shareholders.

During the year, we won the new 10-year South Western rail franchise, which will allow us to build on our record of achievement at South West Trains and Island Line in driving up operational performance and customer satisfaction, as well as introducing new ideas to attract more people to rail travel.

In April 2007, Stagecoach Group plc was selected GMPTe to operate and maintain the Manchester Metrolink tram network. Nearly 20 million passengers travel every year on the 37km Metrolink network. The contract will run for a 10-year term and is expected to commence shortly. It will include managing a number of special projects sponsored by GMPTe to improve the trams and infrastructure to benefit passengers. Stagecoach will also be responsible for operating tram services on the new Metrolink lines to Oldham, Rochdale, Droylsden and Chorlton.

On 22 June 2007, we welcomed the decision by the DfT to award the Group the new East Midlands rail franchise. The new 7-year and 4-month franchise, which is worth £235m in annual revenue, will run from 11 November 2007. The last 16 months are dependent on meeting performance targets. We engaged with more than 80 local, regional and national stakeholder organisations in developing our proposals for East Midlands, which combines the current Midland Mainline franchise and regional services transferred from Central Trains.

We have an interest in other bids for rail franchises where we believe our expertise and ideas can improve services to passengers. VRG, where Stagecoach has a 49% shareholding, submitted its plans earlier this year for the New Cross Country franchise, which is expected to start in the autumn and run until March 2016. The DfT is expected to make its decision in summer 2007. We have also partnered with Virgin and GNER Holdings to bid for InterCity East Coast, one of the UK's flagship franchises. The Group would have a 45% interest in the business if the joint venture's bid is successful. The franchise operation involves the running of regular services between London King's Cross, Peterborough, Doncaster, Leeds, York, Newcastle, Edinburgh and Glasgow, with a limited number of services extending to Inverness, Aberdeen, Hull, Bradford, Skipton and Harrogate. The DfT anticipates that the new franchise will commence in late autumn 2007 and will continue until March 2015. The DfT is expected to make an announcement on the successful bidder later this year.

## 3.7.4 Joint Ventures

### 3.7.4.1 Virgin Rail Group

Our share of VRG's profit after tax for the year was £18.9m (2006: £5.5m), after taking account of costs associated with VRG's bid for the New Cross Country franchise. This includes an exceptional gain of £5.4m in relation to our share of the gain on disposal of Trainline. Our share of operating profit, excluding the exceptional credit, was £12.4m (2006: £5.3m), our share of finance income was £3.7m (2006: £1.7m) and our share of taxation charges was £2.6m (2006: £1.5m).

We were pleased that in December 2006 VRG and the DfT agreed new commercial terms for the West Coast franchise through to March 2012. Passengers will benefit from a new timetable and enhanced frequencies, continued focus on further improvements to punctuality, as well as extra seats and a major increase in daily train services from December 2008. Separate proposals being discussed with the DfT would provide further extra seats by lengthening VRG's 53 nine-car Pendolino trains.

VRG has launched a major marketing campaign to attract more travellers, emphasising its value-for-money fares and the environmental benefits of travelling by rail compared to car and air. This has resulted in significant growth, with customers taking advantage of lower cost advance purchase tickets.

Passenger volumes on Virgin West Coast have increased by a further 11.1% over the past year. During 2006, Virgin's Pendolino services have continued to win market share from the airlines, particularly on the London-Manchester and London-Liverpool routes. Similarly, the Virgin CrossCountry franchise has grown passenger volumes by 11.0% over the past year and now handles in excess of 23 million passenger journeys a year.

### 3.7.4.2 Scottish Citylink Limited

Our share of Citylink's profit after tax for the year was £0.9m (2006: £0.1m). The improvements made by our inter-city coach joint venture have marked the return of the coach as a real alternative to the train and the car. Citylink has achieved significant passenger growth on its inter-city coach service in addition to new journeys under the Scottish Executive's national concessionary travel scheme. This is as a result of better connections, faster services and lower fares. Total like-for-like passenger volume growth in the year was 36% (compared to the equivalent period last year including the period prior to the formation of the joint venture), which we estimate represents full fare passenger growth of 20% with the remainder coming from growth in the concessionary travel scheme.

Under the Scottish Citylink joint venture, the Scottish coach network has benefited from a simpler, integrated timetable, faster and more frequent journeys, and excellent value-for-money fares.

Although it has a minimal financial impact for the Group, we were extremely concerned about the principles of the decision of the Competition Commission requiring the divestment of some routes operated by the joint venture. The findings were out of step with the majority of evidence presented to the Commission by a range of independent parties, inconsistent with a number of previous inquiries into the Scottish public transport market, and contrary to Scottish Executive transport policy.

MPs, MSPs, local authorities, regional transport partnerships, councillors, passenger groups, trade unions and members of the public have already expressed universal concern at the Commission's decision. While we continue to disagree with the ruling, we are now working with the Commission to implement its decision.

## 3.8 Other financial matters

### 3.8.1 Depreciation and intangible asset expenses

Earnings from continuing businesses before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £229.6m (2006: £194.0m). Depreciation from continuing businesses for the year was £68.3m (2006: £61.0m). The income statement charge for intangible assets decreased from £20.5m to £14.7m. This reduction of £5.8m principally reflects the £8.0m decrease in the goodwill charge for Virgin Rail Group, which totalled £5.1m (2006: £13.1m) for the year. The reduced goodwill charge for Virgin Rail Group is because the prior year amount included additional charges due to the status of negotiations on VRG's franchises.

### 3.8.2 Exceptional items

Net exceptional gains before taxation of £169.6m (2006: £17.4m) were recognised in the year. This included a gain of £132.2m on the disposal of the Group's London bus operations, an adjustment to the gain on the prior year sale of the Group's New Zealand operations of £0.6m, a non-cash gain of £28.9m relating to a past service pensions adjustment on the Stagecoach Group Pension Scheme, a £5.4m gain being our share of VRG's gain on the disposal of its investment in Trainline Holdings Limited and £1.1m of other losses relating to disposed operations. Also, a gain of £3.6m (2006: £0.8m) was recognised on the sale of properties.

A tax charge of £8.7m (2006: credit of £2.8m) was recognised in respect of exceptional items resulting in a net exceptional gain after tax of £160.9m (2006: £20.2m).

# Operating and Financial Review

## 3.8.3 Net finance income/costs

Net finance income from continuing operations was £0.7m compared to net finance charges of £15.9m in the previous year, because of a lower average net debt during the year principally as a result of the disposal of our London bus business. As a result of the recent return of value, described in section 3.8.13 of this Annual Report, the Group now has a more efficient capital structure that has resulted in a lower number of ordinary shares but will mean a significant increase in financial charges in the year ending 30 April 2008.

## 3.8.4 Taxation

Including the tax charge that is presented as a component of the share of profit from joint ventures but excluding any tax in relation to the discontinued London bus and New Zealand operations, the tax charge for the year of £46.6m (2006: £21.8m) represents an effective tax rate of 24.9% (2006: 23.4%). The equivalent effective tax rate before intangible asset expenses and exceptional items is 24.7% (2006: 22.6%).

The above tax charge is reconciled to the reported tax charge of £43.6m (2006: £20.3m) analysed in note 8 to the consolidated financial statements by the reclassification of the tax of £3.0m (2006: £1.5m) in respect of joint ventures.

## 3.8.5 Earnings per share

Overall earnings per share before intangible asset expenses and exceptional items increased by 10.4% to 11.7p, compared to 10.6p in 2006, reflecting the strong trading performance at each of our core divisions. Basic earnings per share increased sharply from 10.7p to 25.4p, reflecting the net exceptional gains noted in section 3.8.2 of this Annual Report.

## 3.8.6 Liquidity

The Group has complied with all of its banking covenants throughout the financial year. The Group is subject to certain market standard banking covenants which include a limit on the level of net debt compared to EBITDA.

As at 30 April 2007, the Group's committed credit facilities were £1,085.5m (2006: £644.3m), £307.9m (2006: £295.1m) of which were utilised, including utilisation for the issuance of bank guarantees, bonds and letters of credit.

The Group's liquidity position improved during the year following the cash received in relation to the disposal of the Group's London bus operations.

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The rail operations maintain cash balances to meet working capital requirements and the franchise agreements restrict the transfer of this cash: unless DfT consent is obtained, cash can only be transferred by loan or dividend to the extent that the relevant train operating company has distributable profits, and the franchise is within the liquidity ratios specified in its franchise agreement.

Cash collateral of £33.4m was held as at 30 April 2007 (2006: £33.8m) comprising balances held in trust in respect of loan notes of £32.3m (2006: £33.0m), £0.4m (2006: £Nil) held in Escrow in relation to the sale of businesses and North America restricted cash balances of £0.7m (2006: £0.8m). In addition, cash includes train operating company cash of £96.2m (2006: £89.2m).

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has an investment grade rating which should allow it access at short notice to additional bank and capital markets debt funding.

The return of value that took place in May/June 2007 (see section 3.8.13) was funded from the Group's available cash balances and bank facilities.

The Group's principal lines of credit have been arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the return of value (the "Facilities") and other facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit (the "Bonding Facilities").

The Facilities amount in total to £682m and have been provided on a bi-lateral basis with ten banks. Of these Facilities, nine mature in

approximately five years in March 2012, and one facility matures in approximately three years in March 2010.

The Bonding Facilities are required primarily to meet the UK and North American bus operations' self insurance collateral requirements and UK rail franchise bonding requirements. The Group has dedicated bi-lateral arrangements with two banks which provide Bonding Facilities with a total value of £140m and which have maturities between one and five years from commencement of the Bonding Facilities.

The Group also maintains facilities in relation to asset finance ("Asset Finance Facilities"). Asset Finance Facilities are typically agreed in principle one year in advance and are arranged for the purpose of funding UK and US bus vehicle expenditure and for specific UK Rail operating assets. Asset Finance Facilities include finance leases, hire purchase agreements and operating leases. The terms and maturity of Asset Finance Facilities are dependent on the underlying assets and typically range between eight and ten years

## 3.8.7 Shares in issue

The weighted average number of ordinary shares during the year used to calculate basic earnings per share was 1,091.7m (2006: 1,075.8m). The number of shares ranking for dividend at 30 April 2007 was 1,094.8m (2006: 1,088.3m), with a further 6.2m (2006: 5.3m) of ordinary shares held by employee trusts and not ranking for dividend. Taking account of a consolidation of the ordinary shares on 11 May 2007 in connection with the return of value described in section 3.8.13 of this Annual Report, the number of shares ranking for dividend at 31 May 2007 was 703.9m with a further 4.0m ordinary shares held by employee trusts.

## 3.8.8 Net assets

Net assets at 30 April 2007 were £512.3m (2006: £211.6m) with the increase principally reflecting the strong results for the year, which include the gain on sale of the London bus business. The recent return of value described in section 3.8.13 of this Annual Report resulted in an approximate decrease of £696m in consolidated net assets during May/June 2007, including the impact of related costs incurred subsequent to the year end.

## 3.8.9 Retirement benefit obligations

The reported net assets of £512.3m (2006: £211.6m) are after taking account of net liabilities for retirement benefit obligations of £36.2m (2006: £222.2m) and the related deferred tax assets of £10.9m (2006: £64.3m). Of the total pre-tax retirement benefit obligations, £27.3m (2006: £176.3m) relates to the main Group scheme, Stagecoach Group Pension Scheme ("SGPS").

During the year, we have made significant progress working in close consultation with our employees, trade union representatives and the scheme trustees to protect the accrued benefits of the SGPS for the current members whilst managing increasing costs and risk of volatility. We agreed with the trustees to retain the final salary section of the SGPS for current members although this is now closed to new entrants (other than those employees currently serving out a waiting period). We also agreed a number of benefit and contribution changes considered necessary to retain the scheme and to protect accrued pension benefits. These changes included increases in the main employee contribution rate from 9.25% to 12.8% of pensionable salaries. In addition, increases in pensionable salaries are to be capped at 3.5% per annum.

The benefit and contribution changes along with special employer contributions of £57.0m in August 2006 and £20.0m in April 2007, and the impact of the sale of our London bus operations, have helped to reduce the pre-tax deficit on the SGPS from £176.3m at 30 April 2006 to £27.3m at 30 April 2007. Further special employer contributions of £30.0m were paid to SGPS in June 2007.

## 3.8.10 Cash flows

The strong cash generative nature of the Group is once again highlighted by net cash from operating activities after tax of £162.3m (2006: £175.5m). Net cash inflows from investing activities were £232.9m (2006: net outflow of £9.9m), including £267.0m (2006: £104.4m) of cash inflows from the disposal of subsidiaries and other businesses, which for the year ended 30 April 2007 primarily related to the disposal of our London bus operations.

### 3.8.11 Net funds/debt

Net funds of £186.4m at 30 April 2007 compares to net debt of £135.9m at 30 April 2006, a movement of £322.3m. This change reflects the benefit of ongoing cash generation from our core operations coupled with the disposal of our London bus operations.

Net cash inflows from operating activities for the year ended 30 April 2007 were £185.2m (2006: £203.0m) and can be further analysed as follows:

	2007	2006
	£m	£m
EBITDA of Group companies before exceptionals:		
– continuing	215.4	188.4
– discontinued	7.7	39.8
Loss on disposal of plant & equipment	0.2	1.9
Impairment of available for sale investment	1.3	Nil
Share based payment expense	2.0	2.2
Working capital movements	26.3	(3.6)
Net interest paid	(3.9)	(19.4)
Dividends from joint ventures	31.1	Nil
Net cash from operating activities before excess pension contributions	280.1	209.3
Pension contributions in excess of pension costs	(94.9)	(6.3)
Net cash inflow from operating activities (before tax)	185.2	203.0

Excluding the additional pension contributions shown in the table above, net cash from operating activities rose 33.8% from £209.3m to £280.1m.

The net impact of purchases of property, plant and equipment (excluding those acquired as part of business combinations) for the year on net funds/debt was £93.5m (2006: £102.6m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £44.5m (2006: £91.9m) and new hire purchase debt of £49.0m (2006: £10.7m).

### 3.8.12 Capital expenditure

Additions to property, plant and equipment for the year were:

	2007	2006
	£m	£m
UK Bus		
– continuing	66.7	64.0
– discontinued	0.8	9.2
North America	22.2	25.5
UK Rail	2.8	1.9
New Zealand (discontinued)	Nil	3.2
Other	0.1	Nil
	92.6	103.8

The differences between the amounts shown above and the impact of capital expenditure on net funds/debt arose from movements in fixed asset deposits and creditors. Figures for 2006 exclude the prior year additions acquired as part of business combinations.

### 3.8.13 Return of value

Following the Group's disposals of its New Zealand and London bus operations in November 2005 and August 2006 respectively, and the Group's continued strong cash generation, net debt was eliminated during the first 6 months of the financial year and the Group was subsequently left in a net cash funds position at 31 October 2006. At that point, the Board announced it would be reviewing its capital structure and intended to return not less than £400m to shareholders. A thorough review of the Group's position and prospects ensued during which time the West Coast mainline rail franchise (in which the Group has a 49% interest via VRG) had been renegotiated, fuel

prices had decreased and continued strong revenue growth had been experienced in the Group's UK Bus and Rail divisions. These factors coupled with the ability of the Group to borrow at attractive rates led the Board to announce on 14 March 2007 that Stagecoach would return approximately £700m to shareholders, which equated to 63 pence per ordinary share in issue at the Record Date, being 11 May 2007. The return of value was approved by shareholders at an Extraordinary General Meeting on 27 April 2007 and was completed in June 2007. Since the balance sheet date, 277,777,735 B shares and 823,220,972 C Shares were issued in connection with the return of value. 253,584,435 B Shares were redeemed at 63 pence each and the remaining 24,193,300 B Shares are redeemable in the future at 63 pence each. A special dividend of 63 pence per C Share was paid or waived on 458,001,388 C Shares which then converted to Deferred Shares of negligible value. The remaining 365,219,584 C Shares were bought by Credit Suisse for 63 pence each and were later bought by the Company for 63 pence each and immediately cancelled.

For every 14 ordinary shares held on the Record Date (being 11 May 2007), shareholders received 9 new ordinary shares and 14 B or C shares.

The holders of the remaining B Shares are entitled to payment of a non-cumulative preferential dividend paid twice yearly in arrears on 31 May and 30 November calculated at a pre-specified annual rate expressed as 70% of LIBOR for six month deposits in pounds sterling on the nominal amount per B Share. The holders of B Shares are entitled to payment of their dividend in priority to any payment of dividend or other distribution to ordinary shareholders and before any profits are carried to reserves. Furthermore, on a return of capital on a winding up, the holders of any unredeemed B Shares are entitled to the amount paid up or treated as paid up on the nominal value of each B Share plus the relevant proportion of any dividend payable on those B Shares before any payment to ordinary shareholders. The holders of the unredeemed B Shares shall not be entitled to any further right of participation in the assets of the Company. The holders of the unredeemed B Shares are not entitled to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting. The holders of any unredeemed B Shares will have the opportunity to redeem their B Shares twice yearly on 31 May and 30 November. The Company may at any time on or after 31 May 2008, providing the total number of B Shares remaining in issue becomes less than 20% of the total number of B Shares issued, mandatorily redeem the B Shares at their nominal value.

All of the C Shares and Deferred Shares issued in May 2007 have now been cancelled. Details of the rights that attached to these shares are set out in the circular to shareholders dated 23 March 2007.

### 3.8.14 Disposals

On 30 August 2006, the Group completed the disposal of its entire London bus business to Macquarie Bank Limited. The cash received for the disposal was £267.8m before disposal costs. After transaction costs, the disposal resulted in a net profit on disposal of £132.2m.

### 3.8.15 Capital

The Group regards its capital as comprising its equity, cash, borrowings and any similar items. As at 30 April 2007, the Group's capital comprised:

	2007	2006
	£m	£m
Market value of ordinary shares in issue	2,056.1	1,183.8
Cash	513.3	198.5
Borrowings	(326.9)	(334.4)
Net funds/(debt) (see section 3.8.11)	186.4	(135.9)

The Group manages its capital centrally. Its objective in managing capital is to optimise the returns to its shareholders whilst safeguarding the Group's ability to continue as a going concern and as such its ability to continue to generate returns for its shareholders. The Group also takes account of the interests of other stakeholders when making decisions on its capital structure.

The capital structure of the Group is kept under regular review and will be adjusted from time to time to take account of changes in the size or structure of the Group, economic developments and other changes in the Group's risk profile. The Group will adjust its capital structure from time to time by any of the following: issue of new shares, dividends, return of value to shareholders and borrowing/repayment of debt. There are a number of factors that the

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Group considers in evaluating capital structure. The principal ratios that the Directors consider are (1) Net Debt to EBITDA, (2) EBITDA to interest and (3) Net Debt to market capitalisation. It is a matter of judgement as to what the optimal levels are for these ratios.

Since the balance sheet date, the Group's capital structure has been adjusted by returning approximately £694m to shareholders, as more fully explained in section 3.8.13 of this Annual Report.

### 3.8.16 Treasury policies and objectives

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

#### *Treasury risk management*

For details of the Group's treasury risk management see note 28 to the consolidated financial statements.

#### *Liquidity and funding*

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

#### *Fuel hedging*

For details of the Group's fuel hedging see note 28 to the consolidated financial statements.

#### *Currency rate risk*

For details of how the Group manages currency rate risk see note 28 to the consolidated financial statements.

#### *Credit risk*

For details of how the Group controls credit risk see note 28 to the consolidated financial statements.

#### *Major financing transactions*

During the year the Group entered into various hire purchase and finance lease arrangements as described in note 24 to the consolidated financial statements. Section 3.8.6 of this Annual Report describes the funding arrangements for the return of value that took place in May/June 2007.

#### *Interest rate risk management*

For details of how the Group manages interest rate risk see note 28 to the consolidated financial statements.

### 3.8.17 Critical accounting policies

The Group's material accounting policies are set out in note 1 to the consolidated financial statements.

Preparation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union requires directors to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual outcomes could differ from those estimated.

The Directors believe that the accounting policies discussed below represent those accounting policies that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to our reported results. The discussion below should be read in conjunction with the full statement of accounting policies.

#### *Taxation*

The Group's tax charge is based on the pre-tax profit for the year and tax rates in force. Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities. Assessment of the likely outcome is based on historical experience, professional advice from external advisors, and the current status of any judgmental issues. However, the final tax cost to the Group may differ from the estimates.

#### *Goodwill and impairment*

In certain circumstances, IFRS requires property, plant, equipment and

intangible assets to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant cash-generating unit ("CGU") or net realisable value, if higher. The discount rate applied in determining the present value of future cash flows is based on the Group's estimated weighted average cost of capital with appropriate adjustments made to reflect the specific risks associated with the CGU. Estimates of cash flows are consistent with management's plans and forecasts. The estimation of future cash flows and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

#### *Insurance*

The Group receives claims in respect of traffic incidents and employee incidents. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" 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 for which claims have not been reported to the Group. The eventual settlements on such claims may differ from the amounts provided for at the balance sheet date. This is of greater risk in "younger" operations with a shorter claims history from which to make informed estimates of provisions.

#### *Pensions*

The determination of the Group's pension benefit obligation and expense for defined benefit pension plans is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 27 to the consolidated financial statements and include among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future salary levels. A portion of the plan assets is invested in equity securities. Equity markets have experienced volatility, which has affected the value of the pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

#### *Property, plant and equipment*

Property, plant and equipment, other than land, are depreciated on a straight-line basis to write off the cost or valuation less estimated residual value of each asset over their estimated useful lives. Useful lives are estimated based on a number of factors, including the expected usage of the asset, expected deterioration and technological obsolescence. If another depreciation method (for example, reducing balance) was used or different useful lives or residual values were applied, this could have a material effect on the Group's depreciation charge and net profit.

## 3.9 Current trading and outlook

The current financial year to 30 April 2008 has started strongly and trading is in line with our expectations. There are a number of exciting opportunities across the Group and we are confident of achieving our objectives for the year.

In UK Bus, the continued revenue growth, integration of acquired businesses, stable fuel costs and returns on additional pension contributions should result in further strong progress for the year ending 30 April 2008.

In North America, the claims environment remains challenging, but subject to effectively controlling claims costs, further growth is anticipated.

We expect, based on our forecasts for the new South Western rail franchise, profit from our wholly owned rail businesses to decrease in the year ending 30 April 2008. South West Trains, along with the majority of the UK passenger rail industry is experiencing better than anticipated revenue growth. While this has been partly offset by cost increases, we remain confident of meeting our profit expectations for the ten-year South Western franchise that commenced on 4 February 2007.

We shall begin operating the Manchester Metrolink tram network from July 2007 and the East Midlands rail franchise from November 2007, and expect both contracts to contribute to the Group's profit.

The re-negotiated West Coast rail franchise is benefiting from good revenue growth and increased market share which results in a positive outlook for the year ending 30 April 2008. The CrossCountry franchise terminates in November 2007 and VRG is awaiting the outcome of its bid for the New Cross Country franchise.

### 3.10 Principal risks and uncertainties

Like most businesses, there are a range of risks and uncertainties facing the Group and the matters described below are not intended to be an exhaustive list of all possible risks and uncertainties.

Generally, the Group is subject to risk factors both internal and external to its businesses. External risks include global political and economic conditions, competitive developments, supply interruption, regulatory changes, foreign exchange, materials and consumables (including fuel) prices, pensions funding, environmental risks, strikes, litigation and the risk of terrorism. Internal risks include risks related to capital expenditure, acquisitions, regulatory compliance and failure of internal controls. Details of risk management procedures are given on pages 28 and 29.

The focus below is on those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's long-term performance.

#### 3.10.1 Sustainability of rail profits

A significant element of the Group's revenue and profit is generated by UK rail franchises. There is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises. In June 2007, the Group was awarded the new East Midlands franchise, and will begin operating the East Midland Services in November 2007.

The Group was awarded the new South Western franchise, which combines the former South West Trains and Island Line franchises, in September 2006. The new 10-year franchise, which commenced on 4 February 2007, will result in lower annual profits than those earned under the previous franchises. In June 2007, the Group was awarded the new East Midlands franchise, and will begin operating the East Midlands services in November 2007.

The Group's joint venture, VRG, currently operates the CrossCountry rail franchise, which is due to expire in November 2007, and the West Coast rail franchise. VRG is one of four shortlisted bidders on the New Cross Country franchise which replaces the current CrossCountry franchise operated by VRG. There is a risk that VRG does not win the New Cross Country franchise or wins it on unfavourable terms. The West Coast rail franchise was renegotiated with new commercial terms being agreed in December 2006. The renegotiated West Coast franchise runs through until 2012.

Stagecoach Group is also bidding with Virgin and GNER Holdings for the InterCity East Coast rail franchise.

In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises. Appropriately experienced personnel are retained to work on rail bids and third party consultants are engaged to provide additional expertise. The Board approves the overall rail bidding strategy and the key parameters for each bid.

#### 3.10.2 Breach of franchise

The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and consequently, the related revenues and cash flows. The Group may also lose some or all of the amounts set aside as security for the shareholder loan facilities, the performance bonds and the season ticket bonds. The Group can do more to prevent breaches of franchise where it has sole control than where it has joint control. As the holder of a 49% joint venture interest in VRG, the Group has less control over the joint venture's operations and that means the Group's management may be less able to prevent a breach of the VRG franchise agreements.

Compliance with franchise conditions is closely managed and monitored and procedures are in place to minimise the risk of non-compliance.

#### 3.10.3 Pension scheme funding

The Group participates in a number of defined benefit pension schemes. There is a risk that the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Any increase in contributions will reduce the Group's cash flows.

Decisions on pension scheme funding, asset allocation and benefit promises are taken by management in consultation with the pension scheme trustees, trade unions and suitably qualified advisors. A Pensions Oversight Committee has been established comprising the Finance Director, a Non-Executive Director and other senior executives, to oversee the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.

As described in section 3.8.9 of this Annual Report, significant progress was made during the year ended 30 April 2007 in managing pension scheme risks.

#### 3.10.4 Insurance and claims environment

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

There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. In the US, in particular, there is a risk that given the size of the "excess", that a small number of large-value claims could have a material impact on the Group's financial performance and/or financial position.

The Group has a proactive culture that puts health and safety at the very top of its agenda and this helps mitigate the potential for claims arising. Further details on the Group's management of health and safety are provided on page 17.

Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.

#### 3.10.5 Regulatory changes and availability of public funding

Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects.

Similarly, many of the Group's businesses benefit from some form of financial support from government including direct financial support, the provision of equipment, government contracts and concessionary fare schemes. There is a risk that the availability of sufficient government financial support differs due to regulatory or other changes.

In May 2007, the UK Government published a draft Local Transport Bill setting out its legislative proposals to help tackle road congestion and improve public transport. The Group welcomes proposals to promote intelligent car use and improve the operating environment for buses. There is, however, a risk that legislative change could impact the Group's financial performance, either positively or negatively.

Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in various industry and national trade bodies along with domestic and international government forums. The Group seeks to maintain good, co-operative relationships with all levels of government, including the introduction of ideas that offer cost-effective ways of improving public transport.

#### 3.10.6 Management and Board succession

The Group values the continued services of its senior employees, including its Directors and management who have operational, marketing, engineering, technical, project management, financial and administrative skills that are important to the operation of the Group's business.

Succession planning for the Directors and senior management is an important issue and as such is considered by the Nomination Committee and the Board. The appropriate level of management deals with recruitment and retention of other staff.

#### 3.10.7 Catastrophic events

There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises.



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The Group has a proactive culture that puts health and safety at the very top of its agenda in order to mitigate the potential for major incidents. In the unlikely event that a major incident did occur, the Group has procedures in place for responding to such incidents.

### 3.10.8 Terrorism

There have been multiple acts of terrorism on public transport systems and other terrorist attacks that whilst not directly targeting public transport have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance. The Group has plans in place designed to reduce the financial impact of a terrorist incident and these plans take account of the Group's experience of managing the North American business during the period of depressed demand following the major terrorist attack on 11 September 2001.

### 3.10.9 Treasury risks

Details of the Group's treasury risks are discussed in note 28 to the consolidated financial statements, and include the risks arising from movements in fuel prices.

## 3.11 Corporate social responsibility

We pride ourselves on delivering high-quality local services to local communities by local people. As well as providing a range of economic and environmental benefits, our bus and rail services support social inclusion and bring people together. We are committed to attracting more people to public transport. It is central to our growth strategy, to the future success of our Group, and also important to the future of the communities in which we operate around the world. We are committed to working in partnership with the many stakeholders our services touch to achieve our mutual long-term goal of sustainable development.

Stagecoach has a strong culture of meeting its wider corporate responsibilities, from the way we do business and our approach to safety and the environment, to how we treat our customers, our local communities and our own people. Like the best businesses, we measure our performance and always strive to improve the delivery of our service to customers. By building trust with our stakeholders, we believe we can make an increasingly positive impact on society and the environment. Here we have provided an overview of some of our people, safety, accessibility, environment and community initiatives.

### 3.11.1 Stakeholders

Stagecoach Group works in partnership with a range of bodies in each of the markets where we provide public transport services. Further information on our stakeholders and how we build relationships with them can be found on page 5.

### 3.11.2 Our People

The strength of our business is built on the high quality of our management teams and frontline employees, from drivers and engineers to customer service and support staff. These are the people that ensure we can deliver a first-class quality of service day in, day out, and encourage more people to use public transport. By investing significant time and resources, we are able to have the right people on board to deliver for our customers.

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

As a major employer, we also recognise the need for ongoing training and development, not just so our people can do their job, but so they can develop individually. In our UK Bus division, we have one of the best vocational training programmes of any operator, designed to raise standards among and recognise the key contribution of our drivers. We continue to focus closely on recruitment and retention of drivers through improved pay, better training and mentoring schemes. We have also established links overseas, as part of the expansion of the European Union, to recruit drivers to complement our employment campaigns in the UK. Stagecoach has also won a national award for the high standard of its UK Bus training team, taking the Centre of the Year Award for training providers and employers at the Scottish Qualifications Authority Annual Awards 2006.

At South West Trains, our centralised Recruitment Centre and the state-of-the-art Operations Training Centre are continuing to deliver benefits

to our employees and better service to our customers. We also have in place vocational training, support for managers, employee recognition programmes and round-the-clock open learning access for our staff. South West Trains spends an average of more than 1,600 employee days a month training its people in addition to its three 24-hour open learning centres.

In North America, our centralised driver training school has improved the quality and consistency of provision. Our Canadian business has focused closely on harnessing the power of the web to attract new employees and has been working in partnership with Workopolis, Canada's leading internet recruitment service.

We are also looking to develop the managers of the future through our graduate recruitment initiative. One of Stagecoach's managers received the Chartered Institute of Logistics and Transport (CILT) Young Manager of the Year award, while one of our other former graduate trainees is now part of our management team in North America. Stagecoach is working with the Department for Education and Skills and the Learning and Skills Council to deliver a new two-year Young Apprenticeship programme. The programme enables Stagecoach to help shape the workforce of the future by offering able and motivated 14 to 16-year-old pupils the chance to get a taste of work alongside their school studies.

Stagecoach wants to be there to help our people when they need it most. Our South West Trains and North American businesses have care schemes, which offer an employee assistance programme that includes a 24-hour confidential counselling service. South West Trains runs regular health fairs across its network, offering employees the opportunity to have a cholesterol check, free flu vaccination or general check-up.

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

### 3.11.3 Improving accessibility

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

Over the last year, we have invested in over 500 new low floor buses in the UK and are on target to beat government deadlines for compliance with disability legislation. We have announced a further investment of £65m in new accessible vehicles in the UK for 2007/8. Earlier this year, we invested £11m in Britain's longest coaches as part of a drive to attract people out of their cars and away from low-cost airlines. The fleet of 45 state-of-the-art 15-metre coaches, now in operation on megabus.com and Scottish Citylink services, are fully accessible and have a special lift for wheelchair passengers. We are also helping provide new demand responsive transport services, which are meeting the needs of those with mobility problems who require a service from their front door.

Significant investment is also taking place in our North American business in partnership with federal agencies. This year, our New York Sightseeing business introduced 13 new open-top double-decker vehicles with improved wheelchair access ramps for disabled customers.

On the South West Trains network, we operate an assisted travel line to encourage disabled travellers to book ahead so we can make arrangements to ensure their journey runs smoothly. Induction loops are provided at our ticket offices and large print timetables are available to assist independent travellers with special needs. We provide station-based ramps to enable wheelchair users to board and alight our new accessible Desiro trains with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis at no extra charge to and from stations with no step-free access.

Access for all is also about staff training and we continue to maintain links with disability groups to ensure both the needs of our passengers and employees are considered. At Sheffield Supertram, for example, we are currently refreshing the interiors of our vehicles, which will feature textured grab rails and improved seating layouts to help passengers with visual

impairment. We are also currently undertaking trials of new higher visibility destination blinds and investigating the potential for automated public address announcements.

Stagecoach Group's website, [www.stagecoachgroup.com](http://www.stagecoachgroup.com), has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind. Our consumer-facing websites are also designed to maximise ease of use by customers with visual impairment.

We have also taken further steps to improve the online purchase of tickets for our transport services. Stagecoach has launched the UK's first integrated budget coach and rail online booking service. Customers using the market-leading [megabus.com](http://megabus.com) and [megatrain.com](http://megatrain.com) budget travel sites can get both coach and rail options in one easy search, giving them access to 530 daily departures to around 50 UK locations from just £1, plus a 50p booking fee.

### 3.11.4 Health and Safety

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

Health and safety is monitored and reported on across Stagecoach Group and immediate action is taken to address issues in our business processes. Safety is part of a well-defined risk management process across our business. A main Board executive director, Brian Souter, has specific responsibility for safety issues across the Group and the Board is updated on safety matters at each of its meetings. Safety matters are also considered at the Board and management meetings of each of our businesses.

