

# STAGECOACH GROUP

*greener smarter travel*

Annual Report and Group Financial Statements 2008

greener



smarter



travel





## 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

Position: **Non-Executive Chairman**

Appointment to the Board: **1995**

Age: **71**

Committee Membership: **Nomination (Chair)**

External appointments: **Securysis Ltd (Non-Executive Director), Miller Group Ltd (Chairman)**

Previous experience: **Member of the Board since 1995 and non-executive chairman since 2002. Previously Group Finance Director of the Royal Bank of Scotland plc.**

### 4.2 Brian Souter

Position: **Chief Executive**

Appointment to the Board: **n/a (co-founder)**

Age: **54**

Committee Membership: **None**

External appointments: **None**

Previous experience: **A Chartered Accountant, Brian Souter co-founded Stagecoach, Scottish plc of the year 2008. Former Chairman of ScotAirways Group Ltd, Brian Souter was named Businessman of the year at the Insider Elite Awards 2004.**

### 4.3 Martin Griffiths

Position: **Finance Director**

Appointment to the Board: **2000**

Age: **42**

Committee Membership: **Pension Oversight**

External appointments: **Robert Walters plc (Non-Executive Director), Glasgow Income Trust plc (Non-Executive Director)**

Previous experience: **A Chartered Accountant, Martin Griffiths is a member and former chair of the Group of Scottish Finance Directors. Previously a director of Trainline Holdings Limited.**

### 4.4 Ewan Brown CBE

Position: **Non-Executive Director**

Appointment to the Board: **1988**

Age: **66**

Committee Membership: **Pension Oversight (Chair) and Nomination**

External appointments: **Noble Grossart Ltd (Non-Executive Director), Lloyds TSB Group plc (Non-Executive Director), Senior Governor of St Andrew University, Deputy Chair Edinburgh International Festival**

Previous experience: **Executive Director of Noble Grossart until 2003, a former chairman of TIE and Non-Executive Director of the John Wood Group.**

### 4.5 Iain Duffin OBE

Position: **Non-Executive Director**

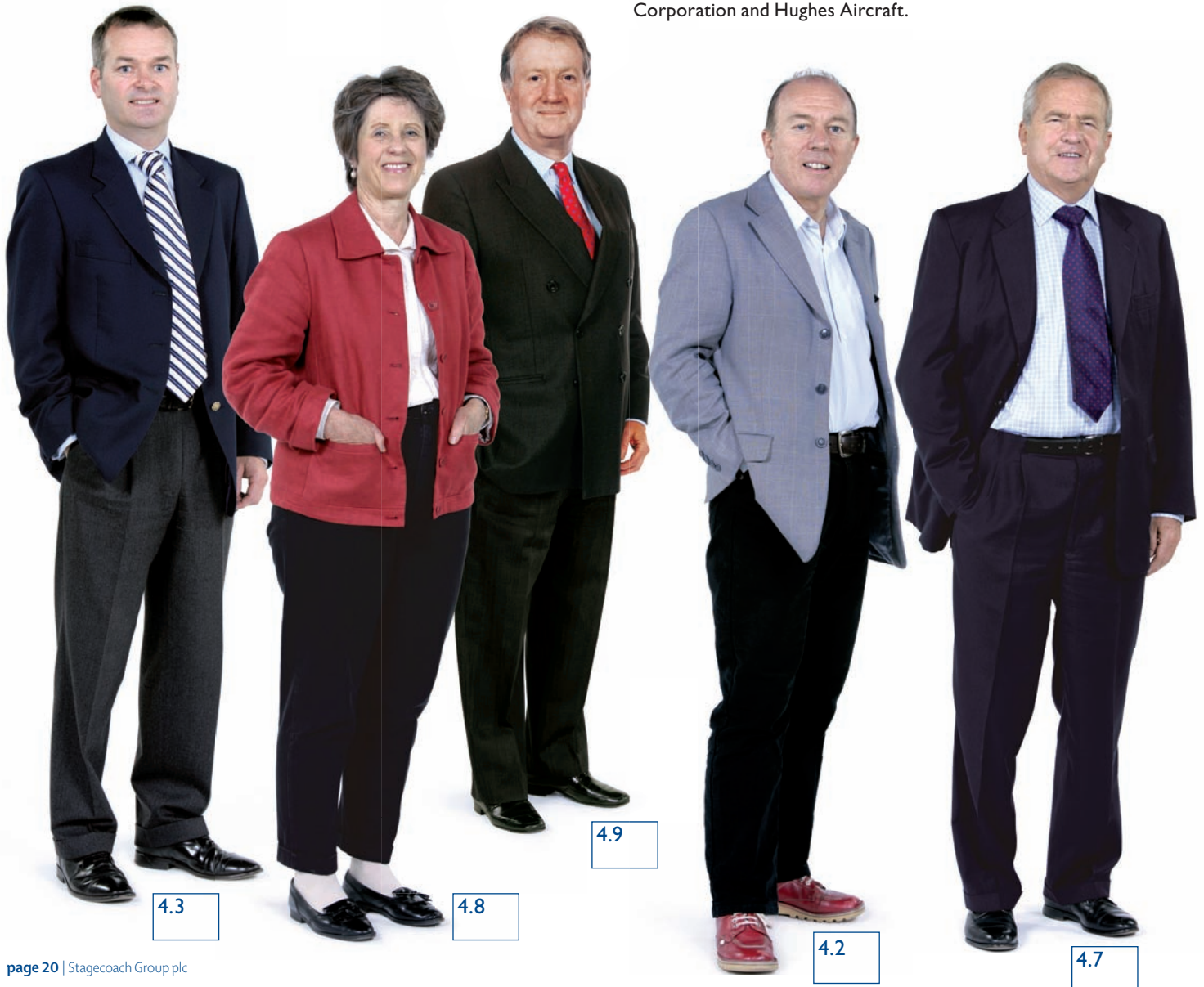
Appointment to the Board: **2001**

Age: **61**

Committee Membership: **Remuneration (Chair), Audit and Health, Safety and Environmental**

External appointments: **Origo Services (Non-Executive Chairman), Scottish Leather Group (Non-Executive Director)**

Previous experience: **Executive positions with a numbers of organisations including Macfarlane Group plc, Lucas Varsity plc, ITT Corporation and Hughes Aircraft.**



#### 4.6 Ann Gloag OBE

Position: **Non-Executive Director**

Appointment to the Board: n/a (co-founder)

Age: 65

Committee Membership: **Health, Safety and Environmental**

External appointments: **Mercy Ships (International Board Member)**

Previous experience: **Ann Gloag co-founded Stagecoach and served as executive director until 2000.**

#### 4.7 Sir George Mathewson

Position: **Non-Executive Director**

Appointment to the Board: 2006

Age: 68

Committee Membership: **Remuneration and Nomination**

External appointments: **Scottish Investment Trust plc (Director),**

**Institute of International Finance (Member of the Board of**

**Directors), International Monetary Conference (President),**

**Financial Reporting Council (Member), Toscafund Holdings**

**(Chairman), Wood Mackenzie (Non-Executive Chairman),**

**Bridgepoint Capital Limited (Member of Advisory Committee)**

Previous experience: **Former chairman of the Royal Bank of Scotland Group plc and Chief Executive of the Scottish Development Agency (now Scottish Enterprise).**

#### 4.8 Dr Janet Morgan CBE

Position: **Non-Executive Director (Senior Independent)**

Appointment to the Board: 2001

Age: 62

Committee Membership: **Health, Safety and Environmental (Chair),**

**Audit and Nomination**

External appointments: **Nuclear Liabilities Fund (Chairman),**

**Murray International Investment Trust (Non-Executive Director),**

**Close Enterprise VCT plc (Non-Executive Director)**

Previous experience: **Former member of the Central Policy Review**

**Staff of the Cabinet Office.**

#### 4.9 Garry Watts

Position: **Non-Executive Director**

Appointment to the Board: 2007

Age: 51

Committee Membership: **Audit (Chair) and Remuneration**

External appointments: **SSL International plc (Chief Executive),**

**Medicines and Healthcare Regulatory Authority (Non-Executive**

**Director), Protherics plc (Non-Executive Director)**

Previous experience: **A Chartered Accountant, Garry Watts is a former executive director of Celltech plc, finance director of Medeva plc and partner with KPMG.**



## Highlights

- Strong performance delivers value to shareholders
  - Revenue from continuing businesses up 17.2% at £1,763.6m
  - 73.5% increase in earnings per share<sup>+</sup> to 20.3p
  - Full year dividend up 31.7% at 5.4 pence
  - 63.0p per share return of value to shareholders in May/June 2007
  - Net debt<sup>‡</sup> - £319.7m
- Increased investment in bus and rail services
- Sector-leading growth at UK Bus
  - Sixth successive year of organic passenger volume growth – like-for-like\*\* volumes up 3.6%
  - Like-for-like revenue up 7.5%
  - Significant margin\* enhancement, up to 14.8% from 12.2%
  - Innovative products, strong marketing and competitive fares drive growth
- Excellent financial and operating performance at UK Rail
  - Strong passenger volume and revenue growth at South Western and East Midlands Trains
  - South West Trains – growth in commuter and leisure revenue
  - East Midlands Trains – strong start to new franchise
- Performance objectives in North America achieved ahead of schedule
  - Operating margin up from 7.9% to 10.1%, excluding megabus.com
  - Like-for-like revenue up 4.6%
  - Expansion of budget inter-city coach service, megabus.com, in North America
- Growth at Virgin Rail Group
  - Continued strong revenue growth on West Coast franchise
  - Further growth prospects from December 2008 timetable, requiring consistently reliable infrastructure

## Financial summary

Year ended 30 April	Results excluding intangible asset expenses and exceptional items		Reported results	
	2008	2007	2008	2007
Revenue (£m)	<b>1,763.6</b>	1,504.6	<b>1,763.6</b>	1,504.6
Total operating profit (£m)	<b>205.3</b>	161.3	<b>192.3</b>	180.9
Disposal (losses)/gains (£m)	-	-	<b>(1.4)</b>	2.5
Net finance (charges)/income (£m)	<b>(30.9)</b>	0.7	<b>(23.6)</b>	0.7
Profit before taxation (£m)	<b>174.4</b>	162.0	<b>167.3</b>	184.1
Earnings per share (pence)	<b>20.3p</b>	11.7p	<b>34.6p</b>	25.4p
Proposed final dividend (pence)	<b>4.05p</b>	2.9p	<b>4.05p</b>	2.9p
Full year dividend (pence)	<b>5.4p</b>	4.1p	<b>5.4p</b>	4.1p

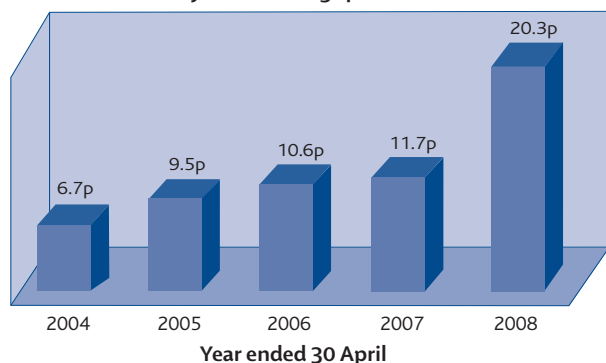
<sup>+</sup> excluding intangible asset expenses and exceptional items (refer to definition of exceptional items contained in note 4 to the consolidated financial statements).

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

\*\* Like-for-like amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods.

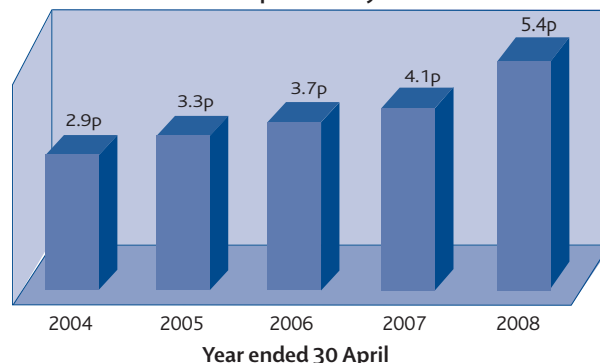
<sup>‡</sup> UK GAAP.

Adjusted earnings per share



Adjusted earnings per share is earnings per share before intangible asset expenses and exceptional items. 2004 is a UK GAAP figure and 2005 to 2008 are IFRS figures.

Dividend per ordinary share



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

## Contents

2	Chairman's statement	31	Health, Safety and Environmental Committee report	101	Company independent auditors' report
3	Chief Executive's review	32	Directors' remuneration report	102	Company financial statements
4	Operating and Financial Review	39	Responsibility statement	103	Notes to the Company financial statements
20	Directors' biographies	40	Group independent auditors' report	108	Shareholder information
22	Directors' report	41	Consolidated financial statements	109	Five year financial summary
26	Corporate governance report	46	Notes to the consolidated financial statements		
30	Audit Committee report				
31	Nomination Committee report				



# 1. Chairman's statement



I am delighted to report that Stagecoach has delivered on its strategy with another year of strong growth in both its bus and rail operations.

The Group has capitalised on the positive environment for public transport and the success of our market-leading services has provided further excellent returns to our shareholders, with a 31.7% increase in the proposed dividend for the year ended 30 April 2008. Earlier in the financial year, we completed the return of approximately £690m to shareholders equivalent to 63.0p per share in addition to the regular dividend payments.

Passenger volume growth has been strong across the Group as more people get on board our high-quality bus, coach, train and tram services. A combination of new ideas, effective partnerships, innovative marketing and significant investment to further enhance the quality of our services for our customers is helping to drive growth across the Group.

Our UK Bus division has performed well, generating further organic growth and setting the benchmark for good value, easy-to-use bus networks. In UK Rail, we have benefited from close cost control and a renaissance on the railways, as well as the addition of East Midlands Trains to our portfolio. Stagecoach is now Britain's biggest tram operator, having been awarded a 10-year contract to run and maintain Manchester Metrolink. We have been encouraged by the performance of our North American division, which has achieved further revenue and profit growth.

Group revenue from continuing operations for the year ended 30 April 2008 was up 17.2% at £1,763.6m (2007: £1,504.6m). Operating profit from continuing operations before intangible asset expenses and exceptional items\* was 27.3% higher at £205.3m (2007: £161.3m). Earnings per share before intangible asset expenses and exceptional items were up 73.5% at 20.3p (2007: 11.7p). In addition, there were net exceptional gains of £25.8m (2007: £169.6m) before tax and £113.9m (2007: £160.9m) after tax.

We are proposing a final dividend of 4.05p per share (2007: 2.9p), giving a total dividend for the year of 5.4p (2007: 4.1p). This partly reflects a rebasing of the dividend rate in light of the substantial growth in earnings per share. Moving forward, we plan to continue to grow the dividend rate progressively. The proposed final dividend is payable to shareholders on the register at 29 August 2008 and will be paid on 1 October 2008. Going forward and subject to no significant changes in circumstances, we intend to set the interim dividend per share each year at approximately one-third of the preceding final dividend per share.

I would again like to thank our hard-working employees across our operations who ensure we meet the high expectations of our customers every day.

While it is still early, the current financial year to 30 April 2009 has started well and trading across the Group is in line with our expectations. The Board is confident in the future prospects for the Group and we believe the combination of increased road congestion, rising public concern about environmental matters and higher fuel prices will further boost demand for public transport. We continue to focus closely on controlling our cost base and, while we remain mindful of the cost impact of higher fuel prices and the general weaker macroeconomic outlook, we are encouraged by the significant potential for further modal shift from the car to bus and train travel.

A handwritten signature in black ink, appearing to read 'Robert Speirs', written in a cursive style.

Robert Speirs  
Chairman

25 June 2008

\* Exceptional items are defined in note 4 to the consolidated financial statements on page 58 of this Annual Report

## 2. Chief Executive's review



We have achieved a strong set of results across the Group and I believe we are starting to see a fundamental shift towards public transport.

Increasing road congestion in our towns and cities, coupled with growing evidence of changing customer behaviour as a result of environmental concerns, has been a positive stimulus for the development of our bus, coach, train and tram businesses.

A growing number of people are making more intelligent use of the car and seeking out greener, smarter travel options to reduce their carbon footprint. Our innovative partnerships and customer service have grown the market for sustainable transport.

I am delighted that our UK Bus division has delivered a sixth successive year of like-for-like passenger volume growth. In addition to new journeys under concessionary fares schemes, our strong brand, effective marketing campaigns and investment in our fleet are changing people's perception of bus travel.

We are also making travel easier and delivering excellent value travel for customers through our budget travel products and new channels like our online multi-journey megarider tickets. The high standard of our UK Bus operations saw Stagecoach win more awards than any other operator at the 2007 UK Bus awards.

During the past year, we made a number of further small bolt-on acquisitions in our UK Bus business, which complement our existing operations. We will continue to take advantage of these opportunities where they add value to the Group.

Stagecoach has continued to develop effective partnerships with local authorities who share our vision for sustainable public transport and this approach has produced good passenger volume growth across our regional bus operations in the UK. We believe we are also well-placed to benefit from the UK Government's Local Transport Bill and other policy measures designed to tackle the twin challenges of road congestion and climate change.

Our UK Rail division has performed well, generating strong passenger and revenue growth built on sound operational performance. Punctuality at South West Trains has increased further over the past 12 months and is now at record levels. We are working in partnership with Network Rail to ensure we are able to deliver a consistently high level of service to passengers.

We are delivering strongly on our business plan for the South Western franchise, which combines the operations of South West Trains and Island Line. Passengers are already benefiting from our investment package to improve capacity and the travelling environment on our trains.

We began operating East Midlands Trains in November 2007. We have made a strong start to the franchise and we are encouraged by the positive passenger volume and revenue trends. We expect to see further growth as passengers benefit from through travel to Europe via connections with Eurostar at the redeveloped St Pancras Station in London.

Passenger volume growth has also been strong on the West Coast

franchise operated by our joint venture, Virgin Rail Group ("VRG"). West Coast Trains has one of the highest levels of customer satisfaction of UK passenger train operators and we believe there is significant potential for further growth over the next few years with the introduction of a new timetable from December 2008. The planned new timetable should result in around 30% more train services being operated by West Coast Trains. In the interests of the UK rail industry and train passengers, it is critical that Network Rail delivers consistently reliable railway infrastructure to support the significant increase in train services. We are supporting work to further increase capacity on the franchise and we are pleased that VRG has been shortlisted by the Department for Transport ("DfT") for the contract to support the DfT through the design, manufacture, delivery, testing and commissioning of new Pendolino rolling stock through to the end of the current West Coast franchise in March 2012.

Stagecoach is now the biggest tram operator in the UK with the contract to run and maintain the Manchester Metrolink network. We have made a strong start to the contract and we are also carrying record passenger volumes at Sheffield Supertram.

In North America, despite a challenging economic environment, we have achieved further like-for-like revenue growth. We have also achieved our objective of a 10% operating margin (excluding megabus.com) for our North American operations. This 10% margin target was achieved a year earlier than planned. We have focused closely on strong operational delivery, particularly in delivering a high quality and safe service, marketing of our 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 am also delighted with the development of megabus.com in North America. We have carried more than one million passengers and our research suggests we have created a new market for inter-city coach travel in the United States and Canada.

I believe we can look forward to the year ahead with confidence as we attract more people to greener, smarter travel. Stagecoach has won further awards for the high quality of its bus and rail services in the past year. Our first-class team of employees and managers have been central to our success 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.

Brian Souter  
Chief Executive

25 June 2008

## 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 2008.

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. Section 234ZZB continues to apply to reports for financial years beginning before 1 October 2007 and thereafter section 417 of the Companies Act 2006 will apply. 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 30,000 people, and operates bus, coach, train 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, Cambridge and Exeter.

The current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985. This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of reliability and punctuality.

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.

Our local and express bus services on average carry around 2 million passengers each 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.

In May 2007, we acquired Somerset-based Cooks Coaches, which operates a mix of commercial and tendered services and in August 2007, we completed the disposal of our bus operations in Darlington to Arriva. We have also

acquired small operations in Dunfermline, Manchester and Huntingdon during the year ended 30 April 2008, and sold operations in Huddersfield. The various acquisitions and disposals do not materially affect the size or profitability of the UK Bus Division.

#### 3.3.2 North America

Stagecoach, principally through its Coach USA and Coach Canada brands, provides transport services in North America. Our businesses include commuter/transit services, inter-city services, tour and charter, sightseeing and school bus operations.

The United States business is headed by a Chief Operating Officer. Stagecoach operates approximately 2,400 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 in the UK. The UK train operating 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. The train operating companies operate passenger trains on the UK rail network. The UK railway infrastructure is owned and operated by Network Rail, a "not for dividend" company that invests any profits into improving the railway. Network Rail runs, maintains and develops tracks, signalling systems, bridges, tunnels, level crossings and key stations.

Our principal wholly-owned rail businesses are South Western and East Midlands. South Western 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. From 11 November 2007, we have operated the East Midlands Trains franchise. The franchise comprises main line train services running to London St Pancras, regional rail services in the East Midlands area and inter-regional services between Norwich and Liverpool. The franchise will run until 31 March 2015 assuming the Group meets agreed performance targets. 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 ("GMPT") to operate and maintain the Manchester Metrolink tram network and commenced operations under the 10-year contract in July 2007.

Stagecoach Group's rail division is headed by a Chief Executive, who reports directly to the Group Chief Executive. South West Trains, East Midlands Trains and the tram operations each have a managing director, who reports to the Chief Executive of the Group's Rail division.

#### 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 Trains rail franchise and operated the CrossCountry Trains rail franchise up until its termination in November 2007. The other shareholder in VRG is the Virgin Group of Companies. New commercial terms for the West Coast franchise were agreed in December 2006 and the renegotiated franchise runs through until 2012.

The Chief Executive of Stagecoach Group's Rail division is Joint Chairman of VRG. 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 has an ongoing programme of 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.

#### 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 and lenders 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 managers on detailed aspects of our service as well as consultation and information sharing on particular issues.
- Government – our managers 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 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.

We have contractual relationships with a number of parties which are essential to the business of the Group, including:

- The operation of our rail franchises depends upon a number of contractual relationships, the most critical of which include: contracts with the DfT governing the terms of the franchises; contracts with Network Rail governing station and track access arrangements; leases with rolling stock companies for the lease of trains and; maintenance contracts for the maintenance of trains.
- All of our businesses have various contractual relationships including purchase contracts with fuel suppliers, vehicle suppliers, IT companies and spare part suppliers.
- We have contracts with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis.
- We have contractual arrangements with banks and other finance providers for the provision of funds and financial products to the Group.

We are committed to conducting business in a socially responsible way and we believe this to be consistent with our business objectives and strategy. Indeed, by taking a responsible approach towards the environment and the wider community, we believe we will enhance our objective to deliver organic growth.

## 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

Certain figures from the previous years have been restated to correct previous measurement errors.



## 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. Disposed businesses are excluded from the safety KPIs. Certain figures from the previous years have been restated to correct previous measurement errors.

Five of the more important safety KPIs are reported below:

	Target	Year ended 30 April 2008	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	39.6	39.2	33.8
US – number of blameworthy accidents per 1 million miles travelled		9.7	12.0	13.5
South West Trains – workforce lost time injuries per 1,000 staff		1.9	2.1	1.8
East Midlands Trains – workforce lost time injuries per 1,000 staff		2.1	N/A	N/A
West Coast – workforce lost time injuries per 1,000 staff		1.5	2.2	1.9

### 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		
		2008 pence	2007 pence	2006 pence
Adjusted EPS	To increase in excess of inflation	20.3p	11.7p	10.6p

### 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 businesses – for example, not all of 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:

	<b>Target</b>	<b>Year ended 30 April 2008 Growth %</b>	Year ended 30 April 2007 Growth %	Year ended 30 April 2006 Growth %
UK Bus passenger journeys	Positive growth each year	<b>3.6%</b>	6.6%	2.1%
UK Rail passenger miles		<b>5.7%</b>	8.9%	1.3%
– South West Trains		<b>2.9%</b>	N/A	N/A
– East Midlands Trains		<b>8.3%</b>	11.1%	21.3%
– VRG - West Coast		<b>4.6%</b>	9.1%	11.0%
North America revenue				

The growth in passenger miles shown above for East Midlands Trains represents the growth for the period from 11 November 2007 (when the Group began operating East Midlands Trains) to 30 April 2008 when compared to the equivalent businesses under their previous ownership for the corresponding prior year period.

### 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:

	<b>Target</b>	Year ended 30 April		
		<b>2008 %</b>	2007 %	2006 %
UK Bus reliability	>99.0%	<b>99.4%</b>	99.4%	99.4%
UK Rail punctuality				
– South West Trains	>90.0%	<b>92.2%</b>	90.1%	90.0%
– East Midlands Trains	>85.0%	<b>87.2%</b>	N/A	N/A
– VRG - West Coast	>85.0%	<b>85.9%</b>	85.8%	84.2%

### 3.5.2.5 Staff retention

As noted on page 16, the strength of our business is built on the quality of our 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:

	<b>Target</b>	Year ended 30 April		
		<b>2008 %</b>	2007 %	2006 %
UK Bus staff turnover	To decrease each year	<b>24.0%</b>	23.3%	22.7%
UK Rail staff turnover				
– South West Trains		<b>10.7%</b>	9.6%	8.1%
– East Midlands Trains		<b>5.8%</b>	N/A	N/A
– VRG – West Coast		<b>5.5%</b>	5.7%	6.2%
North America staff turnover		<b>21.7%</b>	21.2%	21.9%

The increases in staff turnover are partly attributable to an increased proportion of the employees being part-time and turnover amongst part-time employees being higher than amongst full-time employees. We remain focused on the recruitment and retention of good quality people.

# Operating and Financial Review

## 3.6 Overview of financial results

Stagecoach Group has achieved continued strong financial and operational performance for the year ended 30 April 2008.

Reported revenue by division (excluding the discontinued London bus operations from the comparative year figures) is summarised below:

REVENUE	2008	2007		2008	2007	
	£m		Currency	Local Currency (m)		Growth %
<b>Continuing Group operations</b>						
UK Bus	<b>743.9</b>	690.4	£	<b>743.9</b>	690.4	7.7%
North America – excluding megabus.com and closed units	<b>236.3</b>	236.3	US\$	<b>474.3</b>	451.4	5.1%
North America – megabus.com	<b>5.6</b>	2.4	US\$	<b>11.3</b>	4.7	140.4%
North America – closed units	<b>Nil</b>	4.0	US\$	<b>Nil</b>	7.5	(100.0)%
UK Rail	<b>777.8</b>	571.5	£	<b>777.8</b>	571.5	36.1%
<b>Total Group revenue</b>	<b>1,763.6</b>	1,504.6				

Reported operating profit by division (excluding the discontinued London bus operations from the comparative year figures) is summarised below:

OPERATING PROFIT	2008		2007			2008	2007
	£m	% margin	£m	% margin	Currency	Local Currency (m)	
<b>Continuing Group operations</b>							
UK Bus	<b>109.9</b>	14.8%	84.5	12.2%	£	<b>109.9</b>	84.5
North America – excluding megabus.com, including closed units	<b>23.9</b>	10.1%	19.1	7.9%	US\$	<b>48.0</b>	36.6
North America – megabus.com	<b>(2.9)</b>	(51.8)%	(1.0)	(41.7)%	US\$	<b>(5.8)</b>	(2.0)
UK Rail	<b>59.1</b>	7.6%	58.8	10.3%	£	<b>59.1</b>	58.8
Group overheads	<b>(13.0)</b>		(11.1)				
Restructuring costs	<b>(4.3)</b>		(3.2)				
	<b>172.7</b>		147.1				
<b>Joint ventures and associates</b>							
Virgin Rail Group	<b>32.2</b>		13.5				
Citylink	<b>0.8</b>		0.9				
New York Splash Tours LLC	<b>(0.4)</b>		(0.2)				
<b>Total operating profit before intangible asset expenses and exceptional items</b>	<b>205.3</b>		161.3				
Intangible asset expenses	<b>(13.0)</b>		(14.7)				
Exceptional items	<b>Nil</b>		34.3				
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	<b>192.3</b>		180.9				



## 3.7 Divisional Performance

### 3.7.1 UK Bus

Revenue from our continuing UK Bus operations increased by 7.7% to £743.9m (2007: £690.4m). Like-for-like revenue growth\*\* was 7.5%. Operating profit\* was £109.9m (2007: £84.5m). Operating margin was 14.8% compared to 12.2% in 2007. The improvement in operating margin reflects the continued strong revenue growth, relatively stable year-on-year fuel costs, returns on additional pension contributions and a continued focus on cost control.

### Investment, innovation and growth

Stagecoach is continuing to lead the transport sector in attracting more passengers to bus travel. We have delivered further revenue and organic passenger growth at our UK Bus Division in both metropolitan areas and shire counties. Overall estimated like-for-like passenger volumes in the 12 months were 3.6% higher than the equivalent prior year period. We estimate that underlying full fare passenger volume growth was around 2.9% with the remaining growth coming from concessionary travel schemes.

The UK Parliament is expected to pass the Local Transport Act shortly and it is our view that a number of the measures will allow us to build on the growth we have achieved in our UK bus operations. We believe the bus can be at the heart of initiatives to tackle climate change and in this regard, we share a common objective with local authorities. Stagecoach is well placed to benefit from measures to address road congestion and we have already held detailed discussions with partner transport authorities on how we can play a part in the delivery of successful road user charging schemes that promote intelligent car use.

Stagecoach is continuing to invest significantly in its local bus fleets to sustain and grow its profitable, cash generative UK bus business. We have placed the first orders of a planned £71m investment in more than 580 new buses for delivery during the year to 30 April 2009. Vehicle manufacturers Alexander Dennis, Optare, MAN, Plaxton, Scania and Volvo will supply the latest Stagecoach orders. We are investing in greener bus technology to meet European emissions standards more than a year ahead of schedule. More than 220 buses, costing around £30m, will be fitted with state-of-the-art Euro 5 engines.

### Provincial and city networks

Growth in our provincial and city networks has been supported by our focus on customer profiling research and targeted marketing. According to the Department of Transport's National Travel Survey, in the UK, in 2006, 86% of households lived within six minutes walk of a bus stop and our marketing aims to publicise how convenient bus travel can be. 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 125 projects in the UK, covering more than 600,000 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.

We have rolled out a series of television commercials in key locations around the UK to reinforce the strong Stagecoach brand and emphasise the economic, social and environmental advantages of bus travel.

Across our regional bus networks, we have introduced a new range of online bus tickets as part of an initiative to make it easier for people to switch from the car to public transport. The new megarider ticket offers a discount on the cost of buying four individual weekly tickets. We have also offered free email and web access on some of our express coach commuter services in Scotland and England with the introduction of Wi-Fi technology.

\* 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.

\*\* Like-for-like amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods.

### Partnership

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.

Stagecoach has become the first bus operator in the UK to go live in selected locations with a high-tech electronic bus data system that will deliver faster and more accurate travel information to customers. Developed in partnership with the Department for Transport, VOSA and transport authorities, the Electronic Bus Service Registration ("EBSR") will be introduced across a number of additional Stagecoach operations later this year.

### 3.7.2 North America

Revenue from North America for the year was US\$485.6m (2007: US\$463.6m). On a like-for-like basis, revenue was up by 4.6%. Operating profit was US\$42.2m (2007: US\$34.6m), resulting in an operating margin of 8.7%, compared to 7.5% the previous year. Converted to sterling, revenue for the year was £241.9m (2007: £242.7m) and operating profit for the year was £21.0m (2007: £18.1m). Excluding the early-stage North American megabus.com operations, which reported an operating loss of US\$5.8m (2007: US\$2.0m) on revenue of US\$11.3m (2007: US\$4.7m) for the year, the operating margin was up from 7.9% to 10.1%.

Despite a challenging economic environment, we have achieved further like-for-like revenue growth in our operations in the United States and Canada and met our objective of a 10% operating margin (excluding megabus.com) a year ahead of plan. We have focused closely on strong operational delivery, providing a high quality and safe service, effective marketing of our core scheduled and leisure services, and winning and retaining contract business.

We have continued to invest in the quality of our fleet of vehicles to support our growth strategy in North America.

megabus.com, our market-leading budget inter-city coach service, has now carried more than 1 million passengers in North America since we launched in April 2006. From May 2008, megabus.com operations have been extended to the east coast, with 36 daily departures from New York to Boston, Washington, Philadelphia, Baltimore, Buffalo, Atlanta City and Toronto. We are now focused on our successful Midwest network and new Northeast routes. Significant numbers of passengers have been attracted from the car, budget airlines, the train and competing coach operators and we believe there is significant potential to develop the brand. We have invested US\$10m in America's first inter-city double-decker coaches for megabus.com and the fleet of 17 new vehicles entered service in January 2008.

We have successfully introduced budget web-based sales on the Toronto/Montreal route, using a similar yield managed model to megabus.com. Partnerships with Casino Niagra and Queens University have contributed to passenger growth on scheduled services in Canada and Coach Canada has acquired a key charter operating authority for the County of Simcoe.

# Operating and Financial Review

## 3.7.3 UK Rail

The Group's UK Rail division has had another excellent year. Revenue from our UK Rail subsidiaries for the year ended 30 April 2008 was up by 36.1% to £777.8m (2007: £571.5m), reflecting strong organic revenue growth and the first contributions from East Midlands Trains and Manchester Metrolink. Like-for-like revenue was up by 13.6% to £649.3m (2007: £571.5m). Operating profit was £59.1m (2007: £58.8m), giving an operating margin of 7.6% (2007: 10.3%). This reduction in operating margin was expected and relates to the operating margin of the South Western franchise being below that of the former South West Trains franchise. Absolute operating profit for the UK Rail division has, however, increased with the first contribution from the new East Midlands Trains franchise.

Rail bid costs of £3.7m (2007: £13.0m) were expensed during the year in arriving at the UK Rail operating profit of £59.1m (2007: £58.8m). £1.0m (2007: £0.3m) of start-up costs and mobilisation costs associated with new rail franchises were capitalised in the year where the costs met the criteria for capitalisation specified in the relevant accounting standards.

The Group has made a strong start to its new East Midlands rail franchise. We are also delighted that with the award of the Manchester Metrolink contract in July 2007, Stagecoach became Britain's biggest tram operator.

### 3.7.3.1 South Western

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.

We have had an excellent first full year of the new franchise in both commuting and leisure markets. Passenger volumes at South West Trains are continuing to grow strongly and were up 5.7% in the year.

South West Trains' operational performance continues to be amongst the best achieved by train operating companies in London and the South East, with more than 92% (as measured by the Department for Transport's Passenger Performance Measure, "PPM") of trains arriving on time.

South West Trains is continuing to benefit from revenue protection initiatives and this will be assisted by the ongoing roll-out of ticket barriers at major stations. These measures are designed to ensure customers pay the right fare to use the railway and to protect ongoing investment in the network for the benefit of passengers. Our programme to install nearly 200 extra ticket vending machines is already underway. We are also making good progress on plans to introduce ITSO smart cards across the network and to extend availability of Oyster services in the London area.

Making the best use of capacity within existing infrastructure is a critical challenge and we are well on the way to achieving our planned increases of 20% or more in both mainline and suburban capacity through a programme of rolling stock cascades and refurbishments. The measures we are introducing will better match capacity to demand at key times during the day.

The £67m project to refurbish the 91 unit Class 455 fleet operating on suburban routes in association with the Department for Transport, Transport for London, Porterbrook and Bombardier has been completed. The project has delivered improved reliability and better passenger circulation due to the revised internal layout of the units.

South West Trains is currently reconfiguring 28 of its 127 Class 450 Desiros to provide more capacity on its inner suburban routes. This involves removing the First Class seating and replacing it with a higher number of Standard Class seats and removing a small number of seats from the door areas to improve the passenger flow.

The Class 458s, which predominantly operate on the Reading line, are having their First Class area refurbished. We are also introducing improvements to disabled toilets, installing CCTV for additional security and making other modifications to the train to make journeys smoother.

South West Trains will be working with the DfT to look at options for the Waterloo International Terminal and to assist in the delivery of Government

commitments to increase capacity through new train carriages on the rail network.

### 3.7.3.2 East Midlands Trains

We are delighted to have now taken over the East Midlands rail franchise, which started in November 2007. East Midlands Trains operates main line train services running to London St Pancras and the regional rail services in the East Midlands area. Our plans include significant investment in station and train improvements and closer partnership with Network Rail to improve train performance. We look forward to working closely with local stakeholders to maximise the opportunities for growth from these rail networks and to improve the level of service to passengers.

For the period from 11 November 2007 to 30 April 2008, the revenue of East Midlands Trains when compared to the equivalent businesses under their former ownership was 9.5% higher than the corresponding prior year period and we are pleased with the financial performance of the business. Revenue growth on London services has continued to be strong and has been aided by the opening of St Pancras International Station, which is now the new terminal for Eurostar train services from the UK to continental Europe. East Midlands Trains has set up a joint online ticketing facility for Eurostar tickets and Eurostar has reported that the number of travellers from the East Midlands and Yorkshire has more than doubled in the first three months.

The programme of roadworks on the M1 motorway, which is set to continue for a number of years, has also assisted growth on London services.

Management is working to improve on-train revenue collection on the regional and local services inherited from the former Central Trains franchise.

Improved operational performance is a key component of the Group's business plan for the East Midlands franchise. We launched our Right Time Railway project in March 2008, with new whistles and atomic watches being issued to all staff responsible for train despatch, and the benefits of this initiative are starting to flow through to passengers. Significant investment is planned at the Etches Park rail depot in Derby, which is central to our aim of delivering even better performance from our train fleet.