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

In our UK Bus division, we are working in partnership with the Government and other agencies to improve bus safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses. We continue to invest in CCTV technology and all of our new buses are fitted with security cameras. In addition, we use driver safety screens and other measures to protect our passengers and our people. We have a number of joint programmes in place with schools and the police to deter anti-social behaviour and educate the next generation of public transport users. Stagecoach is also working with a number of local authorities in areas such as Oxford, Mansfield, Cheltenham and Gloucester to develop late night bus networks to help reduce town centre crime.

At an operational level, we have in place a process of route risk assessments to identify potential safety issues. As well as our own investment in ongoing driver training, we are supporting the work of the Road Operators' Safety Council to drive up standards in the industry. Stagecoach has also helped fund safety campaigns focused on other road users, including cyclists and drivers of agricultural vehicles.

Rail travellers on the South West Trains network are benefiting from a safe environment on our state-of-the-art Desiro trains and on our refurbished Class 455 trains, which are fitted with CCTV technology. All South West Trains rolling stock is fitted with the Train Protection Warning System. The company's commitment has seen it twice win the Robert Horton Safety award at the National Rail Awards.

Our award-winning TravelSafe Officers partnership with British Transport Police – which helps ensure passenger safety – has been extended further in the past year to cover more routes and stations on the South West Trains network. South West Trains also has 51 Secure Stations – the highest of any train company. Under our new 10-year franchise, we are committed to retaining the presence of a guard on every service. Work is also continuing with Network Rail and British Transport Police to identify hot-spots and ensure effective measures are taken on both trains and at stations to reduce incidents of assault, trespass and vandalism. Our conflict avoidance training for employees has helped cut physical assaults on staff by more than 10% in the last 12 months.

In North America, we carry out regular safety audits of our facilities to ensure high standards of health and safety are maintained. Along with other major operators, we have assisted national bodies to put in place processes to address the impact of potential terrorist attacks on public transportation. In the United States, for example, we are working with the Federal Government to take part

in anti-terrorism workshops for our employees and are beginning to put in place anti-theft and GPS tracking, monitoring and communication systems. In Canada, we have a dedicated Occupational Health and Safety Policy Committee whose members are drawn equally from management and workforce representatives.

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

### 3.11.5 Community involvement

For more than 25 years, Stagecoach has been a key part of communities around the world. As well as providing lifeline transport services and significant job opportunities, our Group is an integral part of local communities in the UK and North America.

We help local people share in our success by funding the vital work of local, national and international charities. During the year ended 30 April 2007, £0.7m (2006: £0.6m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects in areas where Stagecoach provides lifeline bus and rail services.

Stagecoach is providing £500,000 through a major four-year sponsorship to fund a gym at the new Oasis Academy in Grimsby. The Academy, which will have around 1,100 students, is a partnership between the Oasis Trust, North East Lincolnshire Council and the Department for Education and Skills to improve choice for parents and raise the overall standard of education in the local area. The Grimsby curriculum will be enhanced by a specialism in sports and health.

Stagecoach's support for the community is not just about money. Hundreds of our employees devote their own time every day to local projects that make a real difference in their area. Many make financial donations personally through "give as you earn" schemes. Our businesses provide much needed in-kind support, while our people also give charities the benefit of their expertise during secondments.

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

At South West Trains, much of our focus is on projects designed to give young people alternatives to anti-social behaviour, through schemes such as our Eastleigh Street Sport sponsorship and our long-term support for the Carroll Youth Centre. We are also heavily involved in highlighting the dangers of trespassing on railway lines, getting the message across to around 50,000 children a year. In addition, we have also been involved in a scheme to assist with the rehabilitation of ex-offenders.

Stagecoach is also helping promote social inclusion with our communities and help those who are the most vulnerable. We have a national agreement with Guide Dogs for the Blind that allows the dog trainers free travel on our buses and trains. We have also contributed to several homeless shelters, providing funds for equipment and new dormitories. South West Trains is a regular supporter of the Railway Children, a charity which helps runaway youngsters.

We have continued to support the UK educational charity *businessdynamics*, which provides courses designed to build the skills and confidence of young people as they prepare to enter the worlds of work and further education. We have also supported a number of arts initiatives and this year marked the 10th anniversary of our sponsorship of the Mari Markus Gomori children's concerts, which have been attended by more than 40,000 schoolchildren.

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

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

# Operating and Financial Review

## 3.11.6 Building a sustainable environment

Public transport is key to the future of our communities. As well as making a major contribution to social inclusion and the quality of life in our towns and cities, bus, coach, rail and tram services are an important part of the solution to the global challenge of climate change.

Individually and collectively, in our private and our business lives, we all need to examine the impact our carbon footprint has on the planet we entrust to future generations.

Recent Government studies, including the Stern Review and the Eddington Report, have made clear that emissions from transport are growing and that significant economic and social benefits can be delivered from more environmentally sustainable ways of living.

Buses and trains are five times more energy efficient than cars and produce significantly less emissions per passenger journey. However, Stagecoach is acutely aware that any form of transport has an impact on the environment. That is why we are committed to making our own business as environmentally-friendly as possible.

We have published a Group Environmental Policy that sets out our commitment to good environmental stewardship and for a number of years we have put in place stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling.

By focusing on technological innovation - such as trials of cleaner fuels - improved environmental management and training, and continued investment in our products and services, we have made further progress this year.

More than ever, we believe we also need to promote the environmental superiority of public transport over other forms of travel, particularly cars and airlines. We fully support Government measures designed to reward intelligent car use and encourage modal shift from car to public transport. Stagecoach and its businesses are also committed to marketing the positive environmental credentials of our products and services.

We believe making it easier and cheaper to access public transport is also critical in attracting people out of their cars. This year, we have further developed our budget coach and rail services, megabus.com and megatrains.com, which offer excellent value fares by maximising the use of available on-board capacity.

### *Our environmental initiatives*

Stagecoach has undertaken a number of initiatives and new ways of working over the past year to improve our own environmental performance and encourage people to take the green public transport option. We are proud of our record of achievement, but despite the huge progress and investment we have made in the area of environmental sustainability, we realise that this is only a start and we have a long way to go.

### *Buses*

Stagecoach continues to make significant investment in modern vehicles with improved environmental performance. We have invested around £80m in the year to 30 April 2007 in the continuing modernisation of our fleet, which meet and often exceed the latest environmental standards.

We have conducted the first UK trials of a bioethanol-fuelled bus outside London to evaluate the technology that can use sugar beets to power vehicles. The pilot study covered Liverpool, Barnsley, Sheffield, Newcastle and Manchester. Ethanol-powered buses are already in operation in Sweden, Spain, Italy and Poland, delivering significant reductions in carbon dioxide and particulate matter.

Stagecoach has further expanded the use of biodiesel to more than 4,300 vehicles in its UK Bus fleet as part of our drive to reduce greenhouse gas emissions and improve fuel efficiency. The biodiesel we are using is a blend of 95% diesel and 5% bio-matter, which can be derived from sources such as soy, palm, rape, sunflower and used cooking oil. Our use of biodiesel now covers around 60% of our UK bus fleet.

Emissions from dozens of Stagecoach workplaces across the UK have been cut significantly after the introduction of a hi-tech energy management system. Gas consumption at 80 depots has been slashed by an average of 36%, while carbon dioxide emissions have been cut by more than 6,200 tonnes a year. The technology - now in place at 80 Stagecoach bus sites in Scotland, England and Wales - uses self-learning predictive programming, coupled with high accuracy temperature sensing. It takes over the control of the existing heating and delivers improved control, staff comfort and dramatic reductions in energy consumption.

We are continuing with our megabus.com marketing campaign to encourage budget travellers to switch from "gas guzzler" airlines to low-cost inter-city coach travel to minimise damage to the environment. Our analysis shows that, on a per passenger basis, travel by megabus.com can be more than six times more fuel efficient than flying with a budget airline, producing seven times less carbon dioxide emissions.

In the United States, we have continued to replace older vehicles in our fleet with coaches that feature reduced emissions engines with the latest technology. During 2006-07, we replaced 40 coaches and 13 sightseeing double deckers with new models.

We also have an action plan in place to comply with Federal US Environmental Protection Agency (EPA) policies and procedures by creating Storm Water Pollution Prevention Plans and Spill Containment and Countermeasure Plans in all our operations in the United States.

In Canada, we have taken further steps to reduce direct emissions from our operations. As part of our compliance with engine emissions requirements under Ontario's "Drive Clean" programme, 200 vehicles were tested during the 12 months to 30 April 2007, resulting in a 93.5% pass rate on first test. A total of 20 coaches were replaced with new vehicles, equipped with the latest engine technology, and all of our locations have converted to ultra-low sulphur diesel.

We are also in the process of implementing a system to accurately track and record electricity and water use at our facilities as a first step towards reducing our consumption levels.

### *Trains*

Environmental management is central to our approach in our rail operations. As part of our commitment, all of our traincare depots have now achieved ISO14001 accreditation. Clapham, Wimbledon, Bournemouth, Salisbury, Farnham and Fratton depots achieved the status six months ahead of target.

We have developed an industry leading waste segregation and recycling operation at our South West Trains Wimbledon Traincare Depot, called Garbology. Waste is sorted into different types, with items such as cardboard and paper taken away for recycling. A culture of "re-use" and "recycle" is gathering pace to reduce waste being turned into landfill. Recycling schemes have been set up at nine pilot locations in partnership with waste management and recycling company SITA.

South West Trains has taken part in a trial of low sulphur gas oil fuel on one of its Class 159 diesel trains in conjunction with the Association of Train Operating Companies and the Rail Safety and Standards Board. If the trial involving our Salisbury depot is successful, we expect to switch to this type of fuel for the diesel fleet in 2008/9.

In partnership with the Carbon Trust, South West Trains has focused on four sites to strengthen our energy and water management strategy. Initiatives under consideration include the installation of automatic meters to monitor water usage and highlight leaks or fluctuations in demand.

A massive environmental improvement has resulted from the introduction of controlled emission toilets to all but a handful of trains in the South West Trains fleet. Effluent is collected in tanks, emptied at special depot facilities, and transferred hygienically into the national sewage network. From the end of 2007, all South West Trains units will be fitted with controlled emission toilets.

South West Trains recently replaced its carriage washing machines with new modern washers, which use alkaline instead of acid wash and often recycle

water. Northam, the base for the state-of-the-art Desiro fleet, has a carriage wash with a sophisticated filtration system. The system deals with grease, chemicals and oil, ensuring 75% of the water can be recycled. While limited space has prevented water recycling at every facility, all machines are fitted with tanks that hold one month's detergent supply, reducing the frequency of deliveries.

As well as ensuring it meets its own standards, South West Trains has taken steps to ensure high standards of supply chain management by using the ISO 14001 environmental management standard in its selection criteria.

VRG our joint venture with Virgin Group, has launched a 'Go Greener. Go Cheaper' marketing campaign, part of a consistent push to take on domestic airlines on speed, price, frequency and environmental credentials. The company's Pendolino trains emit at least 76% less carbon dioxide than cars and planes. The state-of-the-art Pendolino trains also minimise their carbon footprint by returning 17% of electricity used back to the National Grid every time they brake – enough to provide power for 11,825 homes for a year.

As part of a national trial, VRG is conducting biodiesel tests with one of its engines and is running a Voyager train on a 20% biodiesel blend in the summer. Converting the entire Voyager fleet to run on B20 biodiesel would cut its carbon dioxide emissions by 12%, bringing a saving of 34,500 tonnes of carbon dioxide a year.

VRG also continues to look at all of its day-to-day operations and is committed to find ways to reduce the amount of energy and water used on board as well as amounts of office waste. Currently 20% of all electricity used to run Virgin-managed stations comes from renewable energy sources. The company has also installed multifunctional print devices in its offices to save paper and energy.

#### *Our performance*

We have reviewed our approach to environmental performance measurement this year to focus on core key performance indicators ("KPIs") specific to each business and better aligned with our management system.

At the heart of our approach is a commitment to continuous year-on-year improvement, with a focus on moving annual averages. The KPIs for each of our divisions will be published on our website.

## 4. Directors' biographies

Details of corporate governance, including the operation of the Board of Directors, are given in section 6 of this Annual Report. A brief biography of each director is given below.

### 4.1 Robert Speirs, Non-Executive Chairman

Robert Speirs has been a non-executive director of the Group since March 1995. In July 2002, he was appointed by the Board as Non-Executive Chairman. He is currently a non-executive director of Victoria Mortgage Funding Ltd and Chairman of the Miller Group Ltd. He is a former Group Finance Director of The Royal Bank of Scotland plc. Robert Speirs is Chairman of the Nomination Committee. Aged 70.

### 4.2 Brian Souter, Chief Executive

The co-founder of Stagecoach, Brian Souter, is the architect of the Group's strategy and philosophy. He has extensive knowledge of the ground transportation industry around the world and is responsible for managing all of the Group's operations. He is former Chairman of ScotAirways Group Ltd. He was named Businessman of the Year at the Insider Elite Awards 2004 and is a Chartered Accountant. Aged 53.

### 4.3 Martin Griffiths, Finance Director

Appointed Finance Director in April 2000, Martin Griffiths is responsible for the Group's overall financial policy, taxation and treasury management. He also has responsibility for rail franchise bidding, the overall management of the Group's property portfolio and supports the Group Chief Executive in all aspects of management of the Group's operations and new business development. He is a member of the Group's Pension Oversight Committee and was a director of Trainline Holdings Limited up until June 2006. Martin Griffiths is also a non-executive director of global recruitment specialist Robert Walters plc. He won the Young Scottish Finance Director of the Year Award in 2004 and is a Chartered Accountant. He is the current Chairman of the Group of Scottish Finance Directors. Aged 41.

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

Ewan Brown has been a non-executive director of the Group since 1988, is a member of the Nomination Committee and chairs the Group's Pensions Oversight Committee. He is a non-executive director of Noble Grossart Ltd and Lloyds TSB Group plc where he chairs the Audit Committee. He is also Chairman of Lloyds TSB Scotland plc, Senior Governor of St Andrews University and Deputy Chair of the Edinburgh International Festival. Aged 65.

### 4.5 Iain Duffin, Non-Executive Director

Iain Duffin became a non-executive director of the Group in September 2001. He was appointed Chairman of the Remuneration Committee on 1 May 2003 and is also a member of the Audit Committee and Health, Safety and Environmental Committee. He is a non-executive Chairman of Origo Services. He has previously held executive positions in the UK and the US with a number of organisations including Macfarlane Group plc, Lucas Varity plc, ITT Corporation and Hughes Aircraft. Aged 60.



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

Ann Gloag co-founded Stagecoach in 1980 and served as an executive director until May 2000. She became a member of the Health, Safety and Environmental Committee in June 2005. She is a past winner of the Businesswoman of the Year Award and European Women in Achievement Award. She is an international Board member of Mercy Ships. In June 2004, she was awarded an OBE for services to charity. Aged 64.

#### 4.7 Sir George Mathewson, Non-Executive Director

Sir George Mathewson joined the Group as a Non-Executive Director on 8 June 2006, is a member of the Remuneration Committee and from 1 July 2007, will be a member of the Nomination Committee. He was Chairman of The Royal Bank of Scotland Group plc ("Royal Bank") until his retirement on 28 April 2006. Sir George is currently an advisor to the Royal Bank and is also a director of the Scottish Investment Trust plc. In November 2001, he was appointed to the Board of Directors of the Institute of International Finance and in June 2005, he became president of the International Monetary Conference. Sir George joined the Advisory Committee of Bridgepoint Capital Limited in January 2004 and in November 2004, he was appointed a member of the Financial Reporting Council. Sir George is also Chairman of Toscafund Holdings, a hedge fund, and sits on the international advisory board of the Spanish bank Grupo Santander. Aged 67.

#### 4.8 Dr Janet Morgan, Non-Executive Director

Dr Janet Morgan, Lady Balfour of Burleigh, became a non-executive director in April 2001. She is Chairman of the Health, Safety & Environmental Committee, is a member of the Audit and Nomination Committees and until 1 July 2007, a member of the Remuneration Committee. In August 2006, she was appointed the Senior Independent Non-Executive Director. Dr Morgan is also Chairman of the Nuclear Liabilities Fund and is a non-executive director of Murray International Investment Trust, Close Enterprise VCT plc and other companies. She was a non-executive director of BPB plc until December 2005. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and a Trustee of the National Library of Scotland. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 61.

#### Director Appointed Post Year End

##### Garry Watts, Non-Executive Director

Garry Watts will join the Board as a Non-Executive Director with effect from 1 July 2007 and will immediately become Chairman of the Audit Committee and a member of the Remuneration Committee. He has been Chief Executive of SSL International plc since April 2004, having joined SSL as Group Finance Director in February 2001. Previously, he was an Executive Director of Celltech plc and Finance Director of Medeva plc. Prior to that, he was a partner with KPMG. Garry is a Chartered Accountant. He is a Non-Executive Director of the Medicines and Healthcare Regulatory Agency ("MHRA") and also of Protherics plc. Aged 50.



## 5. Directors' report

### 5.1 Principal activity

The Group's principal activity is the provision of public transport services in the UK and overseas. A fuller description of the Group's business is provided in section 3.3 of this Annual Report.

### 5.2 Business review

The Group is required to produce a business review complying with the requirements of section 234ZZB of the Companies Act 1985. The Group has complied with these minimum requirements as part of the Operating and Financial Review, which also provides significant information over and above the statutory minimum.

The Operating and Financial Review, which forms part of the Directors' report, is contained in section 3 of this Annual Report.

### 5.3 Group results and dividends

The results for the year are set out in the consolidated income statement on page 40.

An interim dividend of 1.2p per ordinary share was paid on 7 March 2007. The Directors recommend a final dividend of 2.9p per ordinary share making a total dividend of 4.1p per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 3 October 2007 to those ordinary shareholders on the register at 31 August 2007.

### 5.4 Directors and their interests

The names, responsibilities and biographical details of the Directors appear on pages 20 and 21. Their participation in full Board meetings and meetings of committees is given in the Corporate governance report on page 28.

Janet Morgan retires by rotation at the 2007 Annual General Meeting in accordance with the Articles of Association and being eligible offers herself for re-election. As explained in the Corporate governance report on page 26, Ewan Brown is considered to be an independent non-executive director by the Board. However, in recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown offers himself for annual re-election. Other Non-Executive Directors, including the Chairman, who are not treated as independent are also subject to annual re-election. Accordingly,

Note that the number of ordinary shares shown in Table A below reflects the impact of the share capital consolidation in May 2007 (see section 3.8.13 of this Annual Report).

TABLE A		Number of ordinary shares		
		27 June 2007	30 April 2007 (or date of resignation, if earlier)	30 April and 28 June 2006 (or date of appointment, if later)
Brian Souter	beneficial	91,283,212	141,996,118	141,910,060
	non-beneficial	9,069,808	14,108,591	14,108,591
Martin Griffiths		10,176	15,830	15,830
Ewan Brown		Nil	Nil	Nil
Iain Duffin		20,359	31,670	31,670
Ann Gloag	beneficial	74,848,081	116,430,352	116,352,145
	non-beneficial	1,027,812	1,598,820	1,598,820
Sir George Mathewson	(appointed 8 June 2006)	Nil	Nil	Nil
Janet Morgan		1,323	2,058	2,058
Robert Speirs		9,414	14,645	14,645
Russell Walls	(resigned 25 August 2006)	N/A	15,833	15,833

At 27 June 2007, Brian Souter and Ann Gloag each held 150,000 B Shares of 63 pence each in addition to their interests in ordinary shares shown above.

TABLE B	Number of ordinary shares under option and/or Executive Participation Plan units	
	30 April and 27 June 2007 (or date of resignation, if earlier)	30 April and 28 June 2006 (or date of appointment, if later)
Brian Souter	4,769,488	4,585,671
Martin Griffiths	838,521	781,579
Ewan Brown	Nil	Nil
Iain Duffin	Nil	Nil
Ann Gloag	Nil	Nil
Sir George Mathewson (appointed 8 June 2006)	Nil	Nil
Janet Morgan	Nil	Nil
Robert Speirs	Nil	Nil
Russell Walls (resigned 25 August 2006)	Nil	Nil

Robert Speirs, Chairman, and Ann Gloag, who is a Non-Executive Director but is not independent, also offer themselves for annual re-election. We announced today the appointment of Garry Watts as an independent Non-Executive Director with effect from 1 July 2007 and Garry will offer himself for election at the 2007 Annual General Meeting. Russell Walls served as a director until 25 August 2006.

The Board reviews the development plans for the Board at least annually as part of its performance evaluation. The assessment involves a consideration of the balance of skills, knowledge and experience of the Directors. The Board also considers whether the Directors have sufficient time to properly discharge their duties, which includes a consideration of any other appointments that each director has. The re-elections of Robert Speirs, Ewan Brown, Ann Gloag and Janet Morgan will be proposed at the 2007 Annual General Meeting and are consistent with the results of the Board's assessment. The Board believes that the performance of each of these Directors continues to be effective and that they continue to demonstrate commitment to their respective roles. The Board therefore considers it is appropriate that each of these Directors be re-elected at the 2007 Annual General Meeting.

The Listing Rules of the Financial Services Authority (LR 9.8.6 R(1)) require listed companies such as Stagecoach to disclose in their Annual Reports the beneficial and non-beneficial interests of each director that have been notified to the relevant company under the Companies Act 1985. The sections of the Companies Act 1985 (sections 323 to 329 and paragraphs 2 to 2B of Schedule 7) that required the Company to maintain a register of directors' interests have now been repealed but the relevant section of the Listing Rules has not been deleted. As the requirements to disclose directors' interests are now unclear, we have continued to show the interests of the Directors and connected persons in the share capital of the Company – see tables A and B below.

The Directors' interests set out in tables A and B have been determined on the same basis as in previous years, which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure and Transparency Rules of the Financial Services Authority. Accordingly, the interests of Brian Souter and Ann Gloag shown below do not represent their voting rights determined in accordance with the Disclosure and Transparency Rules which as at 30 April 2007, including vested but unexercised options, were 122,919,617 and 83,346,482 respectively, and at 27 June 2007 were 81,171,095 and 53,579,880 respectively.

In addition to their individual interests in shares, Brian Souter and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 5,825,879 (30 April 2006: 4,690,333) ordinary shares of 12/19th pence each as at 30 April 2007. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 369,399 (30 April 2006: 628,285) ordinary shares of 12/19th pence each as at 30 April 2007. Full details of options held as at 30 April 2007 are contained in the Directors' remuneration report on pages 35 and 36.

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

## 5.5 Indemnification of directors and officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors. The Companies (Audit, Investigations and Community Enterprise) Act came into force on 6 April 2005. This Act extended the indemnities that a company can provide to its directors. The Company has subsequently indemnified each of its directors and certain of the Group's other officers against certain liabilities.

## 5.6 Substantial shareholdings

By 26 June 2007 (being the latest practical date prior to the date of this report), the Company had been notified of the following holders each holding in excess of 3% of the voting rights in the Company (other than certain Directors' shareholdings details of which are set out in section 5.4 of this report):

Legal and General Group plc	3.42%
Deutsche Bank AG	3.04%
BlackRock Investment Managers	5.21%
JP Morgan Chase & Co.	4.82%

## 5.7 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 employees. This applies to appropriate training, career development and promotion opportunities for all employees regardless of physical disability, gender, religion, belief, race or ethnic origin. The Group gives full consideration to applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share option schemes. Since 1996, there have been four invitations to UK employees to subscribe to the Group's Sharesave ("SAYE") scheme, all of which have met with encouraging levels of response.

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

The Group is committed to developing a culture of openness across all its businesses and ensuring the highest standards of probity and accountability. The Board actively encourages employees with serious concerns about the interests of others or the Group to come forward. The Group has a policy in place called "speaking up" which is designed to ensure processes exist whereby employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

## 5.8 Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the Group and the parent company financial statements in accordance with applicable law and regulations,

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required by:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Directors' remuneration report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 5.9 Suppliers 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 financial statements of those companies. The Company normally settles trade creditors on 30 to 45 day terms. For the Group as a whole, the trade creditors outstanding at the year end represented 28 days' purchases (2006: 32 days).

## 5.10 Land and buildings

In the opinion of the Directors, there is no material difference between the open market value of the Group's interest in land and buildings and its net book value.

## 5.11 Financial risk management

Information regarding the Group's financial risk management objectives and policies and exposure to price, credit, liquidity and cash flow risks can be found in note 28 to the consolidated financial statements.



## Directors' report

### 5.12 Charitable and political contributions

Group companies made charitable donations of £0.7m (2006: £0.6m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no contributions for political purposes during the year (2006: £Nil).

### 5.13 Authority for company to purchase its own shares

At the 2006 Annual General Meeting, the Company was granted authority by its shareholders under section 166 of the Companies Act 1985 to repurchase up to 10% of its ordinary shares. During the year, no ordinary shares were repurchased. Under the existing authority, the Company may repurchase up to 109,679,158 ordinary shares. This authority will expire on 31 December 2007 unless revoked, varied or renewed prior to this date.

A resolution will be placed at the next Annual General Meeting that the Company be authorised to repurchase its ordinary shares at the Directors' discretion up to a maximum number equal to 10% of the ordinary shares that are outstanding at the time of the Annual General Meeting. If passed, the resolution will lapse on or before 31 December 2008. If the resolution is approved, the existing authority that was granted at the 2006 Annual General Meeting will lapse.

### 5.14 Shareholder and control structure

At 30 April 2007, the Company's issued share capital comprised a single class of shares, referred to as "ordinary shares". As at 30 April 2007, there were 1,100,998,707 (2006: 1,093,600,313) ordinary shares in issue with a nominal value of 12/19th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned.

The holders of ordinary shares are entitled to be paid the profits of the Company available for distribution and determined to be distributed pro-rata to the number of ordinary shares held.

There are no restrictions on the transfer of ordinary shares other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and;
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Group require the approval of the Company to deal in the Company's securities.

None of the ordinary shares in issue provide the holders with special control rights.

Section 5.6 of this Directors' report gives details of any shareholders (other than the Directors) that hold more than 3% of the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 5.4 of this Directors' report. Two directors of the Company, Brian Souter and Ann Gloag, who are siblings are interested in 24.9% of the ordinary shares in issue as at 30 April 2007 (2006: 25.0%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2007 (2006: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts hold a further 0.6% of the ordinary shares in issue as at 30 April 2007 (2006: 0.5%). The shares held by the trusts are for the benefit of employees of the Group, and the voting rights are exercised by the trustees.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Directors are appointed by ordinary resolution at a general meeting of holders of ordinary shares. The Directors have the power to appoint a director but any person so appointed by the Directors shall hold office only until the next annual general meeting and shall then be eligible for appointment by ordinary resolution at that meeting.

The Company's Articles of Association may only be amended by special resolution at a general meeting of holders of ordinary shares.

The powers of the Directors to issue or repurchase ordinary shares are set by an ordinary resolution at a general meeting of holders of ordinary shares. Section 5.13 of this Directors' report sets out the current authority for the Company to purchase its own shares.

Details of the redeemable B Shares and irredeemable C Shares that were issued to shareholders on 14 May 2007 are given in section 3.8.13 of this Annual Report.

## 5.15 Disapplication of pre-emption rights

The Company seeks approval at least annually from its shareholders for the disapplication of pre-emption rights. The approval sought is generally to disapply pre-emption rights in respect of equity securities up to approximately 5% of those in issue. The following ordinary shares have been issued on a non pre-emptive basis over the last five years:

Year ended 30 April	Shares issued on a non pre-emptive basis	Shares in issue at start of year	Shares issued on a non pre-emptive basis as a percentage of shares in issue
2007	7,398,394	1,093,600,313	0.7%
2006	24,055,086	1,069,545,227	2.2%
2005	13,505,982	1,335,358,600	1.0%
Total last 3 years	44,959,462		3.9%
2004	14,412,588	1,320,946,012	1.1%
2003	Nil	1,320,946,012	Nil
Total last 5 years	59,372,050		5.0%

The non pre-emptive issues by reason are summarised below:

Year ended 30 April	Issued in connection with employee share schemes	Issued as non-cash consideration to acquire business	Total
2007	7,398,394	Nil	7,398,394
2006	20,033,016	4,022,070	24,055,086
2005	13,505,982	Nil	13,505,982
Total last 3 years	40,937,392	4,022,070	44,959,462
2004	14,412,588	Nil	14,412,588
2003	Nil	Nil	Nil
Total last 5 years	55,349,980	4,022,070	59,372,050

At 30 April 2007, the Company had 1,100,998,707 ordinary shares in issue. The cumulative shares issued on a non pre-emptive basis as a percentage of the ordinary shares in issue at 30 April 2007 are:

Year ended 30 April 2007	0.7%
Three years ended 30 April 2007	4.1%
Five years ended 30 April 2007	5.4%

During the year ended 30 April 2005, the ordinary shares of the Company were consolidated with 19 shares issued for every 24 previously held. No adjustments have been made to the shares issued as shown in the table above to take account of the consolidation.

Following shareholder approval at the Extraordinary General Meeting on 27 April 2007, the ordinary shares of the Company were consolidated on 14 May 2007 with 9 shares issued for every 14 previously held. No adjustments have been made to the shares issued as shown in the table above to take account of the consolidation.

## 5.16 Post balance sheet events

Details on the return of value completed since the balance sheet date are contained within section 3.8.13 of this report.

Section 3.73.4 of this report gives details of the East Midlands rail franchise that the Group signed on 22 June 2007.

## 5.17 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 financial statements.

## 5.18 Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Directors be authorised to fix the remuneration of the auditors.

By order of the Board



Ross Paterson  
Company Secretary

27 June 2007

## 6. Corporate governance report

### 6.1 Introduction

The Stagecoach Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group in conformity with the Combined Code on Corporate Governance ("the Combined Code").

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

### 6.2 Compliance with the Combined Code

In July 2006, the Financial Reporting Council published an amended version of the Combined Code. Although the amended version only applies to accounting periods starting on or after 1 November 2006, the Directors believe that from 1 July 2007 the Group will comply with all of the recommendations contained in the amended Combined Code.

However, for a period during the year the Company did not fully comply with the recommendations of the Combined Code. Russell Walls stepped down as a Non-Executive Director on 25 August 2006 and Garry Watts will be appointed as a Non-Executive Director on 1 July 2007. In the period from 25 August 2006 to the date of this report:

- The Audit Committee did not have a Chairman and comprised only two Directors, neither of whom have recent and relevant financial experience. However, Iain Duffin acted as Chairman at meetings and at least one of the Company's other independent Non-Executive Directors who have recent and relevant financial experience was also in attendance at all meetings of the Committee. This ensured that at least two independent Non-Executive Directors attended each meeting.
- The Remuneration Committee comprised only two Directors. However, at least one of the Company's other independent Non-Executive Directors attended meetings of the Committee thus ensuring at least three independent Non-Executive Directors attended each meeting.
- If the criteria for determining independence suggested by the Combined Code were applied, less than half of each of the Board and Nomination Committee (in each case excluding the Chairman) was independent. However, the Board's own view was that at least half of the Board and Nomination Committee (excluding the Chairman) was independent, because it regards Ewan Brown as independent.

Notwithstanding the above, the Board believes that it and its Committees remained effective during this period. The appointment of Garry Watts with effect from 1 July 2007 will remedy the above areas of non-compliance with the Combined Code.

### 6.3 Composition of the Board

The Combined Code suggests that independent Non-Executive Directors should make up at least half of the Board (excluding the Chairman). Following Garry Watts' appointment with effect from 1 July 2007, the Company's Board will comprise nine Directors. Excluding the Chairman, the Board considers there will be five independent Non-Executive Directors.

		Independent Chairman	Independent Non-Executive Director	Other Director
Robert Speirs	Chairman	✓		
Ewan Brown	Non-Executive Director		✓	
Iain Duffin	Non-Executive Director		✓	
Sir George Mathewson	Non-Executive Director		✓	
Janet Morgan	Non-Executive Director		✓	
Garry Watts	Non-Executive Director		✓	
Ann Gloag	Non-Executive Director			✓
Brian Souter	Chief Executive			✓
Martin Griffiths	Finance Director			✓

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

In determining the independence of Non-Executive Directors, the Board considers a number of factors. In particular the Board satisfies itself on the following questions:

- Does the Director provide a robust and effective challenge to executive management?
- Is the Director prepared to challenge others' beliefs, assumptions and viewpoints for the overall good of the Group and its shareholders?
- Does the Director effectively contribute to constructive debate by the Board and its Committees?
- Is the Director willing to defend his or her own beliefs and viewpoints for the overall good of the Group and its shareholders?
- Does the Director have a sound and detailed knowledge of the Group's business that enables him or her to effectively question strategy and executive management's running of the business?

### 6.4 Operation of the Board

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

The Chairman ensures that meetings of the Board and shareholders are properly conducted and is responsible for setting and moving forward the Board's agenda. Leadership of the Board (by the Chairman) is not the same as the leadership required (from the Group Chief Executive) to turn the Board's strategic and policy decisions into actions. The Group Chief Executive has day-to-day responsibility for all business of the Group and carries out the agreed strategy and policies of the Board. The split of the Chairman's and Chief Executive's responsibilities is in writing and has been approved by the Board.

The Directors' biographies appear on pages 20 and 21 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Non-Executive Directors bring an independent viewpoint and create an overall balance.

The Executive and Non-Executive Directors have a complementary range of financial, operational and entrepreneurial experience that ensures no one director or viewpoint is dominant in the decision-making process. The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors, led by the Senior Independent Non-Executive Director, meet without the Chairman at least annually.

All Directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the Company Secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as Directors. The Company Secretary, whose appointment and removal is a matter for the Board as a whole, is responsible to the Board for ensuring the Board procedures are complied with.

All Directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all Directors are required to

stand for re-election by shareholders at least every three years. Non-Executive Directors, including the Chairman, who are not considered by the Board to be independent, or are considered independent but have served on the Board for more than nine years, submit themselves for annual re-election. Each director receives induction training on appointment and subsequently such training or briefings as are considered necessary to keep abreast of matters affecting their roles as Directors. The Chairman endeavours to ensure that all Directors (including any newly appointed Directors) attend the Annual General Meeting, providing an opportunity for shareholders to meet the Directors.