From December 2008, passengers will benefit from a range of further improvements, including faster journey times, more capacity on commuter routes into London, increased frequencies and a new on-board service. We have already started work on a number of customer improvements, including increasing security at stations and a targeted refurbishment programme to upgrade waiting rooms, shelters and cycle racks.

East Midlands Trains will launch smartcard ticketing on the franchise in 2009, with the objective of having 30% of passenger journeys using ITSO Smartcard technology by 2014.

### 3.7.3.3 Supertram

Passenger volumes at Sheffield Supertram have grown by around 6% for the year to 30 April 2008 and the tram operation is now carrying nearly 15 million people a year. Revenue has grown by around 10% in the past 12 months.

A major three-year project to refresh the livery and interiors of the 25-strong tram fleet is due for completion by early 2009. Passengers are benefiting from improved comfort and accessibility, while the work is also helping to maintain the fleet's high standard of reliability.

### 3.7.3.4 Manchester Metrolink

In July 2007, Stagecoach commenced a 10-year contract to operate and maintain the Manchester Metrolink tram network on behalf of Greater Manchester Passenger Transport Executive ("GMPTE"). Nearly 20 million passengers a year travel on the 37km Metrolink network. The contract involves 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, when these extensions to the network are completed during 2011/12.

### 3.7.3.5 Rail franchising opportunities

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

The next major rail franchise opportunity in the UK is likely to be the South Central franchise, which is currently operated by Go Via, and we shall evaluate the opportunity to bid for the franchise. The DfT has invited the submission of accreditation questionnaires by 27 June 2008. Short-listing of bidders for the franchise is expected to take place later in 2008 with a view to the successful bidder being confirmed in Spring 2009 for commencement of the new franchise in September 2009.

### 3.7.4 Joint Ventures

#### 3.7.4.1 Virgin Rail Group

Our share of VRG's profit after tax for the year was £32.2m (2007: £18.9m). Our share of operating profit was £41.9m (2007: £12.4m plus £5.4m exceptional gains), our share of finance income was £4.0m (2007: £3.7m) and our share of taxation charges was £13.7m (2007: £2.6m).

VRG has continued to see strong revenue growth and in addition has settled a number of contractual matters with Network Rail, all of which contributed to the strong growth in our share of profit for the year ended 30 April 2008.

VRG's operation of the CrossCountry franchise ended in November 2007 and VRG is now focused on its remaining franchise, West Coast Trains.

The West Coast Trains franchise has been expanded as a result of the restructuring of the Cross Country franchise. West Coast now has the use of a number of Super Voyager trains for the expanded network, which has been operating from December 2007.

West Coast Trains delivered like-for-like revenue growth of 11.2% for the year ended 30 April 2008, excluding the revenue from the services that were transferred from CrossCountry to West Coast Trains.

A major marketing campaign emphasising Virgin's value-for-money fares and the environmental benefits of travelling by rail compared to car and air is attracting new passengers. This has resulted in significant growth, with customers taking advantage of lower cost advance purchase tickets.

VRG is preparing for increased capacity on the West Coast Mainline and as referred to in the Chief Executive's statement, it is planning for a significant increase in the level of train services from December 2008. VRG has been short-listed to support the DfT through the design, manufacture, delivery, testing and commissioning of new Pendolino rolling stock.

There is a significant risk that Network Rail will not deliver by December 2008 an upgraded railway that is acceptable to VRG and its passengers. The physical infrastructure needs to be delivered on time and be of the right quality and standard to enable Network Rail to provide a consistently safe and reliable railway. Network Rail's recent operational performance in relation to West Coast Trains has been worse than target and improved reliability is required to allow for the significant increase in train services from December 2008. We continue to monitor developments carefully.

#### 3.7.4.2 Scottish Citylink Coaches

Our share of Citylink's profit after tax for the year was £0.8m (2007: £0.9m). The year-on-year movement in profit partly reflects divested routes and the cost of divestment as well as the loss of an airport contract. 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.

Total like-for-like passenger volume growth in the year was 11.0% which we estimate represents full fare passenger growth of 5.0% with the remainder coming from growth in the concessionary travel scheme.

Following the Competition Commission's confirmation in May 2007 of its ruling that some services on the Saltire Cross network should be divested, Citylink sold a number of its Saltire Cross services to Parks of Hamilton (Coach Hirers) Limited on 4 February 2008.

## 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 £271.9m (2007: £229.6m) including the Group's share of its joint ventures' profit after tax. Depreciation from continuing businesses for the year was £66.6m (2007: £68.3m). The income statement charge for intangible assets decreased from £14.7m to £13.0m, of which £5.1m (2007: £5.1m) related to joint ventures.

### 3.8.2 Exceptional items

During the year ended 30 April 2008, the following exceptional items were recognised:

- A pre-tax gain of £2.0m in respect of the disposal of the Group's bus operations in Darlington in the UK;
- A pre-tax gain of £1.3m in respect of the disposal of the Group's bus operations in Huddersfield in the UK;
- A pre-tax gain of £14.9m in respect of the resolution and/or updated assessment of certain liabilities held in respect of past business disposals and litigation risks;
- A gain on sale of properties of £0.3m;
- £7.3m of interest income on repayments of tax to the Group;
- Tax charges of £1.2m in respect of the gains referred to above;
- A tax credit of £1.5m in relation to the impact of the change in the UK corporation tax rate from 30% to 28% on deferred tax balances; and
- A gain of £87.8m in respect of the resolution of a number of historic tax matters with the tax authorities.

The impact of exceptional items on profit after tax is summarised below:

	2008	2007
	£m	£m
Past service adjustment – pension scheme	Nil	28.9
Gain on sales of VRG's investment in Trainline	Nil	5.4
Gain on sale of the Group's bus operations in Darlington	2.0	Nil
Gain on sale of the Group's bus operations in Huddersfield	1.3	Nil
Gain on sale of properties	0.3	3.6
Loss in respect of other disposed and closed operations	(5.0)	(1.1)
Profit for the period from discontinued operations	19.9	132.8
Interest income on repayments of tax	7.3	Nil
<b>Exceptional items before tax</b>	<b>25.8</b>	<b>169.6</b>
Tax on above exceptional items	(1.2)	(8.7)
Tax rate change	1.5	Nil
Resolution of historic tax matters	87.8	Nil
<b>Exceptional items after tax</b>	<b>113.9</b>	<b>160.9</b>



## Operating and Financial Review

	2008			2007		
	Pre-tax profit £m	Tax £m	Rate %	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	<b>188.1</b>	<b>(42.0)</b>	<b>22.3%</b>	165.0	(40.8)	24.7%
Intangible asset expenses	<b>(13.0)</b>	<b>2.1</b>	<b>16.2%</b>	(14.7)	2.9	19.7%
Exceptional items	<b>5.9</b>	<b>88.1</b>	<b>n/a</b>	36.8	(8.7)	23.6%
	<b>181.0</b>	<b>48.2</b>	<b>n/a</b>	187.1	(46.6)	24.9%
Reclassify joint venture taxation for reporting purposes	<b>(13.7)</b>	<b>13.7</b>	<b>n/a</b>	(3.0)	3.0	n/a
Reported in income statement	<b>167.3</b>	<b>61.9</b>	<b>n/a</b>	184.1	(43.6)	23.7%

### 3.8.3 Return of value

A return of value of approximately £690m to shareholders was completed in June 2007. This equated to 63p per ordinary share. The return of value was approved by shareholders at an Extraordinary General Meeting on 27 April 2007. Note 29 to the consolidated financial statements includes further information on the return of value.

### 3.8.4 Net finance income/costs

Net finance costs from continuing operations, excluding exceptional items, increased from net finance income of £0.7m to net finance charges of £30.9m as a result of an increase in average net debt during the period primarily due to the return of value to shareholders. The ratio of pre-exceptional EBITDA to net finance charges was 8.8 times (2007: net finance income).

### 3.8.5 Taxation

The tax charge, excluding discontinued operations, is analysed in Table A above.

The tax charge in Table A includes a tax credit of £1.5m attributable to the restatement of the UK deferred tax liability arising on the reduction in the UK corporation tax rate from 30% to 28%, which applies from April 2008.

### 3.8.6 Earnings per share

Overall earnings per share before intangible asset expenses and exceptional items increased by 73.5% to 20.3p, compared to 11.7p in 2007, reflecting the strong trading performance at each of our core divisions and the earnings enhancement from the return of value referred to in section 3.8.3. Basic earnings per share increased from 25.4p to 34.6p, which includes the effect of net exceptional gains described in section 3.8.2.

### 3.8.7 Fuel Costs

The Group's operations as at 30 April 2008 consume approximately 328m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel.

The proportion of the Group's projected fuel usage that is now hedged using fuel swaps and/or fuel caps is as follows:

Year ending 30 April	2009	2010	2011
UK Bus	94.4%	50.1%	Nil
North America	75.9%	50.6%	Nil
UK Rail	76.0%	76.0%	76.0%

The Group has no fuel hedges in place for periods beyond 30 April 2011.

The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices. Further information on the Group's exposure to movements in fuel prices is provided in note 28 to the consolidated financial statements on pages 85 and 86.

### 3.8.8 Cash flows

The strong cash generative nature of the Group is once again highlighted by net cash from operating activities after tax of £325.0m (2007: £162.3m). Net cash outflows from investing activities were £41.9m (2007: inflows of £232.9m), including £3.6m (2007: £267.0m) 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.

### 3.8.9 Net funds/debt

Net debt (as analysed in note 32 to the consolidated financial statements) increased from a net funds position of £186.4m at 30 April 2007 to a net debt position of £319.7m at 30 April 2008. This reflects the completion of our return of value of £693.0m (including costs) to shareholders in June 2007 and special pension contributions of £30.0m. Excluding these factors, net debt improved by £216.9m in the year ended 30 April 2008.

The Group's net debt at 30 April 2008 is further analysed below:

	Fixed rate	Floating rate	Total
	£m	£m	£m
Unrestricted cash	Nil	86.9	86.9
Cash held within train operating companies	Nil	142.3	142.3
Restricted cash	Nil	33.0	33.0
<b>Total cash and cash equivalents</b>	<b>Nil</b>	<b>262.2</b>	<b>262.2</b>
Bank overdrafts	Nil	(0.6)	(0.6)
Sterling bank borrowings under bi-lateral facilities*	(150.0)	(64.7)	(214.7)
US dollar bond (matures November 2009)	(168.2)	Nil	(168.2)
Sterling hire purchase and finance leases	(11.3)	(128.5)	(139.8)
US dollar hire purchase and finance leases	(10.5)	Nil	(10.5)
Canadian dollar hire purchase and finance leases	(4.0)	Nil	(4.0)
Loan notes	Nil	(36.0)	(36.0)
Preference shares	Nil	(8.1)	(8.1)
<b>Net debt</b>	<b>(344.0)</b>	<b>24.3</b>	<b>(319.7)</b>

\* The split between fixed rate and floating rate sterling bank borrowings is after taking account of the effect of interest rate derivatives that synthetically convert floating rate debt to fixed rate debt.

Pre-exceptional EBITDA for the year ended 30 April 2008 was £271.9m (2007: £229.6m) giving a net debt to pre-exceptional EBITDA ratio of 1.2 times.

Net cash from operating activities before tax for the year ended 30 April 2008 was £267.4m (2007: £185.2m) and can be further analysed as follows:

	2008	2007
	£m	£m
EBITDA of Group companies before exceptionals:		
– continuing	<b>239.3</b>	215.4
– discontinued	<b>Nil</b>	7.7
Loss on disposal of plant & equipment	<b>0.4</b>	0.2
Impairment of available for sale investment	<b>0.2</b>	1.3
Equity-settled share based payment expense	<b>1.7</b>	2.0
Working capital movements	<b>87.4</b>	26.3
Net interest paid	<b>(24.2)</b>	(3.9)
Dividends from joint ventures	<b>31.6</b>	31.1
Net cash from operating activities before excess pension contributions	<b>336.4</b>	280.1
Pension contributions in excess of pension costs	<b>(69.0)</b>	(94.9)
Net cash inflow from operating activities before taxation	<b>267.4</b>	185.2

Excluding the additional pension contributions shown in the table on page 12, net cash from operating activities was £336.4m (2007: £280.1m).

The working capital movement of £87.4m includes the build up of working capital on the new East Midlands Trains and Manchester Metrolink businesses, where liabilities exceed non-cash current assets.

The impact of purchases of property, plant and equipment for the year on net debt was £108.7m (2007: £93.5m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £45.3m (2007: £44.5m) and new hire purchase and finance lease debt of £63.4m (2007: £49.0m). £9.2m (2007: £11.0m) was received from the disposal of property, plant and equipment.

### 3.8.10 Capital expenditure

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

	2008	2007
	£m	£m
UK Bus		
- continuing	75.2	66.7
- discontinued	Nil	0.8
North America	28.2	22.2
UK Rail	11.7	2.8
Other	0.1	0.1
	<b>115.2</b>	<b>92.6</b>

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, and the inception of new rail franchises.

### 3.8.11 Liquidity

Net debt at 30 April 2008 is well below the expectations we had at the start of the year and combined with the cash generative nature of the Group, the Group's liquidity is strong against the background of tighter credit market conditions.

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 2008, the Group's committed credit facilities were £1,136.1m (2007: £1,085.5m), £546.0m (2007: £307.9m) of which were utilised, including utilisation for the issuance of bank guarantees, bonds and letters of credit.

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 compliant with the liquidity covenants specified in its franchise agreement.

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 was completed in June 2007 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 Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit. The facilities amount in total to £847.4m and have been provided on a bi-lateral basis with eleven banks. Of these facilities, £742.8m matures in approximately four years in March 2012, £55.7m matures in February 2010 and £48.9m matures in March 2009.

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 of Asset Finance Facilities are dependent on the underlying assets and typically range between five and ten years. Asset Finance Facilities were satisfactorily renewed in February and March 2008.

In addition to the bilateral and Asset Finance Facilities, £38.3m of bank overdraft and other local facilities are in place.

### 3.8.12 Shares in issue

The weighted average number of ordinary shares during the year used to calculate basic earnings per share was 720.6m (2007: 1,091.7m). The number of shares ranking for dividend at 30 April 2008 was 713.1m (2007: 1,094.8m), with a further 5.0m (2007: 6.2m) of ordinary shares held by employee trusts and not ranking for dividend.

### 3.8.13 Net assets

Net assets at 30 April 2008 were £80.4m (2007: £512.3m) with the decrease primarily reflecting the return of value to shareholders that was completed in June 2007, partly offset by the strong results for the year.

### 3.8.14 Retirement benefits

The reported net assets of £80.4m (2007: £512.3m) that are shown on the consolidated balance sheet are after taking account of net retirement benefit assets of £33.2m (2007: net obligations of £36.2m) as analysed in note 27 to the consolidated financial statements. The movement in the year includes the effect of a £30.0m special employer contribution to the main Group scheme, Stagecoach Group Pension Scheme ("SGPS"), which was paid to that scheme in June 2007.

### 3.8.15 Capital

The Group regards its capital as comprising its equity, cash, borrowings and any similar items. As at 30 April 2008, the Group's capital comprised:

	2008	2007
	£m	£m
Market value of ordinary shares in issue	1,843.8	2,056.1
Cash	262.2	513.3
Borrowings	(581.9)	(326.9)
Net (debt)/funds (see section 3.8.9)	(319.7)	186.4

The market value of ordinary shares in issue declined during the year (and net debt increased) as a result of the return of value to shareholders described in section 3.8.3.

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 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.

### 3.8.16 Treasury policies and objectives

Risk management is carried out by a treasury committee and 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 treasury 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.

## Operating and Financial Review

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.

See note 28 to the consolidated financial statements, for details of:

- the Group's treasury risk management;
- the Group's management of interest rate risk;
- the Group's fuel hedging;
- the Group's management of foreign currency risk; and
- the Group's management of credit risk.

### *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.

### **3.8.17 Critical accounting policies and estimates**

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 and estimation techniques discussed below represent those 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 financial performance and/or financial position. 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 judgemental 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, annual rate of increase in future salary levels and mortality rates. 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**

While it is still early, the current financial year to 30 April 2009 has started well and trading across the Group is in line with our expectations. The Board is confident in the future prospects for the Group and we believe the combination of increased road congestion, rising public concern about environmental matters and higher fuel prices will further boost demand for public transport. We continue to focus closely on controlling our cost base and, while we remain mindful of the cost impact of higher fuel prices and the general weaker macroeconomic outlook, we are encouraged by the significant potential for further modal shift from the car to bus and train travel.

Revenue in the UK Bus Division and the North America Division continues to grow and we expect this to offset fuel and other cost increases in the new financial year. In the UK Rail division, revenue continues to grow and we are focused on delivering the opportunities and commitments from each of our franchises. The financial prospects for Virgin Rail Group are good and the successful implementation of the increased services from December 2008 will be a key milestone for the UK rail industry this year.

The Group continues to generate strong cashflows and has achieved a number of years of consistent revenue and passenger volume growth. We believe our good operational performance, emphasis on safety, and strong record of innovation means we are well positioned to attract more passengers to our greener, smarter travel services.

## **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, industrial action, 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, which the Group began operating in November 2007. The Group owns 49% of VRG which stopped operating the CrossCountry Trains rail franchise in November 2007.

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 agreement.

Our UK Rail businesses are subject to complex contractual arrangements. Contractual management is an important part of our rail activities because the way in which contracts are managed can be a significant determinant of financial performance.

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 and/or pension scheme trustees in consultation with 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.

### 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 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, by developing and promoting 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.

The Group has a proactive culture that puts health and safety at the 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 Economy

The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. In particular, the revenue of the Group's UK rail operations is historically correlated with factors such as UK Gross Domestic Product ("GDP") and Central London Employment. In North America, a greater proportion of the revenue is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.

Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group.

### 3.10.10 Rail cost base

A substantial element of the cost base in the Group's Rail division is essentially fixed because under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is therefore unable to flex supply in response to short-term changes in demand. In addition, a significant part of the cost base is comprised of payments to the infrastructure provider, Network Rail, and payments under train operating leases which are committed and do not vary with revenue. Accordingly, a significant proportion of any change in revenue (for example, arising as a result of the risks described in sections 3.10.8 and 3.10.9) will impact profit in the Rail division.

### 3.10.11 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.

# Operating and Financial Review

## 3.11 Corporate social responsibility

We pride ourselves on delivering high-quality services and we recognise our wider social responsibilities. Our research amongst customers indicates that they are more likely to travel with a company whose ethics support the environment, exemplifying that growing our business and acting in a socially responsible way are entirely consistent. As well as providing a range of economic and environmental benefits, our 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. 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. We have a code of business conduct in place that sets out how we seek to do business and a copy of the code is on our website at [www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf](http://www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf). 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, accessibility, safety, community and environmental 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 in section 3.4.2.

### 3.11.2 Our People

The strength of our business is built on the high quality of our employees. These are the people that ensure we can deliver a high 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 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 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 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 bus operator, designed to raise standards among and recognise the key contribution of our employees. 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.

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 and employee recognition programmes. Round-the-clock open learning access is available for our staff through dedicated centres at Waterloo, Basingstoke and Southampton, as well as via an access point at Salisbury. South West Trains spends on average more than 1,600 employee days a month training its people in addition to its three 24-hour open learning centres.

East Midlands Trains has a dedicated Customer Service Academy, which offers training on disability awareness and conflict resolution, as well as courses for new train drivers. Run in partnership with Rail Union Learning, it also offers Skills for Life training targeted at literacy and numeracy skills.

In North America, our centralised driver training school has improved the quality and consistency of training. We have also created a management-in-training programme for middle managers. 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. The two-year programme centres around real

hands-on involvement in the business, complemented by a wide range of off-the-job development and classroom-style tuition. It covers training on engineering, finance, marketing and operations, and many graduates have gone on to become senior managers within the Group.

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. The high quality of our employees has also been recognised at the Apprentice of the Year awards.

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 have also opened a new occupational health centre in Leicester for employees at East Midlands Trains.

We have been 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") - involves offering our staff one to one surgeries and hard copy material.

The commitment of our people has been independently recognised with a host of awards across all of our businesses for both management and frontline staff.

### 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, train and tram services.

Over the last year, we have invested in approximately 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 in new accessible vehicles in the UK for 2008/9. Many of the 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.

In the United States, we have launched a programme to retro-fit a number of our existing coaches with accessible lifts, while in Canada we provide accessible coaches on any scheduled service via a 24-hour advance booking system.

On the South West Trains network, we are involved in a total of 21 major schemes as part of the Access for All programme, which provides an accessible walking route from the main station to all platforms. Works have been completed at Weybridge and are also underway at Haslemere, Kingston and West Byfleet. We are also involved in a number of smaller schemes in partnership with the DfT and other third parties, including the provision of new handrails on the subway at Guildford and a ramped access to the platform at Norbiton. Completion of the Class 455 refurbishment programme means South West Trains now has a dedicated wheelchair space on every service, while the Class 159 upgrade will provide improved audio and visual information to passengers with hearing and sight impairment.

East Midlands Trains is committed to improving accessibility at stations across its network and will invest a minimum of £250,000 each year on specific improvements during the life of the franchise. We are working closely with local authorities and Network Rail to introduce ramp access and lifts at a number of existing stations, while the new East Midlands Parkway and Corby stations will be fully accessible. Key stakeholders have also been invited to submit ideas for small-scale schemes to improve accessibility.

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, we are currently refreshing the interiors of our vehicles. Specially-designed wheelchair holding areas have been introduced on all upgraded trams, as well as textured grab rails and improved seating layouts to help passengers with visual impairment. There are also audio announcements for all stops and tactile directional stickers for external door buttons. Track upgrades at Manchester Metrolink have involved platform surface renewals to provide improved access to the trams.

The 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 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 and megatrain.com budget travel sites can get both coach and rail options in one easy search, giving them access to more than 500 daily departures to around 50 UK locations from just £1, plus a 50p booking fee. We have also introduced a new online megarider ticket at each of our regional bus networks, offering discounted 28-day travel.

### 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. For example, the Rail Safety and Standards Board 2006 Annual Safety Performance Report shows that the relative fatality risk of travelling by car is more than 7 times higher than travelling by bus/coach or rail.

Health and safety is monitored and reported on across the Group and appropriate action is taken to address any major issues that are identified 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. 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.

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.

Investment in new trains is further enhancing the safety of railways. Whilst not distracting from the seriousness of the accident at Grayrigg in February 2007, the robustness of the Pendolino train involved limited the extent of injury.

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 covers a significant number of routes and stations on the South West Trains network. Under our 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.

South West Trains has undertaken a number of further safety initiatives in the past year, and was one of the first train operating companies to carry out a safety culture survey using the toolkit developed by the Rail Safety and Standards Board. We have issued a new, revised personal safety handbook to all employees, undertaken conflict management refresher training for platform staff, and now involve frontline employees in risk assessments. A specific safety management system has been put in place to control major project work at stations, and we are also reviewing the way we control the risk of fatigue to safety-critical staff.

Since being awarded our new East Midlands franchise, we have conducted a full peer group review of safety processes, and introduced revised accident reporting and investigation procedures.

Manchester Metrolink is investing in improved, more robust CCTV systems and also has a programme to introduce more effective tramstop passenger alarm

call points. Metrolink staff and premises are also covered by Greater Manchester Police's SHIELD initiative targeted at tackling illegal weapons and drugs. Sheffield Supertram is conducting a review of procedures to manage contractors and is also addressing sight-lines on the network by curbing vegetation.

In North America, we continue to meet or exceed all Federal and State safety regulations. We carry out regular safety audits of our facilities to ensure high standards of health and safety are maintained. A dedicated safety team led by key senior management ensures that policies and procedures are followed, and management performance incentives are linked to a consistent reduction in preventable accidents. 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, we have been working with the Federal Government to take part in anti-terrorism workshops for our employees. We have also installed GPS tracking and monitoring systems in more than 1,000 coaches to improve security. In Canada, we have a dedicated Occupational Health and Safety Policy Committee. Members are drawn equally from management and workforce representatives and the committee, which investigates any issue identified by an employee, is responsible for taking appropriate remedial action.

Public transport by bus, coach and train is the safest way to travel. Stagecoach 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 nearly 30 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 2008, £0.7m (2007: £0.7m) 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. At East Midlands Trains, for example, we have backed 12 members of staff with their charity work through our employee support programme.

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, which operates in 13 English counties, much of our focus is on projects designed to give young people alternatives to anti-social behaviour. We have achieved this through schemes such as our long-term support for the Carroll Youth Centre, and sponsorship of youth football, cricket and basketball teams in a range of locations. 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. Stagecoach has supported a new Samaritans campaign to reduce workplace stress in Scotland by sponsoring pocket-sized "emotional health cards" encouraging people to speak up on the issue. 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



## Operating and Financial Review

charity which helps runaway youngsters, and also helps Dorset Voluntary Search and Rescue.

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. Stagecoach has also supported a number of arts initiatives.

In North America, our businesses support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services. We have regularly provided transport facilities to assist the annual Tartan Day celebrations in New York, while similar support has been provided to a group of British police officers that make an annual visit to the city to honour the Britons killed in the September 11 terrorist attacks. In the United States, we are part of the federal Emergency Relief Programme, with vehicles on standby to assist the response to any natural disaster in the Gulf Coast. In Canada, we were involved in assisting with community fund-raising efforts to build and equip a new hospital in Peterborough, Ontario.

Supporting the community. Working with the community. Part of the community. That is embedded in our business philosophy.

### 3.11.6 Greener travel and sustainable business

Climate change is one of the most serious challenges facing our world and the choices we all make every day, including how we get to work and the way we travel on holiday, affect the planet we will entrust to future generations.

Government studies in the UK such as the Stern Review and the Eddington Report have made clear that emissions from transport are growing. They also show that we can achieve significant economic and social benefits from more environmentally sustainable ways of living.

Public transport – from buses and coaches to train and tram services – is an important part of the solution. We can help protect the environment by encouraging people to make less use of the car and domestic airlines, and get on board public transport as much as possible. Carbon dioxide (“CO<sub>2</sub>”) is one of the major contributors to climate change. Public transport can lessen the impact of CO<sub>2</sub> emissions by supporting modal shift away from travel by car. For example, in “The Case for Rail 2007”, the Sustainable Development Steering Group points out that the average CO<sub>2</sub> emissions for the same passenger rail journey is about half that of an equivalent car journey.

Stagecoach is working with government bodies, local authorities and suppliers to develop a range of transport solutions. We also support UK Government measures designed to reward intelligent car use and encourage modal shift from car to public transport.

As a leading international business, Stagecoach Group recognises that any form of transport has an impact on the environment. The Group uses significant levels of energy resources and we recognise that operation of public transport services can affect air quality and noise levels. For many years, we have had a published environmental policy that sets out our commitment to good environmental stewardship.

Stagecoach Group’s wide-ranging strategy includes investment in renewable fuels and cleaner engines, state-of-the-art energy efficient facilities, water and waste recycling initiatives and offering businesses green travel incentives for their employees.

Now, more than ever, we are taking seriously our responsibility to reduce our own carbon footprint. We are currently in the process of updating our climate change strategy and we have formed an internal cross-functional working group to enhance and refresh key performance indicators and targets, as well as to share best practice across our divisions.

Recent research by Stagecoach has confirmed that environmental concerns are increasingly driving customer behaviour. We believe this represents a significant opportunity for our business and for shareholders, and we are actively marketing our greener smarter travel services to our customers.

#### *Our environmental initiatives*

Stagecoach continues to pursue a number of initiatives to improve its own environmental performance and encourage people to take the green public transport option. Details of the Group’s environmental KPI’s are contained on the Group’s website at: [www.stagecoach.com/scg/csr/environment/performance/](http://www.stagecoach.com/scg/csr/environment/performance/)

#### *UK Bus*

Stagecoach continues to make significant investment in modern vehicles with improved environmental performance. We have invested around £61m

in the year to 30 April 2008 in the continuing modernisation of our fleet, which meet and often exceed the latest environmental standards.

The Group has committed to invest a further £71m in more than 580 new vehicles for the UK during the financial year ending 30 April 2009. It includes investment in greener bus technology to meet new European emissions standards more than a year ahead of schedule. More than 220 new buses and coaches will meet new Euro 5 emissions standards, which are not due to come into force until 1 September 2009. These vehicles will use selective catalytic reduction (“SCR”) technology to reduce nitrogen oxides in the exhaust gas.

We are testing the UK’s first Bio-buses, which run on 100% biodiesel manufactured by Motherwell-based Argent Energy Ltd. The bio-fuel is manufactured from used cooking oil and other food industry by-products, which are from sustainable sources that do not involve the destruction of natural habitats or compete with the human food chain. The environmental project also allows customers to exchange used cooking oil for discounted bus travel. The initiative, which was launched in October 2007, cut CO<sub>2</sub> emissions from the buses by around 80% in the first six months of the project, saved approximately 550 tonnes of carbon, and more than 21 tonnes of used cooking oil has been recycled.

Stagecoach’s UK bus fleet of around 7,000 vehicles currently runs on 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. For the past three years, we have been using a fuel additive Envirox™ across the UK fleet, achieving a reduction in fuel consumption of 4% to 5% and a similar decrease in associated emissions. Stagecoach vehicles have now clocked up more than 700 million miles using the additive, developed by the leading international nanomaterials group Oxonica plc, delivering a significant saving in carbon emissions. We also have a dedicated training programme for our bus drivers that emphasises fuel-efficient driving techniques.

Stagecoach is to source most of its electricity requirement for its UK bus operations from renewables as part of its strategy to make its operations more environmentally sustainable. The two-year contract with Opus Energy, a leading independent supplier of electricity to UK businesses, covers electricity supply to around 240 UK sites operated by Stagecoach. Electricity generated from mostly small-scale hydro, as well as on-shore wind and biomass, will provide more than 70% of the required supply, with the remainder coming from cleaner, low-carbon sources. The use of renewable sources to generate electricity will decrease emissions of CO<sub>2</sub>. Stagecoach is also installing smart meters to help cut energy use as part of the contract.

In addition, we have cut emissions from around 90 of our largest UK bus locations by more than a third after the introduction of a hi-tech energy management system. Gas consumption has been slashed by an average of 36%, while CO<sub>2</sub> emissions have been cut by more than 6,200 tonnes a year. Developed by Manchester-based Vickers Electronics Ltd, the technology 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, saving hundreds of thousands of pounds a year.

In April 2008, Stagecoach launched Scotland’s first carbon neutral bus network. The ground-breaking environmental initiative, in partnership with Scottish charity, Global Trees, will see all of Stagecoach’s Fife to Edinburgh bus network become carbon neutral for the next five years. Around 140,000 trees will be planted in the south of Scotland this year, saving 21,500 tonnes in CO<sub>2</sub> emissions.

#### *UK Rail*

South West Trains has updated its environmental policy, developed a plan containing objectives and KPIs for all functions within the company, and put in place monthly environmental briefings covering all staff.

South West Trains held its first Environmental Awareness Week in February 2008, which included an environmental roadshow to raise the profile of these issues among our people. Last year, it organised its environmental awareness workshop for customer services employees that identified a number of actions to improve its environmental performance at stations, including the involvement of tenants.

Our UK Rail division is an active member of the Association of Train Operating Companies (“ATOC”) Sustainability Forum set up in 2007 and it is currently working with ATOC to identify an industry ‘carbon trajectory’ to 2020 in light of likely future legislation.

Environmental management is central to our approach in our rail operations. Our strategy is focused on reducing energy consumption within stations and depots, as well as cutting traction energy. We have now worked with the Carbon Trust to survey 60 sites across the network in order to identify energy saving opportunities. South West Trains is a significant consumer of electricity to power trains. This electricity is purchased via industry arrangements from mainly nuclear sources.

South West Trains has also achieved ISO 14001 environmental quality accreditation for its train depots. Plans have been developed for an 'energy awareness' training session for station managers and key staff. We will work with Network Rail to review the use of coasting boards which advise train drivers that they may "coast" the train (i.e. keep it moving without applying power) in order to reduce traction energy.

South West Trains is currently trialling bio-diesel on one of its diesel units. The trial will last approximately six months with cost, impact on the engine and viability assessed as part of the project. We have also taken part in a successful trial of low sulphur diesel on one of our Class 159 trains in conjunction with ATOC and the Rail Safety and Standards Board, with no adverse impact reported on the engine.

An environmental improvement has resulted from the introduction of controlled emission toilets to trains in the fleet. Effluent is collected in tanks, emptied at special depot facilities, and transferred hygienically into the national sewage network.

Carriage washing machines have been replaced 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, 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.

Garbology, our industry-leading waste segregation and recycling operation, continues to expand. Centred on our Wimbledon Traincare Depot, the programme involves waste being 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 locations and we are planning to roll-out a paper and card recycling programme to 12 key locations during 2008.

East Midlands Trains has ISO 14001 certification at its train depots and, as part of our plans for the franchise, we are progressing towards the implementation of an environmental management system to the same standard.

We are undertaking site energy surveys at East Midlands Trains' major depots and stations as well as developing an action plan to reduce energy and water use. Plans include the development of a 'Green Station' featuring on-site renewable energy generation.

East Midlands Trains is working with Bombardier to modify the Class 222 Train Management System to allow easier shutdown of engines at turn-arounds and possible en-route coasting of engines. We have also started the installation of new, more efficient VP185 engines to our High Speed Train power cars where these were not already fitted. We are targeting further environmental improvements from better fuel monitoring and management as well as the introduction of eco-driving to our driver training programme. Our waste management plans involve improving recycling rates at three depots and two major stations as well as introducing separation of on-train waste on mainline services.

Sheffield Supertram has a programme that ensures waste metals, oils, solvents, aerosol cans, used batteries, newspapers and tyres are recycled. The company has used a new tram tyre supplier since 2006, which has extended tyre life by between 17% and 20%.

Manchester Metrolink has become the first tram system in the UK to be powered using water. Greater Manchester Passenger Transport Executive

(GMPTE) has signed a deal with Scottish and Southern Energy to use hydroelectricity to run the service, which will substantially cut CO2 emissions. Metrolink is already one of the most environmentally-friendly forms of transport in Greater Manchester as it does not produce air pollution at street level.

#### *North America*

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 the year ended 30 April 2008, we replaced 40 motor coaches, 13 open-top sightseeing double deckers, and 35 school buses with new models, as well as introducing 17 double-decker coaches for our megabus.com operations in North America.

We are the first company in New York to ensure our vehicles can use low sulphur fuel, which significantly reduces emissions. We have also started a programme to install emissions particulate filters on our vehicles.

Our business also has 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.

We are taking part in a Smart Start energy conservation programme as well as rolling out the use of recycled water at bus washes in our depots.

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, we have increased the pass rate on first test from 93.5% to 99%. A total of 21 coaches were replaced with new vehicles, equipped with the latest engine technology, and all of our locations have converted to ultra-low sulphur diesel.

All of our Canadian facilities are equipped with a separator unit to filter the water from petroleum products before the water is sent into the water system. Sludge is removed by a contracted company certified by the Ministry of Environment. Each facility is also equipped with a spill kit to reduce any diesel fuel from entering the water system through a ditch or drain in the event of a spill. A programme is in place to recycle paper, cardboard, metal, waste oil, batteries and tyres. The company has also recently adopted a wireless GPS system that provides valuable information to address unnecessary idling of buses. We are in the process of implementing a system to accurately track and record electricity and water use at our facilities as part of our drive to reduce our consumption levels.

#### *Virgin Rail Group*

VRG, our joint venture with Virgin Group, has attracted new passengers to rail travel as a result of its 'Go Greener, Go Cheaper' marketing campaign, which is part of a consistent push to take on domestic airlines on speed, price, frequency and environmental credentials.

VRG is committed to reducing its carbon footprint and is working in partnership with the Carbon Trust on its five-step carbon management programme. The programme aims to reduce the CO<sub>2</sub> emissions produced as a consequence of all aspects of VRG's operations from traction power to domestic energy use.

VRG 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 its trains, at stations and in offices. There is also a commitment to reduce waste and increase recycling across all its activities. The company has installed multifunctional print devices in its offices to save paper and energy, and is now considering going further with research into PDA's for drivers and other on board staff. Around 20% of the electricity used at Virgin Rail Group's stations is purchased from renewable sources and VRG has joined the Envirowise "Big Splash" campaign to reduce water consumptions at its stations. Envirowise is also working with VRG's property and procurement specialists to advise as to how utilities consumption can be further reduced.

## 5. Directors' report

### 5.1 Principal activity

The Group's principal activity is the provision of public transport services in the UK and North America. 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 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 41.

An interim dividend of 1.35p per ordinary share was paid on 5 March 2008. The Directors recommend a final dividend of 4.05p per ordinary share making a total dividend of 5.4p per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 1 October 2008 to those shareholders on the register at 29 August 2008.

### 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.

Brian Souter and Iain Duffin retire by rotation at the 2008 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. As explained in the Corporate governance report on page 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, Robert Speirs, Chairman, and Ann Gloag, who is a non-executive director but is not independent, also offer themselves for annual re-election.

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, Brian Souter and Iain Duffin will be proposed at the 2008 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 2008 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 interests of each director. The Directors' interests set out in Tables A and B have been determined on the same basis as in previous years and are intended to comply with the requirements of LR 9.8.6 R(1), 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 2008, including vested but unexercised options, were 76,741,109 (2007: 122,919,617) and 53,029,604 (2007: 83,346,482) respectively.

Note that the number of ordinary shares shown in Table A below reflects the impact of the share capital consolidation which was completed in June 2007.