The number of full Board meetings during the year was six. The full Board meets once a year at an operational location and regular verbal communication is maintained by the Chairman between meetings to ensure all Directors are well informed on strategic and operational issues.

The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major acquisitions or disposals. The Directors have full and timely access to information with Board papers distributed in advance of meetings.

The Board keeps the roles and contribution made by each director under review and changes in responsibilities are made where necessary to improve the Board's effectiveness. To provide a more manageable process and better control, certain of the Board's powers have been delegated to committees.

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

## 6.5 Operational management of the Group

The Board delegates the operational management of the Group to the Group Chief Executive and Group Finance Director ("Executive Directors"). The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in videoconferences with non-board senior management. Following the Group's disposal of its New Zealand operations in November 2005, there are three principal operating divisions (UK Bus: headed by a Managing Director, North America: headed by two Chief Operating Officers and UK Rail: headed by a Chief Executive) 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. Each chairman or managing director is supported by his/her own management teams.

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

A Chief Executive heads the Group's joint venture, Virgin Rail Group. The Chief Executive of the Rail division and the Company Secretary attended Virgin Rail Group board meetings during the year.

## 6.6 Performance evaluation

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

the Senior Independent Non-Executive Director obtains feedback from each individual director on the performance of the Chairman. A similar process is undertaken to assess the performance of each of the Board's committees.

The Directors have reviewed the effectiveness of the Board as a whole and its committees. Each Director has assessed the effectiveness of the Board and each committee of which he or she is a member.

The assessment of effectiveness included consideration of:

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

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

## 6.7 Audit Committee

The Audit Committee currently comprises two independent Non-Executive Directors, but a further director will join the Committee with effect from 1 July 2007. It receives reports from major business functions including the Risk Assurance Function. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The Audit Committee report is set out on page 30.

## 6.8 Remuneration Committee

The Remuneration Committee makes recommendations to the Board for ensuring that the Executive Directors' and senior management remuneration is appropriate to attract, motivate and retain Executive Directors and senior managers of the quality needed to run the Group's business successfully. The constitution and operation of the Remuneration Committee is detailed in the Directors' remuneration report on pages 32 to 38.

## 6.9 Nomination Committee

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

The Nomination Committee report is set out on page 31.

## 6.10 Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director, Janet Morgan, and comprises one other independent Non-Executive Director, Iain Duffin, and one other Non-Executive Director, Ann Gloag. The Committee was established to consider health, safety and environmental issues across the Group and to report regularly to the Board on these matters. It has access to internal safety executives and also external consultants.

The Health, Safety and Environmental Committee report is set out on page 31.

### 6.11 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by Director during the year ended 30 April 2007:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee		Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Robert Speirs	6	6	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Brian Souter	6	6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	6	6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Ewan Brown	6	6	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Iain Duffin	6	6	3	3	3	3	3	3	n/a	n/a	1	1
Ann Gloag	6	6	n/a	n/a	n/a	n/a	3	3	n/a	n/a	1	1
Sir George Mathewson – appointed 8 June 2006	6	6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Janet Morgan	5	6	2	3	3	3	3	3	1	1	1	1
Russell Walls – resigned 25 August 2006	2	2	1	1	2	2	n/a	n/a	1	1	1	1

### 6.12 Relations with shareholders

The Board endeavours to present a balanced and understandable assessment of the Group’s position and prospects in communications with shareholders.

The Board considers communications with shareholders, whether large or small, external or employee, to be extremely important. The Group holds periodic meetings with representatives of major institutional shareholders, other fund managers and representatives of the financial press.

The programme of investor relations includes presentations in London of the full-year and interim results and meetings with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are being effectively communicated and shareholder objectives are known. During the year, written responses are given to letters or e-mails received from shareholders and all shareholders can receive annual reports or summary annual reports.

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

Private and institutional shareholders are welcome to attend and participate at the Annual General Meeting and any Extraordinary General Meetings. The Group aims to ensure that all Directors, including the chairmen of the Audit, Remuneration, Nomination and Health, Safety and Environmental Committees are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other Directors on a variety of topics and further information is provided at the Annual General Meeting on the Group’s principal business activities. It is the Company’s policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. Resolutions are proposed annually in respect of the financial statements and the Directors’ remuneration report. At each Annual General Meeting, the Chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution, and the number of votes withheld. Details of the proxy votes are also published on the Group’s website at <http://www.stagecoachgroup.com/scg/ir/shareholder/agm/>. The Company and its registrars have established procedures to ensure that votes cast are properly received and recorded.

### 6.13 Risk management

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

The principal risks and uncertainties facing the Group are discussed on pages 15 and 16.

The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or reduced and, in some cases, transferred to third parties. Internal controls are used to identify and manage acceptable levels of risk. The Directors acknowledge their responsibility for establishing and maintaining the Group’s system of internal control, and for reviewing its effectiveness. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group’s system is designed to provide the Directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

Certain of the Group’s businesses are subject to significant risk. Each identified business risk is assessed for its probability of occurrence and its potential severity of occurrence. Where necessary, the Board considers whether it is appropriate to accept certain risks that cannot be fully controlled or mitigated by the Group.

The Group’s risk management process was embedded throughout the businesses during the financial year ended 30 April 2007 and up to the date of the approval of this report. The Board has carried out a review of the effectiveness of the Group’s internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit. The Audit Committee meets with representatives of operating units because this is one way for an independent and objective appraisal of risk management to be obtained.

Self-assessment of risk conducted by the Directors and senior management is ongoing and has been considered at several levels, with each division maintaining a separate risk profile.

The Group Risk Assurance (or internal audit) function, which is outsourced to and managed by Deloitte, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for maintaining the integrity and improving where possible the Group's risk management process in the context of the Group's overall goals.

The Audit Committee reviews Group Risk Assurance plans, as well as external audit plans and any business improvement opportunities that are recommended by the external auditors.

Virgin Rail Group has its own audit committee and internal audit function. The Group's risk management process does not specifically cover Virgin Rail Group, but the Group maintains an overview of Virgin Rail Group's business risk management process through representation on the board and audit committee. Stagecoach management representatives also meet regularly with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures.

## 6.14 Internal control

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

- an annual budgeting process with periodic re-forecasting of out-turn, identifying key risks and opportunities. All budgets are presented to a panel consisting of Executive Directors and/or senior managers by each business unit's management team, before being approved by the Board.
- reporting of financial information to the Board encompassing income statement, cash flow, balance sheet and key performance indicators. Group management monitors the results throughout each financial year.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned periodically by the Group of areas where significant inherent risks have been identified, such as treasury management, insurance provisioning, pensions strategy and competition policy.
- a decentralised organisational structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- control over the activities of joint ventures and associated undertakings through Stagecoach representation on the boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system covers the Group's senior management and is based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis is placed on cash flow management. Bank balances are reviewed on a daily basis and cash flows are compared to budget on a four-weekly basis.
- regular reporting to the Board and/or its Committees on specific matters including updated key risks, taxation, pensions, insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.

- each operating unit maintains internal controls and procedures appropriate to the business. A written certificate is provided at least annually by the management of each business confirming that they have reviewed the effectiveness of the system of internal control during the year. As might be expected, a number of minor internal control weaknesses were identified by this procedure and will be monitored and addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the maintenance and improvement of our risk management procedures.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.

## 6.15 Pension schemes

The assets of the Group's pension schemes are held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. There are ten trustees for the principal UK scheme of whom four are employee representatives nominated by the members on a regional basis and one is a pensioner trustee. The chairman of the trustees of the principal UK scheme is a professional trustee who served for eight years as a fund member elected representative on the National Association of Pension Funds' investment council. He also sits independently on two industry-wide schemes, as a Department of Trade and Industry appointed trustee of the Mineworkers' Pension Scheme and as an elected representative of all railway employers on the board of the Railways Pension Scheme. He was elected Chairman of the Railways Pension Scheme trustees with effect from 1 June 2007. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

PricewaterhouseCoopers LLP ("PwC") acts as the actuary for The Yorkshire Traction Company Limited Pension Plan which was acquired as part of the acquisition of Traction Group Limited during the year ended 30 April 2006. PwC do not act as actuaries or advisors of any of the other principal UK pension schemes.

A Pensions Oversight Committee was in operation throughout the year. This Committee is chaired by a Non-Executive Director and also comprises one Executive Director and other members of senior management. The Committee operates at a strategic level and its remit covers all matters affecting the Group's pension schemes from the perspective of the Group's shareholders and other stakeholders, and it will consider, develop and propose recommendations to the Board in respect of such issues as may arise. The Committee reviews pension scheme funding, investment strategy, risk management, internal controls surrounding pension matters and the related administration for all of the employee pension schemes of the Group and its subsidiaries.

## 7. Audit Committee report

### 7.1 Composition of the Audit Committee

The Audit Committee presently comprises two independent Non-Executive Directors. At the present time, its members are Janet Morgan and Iain Duffin. They also have access to the advice of a Board with a wealth of financial experience. Russell Walls resigned as Chairman of the Committee on 25 August 2006 when he stepped down as a Non-Executive Director of the Company. Garry Watts will join the Board as a Non-Executive Director on 1 July 2007 and will become Chairman of the Audit Committee from that date. Garry Watts is a former Finance Director and a serving Chief Executive of a FTSE 350 company. The Committee will therefore have significant recent and relevant financial expertise and be appropriately qualified to undertake its duties in an effective manner. The designated Committee member with recent and relevant financial experience will be Garry Watts.

In the period from 25 August 2006 to the date of this report, the Committee did not have a Chairman and comprised only two Directors. However, Iain Duffin acted as Chairman at meetings held during that period and at least one other independent Non-Executive Director of the Company attended the meetings thus ensuring that at least two independent Non-Executive Directors were present at all meetings.

### 7.2 Operation of the Audit Committee

The Audit Committee met three times during the year and has met a further time in June 2007. It receives reports from major business functions including the Risk Assurance Function (internal audit), which is outsourced and managed by Deloitte. It also receives reports from the external auditors. It considers the scope and results of the audit, the half-year and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/audit.pdf>

### 7.3 Review of External Auditors

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

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

- the consideration of audit fees that should be paid and advance approval of any other fees in excess of £50,000 cumulative which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

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

The Audit Committee, having considered the external auditors' performance during their period in office, recommends re-appointment. The audit fees of £0.6m for PricewaterhouseCoopers LLP and non-audit related fees of £0.4m were discussed by the Audit Committee and considered appropriate given the current size of the Group and the level of corporate activity undertaken during the year. The Committee believes the level and scope of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a good understanding of the Group's operations. Other accounting or consulting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified.

### 7.4 Policy on the Auditors Providing Non-Audit Services

Procedures in respect of other services provided by the auditors are:

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

### 7.5 Review of Risk Assurance Function

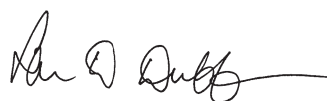
The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function (internal auditors). There have been no instances of disagreements between the Board and the Audit Committee relating to the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

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

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

### 7.6 "Speaking Up" Policy

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



Iain Duffin  
Acting Chairman of the Audit Committee

27 June 2007

## 8. Nomination Committee report

### 8.1 Composition of the Nomination Committee

The Nomination Committee currently comprises three Non-Executive Directors that the Board considers to be independent, Robert Speirs (who acts as Chairman), Ewan Brown and Janet Morgan. The Committee also includes, by invitation, the other Non-Executive Directors, as necessary. Russell Walls resigned from the Nomination Committee during the year. With effect from 1 July 2007, the Committee will comprise Robert Speirs (Chairman), Ewan Brown, Janet Morgan and Sir George Mathewson.

### 8.2 Operation of the Nomination Committee

The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments. Based on its assessment, the Committee will prepare a description of the role and the required attributes for each particular appointment. The description will include a job specification, the estimate of the time commitment expected, and the Group's policy on Directors having other significant commitments. Potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their other commitments as they arise. The Committee will identify suitable candidates and make proposals for each appointment, although final appointments are the responsibility of the Board as a whole.

Potential new Non-Executive Directors are chosen based on a shortlist compiled by the Nomination Committee taking account of known candidates and candidates suggested by the Group's advisors. For example, the selection of Garry Watts was made following a recruitment process that involved the use of external recruitment consultants and the consideration of a number of candidates. Every director met with Garry Watts prior to his formal selection by the Board.

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

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

The terms of reference of the Nomination Committee are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/nom.pdf>

### 8.3 Succession Planning Arrangements

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

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



Robert Speirs  
Chairman of the Nomination Committee

27 June 2007

## 9. Health, Safety and Environmental Committee report

### 9.1 Composition of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director, Janet Morgan, and comprises one other independent Non-Executive Director, Iain Duffin, and one other Non-Executive Director, Ann Gloag.

The terms of reference of the Health, Safety and Environmental Committee, which were updated during the year, are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/health.pdf>

### 9.2 Operation of the Health, Safety and Environmental Committee

The Committee was established to consider health, safety and environmental issues across the Group and to report regularly to the Board on these matters. The Committee also approves the Group's overall strategic safety framework. It has access to internal safety executives and also external consultants.

A new strategic safety framework was approved by the Committee during the year. Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework.

Managers from each of the Group's key divisions attend meetings of the Committee from time to time providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters.

The Committee visits operational locations to observe health, safety and environmental management in practice. During the year ended 30 April 2007, the Committee's activities included visits to the Group's Sunderland bus

depot and Wimbledon rail depot. The Committee has also visited operational locations in the US and Canada. Committee members attend meetings of the Safety Committees of individual business units from time to time, such as the South West Trains' Strategic Safety Group.

The Committee receives reports on trends in health and safety indicators across the Group as well as information on significant accidents involving the Group. Key performance indicators are provided and reviewed in respect of each major operating division. During the year, the Committee agreed a revised set of key performance indicators to better drive local accountability and to recognise that each division has differing attributes and risks.

Training is provided to the Committee on health, safety and environmental matters. In the year ended 30 April 2007, training was focused on matters relevant to the Group's largest division, the UK Bus division.

The Committee liaises with the Remuneration Committee in determining any health and safety objectives to form part of the Executive Directors' personal non-financial objectives.

Details of the Group's health, safety and environmental policies and activities are contained in sections 3.11.4 and 3.11.6 of this Annual Report.



Janet Morgan  
Chairman of the Health, Safety and Environmental Committee

27 June 2007



# 10. Directors' remuneration report

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

In accordance with Schedule 7A "Directors' Remuneration Report" to the Companies Act 1985, those paragraphs that have been audited have been highlighted as such.

## 10.1 Composition of the Remuneration Committee

During the year ended 30 April 2007, Iain Duffin chaired the Remuneration Committee and the other members were Russell Walls, until his resignation on 25 August 2006, and Janet Morgan, all three of whom are independent Non-Executive Directors. Sir George Mathewson joined the Committee in May 2007 as an independent Non-Executive Director. Committee meetings which took place during the period from when Russell Walls resigned until Sir George Mathewson was formally appointed, were attended by at least one other independent Non-Executive Director. From 1 July 2007, the Committee will comprise Iain Duffin (Chairman), Sir George Mathewson and Garry Watts.

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

The Committee has access to independent research and advice from its remuneration consultants, KPMG, appointed by the Remuneration Committee. KPMG provides certain other services to the Group, from time to time, including due diligence, actuarial services and pension scheme audits.

Both the constitution and operation of the Remuneration Committee comply with the principles and provisions incorporated in the Combined Code with the exception of departures noted in section 6.2 of the Corporate Governance Report. In preparing the Directors' remuneration report, the Remuneration Committee has followed the provisions of the Combined Code.

The terms of reference of the Remuneration Committee are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/remun.pdf>

## 10.2 Remuneration of Non-Executive Directors

Other than the Chairman, each Non-Executive Director generally receives the same level of fixed fee. The fee for each Non-Executive Director for the year ended 30 April 2007 was £40,000 (2006: £38,000). The Board balances the responsibilities of each Non-Executive Director (for example, Chairmanship and/or membership of Committees) such that, over the medium term, each Non-Executive Director has a similar level of workload and commitment. However, Iain Duffin received a fee of £42,000 for the year ended 30 April 2007 to reflect the additional work involved in his temporary Chairmanship of the Audit Committee.

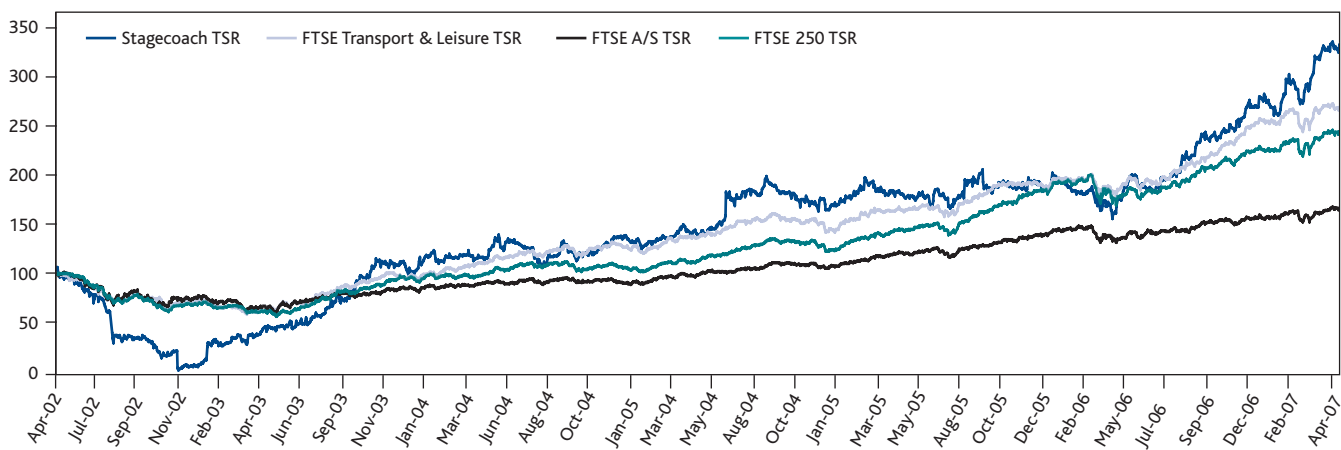
The Board of Directors as a whole, having given due regard to the required time commitment and responsibilities, sets the fees and expenses payable to the Non-Executive Directors. Non-Executive Directors do not hold any share options, nor do they participate in any incentive plans or pension schemes with the exception of Ann Gloag who receives a pension accrued when she was an executive director. The members of the Remuneration Committee have no personal interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Stagecoach Group.

## 10.3 Performance graph

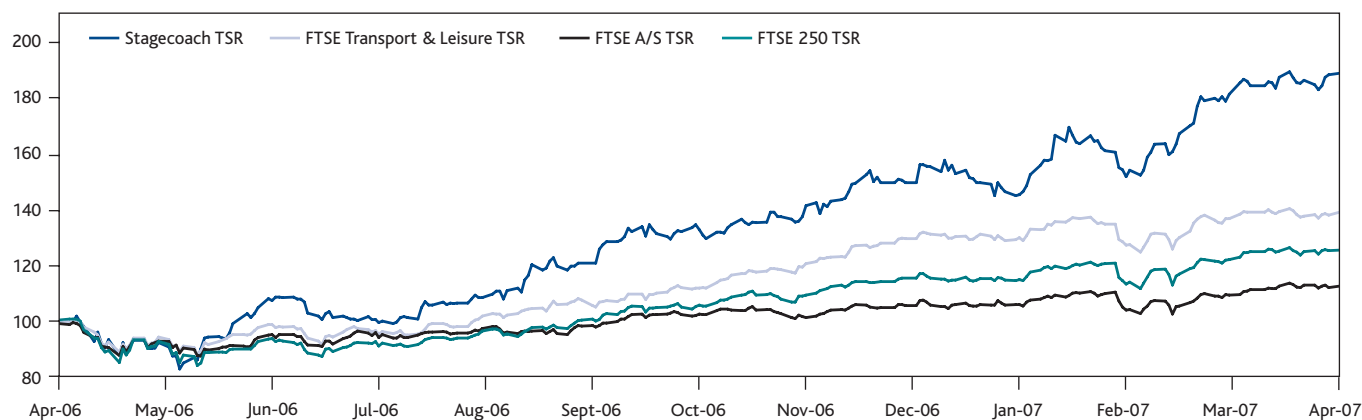
The graph below charts the performance of the Stagecoach Group Total Shareholder Return ("TSR") (share value movement plus reinvested dividends) over the 5 years to 30 April 2007 compared with that of the FTSE Transport and Leisure All-Share Index, the FTSE Mid 250 Index and the FTSE All-Share Index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2007.

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

### Stagecoach TSR Comparative Performance since 30 April 2002



### Stagecoach 1 Year TSR Comparative Performance to 30 April 2007



## 10.4 Remuneration Policy

The Remuneration Policy was approved by our shareholders at the 2006 Annual General Meeting. The Remuneration Committee follows the Combined Code in designing performance-related remuneration schemes.

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance-related elements and that these performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short-and long-term targets. Performance targets can include traditional financial indicators and personal targets, successful investment, innovation, staff development, customer satisfaction and achievement of regulatory requirements, including health, safety and environmental targets.

To this end, the Remuneration Committee reviews the existing remuneration of the Executive Directors, in consultation with the Chief Executive, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry. Proposals for the forthcoming year are then discussed in the light of the prospects for the Group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach Group. With regard to pensions, the Remuneration Committee has access to reports from the trustees and scheme actuaries regarding the cost of pension obligations.

## 10.5 Intended balance of remuneration package

The overall remuneration package of Executive Directors will vary depending on performance because they will receive greater performance-related remuneration for higher levels of performance.

Notwithstanding this, it is intended that the overall remuneration package of the Executive Directors is broadly structured as shown in Figure 1.

The overall balance of remuneration illustrated in Figure 1 is based on the expected value of awards. For example, while the Remuneration Committee would typically make awards under the Long Term Incentive Plan to Executive Directors equivalent to one times basic salary, the expected value of an award to a director is much less than one times basic salary because of the challenging performance conditions that apply. Likewise, while Executive Directors can earn a cash settled annual bonus of up to 50% of basic salary, the maximum award is only earned when challenging performance objectives are met.

**Figure 1: Balance of Executive Directors' expected remuneration package**

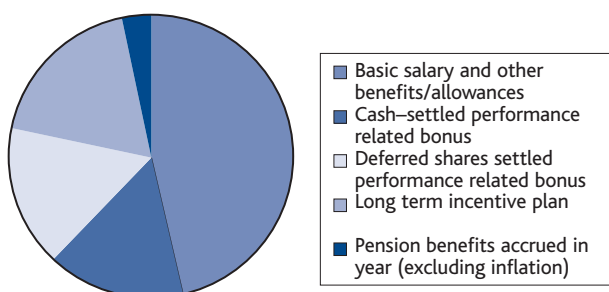
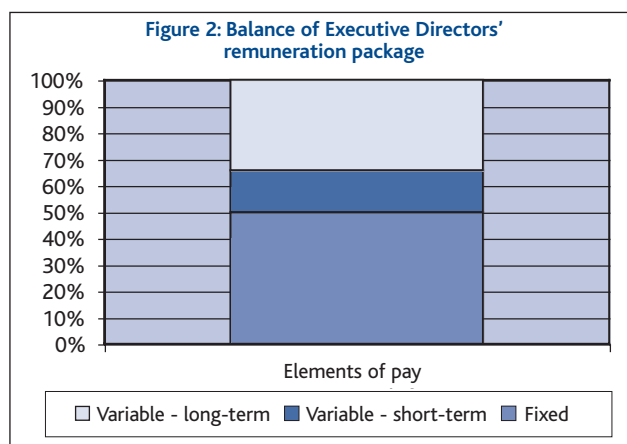


Figure 2 provides a further analysis of the intended balance of Executive Directors' pay between fixed elements (for example, basic salary and pension benefits), variable short-term elements (for example, annual cash bonuses) and variable long-term elements (for example, awards under share based incentive schemes).

Shareholders are invited to specifically approve all new long-term remuneration plans (whether share-settled or cash-settled plans) and any significant changes to existing plans, except where otherwise permitted by the Listing Rules. New arrangements were approved by shareholders at the 2005 Annual General Meeting and the Committee considers that the arrangements that were approved by shareholders remain appropriate.



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

## 10.6 Remuneration of Executive Directors and Other Executives (audited)

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

- Basic salary;
- Performance-related annual cash bonuses;
- Executive Participation Plan ("EPP");
- Benefits in kind and other allowances;
- Pension arrangements;
- Share options; and
- Long Term Incentive Plan ("LTIP").

The participation of the two Executive Directors in the above arrangements during the year ended 30 April 2007 is summarised in Table 1 on page 34. The Executive Directors have not received executive share options in the year ended 30 April 2007.

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

Directors' remuneration for the year ended 30 April 2007 is shown in Table 2 and Table 3 on page 34.

## Directors' remuneration report

<b>TABLE 1 – DIRECTORS' PARTICIPATION</b>	Basic Salary/Annual bonus	EPP	Benefits in kind	Pension	Share Options	LTIP
Brian Souter	YES	YES	YES	YES	NO*	YES
Martin Griffiths	YES	YES	YES	YES	NO*	YES

\*The Executive Directors have not received further awards of executive share options, following the approval of the EPP and LTIP at the 2005 AGM.

<b>TABLE 2 – DIRECTORS' REMUNERATION</b> (amounts in £000)	Salary/fees		Performance related bonus (cash)		Performance related bonus (EPP)		Benefits in kind		Non-pensionable allowances†		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Executive directors</b>												
Brian Souter	514	499	257	204	257	204	17	17	Nil	Nil	1,045	924
Martin Griffiths	257	242	128	103	128	103	20	20	42	36	575	504
Graham Eccles (resigned 30 April 2006)*	Nil	269	Nil	161	Nil	Nil	Nil	25	Nil	44	Nil	499
<b>Non-executive directors</b>												
Ewan Brown	40	38	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	40	38
Ann Gloag	40	38	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	40	38
Robert Speirs	110	110	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	110	110
Russell Walls (resigned 25 August 2006)	13	38	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	13	38
Janet Morgan	40	38	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	40	38
Iain Duffin	42	38	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	42	38
Sir George Mathewson – (appointed 8 June 2006)	33	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	33	Nil
<b>Total</b>	<b>1,089</b>	<b>1,310</b>	<b>385</b>	<b>468</b>	<b>385</b>	<b>307</b>	<b>37</b>	<b>62</b>	<b>42</b>	<b>80</b>	<b>1,938</b>	<b>2,227</b>
Consultancy fee paid to former directors:												
Graham Eccles	80	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	80	Nil

† Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits.  
\* Following his retirement as a director on 30 April 2006, Graham Eccles receives an annual fee of £80,000 for consultancy for the two-year period to 30 April 2008. In addition, Graham Eccles was paid £300,000 during the year ended 30 April 2007 in respect of amounts due under the Stagecoach Executive Directors' Long Term Bonus Scheme. For details of the scheme, which is no longer applied, please see details in the 2006 Annual Report.

<b>TABLE 3 – DIRECTORS' PENSION BENEFITS</b> (amounts in £000)	Additional accrued benefits in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less Directors' contributions		Transfer value of pension	
	Excluding inflation	Including inflation	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Executive directors</b>												
Brian Souter	47	75	285	264	543	489	157	167	117		4,114	3,957
Martin Griffiths	10	14	33	30	100	89	21	13	21		277	256

Martin Griffiths was subject to the statutory pensionable earnings cap that existed until 5 April 2006 and since then, the Company has continued to impose a notional pensionable earnings cap. The Company makes cash contributions to Martin Griffiths for the part of his salary that exceeds the notional earnings cap. Only basic salary is pensionable. The additional cash contribution equates to one-third of the excess above the notional earnings cap. Brian Souter joined the pension scheme prior to the application of the statutory pensionable earnings cap and was therefore not subject to such cap. To maintain consistency, Brian Souter is therefore not subject to the notional earnings cap.

During the year ended 30 April 2002, the remaining proceeds of a small self administered money purchase scheme ("SSAS") established for Brian Souter and Ann Gloag in 1992 were transferred into the Stagecoach Group Pension Scheme to secure additional final salary type benefits equivalent in actuarial value to the proceeds transferred. The additional benefits are reflected in the disclosure of Brian Souter's accrued benefits above. In Ann Gloag's case, her share of the SSAS assets along with the cash equivalent of her benefits in the Stagecoach Group Pension Scheme were transferred into a personal pension arrangement that provides her with an annual pension of £81,146. Employer contributions to the SSAS ceased in 2000 for Ann Gloag and in 2001 for Brian Souter.

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

Each of the elements of remuneration is discussed further below.

### 10.7 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.

### 10.8 Performance-related annual cash bonuses

At the start of each financial year, the Committee agrees specific objectives for each Executive Director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual cash bonus for each Executive Director for the year just ended. This is based on the Director's performance in achieving the objectives agreed. These comprise both financial and non-financial objectives. For Executive Directors, the financial objectives for the year ended 30 April 2007 were to better the

Group's financial targets with respect to measures of earnings before interest and taxation, earnings per share, and net debt. The non-financial objectives are specific to each Executive Director and cover matters such as safety targets, environmental targets, successful investment, innovation, staff development, customer satisfaction, successful business acquisitions/disposals and regulatory requirements.

For the year ended 30 April 2007, Brian Souter and Martin Griffiths each had a maximum potential bonus of up to 100% of basic salary, 70% for meeting demanding financial objectives and 30% for meeting personal non-financial objectives. 50% of any actual bonus will be deferred as shares under the EPP. The same parameters will apply for the year ending 30 April 2008.

In making its judgement of performance for the last financial year, the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, and relative total return to shareholders over the year, as well as other strategic developments and operating improvements. Bonuses awarded to Executive Directors in respect of the year ended 30 April 2007 are shown in Table 4.

Director	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Shares	Cash	Shares
Brian Souter	50%	50%	50%	50%
Martin Griffiths	50%	50%	50%	50%

50% of the actual annual bonus payable to Brian Souter and Martin Griffiths is settled in cash, with the balance deferred as shares under the EPP (see section 10.9).

## 10.9 Executive Participation Plans

A new Executive Participation Plan ("EPP") was approved at the 2005 Annual General Meeting. The first awards under the EPP were made in June 2006 in respect of the financial year ended 30 April 2006.

The intention of the EPP is to further align the interests of managers with shareholders by giving managers a greater direct interest in the performance of the Company's shares. The EPP is such that the executives can benefit from both capital growth (i.e. increases in share price) and dividend yield. The EPP is also designed to provide an incentive for managers to remain with the Group and forms a core part of the Group's succession and management development plans.

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

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

There are no specific performance conditions attaching to the release of deferred shares because the annual bonus is already subject to performance conditions and there are no awards of matching shares in respect of annual bonuses - the EPP is to encourage executives to invest an element of their annual bonus in the Company's shares. The EPP is an effective retention programme in that a participant would lose his or her entitlement to the

deferred shares if he/she left of his/her own volition during the three-year deferral period.

Where an individual receives an award under the EPP, he or she does generally not also receive an award of executive share options in the same financial year. Awards made to Executive Directors under the EPP, are shown in Table 5.

## 10.10 Benefits in kind and other allowances

The benefits in kind show in table 2 for the year ended 30 April 2007 comprise :

- B Souter received £17,200 of cash allowance in lieu of company of company car and £222 in re-imbusement of home telephone expenses.
- M Griffiths received £18,000 of cash allowance in lieu of company car, £726 of healthcare for himself and his family, £578 in home telephone re-imbusement , and £482 in life cover premium.

## 10.11 Pension arrangements

Under the terms of their service agreements, Executive Directors are entitled to become members of one of the Stagecoach Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension schemes. For pensions purposes, the Executive Directors have a normal retirement age of 60. The Stagecoach Group pension schemes are designed to provide a pension for Executive Directors equivalent to up to two-thirds of final pensionable salary completed up to normal retirement age.

As reported in the 2006 Remuneration Committee report, the Remuneration Committee has reviewed the implications of the new pensions regime introduced by the Pensions Act 2004. A notional pensionable earnings cap has been introduced to replace the previous statutory pensionable earnings cap. During the year the Group introduced an annual cap of 3.5% on pensionable salary growth under the Stagecoach Group Pension Scheme. This cap also applies to the notional pensionable earnings cap. The Committee works to the general principle of not increasing the rate of accrual of pensions benefit nor to increase the annual cost to the Group as a result of the new regime.

Martin Griffiths was subject to the statutory pensionable earnings cap that existed until 5 April 2006 and since then, the Company has continued to impose a notional pensionable earnings cap. The Company makes cash contributions to Martin Griffiths for the part of his salary that exceeds the cap. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided under the Group pension scheme.

## 10.12 Share options (audited)

The Executive Directors are generally not expected to receive further awards of executive share options, following the approval of the EPP and LTIP by shareholders at the 2005 AGM. However, the Executive Directors continue to hold executive share options that were previously awarded.

No Directors exercised Executive share options during the year.

The interests of Directors in options to subscribe for ordinary shares of the Company, together with movements during the year, are shown in Table 6 on page 36. All of the share options were granted for nil consideration. The

Grant Date	Awards granted in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Vesting Date	Expected total value of award at time of grant	Closing share price on date of grant
<b>Brian Souter</b> 30 June 2006	178,964	4,853	183,817	30 Jun 2009	204,466	£1.1525
<b>Martin Griffiths</b> 30 June 2006	90,021	2,440	92,461	30 Jun 2009	102,849	£1.1525

## Directors' remuneration report

exercise price of the share options reflects the mid-market price immediately preceding the time of the award: the Group's policy is not to offer executive share options at a discount to the mid-market price. The mid-market price of the underlying ordinary shares at 30 April 2007 was £1.87 per share (30 April 2006: £1.08 per share). The Company's ordinary shares traded in the range £0.93 to £1.89 (year ended 30 April 2006: £1.01 to £1.23) during the year to that date.

In addition to the share options shown in Table 6 below, one Director holds options issued under the Group's Save As You Earn scheme. Details are shown in Table 7 below.

Further information on these options is detailed in note 30 to the consolidated financial statements on pages 84 and 85.