TABLE A	Number of ordinary shares		
	30 April and 25 June 2008	27 June 2007 (or date of appointment if later)	30 April 2007 (or date of appointment if later)
Brian Souter	104,721,606	100,353,020	156,104,709
Martin Griffiths	19,350	10,176	15,830
Ewan Brown	See below	See below	See below
Iain Duffin	20,359	20,359	31,670
Ann Gloag	75,875,900	75,875,893	118,029,172
Sir George Mathewson	Nil	Nil	Nil
Janet Morgan	1,323	1,323	2,058
Robert Speirs	9,414	9,414	14,645
Garry Watts	20,000	Nil	Nil

Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 22% of the ordinary shares of Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 4,084,999 shares in the Company at each of 27 June 2007, 30 April 2008 and 25 June 2008 (30 April 2007: 6,354,443).

At 27 June 2007, Brian Souter and Ann Gloag each held 150,000 'B' shares of 63p each in addition to their interests in ordinary shares shown above. They redeemed their remaining 'B' shares on 30 November 2007.

TABLE B	Number of ordinary shares under option and/or Executive Participation Plan units	
	30 April and 25 June 2008	30 April and 27 June 2007 (or date of appointment if later)
Brian Souter	548,351	4,769,488
Martin Griffiths	645,997	838,521
Ewan Brown	Nil	Nil
Iain Duffin	Nil	Nil
Ann Gloag	Nil	Nil
Sir George Mathewson	Nil	Nil
Janet Morgan	Nil	Nil
Robert Speirs	Nil	Nil
Garry Watts	Nil	Nil



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 4,600,165 (30 April 2007: 5,825,879) ordinary shares of 56/57th (2007:12/19th) pence each as at 30 April 2008. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 384,279 (30 April 2007: 369,399) ordinary shares of 56/57th (2007: 12/19th) pence each as at 30 April 2008. Full details of options and other share based awards held by the Directors at 30 April 2008 are contained in the Directors' remuneration report on pages 35 to 37.

No director had a material interest in the loan stock or 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. In accordance with the Company Articles of Association, and as permitted by law, the Company has indemnified each of its directors and other officers of the Group against certain liabilities that may be incurred as a result of their offices.

## 5.6 Substantial shareholdings

By 24 June 2008 (being the latest practical date prior to the date of this report), the Company had been notified of the following major interests in voting rights in the Company (other than certain Directors' shareholdings details of which are set out in section 5.4 of this report):

Blackrock Inc.	5.0%
J P Morgan Chase & Co	4.8%
Legal and General Investment Management Ltd	4.3%

## 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. There have been several 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 to:

- 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; and
- 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 33 days' purchases (2007: 28 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.

## Directors' report

### 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.

### 5.12 Charitable and political contributions

Group companies made charitable donations of £0.7m (2007: £0.7m) 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 (2007: £Nil).

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

At the 2007 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 71,189,235 ordinary shares. This authority will expire on 31 December 2008 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 at the conclusion of the 2009 Annual General Meeting. If the resolution is approved, the existing authority that was granted at the 2007 Annual General Meeting will lapse.

### 5.14 Shareholder and control structure

At 30 April 2008, the Company's issued share capital comprised two classes of shares, referred to as "ordinary shares" and "B shares".

As at 30 April 2008, there were 718,145,299 (2007: 1,100,998,707) ordinary shares in issue with a nominal value of 56/57th pence (2007: 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.

As at 30 April 2008, there were 12,783,677 (2007: Nil) B shares in issue with a nominal value of 63 pence each.

The holders of the 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 now at any time mandatorily redeem the B Shares at their nominal value.

Section 5.6 of this Directors' report gives details of any shareholders (other than the Directors) that hold major interests in 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 were interested in 25.1% of the ordinary shares in issue as at 30 April 2008 (2007: 24.9%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2008 (2007: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts held a further 0.7% of the ordinary shares in issue as at 30 April 2008 (2007: 0.6%). 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.

There are a number of agreements that take effect, alter or terminate on a change of control of the Company such as commercial contracts, bank loan agreements and employee share plans. The most significant of these are:

- The Group operates the South Western Trains and East Midlands Trains rail franchises. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these three franchises each contain provisions that would enable the Department for Transport to terminate the franchises on a change of control of the franchise.
- Each of the three rail franchises referred to above lease trains. The leases generally contain termination rights for the benefit of the lessor on a change of control of the Group.
- The Group's bank facilities contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.

The impact of a change of control of the Group on remuneration arrangements is explained in section 10.19.

## 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
2008	10,360,416	1,100,998,707	0.9%
2007	7,398,394	1,093,600,313	0.7%
2006	24,055,086	1,069,545,227	2.2%
Total last 3 years	41,813,896		3.8%
2005	13,505,982	1,335,358,600	1.0%
2004	14,412,588	1,320,946,012	1.1%
Total last 5 years	69,732,466		5.9%

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 businesses	Total
2008	10,360,416	Nil	10,360,416
2007	7,398,394	Nil	7,398,394
2006	20,033,016	4,022,070	24,055,086
Total last 3 years	37,791,826	4,022,070	41,813,896
2005	13,505,982	Nil	13,505,982
2004	14,412,588	Nil	14,412,588
Total last 5 years	65,710,396	4,022,070	69,732,466

At 30 April 2008, the Company had 718,145,299 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 2008 were:

Year ended 30 April 2008	1.4%
Three years ended 30 April 2008	5.8%
Five years ended 30 April 2008	9.7%

During the year ended 30 April 2008, the ordinary shares of the Company were consolidated with 9 shares issued for every 14 shares previously held and 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 consolidations.

## 5.16 Post balance sheet events

On 16 May 2008, the Group completed the acquisition of Highland Country Buses Ltd and Orkney Coaches Ltd from Rapsons Coaches Ltd. The businesses acquired, which operate bus and coach services in the Highlands, Skye and Orkney, have an annual turnover of approximately £12.5m, employ around 400 people and run a fleet of around 200 vehicles.

On 31 May 2008, holders of 2,904,318 redeemable 'B' preference shares elected to have these shares redeemed leaving 9,879,359 redeemable 'B' preference shares in issue.

## 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

25 June 2008

## 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

The Directors believe that the Group currently complies with all of the recommendations contained in the Combined Code.

For the first two months of the year ended 30 April 2008, the Company did not fully comply with the recommendations of the Combined Code. Russell Walls stepped down as a non-executive director during the year ended 30 April 2007 and the Group appointed Garry Watts as a non-executive director on 1 July 2007. For the period from 25 August 2006 to 1 July 2007:

- The Audit Committee did not have a Chairman and comprised only two directors, neither of whom had 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 had 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, fewer than half of each of the Board and Nomination Committee (in each case excluding the Chairman) were 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 on 1 July 2007 remedied 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). The Company's Board comprises nine directors. Excluding the Chairman, the Board considers that there are 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 sufficiently 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 generally 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 the 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 the Directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all the 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 the 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 five. The full Board typically 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. 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 three independent non-executive directors. 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 currently comprises three independent non-executive directors. It 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 four 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 Glog. The Committee considers health, safety and environmental issues across the Group and reports regularly to the Board on these matters.

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 2008:

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	5	5	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Brian Souter	5	5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	5	5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Ewan Brown	5	5	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Iain Duffin	5	5	3	3	3	3	3	3	n/a	n/a	1	1
Ann Gloag	5	5	n/a	n/a	n/a	n/a	3	3	n/a	n/a	1	1
Sir George Mathewson	5	5	n/a	n/a	2	3	n/a	n/a	1	1	1	1
Janet Morgan	5	5	3	3	2	2	3	3	1	1	1	1
Garry Watts – appointed 1 July 2007	4	4	2	2	1	1	n/a	n/a	n/a	n/a	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 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.

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 other general meetings. The Group aims to ensure that all the 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 14 and 15.

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 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 2008 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.

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.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.

As might be expected, a number of minor internal control weaknesses were identified by these procedures 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.

## 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 is the current Chairman of the Railways Pension Scheme trustees. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

PricewaterhouseCoopers LLP ("PwC") acted as the actuary for The Yorkshire Traction Company Limited Pension Plan up until the scheme was merged into the principal UK Scheme on 1 April 2008. PwC do not act as actuaries or advisors to 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.

## 7. Audit Committee report

### 7.1 Composition of the Audit Committee

The Audit Committee currently comprises three independent non-executive directors. At the present time, its members are Garry Watts, Janet Morgan and Iain Duffin. Garry Watts joined the Board as a non-executive director on 1 July 2007 and became 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 designated Committee member with recent and relevant financial experience is therefore Garry Watts.

In the period from 25 August 2006 to 1 July 2007, 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 2008. 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 per annum 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 £0.7m for PricewaterhouseCoopers LLP and non-audit related fees of £0.1m 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.



Garry Watts  
Chairman of the Audit Committee

25 June 2008



## 8. Nomination Committee report

### 8.1 Composition of the Nomination Committee

The Nomination Committee currently comprises four non-executive directors that the Board considers to be independent, Robert Speirs (who acts as Chairman), Ewan Brown, Janet Morgan and Sir George Mathewson. The Committee also includes, by invitation, the other Non-Executive Directors, as necessary.

### 8.2 Operation of the Nomination Committee

The Nomination 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.

Whilst the Chairman himself is not involved in the selection of his successor, the Committee is mindful of the importance of a smooth transition to a new Chairman in due course. The Committee is confident that a strong successor to the Chairman can be appointed at an appropriate time either from the existing Board or from outside the Group.



Robert Speirs  
Chairman of the Nomination Committee

25 June 2008

## 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 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 ended 30 April 2007. 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. 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. Training is provided to the Committee on health, safety and environmental matters.

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

25 June 2008

## 10. Directors' remuneration report

The Board supports the principles of good corporate governance relating to directors' remuneration and has applied them as described below. Those paragraphs that have been audited have been highlighted as such.

### 10.1 Composition of the Remuneration Committee

During the year ended 30 April 2008, Iain Duffin chaired the Remuneration Committee and the other members were Sir George Mathewson and Garry Watts, who joined the Remuneration Committee on his appointment to the Board on 1 July 2007. All three members are independent non-executive directors. Committee meetings which took place during the period from 1 May 2007 until Garry Watts was formally appointed on 1 July 2007, were attended by at least one other independent non-executive director.

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, tax advice, 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 annual fee. The fee for each non-executive director is set out in Table 2 on page 34. 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.

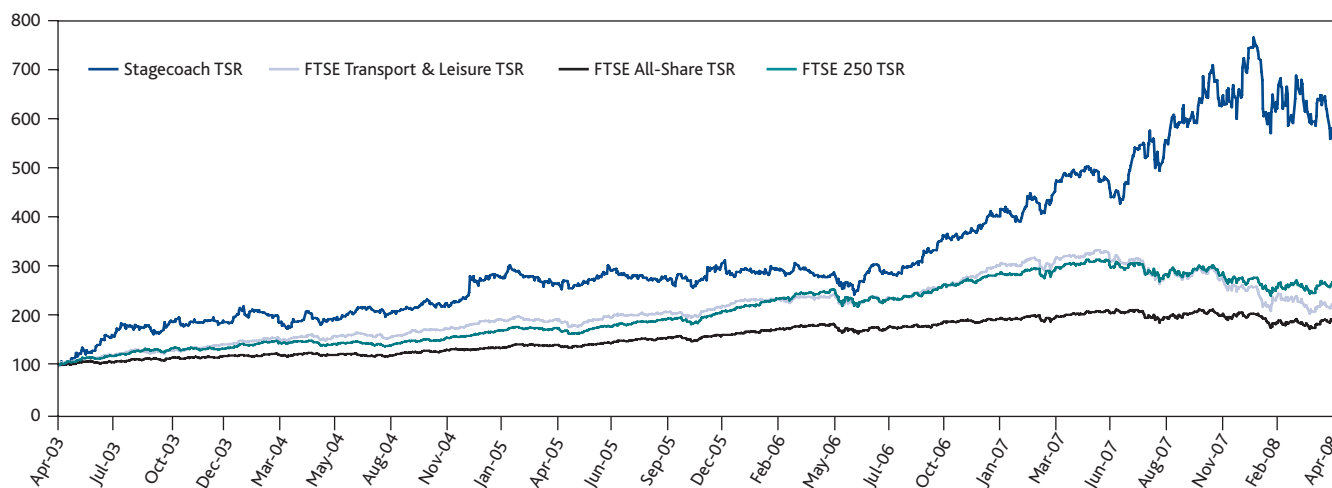
The Board of Directors as a whole, having given due regard to the required time commitment and responsibilities, sets the fees and expenses payable to the Non-Executive Directors. Non-executive directors do not hold any share options, nor do they participate in any incentive plans or pension schemes 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 by the Committee other than as shareholders, no 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

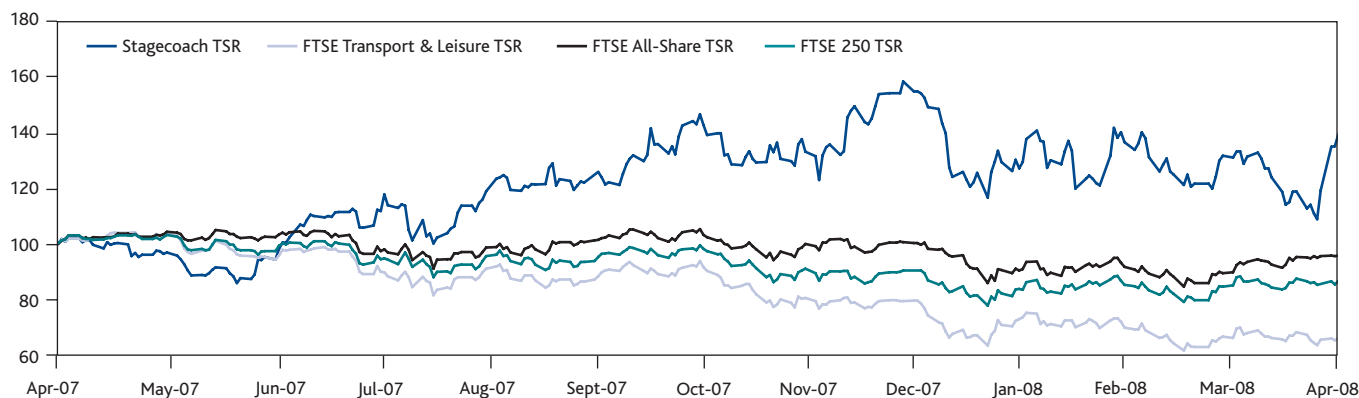
The graph below charts the performance of the Stagecoach Group Total Shareholder Return ("TSR") (share value movement plus reinvested dividends) over the 5 years to 30 April 2008 compared with that of the FTSE Transport and Leisure All-Share Index, the FTSE 250 Index and the FTSE All-Share Index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2008.

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 2003



### Stagecoach 1 Year TSR Comparative Performance to 30 April 2008



## 10.4 Remuneration Policy

The Remuneration Policy was approved by our shareholders at the 2007 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. The Remuneration Committee is able to consider all relevant factors when setting executive directors' remuneration, including environmental, social and governance matters. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short-term and long-term targets. Performance targets can include traditional financial indicators and personal targets, successful investment, innovation, staff development, customer satisfaction, regulatory requirements and achievement of health, safety and environmental targets. The Remuneration Committee ensures that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour. A separate Health, Safety and Environmental Committee report is included in section 9 of this annual report.

The Remuneration Committee regularly 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 pension scheme 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 has typically made awards of Incentive Units under the Long Term Incentive Plan to executive directors equivalent to one times basic salary, the expected value of the Incentive Units at 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**

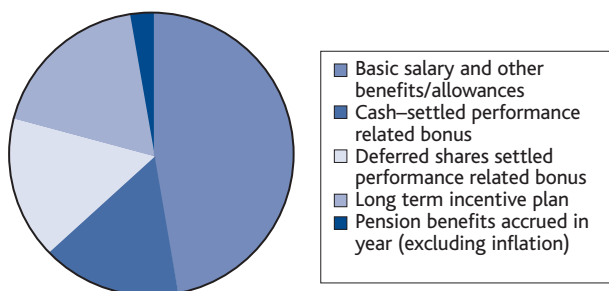
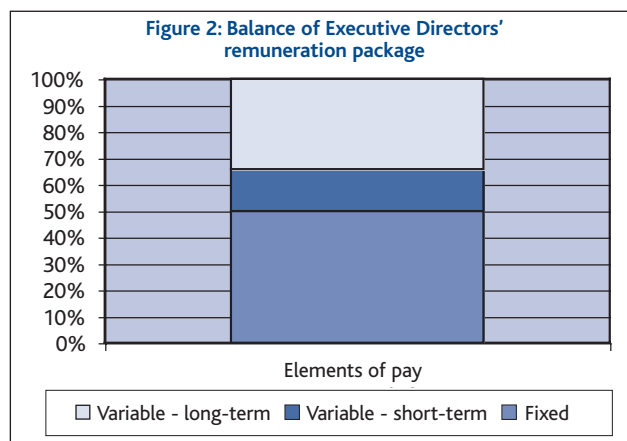


Figure 2 provides a further analysis of the intended balance of executive directors' pay between fixed elements (for example, basic salary and pension benefits), variable short-term elements (for example, annual cash bonuses) and variable long-term elements (for example, awards under share based incentive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

Shareholders are invited to specifically approve all new long-term remuneration plans (whether equity-settled or cash-settled plans) and any significant changes to existing plans, except where changes are 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 the incentive schemes for executive directors and senior executives, there are also a number of other performance-related bonus schemes of more general application within Group companies not discussed in this report, in addition to the approved SAYE scheme accessible to all UK employees.

## 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 2008 is summarised in Table 1 on page 34. The Executive Directors have not received executive share options in the year ended 30 April 2008 (2007: None).

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 2008 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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Executive directors</b>												
Brian Souter	532	514	253	257	253	257	17	17	Nil	Nil	1,055	1,045
Martin Griffiths	360	257	180	128	180	128	19	20	82	42	821	575
<b>Non-executive directors</b>												
Ewan Brown	42	40	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	42	40
Ann Gloag	42	40	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	42	40
Robert Speirs	130	110	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	130	110
Russell Walls (resigned 25 August 2006)	Nil	13	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	13
Janet Morgan	42	40	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	42	40
Iain Duffin	42	42	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	42	42
Sir George Mathewson – (appointed 8 June 2006)	42	33	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	42	33
Garry Watts – (appointed 1 July 2007)	35	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	35	Nil
<b>Total</b>	<b>1,267</b>	<b>1,089</b>	<b>433</b>	<b>385</b>	<b>433</b>	<b>385</b>	<b>36</b>	<b>37</b>	<b>82</b>	<b>42</b>	<b>2,251</b>	<b>1,938</b>
Consultancy fee paid to former directors:												
Graham Eccles	80	80	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	80	80

† 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 the 2006 Annual Report.

\*\*Salary for Brian Souter above of £532,000 is stated gross of notional pension contributions that are deducted as part of participating in the pension salary sacrifice arrangement. These contributions are shown within the increase in transfer value less pension contributions in Table 3. Stagecoach Group Pension Scheme introduced a salary sacrifice arrangement during the year.

\*\*\*The non-pensionable allowance for Martin Griffiths above of £82,000 is stated gross of a notional pensionable contribution, which is in practice deducted from the allowance that is made to him (so he actually received £72,000).

<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	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007*
<b>Executive directors</b>												
Brian Souter*	49	81	308	285	601	543	173	157	130		5,081	4,908
Martin Griffiths*	10	16	37	33	112	100	24	21	24		371	347

\* Brian Souter and Martin Griffiths participated in salary sacrifice arrangements during the year. The contributions in the table above include salary sacrificed by the directors and paid directly to the pension scheme by the employer.

† The transfer value of pension for 2007 has been updated to reflect market conditions at 30 April 2008.

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.

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 2008 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 2008, 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 2009.

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 2008 are shown in Table 4 below.

Director	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Shares	Cash	Shares
Brian Souter	47.5%	47.5%	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 Plan

The 2005 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 participants would lose their entitlement to the deferred shares if they left of their 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.

Grant Date	As at 1 May 2007 (notional units)	Awards granted in year (notional units)	Dividends in year (notional units)	As at 30 April 2008 (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	183,817	Nil	3,346	187,163	30 June 2009	£204,466	£1.1525
28 June 2007	Nil	141,526	2,577	144,103	28 June 2010	£256,829	£1.8075
	183,817	141,526	5,923	331,266			
<b>Martin Griffiths</b>							
30 June 2006	92,461	Nil	1,683	94,144	30 June 2009	£102,849	£1.1525
28 June 2007	Nil	70,677	1,286	71,963	28 June 2010	£128,258	£1.8075
	92,461	70,677	2,969	166,107			

## 10.10 Benefits in kind and other allowances

The benefits in kind shown in Table 2 on page 34 for the year ended 30 April 2008 comprise:

- Brian Souter received £17,200 of cash allowance in lieu of company car and £236 in re-imbursement of home telephone expenses.
- Martin Griffiths received £18,000 of cash allowance in lieu of company car, £656 of healthcare benefits and £706 in re-imbursement of home telephone expenses.

## 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.

Following the new pensions regime introduced in the UK by the Pensions Act 2004, the Group introduced a notional pensionable earnings cap to replace the previous statutory pensionable earnings cap in the Group's main pension scheme. Further to this, during the year ended 30 April 2007, the Group also introduced an annual cap of 3.5% on pensionable salary growth under the scheme and this cap also applies to the notional pensionable earnings cap.

Pension benefits accruing to Martin Griffiths under the Stagecoach Group defined benefit scheme are limited both by the notional pensionable earnings cap and by the 3.5% cap on pensionable salary growth as explained above. The Company makes cash contributions to Martin Griffiths for the part of his basic salary that exceeds the notional cap. Life assurance of four times basic annual salary is provided under the 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.

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 exercise price of the share options in Table 6 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 2008 was £2.57 per share (30 April 2007: £1.87 per share). The Company's ordinary shares traded in the range £1.65 to £2.95 (year ended 30 April 2007: £0.93 to £1.89) during the year to that date.

All of the executive share options shown in Table 6 have vested and may be exercised at any time.

In addition to the share options shown in Table 6, one director held options issued under the Group's Save As You Earn scheme. Details are shown in Table 7 on page 36. Further information on these options is detailed in note 30 to the consolidated financial statements on pages 94 and 95. The expiry date of any individual SAYE option can be extended to be six months following the

## Directors' remuneration report

date of payment of the final amount due under the related savings account but may be no later than six months after the exercise date shown.

Gains made by directors on the exercise of share options during the year ended 30 April 2008 are shown in Table 8 on page 37.

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 after June 2001 but prior to 4 December 2004, exercise of the options was 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. Inflation for this purpose is measured as the change in the UK Retail Prices Index ("RPI").

### 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.

Similarly, the consolidation of ordinary shares related to the return of capital in September 2004 coupled with another consolidation of the ordinary shares from a subsequent return of value in May and June 2007 has impacted the percentage of the running total of share capital allocated to all share options in the previous 10 years. The practical effect has been that the percentage of share capital allocated to the overall total of options issued (including Executive Options along with those previously allocated to all employee SAYE share options) has doubled through the consolidation process to 10.2% and so exceeded 10% of the current issued ordinary shares. Therefore, it would not be possible to satisfy any new SAYE awards with newly issued shares since to do so would exceed the 10% overall limit set for all options under the SAYE schemes rules.

The Board and the Committee believes that awards made to the many of our employees under the SAYE scheme are a valued component of total remuneration and have encouraged our employees to contribute to and participate in the success of the Group's financial performance over recent years. It has been the Group's practice to make new SAYE offerings every three years and it would be its intention to do so again. The Group would propose therefore to amend the SAYE rules to make a new SAYE offering to its employees that can be satisfied by issuing new shares. This would be done by temporarily increasing the overall limit for options that may be issued from 10% up to 12.8%, from which 5% would be allocated for issuing new shares to satisfy all-employee share schemes, such as the SAYE. No further options would be granted over shares to be issued under Executive Schemes that currently account for 7.8% of the overall total of 10.2%.

The Board proposes to seek shareholder approval for these changes to temporarily increase the limits that can be applied for the SAYE scheme at the Annual General meeting scheduled for 29 August 2008.

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 2008, these trusts held 4,984,444 56/57th ordinary shares (2007: 6,195,278 12/19th ordinary shares) in the Company, representing 0.7% (2007: 0.6%) of the total issued ordinary shares. The Company follows the ABI guideline that the shares held by Employee Share Ownership Trusts should not exceed 5% of the total shares in issue. The Employee Share Ownership Trusts have waived the right to receive dividends on the shares held by them.

<b>TABLE 6 – EXECUTIVE SHARE OPTIONS</b> Grant Date	As at 1 May 2007	Exercised in year (see Table 8)	As at 30 April 2008	Exercise price £	Date from which exercisable	Expiry date
<b>Brian Souter</b>						
23 July 2002	1,226,667	(1,226,667)	Nil	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	1,703,704	(1,703,704)	Nil	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	582,645	(582,645)	Nil	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	291,022	(291,022)	Nil	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	564,548	(564,548)	Nil	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	217,085	Nil	217,085	1.1150	10 Dec 2007	10 Dec 2011
	<b>4,585,671</b>	<b>(4,368,586)</b>	<b>217,085</b>			
<b>Martin Griffiths</b>						
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	(256,997)	Nil	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	98,822	Nil	98,822	1.1150	10 Dec 2007	10 Dec 2011
	<b>736,886</b>	<b>(256,997)</b>	<b>479,889</b>			

<b>TABLE 7 – SAYE OPTIONS</b>	At 1 May 2007	Exercised in year (see Table 8)	At 30 April 2008	Exercise price £	Date from which exercisable	Expiry date
Martin Griffiths	9,174	(9,174)	Nil	1.03275	1 April 2008	30 Sep 2008

## 10.14 Long Term Incentive Plan

To be applicable for only a small number of senior executives, including executive directors, the 2005 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 9 below.

Under the LTIP, executives are awarded notional Incentive Units at the discretion of the Remuneration Committee with each Incentive 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 intends to settle all such awards in cash but would support the settlement in shares via an employee share ownership trust where executives wish to increase their holdings in the Company's shares.

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 from the date of an award 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, no 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.

TABLE 8 – OPTIONS EXERCISED IN YEAR Original date of grant	Date of exercise/sale	Number of ordinary shares under option	Exercise price per share £	Average selling price per share/market price at exercise £	Gain before transaction costs and taxes £
<b>Martin Griffiths</b>					
<i>Shares sold immediately on exercise of options</i>					
25 June 2004	4 Sep 2007	256,997	0.85750	2.3100	373,288
<i>Shares retained on exercise of options</i>					
11 February 2005 (SAYE options)	7 April 2008	9,174	1.03275	2.4379	12,891
		<u>266,171</u>			<u>386,179</u>
<b>Brian Souter</b>					
<i>Shares retained on exercise of options</i>					
23 July 2002	4 July 2007	1,226,667	0.37500	1.9200	1,895,201
5 December 2002	4 July 2007	1,703,704	0.27000	1.9200	2,811,112
26 June 2003	4 July 2007	582,645	0.60500	1.9200	766,178
12 December 2003	4 July 2007	291,022	0.80750	1.9200	323,762
25 June 2004	4 July 2007	564,548	0.85750	1.9200	599,832
		<u>4,368,586</u>			<u>6,396,085</u>

TABLE 9 – LTIP AWARDS Grant Date	As at 1 May 2007 (notional units)	Awards granted in year (notional units)	Dividends in year (notional units)	As at 30 April 2008 (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	476,895	Nil	8,521	485,416	26 Aug 2008	£198,850	£1.1075
29 June 2006	465,998	Nil	8,327	474,325	29 Jun 2008	£198,706	£1.1325
28 June 2007	Nil	294,129	5,255	299,384	28 Jun 2010	£290,246	£1.8075
	<u>942,893</u>	<u>294,129</u>	<u>22,103</u>	<u>1,259,125</u>			
<b>Martin Griffiths</b>							
26 Aug 2005	231,417	Nil	4,135	235,552	26 Aug 2008	£96,494	£1.1075
29 June 2006	232,717	Nil	4,158	236,875	29 Jun 2008	£99,233	£1.1325
28 June 2007	Nil	199,170	3,559	202,729	28 Jun 2010	£196,541	£1.8075
	<u>464,134</u>	<u>199,170</u>	<u>11,852</u>	<u>675,156</u>			

## Directors' remuneration report

### 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 the 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 2008 were:

TABLE 10 – EXECUTIVE DIRECTORS' INTERESTS	Brian Souter	Martin Griffiths
Ordinary shares	104,721,606	19,350
Shares held under Executive Share Options		
– Vested	217,085	479,889
Deferred Shares under Executive Participation Plan	331,266	166,107
Notional units under Long Term Incentive Plan	1,259,125	675,156
	<u>106,529,082</u>	<u>1,340,502</u>

### 10.17 Directors' service agreements

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

TABLE 11 – EXECUTIVE DIRECTORS' SERVICE CONTRACTS		
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.

### 10.18 Early termination

If the Company terminates an executive director's contract, the costs for which the Company is liable will vary depending on length of service. 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.

### 10.19 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 currently outstanding, 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, Incentive 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.

### 10.20 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.

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

#### 10.21.1 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 (2007: £20,000). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2008 4,084,999 (2007: 6,354,443) ordinary shares in the Company, representing 0.6% (2007: 0.6%) of the ordinary shares in issue.

#### 10.21.2 Alexander Dennis Limited

Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a non-executive director of Stagecoach) collectively hold 37.9% (30 April 2007: 37.2%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see 10.22.1 above) controls a further 28.4% (30 April 2007: 27.9%) 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.

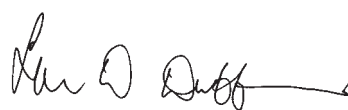
For the year ended 30 April 2008, the Group purchased £34.8m (2007: £42.8m) of vehicles from Alexander Dennis Limited and £3.2m (2007: £3.9m) of spare parts and other services.

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 2008, the Group has placed orders totalling £42.8m (2007: £45.6m) with Alexander Dennis Limited for the purchase of new vehicles. Of this £42.8m (2007: £45.6m), vehicles accounting for £34.8m (2007: £5.0m) were delivered prior to 30 April 2008 and are included in the total purchases of £34.8m (2007: £42.8m) referred to above.

### 10.22 Remuneration policy approval

An ordinary resolution to receive and approve this Directors' remuneration report will be proposed at the 2008 Annual General Meeting.

On behalf of the Board



Iain Duff  
Chairman of the Remuneration Committee

25 June 2008



# 11. Responsibility statement

The Directors confirm that to the best of their knowledge:

- The Group financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- The Chairman's statement, Chief Executive's review, Directors' report and Operating and Financial Review include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on 25 June 2008 on behalf of the Board by:



Brian Souter  
Chief Executive



Martin A Griffiths  
Finance Director

# 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 2008 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 101) on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2008 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 (2006) 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 2008 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 2008 and of its profit and cash flows for the year then ended.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Glasgow

25 June 2008

# Consolidated income statement

For the year ended 30 April 2008

	Notes	2008			2007		
		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>							
Revenue	2	1,763.6	Nil	1,763.6	1,504.6	Nil	1,504.6
Operating costs	3	(1,734.5)	(7.9)	(1,742.4)	(1,571.0)	19.3	(1,551.7)
Other operating income	5	143.6	Nil	143.6	213.5	Nil	213.5
<b>Operating profit of Group companies</b>	2	<b>172.7</b>	<b>(7.9)</b>	<b>164.8</b>	147.1	19.3	166.4
Share of profit of joint ventures after finance income and taxation		32.6	(5.1)	27.5	14.2	0.3	14.5
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	2	<b>205.3</b>	<b>(13.0)</b>	<b>192.3</b>	161.3	19.6	180.9
Gain on sale of properties	4	Nil	0.3	0.3	Nil	3.6	3.6
Loss on disposed and closed operations	4	Nil	(1.7)	(1.7)	Nil	(1.1)	(1.1)
<b>Profit before interest and taxation</b>		<b>205.3</b>	<b>(14.4)</b>	<b>190.9</b>	161.3	22.1	183.4
Finance costs	6	(45.2)	Nil	(45.2)	(20.7)	Nil	(20.7)
Finance income	6	14.3	7.3	21.6	21.4	Nil	21.4
<b>Profit before taxation</b>		<b>174.4</b>	<b>(7.1)</b>	<b>167.3</b>	162.0	22.1	184.1
Taxation	8	(28.3)	90.2	61.9	(37.8)	(5.8)	(43.6)
<b>Profit for the year from continuing operations</b>		<b>146.1</b>	<b>83.1</b>	<b>229.2</b>	124.2	16.3	140.5
<b>DISCONTINUED OPERATIONS</b>							
<b>Profit for the year from discontinued operations</b>	18	<b>Nil</b>	<b>19.9</b>	<b>19.9</b>	4.0	132.8	136.8
<b>TOTAL OPERATIONS</b>							
<b>Profit after taxation for the year attributable to equity shareholders of the parent</b>		<b>146.1</b>	<b>103.0</b>	<b>249.1</b>	128.2	149.1	277.3
<b>Earnings per share from continuing and discontinued operations</b>							
– Adjusted/Basic	10	20.3p		34.6p	11.7p		25.4p
– Diluted	10	19.8p		33.8p	11.6p		25.1p
<b>Earnings per share from continuing operations</b>							
– Adjusted/Basic	10	20.3p		31.8p	11.4p		12.9p
– Diluted	10	19.8p		31.1p	11.2p		12.7p
<b>Dividends per ordinary share</b>							
– Interim paid	9			1.35p			1.2p
– Final proposed	9			4.05p			2.9p

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

An interim dividend of £9.5m was paid during the year ended 30 April 2008 (2007: £13.1m).

A final dividend of £28.9m has been proposed for approval in respect of the year ended 30 April 2008 (2007: £20.4m).

# Consolidated balance sheet

As at 30 April 2008

		2008	2007
	Notes	£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	11	95.5	92.8
Other intangible assets	12	24.7	20.9
Property, plant and equipment	13	652.4	599.2
Interests in joint ventures	14	33.9	39.1
Available for sale and other investments	16	1.8	1.1
Derivative instruments at fair value	28(j)	11.0	Nil
Retirement benefit assets	27	51.6	16.6
Deferred tax asset	25	6.9	6.8
Other receivables	21	2.9	2.9
		<b>880.7</b>	779.4
<b>Current assets</b>			
Inventories	20	21.3	11.7
Trade and other receivables	21	185.0	142.1
Derivative instruments at fair value	28(j)	33.4	1.7
Foreign tax recoverable		0.1	0.3
Cash and cash equivalents	22	262.2	513.3
		<b>502.0</b>	669.1
<b>Total assets</b>		<b>1,382.7</b>	1,448.5
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	23	467.2	345.9
Current tax liabilities		10.1	24.6
Borrowings	24	79.4	70.9
Derivative instruments at fair value	28(j)	1.4	3.7
Provisions	26	47.2	50.7
		<b>605.3</b>	495.8
<b>Non-current liabilities</b>			
Other payables	23	25.0	10.8
Borrowings	24	514.7	272.4
Derivative instruments at fair value	28(j)	2.3	2.6
Deferred tax liabilities	25	64.6	44.1
Provisions	26	72.0	57.7
Retirement benefit obligations	27	18.4	52.8
		<b>697.0</b>	440.4
<b>Total liabilities</b>		<b>1,302.3</b>	936.2
<b>Net assets</b>		<b>80.4</b>	512.3
<b>EQUITY</b>			
Ordinary share capital	29	7.0	7.0
Share premium account	31	8.0	179.4
Retained earnings	31	(363.6)	91.8
Capital redemption reserve	31	410.8	243.0
Own shares	31	(12.6)	(7.3)
Translation reserve	31	5.7	3.0
Available for sale reserve	31	0.6	Nil
Cash flow hedging reserve	31	24.5	(4.6)
<b>Total equity</b>		<b>80.4</b>	512.3

These financial statements have been approved for issue by the Board of Directors on 25 June 2008.