The expiry date of any individual SAYE option can be extended to be six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the exercisable date shown.

The executive share options shown in Table 6 that were awarded on or before 12 December 2003 have vested and may be exercised at any time.

All of the outstanding executive share options shown in Table 6 were issued under The Stagecoach Unapproved Executive Share Option Scheme ("the Scheme"). The Scheme was established in September 1997, when it was approved by shareholders at the Annual General Meeting. The scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. This scheme is also used to reward senior executives throughout the Group, at the Committee's discretion.

In December 2004, the Board and the Remuneration Committee agreed to remove from the Scheme, the ability to award "Super Options". Therefore, all executive share options awarded on or after 4 December 2004, are "Ordinary Options" which are exercisable between three and seven years after the date of award. The maximum level of executive share options that can now be issued to a given individual in any financial year is two times that individual's basic salary, calculated by comparing the basic salary to the total number of shares covered by the options multiplied by the exercise price. The Board and the Remuneration Committee also agreed to remove from the Scheme, the facility for the performance condition to be re-tested. Re-testing is prohibited

for all executive share options awarded on or after 4 December 2004. Accordingly, the exercise of executive share options awarded on or after 4 December 2004 is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum cumulatively - the base year is the latest financial year ended prior to the award of the option and the performance condition may not be re-tested. For ordinary options awarded up until June 2001, exercise of the options is subject to earnings per share outperforming inflation over three consecutive financial years by 2% per annum cumulatively. For ordinary options awarded after June 2001 but prior to 4 December 2004, exercise of the options is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum, or earnings per share outperforming inflation over four consecutive financial years by 4% per annum, or earnings per share outperforming inflation over five consecutive financial years by 5% per annum.

### 10.13 Satisfaction of share awards

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

The Group's Employee Share Ownership Trusts are used to acquire and finance shares to meet contingent obligations under share based incentive schemes that are not expected to be satisfied through the issue of new shares. At 30 April 2007, these trusts held 6,195,278 (2006: 5,318,618) 12/19th ordinary shares in the Company, representing 0.6% (2006: 0.5%) of the total issued ordinary shares. The Company follows the ABI guideline that the shares held by Employee Share Ownership Trusts should not exceed 5% of the total shares in issue. The Employee Share Ownership Trusts have waived the right to receive dividends on the shares held by them.

<b>TABLE 6 - EXECUTIVE SHARE OPTIONS</b> Grant Date	As at 1 May 2006	Lapsed in year	As at 30 April 2007	Exercise price £	Date from which exercisable	Expiry date
<b>Brian Souter</b>						
23 July 2002	1,226,667	Nil	1,226,667	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	1,703,704	Nil	1,703,704	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	582,645	Nil	582,645	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	291,022	Nil	291,022	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	564,548	Nil	564,548	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	217,085	Nil	217,085	1.1150	10 Dec 2007	10 Dec 2011
	<u>4,585,671</u>	<u>Nil</u>	<u>4,585,671</u>			
<b>Martin Griffiths</b>						
19 July 1999	35,519	(35,519)	Nil	2.0310	19 Jul 2002	19 Jul 2006
26 June 2003	254,132	Nil	254,132	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	126,935	Nil	126,935	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	256,997	Nil	256,997	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	98,822	Nil	98,822	1.1150	10 Dec 2007	10 Dec 2011
	<u>772,405</u>	<u>(35,519)</u>	<u>736,886</u>			

<b>TABLE 7 - SAYE OPTIONS</b>	At 1 May 2006 and 30 April 2007 No. of ordinary shares	Exercise price £	Date from which exercisable	Expiry date
Martin Griffiths	9,174	1.03275	1 April 2008	30 Sept 2008

## 10.14 Long Term Incentive Plan (unaudited)

For a small number of senior executives, including Executive Directors, a new long-term incentive plan ("LTIP") was approved at the 2005 AGM. The LTIP introduces stringent performance criteria related to total shareholder return ("TSR"). TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured against a comparator group, which is the list of FTSE 250 companies. The first awards under the LTIP were made in August 2005, and these awards and any subsequent awards made to the Directors since then are shown in Table 8 below.

Under the LTIP, executives are awarded notional units at the discretion of the Remuneration Committee with each unit having a value equal to one of the Company's ordinary shares. The maximum award in relation to any financial year for an individual is limited to 150% of the individual's basic salary.

Vesting of the LTIP units is subject to two quantitative TSR-based performance criteria and also, a qualitative underpin. The underpin is that LTIP units will only vest if the Remuneration Committee is satisfied with the underlying financial performance of the Group.

The Company currently intends to settle all such awards in cash.

The two TSR conditions are:

- Firstly, no awards vest unless the total shareholder return of the Group over the three-year testing period (re-testing is not permitted) is positive. We believe this results in the Stagecoach LTIP being significantly more challenging than long-term incentive plans operated by comparable companies. Other companies frequently only consider relative shareholder return. The Stagecoach LTIP focuses on both absolute returns and relative returns. We believe this helps align management and shareholder interests. We are aware, for example, that many pension schemes value absolute returns as much if not more than relative returns.
- Secondly, the element of the awards that vest is based on how the Group's total shareholder return compares to a comparator group. This is a secondary performance condition (secondary in that it is only relevant where the Group's total shareholder return is positive) judged relative to a comparator group, which is the list of FTSE 250 companies.

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

- If TSR is negative, irrespective of the TSR of the comparator group, no LTIP units are released;
- If TSR is positive but is less than the median TSR of the comparator group, LTIP units are released;
- If TSR exceeds the median of the comparator group, 33% of the LTIP units are released;
- If TSR is in the top quartile of the comparator group, 100% of the LTIP units are released;

- If TSR is higher than the median but less than the top quartile, the proportion of LTIP units to be released would be between 33% and 100% depending on the exact ranking against the comparator group.

Accordingly, the awards are closely tied to the rewards to shareholders as a whole. An independent third party will calculate the TSR measures for the purposes of determining the extent to which the performance condition is satisfied.

There is no re-testing of LTIP performance conditions.

## 10.15 Review of share based incentive schemes

The principal share based incentive schemes for the Executive Directors and other executives are the EPP and the LTIP, which are described earlier in this Directors' remuneration report. The EPP and the LTIP schemes were adopted by shareholders at the Annual General Meeting of the Company held in August 2005 following a review by the Remuneration Committee of the Group's share based payments and other incentive arrangements.

The Remuneration Committee believes that operation of the Group's share-based incentive schemes, the levels of award under the schemes, the performance conditions and timing of vesting remain appropriate in light of the Group's circumstances and future prospects.

## 10.16 Shareholding targets

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of executive directors, they are each expected to accumulate shares in the Company with a value of at least 100% of basic salary. These targets were first introduced in 2005 and Executive Directors were allowed five years to accumulate the appropriate level of shares.

The Executive Directors have significant effective interests in the Company's ordinary shares ensuring alignment of Executive Directors' and Shareholders' objectives. The effective interests of Executive Directors as at 30 April 2007 were:

	Brian Souter	Martin Griffiths
Ordinary shares	156,104,709	15,830
Shares held under Executive Share Options		
– Vested	3,804,038	381,067
– Not yet vested	781,633	355,819
Deferred Shares under Executive Participation Plan	183,817	92,461
Notional Units under Long Term Incentive Plan	942,893	464,134
	<u>161,817,090</u>	<u>1,309,311</u>

TABLE 8 – LTIP AWARDS Grant Date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Vesting Date	Expected total value of award at time of grant	Closing share price on date of grant
<b>Brian Souter</b>							
26 Aug 2005	464,168	Nil	12,727	476,895	26 Aug 2008	£198,850	£1.1075
29 June 2006	Nil	453,563	12,435	465,998	29 Jun 2009	£198,706	£1.1325
	<u>464,168</u>	<u>453,563</u>	<u>25,162</u>	<u>942,893</u>			
<b>Martin Griffiths</b>							
26 Aug 2005	225,242	Nil	6,175	231,417	26 Aug 2008	£96,494	£1.1075
29 June 2006	Nil	226,507	6,210	232,717	29 Jun 2009	£99,233	£1.1325
	<u>225,242</u>	<u>226,507</u>	<u>12,385</u>	<u>464,134</u>			

# Directors' remuneration report

## 10.17 International Financial Reporting Standards ("IFRS")

The Remuneration Committee has taken steps to ensure that it can continue to measure financial performance on a consistent basis notwithstanding the transition from UK GAAP to IFRS accounting policies.

Certain elements of remuneration are determined based on the financial performance of the Group or a part of the Group. In determining financial performance, the Remuneration Committee will ensure that financial performance is determined on a consistent basis. Where available, the Committee will determine financial performance with reference to amounts determined in accordance with IFRS. For the financial year ended 30 April 2004 and prior, no IFRS amounts are available. Where performance is being measured relative to any period ending on or before 30 April 2004, the Committee will use UK GAAP amounts and where necessary, ensure that the performance measures for later periods (including those periods where the primary financial statements are reported in accordance with IFRS) are restated to UK GAAP.

Where there is any doubt about whether targets or bonus arrangements have been fulfilled as a consequence of the transition from UK GAAP to IFRS, the Remuneration Committee will work with the Audit Committee on the matter.

## 10.18 Directors' service agreements

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

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

It is the Company's policy that Executive Directors should have 12-month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants that will be rigorously applied.

Non-Executive Directors are appointed by a letter, which makes no specific provision for notice periods. Non-Executive Directors are subject to election and re-election by shareholders as described on pages 26 and 27.

## 10.19 Early termination

If the Company terminates an Executive Director's contract, the costs for which the Company is liable will vary depending on length of service. The costs will include a termination payment of up to one times annual salary and the value of one year's additional retirement benefits. There are no arrangements to otherwise enhance or accelerate pension benefits on termination or early retirement.

## 10.20 Change of control

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

- Executive Directors are entitled to normal termination benefits as outlined above, except where the Director is offered and has refused employment on terms and conditions that were no less favourable to those in place prior to the change of control;
- With respect to Executive Share Options, options can be exercised within six months of the change of control. For options granted prior to 14 January 2002, the performance condition will not apply. For options granted on or after 14 January 2002, the extent to which the performance condition is applied shall be determined by the Remuneration Committee;
- Under the EPP, shares deferred would automatically vest on a change of control;
- Under the LTIP, LTIP units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the TSR performance condition.

## 10.21 Outside appointments

Executive Directors are able to accept substantive external appointments, provided that approval is given by the Board. The fees from such appointments are retained by the director, recognising the level of personal commitment and expertise required for non-executive roles. Details of remuneration earned where an Executive Director serves as a Non-Executive Director elsewhere are disclosed in note 35 to the consolidated financial statements.

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

### 10.22.1 Noble Grossart Limited

Ewan Brown (a Non-Executive Director of Stagecoach) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year amounted to £20,000 (2006: £20,100). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2007 6,354,443 (2006: 6,354,443) ordinary shares in the Company, representing 0.6% (2006: 0.6%) of the ordinary shares in issue.

### 10.22.2 Alexander Dennis Limited

On 21 May 2004, Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a Non-Executive Director of Stagecoach) together gained control of 39.3% of the shares and voting rights in Alexander Dennis Limited. They now collectively hold 37.7% (30 April 2007: 37.2%; 30 April 2006: 39.3%) of the shares and voting rights. Noble Grossart Investments Limited (see 10.22.1 above) controls a further 28.3% (30 April 2007: 27.9%; 30 April 2006: 29.5%) of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2007, the Group purchased £42.8m (2006: £46.5m) of vehicles from Alexander Dennis Limited and £3.9m (2006: £2.9m) of spare parts and other services.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules. For the year ended 30 April 2007, the Group has placed orders totalling £45.6m (2006: £41.6m) with Alexander Dennis Limited for the purchase of new vehicles. Of this £45.6m (2006: £41.6m), vehicles accounting for £5.0m (2006: £3.9m) were delivered prior to 30 April 2007 and are included in the total purchases of £42.8m (2006: £46.5m) referred to above.

### 10.22.3 ScotAirways Group Limited

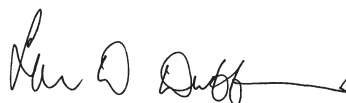
Until September 2006, Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) controlled 93.8% of the shares of ScotAirways Group Limited. Brian Souter was also Chairman of ScotAirways Group Limited. Brian Souter and Ann Gloag disposed of their entire shareholdings in ScotAirways Group Limited in September 2006 and Brian Souter stepped down as Chairman at that time. ScotAirways Group Limited therefore ceased to be a related party of the Group in September 2006.

During the period from 1 May 2006 to the time ScotAirways Group Limited ceased to be a related party of the Group, the Group purchased airline flights from ScotAirways Group Limited totalling £43,871 (year ended 30 April 2006: £76,168).

## 10.23 Remuneration policy approval

An ordinary resolution to receive and approve this Directors' remuneration report will be proposed at the 2007 Annual General Meeting.

On behalf of the Board



Iain Duffin  
Chairman of the Remuneration Committee

27 June 2007

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

We have audited the Group financial statements of Stagecoach Group plc for the year ended 30 April 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately (on page 91) on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2007 and on the information in the Directors' remuneration report that is described as having been audited.

## Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance report reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Directors' report, the Chief Executive's review, the Operating and Financial Review, the Corporate Governance report, the Audit Committee report, the Nomination

Committee report and the Health, Safety and Environmental Committee report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group financial statements 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 Group financial statements.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 April 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

## Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 30 April 2007 and of its profit and cash flows for the year then ended.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Glasgow

27 June 2007



# Consolidated income statement

For the year ended 30 April 2007

	Notes	2007			2006		
		Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
<b>CONTINUING OPERATIONS</b>							
<b>Revenue</b>	2	<b>1,504.6</b>	<b>Nil</b>	<b>1,504.6</b>	1,343.9	Nil	1,343.9
Operating costs	3	<b>(1,571.0)</b>	<b>19.3</b>	<b>(1,551.7)</b>	(1,422.2)	(7.4)	(1,429.6)
Other operating income	5	<b>213.5</b>	<b>Nil</b>	<b>213.5</b>	205.7	Nil	205.7
<b>Operating profit of Group companies</b>	2	<b>147.1</b>	<b>19.3</b>	<b>166.4</b>	127.4	(7.4)	120.0
Share of profit/(loss) of joint ventures – after finance income and taxation		<b>14.2</b>	<b>0.3</b>	<b>14.5</b>	5.6	(13.1)	(7.5)
<b>Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation</b>	2	<b>161.3</b>	<b>19.6</b>	<b>180.9</b>	133.0	(20.5)	112.5
Gain on sale of properties	4	<b>Nil</b>	<b>3.6</b>	<b>3.6</b>	Nil	0.8	0.8
Loss on disposed operations and sale of investments	4	<b>Nil</b>	<b>(1.1)</b>	<b>(1.1)</b>	Nil	(5.9)	(5.9)
<b>Profit before interest and taxation</b>		<b>161.3</b>	<b>22.1</b>	<b>183.4</b>	133.0	(25.6)	107.4
Finance costs	6	<b>(20.7)</b>	<b>Nil</b>	<b>(20.7)</b>	(23.6)	Nil	(23.6)
Finance income	6	<b>21.4</b>	<b>Nil</b>	<b>21.4</b>	7.7	Nil	7.7
<b>Profit before taxation</b>		<b>162.0</b>	<b>22.1</b>	<b>184.1</b>	117.1	(25.6)	91.5
Taxation	8	<b>(37.8)</b>	<b>(5.8)</b>	<b>(43.6)</b>	(25.3)	5.0	(20.3)
<b>Profit for the year from continuing operations</b>		<b>124.2</b>	<b>16.3</b>	<b>140.5</b>	91.8	(20.6)	71.2
<b>DISCONTINUED OPERATIONS</b>							
<b>Profit for the year from discontinued operations</b>	18	<b>4.0</b>	<b>132.8</b>	<b>136.8</b>	21.7	22.5	44.2
<b>TOTAL OPERATIONS</b>							
<b>Profit after taxation for the year attributable to equity shareholders of the parent</b>		<b>128.2</b>	<b>149.1</b>	<b>277.3</b>	113.5	1.9	115.4
<b>Earnings per share from continuing and discontinued operations</b>							
– Adjusted/Basic	10	<b>11.7p</b>		<b>25.4p</b>	10.6p		10.7p
– Diluted	10	<b>11.6p</b>		<b>25.1p</b>	10.4p		10.6p
<b>Earnings per share from continuing operations</b>							
– Adjusted/Basic	10	<b>11.4p</b>		<b>12.9p</b>	8.5p		6.6p
– Diluted	10	<b>11.2p</b>		<b>12.7p</b>	8.4p		6.5p
<b>Dividends per ordinary share</b>							
– Interim paid	9			<b>1.2p</b>			1.1p
– Final proposed	9			<b>2.9p</b>			2.6p

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

An interim dividend of £13.1m was paid during the year ended 30 April 2007 (2006: £12.0m).

A final dividend of £20.4m has been proposed for approval in respect of the year ended 30 April 2007 (2006: £28.4m).

# Consolidated balance sheet

As at 30 April 2007

		2007	2006
	Notes	£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	11	92.8	100.1
Other intangible assets	12	20.9	17.3
Property, plant and equipment	13	599.2	708.8
Interests in joint ventures	14	39.1	52.0
Interest in associate	15	Nil	1.0
Financial assets: Available for sale and other investments	16	1.1	4.2
Retirement benefit assets	27	16.6	Nil
Deferred tax asset	25	6.8	8.4
Other receivables	21	3.1	1.6
		<b>779.6</b>	<b>893.4</b>
<b>Current assets</b>			
Inventories	20	11.7	13.2
Trade and other receivables	21	142.1	179.9
Financial assets: Derivative instruments at fair value	28	1.7	3.7
Foreign tax recoverable		0.3	Nil
Cash and cash equivalents	22	513.3	198.5
		<b>669.1</b>	<b>395.3</b>
<b>Total assets</b>		<b>1,448.7</b>	<b>1,288.7</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	23	347.8	341.3
Current tax liabilities		24.6	29.0
Financial liabilities: Borrowings	24	70.9	66.3
Financial liabilities: Derivative instruments at fair value	28	3.7	1.6
Provisions	26	50.7	63.2
		<b>497.7</b>	<b>501.4</b>
<b>Non-current liabilities</b>			
Other payables	23	9.1	9.2
Financial liabilities: Borrowings	24	272.4	291.2
Financial liabilities: Derivative instruments at fair value	28	2.6	1.2
Deferred tax liabilities	25	44.1	5.2
Provisions	26	57.7	46.7
Retirement benefit obligations	27	52.8	222.2
		<b>438.7</b>	<b>575.7</b>
<b>Total liabilities</b>		<b>936.4</b>	<b>1,077.1</b>
<b>Net assets</b>		<b>512.3</b>	<b>211.6</b>
<b>EQUITY</b>			
Ordinary share capital	29	7.0	6.9
Share premium account	31	179.4	174.8
Retained earnings	31	91.8	(212.1)
Capital redemption reserve	31	243.0	243.0
Own shares	31	(7.3)	(6.1)
Translation reserve	31	3.0	4.0
Available for sale reserve	31	Nil	1.9
Cash flow hedging reserve	31	(4.6)	(0.8)
<b>Total equity</b>		<b>512.3</b>	<b>211.6</b>

These financial statements have been approved for issue by the Board of Directors on 27 June 2007.



Brian Souter  
Chief Executive



Martin A Griffiths  
Finance Director

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

# Consolidated statement of recognised income and expense

For the year ended 30 April 2007

		2007	2006
	Notes	£m	£m
<b>Income and expense recognised directly in equity</b>			
Foreign exchange differences on translation of foreign operations (net of hedging)		(1.0)	4.7
Actuarial gains on Group defined benefit pension schemes	27	79.4	13.9
Share of actuarial gains on joint ventures' defined benefit pension schemes		5.0	5.2
Net fair value (losses)/gains on cash flow hedges	28	(9.2)	9.2
Net fair value (losses)/gains on available for sale investments	16	(1.9)	1.9
		<b>72.3</b>	<b>34.9</b>
<b>Transfers to the income statement</b>			
Foreign exchange differences on disposal of foreign operations	18	Nil	(3.9)
Cash flow hedges reclassified and reported in profit for the year	28	5.4	(17.3)
		<b>5.4</b>	<b>(21.2)</b>
<b>Tax on items taken directly to or transferred from equity</b>			
Tax on foreign exchange differences on translation of foreign operations (net of hedging)		(0.3)	(0.2)
Tax effect of actuarial gains on Group defined benefit pension schemes		(20.3)	(4.2)
Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes		(1.5)	(1.5)
Tax effect of share based payments		3.8	2.9
	8	<b>(18.3)</b>	<b>(3.0)</b>
<b>Net income not recognised in income statement</b>		<b>59.4</b>	<b>10.7</b>
<b>Profit for the year attributable to equity shareholders of the parent</b>		<b>277.3</b>	<b>115.4</b>
<b>Total recognised income and expense for the year attributable to equity shareholders of the parent</b>		<b>336.7</b>	<b>126.1</b>
<b>Effect of changes in accounting policy:</b>			
Balances recognised on the adoption of IAS 32 and IAS 39, net of taxation		n/a	(7.7)

The accompanying notes form an integral part of the consolidated statement of recognised income and expense.

# Consolidated cash flow statement

For the year ended 30 April 2007

		2007	2006
	Notes	£m	£m
<b>Cash flows from operating activities</b>			
Cash generated by operations	32	158.0	222.4
Interest paid		(21.4)	(24.4)
Interest received		22.0	8.3
Interest element of hire purchase contracts and finance lease payments		(4.5)	(3.3)
Dividends received from joint ventures		31.1	Nil
<b>Net cash flows from operating activities</b>		<b>185.2</b>	<b>203.0</b>
Tax paid		(22.9)	(27.5)
<b>Net cash from operating activities after tax</b>		<b>162.3</b>	<b>175.5</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	32	(0.1)	(27.7)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	18	267.0	104.4
Purchase of property, plant and equipment		(44.5)	(91.9)
Disposal of property, plant and equipment	32	11.0	8.2
Purchase of intangible assets		(1.7)	(0.6)
Purchase of other investments		(0.4)	(2.8)
Disposal of other investments		0.2	0.6
Movement in loans to joint ventures		1.4	0.3
Purchase of investments in joint ventures		Nil	(0.4)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>232.9</b>	<b>(9.9)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		4.7	7.0
Redemption of 'B' shares		Nil	(13.9)
Investment in own ordinary shares by employee share ownership trusts		(2.1)	Nil
Sale of own ordinary shares by employee share ownership trusts		0.9	0.7
Repayments of hire purchase and lease finance		(28.2)	(35.1)
Proceeds of sale and leaseback transaction		Nil	49.5
Repayment of borrowings		(11.6)	(73.9)
Dividends paid on ordinary shares		(41.5)	(36.6)
Sale of tokens		6.8	7.4
Redemption of tokens		(9.1)	(11.4)
<b>Net cash used in financing activities</b>		<b>(80.1)</b>	<b>(106.3)</b>
<b>Net increase in cash and cash equivalents</b>		<b>315.1</b>	<b>59.3</b>
Cash and cash equivalents at the beginning of year		198.3	138.5
Exchange rate effects		(0.9)	0.5
<b>Cash and cash equivalents at the end of year</b>	22	<b>512.5</b>	<b>198.3</b>
<b>Cash and cash equivalents at the end of year comprises:</b>			
Cash and cash equivalents included within current assets		513.3	198.5
Bank overdrafts included within financial liabilities: borrowings		(0.8)	(0.2)
		<b>512.5</b>	<b>198.3</b>

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

# Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Available for sale reserve	Cash flow hedging reserve	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 1 May 2005</b>		6.8	163.4	(295.3)	229.1	(6.8)	3.2	–	7.3	107.7
Profit for the year		–	–	115.4	–	–	–	–	–	115.4
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	4.7	–	–	4.7
Actuarial gains on Group defined benefit pension schemes		–	–	13.9	–	–	–	–	–	13.9
Share of actuarial gains on joint ventures' defined benefit pension schemes		–	–	5.2	–	–	–	–	–	5.2
Net fair value gains on cash flow hedges		–	–	–	–	–	–	–	9.2	9.2
Net fair value gains on available for sale investments		–	–	–	–	–	–	1.9	–	1.9
Foreign exchange differences on disposal of foreign operations		–	–	–	–	–	(3.9)	–	–	(3.9)
Cash flow hedges reclassified and reported in profit for the year		–	–	–	–	–	–	–	(17.3)	(17.3)
Tax on items taken directly to equity (for split see Consolidated statement of recognised income and expense on page 42)		–	–	(3.0)	–	–	–	–	–	(3.0)
Own shares sold		–	–	–	–	0.7	–	–	–	0.7
Redemption of 'B' shares		–	–	(13.9)	13.9	–	–	–	–	–
Arising on new ordinary share issues		0.1	11.4	–	–	–	–	–	–	11.5
Credit in relation to share based payment		–	–	2.2	–	–	–	–	–	2.2
Dividends paid on ordinary shares	9	–	–	(36.6)	–	–	–	–	–	(36.6)
<b>Balance at 30 April 2006 and 1 May 2006</b>		6.9	174.8	(212.1)	243.0	(6.1)	4.0	1.9	(0.8)	211.6
Profit for the year		–	–	277.3	–	–	–	–	–	277.3
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	(1.0)	–	–	(1.0)
Actuarial gains on Group defined benefit pension schemes		–	–	79.4	–	–	–	–	–	79.4
Share of actuarial gains on joint ventures' defined benefit pension schemes		–	–	5.0	–	–	–	–	–	5.0
Net fair value losses on cash flow hedges		–	–	–	–	–	–	–	(9.2)	(9.2)
Net fair value losses on available for sale investments		–	–	–	–	–	–	(1.9)	–	(1.9)
Cash flow hedges reclassified and reported in profit for the year		–	–	–	–	–	–	–	5.4	5.4
Tax on items taken directly to equity (for split see Consolidated Statement of recognised income and expense on page 42)		–	–	(18.3)	–	–	–	–	–	(18.3)
Own ordinary shares purchased		–	–	–	–	(2.1)	–	–	–	(2.1)
Own shares sold		–	–	–	–	0.9	–	–	–	0.9
Arising on new ordinary share issues		0.1	4.6	–	–	–	–	–	–	4.7
Credit in relation to share based payment		–	–	2.0	–	–	–	–	–	2.0
Dividends paid on ordinary shares	9	–	–	(41.5)	–	–	–	–	–	(41.5)
<b>Balance at 30 April 2007</b>		7.0	179.4	91.8	243.0	(7.3)	3.0	Nil	(4.6)	512.3

The accompanying notes form an integral part of this consolidated statement of changes in equity.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies

These consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### • Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements are presented in pounds sterling, the functional and presentational currency of the Group, and all values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

### • New standards adopted early

The Group has adopted the amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures', which is compulsory for accounting periods commencing after January 2007. The disclosures are included in the Operating and Financial Review on pages 13 and 14.

### • New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

	Effective date
• IFRS 7 – Financial Instruments: Disclosures	1 January 2007
• IFRS 8 – Operating Segments	1 January 2009
• IAS 23 – Borrowing Costs (revised March 2007)	1 January 2009
• IFRIC 9 – Reassessment of Embedded Derivatives	1 June 2006
• IFRIC 10 – Interim Financial Reporting and Impairment	1 November 2006
• IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions	1 March 2007
• IFRIC 12 – Service Concession Arrangements	1 January 2008

Upon adoption of IFRS 7, the Group will need to expand the disclosures in relation to the fair value of its financial instruments and its risk exposure. The adoption of this standard is not expected to materially impact the Group's profit or net assets.

The Directors do not anticipate that the adoption of any of the other above standards or interpretations will have a material impact on the Group's financial statements in the period of initial application.

### • Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### • Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings, joint ventures and associates made up to 30 April in each year.

The consolidated income statement includes the results of businesses purchased from the effective date of acquisition and excludes the results of disposed operations and businesses sold from the effective date of disposal.

### • Subsidiaries, associates and joint ventures

#### (i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Intercompany transactions, balances, income and expenses are eliminated on consolidation.

#### (ii) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting.

Joint ventures are enterprises that the Group has the power to jointly govern the enterprises' financial and operating policies with other investors based on contractual agreement.

Associates are enterprises, other than joint ventures, that are not controlled by the Group over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence.

Under the equity method of accounting, the Group's consolidated income statement includes the Group's share of profits less losses of joint ventures and associates, while the share of net assets of joint ventures and associates is included in the Group's consolidated balance sheet. Where the Group's share of losses in a joint venture or associate exceeds its interest in that enterprise, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate. Where the Group has incurred obligations or made payments on behalf of joint ventures the Group's share of net liabilities is included within Trade and other payables.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in each business: unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Subsidiaries, associates and joint ventures (continued)

#### (ii) Associates and joint ventures (continued)

The Group's investment in joint ventures and associates includes goodwill on acquisition.

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

### • Presentation of income statement and exceptional items

Where applicable, income statement information has been presented in a columnar format, which separately highlights intangible asset expenses and exceptional items. This is intended to enable users of the financial statements to determine more readily the impact of intangible asset expenses and exceptional items on the results of the Group.

For this purpose, exceptional items are items which individually, or if of a similar type, in aggregate, need to be disclosed, by virtue of their nature, size or incidence in order to allow proper understanding of the underlying performance of the Group.

### • Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Although these estimates and assumptions are based on management's best knowledge, actual results may ultimately differ from those estimates and assumptions used.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement of tax assets and liabilities, the measurement of retirement benefit obligations, the measurement and impairment of goodwill and the measurement of insurance provisions. The measurement of tax assets and liabilities requires an assessment to be made of the potential tax consequence of certain items that will only be resolved when agreed by the relevant tax authorities. The measurement of retirement benefit obligations requires the estimation of future changes in salaries, inflation, the expected return on scheme assets and the selection of a suitable discount rate (see note 27). The Group determines whether goodwill arising on business combinations is impaired on an annual basis and this requires the estimation of value in use of the cash generating units to which the goodwill is allocated. This requires estimation of future cash flows and the selection of a suitable discount rate (see note 11). The estimation of the 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 for which claims have not been reported to the Group.

Those accounting policies that the Directors believe require the greatest exercise of judgement are described on page 14.

### • Revenue

Revenue represents gross revenue earned from public transport services and excludes payments received on account. Amounts receivable for tendered services and concessionary fare schemes are included as part of revenue. Where appropriate, amounts are shown net of rebates and VAT. Revenues incidental to the Group's principal activity (including advertising income and maintenance income) are reported as miscellaneous revenue (see note 5).

Rail revenue includes amounts attributable to the train operating companies, based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry) in respect of passenger receipts. Franchise agreement receipts from the Department for Transport ("DfT") are treated as other operating income (see note 5). Franchise agreement payments to the DfT are recognised in operating costs.

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided.

Net compensation receivable by UK Rail companies in respect of service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the expected period of disruption and is shown as other operating income.

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

Finance income is recognised as interest accrues using the effective interest method.

### • Government grants

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Revenue grants receivable in respect of the operation of rail franchises in the UK are credited to the income statement in the period in which the related expenditure is recognised in the income statement or where they do not relate to any specific expenditure, in the period in respect of which the grant is receivable. These rail franchise grants are classified within other operating income.

### • Share based payments

The Group issues equity-settled and cash-settled share based payments to certain employees.

The Group has applied the optional exemption contained within IFRS 1, which allows it to apply IFRS 2 only to equity instruments granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting

## Note 1 IFRS accounting policies (continued)

### • Share based payments (continued)

#### *Equity-settled transactions (continued)*

conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by use of the Black-Scholes pricing model.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled by the Group, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

#### *Cash-settled transactions*

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date. Changes in the carrying amount of the liability are recognised in the income statement for the period.

#### *Choice of settlement*

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently intends to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

### • Operating profit

Operating profit is stated after charging restructuring costs and after the share of after-tax results of associates and joint ventures but before finance income, finance costs, non-operating exceptional items, taxation and profit from discontinued operations.

### • Taxation

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### • Dividends

Dividends on ordinary shares are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders, or in the case of interim dividends, in the period in which they are paid.

### • Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Due to the nature of the Group's operations, the business segments can be directly aligned with the geographical segments. The Group is managed, and reports internally on a basis consistent with its three segments which consist of UK Bus, North America, and UK Rail. The New Zealand division was disposed of during the year ended 30 April 2006 and Stagecoach's London bus operations (part of the UK Bus segment) were disposed of during the year ended 30 April 2007. The results of both disposed operations for the relevant year (up to the date of disposal) and for the comparative year are now included within the profit for the year from discontinued operations.

### • Foreign currency translation

The financial statements of overseas subsidiaries are maintained in the local currencies in which the entities transact business. The trading results of overseas subsidiaries are translated into sterling using average rates of exchange. Exchange differences arising on the translation of the opening net assets and results of overseas operations, together with exchange differences arising on net foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in overseas operations, are recognised as a separate component of equity being the translation reserve.



# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Foreign currency translation (continued)

Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction.

On disposal of a foreign subsidiary, the amount of any exchange differences relating to the subsidiary that has been deferred in the translation reserve is recognised in the income statement within the reported gain or loss on disposal. The Group took the IFRS 1 exemption which allows accumulated

PRINCIPAL RATES OF EXCHANGE	2007	2006
<b>US Dollar:</b>		
Year end rate	<b>1.9999</b>	1.8176
Average rate	<b>1.9103</b>	1.7751
<b>Canadian Dollar:</b>		
Year end rate	<b>2.2102</b>	2.0368
Average rate	<b>2.1738</b>	2.1079
<b>New Zealand Dollar</b>		
Period end rate – (as at date of disposal)	<b>n/a</b>	2.4606
Average rate – (average up to date of disposal)	<b>n/a</b>	2.5641

exchange differences at the date of transition, being 1 May 2004, to be set to zero for all foreign subsidiaries.

### • Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Prior to 1 May 2004, goodwill was amortised over its estimated useful life; such amortisation ceased on 30 April 2004 but goodwill amortisation expensed prior to 1 May 2004 was not reversed.

Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to reserves in accordance with the UK accounting standards then in force. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any impairment of goodwill is recognised immediately in the income statement.

Where goodwill forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the disposed operation when determining the overall gain or loss on disposal.

### • Impairment of non-current assets

Property, plant and equipment, intangible assets (excluding goodwill), financial assets and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised immediately in the income statement.

### • Intangible assets

Intangible assets acquired separately from a business combination are capitalised at cost. The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset. Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably.

Amortisation is calculated on the straight-line method to write-off the cost or fair value at acquisition (as the case may be) of each asset over their estimated useful lives shown below. Intangible assets relating to rail franchises of a finite duration are amortised over the life of the franchise.

Customer contracts	over the life of the contract (1 to 6 years for current contracts)
Right to operate rail franchises	over the life of the franchise (3 years from February 2004 to February 2007 for old South West Trains franchise and 10 years from February 2007 to February 2017 for new South Western franchise)
Non-compete contracts	between 2 and 5 years for current contracts
Software costs	2 to 5 years

Marketing costs incurred during the start-up phase of a new activity are charged to the income statement as incurred.

## Note 1 IFRS accounting policies (continued)

### • Property, plant and equipment

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition or deemed cost less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment.

Depreciation is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives as follows:

Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	period of lease
IT and other equipment, furniture and fittings	3 to 10 years
Public Service Vehicles ("PSVs") and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Heritable and freehold land is not depreciated

The carrying value of items of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis.

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Interest is not capitalised in the carrying value of property, plant and equipment.

### • Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out ("FIFO") or average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### • Pre-contract costs

The costs associated with securing new rail franchises are expensed as incurred, except when at the time the costs are incurred it is probable that a contract will be awarded in which case they are recognised as an asset and are charged to the income statement over the life of the franchise.

### • Hire purchase and lease obligations

Assets acquired under hire purchase and finance lease arrangements, where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges, and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

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

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

The principal restriction on assets held under finance lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

### • Tokens

Tokens issued by National Transport Tokens Limited, a subsidiary of the Group, to facilitate public passenger travel in the United Kingdom are credited to a token redemption provision to the extent they are expected to be redeemed by customers. Redemptions are offset against this provision 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 estimate of the balance sheet provision for token redemption is remeasured at each balance sheet date and is based on the value of tokens issued by the Group but not yet redeemed or cancelled 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 2007, it has been estimated that 97% (30 April 2006: 97%) of tokens in issue will be redeemed.

### • Environmental provisions

Provisions for environmental costs are recognised when the Group has a legal or constructive obligation to undertake environmental clean-ups or other work in respect of environmental matters and the associated costs can be reasonably estimated.

The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligations.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • 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 is not insured as a result of the "excess" or "deductible" on insurance policies.

Provision is made on a discounted basis for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date. The estimate of the balance sheet insurance provisions is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group. The provision is set after taking account of advice from third party actuaries.

### • Retirement benefit obligations

The Group contributes to a number of pension schemes. The principal defined benefit occupational schemes are as follows:

- The Stagecoach Group Pension Scheme ("SGPS")
- The South West Trains section of the Railways Pension Scheme ("RPS")
- The Island Line section of the Railways Pension Scheme ("RPS")
- A number of UK local Government Pension Schemes ("LGPS")
- The Yorkshire Traction Company Limited Pension Plan ("YTC")
- The Strathtay Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO")

The Group accounts for pensions and similar benefits in accordance with IAS 19 "Employee Benefits", as amended to allow actuarial gains and losses to be charged to the statement of recognised income and expense in the period they arise. In respect of these defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at market value. The operating and financing costs of such plans are included within operating profit and are disclosed separately in the notes to the financial statements; service costs are spread systematically over the working lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense. Mortality rates are considered when retirement benefit obligations are calculated.

Past service costs and adjustments are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period), in which case the past service costs are amortised using a straight-line method over the vesting period. Past service pension adjustments which impact on the income statement for the year are disclosed within exceptional items, where material to the financial statements.

The disposal of the Group's London bus operations during the year ended 30 April 2007 resulted in a settlement and curtailment of pension obligations. Curtailments arise where the Group makes a material reduction in the number of employees covered by a pension scheme or amends a defined benefit pension scheme's terms such that a material element of future service by current employees will qualify for no or significantly reduced benefits. Settlements arise when the Group enters into a transaction that eliminates all or part of the Group's obligations for benefits provided under a defined benefit pension scheme. The gain or loss arising on a settlement or curtailment comprises the resulting change in the net pension asset or liability, and such gain or loss is recognised in the income statement when the settlement or curtailment occurs. Where the gain or loss is related to a disposal of a business, it is included within the reported gain or loss on disposal within profit or loss from discontinued operations.

A full actuarial valuation is undertaken triennially for each scheme with the deficit being updated annually by independent actuaries using the projected unit credit method. The present value of the scheme obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related obligations. Experience adjustments and changes in assumptions which affect actuarial gains and losses are reflected in the actuarial gain or loss for the year within the statement of recognised income and expense in the year in which they arise.

The liability or asset recognised for the relevant sections of RPS represents only that part of the net deficit (or surplus) of each section that the employer expects to fund (or recover) over asset or the life of the franchise to which the section relates.

For defined contribution schemes, the Group pays contributions to privately administered pension plans. Once the contributions have been paid, the Group has no further payment obligations. The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

### • Financial instruments

The disclosure of the accounting policies that follow for financial instruments are those that apply under IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

#### Financial assets

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held to maturity investments or as available for sale. They include cash and cash equivalents, trade receivables, other receivables, loans, other investments and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

*Financial assets at fair value through profit or loss:* Financial assets classified as held for trading and other assets designated as such on inception are classified as financial assets at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for sale in the short-term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets in this category are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

## Note 1 IFRS accounting policies (continued)

### • Financial instruments (continued)

*Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Held-to-maturity investments:* Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method. Held-to-maturity gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process. Investments intended to be held for an undefined period cannot be included in this classification.

*Available for sale financial assets:* Available for sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the above categories. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the asset is derecognised or until the asset is determined to be impaired, at which time the cumulative gain or loss reported in equity is included in the income statement.

#### Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables, other payables, borrowings and derivative financial instruments. Subsequent measurement depends on its classification as follows:

*Financial liabilities at fair value through profit or loss:* Financial liabilities classified as held for trading and derivative liabilities that are not designated as effective hedging instruments are classified as financial liabilities at fair value through profit or loss. Liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.

*Other:* All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

#### Fair values

The fair value of quoted investments is determined by reference to appropriate market prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using pricing models and discounted cash flow analysis. Otherwise assets are carried at cost.

#### Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, including intra-group transactions; or
- Hedges of net investment in a foreign entity.

Net gains or losses arising from changes in the fair value of all other derivatives, which are classified as held for trading, are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments from an accounting perspective.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

*Fair value hedges:* For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both the derivative and the hedged item are taken to the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

For hedged items carried at amortised cost, the hedge adjustment is amortised through the income statement such that it is fully amortised by maturity.

*Cash flow hedges:* For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of recognised income and expense, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of recognised income and expense are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For cash flow hedges of forecast fuel purchases, the transfer is to operating costs within the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recorded in the statement of recognised income and expense remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of recognised income and expense are transferred to the income statement.

*Hedges of net investment in a foreign entity:* For hedges of the net investment in a foreign entity, the effective portion of the gain or loss on the hedging instrument is recorded in the statement of recognised income and expense, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of recognised income and expense are transferred to the income statement when the foreign entity is sold.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Financial instruments (continued)

Non-derivative financial liabilities can be designated as hedges of a net investment in a foreign entity and are subject to the same requirements as derivative hedges of a net investment in a foreign entity.

#### *Trade debtors and other receivables*

Trade debtors and other receivables are carried at original invoice amount less provision made for impairment of these receivables. Where the time value of money is material, receivables are discounted to the present value at the point they are first recognised and are subsequently amortised to the invoice amount by the payment due date. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

#### *Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments, less bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

#### *Interest bearing loans and borrowings*

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

#### *Trade and other payables*

Trade payables are not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

#### *Preferred shares*

Preferred shares, which are redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, are classified as liabilities. The dividend on these preferred shares is recognised in the income statement as an interest expense.

### • Share capital

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares, are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company, its subsidiaries or employee share ownership trusts sponsored by the Company purchases the Company's ordinary share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

The accounting policy in relation to preferred shares is included in the accounting policy for financial instruments above.

## Note 2 Segmental information

The Group is managed, and reports internally, on a basis consistent with its three continuing business segments which consist of UK Bus, North America and UK Rail. The Group's IFRS accounting policies are applied consistently, where appropriate to each segment.

The segmental information provided in this note is on the basis of three primary segments, and gives the details for both business segments and geographical segments as follows:

<i>Segment name</i>	<i>Business segment</i>	<i>Geographical segment</i>
UK Bus	Coach and bus operations	United Kingdom
North America	Coach and bus operations	North America
UK Rail	Rail operations	United Kingdom

UK Bus and North America provide coach and bus services while UK Rail provides rail services.

The Group's London bus operations were disposed of during the year ended 30 April 2007. These operations were formerly part of the UK Bus segment but have been reclassified as "discontinued".

The Group's New Zealand operations that were formerly a separate segment were disposed of during the year ended 30 April 2006. Therefore there is no segment income statement information provided for the New Zealand operations.

Due to the nature of the services the Group provides, the primary and secondary segments coincide.

The Group has interests in three joint ventures: Virgin Rail Group that operates in UK Rail, Citylink that operates in UK Bus and New York Splash Tours LLC that operates in North America. The results of these joint ventures are shown separately in notes 2(c) and 2(g).

### (a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue is the same in all cases. As the Group sells bus and rail services to individuals, it has few customers that are individually "major". Its major customers are typically public bodies that subsidise or procure transport services – such customers include local authorities, transport authorities and the UK Department for Transport.

No material part of each segment's revenue shown below relates to transactions with other segments.

**Note 2 Segmental information (continued)**

**(a) Revenue (continued)**

	2007	2006
	£m	£m
<b>Continuing operations</b>		
UK Bus – excluding acquisition impact	<b>608.0</b>	551.1
– 2005/06 acquisitions	<b>82.4</b>	38.5
North America	<b>242.7</b>	247.6
Total bus continuing operations	<b>933.1</b>	837.2
UK Rail	<b>571.5</b>	506.7
<b>Group revenue</b>	<b>1,504.6</b>	1,343.9

**(b) Operating profit**

	2007			2006		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
<b>Continuing operations</b>						
UK Bus – excluding acquisition impact	<b>82.5</b>	<b>28.9</b>	<b>111.4</b>	65.0	Nil	65.0
– 2005/06 acquisitions	<b>2.0</b>	<b>Nil</b>	<b>2.0</b>	(1.9)	Nil	(1.9)
North America	<b>18.1</b>	<b>Nil</b>	<b>18.1</b>	16.9	Nil	16.9
Total bus continuing operations	<b>102.6</b>	<b>28.9</b>	<b>131.5</b>	80.0	Nil	80.0
UK Rail	<b>58.8</b>	<b>Nil</b>	<b>58.8</b>	58.9	Nil	58.9
Total continuing operations	<b>161.4</b>	<b>28.9</b>	<b>190.3</b>	138.9	Nil	138.9
Group overheads	<b>(11.1)</b>	<b>Nil</b>	<b>(11.1)</b>	(10.0)	Nil	(10.0)
Intangible asset amortisation	<b>Nil</b>	<b>(9.6)</b>	<b>(9.6)</b>	Nil	(7.4)	(7.4)
Restructuring costs	<b>(3.2)</b>	<b>Nil</b>	<b>(3.2)</b>	(1.5)	Nil	(1.5)
<b>Total operating profit of continuing Group companies</b>	<b>147.1</b>	<b>19.3</b>	<b>166.4</b>	127.4	(7.4)	120.0
Share of joint ventures' profit/(loss) after finance income and taxation	<b>14.2</b>	<b>0.3</b>	<b>14.5</b>	5.6	(13.1)	(7.5)
<b>Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation</b>	<b>161.3</b>	<b>19.6</b>	<b>180.9</b>	133.0	(20.5)	112.5

# Notes to the consolidated financial statements

## Note 2 Segmental information (continued)

### (c) Joint ventures

	2007			2006		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
<b>Continuing Virgin Rail Group (UK Rail)</b>						
Operating profit	<b>12.4</b>	<b>5.4</b>	<b>17.8</b>	5.3	Nil	5.3
Finance income (net)	<b>3.7</b>	<b>Nil</b>	<b>3.7</b>	1.7	Nil	1.7
Taxation	<b>(2.6)</b>	<b>Nil</b>	<b>(2.6)</b>	(1.5)	Nil	(1.5)
	<b>13.5</b>	<b>5.4</b>	<b>18.9</b>	5.5	Nil	5.5
Goodwill charge on investment in continuing joint ventures	<b>Nil</b>	<b>(5.1)</b>	<b>(5.1)</b>	Nil	(13.1)	(13.1)
	<b>13.5</b>	<b>0.3</b>	<b>13.8</b>	5.5	(13.1)	(7.6)

### Citylink (UK Bus)

Operating profit	<b>1.3</b>	<b>Nil</b>	<b>1.3</b>	0.1	Nil	0.1
Taxation	<b>(0.4)</b>	<b>Nil</b>	<b>(0.4)</b>	Nil	Nil	Nil
	<b>0.9</b>	<b>Nil</b>	<b>0.9</b>	0.1	Nil	0.1

### New York Splash Tours LLC (North America)

Operating loss	<b>(0.2)</b>	<b>Nil</b>	<b>(0.2)</b>	Nil	Nil	Nil
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<b>Share of joint ventures' profit/(loss) after finance income and taxation</b>	<b>14.2</b>	<b>0.3</b>	<b>14.5</b>	5.6	(13.1)	(7.5)
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Share of taxation on operating loss of New York Splash Tours is less than £0.1m.

### (d) Gross assets and liabilities

	2007			2006		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus	<b>551.3</b>	<b>(110.5)</b>	<b>440.8</b>	626.0	(187.4)	438.6
North America	<b>226.7</b>	<b>(64.5)</b>	<b>162.2</b>	244.8	(45.1)	199.7
UK Rail	<b>95.0</b>	<b>(203.1)</b>	<b>(108.1)</b>	89.7	(196.9)	(107.2)
	<b>873.0</b>	<b>(378.1)</b>	<b>494.9</b>	960.5	(429.4)	531.1
Central functions	<b>16.2</b>	<b>(146.3)</b>	<b>(130.1)</b>	68.3	(256.0)	(187.7)
Joint ventures	<b>39.1</b>	<b>Nil</b>	<b>39.1</b>	52.0	Nil	52.0
Associate	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	1.0	Nil	1.0
Borrowings and cash	<b>513.3</b>	<b>(343.3)</b>	<b>170.0</b>	198.5	(357.5)	(159.0)
Taxation	<b>7.1</b>	<b>(68.7)</b>	<b>(61.6)</b>	8.4	(34.2)	(25.8)
<b>Total</b>	<b>1,448.7</b>	<b>(936.4)</b>	<b>512.3</b>	1,288.7	(1,077.1)	211.6

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

Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intra-Group balances, cash, borrowings, finance income/costs and token provisions.

## Note 2 Segmental information (continued)

### (e) Capital expenditure on property, plant and equipment

The capital expenditure on property, plant and equipment shown below is on an accruals basis, not on a cash basis, and includes expenditure on property, plant and equipment through business combinations.

	2007	2006
	£m	£m
UK Bus – continuing	66.7	109.7
UK Bus – discontinued	0.8	9.2
North America	22.2	26.3
UK Rail	2.8	1.9
New Zealand – discontinued	Nil	3.2
Other	0.1	Nil
	<b>92.6</b>	<b>150.3</b>

Capital expenditure, excluding business combinations is analysed in section 3.8.12 of the Operating and Financial Review.

### (f) Capital expenditure on intangible assets

The capital expenditure on intangible assets (including goodwill) shown below includes acquisitions through business combinations for the prior year ended 30 April 2006.

	2007	2006
	£m	£m
UK Bus – excluding acquisition impact	1.3	Nil
UK Bus – 2005/06 acquisitions	Nil	35.4
North America	Nil	0.2
UK Rail	12.0	0.4
	<b>13.3</b>	<b>36.0</b>

### (g) Earnings before interest, tax, depreciation and amortisation (“EBITDA”).

The results of each segment are further analysed below:

	Year ended 30 April 2007								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax	Depreciation expense £m	Operating profit pre intangible and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus - excluding acquisition impact	121.1	Nil	121.1	(38.6)	82.5	(1.1)	28.9	(0.4)	109.9
- 2005/06 acquisitions	7.9	Nil	7.9	(5.9)	2.0	(5.3)	Nil	(0.6)	(3.9)
North America	33.7	Nil	33.7	(15.6)	18.1	(0.4)	Nil	Nil	17.7
UK Rail – subsidiaries	66.9	Nil	66.9	(8.1)	58.8	(2.8)	Nil	(2.2)	53.8
UK Rail – joint venture (Virgin Rail Group)	12.4	1.1	13.5	Nil	13.5	(5.1)	5.4	Nil	13.8
UK Bus – joint venture (Citylink)	1.3	(0.4)	0.9	Nil	0.9	Nil	Nil	Nil	0.9
N America – joint venture (Splash Tours)	(0.2)	Nil	(0.2)	Nil	(0.2)	Nil	Nil	Nil	(0.2)
Group overheads	(11.0)	Nil	(11.0)	(0.1)	(11.1)	Nil	Nil	Nil	(11.1)
Restructuring costs	(3.2)	Nil	(3.2)	Nil	(3.2)	Nil	Nil	3.2	Nil
	<b>228.9</b>	<b>0.7</b>	<b>229.6</b>	<b>(68.3)</b>	<b>161.3</b>	<b>(14.7)</b>	<b>34.3</b>	<b>Nil</b>	<b>180.9</b>

	Year ended 30 April 2006								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax	Depreciation expense £m	Operating profit pre intangible and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus - excluding acquisition impact	101.7	Nil	101.7	(36.7)	65.0	(1.2)	Nil	(0.2)	63.6
- 2005/06 acquisitions	0.5	Nil	0.5	(2.4)	(1.9)	(2.4)	Nil	(0.8)	(5.1)
North America	32.9	Nil	32.9	(16.0)	16.9	(0.8)	Nil	Nil	16.1
UK Rail – subsidiaries	64.7	Nil	64.7	(5.8)	58.9	(3.0)	Nil	(0.4)	55.5
UK Rail – joint venture (Virgin Rail Group)	5.3	0.2	5.5	Nil	5.5	(13.1)	Nil	Nil	(7.6)
UK Bus – joint venture (Citylink)	0.1	Nil	0.1	Nil	0.1	Nil	Nil	Nil	0.1
Group overheads	(9.9)	Nil	(9.9)	(0.1)	(10.0)	Nil	Nil	(0.1)	(10.1)
Restructuring costs	(1.5)	Nil	(1.5)	Nil	(1.5)	Nil	Nil	1.5	Nil
	<b>193.8</b>	<b>0.2</b>	<b>194.0</b>	<b>(61.0)</b>	<b>133.0</b>	<b>(20.5)</b>	<b>Nil</b>	<b>Nil</b>	<b>112.5</b>



# Notes to the consolidated financial statements

## Note 3 Operating costs

	2007	2006
	£m	£m
Materials and consumables	174.6	148.7
Staff costs excluding past service pension adjustment (note 7)	672.4	631.5
Past service pension adjustment	(28.9)	Nil
Depreciation on property, plant and equipment		
– owned assets	54.0	52.7
– leased assets under hire purchase agreements and finance leases	14.3	8.3
Loss on disposal of plant and equipment	0.2	1.8
Repairs and maintenance expenditure on property, plant and equipment	25.3	17.0
Amortisation of intangible assets		
– customer contracts	5.2	2.4
– non-compete contracts	1.4	2.0
– rail franchise	2.7	2.9
– software costs	0.3	0.1
Network Rail charges	181.7	147.2
Operating lease rentals payable		
– Plant and equipment	106.5	108.8
– Property	5.2	5.2
Other external charges	332.3	299.5
Impairment of available for sale investment	1.3	Nil
Restructuring costs	3.2	1.5
<b>Total operating costs – continuing operations</b>	<b>1,551.7</b>	<b>1,429.6</b>

Amounts payable to PricewaterhouseCoopers LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2007	2006
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's accounts	20.0	20.0
Fees payable to the Company's auditors for other services to the Group		
– the audit of Company's subsidiaries pursuant to legislation	625.0	660.0
<b>Total audit fees</b>	<b>645.0</b>	<b>680.0</b>
Audit related regulatory reporting	30.0	2.5
Other assurance services	34.6	87.9
Tax advisory services	28.7	17.0
Provision of training and related materials (including related to IFRS)	0.8	18.0
Advice re return of value and related matters	230.0	Nil
<b>Other non-audit fees</b>	<b>294.1</b>	<b>122.9</b>
<b>Total fees payable by the Group to its auditors</b>	<b>969.1</b>	<b>805.4</b>
Fees received by the Company's auditors from the Company's associated pension schemes	34.4	64.1

A description of the work of the Audit Committee is set out in the Audit Committee Report on page 30, and includes an explanation of how auditor and independence is safeguarded when non-audit services are provided by the auditors

In addition to the above charges included within profit before taxation for continuing businesses, £8.7m (2006: £27.5m) was incurred in relation to materials and consumables, £52.5m (2006: £168.6m) was incurred for staff costs, £2.2m (2006: £6.5m) was incurred for depreciation on owned property, plant and equipment, £0.3m (2006: £4.2m) was incurred for depreciation on leased assets under hire purchase agreements and finance leases, £Nil (2006: £0.1m) was recognised in relation to losses on disposal of plant and equipment, £0.4m (2006: £4.1m) was incurred in relation to repairs and maintenance, £2.5m (2006: £8.3m) was incurred for plant and equipment operating lease rental payments, £0.2m (2006: £0.8m) was incurred for property operating lease rental payments and £5.2m (2006: £18.0m) was incurred in relation to external charges in relation to our disposed London bus and New Zealand businesses.

#### Note 4 Exceptional items and intangible asset expenses

There is no explicit definition of exceptional items in IFRS. For this purpose exceptional items are items which individually, or if of a similar type, in aggregate, need to be disclosed, by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying performance of the Group. Where applicable, the Group intends to continue to highlight amounts before intangible asset expenses and exceptional items as well as clearly reporting the results in accordance with IFRS.

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the year ended 30 April 2007 can be further analysed as follows

	2007		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
<b>Operating costs</b>			
Past service adjustment – pension scheme (note 27)	28.9	Nil	28.9
Amortisation of intangible assets	Nil	(9.6)	(9.6)
<b>Sub-total</b>	<b>28.9</b>	<b>(9.6)</b>	<b>19.3</b>
<b>Share of profit of joint ventures</b>			
Gain on sale of VRG's investment in Trainline	5.4	Nil	5.4
Goodwill charge on investment in joint ventures	Nil	(5.1)	(5.1)
	5.4	(5.1)	0.3
<b>Gain on sale of properties</b>	<b>3.6</b>	<b>Nil</b>	<b>3.6</b>
<b>Loss in respect of other disposed and closed operations</b>	<b>(1.1)</b>	<b>Nil</b>	<b>(1.1)</b>
<b>Profit for the period from discontinued operations</b>			
Gain on sale of London bus business (note 18)	132.2	Nil	132.2
Gain on sale of New Zealand operations (note 18)	0.6	Nil	0.6
	132.8	Nil	132.8
<b>Intangible asset expenses and exceptional items</b>	<b>169.6</b>	<b>(14.7)</b>	<b>154.9</b>
Tax effect	(8.7)	2.9	(5.8)
<b>Intangible asset expenses and exceptional items after taxation</b>	<b>160.9</b>	<b>(11.8)</b>	<b>149.1</b>

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the prior year comparatives can be further analysed as follows:

	2006		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
<b>Operating costs</b>			
Amortisation of intangible assets	Nil	(7.4)	(7.4)
<b>Share of profit of joint ventures</b>			
Goodwill charged on investment in joint ventures	Nil	(13.1)	(13.1)
<b>Gain on sale of properties</b>	<b>0.8</b>	<b>Nil</b>	<b>0.8</b>
<b>Loss in respect of other disposed and closed operations</b>	<b>(5.9)</b>	<b>Nil</b>	<b>(5.9)</b>
<b>Profit for the period from discontinued operations</b>			
Gain on sale of New Zealand operations (note 18)	22.5	Nil	22.5
<b>Intangible asset expenses and exceptional items</b>	<b>17.4</b>	<b>(20.5)</b>	<b>(3.1)</b>
Tax effect	2.8	2.2	5.0
<b>Intangible asset expenses and exceptional items after taxation</b>	<b>20.2</b>	<b>(18.3)</b>	<b>1.9</b>

# Notes to the consolidated financial statements

## Note 5 Other operating income

	2007	2006
	£m	£m
Miscellaneous revenue	50.3	49.8
Rail liquidated damages	Nil	0.7
Rail franchise support, excluding incentive payments	130.9	111.1
Rail incentive payments	32.3	44.1
	<b>213.5</b>	<b>205.7</b>

In addition to the above other operating income for continuing businesses, £1.1m (2006: £5.2m) was recognised in relation to miscellaneous revenue of our disposed London bus and New Zealand businesses.

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

Rail liquidated damages of £Nil (2006: £0.7m) relates to amounts received by South West Trains for the late delivery and reliability of trains.

Rail franchise support is the gross amount of financial support receivable in respect of rail franchises from the Department for Transport ("DfT"). Partly offsetting this, the UK Rail division recognised amounts payable to the DfT under revenue and profit share agreements totalling £74.0m (2006: £66.7m), which are included in operating costs.

Rail incentive payments comprise receipts from/payments to the DfT in respect of the operational performance of our rail companies measured against benchmarks set by the DfT. Payments are made to the DfT when performance is worse than the target benchmarks and conversely payments are received from the DfT when performance is better than the benchmarks.

## Note 6 Finance income and costs

	2007	2006
	£m	£m
<b>Finance costs:</b>		
Bank loans, overdraft interest payable and other facility costs	2.4	3.6
Hire purchase and finance lease interest payable	4.4	2.5
Interest payable on bonds and notes	11.0	14.2
'B' share dividends	Nil	0.2
Unwinding of discount on provisions	2.9	3.1
	<b>20.7</b>	<b>23.6</b>
<b>Finance income:</b>		
Interest receivable	(21.3)	(7.4)
Fair value gains on financial instruments not qualifying as hedges		
– interest rate swaps	(0.1)	(0.2)
– foreign exchange forward contracts	Nil	(0.1)
	<b>(21.4)</b>	<b>(7.7)</b>
<b>Net finance (income)/costs</b>	<b>(0.7)</b>	<b>15.9</b>

In addition to the above net finance income for continuing businesses, £0.6m (2006: £Nil) of net finance income was recognised in relation to our disposed London bus and New Zealand businesses, included within discontinued operations.

## Note 7 Staff costs

	2007	2006
	£m	£m
<b>Staff costs</b>		
Wages and salaries	600.6	556.2
Social security costs	50.3	46.4
Pension costs – defined contribution plans	0.4	1.0
Pension costs – defined benefit plans		
– current service cost	32.3	34.5
– interest cost	60.5	45.6
– expected return on assets	(74.8)	(52.1)
– unwinding of franchise adjustment	(0.3)	(1.9)
Share based payment costs		
– Equity-settled	2.0	1.8
– Cash-settled	1.4	Nil
Staff costs, excluding past service pension adjustment	672.4	631.5
Past service pension adjustment (note 27)	(28.9)	Nil
	<b>643.5</b>	<b>631.5</b>

	2007	2006
	£m	£m
<b>Summary of directors' remuneration</b>		
Aggregate emoluments	1.9	2.2
Gains made by directors on exercise of share options	Nil	2.0
	<b>1.9</b>	<b>4.2</b>

In addition to the above staff costs, £44.6m (2006: £148.5m) of wages and salaries, £4.3m (2006: £13.4m) of social security costs, £3.6m (2006: £6.3m) of pension costs and £Nil (2006: £0.4m) of share based payment costs were incurred in relation to our disposed London bus and New Zealand businesses.

Key management personnel are considered to be the Directors and further information on their remuneration, share options, incentive schemes and pensions is contained within the audited sections of the Directors' remuneration report.

The average monthly number of persons employed by the Group during the year (including executive directors but excluding staff from discontinued operations) was as follows:

	2007	2006
	number	number
UK operations	20,513	20,326
UK administration and supervisory	1,899	2,080
Overseas	4,834	4,649
	<b>27,246</b>	<b>27,055</b>

The average monthly number of persons employed by the Group during the year split by segment was as follows:

	2007	2006
	number	number
UK Bus	18,091	17,751
North America	4,834	4,649
UK Rail	4,184	4,528
Central	137	127
	<b>27,246</b>	<b>27,055</b>

In addition to the above employees, the average monthly number of persons employed by discontinued operations during the year was 4,255 (2006: 6,242).

# Notes to the consolidated financial statements

## Note 8 Taxation

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

	2007			2006		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Current tax:						
UK corporation tax at 30% (2006: 30%)	<b>21.2</b>	<b>(0.6)</b>	<b>20.6</b>	13.9	Nil	13.9
Prior year (over)/under provision for corporation tax	<b>(0.9)</b>	<b>Nil</b>	<b>(0.9)</b>	1.4	Nil	1.4
Foreign tax (current year)	<b>1.2</b>	<b>Nil</b>	<b>1.2</b>	Nil	Nil	Nil
Foreign tax (adjustments in respect of prior years)	<b>(0.6)</b>	<b>Nil</b>	<b>(0.6)</b>	2.4	Nil	2.4
<b>Total current tax</b>	<b>20.9</b>	<b>(0.6)</b>	<b>20.3</b>	17.7	Nil	17.7
Deferred tax:						
Origination and reversal of timing differences	<b>17.0</b>	<b>6.4</b>	<b>23.4</b>	7.8	(5.0)	2.8
Adjustments in respect of prior years	<b>(0.1)</b>	<b>Nil</b>	<b>(0.1)</b>	(0.2)	Nil	(0.2)
<b>Total deferred tax</b>	<b>16.9</b>	<b>6.4</b>	<b>23.3</b>	7.6	(5.0)	2.6
<b>Tax on profit on ordinary activities from continuing operations</b>	<b>37.8</b>	<b>5.8</b>	<b>43.6</b>	25.3	(5.0)	20.3

In addition to the above tax charge for continuing businesses, £1.8m (2006: £7.4m) of tax charges were recognised in relation to our disposed London bus and New Zealand businesses.

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

	2007	2006
	£m	£m
Profit before taxation	<b>184.1</b>	91.5
Profit multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	<b>55.2</b>	27.4
Effects of:		
Intangible asset allowances/deductions	<b>2.8</b>	3.9
Non-deductible expenditure	<b>7.0</b>	6.9
Utilisation of tax losses not previously recognised as deferred tax assets	<b>(14.6)</b>	(19.2)
Foreign taxes differences	<b>0.7</b>	(0.6)
Adjustments to tax charge in respect of prior years	<b>(1.6)</b>	3.6
Tax effect of share of results of joint ventures	<b>(5.9)</b>	(1.7)
<b>Total taxation (note 8a)</b>	<b>43.6</b>	20.3

### (c) Factors that may affect future tax charges

There are no temporary differences associated with investments in overseas subsidiaries for which deferred tax liabilities have not been recognised.

Gross deductible temporary differences of £244.0m (2006: £306.0m) have not been recognised due to restrictions in the availability of their use.

Temporary differences have not been recognised in respect of the revaluation of land and buildings (see Note 13) due to the availability of capital losses.

Temporary differences have also not been recognised in respect of rolled over capital gains due to the existence of capital losses.

In the 2007 budget the UK government announced its intention to propose Parliament to reduce the UK Corporate Income tax rate from 30% to 28%. As of 30 April 2007, the tax change was not substantively enacted. Had the change of rate been substantively enacted as of the balance sheet date the estimated impact on the balance sheet would be a reduction in the deferred tax liability of £2.9m.

In the 2007 budget the UK government also announced its intention to propose Parliament to abolish Industrial Buildings Allowances ("IBAs"). As of 30 April 2007, this change was not substantively enacted. Had the change been substantively enacted as of the balance sheet date the estimated impact on the balance sheet would be an increase in the deferred tax liability of £10.0m.

**Note 8 Taxation (continued)**

(d) Tax on items charged/(credited) to equity	2007	2006
	£m	£m
Tax on foreign exchange differences on translation of foreign operations	0.3	0.2
Tax effect of actuarial gains on Group defined benefit pensions schemes	20.3	4.2
Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes	1.5	1.5
Tax effect of share based payments	(3.8)	(2.9)
<b>Total tax on items charged to equity</b>	<b>18.3</b>	<b>3.0</b>
Tax recognised on the adoption of IAS 39	n/a	(0.5)

**Note 9 Dividends**

	2007	2006
	£m	£m
<b>Amounts recognised as distributions in the year</b>		
<b>Dividends on ordinary shares</b>		
Final dividend paid of 2.3p per share for the year ended 30 April 2005	Nil	24.6
Interim dividend paid of 1.1p per share for the year ended 30 April 2006	Nil	12.0
Final dividend paid of 2.6p per share for the year ended 30 April 2006	28.4	Nil
Interim dividend paid of 1.2p per share for the year ended 30 April 2007	13.1	Nil
<b>Amounts recognised as distributions to equity holders in the year</b>	<b>41.5</b>	<b>36.6</b>
<b>Dividends proposed but neither paid nor included as liabilities in the financial statements</b>		
<b>Dividends on ordinary shares</b>		
Final dividend paid of 2.6p per share for the year ended 30 April 2006	Nil	28.4
Final dividend proposed of 2.9p per share for the year ended 30 April 2007	20.4	Nil
	<b>20.4</b>	<b>28.4</b>

The proposed final dividend in respect of the year ended 30 April 2007 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements. If approved, the final dividend will be payable on 3 October 2007 to shareholders on the register at close of business on 31 August 2007.