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 2008

		2008	2007
	Notes	£m	£m
<b>Income and expense recognised directly in equity</b>			
Foreign exchange differences on translation of foreign operations (net of hedging)		2.7	(1.0)
Actuarial gains on Group defined benefit pension schemes	27	4.6	79.4
Share of actuarial (losses)/gains on joint ventures' defined benefit pension schemes		(2.1)	5.0
Net fair value gains/(losses) on cash flow hedges	28(j)	54.6	(9.2)
Net fair value gains/(losses) on available for sale investments	16	0.6	(1.9)
		<b>60.4</b>	<b>72.3</b>
<b>Transfers to the income statement</b>			
Cash flow hedges reclassified and reported in profit for the year	28(j)	(13.8)	5.4
<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)		(1.6)	(0.3)
Tax effect of actuarial gains on Group defined benefit pension schemes		(0.1)	(20.3)
Tax effect of share of actuarial losses/(gains) on joint ventures' defined benefit pension schemes		0.6	(1.5)
Tax effect of share based payments		2.7	3.8
Tax effect of cash flow hedges		(11.7)	Nil
Tax adjustment of change in UK corporation tax rate		1.3	Nil
	8	<b>(8.8)</b>	<b>(18.3)</b>
<b>Net income not recognised in income statement</b>		<b>37.8</b>	<b>59.4</b>
<b>Profit for the year attributable to equity shareholders of the parent</b>		<b>249.1</b>	<b>277.3</b>
<b>Total recognised income and expense for the year attributable to equity shareholders of the parent</b>		<b>286.9</b>	<b>336.7</b>

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 2008

		2008	2007
	Notes	£m	£m
<b>Cash flows from operating activities</b>			
Cash generated by operations	32	260.0	158.0
Interest paid		(45.6)	(25.9)
Interest received		21.4	22.0
Dividends received from joint ventures		31.6	31.1
<b>Net cash flows from operating activities</b>		<b>267.4</b>	<b>185.2</b>
Tax received/(paid)		57.6	(22.9)
<b>Net cash from operating activities after tax</b>		<b>325.0</b>	<b>162.3</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	17	(7.3)	(0.1)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	18	3.6	267.0
Cash outflow in respect of inception of rail franchise		(0.5)	Nil
Purchase of property, plant and equipment		(45.3)	(44.5)
Disposal of property, plant and equipment	32	9.2	11.0
Purchase of intangible assets		(1.0)	(1.7)
Purchase of other investments		(0.3)	(0.4)
Disposal of other investments		Nil	0.2
Movement in loans to joint ventures		(0.3)	1.4
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(41.9)</b>	<b>232.9</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares for cash		7.7	4.7
Return of value to shareholders			
– Redemption and purchase of 'B' shares and 'C' shares		(397.0)	Nil
– Dividends paid on 'C' shares		(284.6)	Nil
– Costs associated with the return of value		(3.3)	Nil
Investment in own ordinary shares by employee share ownership trusts		(8.4)	(2.1)
Sale of own ordinary shares by employee share ownership trusts		3.1	0.9
Repayments of hire purchase and lease finance		(33.1)	(28.2)
Movement in other borrowings		212.8	(11.6)
Dividends paid on ordinary shares		(30.0)	(41.5)
Sale of tokens		4.4	6.8
Redemption of tokens		(6.0)	(9.1)
<b>Net cash used in financing activities</b>		<b>(534.4)</b>	<b>(80.1)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(251.3)</b>	<b>315.1</b>
Cash and cash equivalents at the beginning of year		512.5	198.3
Exchange rate effects		0.4	(0.9)
<b>Cash and cash equivalents at the end of year</b>	22	<b>261.6</b>	<b>512.5</b>
<b>Cash and cash equivalents at the end of year comprises:</b>			
Cash and cash equivalents included within current assets		262.2	513.3
Bank overdrafts included within borrowings		(0.6)	(0.8)
		<b>261.6</b>	<b>512.5</b>

Cash and cash equivalents for the purposes of the consolidated cash flow statement comprise cash at bank and in hand, overdrafts and other short term highly liquid investments with maturities of three months or less.

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 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		–	–	–	–	–	–	(1.9)	(9.2)	(9.2)
Net fair value losses on available for sale investments		–	–	–	–	–	–	–	–	(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 43)		–	–	(18.3)	–	–	–	–	–	(18.3)
Own ordinary shares purchased		–	–	–	–	(2.1)	–	–	–	(2.1)
Own ordinary shares sold		–	–	–	–	0.9	–	–	–	0.9
Arising on new ordinary share issues		0.1	4.6	–	–	–	–	–	–	4.7
Credit in relation to equity-settled share based payments		–	–	2.0	–	–	–	–	–	2.0
Dividends paid on ordinary shares	9	–	–	(41.5)	–	–	–	–	–	(41.5)
<b>Balance at 30 April 2007 and 1 May 2007</b>		7.0	179.4	91.8	243.0	(7.3)	3.0	–	(4.6)	512.3
Profit for the year		–	–	249.1	–	–	–	–	–	249.1
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	2.7	–	–	2.7
Actuarial gains on Group defined benefit pension schemes		–	–	4.6	–	–	–	–	–	4.6
Share of actuarial losses on joint ventures' defined benefit pension schemes		–	–	(2.1)	–	–	–	–	–	(2.1)
Net fair value gains on cash flow hedges		–	–	–	–	–	–	–	54.6	54.6
Net fair value gains on available for sale investments		–	–	–	–	–	–	0.6	–	0.6
Cash flow hedges reclassified and reported in profit for the year		–	–	–	–	–	–	–	(13.8)	(13.8)
Tax on items taken directly to equity (for split see Consolidated statement of recognised income and expense on page 43)		–	–	2.9	–	–	–	–	(11.7)	(8.8)
Own ordinary shares purchased		–	–	–	–	(8.4)	–	–	–	(8.4)
Own ordinary shares sold		–	–	–	–	3.1	–	–	–	3.1
Return of value to shareholders		–	(175.8)	(674.4)	160.6	–	–	–	–	(689.6)
Expenses associated with return of value		–	(3.3)	–	–	–	–	–	–	(3.3)
Preference shares redeemed		–	–	(7.2)	7.2	–	–	–	–	–
Arising on new ordinary share issues		–	7.7	–	–	–	–	–	–	7.7
Credit in relation to equity-settled share based payments		–	–	1.7	–	–	–	–	–	1.7
Dividends paid on ordinary shares	9	–	–	(30.0)	–	–	–	–	–	(30.0)
<b>Balance at 30 April 2008</b>		7.0	8.0	(363.6)	410.8	(12.6)	5.7	0.6	24.5	80.4

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 during the year

The Group has early adopted IFRIC 12 'Service Concession Arrangements' which is compulsory for accounting periods commencing after 1 January 2008. We have applied IFRIC 12 to our Manchester Metrolink business which we started operating during the year ended 30 April 2008. Accordingly there has been no prior year restatement needed on adoption of this interpretation. The impact of adopting IFRIC 12 on the current year results was not material in the context of the consolidated financial statements as a whole.

The Group has adopted for the first time IFRS 7 'Financial Instruments'. This standard introduces new disclosures which are principally included in note 28. IFRS 7 has not had any impact on the classification or valuation of any amounts in the financial statements.

### • 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:

<i>International Accounting Standards and Interpretations</i>	<i>Effective date</i>
IFRS 2 Share-based Payments: Amendment re vesting conditions and cancellations	1 January 2009
IFRS 3 Business Combinations (revised January 2008)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IAS 23 Borrowing costs (revised March 2007)	1 January 2009
IAS 27 Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions	1 January 2008

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

### • Comparatives

Where appropriate, comparative figures for the previous year have been adjusted to conform with changes in presentation. These changes have no impact on the consolidated income statement nor on consolidated net assets.

### • 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.



## Note 1 IFRS accounting policies (continued)

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

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

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.

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. A proportion of the cash received for the sale of season tickets and travelcards is deferred within liabilities and recognised in the income statement over the period covered by the relevant ticket.

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

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

Under the contractual terms of its franchise agreements to operate rail services, the Group has revenue sharing arrangements with the DfT. As a result of these arrangements, the Group may be liable to make payments to the DfT or receive amounts from the DfT based on calculations that involve comparison of actual revenue with the target revenue specified in the relevant franchise agreement. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable (if any) are classified within other operating costs and revenue share amounts receivable (if any) are classified within other operating income.

### • Performance incentive payments

Performance incentive payments made to Network Rail by the Group in respect of train service delivery are recognised in the same period that the performance relates to and are shown as other operating costs.

### • 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.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • 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 to IFRS, 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. 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 expects 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 profit 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 is 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 is 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. Stagecoach's London bus operations (part of the UK Bus segment) were disposed of during the year ended 30 April 2007 and therefore the results for this operation are 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.

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

PRINCIPAL RATES OF EXCHANGE	2008	2007
<b>US Dollar:</b>		
Year end rate	<b>1.9806</b>	1.9999
Average rate	<b>2.0072</b>	1.9103
<b>Canadian Dollar:</b>		
Year end rate	<b>1.9947</b>	2.2102
Average rate	<b>2.0525</b>	2.1738

### • 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 equity 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 (other than that already written off to equity) 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, 10 years from February 2007 to February 2017 for new South Western franchise and 7 years and 4 months from November 2007 to March 2015 for new East Midlands Trains 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.

# Notes to the consolidated financial statements

## 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 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 2008, it has been estimated that 97% (30 April 2007: 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.



## 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")
- The East Midlands section of the Railways Pension Scheme ("RPS")
- A number of UK local Government Pension Schemes ("LGPS")

During the year ended 30 April 2008, both the Yorkshire Traction Company Limited Pension Plan ("YTC") and the Strathgry Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO") were merged with SGPS. All assets and liabilities of YTC and SSO were transferred into SGPS.

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 using independent actuaries following 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 the life of the franchise to which the section relates.

For defined contribution schemes, the Group pays contributions to separately 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 IFRS 7 'Financial Instruments: Disclosures' 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.

# Notes to the consolidated financial statements

## 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. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered in evaluating whether a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Other external charges'. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

*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. These are included in non-current assets unless the Group intends to dispose of them within 12 months of the balance sheet date. 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.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and is recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through 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. Such 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.

## Note 1 IFRS accounting policies (continued)

### • Financial instruments (continued)

*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.

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.

#### *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 purchase ordinary shares in the Company, 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".

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.

# Notes to the consolidated financial statements

## Note 2 Segmental information (continued)

### (a) Revenue (continued)

	2008	2007
	£m	£m
<b>Continuing operations</b>		
UK Bus	<b>743.9</b>	690.4
North America	<b>241.9</b>	242.7
Total bus continuing operations	<b>985.8</b>	933.1
UK Rail	<b>777.8</b>	571.5
<b>Group revenue</b>	<b>1,763.6</b>	1,504.6

### (b) Operating profit

	2008			2007		
	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	<b>109.9</b>	<b>Nil</b>	<b>109.9</b>	84.5	28.9	113.4
North America	<b>21.0</b>	<b>Nil</b>	<b>21.0</b>	18.1	Nil	18.1
Total bus continuing operations	<b>130.9</b>	<b>Nil</b>	<b>130.9</b>	102.6	28.9	131.5
UK Rail	<b>59.1</b>	<b>Nil</b>	<b>59.1</b>	58.8	Nil	58.8
Total continuing operations	<b>190.0</b>	<b>Nil</b>	<b>190.0</b>	161.4	28.9	190.3
Group overheads	<b>(13.0)</b>	<b>Nil</b>	<b>(13.0)</b>	(11.1)	Nil	(11.1)
Intangible asset amortisation	<b>Nil</b>	<b>(7.9)</b>	<b>(7.9)</b>	Nil	(9.6)	(9.6)
Restructuring costs	<b>(4.3)</b>	<b>Nil</b>	<b>(4.3)</b>	(3.2)	Nil	(3.2)
<b>Total operating profit of continuing Group companies</b>	<b>172.7</b>	<b>(7.9)</b>	<b>164.8</b>	147.1	19.3	166.4
Share of joint ventures' profit after finance income and taxation	<b>32.6</b>	<b>(5.1)</b>	<b>27.5</b>	14.2	0.3	14.5
<b>Total operating profit:</b>						
<b>Group operating profit and share of joint ventures' profit after taxation</b>	<b>205.3</b>	<b>(13.0)</b>	<b>192.3</b>	161.3	19.6	180.9



**Note 2** Segmental information (continued)

**(c) Joint ventures**

	2008			2007		
	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</b>						
<b>Virgin Rail Group (UK Rail)</b>						
Operating profit	41.9	Nil	41.9	12.4	5.4	17.8
Finance income (net)	4.0	Nil	4.0	3.7	Nil	3.7
Taxation	(13.7)	Nil	(13.7)	(2.6)	Nil	(2.6)
	32.2	Nil	32.2	13.5	5.4	18.9
Goodwill charged on investment in continuing joint ventures	Nil	(5.1)	(5.1)	Nil	(5.1)	(5.1)
	32.2	(5.1)	27.1	13.5	0.3	13.8
<b>Citylink (UK Bus)</b>						
Operating profit	1.1	Nil	1.1	1.3	Nil	1.3
Taxation	(0.3)	Nil	(0.3)	(0.4)	Nil	(0.4)
	0.8	Nil	0.8	0.9	Nil	0.9
<b>New York Splash Tours LLC (North America)</b>						
Operating profit	(0.7)	Nil	(0.7)	(0.2)	Nil	(0.2)
Taxation	0.3	Nil	0.3	Nil	Nil	Nil
	(0.4)	Nil	(0.4)	(0.2)	Nil	(0.2)
<b>Share of joint ventures' profit after finance income and taxation</b>	<b>32.6</b>	<b>(5.1)</b>	<b>27.5</b>	<b>14.2</b>	<b>0.3</b>	<b>14.5</b>

**(d) Gross assets and liabilities**

	2008			2007		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus	634.8	(116.1)	518.7	551.3	(113.1)	438.2
North America	245.1	(72.7)	172.4	226.6	(61.7)	164.9
UK Rail	188.0	(311.7)	(123.7)	95.0	(203.1)	(108.1)
	1,067.9	(500.5)	567.4	872.9	(377.9)	495.0
Central functions	11.7	(133.0)	(121.3)	16.1	(146.3)	(130.2)
Joint ventures	33.9	Nil	33.9	39.1	Nil	39.1
Borrowings and cash	262.2	(594.1)	(331.9)	513.3	(343.3)	170.0
Taxation	7.0	(74.7)	(67.7)	7.1	(68.7)	(61.6)
<b>Total</b>	<b>1,382.7</b>	<b>(1,302.3)</b>	<b>80.4</b>	<b>1,448.5</b>	<b>(936.2)</b>	<b>512.3</b>

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, interest payable, interest receivable and the token provision.

# Notes to the consolidated financial statements

## 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.

	2008	2007
	£m	£m
UK Bus – continuing	80.3	66.7
UK Bus – discontinued	Nil	0.8
North America	28.2	22.2
UK Rail	16.0	2.8
Other	Nil	0.1
	<b>124.5</b>	<b>92.6</b>

Capital expenditure, excluding business combinations is analysed in section 3.8.10 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.

	2008	2007
	£m	£m
UK Bus	5.8	1.3
UK Rail	7.8	12.0
	<b>13.6</b>	<b>13.3</b>

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

The results of each segment are further analysed below:

	Year ended 30 April 2008								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation expense £m	Operating profit pre intangibles and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus	157.5	Nil	157.5	(47.6)	109.9	(5.8)	Nil	(0.5)	103.6
North America	37.9	Nil	37.9	(16.9)	21.0	(0.3)	Nil	(0.2)	20.5
UK Rail – subsidiaries	61.2	Nil	61.2	(2.1)	59.1	(1.8)	Nil	(3.6)	53.7
UK Rail – joint venture (Virgin Rail Group)	41.9	(9.7)	32.2	Nil	32.2	(5.1)	Nil	Nil	27.1
UK Bus – joint venture (Citylink)	1.1	(0.3)	0.8	Nil	0.8	Nil	Nil	Nil	0.8
North America – joint venture (Splash Tours)	(0.7)	0.3	(0.4)	Nil	(0.4)	Nil	Nil	Nil	(0.4)
Group overheads	(13.0)	Nil	(13.0)	Nil	(13.0)	Nil	Nil	Nil	(13.0)
Restructuring costs	(4.3)	Nil	(4.3)	Nil	(4.3)	Nil	Nil	4.3	Nil
	<b>281.6</b>	<b>(9.7)</b>	<b>271.9</b>	<b>(66.6)</b>	<b>205.3</b>	<b>(13.0)</b>	<b>Nil</b>	<b>Nil</b>	<b>192.3</b>

	Year ended 30 April 2007								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation expense £m	Operating profit pre intangibles and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus	129.0	Nil	129.0	(44.5)	84.5	(6.4)	28.9	(1.0)	106.0
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
North 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>

### Note 3 Operating costs

	2008	2007
	£m	£m
Materials and consumables	197.1	174.6
Staff costs excluding past service pension adjustment (note 7)	723.1	672.4
Past service pension adjustment	(0.1)	(28.9)
Depreciation on property, plant and equipment		
– owned assets	50.1	54.0
– leased assets under hire purchase agreements and finance leases	16.5	14.3
Loss on disposal of plant and equipment	0.4	0.2
Repairs and maintenance expenditure on property, plant and equipment	16.2	25.3
Amortisation of intangible assets		
– customer contracts	5.0	5.2
– non-compete contracts	1.1	1.4
– rail franchises	1.7	2.7
– software costs	0.1	0.3
Network Rail charges	282.9	181.7
Operating lease rentals payable		
– Plant and equipment	120.7	106.5
– Property	8.1	5.2
Other external charges	315.0	332.3
Impairment of investments	0.2	1.3
Restructuring costs	4.3	3.2
<b>Total operating costs – continuing operations</b>	<b>1,742.4</b>	<b>1,551.7</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:

	2008	2007
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's financial statements	20.0	20.0
Fees payable to the Company's auditors for the audit of Company's subsidiaries pursuant to legislation	665.0	625.0
<b>Total audit fees</b>	<b>685.0</b>	<b>645.0</b>
Audit related regulatory reporting	Nil	30.0
Other assurance services pursuant to legislation	18.0	34.6
Tax advisory services	109.1	28.7
Provision of training and related materials	9.8	0.8
Advice re return of value and related matters	Nil	230.0
<b>Other non-audit fees</b>	<b>136.9</b>	<b>294.1</b>
<b>Total fees payable by the Group to its auditors</b>	<b>821.9</b>	<b>969.1</b>
Fees received by the Company's auditors from the Company's associated pension schemes	Nil	34.4

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 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, £Nil (2007: £8.7m) was incurred in relation to materials and consumables, £Nil (2007: £52.5m) was incurred for staff costs, £Nil (2007: £2.2m) was incurred for depreciation on owned property, plant and equipment, £Nil (2007: £0.3m) was incurred for depreciation on leased assets under hire purchase agreements and finance leases, £Nil (2007: £0.4m) was incurred in relation to repairs and maintenance, £Nil (2007: £2.5m) was incurred for plant and equipment operating lease rental payments, £Nil (2007: £0.2m) was incurred for property operating lease rental payments and £Nil (2007: £5.2m) was incurred in relation to other external charges in relation to our disposed London bus business.

# Notes to the consolidated financial statements

## Note 4 Exceptional items and intangible asset expenses

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. 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.

Information on exceptional items is provided in section 3.8.2 of the Operating and Financial Review.

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 2008 can be further analysed as follows:

	2008		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
<b>Operating costs</b>			
Amortisation of intangible assets	Nil	(7.9)	(7.9)
<b>Share of profit of joint ventures</b>			
Goodwill charged on investment in joint ventures	Nil	(5.1)	(5.1)
<b>Gain on sale of properties</b>	0.3	Nil	0.3
<b>Loss on disposed and closed operations</b>	(1.7)	Nil	(1.7)
<b>Finance income</b>	7.3	Nil	7.3
<b>Profit for the period from discontinued operations</b>	19.9	Nil	19.9
<b>Intangible asset expenses and exceptional items</b>	25.8	(13.0)	12.8
Tax effect of intangible asset expenses and exceptional items	(1.2)	2.1	0.9
Exceptional tax credit	87.8	Nil	87.8
Tax rate change	1.5	Nil	1.5
<b>Intangible asset expenses and exceptional items after taxation</b>	113.9	(10.9)	103.0

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:

	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)
	28.9	(9.6)	19.3
<b>Share of profit of joint ventures</b>			
Gain on sale of Virgin Rail Group'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>	3.6	Nil	3.6
<b>Loss on disposed and closed operations</b>	(1.1)	Nil	(1.1)
<b>Profit for the period from discontinued operations</b>			
Gain on sale of London bus business	132.2	Nil	132.2
Gain on sale of New Zealand operations	0.6	Nil	0.6
	132.8	Nil	132.8
<b>Intangible asset expenses and exceptional items</b>	169.6	(14.7)	154.9
Tax effect	(8.7)	2.9	(5.8)
<b>Intangible asset expenses and exceptional items after taxation</b>	160.9	(11.8)	149.1

## Note 5 Other operating income

	2008	2007
	£m	£m
Miscellaneous revenue	65.4	50.3
Rail franchise support, excluding incentive payments	78.2	130.9
Rail incentive payments	Nil	32.3
	<b>143.6</b>	<b>213.5</b>

In addition to the above other operating income for continuing businesses, £Nil (2007: £1.1m) was recognised in relation to miscellaneous revenue of our disposed London bus business.