**Note 10 Earnings per share**

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held by employee share ownership trusts that do not rank for dividend.

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to share options and long-term incentive plans. In respect of share options, a calculation was done to determine the number of ordinary shares that could have been acquired at fair value (determined based on the average annual market share price of the Company's ordinary shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration and no adjustment is made to earnings (numerator).

	2007	2006
Basic weighted average ordinary share capital (number of shares, million)	1,091.7	1,075.8
Dilutive ordinary shares		
– Executive Share Option Scheme	7.4	14.7
– Employee SAYE Scheme	2.2	0.8
– Long Term Incentive Plan	2.3	Nil
– Executive Participation Plan	1.0	Nil
<b>Diluted weighted average ordinary share capital (number of shares, million)</b>	<b>1,104.6</b>	<b>1,091.3</b>

# Notes to the consolidated financial statements

## Note 10 Earnings per share (continued)

	2007	2006
	£m	£m
Profit after taxation (for basic EPS calculation)	<b>277.3</b>	115.4
Intangible asset expenses (see note 4)	<b>14.7</b>	20.5
Exceptional items (see note 4)	<b>(169.6)</b>	(17.4)
Tax effect of intangible asset expenses and exceptional items (see note 4)	<b>5.8</b>	(5.0)
Profit for adjusted EPS calculation	<b>128.2</b>	113.5

	2007	2006
	Earnings per share	Earnings per share
	pence	pence
Basic	<b>25.4</b>	10.7
Adjusted basic	<b>11.7</b>	10.6
Diluted	<b>25.1</b>	10.6
Adjusted diluted	<b>11.6</b>	10.4

Earnings per share before intangible asset expenses and exceptional items is calculated after adding back intangible asset expenses and exceptional items after taking account of taxation, as shown on the consolidated income statement on page 40. This has been presented to allow shareholders to gain a clearer understanding of the underlying performance. The basic and diluted earnings per share can be further analysed as follows:

	2007			2006		
	Earnings £m	Weighted average number of shares Million	Earnings per share Pence	Earnings £m	Weighted average number of shares Million	Earnings per share Pence
<b>Basic</b>						
– Continuing operations	<b>140.5</b>	<b>1,091.7</b>	<b>12.9</b>	71.2	1,075.8	6.6p
– Discontinued operations	<b>136.8</b>	<b>1,091.7</b>	<b>12.5</b>	44.2	1,075.8	4.1p
	<b>277.3</b>	<b>1,091.7</b>	<b>25.4</b>	115.4	1,075.8	10.7p
<b>Adjusted basic</b>						
– Continuing operations	<b>124.2</b>	<b>1,091.7</b>	<b>11.4</b>	91.8	1,075.8	8.5p
– Discontinued operations	<b>4.0</b>	<b>1,091.7</b>	<b>0.3</b>	21.7	1,075.8	2.1p
	<b>128.2</b>	<b>1,091.7</b>	<b>11.7</b>	113.5	1,075.8	10.6p
<b>Diluted</b>						
– Continuing operations	<b>140.5</b>	<b>1,104.6</b>	<b>12.7</b>	71.2	1,091.3	6.5p
– Discontinued operations	<b>136.8</b>	<b>1,104.6</b>	<b>12.4</b>	44.2	1,091.3	4.1p
	<b>277.3</b>	<b>1,104.6</b>	<b>25.1</b>	115.4	1,091.3	10.6p
<b>Adjusted diluted</b>						
– Continuing operations	<b>124.2</b>	<b>1,104.6</b>	<b>11.2</b>	91.8	1,091.3	8.4p
– Discontinued operations	<b>4.0</b>	<b>1,104.6</b>	<b>0.4</b>	21.7	1,091.3	2.0p
	<b>128.2</b>	<b>1,104.6</b>	<b>11.6</b>	113.5	1,091.3	10.4p

In connection with a return of value to shareholders, a share capital consolidation took place subsequent to the balance sheet on 14 May 2007. For every 14 Ordinary shares in issue at 5.30 pm on 11 May 2007, 9 new ordinary shares were issued. Accordingly, the total number of shares in issue were decreased by a proportionate amount. Further details of the return of value are provided in note 36 and in section 3.8.13 of the Operating and Financial Review.

The following executive share options had the potential as at 30 April 2006 to dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share for the year ended 30 April 2006.

Award date	Outstanding as at 30 April 2006	Outstanding as at 30 April 2007	Exercise price £	Expiry date
19 July 1999	407,657	Nil	2.0310	19 July 2006

Further details of executive share options are provided in note 30.

Other than the Return of Value referred to above, there have been no ordinary share transactions between the balance sheet date and the date of approval of this report that would have significantly changed the number of ordinary shares outstanding at 30 April 2007.

## Note 11 Goodwill

	2007	2006
	£m	£m
<b>Cost</b>		
At beginning of year	100.1	93.6
Acquired through business combinations	Nil	20.7
Sale/closure of subsidiary undertakings	Nil	(19.0)
Translation adjustment	(7.3)	4.8
At end of year	92.8	100.1
<b>Accumulated impairment losses</b>		
At beginning and end of year	Nil	Nil
Net book value at beginning of year	100.1	93.6
Net book value at end of year	92.8	100.1

There were no additions to goodwill in the year ended 30 April 2007. Goodwill in the balance sheet arose from the acquisition of businesses in prior years.

In accordance with IAS 36, 'Impairment of Assets', the Group tests the following assets for impairment annually:

- Goodwill acquired in a business combination;
- Intangible assets other than goodwill with indefinite useful lives, although there are no such assets at the balance sheet date;
- Intangible assets not yet available for use, although there are no such assets at the balance sheet date;
- Other assets where there is any indication that the relevant asset may be impaired.

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to two individual cash generating units on the basis of the Group's operations. Each cash generating unit is an operational division. The UK Bus cash generating unit operates coach and bus operations in the United Kingdom. The North America Bus cash generating unit operates coach and bus operations in the US and Canada. No goodwill has been allocated to the Group's rail operations.

The cash generating units are as follows:

	UK Bus		North America Bus	
	2007	2006	2007	2006
	£m	£m	£m	£m
Carrying amount of goodwill	20.8	20.8	72.0	79.3
Carrying value of intangible assets with indefinite useful lives	Nil	Nil	Nil	Nil
Basis on which recoverable amount has been determined	Value in use	Value in use	Value in use	Value in use
Period covered by approved management plans used in value in use calculation	5 years	5 years	5 years	5 years
Pre-tax discount rate applied to cash flow projections	10.7%	10.7%	9.0%	9.0%
Growth rate used to extrapolate cash flows beyond period of management plan	2.2%	2.2%	2.7%	2.7%
Difference between above growth rate and long-term average growth rate for market in which unit operates	Nil	Nil	Nil	Nil

The calculation of value in use for each cash generating unit is most sensitive to the assumptions on gross margin, discount rates and growth rates. The assumptions used are considered to be consistent with the historical performance of each cash generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

The Directors believe that in the case of each of the cash generating units shown above, any reasonably possible change in the key assumptions on which the recoverable amount of the unit is based would not cause its carrying amount to exceed its recoverable amount.



# Notes to the consolidated financial statements

## Note 12 Other intangible assets

### Year ended 30 April 2007

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	14.7	7.0	8.1	0.7	30.5
Additions	Nil	1.2	12.0	0.1	13.3
Translation adjustment	Nil	(0.2)	Nil	Nil	(0.2)
At end of year	14.7	8.0	20.1	0.8	43.6
<b>Accumulated amortisation</b>					
At beginning of year	(2.4)	(4.8)	(5.8)	(0.2)	(13.2)
Amortisation	(5.2)	(1.4)	(2.7)	(0.3)	(9.6)
Translation adjustment	Nil	0.1	Nil	Nil	0.1
At end of year	(7.6)	(6.1)	(8.5)	(0.5)	(22.7)
Net book value at beginning of year	12.3	2.2	2.3	0.5	17.3
Net book value at end of year	7.1	1.9	11.6	0.3	20.9

Intangible assets include customer contracts purchased as part of the Group's business combinations, non-compete contracts, the right to operate UK Rail franchises and software costs.

The amortisation of each of the above intangible assets is included within the operating costs line of the income statement.

Intangible assets arising during the year (including any acquired through business combinations) and the amortisation periods are as follows:

	Amortisation period years	Intangible additions £m
Subsidiaries – UK Bus additions	2-5	1.3
Subsidiaries – UK Rail additions	10	12.0
		13.3

### Year ended 30 April 2006

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	Nil	6.6	8.1	0.3	15.0
Acquired through business combinations	14.7	Nil	Nil	Nil	14.7
Additions	Nil	0.2	Nil	0.4	0.6
Translation adjustment	Nil	0.2	Nil	Nil	0.2
At end of year	14.7	7.0	8.1	0.7	30.5
<b>Accumulated amortisation</b>					
At beginning of year	Nil	(2.8)	(2.9)	(0.1)	(5.8)
Amortisation for year	(2.4)	(2.0)	(2.9)	(0.1)	(7.4)
At end of year	(2.4)	(4.8)	(5.8)	(0.2)	(13.2)
Net book value at beginning of year	Nil	3.8	5.2	0.2	9.2
Net book value at end of year	12.3	2.2	2.3	0.5	17.3

### Note 13 Property, plant and equipment

#### Year ended 30 April 2007

	Land and buildings	PSVs and other assets	Total
	£m	£m	£m
<b>Cost</b>			
At beginning of year	213.6	1,019.5	1,233.1
Additions	5.9	86.7	92.6
Disposals	(1.7)	(51.8)	(53.5)
Sale/closure of subsidiary undertakings and other businesses	(38.9)	(115.6)	(154.5)
Translation adjustment	(2.4)	(21.0)	(23.4)
Reclassifications	0.3	(0.3)	Nil
At end of year	176.8	917.5	1,094.3
<b>Depreciation</b>			
At beginning of year	(6.8)	(517.5)	(524.3)
Charge for year	(6.1)	(64.7)	(70.8)
Disposals	0.3	46.4	46.7
Sale/closure of subsidiary undertakings and other businesses	0.7	41.6	42.3
Translation adjustment	0.7	10.3	11.0
Reclassifications	(0.1)	0.1	Nil
At end of year	(11.3)	(483.8)	(495.1)
Net book value at beginning of year	206.8	502.0	708.8
Net book value at end of year	165.5	433.7	599.2
Included in the above net book value at end of year are:			
Assets on hire purchase	Nil	99.8	99.8
Leased PSV assets	Nil	46.5	46.5
Short leasehold land and buildings	4.2	Nil	4.2
Long leasehold land and buildings	23.5	Nil	23.5

Heritable and freehold land amounting to £84.4m (2006: £109.3m) has not been depreciated.

Depreciation of £14.6m (2006: £12.5m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements, £14.3m (2006: £8.3m) of which related to continuing operations and £0.3m (2006: £4.2m) of which related to discontinued operations.

#### Year ended 30 April 2006

	Land and buildings	PSVs and other assets	Total
	£m	£m	£m
<b>Cost</b>			
At beginning of year	200.4	1,005.4	1,205.8
Additions	6.8	97.0	103.8
Acquired through business combinations	17.1	29.4	46.5
Disposals	(5.0)	(30.9)	(35.9)
Sale/closure of subsidiary undertakings and other businesses	(7.9)	(101.8)	(109.7)
Translation adjustment	2.2	20.4	22.6
At end of year	213.6	1,019.5	1,233.1
<b>Depreciation</b>			
At beginning of year	(3.4)	(508.2)	(511.6)
Charge for year	(4.7)	(67.0)	(71.7)
Disposals	0.9	23.7	24.6
Sale/closure of subsidiary undertakings and other businesses	1.1	43.1	44.2
Translation adjustment	(0.7)	(9.1)	(9.8)
At end of year	(6.8)	(517.5)	(524.3)
Net book value at beginning of year	197.0	497.2	694.2
Net book value at end of year	206.8	502.0	708.8
Included in the above net book value at end of year are:			
Assets on hire purchase	Nil	95.3	95.3
Leased PSV assets	Nil	45.1	45.1
Short leasehold land and buildings	2.4	Nil	2.4
Long leasehold land and buildings	29.4	Nil	29.4

IAS 16, "Property, plant and equipment", requires the initial measurement of property, plant and equipment at cost less accumulated depreciation. The exemption in IFRS 1 allow entities to use a value that is not depreciated cost as deemed cost on transition to IFRS. One of the options is to use fair value of the item at the date of transition to IFRS and allocate this as deemed cost. Certain of our UK Bus division's land and buildings have been valued at the date of transition to IFRS, being 1 May 2004, on the basis of existing use value by independent qualified valuers. This resulted in an increase of £53.9m to the carrying value of those land and buildings at 1 May 2004.

# Notes to the consolidated financial statements

## Note 14 Interests in joint ventures

The principal joint ventures are:

	Country of Incorporation	Number of shares in issue at 30 April 2007	Nominal Value of share capital in issue at 30 April 2007	% interest held
Virgin Rail Group Holdings Limited	United Kingdom	34,780	£3,478	49%
Scottish Citylink Limited	United Kingdom	1,643,312	£1,643,312	35%
New York Splash Tours LLC	USA	n/a	n/a	50%

The Group has three joint ventures: Virgin Rail Group Holdings Limited ("VRG"), Scottish Citylink Limited ("Citylink") and New York Splash Tours LLC.

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

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

As part of the original acquisition, the Group acquired a £20m shareholder loan to Virgin Rail Group Limited, now a subsidiary of Virgin Rail Group Holdings Limited. The shareholder loan bore interest at a fixed rate of 10% per annum. £10m of the original £20m loan was repaid on 28 April 2000, £3.3m was repaid on 23 September 2004, £3.4m was repaid on 27 September 2004 and the remaining £3.3m was repaid on 12 October 2006.

The Directors undertook an impairment review as at 30 April 2007 of the carrying value of the Group's 49% joint venture interest in VRG and concluded that there had been no impairment loss. The discount rate applied to the cash flow projections for the impairment review was 10.7% and the cash flows were based on the business plans for both of VRG's West Coast and CrossCountry franchises, which cover the period until the end of each franchise.

Stagecoach acquired 35% of the share capital of Citylink on 12 September 2005 in return for transferring certain rights to the Motorvator and megabus.com operations in Scotland. The Citylink shareholder agreement provides for joint and unanimous decision making on all key matters and therefore the investment has been accounted for as a joint venture.

In North America, Stagecoach has a joint venture, New York Splash Tours LLC, with Port Imperial Duck Charters, LLC. New York Splash Tours LLC currently has no share capital but is governed by a joint venture agreement. The Group's share of loss to date is disclosed in the income statement within share of profits and loss of joint ventures and its share of net liabilities of £0.2m (2006: Nil) is disclosed within note 23. As at the balance sheet date these liabilities represented pre-trading expenses incurred of £0.2m for which the Group is liable.

	VRG	Citylink	Total 2007	Total 2006
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	76.6	3.2	79.8	70.8
1 May 2005 IAS 32/39 adjustments	Nil	Nil	Nil	(3.3)
At beginning of year, restated	76.6	3.2	79.8	67.5
Additions	Nil	Nil	Nil	3.1
Share of recognised profits	18.9	0.9	19.8	5.6
Share of actuarial gains on defined benefit pension schemes, net of tax	3.5	Nil	3.5	3.7
Dividends received	(31.1)	Nil	(31.1)	Nil
Rounding	Nil	Nil	Nil	(0.1)
At end of year	67.9	4.1	72.0	79.8
<b>Amounts written off</b>				
At beginning of year	(27.8)	Nil	(27.8)	(14.7)
Goodwill charged during year	(5.1)	Nil	(5.1)	(13.1)
At end of year	(32.9)	Nil	(32.9)	(27.8)
Net book value at beginning of year	48.8	3.2	52.0	56.1
Net book value at beginning of year, restated	48.8	3.2	52.0	52.8
Net book value at end of year	35.0	4.1	39.1	52.0

In addition to the above interest in joint ventures, a loan receivable from New York Splash Tours LLC of £1.9m is reflected in note 21 to the financial statements and the Group's share of this joint venture's liabilities is disclosed in note 23.

#### Note 14 Interests in joint ventures (continued)

The Group's share of the net assets of its joint ventures is analysed below:

	<b>VRG</b>	<b>Citylink</b>	<b>Total 2007</b>	Total 2006
	£m	£m	£m	£m
Non-current assets	<b>20.9</b>	<b>0.2</b>	<b>21.1</b>	25.2
Current assets	<b>117.9</b>	<b>2.8</b>	<b>120.7</b>	142.1
Non-current liabilities	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	(11.1)
Current liabilities	<b>(128.4)</b>	<b>(1.5)</b>	<b>(129.9)</b>	(136.5)
Share of net assets	<b>10.4</b>	<b>1.5</b>	<b>11.9</b>	19.7
Goodwill	<b>24.6</b>	<b>2.6</b>	<b>27.2</b>	32.3
	<b>35.0</b>	<b>4.1</b>	<b>39.1</b>	52.0

On transition to IAS 32 and IAS 39 on 1 May 2005, the shareholder loan notes of £3.3m receivable from VRG were reclassified as financial assets and therefore as at 30 April 2006 were included within the current trade and other receivables line on the balance sheet. These loan notes were subsequently repaid during the year ended 30 April 2007. The Group's share of the net liabilities of New York Splash Tours LLC is disclosed in note 23 to the consolidated financial statements. A long-term loan receivable from New York Splash Tours LLC is disclosed in note 21 to the consolidated financial statements.

The Group's share of post-tax results from joint ventures is analysed below:

	<b>VRG</b>	<b>Citylink</b>	<b>New York Splash Tours LLC</b>	<b>Total 2007</b>	Total 2006
	£m	£m	£m	£m	£m
Revenue	<b>412.5</b>	<b>8.5</b>	<b>Nil</b>	<b>421.0</b>	361.2
Expenses	<b>(394.7)</b>	<b>(7.2)</b>	<b>(0.2)</b>	<b>(402.1)</b>	(355.8)
Operating profit/(loss)	<b>17.8</b>	<b>1.3</b>	<b>(0.2)</b>	<b>18.9</b>	5.4
Finance income (net)	<b>3.7</b>	<b>Nil</b>	<b>Nil</b>	<b>3.7</b>	1.7
Taxation	<b>(2.6)</b>	<b>(0.4)</b>	<b>Nil</b>	<b>(3.0)</b>	(1.5)
Share of joint ventures' profit/(loss) after taxation	<b>18.9</b>	<b>0.9</b>	<b>(0.2)</b>	<b>19.6</b>	5.6

A net actuarial gain after tax of £3.5m (2006: £3.7m) was recognised in addition to the above in relation to VRG's defined benefit pension schemes.

#### Note 15 Interest in associate

	<b>2007</b>	2006
	£m	£m
<b>Cost and net book value</b>		
At the beginning of year	<b>1.0</b>	1.0
Reclassification from liabilities	<b>(1.0)</b>	Nil
At end of year	<b>Nil</b>	1.0

During the year ended 30 April 2007, the Group's principal associated undertaking ceased trading. The Group now carries its interest in the associated undertaking at nil value.

# Notes to the consolidated financial statements

## Note 15 Interest in associate (continued)

The principal associate is:

	Country of Incorporation	Number of shares in issue at 30 April 2007	Nominal Value of share capital in issue at 30 April 2007	% interest held
Prepayment Cards Limited	United Kingdom	340,000	£340,000	23.5%

The Group's share of the net assets of its associate is analysed below:

	2007	2006
	£m	£m
Non-current assets	Nil	4.0
Current assets	Nil	0.4
Non-current liabilities	Nil	(0.5)
Current liabilities	Nil	(4.5)
Share of net liabilities	Nil	(0.6)
Goodwill	Nil	1.6
	Nil	1.0

The Group's share of post-tax results from its associate is analysed below:

	2007	2006
	£m	£m
Revenue	0.1	0.2
Expenses	(0.1)	(0.2)
Share of loss from interest in associate	Nil	Nil

The finance costs and taxation of the associate were less than £0.1m for each year presented.

## Note 16 Available for sale and other investments

	2007	2006
	£m	£m
<b>Cost / Valuation</b>		
At the beginning of year	4.5	2.1
Additions	0.4	2.8
Acquired through business combinations	Nil	0.2
Net fair value (losses)/gains	(1.9)	1.9
Disposals	(0.2)	Nil
Sale/closure of subsidiary undertakings	Nil	(2.6)
Translation adjustment	(0.1)	0.1
At end of year	2.7	4.5
<b>Amounts written off</b>		
At the beginning of year	(0.3)	(0.3)
Impairment charge for year	(1.3)	Nil
At end of year	(1.6)	(0.3)
Net book value at beginning of year	4.2	1.8
Net book value at end of year	1.1	4.2

The fair value of the Group's investment in Oxonica plc was judged to be nil at 30 April 2007 (2006: £3.2m). Fair value gains of £1.9m previously taken to the available for sale reserve were reversed and are included in the above table in the net fair value losses line for the year ended 30 April 2007. Movements in the available for sale reserve are shown in the consolidated statement of recognised income and expense. An impairment charge of £1.3m was reflected within operating costs in the consolidated income statement for the year ended 30 April 2007, (see note 3).

## Note 17 Acquisitions

During the prior year ended 30 April 2006 the Group acquired Traction Group Limited and Glenvale Transport Limited.

The results from these acquisitions have been disclosed separately within note 2 to the consolidated financial statements. No restatements have been made in the year ended 30 April 2007 to the consolidated carrying value of goodwill in respect of these acquisition. The financial year ended 30 April 2007 is the first year in which a full twelve months of results have been disclosed for Traction Group Limited and Glenvale Transport Limited within the consolidated financial statements.

## Note 18 Disposals

The Group disposed of its London bus business during the year ended 30 April 2007. The business was disposed of on 30 August 2006 to Macquarie Bank Limited. The Group also disposed of its New Zealand operations on 29 November 2005 to Infratil Limited and therefore the year ended 30 April 2006 comparatives include the results of the New Zealand business as discontinued, in addition to the London bus business.

The results of the discontinued London bus and New Zealand operations, which have been included in the consolidated income statement, were as follows:

	2007			2006		
	London bus	New Zealand	Total	London bus	New Zealand	Total
	£m	£m	£m	£m	£m	£m
Revenue	76.1	Nil	<b>76.1</b>	224.6	37.4	262.0
Operating costs	(72.0)	Nil	<b>(72.0)</b>	(205.0)	(33.1)	(238.1)
Other operating income	1.1	Nil	<b>1.1</b>	4.0	1.2	5.2
Operating profit	5.2	Nil	<b>5.2</b>	23.6	5.5	29.1
Finance income/(costs) (net)	0.6	Nil	<b>0.6</b>	(0.1)	0.1	Nil
Taxation	(1.8)	Nil	<b>(1.8)</b>	(6.1)	(1.3)	(7.4)
Profit for the year before gain on disposal	4.0	Nil	<b>4.0</b>	17.4	4.3	21.7
Gain on disposal	132.2	0.6	<b>132.8</b>	Nil	22.5	22.5
Profit for the year from discontinued operations	136.2	0.6	<b>136.8</b>	17.4	26.8	44.2

A gain of £132.2m arose on the disposal of the London bus operations, being the net proceeds from disposal less the carrying amount of the disposed business' net assets at the date of disposal. No tax arose as a result of this gain.

The gain of £0.6m relating to New Zealand for the year ended 30 April 2007 arises from the release of a liability that was previously recorded for amounts potentially owing to the disposed business, which is now no longer payable.

Businesses disposed of during the year ended 30 April 2007 resulted in £13.2m of cash outflows from operating activities that included £30.0m of one-off pension contributions, £0.8m of cash outflows from investment activities and £9.6m of cash outflows from financing activities.

In respect of the businesses disposed of, the consideration, net assets disposed and profit on disposal for the year ended 30 April 2007, were as follows:

	London bus	Other	2007 Total	2006 Total
	£m	£m	£m	£m
Net assets/(liabilities) disposed and liabilities for future costs associated with the disposals	133.8	(0.6)	<b>133.2</b>	94.9
Foreign exchange recycled on disposal	Nil	Nil	<b>Nil</b>	(3.9)
Profit on disposal	132.2	0.6	<b>132.8</b>	15.5
Net consideration	266.0	Nil	<b>266.0</b>	106.5
Consideration received in the year	267.8	Nil	<b>267.8</b>	109.6
Costs of disposal	(1.8)	Nil	<b>(1.8)</b>	(3.1)
Net consideration received in the year	266.0	Nil	<b>266.0</b>	106.5
Net cash disposed of	(0.8)	Nil	<b>(0.8)</b>	(6.0)
Net cash inflow: disposals in the year	265.2	Nil	<b>265.2</b>	100.5
Net cash inflow: deferred consideration in respect of businesses disposed of in prior years	Nil	1.8	<b>1.8</b>	3.9
	265.2	1.8	<b>267.0</b>	104.4

Foreign exchange recycled on disposal is shown within the 2006 comparative numbers within the consolidated statement of recognised income and expense.

# Notes to the consolidated financial statements

## Note 19 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2007 were:

Company	Country of registration or incorporation	Principal activity
Stagecoach Transport Holdings plc	Scotland	Holding company
SCOTO Limited	England	Holding company
SCUSI Limited	England	Holding company
Stagecoach Bus Holdings Limited	Scotland	Holding company
The Integrated Transport Company Limited	Scotland	Holding company
Stagecoach (South) Ltd	England	Bus and coach operator
Stagecoach (North West) Ltd	England	Bus and coach operator
East Midland Motor Services Ltd	England	Bus and coach operator
Stagecoach Scotland Ltd	Scotland	Bus and coach operator
National Transport Tokens Ltd (99.9%)	England	Transport tokens
East Kent Road Car Company Ltd	England	Bus and coach operator
Stagecoach West Ltd	England	Bus and coach operator
PSV Claims Bureau Ltd	England	Claims handling
Busways Travel Services Ltd	England	Bus and coach operator
Cleveland Transit Ltd	England	Bus and coach operator
Cambus Ltd	England	Bus and coach operator
Greater Manchester Buses South Ltd	England	Bus and coach operator
Stagecoach Services Limited	England	Provision of accounting and payroll services
The Yorkshire Traction Group Ltd	England	Bus and coach operator
South West Trains Ltd	England	Train operating company (to February 2007)
Stagecoach South Western Trains Ltd	England	Train operating company (from February 2007)
Gray Line New York Tours Inc	United States	Bus and coach operator
Trentway-Wager Inc	Canada	Bus and coach operator

All companies operate in the countries shown above and, except for Stagecoach Transport Holdings plc, are indirectly held. The Group considers any subsidiary that has revenue greater than £25.0m per annum, profit before interest and taxation greater than £2.5m per annum, gross assets greater than £25.0m or gross liabilities greater than £25.0m to be a principal subsidiary. These thresholds exclude any intercompany amounts and investments in subsidiaries.

A full list of the Company's subsidiary undertakings will be annexed to the next annual return of the Company.

## Note 20 Inventories

	2007	2006
	£m	£m
Parts and consumables	<b>11.7</b>	<b>13.2</b>

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. Changes in the provision for slow moving and obsolete stock were as follows:

	2007	2006
	£m	£m
At beginning of year	<b>2.0</b>	<b>1.7</b>
Charged to income	<b>0.6</b>	<b>0.1</b>
Amount released to income, not used	<b>(0.3)</b>	<b>Nil</b>
Amount utilised	<b>(0.2)</b>	<b>Nil</b>
Acquired through business combinations	<b>Nil</b>	<b>0.2</b>
Translation	<b>(0.1)</b>	<b>Nil</b>
At end of year	<b>2.0</b>	<b>2.0</b>

There was no material write down of inventories during the current or prior year.

## Note 21 Trade and other receivables

	2007	2006
	£m	£m
<b>Non-current:</b>		
Other receivables	1.2	1.6
Loan to joint venture	1.9	Nil
	3.1	1.6
<b>Current:</b>		
Trade receivables	83.1	82.6
Less: provision for impairment	(3.7)	(2.8)
Trade receivables – net	79.4	79.8
Other receivables	8.2	15.6
Prepayments and accrued income	45.3	71.1
VAT and other government receivables	9.2	10.1
Loan to joint venture	Nil	3.3
	142.1	179.9

A loan of USD \$3.8m was made to New York Splash Tours LLC during the year ended 30 April 2007. The loan is interest bearing at 7% and is repayable by instalments after the joint venture commences trading. The loan outstanding as at 30 April 2007, translated at year end rates was £1.9m and is included in non-current trade and other receivables.

## Note 22 Cash and cash equivalents

	2007	2006
	£m	£m
Cash at bank and in hand	513.3	198.5

At 30 April 2007, the effective interest rate on cash at bank and in hand was 5.35% (2006: 4.6%) and these were primarily overnight deposits having an average maturity of one day (2006: one day).

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

	2007	2006
	£m	£m
Cash and bank balances	513.3	198.5
Bank overdrafts (note 24)	(0.8)	(0.2)
	512.5	198.3

## Note 23 Trade and other payables

	2007	2006
	£m	£m
<b>Current:</b>		
Trade payables	99.5	104.4
Accruals and deferred income	231.3	216.7
Share of net liabilities of joint venture	0.2	Nil
Deferred grant income	1.5	1.4
PAYE and NIC payable	15.3	18.8
	347.8	341.3
<b>Non-current:</b>		
Deferred grant income	4.6	5.5
Other payables	4.5	3.7
	9.1	9.2

Share of net liabilities of the New York Splash Tour joint venture represent the Group's share of costs of New York Splash Tours LLC in the year ended 30 April 2007 and this share of £0.2m included in current trade and other payables.



# Notes to the consolidated financial statements

## Note 24 Borrowings

	2007	2006
	£m	£m
<b>Current:</b>		
Bank overdrafts	0.8	0.2
Bank loans and loan notes	37.0	37.7
Hire purchase and lease obligations	33.1	28.4
	<b>70.9</b>	<b>66.3</b>
<b>Non-current:</b>		
Bank loans and loan notes	Nil	11.4
US Dollar 8.625% Notes	183.2	206.7
Hire purchase and lease obligations	89.2	73.1
	<b>272.4</b>	<b>291.2</b>
<b>Total borrowings</b>	<b>343.3</b>	<b>357.5</b>

The minimum lease payments under hire purchase and lease obligations fall due as follows:

	2007	2006
	£m	£m
Not later than one year	38.4	31.7
Later than one year but not more than five years	74.7	70.8
More than five years	28.7	8.6
	<b>141.8</b>	<b>111.1</b>
Future finance charges on hire purchase and finance leases	<b>(19.5)</b>	<b>(9.6)</b>
Present value of hire purchase and finance lease liabilities	<b>122.3</b>	<b>101.5</b>

The Group in its ordinary course of business enters into hire purchase and finance lease agreements to fund or refinance the purchase of vehicles. All of the hire purchase and lease obligations shown above are in respect of vehicles. The lease agreements are typically for periods of 5 to 10 years and do not have contingent rent or escalation clauses.

The agreements have industry standard terms and do not contain any restrictions on dividends, additional debt or further leasing.

### (a) US Dollar 8.625% Notes

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

The cumulative par value of Notes repurchased was US\$165.9m at 30 April 2007 (2006: US\$165.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2007 was £183.2m (2006: £206.7m), after taking account of the Notes purchased by the Group, the discount on issue, issue costs, accrued interest and the gain on close out of various interest rate swaps previously used to manage the interest rate profile of the Notes.

## Note 24 Borrowings (continued)

### (b) Borrowings are repayable as follows:

	2007	2006
	£m	£m
<b>On demand or within 1 year</b>		
Bank overdraft	0.8	0.2
Bank loans and loan notes	37.0	37.7
Hire purchase and lease obligations	33.1	28.4
<b>Within 1-2 years</b>		
Bank loans and loan notes	Nil	0.8
Hire purchase and lease obligations	23.5	25.2
<b>Within 2-5 years</b>		
Bank loans and loan notes	Nil	10.6
US Dollar 8.625% Notes	183.2	206.7
Hire purchase and lease obligations	39.7	39.7
<b>Over 5 years</b>		
Hire purchase and lease obligations	26.0	8.2
Total borrowings	343.3	357.5
Less current maturities	(70.9)	(66.3)
Non-current portion of borrowings	272.4	291.2

Interest terms on UK facilities (except loan notes) are at annual rates between 0.25% and 0.65% over bank base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates of 0.5% above applicable local market borrowing rates. Interest on loan notes are at three months LIBOR or fixed interest. Loan notes amounting to £37.0m (2006: £37.7m) 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 and US\$ Notes are unsecured.

### (c) Interest rate and currency profile of financial liabilities

The interest rate and currency profile of the financial liabilities of the Group on which interest is paid at 30 April 2007 was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	151.7	Nil	151.7	n/a	n/a
US Dollar	0.8	186.5	187.3	6.4%	2.7
Canadian Dollar	Nil	4.3	4.3	5.2%	3.7
Gross borrowings	152.5	190.8	343.3	6.4%	2.7

The figures shown in the above table take into account the close out of various interest rate swaps previously used to manage the interest rate profile of borrowings. The fair value of fixed rate financial liabilities is £203.7m (2006: £221.9m).

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

The Group's policies on managing interest rate risk and currency risk are explained in note 28.

The interest rate profile and currency profile of the financial liabilities of the Group on which interest is paid at 30 April 2006 was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	139.2	Nil	139.2	n/a	n/a
US Dollar	Nil	206.7	206.7	6.7%	3.5
Canadian Dollar	11.6	Nil	11.6	n/a	n/a
Gross borrowings	150.8	206.7	357.5	6.7%	3.5

# Notes to the consolidated financial statements

## Note 24 Borrowings (continued)

### (c) Interest rate and currency profile of financial liabilities (continued)

The maturity profile of the Group's borrowings was as follows:

	2007	2006
	£m	£m
Expiring within one year	70.9	66.3
Expiring in more than one year but less than two years	23.5	26.0
Expiring in more than two years but less than five years	222.9	257.0
Expiring beyond five years	26.0	8.2
Gross borrowings	343.3	357.5

### (d) Interest rate and currency profile of financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £513.3m (2006: £198.5m). The cash deposits comprise deposits placed on money market at call, seven day, monthly rates and cash deposited with counterparty banks at commercially negotiated interest rates. The currency analysis is as follows:

	Floating rate	
	2007 £m	2006 £m
Currency		
Sterling	494.0	186.8
US Dollar	18.8	11.7
Other	0.5	Nil
Cash at bank and in hand	513.3	198.5

Financial assets on which no interest is receivable total £1.1m (2006: £4.2m) and comprise other investments of £1.1m (2006: £4.2m). These are denominated in Sterling £0.4m (2006: £3.9m), and US dollars £0.7m (2006: £0.3m). Net financial assets (amounts due after one year from the balance sheet date) on which fixed interest is receivable total £2.2m (2006: £0.9m) and comprise US\$ denominated loan notes receivable and a loan to a joint venture. The net amount of £2.2m (2006: £0.9m) includes a provision for impairment of £Nil (2006: £1.3m). The net financial assets have a weighted average interest rate of 7.3% (2006: 8.9%) and an average maturity of 3.2 years (2006: 2.8 years).

Trade and other receivables on which no interest has been received are excluded from the disclosures above.

### (e) Currency exposures

The Group's objective in managing currency borrowings and net exposures arising from its investments in net assets of overseas subsidiaries is to maintain an appropriate cost of borrowing and to retain some potential for currency related appreciation whilst partially hedging against currency depreciation. Foreign currency borrowings are taken out to provide for or to hedge against foreign net investments. Gains and losses arising from currency borrowings taken out to provide a hedge against foreign net investments are recognised in the statement of recognised income and expense.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2007 and 30 April 2006 there were no material net transactional foreign currency exposures.

### (f) Borrowing facilities

The Group had the following undrawn committed banking and hire purchase facilities:

	2007	2006
	£m	£m
Expiring within one year	29.2	46.4
Expiring in more than one year but no more than two years	Nil	Nil
Expiring beyond two years	748.4	302.8
	777.6	349.2

## Note 25 Deferred tax

The Group movement in deferred tax during the year was as follows:

	Deferred tax liabilities	Deferred tax asset	Net
	£m	£m	£m
Beginning of year	(5.2)	8.4	3.2
Provided during year:			
Charge to income statement	(22.2)	(1.1)	(23.3)
Sale/closure of subsidiary undertakings and other businesses	1.3	Nil	1.3
Charge to equity	(17.7)	Nil	(17.7)
Foreign exchange	(0.3)	(0.5)	(0.8)
End of year	(44.1)	6.8	(37.3)

The deferred tax liabilities after more than one year are £44.1m (2006: £5.2m). The deferred tax asset due after more than one year is £2.2m (2006: £3.0m). The deferred tax asset of £6.8m (2006: £8.4m) has been recognised in respect of tax losses. Based on tax workings scheduling the reversal of the asset, it is expected to be utilised over the next three years (2006: three years).

Deferred taxation is calculated as follows:

	2007	2006
	£m	£m
Accelerated capital allowances	(75.4)	(90.4)
Pension temporary differences	10.9	64.3
Short-term temporary differences	27.2	29.3
	(37.3)	3.2

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	2007	2006
	£m	£m
Accelerated capital allowances	4.3	(4.3)
Pension temporary differences	17.5	(2.0)
Short-term temporary differences	1.5	3.5
	23.3	(2.8)

## Note 26 Provisions

	2007	2006
	£m	£m
Token redemption provision	19.4	20.9
Insurance provisions	85.4	83.2
Environmental provisions	2.7	3.1
Provision for onerous contracts	0.9	2.7
	108.4	109.9

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.

Provisions for onerous contracts relate to contracts that have been acquired through business combinations that have been identified as loss making.

The Group movement during the year was as follows:

	Token redemption provision	Insurance provisions	Environmental provisions	Provisions for onerous contracts	Total
	£m	£m	£m	£m	£m
Beginning of year	20.9	83.2	3.1	2.7	109.9
Provided during year (after discounting)	7.6	51.4	0.8	Nil	59.8
Unwinding of discount	Nil	2.9	Nil	Nil	2.9
Change in discount rate	Nil	(0.6)	Nil	Nil	(0.6)
Utilised in the year	Nil	(48.7)	(1.1)	(1.8)	(51.6)
Redemption of tokens	(9.1)	Nil	Nil	Nil	(9.1)
Translation differences	Nil	(2.8)	(0.1)	Nil	(2.9)
End of year	19.4	85.4	2.7	0.9	108.4
30 April 2007:					
Current	12.4	34.9	2.7	0.7	50.7
Non-current	7.0	50.5	Nil	0.2	57.7
	19.4	85.4	2.7	0.9	108.4
30 April 2006:					
Current	13.4	44.9	3.1	1.8	63.2
Non-current	7.5	38.3	Nil	0.9	46.7
	20.9	83.2	3.1	2.7	109.9

# Notes to the consolidated financial statements

## Note 27 Retirement benefit obligations

The Group contributes to a number of pension schemes. The principal defined benefit occupational schemes are as follows:

- The Stagecoach Group Pension Scheme ("SGPS");
- The South West Trains section of the Railways Pension Scheme ("RPS");
- The Island Line section of the Railways Pension Scheme ("RPS");
- A number of UK Local Government Pension Schemes ("LGPS");
- The Yorkshire Traction Company Limited Pension Plan ("YTC")
- The Strathclyde Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO").

These schemes are devised in accordance with local employment terms and conditions. Each scheme is administered independently of the employers and the schemes assets are held in trusts that are managed by investment managers appointed by the schemes' trustees. Contributions to the schemes are determined by independent professionally qualified actuaries.

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of sections of the scheme following expiry of the related franchises. Therefore, the liability (or asset) recognised for the relevant sections of RPS only represents that part of the net deficit (or surplus) of each section that the employer is obliged to fund (or expected to recover) over the life of the franchise to which the section relates. The restriction on the liabilities or assets to show the impact of this "franchise adjustment" is shown below. The restriction on surplus to be recognised in the LGPS plans is based on the advice of independent professionally qualified actuaries.

In addition, the Group contributes to a number of defined contribution schemes, covering UK and non-UK employees.

The amounts recognised in the balance sheet are determined as follows:

Year ended 30 April 2007	Funded plans						Unfunded plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
Equities	371.4	319.2	176.2	16.1	5.4	0.7	Nil	889.0
Bonds	69.9	53.8	41.4	18.9	0.7	0.8	Nil	185.5
Cash	65.5	1.2	17.2	9.8	Nil	0.3	Nil	94.0
Property	44.3	54.1	23.3	Nil	Nil	Nil	Nil	121.7
Fair value of plan assets	551.1	428.3	258.1	44.8	6.1	1.8	Nil	1,290.2
Present value of funded/unfunded obligations	(578.4)	(423.5)	(254.9)	(53.1)	(9.0)	(2.6)	(3.5)	(1,325.0)
Restriction on surplus to be recognised	Nil	Nil	(1.4)	Nil	Nil	Nil	Nil	(1.4)
Net assets/(liabilities) recognised in the balance sheet	(27.3)	4.8	1.8	(8.3)	(2.9)	(0.8)	(3.5)	(36.2)
Assets recognised in the balance sheet	–	4.8	11.8	–	–	–	–	16.6
Liabilities recognised in the balance sheet	(27.3)	–	(10.0)	(8.3)	(2.9)	(0.8)	(3.5)	(52.8)

Year ended 30 April 2006	Funded plans						Unfunded plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
Equities	444.5	324.8	174.5	33.5	5.0	0.7	Nil	983.0
Bonds	54.2	20.9	39.2	7.3	0.5	0.9	Nil	123.0
Cash	40.5	19.7	18.5	0.1	Nil	0.4	Nil	79.2
Property	37.5	6.9	8.5	1.3	Nil	Nil	Nil	54.2
Fair value of plan assets	576.7	372.3	240.7	42.2	5.5	2.0	Nil	1,239.4
Present value of funded/unfunded obligations	(753.0)	(387.0)	(264.3)	(51.4)	(8.4)	(2.5)	(3.6)	(1,470.2)
– excluding franchise adjustment	Nil	8.6	Nil	Nil	Nil	Nil	Nil	8.6
– franchise adjustment	Nil	8.6	Nil	Nil	Nil	Nil	Nil	8.6
Net liability recognised in the balance sheet	(176.3)	(6.1)	(23.6)	(9.2)	(2.9)	(0.5)	(3.6)	(222.2)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2007	2006
	%	%
Equities	68.9	79.3
Bonds	14.4	9.9
Cash	7.3	6.4
Property	9.4	4.4
	100.0	100.0

## Note 27 Retirement benefit obligations (continued)

The amounts recognised in the income statement were as follows:

Year ended 30 April 2007	Funded plans						
	SGPS	RPS	LGPS	YTC	SSO	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Defined benefit schemes:							
Current service cost	16.4	14.2	3.4	1.3	0.5	0.3	36.1
Past service credit (note 4)	(28.9)	Nil	Nil	Nil	Nil	Nil	(28.9)
Interest cost	33.7	12.9	13.8	2.8	0.5	Nil	63.7
Expected return on plan assets	(38.4)	(18.2)	(17.7)	(3.4)	(0.5)	Nil	(78.2)
Unwinding of franchise adjustment	Nil	(0.3)	Nil	Nil	Nil	Nil	(0.3)
Total defined benefit (credit)/costs	(17.2)	8.6	(0.5)	0.7	0.5	0.3	(7.6)
Defined contribution costs	Nil	Nil	Nil	Nil	Nil	0.4	0.4
Total, included in staff costs (for both continuing and discontinued operations)	(17.2)	8.6	(0.5)	0.7	0.5	0.7	(7.2)

The actual return on plan assets for the year ended 30 April 2007 was £133.4m.

Analysis of pension costs included in the income statement between continuing and discontinued operations is set out in the table below:

	Continuing Operations	Discontinued Operations	Total
	£m (see Note 7 Staff costs)	£m	£m
Defined benefit schemes:			
Current service cost	32.3	3.8	36.1
Interest cost	60.5	3.2	63.7
Expected return on plan assets	(74.8)	(3.4)	(78.2)
Unwinding of franchise adjustments	(0.3)	Nil	(0.3)
Defined contribution costs	0.4	Nil	0.4
Pension costs before exceptional past service cost	18.1	3.6	21.7

Discontinued operations relate to London Bus operations, disposed of in August 2006.

Year ended 30 April 2006	Funded plans						
	SGPS	RPS	LGPS	YTC	SSO	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Defined benefit schemes:							
Current service cost	21.5	16.9	3.3	0.6	0.2	Nil	42.5
Interest cost	32.2	11.4	13.0	0.9	0.1	0.1	57.7
Expected return on plan assets	(36.8)	(13.5)	(14.5)	(1.0)	(0.1)	Nil	(65.9)
Unwinding of franchise adjustment	Nil	(1.9)	Nil	Nil	Nil	Nil	(1.9)
Total defined benefit costs	16.9	12.9	1.8	0.5	0.2	0.1	32.4
Defined contribution costs	Nil	Nil	Nil	Nil	Nil	1.0	1.0
Total, included in staff costs (for both continuing and discontinued operations)	16.9	12.9	1.8	0.5	0.2	1.1	33.4

The actual return on plan assets for the year ended 30 April 2006 was £262.8m. Analysis of pension costs included in the income statement between continuing and discontinued operations is set out in the table below:

	Continuing Operations	Discontinued Operations	Total
	£m (see Note 7 Staff Costs)	£m	£m
Defined benefit schemes:			
Current service cost	34.5	8.0	42.5
Interest cost	45.6	12.1	57.7
Expected return on plan assets	(52.1)	(13.8)	(65.9)
Unwinding of franchise adjustments	(1.9)	Nil	(1.9)
Defined contribution costs	1.0	Nil	1.0
Pension costs	27.1	6.3	33.4

# Notes to the consolidated financial statements

## Note 27 Retirement benefit obligations (continued)

The movements in the net liability recognised in the balance sheet for the year ended 30 April 2007 were as follows:

Year ended 30 April 2007	Funded plans						Unfunded plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
At beginning of year	176.3	6.1	23.6	9.2	2.9	0.5	3.6	222.2
Rail franchise changes	Nil	11.7	Nil	Nil	Nil	Nil	Nil	11.7
Disposal – settlement and curtailment	5.5	Nil	Nil	Nil	Nil	Nil	Nil	5.5
Total expense/(income)	(17.2)	8.6	(0.5)	0.7	0.5	0.7	Nil	(7.2)
Actuarial losses/(gains)	(43.0)	(16.0)	(20.7)	0.5	(0.2)	Nil	Nil	(79.4)
One-off employers' contributions	(77.0)	Nil	Nil	Nil	Nil	Nil	Nil	(77.0)
Other employers' contributions and settlements	(17.3)	(15.2)	(4.2)	(2.1)	(0.3)	(0.4)	(0.1)	(39.6)
At end of year – liability/(asset)	27.3	(4.8)	(1.8)	8.3	2.9	0.8	3.5	36.2

The movements in the net liability recognised in the balance sheet for the year ended 30 April 2006 were as follows:

Year ended 30 April 2006	Funded plans						Unfunded plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
At beginning of year	160.3	7.7	48.5	Nil	Nil	0.7	3.7	220.9
Acquired as part of business combinations	Nil	Nil	2.5	14.9	4.1	Nil	Nil	21.5
Total expense	16.9	12.9	1.8	0.5	0.2	1.1	Nil	33.4
Actuarial losses/(gains)	19.2	(0.6)	(25.2)	(5.6)	(1.2)	(0.5)	Nil	(13.9)
Employers' contributions and settlements	(20.1)	(13.9)	(4.0)	(0.6)	(0.2)	(0.8)	(0.1)	(39.7)
At end of year	176.3	6.1	23.6	9.2	2.9	0.5	3.6	222.2

The movements in the total present value of the defined benefit obligations were as follows:

	2007	2006
	£m	£m
At beginning of year	1,461.6	1,114.2
Current service cost	36.1	42.5
Part service credit	(28.9)	Nil
Defined contribution costs	0.4	1.0
Interest cost	63.7	57.7
Unwinding of franchise adjustment	(0.3)	(1.9)
Members' contributions paid	22.8	23.2
Actuarial gains and losses	(25.6)	183.0
Benefits paid	(44.0)	(34.2)
Rail franchise changes	417.8	Nil
Acquired as part of business combination	Nil	76.0
Disposal – settlement and curtailment	(578.4)	Nil
Foreign exchange	(0.2)	0.1
At end of year	1,325.0	1,461.6

Movements in the total present value of fair value of scheme assets were as follows:

	2007	2006
	£m	£m
At beginning of year	1,239.4	893.3
Expected return on scheme assets	78.2	65.9
Actuarial gains and losses	55.2	196.9
One-off employers' contributions	77.0	Nil
Other employers' contributions	39.6	39.7
Members' contributions paid	22.8	23.2
Benefits paid	(44.0)	(34.2)
Rail franchise changes	406.1	Nil
Acquired as part of business combination	Nil	54.5
Disposal – settlement and curtailment	(583.9)	Nil
Foreign exchange	(0.2)	0.1
At end of year – total fair value of assets	1,290.2	1,239.4
Adjustment for unrecoverable surplus	(1.4)	Nil
Value of assets recognised	1,288.8	1,239.4

## Note 27 Retirement benefit obligations (continued)

The amounts recognised in the statement of recognised income and expense were as follows:

	2007	2006
	£m	£m
Actual return less expected return on pension scheme assets	55.2	196.9
Experience adjustment, arising on scheme liabilities	(18.1)	(92.7)
Adjustment for unrecognised surplus	(1.4)	Nil
Changes in assumptions underlying the present value of the liabilities	43.7	(90.3)
<b>Total actuarial gain recognised</b>	<b>79.4</b>	<b>13.9</b>

The history of experience adjustments is as follows:

	2007	2006	2005
Experience adjustments on scheme liabilities:			
Experience adjustments (£m)	(18.1)	(92.7)	(6.8)
Scheme liabilities (£m)	(1,325.0)	(1,461.6)	(1,114.2)
Percentage of scheme liabilities (%)	1.4%	6.3%	0.6%
Experience adjustments on scheme assets:			
Experience adjustments (£m)	55.2	196.9	10.5
Scheme assets (£m)	1,290.2	1,239.4	893.3
Percentage of scheme assets (%)	4.3%	15.9%	1.2%

The estimated amounts of contributions expected to be paid by the Group to the schemes during the financial year ending 30 April 2008 is £71.5m (estimated at 30 April 2006 for year ended 30 April 2007: £40.2m).

The principal actuarial assumptions used were as follows:

	2007	2006
	%	%
Rate of increase in salaries – SGPS	3.4	4.3
Rate of increase in salaries – other defined benefit schemes	4.4	4.3
Rate of increase of pensions in payment		
– SGPS	2.8	2.7
– other defined benefit schemes	2.9	2.8
Discount rate	5.5	5.3
Inflation	2.9	2.8
Expected long-term rates of return as at 30 April were:		
Equities*	8.3	8.3
Bonds	5.3	5.0
Cash	5.3	4.5
Property	7.5	7.5

\* includes private equity

The expected return on plan assets is based on expectations at the beginning of the period for returns over the entire life of the benefit obligation. The expected returns are set in conjunction with external advisors and take account of market factors, fund managers' views and targets for future returns and where appropriate, historical returns.

The life expectancy assumptions used for each scheme are periodically reviewed.

## Note 28 Derivative financial instruments and hedging

### (a) Derivative financial instruments

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and commodity prices. The Group's treasury management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

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

*Fuel hedging:* The Group's UK and North American bus operations consume the equivalent of 1.6m barrels of diesel fuel per annum. As a result, the Group's profits are exposed to the movement in the underlying price of crude oil, which is the major driver of diesel prices. The Group manages the volatility in its fuel costs by maintaining an ongoing fuel-hedging programme whereby derivatives are used to fix or cap the variable unit cost of a percentage of anticipated fuel consumption. If the Group had no hedging in place, a movement of US\$10 in the price of a barrel of crude oil would affect the Group's fuel costs by approximately US\$16m.



# Notes to the consolidated financial statements

## Note 28 Derivative financial instruments and hedging (continued)

### (a) Derivative financial instruments (continued)

The Group's fuel hedging levels are summarised below:

Financial year ended/ending 30 April	2007	2008	2009	2010
Proportion of actual/forecast fuel consumption hedged:				
– Hedged by fuel swaps	20%	37%	0%	0%
– Hedged by fuel collars	76%	51%	44%	0%
– Crude equivalent fixed swap price per barrel	\$54	\$59	n/a	n/a
– Crude equivalent floor/cap per barrel	\$86 / \$55	\$59 / \$28	\$89 / \$58	n/a
– Average actual/estimated forward price per barrel	\$65	\$70	\$70	\$70

**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. Forward buying of currencies is carried out by the Group Treasury function where appropriate.

Following the disposal of its New Zealand operations in November 2005, the Group now only has overseas investments in Canada and the USA. To minimise balance sheet translation exposure, the Group hedges the sterling book value of overseas operations through borrowings denominated in their functional currency or, where necessary, through the use of derivative financial instruments which effectively convert sterling borrowings into borrowings of the functional currency, and through forward currency exchange contracts. It is Group policy to examine each overseas investment individually and to adopt a strategy based on current and forecast political and economic climates. The policy aims to allow the Group to maintain an appropriate cost of borrowing and retain some potential for currency appreciation whilst partially hedging against currency depreciation.

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

**Interest rate risk management:** To provide some certainty as to the level of interest cost, it is the Group's 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 2007, 70% (30 April 2006: 70%) of the Group's gross borrowings were fixed or capped.

For the year to 30 April 2007, floating rate Sterling borrowings of £50.0m (2006: £50.0m) were economically hedged with a cap rate at 8.5%. The cap was not exercised during the year to 30 April 2007. Whilst the cap is considered an economic hedge of interest rate risk it has not been designated as an accounting hedge due to its low market value and low volatility.

### (b) Fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as at 30 April 2007 as set out below:

	2007	2006
	£m	£m
<b>Current assets:</b>		
Fuel derivatives	1.7	3.7
<b>Current liabilities:</b>		
Fuel derivatives	(3.7)	(1.3)
Interest rate cap	Nil	(0.2)
Foreign exchange forward contracts	Nil	(0.1)
	(3.7)	(1.6)
<b>Non-current liabilities:</b>		
Fuel derivatives	(2.6)	(1.2)

The fair value of derivative financial instruments at 30 April 2007 is set out below:

	Fair value of derivative financial assets	Notional amount of fuel covered by derivative financial assets	Fair value of derivative financial liabilities	Notional amount of fuel covered by derivative financial liabilities
	£m		£m	
<b>At 30 April 2007</b>				
<b>Derivatives held as cash flow hedges</b>				
Fuel derivatives	1.7	231m litres	(6.3)	249m litres

## Note 28 Derivative financial instruments and hedging (continued)

### (b) Fair value of derivative financial instruments (continued)

The fair value of derivative financial instruments at 30 April 2006 is set out below:

	Fair value of derivative financial assets	Notional amount of fuel covered by derivative financial assets	Fair value of derivative financial liabilities	Notional amount of fuel covered by derivative financial liabilities
	£m		£m	
<b>At 30 April 2006</b>				
<b>Derivatives held as cash flow hedges</b>				
Fuel derivatives	3.7	53m litres	(2.5)	478m litres
	3.7		(2.5)	
<b>Derivatives held for trading</b>				
Interest rate cap	Nil		(0.2)	
Foreign exchange forward contracts	Nil		(0.1)	
	3.7		(2.8)	

### (c) Embedded derivatives

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', all significant contracts to which the Group is a party have been reviewed for embedded derivatives. In the year ended 30 April 2006 one embedded derivative was identified that IAS 39 required to be separately accounted for, being a fuel swap embedded in a Sale and Purchase Agreement. This embedded derivative had expired by 30 April 2006 and accordingly, no fair value was attributed to it at 30 April 2006. There were no embedded derivatives as at 30 April 2007 which IAS 39 requires to be separately accounted for.

### (d) Cash flow hedges

The Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions. Ultra low sulphur diesel used in the UK Bus division is hedged by derivatives priced from the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps that have been determined to be effective hedges of the diesel fuel used with a strong correlation in price movements between the heating oil and diesel products. The fuel derivatives hedge the underlying commodity price risk (denominated in US\$) and in the case of the UK Bus division, they also hedge the currency risk due to the commodity being priced in US\$ and the functional currency of the UK Bus division being pounds sterling. The fuel derivatives include fixed price swaps and collars. The collars are hedges against the price of fuel being above a certain capped level or below a certain floor level. Collars have been used in preference to caps to reduce the overall cash cost of purchasing the cap protection.

The fair value of fuel derivatives as at 30 April 2007 was a net liability of £4.6m (2006: net asset of £1.2m), shown in note 28(b) as an asset of £1.7m (2006: £3.7m) and a liability of £6.3m (2006: £2.5m). The movements in the fair value of fuel derivatives in the year ended 30 April 2007 were as follows:

	2007	2006
	£m	£m
<b>Fuel derivatives</b>		
Fair value as at 1 May	1.2	8.6
Fair value at acquisition of derivatives acquired through business combinations	Nil	2.9
Changes in fair value during the year taken to cash flow hedging reserve	(9.2)	9.2
Changes in fair value during the year taken directly to income statement	Nil	(1.3)
Cash paid/(received) during the year	3.4	(18.2)
<b>Fair value as at 30 April 2007</b>	<b>(4.6)</b>	<b>1.2</b>

The fair value of the fuel derivatives as at 30 April 2007 split by maturity was as follows:

	Fair value of assets	Fair value of liabilities
	£m	£m
<b>At 30 April 2007</b>		
Within one year	1.7	(3.7)
1 to 2 years	Nil	(2.6)
2 to 3 years	Nil	Nil
	1.7	(6.3)

The fair value of the fuel derivatives as at 30 April 2006 split by maturity was as follows:

	Fair value of assets	Fair value of liabilities
	£m	£m
<b>At 30 April 2006</b>		
Within one year	3.7	(1.3)
1 to 2 years	Nil	(0.7)
2 to 3 years	Nil	(0.5)
	3.7	(2.5)

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (d) Cash flow hedges (continued)

The fair value of fuel derivatives is further analysed by currency and segment as follows

	30 April 2007		30 April 2006	
	Fair value	Notional amount of fuel covered by derivatives	Fair value	Notional amount of fuel covered by derivatives
	£m	million litres	£m	million litres
Sterling denominated – UK Bus	(4.5)	357.0	0.9	402.0
US Dollar denominated – North America	(0.1)	123.0	0.3	129.0
	<b>(4.6)</b>	<b>480.0</b>	1.2	531.0

The fair value of the fuel derivatives shown at 30 April 2006 above does not correspond to the amount of the related cash flow hedging reserve at these dates. The amounts differ for two reasons: (1) the ineffective portion of the hedging instruments is dealt with directly in the income statement and (2) the fair value at acquisition of cash flow hedging instruments acquired through business combinations is accounted for as part of the accounting for the business combination.

The movements in the cash flow hedging reserve (all of which related to the above fuel derivatives) in the year ended 30 April 2007 for the year were as follows:

	2007	2006
	£m	£m
<b>Cash flow hedging reserve</b>		
Fair value as at 1 May	(0.8)	7.3
Changes in fair value during the year taken to cash flow hedging reserve	(9.2)	9.2
Cash flow hedges reclassified and reported in profit for the year	5.4	(17.3)
Cash flow hedging reserve as at 30 April	<b>(4.6)</b>	<b>(0.8)</b>

### (e) Held for trading

At 30 April 2007, the Group had no forward foreign exchange contracts (2006: US\$20m). At 30 April 2006, the Group's one contract covered the US\$20m principal of the US\$ notes that had not been designated as a hedge of net investments in foreign entities. The movement in fair value of the forward contract offset movements in the US\$ notes. Hedge accounting was not sought due to the treatment of this derivative as a fair value hedge being the same as for the forward contract being classified as a derivative held for trading.

At 30 April 2007, the Group had a £50m (2006: £50m) 8.5% interest rate cap which matures in October 2007 (2006: October 2007). Due to the small fair value of the derivative, no hedge effectiveness testing was performed and therefore, whilst considered to be an effective risk management derivative, it has been designated as a held for trading derivative.

There are no other derivative liabilities relating to foreign exchange risks.

### (f) Hedge of overseas net investments

At 30 April 2007, US\$334.1m (2006: US\$314.1m) of the US\$334.1m (2006: US\$334.1m) of US\$ notes was designated as a hedge of net investments in foreign entities. At 30 April 2006, US\$20m of US\$ notes were notionally matched against a forward foreign exchange contract maturing on 30 April 2007, as described in note 28 (e) above.

**Note 29** Called up share capital

	2007	2006
	£m	£m
<b>Authorised</b>		
1,456,666,666 (2006: 1,456,666,666) ordinary shares of 12/19 pence each	<b>9.2</b>	<b>9.2</b>

	2007		2006	
	No of shares	£m	No of shares	£m
<b>Allotted, called-up and fully-paid Ordinary shares of 12/19 pence each</b>				
At 1 May	<b>1,093,600,313</b>	<b>6.9</b>	1,069,545,227	6.8
Allotted under share option schemes	<b>7,398,394</b>	<b>0.1</b>	20,033,016	0.1
Issued as part of business combination	<b>Nil</b>	<b>Nil</b>	4,022,070	Nil
At 30 April	<b>1,100,998,707</b>	<b>7.0</b>	1,093,600,313	6.9

The balance on the share capital account represents the aggregate nominal value of all ordinary shares in issue.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 30 April 2007, the QUEST held 369,399 (2006: 628,285) ordinary shares in the Company and the EBT held 5,825,879 (2006: 4,690,333) ordinary shares in the Company.

# Notes to the consolidated financial statements

## Note 30 Share based payments

The Group operates an Executive Share Option Scheme, a Save as You Earn Scheme ("SAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report on pages 32 to 38 gives further details of each of these arrangements.

As disclosed in note 7, a share based payment charge of £2.0m (2006: £2.2m) has been recognised in the income statement during the year in relation to the above schemes, including £Nil (2006: £0.4m) in relation to our disposed London bus and New Zealand operations.

In accordance with the transitional provisions of IFRS, the requirements of IFRS 2 have not been applied to equity instruments that were granted after 7 November 2002 that had vested before the date of transition, being 1 May 2004. Therefore the following disclosures relate only to awards made after 7 November 2002 that had not vested by 1 May 2004.

Grant date	Executive Share Option Scheme					SAYE	LTIP*	LTIP*
	December 2004	June 2004	December 2003†	June 2003†	December 2002 ▲	February 2005	August 2005	June 2006
Share price at grant/award date (£)	1.1150	0.8575	0.8075	0.6050	0.2700	1.1800	1.1075	1.1325
Exercise price (£)	1.1150	0.8575	0.8075	0.6050	0.2700	1.0328	n/a	n/a
Number of employees holding options/units	58	57	24	6	3	2,592	8	9
Shares under option/notional units at 30 April 2007	1,371,305	4,617,060	1,153,023	1,234,024	1,844,908	6,736,001	1,583,442	1,776,219
Vesting period (years)	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	75%	75%	30%	30%	30%
Option/award life (years)	7	7	7	7	7	3.5	3	3
Expected life (years)	4.4	4.4	4.4	4.4	3	3	3	3
Risk free rate	4.75%	4.64%	4.64%	3.79%	4.40%	4.56%	n/a	n/a
Expected dividends expressed as an average annual dividend yield	3.14%	3.38%	3.34%	4.30%	9.63%	3.05%	3.15%	3.15%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%	**	**
Fair value per option/notional unit at grant date (£)	0.26	0.20	0.19	0.28	0.09	0.30	0.42	0.44
Option pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Simulation	Simulation

▲ These options became fully vested during the year to April 2006.

† These options became fully vested during the year to April 2007.

\* LTIP awards are based on notional units. One notional unit has a value equal to one of the Company's ordinary shares but subject to performance conditions. LTIP awards are not share options and are valued using a separate simulation model therefore some of the above disclosures are not applicable.

\*\* Reflected in fair value.

Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward.

### Executive Share Option Scheme

The movements in total executive share options during the year were as follows:

Award date	At 1 May 2006	Exercised	Expired/Forfeited	At 30 April 2007	Exercise price £	Date from which exercisable	Expiry date
11 October 1996*	533,947	(533,947)	Nil	Nil	1.0900	11 October 1999	11 October 2006
19 July 1999*	407,657	Nil	(407,657)	Nil	2.0310	19 July 2002	19 July 2006
15 June 2000*	124,800	(124,800)	Nil	Nil	0.6250	15 June 2003	15 June 2007
20 June 2001*	278,100	(88,100)	Nil	190,000	0.7075	20 June 2004	20 June 2008
23 July 2002*	2,180,804	(500,846)	Nil	1,679,958	0.3750	23 July 2005	23 July 2009
5 December 2002	2,950,519	(1,105,611)	Nil	1,844,908	0.2700	5 December 2005	5 December 2009
26 June 2003	4,514,185	(3,280,161)	Nil	1,234,024	0.6050	26 June 2006	26 June 2010
12 December 2003	2,828,351	(1,675,328)	Nil	1,153,023	0.8075	12 December 2006	12 December 2010
25 June 2004	4,681,079	(64,019)	Nil	4,617,060	0.8575	25 June 2007	25 June 2011
10 December 2004	1,435,008	(34,053)	(29,650)	1,371,305	1.1150	10 December 2007	10 December 2011
	19,934,450	(7,406,865)	(437,307)	12,090,278			

\* In accordance with the transitional provisions of IFRS, the fair value of these options is not taken into account when determining the share based payment charge as the options were granted before 7 November 2002.

All options were granted for nil consideration. The mid-market price for the ordinary shares at 30 April 2007 was £1.87 (2006: £1.08). The Company's ordinary shares traded in the range of £0.93 to £1.89 (2006: £1.01 to £1.23) during the year to that date.

As share options are exercised continuously throughout the year, the weighted average share price during the year of £1.37 (2006: £1.12) is representative of the weighted average share price at the date of exercise.

### Note 30 Share based payments (continued)

#### Save as You Earn Scheme

One issue from the SAYE scheme was in operation during the year as follows:

Issue	Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
D	11 February 2005	1 April 2005	103.275p	1 April 2008	30 September 2008†

†The expiry date of any individual SAYE option can be extended to be six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the applicable exercisable date shown above.

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

	Issue D	
	Number of employees	Ordinary shares under option
Beginning of year	3,797	10,756,671
Options exercised	(346)	(825,113)
Options lapsed	(859)	(3,195,557)
End of year	2,592	6,736,001

#### Long Term Incentive Plan

Under the LTIP, executives are awarded notional units with a value equal to one of the Company's ordinary shares but subject to performance conditions. The movements in the LTIP during the year to 30 April 2007 were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Fair value per LTIP unit at grant date £	Fair value per LTIP unit at 30 April 2007 £	TSR ranking at 30 April 2007†	Vesting date
26 August 2005	1,526,096	Nil	57,346	1,583,442	0.4237	0.8841	104	26 Aug 2008
29 June 2006	Nil	1,728,819	47,400	1,776,219	0.4381	1.4991	13	29 June 2009

† TSR ranking is based on the Group's TSR ranking in the FTSE 250 whereby 1 is top and 250 is bottom of the comparator group. The TSR ranking is calculated by independent advisors.

#### Executive Participation Plan

Under the EPP executives and senior managers sacrifice part of their actual annual cash bonus and are awarded deferred shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP notional units during the year were as follows:

Award date	Awards granted in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
30 June 2006	1,142,679	30,931	1,173,610	30 June 2009	1,305,511	1.1525

Participants are required to sacrifice part of their actual annual bonus award and are awarded deferred shares with an initial market value approximately equal to the amount of actual cash bonus foregone.

### Note 31 Reserves

	2007	2006
	£m	£m
Share premium account	179.4	174.8
Retained earnings	91.8	(212.1)
Capital redemption reserve	243.0	243.0
Own shares	(7.3)	(6.1)
Translation reserve	3.0	4.0
Available for sale reserve	Nil	1.9
Cash flow hedging reserve	(4.6)	(0.8)

A reconciliation of the movements in the above reserves is shown in the Consolidated statement of changes in equity on page 44.

The balance of the share premium account represents the amounts received in excess of the nominal value of the ordinary shares offset by issue costs, bonus issues of shares and any transfer between reserves.

The balance held in the retained earnings reserve is the accumulated retained profits of the Group. The consolidated profit on ordinary activities after taxation for the financial year includes £464.4m (2006: £52.0m) in respect of the Company.

# Notes to the consolidated financial statements

## Note 31 Reserves (continued)

Cumulative goodwill of £113.8m (2006: £113.8m) has been written off against reserves in periods prior to 1 May 1998 in accordance with the UK accounting standards then in force and such goodwill will remain eliminated against reserves.

Details of own shares held are given in note 29. The own shares reserve represents the cost of shares in Stagecoach Group plc purchased in the market and held by the Group's two Employee Share Ownership Trusts to satisfy options under the Group's share option schemes offset by any sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The available for sale reserve records the changes in fair value on available for sale investments. On disposal, the cumulative changes in fair value are recycled to the income statement.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. On maturity, the cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

## Note 32 Consolidated cash flows

### (a) Reconciliation of operating profit to cash generated by operations

	2007	2006
	£m	£m
Operating profit of continuing Group companies	<b>166.4</b>	120.0
Operating profit of discontinued operations	<b>5.2</b>	29.1
Depreciation		
– continuing operations	<b>68.3</b>	61.0
– discontinued operations	<b>2.5</b>	10.7
Loss on disposal of plant and equipment	<b>0.2</b>	1.9
Intangible asset expenses	<b>9.6</b>	7.4
Impairment of available for sale investment	<b>1.3</b>	Nil
Share based payment expense		
– continuing operations	<b>2.0</b>	1.8
– discontinued operations	<b>Nil</b>	0.4
Operating cashflows before working capital	<b>255.5</b>	232.3
Decrease/(increase) in inventories	<b>0.5</b>	(0.9)
Decrease/(increase) in receivables	<b>14.9</b>	(24.4)
(Decrease)/increase in payables	<b>(2.8)</b>	14.9
Increase in provisions	<b>13.7</b>	6.8
Non cash past service pension adjustment	<b>(28.9)</b>	Nil
Decrease in retirement benefit obligations	<b>(94.9)</b>	(6.3)
Cash generated by operations	<b>158.0</b>	222.4

During the year, the Group entered into hire purchase arrangements in respect of new assets with a total capital value at inception of the contracts of £51.6m (2006: £11.3m). After taking account of deposits paid up front, new hire purchase liabilities of £49.0m (2006: £10.7m) were recognised.

### (b) Proceeds from sale of property, plant and equipment

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2007	2006
	£m	£m
Net book values	<b>6.8</b>	11.3
Loss on disposal of plant and equipment	<b>(0.2)</b>	(1.9)
Gain on disposal of properties	<b>3.6</b>	0.8
Value of property, plant and equipment traded in	<b>(0.9)</b>	(2.0)
Movement in receivables for proceeds from sale of property, plant and equipment	<b>1.7</b>	Nil
Proceeds from sale of property, plant and equipment	<b>11.0</b>	8.2

## Note 32 Consolidated cash flows (continued)

### (c) Reconciliation of net cash flow to movement in net funds/(debt)

	2007	2006
	£m	£m
Increase in cash	315.1	59.3
Cash flow from movement in borrowings	40.9	59.5
	356.0	118.8
New hire purchase	(49.0)	(10.7)
Other movements	15.3	(8.5)
Borrowings acquired as part of business combinations	Nil	(20.9)
Decrease in net debt	322.3	78.7
Opening net debt (UK GAAP definition – see note 32(d))	(135.9)	(214.6)
Closing net funds/(debt) (UK GAAP definition – see note 32(d))	186.4	(135.9)

### (d) Analysis of net funds/(debt)

IFRS does not explicitly define “net funds/debt”. The analysis provided below therefore shows analysis of net funds/debt as UK GAAP defines it. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase £m	Foreign exchange movements £m	(Charged)/ credited to income statement £m	Closing £m
Cash	164.5	315.5	Nil	(0.9)	Nil	479.1
Cash collateral	33.8	(0.4)	Nil	Nil	Nil	33.4
Hire purchase and finance lease obligations	(101.5)	28.2	(49.0)	Nil	Nil	(122.3)
Bank loans and loan stock	(49.1)	11.6	Nil	0.5	Nil	(37.0)
Bonds	(183.6)	1.1	Nil	15.8	(0.1)	(166.8)
<b>UK GAAP net (debt)/funds</b>	<b>(135.9)</b>	<b>356.0</b>	<b>(49.0)</b>	<b>15.4</b>	<b>(0.1)</b>	<b>186.4</b>
Accrued interest on bonds	(7.3)	15.3	Nil	0.5	(15.1)	(6.6)
Reclassification of foreign exchange forward contract	0.1	(1.1)	Nil	1.0	Nil	Nil
Unamortised gain on early settlement of interest rate swaps	(15.9)	Nil	Nil	Nil	6.1	(9.8)
<b>Net (borrowings)/funds</b>	<b>(159.0)</b>	<b>370.2</b>	<b>(49.0)</b>	<b>16.9</b>	<b>(9.1)</b>	<b>170.0</b>

The net total of cash and cash collateral of £512.5m (2006: £198.3m) is classified in the balance sheet as £513.3m (2006: £198.5m) in cash and cash equivalents and £0.8m (2006: £0.2m) as bank overdrafts within borrowings.

### (e) Restricted cash

The cash collateral balance as at 30 April 2007 of £33.4m (2006: £33.8m) comprises balances held in trust in respect of loan notes of £32.3m (2006: £33.0m), proceeds from the sale of businesses held in Escrow of £0.4m (2006: £Nil) and North America restricted cash balances of £0.7m (2006: £0.8m). In addition, cash includes train operating company cash of £96.2m (2006: £89.2m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

### (f) Disposal of subsidiaries and other businesses

Details of the net assets disposed of from subsidiaries and other businesses, the related sales proceeds and the effect on cash flows for the year, are set out in note 18.

### (g) Purchase of subsidiary undertakings

	2007	2006
	£m	£m
Net assets acquired at fair value	Nil	13.5
Goodwill (see note 11)	Nil	20.7
	Nil	34.2
Consideration:		
Shares issued in respect of acquisitions	Nil	4.5
Cash and acquisition expenses paid in year	Nil	29.7
	Nil	34.2



# Notes to the consolidated financial statements

## Note 32 Consolidated cash flows (continued)

### (g) Purchase of subsidiary undertakings (continued)

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

	2007	2006
	£m	£m
Cash and acquisition expenses paid in year	Nil	29.7
Less: cash and cash equivalents acquired	Nil	(2.1)
Net cash paid in respect of acquisitions in year	Nil	27.6
Deferred consideration in respect of businesses acquired in prior years	0.1	0.1
	<b>0.1</b>	<b>27.7</b>

### (h) Non cash transactions

The principal non cash transactions were the acquisition of property, plant and equipment using new hire purchase of £49.0m (2006:£10.7m).

## Note 33 Contingencies

### Contingent liabilities

- (i) A performance bond backed by a bank facility for £44.3m (2006: £44.3m), a season ticket bond backed bank by a facility for £Nil (2006: £33.7m) and a holding company guarantee of £15.7m (2006: £15.7m) have been provided to the DfT in support of the Group's franchise obligations at South West Trains Limited at 30 April 2007. The franchise agreement for South West Trains Limited expired on 4 February 2007, however, the performance bond and a holding company guarantee remain in place for a period of 6 months beyond the franchise expiry date.

At 30 April 2007, a performance bond backed by a bank facility for £10.7m (2006: £Nil), a season ticket bond backed by a bank facility for £34.5m (2006: £Nil) and a holding company guarantee of a £25.0m intercompany loan facility (2006: £Nil) have been provided to the DfT in support of the Group's franchise obligation in relation to the Stagecoach South Western Trains Limited obligations under the new South Western franchise which commenced on 4 February 2007.

These contingent liabilities are not expected to crystallise.

- (ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have, in the normal course of business, entered into a number of long-term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.
- (iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the DfT annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.
- (iv) The Group and the Company are from time to time party to legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 30 April 2007, the accruals in the consolidated financial statements for such claims total £2.6m (2006: £4.4m).

## Note 34 Guarantees and other financial commitments

### (a) Capital commitments

	2007	2006
	£m	£m

Capital commitments are as follows:

Contracted for but not provided For delivery in one year	<b>74.3</b>	55.4
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### (b) Operating lease commitments

The following are the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2007:

	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2008	7.5	5.6	100.6	4.1	117.8
Year ending 30 April 2009	6.8	5.5	100.0	3.7	116.0
Year ending 30 April 2010	6.3	3.5	100.0	3.4	113.2
Year ending 30 April 2011	5.9	2.3	100.0	3.2	111.4
Year ending 30 April 2012	4.5	2.0	100.0	3.0	109.5
1 May 2012 and thereafter	21.8	1.2	476.9	1.7	501.6
	<b>52.8</b>	<b>20.1</b>	<b>977.5</b>	<b>19.1</b>	<b>1,069.5</b>

All operating lease commitments associated with Stagecoach South Western Trains Limited are assumed to terminate in February 2017, in line with the franchise end.

## Note 34 Guarantees and other financial commitments

### (b) Operating lease commitments (continued)

The following are the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2006:

	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2007	7.7	14.5	84.8	3.2	110.2
Year ending 30 April 2008	3.3	10.1	Nil	0.9	14.3
Year ending 30 April 2009	2.8	10.3	Nil	0.5	13.6
Year ending 30 April 2010	2.5	1.3	Nil	0.1	3.9
Year ending 30 April 2011	2.2	0.1	Nil	0.1	2.4
1 May 2011 and thereafter	8.6	Nil	Nil	Nil	8.6
	27.1	36.3	84.8	4.8	153.0

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

### (c) Network Rail charges

Stagecoach South Western has contracts with Network Rail for access to the railway infrastructure (track, stations and depots) until February 2017. Commitments for payments under these contracts as at 30 April 2007 are as shown below. Certain of the agreements that Stagecoach South Western has with Network Rail expire in August 2007 and December 2008. The Directors expect these agreements to be extended in due course.

	2007
	£m
Lease payments due in respect of:	
Year ending 30 April 2008	151.0
Year ending 30 April 2009	98.3
Year ending 30 April 2010	1.0
Year ending 30 April 2011	1.0
Year ending 30 April 2012	1.0
1 May 2012 and thereafter	6.7
	259.0

South Wests Trains had contracts with Network Rail for access to the railway infrastructure (track, stations and depots) up until the franchise expiry in February 2007. Commitments for payments under these contracts as at 30 April 2006 were as follows:

	2007
	£m
Lease payments due in respect of:	
Year ending 30 April 2007	141.0
Year ending 30 April 2008	Nil
Year ending 30 April 2009	Nil
Year ending 30 April 2010	Nil
Year ending 30 April 2011	Nil
1 May 2011 and thereafter	Nil
	141.0

### (d) Joint ventures

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

	2007	2006
	£m	£m
Annual commitments under non-cancellable operating leases	60.4	68.8
Capital commitments	Nil	Nil
Franchise performance bonds	14.7	14.7
Season ticket bonds	1.3	1.2

# Notes to the consolidated financial statements

## Note 35 Related party transactions

Details of major related party transactions during the year ended 30 April 2007 are provided below, except for those relating to the remuneration of the Directors and management.

### (i) Loan to Virgin Rail Group Limited

At 30 April 2006, the Group had loan notes receivable of £3.3m from Virgin Rail Group Limited, which is a wholly owned subsidiary undertaking of Virgin Rail Group Holdings Limited. The Group holds 49% of the share capital of Virgin Rail Group Holdings Limited and accounts for its investment in Virgin Rail Group Holdings Limited as an interest in a joint venture.

During the year ended 30 April 2007, Virgin Rail Group Limited settled all of the outstanding loan notes together with all accrued interest. The Group earned interest of £0.2m on the loan notes in the period from 1 May 2006 to settlement (2006: £0.3m).

### (ii) Virgin Rail Group Holdings Limited - Non-Executive Directors

Two of the Group's managers are non-executive directors of Virgin Rail Group Holdings Limited. During the year ended 30 April 2007, the Group earned fees of £25,000 (2006: £25,000) from Virgin Rail Group Holdings Limited in this regard.

### (iii) ScotAirways Group Limited

Until September 2006, Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) controlled 93.8% of the shares of ScotAirways Group Limited. Brian Souter was also Chairman of ScotAirways Group Limited. Brian Souter and Ann Gloag disposed of their entire shareholdings in ScotAirways Group Limited in September 2006 and Brian Souter stepped down as Chairman at that time. ScotAirways Group Limited therefore ceased to be a related party of the Group in September 2006.

During the period from 1 May 2006 to the time ScotAirways Group Limited ceased to be a related party of the Group, the Group purchased airline flights from ScotAirways Group Limited totalling £43,871 (2006: £76,168).

### (iv) Noble Grossart Limited

Ewan Brown (Non-Executive Director) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the period. Total fees payable to Noble Grossart Limited in respect of the year ended 30 April 2007 amounted to £20,000 (2006: £20,100). At 30 April 2007, Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held 6,354,443 (2006: 6,354,443) ordinary shares in the Company, representing 0.6% (2006: 0.6%) of the Company's issued ordinary share capital.

### (v) Alexander Dennis Limited

On 21 May 2004, Brian Souter and Ann Gloag together gained control of 39.3% of the shares and voting rights in Alexander Dennis Limited. They now collectively hold 37.7% (30 April 2007: 37.2%; 30 April 2006: 39.3%) of the shares and voting rights. Noble Grossart Investments Limited (see (iv) above) controls a further 28.3% (30 April 2007: 27.9%; 30 April 2006: 29.5%) of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2007, the Group purchased £42.8m (2006: £46.5m) of vehicles from Alexander Dennis Limited and £3.9m (2006: £2.9m) of spare parts and other services.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules.

### (vi) Pension Schemes

Details of contributions made to pension schemes are contained in note 27 to the consolidated financial statements.

### (vii) Robert Walters plc

Martin Griffiths became a non-executive director of Robert Walters plc in July 2006 and received remuneration of £29,000 in respect of his services for the period from the date of his appointment to 30 April 2007.

### (viii) Loan to New York Splash Tours LLC

During the year ended 30 April 2007 a loan was made to the Splash Tours joint venture. This interest bearing loan of £1.9m (2006: £Nil) was outstanding as at 30 April 2007.

## Note 36 Post balance sheet events

The Board announced on 14 March 2007 that Stagecoach would return approximately £700m to shareholders which equates to 63 pence per ordinary share in issue at the Record Date, being 11 May 2007. The return of value was approved by shareholders at an Extraordinary General Meeting on 27 April 2007. Since the balance sheet date, 277,777,735 B shares and 823,220,972 C Shares were issued in connection with the return of value. 253,584,435 B Shares were redeemed at 63 pence each and the remaining 24,193,300 B Shares are redeemable in the future at 63 pence each. A special dividend of 63 pence per C Share was paid or waived on 458,001,388 C Shares which then converted to Deferred Shares of negligible value. The remaining 365,219,584 C Shares were bought by Credit Suisse for 63 pence each and were later bought by the Company for 63 pence each and immediately cancelled. For every 14 ordinary shares held on the Record Date (being 11 May 2007), shareholders received 9 new ordinary shares and 14 B or C shares.

On 22 June 2007, the Group signed a contract to operate the East Midlands rail franchise. The new 7-year and 4-month franchise, which is worth £235m in annual revenue, will run from 11 November 2007.

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

We have audited the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2007 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Stagecoach Group plc for the year ended 30 April 2007.

## Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' report and the unaudited part of the Directors' remuneration report. We consider the

implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' remuneration report to be audited 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 parent company financial statements and the part of the Directors' remuneration report to be audited.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2007;
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Glasgow  
27 June 2007

# Company balance sheet

As at 30 April 2007

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

	Notes	2007	2006
		£m	£m
<b>Fixed assets</b>			
Tangible assets	2	0.1	0.1
Investments	3	966.9	964.9
		<b>967.0</b>	965.0
<b>Current assets</b>			
Debtors and prepaid charges – due within one year	4	200.9	13.7
– due after more than one year	4	Nil	172.2
Deferred tax asset	5	0.3	0.4
Derivative financial instruments at fair value	7	6.5	4.0
Cash and cash equivalents		94.6	Nil
		<b>302.3</b>	190.3
<b>Creditors: Amounts falling due within one year</b>			
Trade and other creditors	6	(94.9)	(398.7)
Derivative financial instruments at fair value	7	(3.9)	(4.2)
		<b>(98.8)</b>	(402.9)
<b>Net current assets/(liabilities)</b>		<b>203.5</b>	(212.6)
<b>Total assets less current liabilities</b>		<b>1,170.5</b>	752.4
<b>Creditors: Amounts falling due after more than one year</b>			
Derivative financial instruments at fair value	7	(2.6)	Nil
<b>Net assets excluding pension liability</b>		<b>1,167.2</b>	738.9
<b>Pension liability, net of deferred tax</b>	8	<b>(2.4)</b>	(2.5)
<b>Net assets including pension liability</b>		<b>1,164.8</b>	736.4
<b>Capital and reserves</b>			
Equity share capital	9	7.0	6.9
Share premium account	10	179.4	174.8
Profit and loss account	10	742.7	317.8
Capital redemption reserve	10	243.0	243.0
Own shares	10	(7.3)	(6.1)
<b>Shareholders' funds</b>		<b>1,164.8</b>	736.4

These financial statements were approved for issue by the Board of Directors on 27 June 2007.



Brian Souter  
Chief Executive



Martin A Griffiths  
Finance Director

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

# Notes to the financial statements

## Note 1 UK GAAP accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

### • Basis of accounting

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

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

The Company is not required to prepare a cash flow statement under FRS 1 (revised).

### • Tangible fixed assets

Tangible fixed assets are shown at their original historic cost net of depreciation and any provision for impairment as set out in note 2.

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

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

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

### • Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

### • Taxation

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

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

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.

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

### • Foreign currencies

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the profit and loss account.

For the principal rates of exchange used see the Group IFRS accounting policies on page 48.

### • Share based payment

The Company issues equity-settled and cash-settled share based payments to certain employees.

The Company has applied the optional exemption contained within FRS 20, which allows it to apply the standard only to equity-settled share based payments granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

#### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by use of the Black-Scholes pricing model.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

#### Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

#### Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently intends to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

# Notes to the financial statements

## Note 1 UK GAAP accounting policies (continued)

- **Dividends**

Dividends on ordinary shares are recorded in the financial statements in the period in which they are approved by the Company's shareholders, or in the case of interim dividends, in the period in which they are paid.

- **Financial instruments**

The accounting policy of the Company under FRS 25 "Financial instruments: Disclosure and presentation" and FRS 26 "Financial instruments: Measurement" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Disclosure and presentation" and IAS 39 "Financial instruments: Recognition and Measurement". Therefore for details of the Company's accounting policy for financial instruments refer to pages 50 to 52.

- **Investment in own shares**

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

- **Interest bearing loans and borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

- **Pensions**

The Company accounts for pensions and similar benefits under FRS 17 "Retirement Benefits" and measures its obligations due at discounted present value.

## Note 2 Tangible fixed assets

	£m
<b>Cost</b>	
At beginning and end of year	0.6
<b>Depreciation</b>	
At beginning and end of year	(0.5)
<b>Net book value</b>	
At beginning and end of year	0.1

## Note 3 Investments

	Subsidiary undertakings
	£m
<b>Cost</b>	
Beginning of year	964.9
Additions	2.0
End of year	966.9
<b>Amounts written off</b>	
At beginning and end of year	Nil
Net book value, beginning of year	964.9
Net book value, end of year	966.9

**Note 4 Debtors and prepaid charges**

(a) Amounts falling due within one year are:

	2007	2006
	£m	£m
Trade debtors	Nil	0.3
Other prepayments and accrued income	1.5	3.2
VAT and other government debtors	9.2	10.1
Amounts owed by Group companies	190.2	0.1
	<b>200.9</b>	<b>13.7</b>

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

	2007	2006
	£m	£m
Amounts owed by Group companies	Nil	172.2

Credit risk with respect to debtors is low due to the fact that a large amount of the Company's balances are with subsidiary undertakings that it controls.

**Note 5 Deferred tax asset**

The Company movement during the year was as follows:

	2007	2006
	£m	£m
Beginning of year	0.4	0.6
Charge to profit and loss account	(0.1)	(0.2)
End of year	<b>0.3</b>	<b>0.4</b>

In the 2007 budget the UK government announced its intention to propose Parliament to reduce UK Corporate income tax rate from 30% to 28%. As of 30 April 2007 the change in the tax rate was not substantively enacted.

The deferred tax asset recognised can be analysed as follows:

	2007	2006
	£m	£m
Short-term timing differences	<b>0.3</b>	<b>0.4</b>

**Note 6 Creditors**

(a) Creditors: Amounts falling due within one year

	2007	2006
	£m	£m
Bank overdrafts	Nil	312.5
Bank loans and loan notes	37.0	37.7
Trade creditors	0.8	0.6
Accruals and deferred income	4.8	6.6
UK corporation tax payable	1.3	4.9
Amounts due to Group companies	51.0	36.4
	<b>94.9</b>	<b>398.7</b>

Trade creditors are non-interest bearing and are normally settled on 30 to 45 day terms.

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

	2007	2006
	£m	£m
Accruals and deferred income	0.7	0.8
Amounts due to Group companies	Nil	12.7
	<b>0.7</b>	<b>13.5</b>



# Notes to the financial statements

## Note 6 Creditors (continued)

(c) Borrowings are repayable as follows

	2007	2006
	£m	£m
<b>On demand or within 1 year</b>		
Bank overdraft	<b>Nil</b>	312.5
Bank loans and loan notes	<b>37.0</b>	37.7
<b>Total borrowings</b>	<b>37.0</b>	350.2

## Note 7 Financial instruments

The fair value of derivative financial instruments at 30 April 2007 are set out below:

	2007		2006	
	Fair value assets £m	Fair value liabilities £m	Fair value assets £m	Fair value liabilities £m
Forward foreign currency contracts – external	<b>Nil</b>	<b>Nil</b>	Nil	(0.1)
Forward currency contracts – internal	<b>Nil</b>	<b>Nil</b>	0.1	Nil
Fuel caps – external	<b>0.2</b>	<b>(6.3)</b>	1.4	(2.5)
Fuel caps – internal	<b>6.3</b>	<b>(0.2)</b>	2.5	(1.4)
Interest rate swap – external	<b>Nil</b>	<b>Nil</b>	Nil	(0.2)
	<b>6.5</b>	<b>(6.5)</b>	4.0	(4.2)

Included in the above £6.5m (2006: £4.2m) of fair value liabilities are £2.6m (2006: Nil) that relates to more than one year.

Those derivatives identified above as “internal” are where the counterparty is a subsidiary company. Those identified as “external” are where the counterparty is a third party financial institution.

In accordance with FRS 26, “Financial Instruments: Recognition and Measurement” the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. None were identified.

There were no derivatives outstanding at the balance sheet date designated as hedges.

## Note 8 Pension liability, net of deferred tax

	2007	2006
	£m	£m
Unfunded pension liability	<b>3.5</b>	3.6
Deferred tax asset	<b>(1.1)</b>	(1.1)
	<b>2.4</b>	2.5

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above. See note 27 to the consolidated financial statements for the Group for more details about accounting for pensions.

## Note 9 Called up share capital

	2007	2006
	£m	£m
<b>Authorised</b>		
1,456,666,666 (2006: 1,456,666,666) ordinary shares of 12/19 pence each	<b>9.2</b>	9.2
<b>Allotted, called-up and fully paid</b>		
1,100,998,707 (2006: 1,093,600,313) ordinary shares of 12/19 pence each	<b>7.0</b>	6.9

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

The Company operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust (“QUEST”) and the Stagecoach Group Employee Benefit Trust 2003 (“EBT”). Shares held by these trusts are treated as a deduction from shareholders’ funds in the financial statements. Other assets and liabilities of the trusts are consolidated in the Company’s financial statements as if they were assets and liabilities of the Company. As at 30 April 2007, the QUEST held 369,399 (2006: 628,285) ordinary shares in the Company and the EBT held 5,825,879 (2006: 4,690,333) ordinary shares in the Company.

**Note 10** Reconciliation of shareholders' funds

	Equity share capital	Share premium account	Profit and loss account	Capital redemption reserve	Own shares	Total
	£m	£m	£m	£m	£m	£m
At 1 May 2006	6.9	174.8	317.8	243.0	(6.1)	<b>736.4</b>
Profit for the year	Nil	Nil	464.4	Nil	Nil	<b>464.4</b>
Credit in relation to share based payment	Nil	Nil	2.0	Nil	Nil	<b>2.0</b>
Dividends	Nil	Nil	(41.5)	Nil	Nil	<b>(41.5)</b>
Ordinary shares issued during the year	0.1	4.6	Nil	Nil	Nil	<b>4.7</b>
Own shares sold	Nil	Nil	Nil	Nil	0.9	<b>0.9</b>
Own shares purchased	Nil	Nil	Nil	Nil	(2.1)	<b>(2.1)</b>
	<b>7.0</b>	<b>179.4</b>	<b>742.7</b>	<b>243.0</b>	<b>(7.3)</b>	<b>1,164.8</b>

As permitted by S230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit as disclosed above of £464.4m (2006: £52.0m) is consolidated in the results of the Group.

**Note 11** Share based payment

For details of share based payment awards and fair values see note 30 to the Group financial statements on pages 84 and 85. The Company accounts for the share based payment charge for the year of £2.0m (2006: £2.2m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to the profit and loss account reserve to reflect the fact that the Company has no employees and all awards of share options in the Company's shares are to employees of subsidiary companies.

**Note 12** Guarantees, other financial commitments and contingent liabilities

(a) The Company is party to bank guarantees in respect of guarantees, loans, overdrafts and other facilities provided to certain Group undertakings of which £32.5m was outstanding at 30 April 2007 (2006: £64.0m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2007	2006
	£m	£m
Contracted for but not provided for delivery in one year	<b>63.2</b>	53.5

(c) Operating lease commitments

Annual charges for operating leases are made with expiry dates as follows:

	2007		2006	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Under one year	<b>Nil</b>	<b>Nil</b>	Nil	Nil
Between one year and five years	<b>Nil</b>	<b>3.1</b>	Nil	9.6
Five years and over	<b>0.3</b>	<b>0.5</b>	0.3	Nil

**Note 13** Related party transactions

The Company has taken advantage of the exemption under FRS 8, "Related party disclosures" from having to provide related party disclosures in its own financial statements when those statements are presented with consolidated financial statements of its group. Details of related party disclosures provided by the Group can be found on page 90.

**Note 14** Post balance sheet events

The Board announced on 14 March 2007 that Stagecoach would return approximately £700m to shareholders which equates to 63 pence per ordinary share in issue at the Record Date, being 11 May 2007. The return of value was approved by shareholders at an Extraordinary General Meeting on 27 April 2007. Since the balance sheet date, 277,777,735 B shares and 823,220,972 C Shares were issued in connection with the return of value. 253,584,435 B Shares were redeemed at 63 pence each and the remaining 24,193,300 B Shares are redeemable in the future at 63 pence each. A special dividend of 63 pence per C Share was paid or waived on 458,001,388 C Shares which then converted to Deferred Shares of negligible value. The remaining 365,219,584 C Shares were bought by Credit Suisse for 63 pence each and were later bought by the Company for 63 pence each and immediately cancelled. For every 14 ordinary shares held on the Record Date (being 11 May 2007), shareholders received 9 new ordinary shares and 14 B or C shares.

On 22 June 2007, the Group signed a contract to operate the East Midlands rail franchise. The new 7-year and 4-month franchise, which is worth £235m in annual revenue, will run from 11 November 2007.

# Shareholder information

## Analysis of shareholders as at 30 April 2007

Range of holdings	Number of holders	%	Ordinary shares held	%
1 – 25,000	44,672	98.27	68,097,667	6.19
25,001 – 250,000	539	1.19	43,527,433	3.95
250,001 – 500,000	68	0.15	24,302,212	2.21
500,001 – 3,750,000	128	0.28	184,111,278	16.72
Over 3,750,000	52	0.11	780,960,117	70.93
	45,459	100.00	1,100,998,707	100.00

Classification of shareholders	Number of holders	%	Ordinary shares held	%
Individuals	43,630	95.98	304,207,643	27.63
Other corporate bodies	50	0.11	48,591,074	4.41
Banks and Nominees	1,627	3.58	698,236,407	63.42
Limited companies	147	0.32	49,938,281	4.54
Pension funds	5	0.01	25,302	Nil
	45,459	100.00	1,100,998,707	100.00

### Registrar

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's name and address. Please write to: Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. Telephone 0870 601 5366. Registrar forms can be obtained on-line at <http://www.stagecoachgroup.com/scg/ir/shareholder/registrar/>

### Stagecoach individual savings accounts

The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on 08457 22 55 25.

The Company has also made arrangements with Stocktrade for Maxi and Mini ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 81 George Street, Edinburgh EH2 3ES. Telephone 0131 240 0448.

### Low cost share dealing facility

The Company has set up a low cost execution only share dealing facility with a division of Brewin Dolphin, Stocktrade, exclusive to Stagecoach shareholders. The commission is 0.5% up to £10,000 with 0.2% being charged on the excess thereafter, subject to a £15 minimum.

Shareholders who would like further information should write to Stocktrade, 81 George Street, Edinburgh EH2 3ES. Telephone 0845 601 0995, quoting dealing reference Low Co020. Postal dealing packs are available on request.

### Payment of dividends by BACS

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

### Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at favourable commission rates. Shareholders who would like further information should telephone Lloyds TSB Registrars Scotland on 0870 241 3018.

## Five year financial summary – consolidated

	IFRS 2007**	IFRS 2006**	IFRS 2005**	UK GAAP 2004	UK GAAP 2003
	£m	£m	£m	£m	£m
<b>Results</b>					
Revenue	<b>1,504.6</b>	1,343.9	1,420.5	1,792.3	2,076.6
Operating profit/(loss)	<b>180.9</b>	112.5	132.9	129.7	(466.2)
Net finance income/(costs)	<b>0.7</b>	(15.9)	(21.9)	(27.3)	(33.5)
Profit/(loss) before taxation	<b>184.1</b>	91.5	104.9	95.8	(500.2)
Tax (charge)/credit	<b>(43.6)</b>	(20.3)	(25.3)	8.8	(25.0)
Profit/(loss) attributable to equity shareholders of the parent	<b>277.3</b>	115.4	86.9	104.6	(525.2)
<b>Net assets</b>					
Non-current assets	<b>779.6</b>	893.4	866.7	831.7	1,259.8
Current assets	<b>669.1</b>	395.3	321.7	717.1	455.0
Current liabilities (excluding provisions)	<b>(447.0)</b>	(438.2)	(517.4)	(674.6)	(504.2)
Non-current liabilities (excluding provisions)	<b>(381.0)</b>	(529.0)	(462.6)	(292.2)	(640.7)
Provisions	<b>(108.4)</b>	(109.9)	(93.0)	(192.0)	(252.8)
Total equity	<b>512.3</b>	211.6	115.4	390.0	317.1
<b>Cash and debt</b>					
Cash at bank and in hand	<b>513.3</b>	198.5	140.0	476.5	164.7
Gross debt (UK GAAP)	<b>(326.9)</b>	(334.4)	(354.6)	(544.1)	(724.7)
Net funds/(debt) (UK GAAP)	<b>186.4</b>	(135.9)	(214.6)	(67.6)	(560.0)
<b>Cash flow</b>					
Net cash flow from operating activities after tax	<b>162.3</b>	175.5	173.6	209.5	217.8
<b>Ratios</b>					
Adjusted earnings per ordinary share*	<b>11.7p</b>	10.6p	9.5p	6.7p	6.4p
Dividends per ordinary share	<b>4.1p</b>	3.7p	3.3p	2.9p	2.6p
Net cash from operating activities after tax per ordinary share	<b>14.9p</b>	16.3p	15.0p	15.9p	16.6p
Ordinary shares in issue at year end	<b>1,101.0m</b>	1,093.6m	1,069.5m	1,335.4m	1,320.9m

\*before intangible asset expenses and exceptional items

\*\*discontinued operations as defined under IFRS accounting are excluded from operating profit for 2007 (London bus and New Zealand businesses) 2006 (London bus and New Zealand businesses) and 2005 (New Zealand). The numbers for 2004 and 2003 are as reported under UK GAAP.

# Registered office, advisers and financial calendar

## Company Secretary

Ross Paterson

## Registered Office

10 Dunkeld Road

Perth PH1 5TW

Telephone +44 (0) 1738 442 111

Facsimile +44 (0) 1738 643 648

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

## Company Number

SC 100764

## Registrars

Lloyds TSB Registrars Scotland

PO Box 28448

Finance House

Orchard Brae

Edinburgh EH4 1WQ

Telephone +44 (0) 870 601 5366

## Merchant Bankers

Noble Grossart Limited

48 Queen Street

Edinburgh EH2 3NH

## Independent Auditors

PricewaterhouseCoopers LLP

Kintyre House

209 West George Street

Glasgow G2 2LW

## Stockbrokers

Credit Suisse

1 Cabot Square

London E14 4QJ

## Principal Bankers

Bank of Scotland

New Uberior House

11 Earl Grey Street

Edinburgh EH3 9BN

## Solicitors

Shepherd & Wedderburn LLP

Saltire Court

20 Castle Terrace

Edinburgh EH1 2ET

Herbert Smith

Exchange House

Primrose Street

London EC2A 2HS

## Financial Calendar

Annual General Meeting

24 August 2007

Payment Date – Ordinary Shares

Final Dividend

3 October 2007

Interim Report

December 2007

Interim Dividend

March 2008

# STAGECOACH *GROUP*

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