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

Rail franchise support is the gross amount of financial support receivable from the Department for Transport ("DfT").

Rail incentive payments comprise amounts that were receivable from the DfT in respect of the operational performance of our rail companies measured against benchmarks agreed with the DfT. The incentive arrangements have changed since the previous year such that no incentive income was received for the year ended 30 April 2008 (2007: £32.3m), although performance regime amounts continue to be payable to Network Rail and such amounts are included within operating costs in the consolidated income statement.

## Note 6 Finance costs and income

	2008	2007
	£m	£m
<b>Finance costs:</b>		
Interest payable and other facility costs on bank loans and overdrafts	21.6	2.4
Hire purchase and finance lease interest payable	7.5	4.4
Interest payable on bonds	12.2	11.0
'B' share dividends	0.6	Nil
Unwinding of discount on provisions	3.3	2.9
	<b>45.2</b>	<b>20.7</b>
<b>Finance income:</b>		
Interest receivable	(14.0)	(21.3)
Interest receivable on interest rate swaps qualifying as cash flow hedges	(0.3)	Nil
Fair value gains on financial instruments not qualifying as hedges – interest rate swaps	Nil	(0.1)
	<b>(14.3)</b>	<b>(21.4)</b>
<b>Net finance costs/(income) before exceptional items</b>	<b>30.9</b>	<b>(0.7)</b>
<b>Exceptional item:</b>		
Interest receivable on tax repayments	(7.3)	Nil
<b>Net finance costs/(income)</b>	<b>23.6</b>	<b>(0.7)</b>

In addition to the above net finance costs/(income) for continuing businesses, £Nil (2007: £0.6m) of net finance income was recognised in relation to our disposed London bus business, included within discontinued operations.

No interest (2007: £Nil) was capitalised during the year.



# Notes to the consolidated financial statements

## Note 7 Staff costs

	2008	2007
	£m	£m
<b>Staff costs</b>		
Wages and salaries	653.0	600.6
Social security costs	54.7	50.3
Pension costs – defined contribution plans	1.2	0.4
Pension costs – defined benefit plans		
– current service cost	33.1	32.3
– curtailments	(0.3)	Nil
– interest cost	66.4	60.5
– expected return on assets	(91.7)	(74.8)
– unwinding of franchise adjustment	Nil	(0.3)
Share based payment costs (excluding social security costs)		
– Equity-settled	1.7	2.0
– Cash-settled	5.0	1.4
Staff costs, excluding past service pension adjustment	723.1	672.4
Past service pension adjustment (note 27)	(0.1)	(28.9)
	<b>723.0</b>	<b>643.5</b>

	2008	2007
	£m	£m
<b>Summary of directors' remuneration</b>		
Aggregate emoluments	2.3	1.9
Gains made by directors on exercise of share options	6.8	Nil
	<b>9.1</b>	<b>1.9</b>

In addition to the above staff costs, £Nil (2007: £44.6m) of wages and salaries, £Nil (2007: £4.3m) of social security costs and £Nil (2007: £3.6m) of pension costs were incurred in relation to our disposed London bus business.

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 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:

	2008	2007
	number	number
UK operations	22,465	21,715
UK administration and supervisory	2,521	1,911
Overseas	4,562	4,834
	<b>29,548</b>	<b>28,460</b>

The average monthly number of persons employed by the Group during the year split by segment was as follows:

	2008	2007
	number	number
UK Bus	18,304	18,119
North America	4,562	4,834
UK Rail	6,542	5,370
Central	140	137
	<b>29,548</b>	<b>28,460</b>

In addition to the above employees, the average monthly number of persons employed by discontinued operations during the year was Nil (2007: 4,255).

## Note 8 Taxation

### (a) Analysis of charge in the year

	2008			2007		
	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 29.84% (2007: 30%)	1.2	2.5	3.7	21.2	(0.6)	20.6
Prior year under/(over) provision for corporation tax	1.4	(78.0)	(76.6)	(0.9)	Nil	(0.9)
Foreign tax (current year)	1.5	Nil	1.5	1.2	Nil	1.2
Foreign tax (adjustments in respect of prior years)	Nil	Nil	Nil	(0.6)	Nil	(0.6)
<b>Total current tax</b>	<b>4.1</b>	<b>(75.5)</b>	<b>(71.4)</b>	20.9	(0.6)	20.3
Deferred tax:						
Origination and reversal of timing differences	25.4	(4.8)	20.6	17.0	6.4	23.4
Adjustments in respect of prior years	(1.2)	(9.9)	(11.1)	(0.1)	Nil	(0.1)
<b>Total deferred tax</b>	<b>24.2</b>	<b>(14.7)</b>	<b>9.5</b>	16.9	6.4	23.3
<b>Total tax on profit</b>	<b>28.3</b>	<b>(90.2)</b>	<b>(61.9)</b>	37.8	5.8	43.6

In addition to the above tax charge for continuing businesses, £Nil (2007: £1.8m) of tax charges were recognised in relation to our disposed London bus business.

### (b) Factors affecting tax charge for the year

	2008	2007
	£m	£m
Profit before taxation	167.3	184.1
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 29.84% (2007: 30%)	49.9	55.2
Effects of:		
Intangible asset allowances/deductions	1.7	2.8
Non-deductible expenditure	0.7	7.0
Utilisation of tax losses not previously recognised as deferred tax assets	(15.7)	(14.6)
Foreign taxes differences	1.6	0.7
Adjustments to tax charge in respect of prior years	(87.7)	(1.6)
Tax effect of share of results of joint ventures	(9.8)	(5.9)
Impact of reduction in UK tax rate on prior year's deferred tax	(1.5)	Nil
Impact of reduction in UK tax rate on current year's deferred tax	(1.1)	Nil
<b>Total taxation (note 8a)</b>	<b>(61.9)</b>	43.6

### (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 £196.1m (2007: £244.0m) 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 abolish Industrial Buildings Allowances. As at 30 April 2008, this change was not substantively in law but is expected to be enacted in the year ending 30 April 2009. If the change is substantively enacted by 30 April 2009, the estimated impact on the balance sheet would be to increase the deferred tax liability by £13.5m. This impact on the deferred tax balance would be presented as an exceptional tax charge for the year ending 30 April 2009.

### (d) Tax on items charged to equity

	2008	2007
	£m	£m
Tax on foreign exchange differences on translation of foreign operations	1.6	0.3
Tax effect of actuarial gains on Group defined benefit pensions schemes	0.1	20.3
Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes	(0.6)	1.5
Tax effect of share based payments	(2.7)	(3.8)
Tax effect of cash flow hedges	11.7	Nil
Tax effect of reduction in corporation tax rate from 30% to 28%	(1.3)	Nil
<b>Total tax on items charged to equity</b>	<b>8.8</b>	18.3

Gross deductible temporary differences of £196.1m (2007: £244.0m) have not been recognised due to restrictions in the availability of their use.

# Notes to the consolidated financial statements

## Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below. Dividends payable in respect of 'B' Shares of £0.6m (2007: £Nil) are included as an expense in finance costs and shown separately in note 6. The one-off dividends paid on 'C' Shares of £284.6m (2007: £Nil) are included as a movement in equity.

	2008	2007	2008	2007
	pence per share	pence per share	£m	£m
<b>Amounts recognised as distributions in the year</b>				
<b>Dividends on ordinary shares</b>				
Final dividend in respect of the previous year	2.90	2.60	20.5	28.4
Interim dividend in respect of the current year	1.35	1.20	9.5	13.1
<b>Amounts recognised as distributions to equity holders in the year</b>	<b>4.25</b>	<b>3.80</b>	<b>30.0</b>	<b>41.5</b>
<b>Dividends proposed but neither paid nor included as liabilities in the financial statements</b>				
<b>Dividends on ordinary shares</b>				
Final dividend in respect of the current year	4.05	2.90	28.9	20.4

The proposed final dividend in respect of the year ended 30 April 2008 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 1 October 2008 to shareholders on the register at close of business on 29 August 2008.

The dividends proposed or declared and the actual dividends recognised as distributions can differ slightly due to the number of shares at the balance sheet date being different to the number outstanding at the record date.

## 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).

On 14 May 2007, the Company issued 277,777,735 redeemable 'B' shares of 63 pence each and 823,220,972 irredeemable 'C' shares of 63 pence each at the rate of 1 'B' or 'C' share for every 14 ordinary shares held. The issue of the 'B' and 'C' shares was followed by a share capital consolidation whereby shareholders received 9 new ordinary shares for every 14 existing ordinary shares held. In determining the consolidated earnings per share, no adjustment has been made to the number of ordinary shares outstanding before the event where the issue of 'B' and 'C' shares was combined with the share capital consolidation. The weighted average number of ordinary shares outstanding for the year ended 30 April 2008 has been adjusted for the reduction in the number of ordinary shares from the date on which the issue of 'B' and 'C' shares and share consolidation took place. This treatment is consistent with paragraph 29 of International Accounting Standard 33, "Earnings per share".

	2008	2007
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	720.6	1,091.7
Dilutive ordinary shares		
– Executive Share Option Scheme	3.8	7.4
– Employee SAYE Scheme	6.0	2.2
– Long Term Incentive Plan	4.4	2.3
– Executive Participation Plan	2.0	1.0
Diluted weighted average number of ordinary shares	736.8	1,104.6

**Note 10 Earnings per share (continued)**

	<b>2008</b>	2007
	£m	£m
Profit after taxation (for basic EPS calculation)	<b>249.1</b>	277.3
Intangible asset expenses (see note 4)	<b>13.0</b>	14.7
Exceptional items before tax (see note 4)	<b>(25.8)</b>	(169.6)
Tax effect of intangible asset expenses and exceptional items (see note 4)	<b>(90.2)</b>	5.8
Profit for adjusted EPS calculation	<b>146.1</b>	128.2

	<b>2008</b>	2007
	<b>Earnings per share</b>	Earnings per share
	<b>pence</b>	pence
Basic	<b>34.6</b>	25.4
Adjusted basic	<b>20.3</b>	11.7
Diluted	<b>33.8</b>	25.1
Adjusted diluted	<b>19.8</b>	11.6

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 41. 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:

	<b>2008</b>			2007		
	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>229.2</b>	<b>720.6</b>	<b>31.8</b>	140.5	1,091.7	12.9
– Discontinued operations	<b>19.9</b>	<b>720.6</b>	<b>2.8</b>	136.8	1,091.7	12.5
	<b>249.1</b>	<b>720.6</b>	<b>34.6</b>	277.3	1,091.7	25.4
<b>Adjusted basic</b>						
– Continuing operations	<b>146.1</b>	<b>720.6</b>	<b>20.3</b>	124.2	1,091.7	11.4
– Discontinued operations	<b>Nil</b>	<b>720.6</b>	<b>Nil</b>	4.0	1,091.7	0.3
	<b>146.1</b>	<b>720.6</b>	<b>20.3</b>	128.2	1,091.7	11.7
<b>Diluted</b>						
– Continuing operations	<b>229.2</b>	<b>736.8</b>	<b>31.1</b>	140.5	1,104.6	12.7
– Discontinued operations	<b>19.9</b>	<b>736.8</b>	<b>2.7</b>	136.8	1,104.6	12.4
	<b>249.1</b>	<b>736.8</b>	<b>33.8</b>	277.3	1,104.6	25.1
<b>Adjusted diluted</b>						
– Continuing operations	<b>146.1</b>	<b>736.8</b>	<b>19.8</b>	124.2	1,104.6	11.2
– Discontinued operations	<b>Nil</b>	<b>736.8</b>	<b>Nil</b>	4.0	1,104.6	0.4
	<b>146.1</b>	<b>736.8</b>	<b>19.8</b>	128.2	1,104.6	11.6

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 2008.

# Notes to the consolidated financial statements

## Note 11 Goodwill

	2008	2007
	£m	£m
<b>Cost</b>		
At beginning of year	92.8	100.1
Acquired through business combinations	1.9	Nil
Foreign exchange movements	0.8	(7.3)
At end of year	95.5	92.8
<b>Accumulated impairment losses</b>		
At beginning and end of year	Nil	Nil
Net book value at beginning of year	92.8	100.1
Net book value at end of year	95.5	92.8

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; and
- 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	
	2008	2007	2008	2007
	£m	£m	£m	£m
Carrying amount of goodwill	22.8	20.8	72.7	72.0
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 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.



## Note 12 Other intangible assets

### Year ended 30 April 2008

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	14.7	8.0	20.1	0.8	43.6
Acquired on inception of rail franchise	Nil	Nil	7.7	0.1	7.8
Acquired through business combinations	1.1	2.8	Nil	Nil	3.9
Disposals	Nil	Nil	(8.1)	Nil	(8.1)
At end of year	15.8	10.8	19.7	0.9	47.2
<b>Accumulated amortisation</b>					
At beginning of year	(7.6)	(6.1)	(8.5)	(0.5)	(22.7)
Amortisation	(5.0)	(1.1)	(1.7)	(0.1)	(7.9)
Disposals	Nil	Nil	8.1	Nil	8.1
At end of year	(12.6)	(7.2)	(2.1)	(0.6)	(22.5)
Net book value at beginning of year	7.1	1.9	11.6	0.3	20.9
Net book value at end of year	3.2	3.6	17.6	0.3	24.7

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 inception of rail franchises) and the amortisation periods are as follows:

	Amortisation period years	Intangible additions £m
Subsidiaries – UK Bus additions	2	3.9
Subsidiaries – UK Rail additions	7-8	7.8
		11.7

### 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	Nil	0.1	1.3
Acquired on inception of rail franchise	Nil	Nil	12.0	Nil	12.0
Foreign exchange movements	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)
Foreign exchange movements	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

# Notes to the consolidated financial statements

## Note 13 Property, plant and equipment

### Year ended 30 April 2008

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	176.8	795.3	122.2	1,094.3
Additions	17.5	87.7	10.0	115.2
Acquired through business combinations	0.4	4.4	0.3	5.1
Acquired on inception of rail franchise	Nil	Nil	4.2	4.2
Disposals	(0.9)	(46.3)	(7.4)	(54.6)
Sale/closure of subsidiary undertakings and other businesses	(0.9)	(4.2)	(0.1)	(5.2)
Foreign exchange movements	0.5	7.3	0.2	8.0
Reclassifications	Nil	(0.1)	0.1	Nil
At end of year	193.4	844.1	129.5	1,167.0
<b>Depreciation</b>				
At beginning of year	(11.3)	(386.2)	(97.6)	(495.1)
Charge for year	(3.9)	(56.6)	(6.1)	(66.6)
Disposals	0.3	39.5	7.1	46.9
Sale/closure of subsidiary undertakings and other businesses	0.2	3.5	0.1	3.8
Foreign exchange movements	(0.3)	(3.1)	(0.2)	(3.6)
Reclassifications	Nil	0.1	(0.1)	Nil
At end of year	(15.0)	(402.8)	(96.8)	(514.6)
Net book value at beginning of year	165.5	409.1	24.6	599.2
Net book value at end of year	178.4	441.3	32.7	652.4
Included in the above net book value at end of year are:				
Assets on hire purchase	Nil	111.5	Nil	111.5
Leased PSV assets	Nil	45.0	Nil	45.0
Short leasehold land and buildings	11.2	Nil	Nil	11.2
Long leasehold land and buildings	23.1	Nil	Nil	23.1

Heritable and freehold land amounting to £90.3m (2007: £84.4m) has not been depreciated.

Depreciation of £16.5m (2007: £14.6m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements, £16.5m (2007: £14.3m) of which related to continuing operations and £Nil (2007: £0.3m) of which related to discontinued operations.

Included in the net book value of property, plant and equipment is £6.5m (2007: £0.2m) in respect of assets under construction that the Group expects to be sold to Network Rail following the completion of each asset's construction.

### Year ended 30 April 2007

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	213.6	899.2	120.3	1,233.1
Additions	5.9	80.0	6.7	92.6
Disposals	(1.7)	(49.1)	(2.7)	(53.5)
Sale/closure of subsidiary undertakings and other businesses	(38.9)	(107.7)	(7.9)	(154.5)
Foreign exchange movements	(2.4)	(20.7)	(0.3)	(23.4)
Reclassifications	0.3	(6.4)	6.1	Nil
At end of year	176.8	795.3	122.2	1,094.3
<b>Depreciation</b>				
At beginning of year	(6.8)	(426.4)	(91.1)	(524.3)
Charge for year	(6.1)	(55.6)	(9.1)	(70.8)
Disposals	0.3	43.9	2.5	46.7
Sale/closure of subsidiary undertakings and other businesses	0.7	35.9	5.7	42.3
Foreign exchange movements	0.7	10.1	0.2	11.0
Reclassifications	(0.1)	5.9	(5.8)	Nil
At end of year	(11.3)	(386.2)	(97.6)	(495.1)
Net book value at beginning of year	206.8	472.8	29.2	708.8
Net book value at end of year	165.5	409.1	24.6	599.2
Included in the above net book value at end of year are:				
Assets on hire purchase	Nil	99.8	Nil	99.8
Leased PSV assets	Nil	46.5	Nil	46.5
Short leasehold land and buildings	4.2	Nil	Nil	4.2
Long leasehold land and buildings	23.5	Nil	Nil	23.5

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 were 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.

#### Note 14 Interests in joint ventures

The principal joint ventures are:

	Country of incorporation	Number of shares in issue at 30 April 2008	Nominal value of share capital in issue at 30 April 2008	% 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 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.

The Directors undertook an impairment review as at 30 April 2008 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 plan for VRG's West Coast franchise which covers the period until the end of the 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 for the year is disclosed in the income statement within share of profit and loss of joint ventures.

	VRG	Citylink	Total 2008	Total 2007
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	67.9	4.1	72.0	79.8
Share of recognised profit	32.2	0.8	33.0	19.8
Share of actuarial (losses)/gains on defined benefit pension schemes, net of tax	(1.5)	Nil	(1.5)	3.5
Dividends received	(30.5)	(1.1)	(31.6)	(31.1)
At end of year	68.1	3.8	71.9	72.0
<b>Amounts written off</b>				
At beginning of year	(32.9)	Nil	(32.9)	(27.8)
Goodwill charged during year	(5.1)	Nil	(5.1)	(5.1)
At end of year	(38.0)	Nil	(38.0)	(32.9)
Net book value at beginning of year	35.0	4.1	39.1	52.0
Net book value at end of year	30.1	3.8	33.9	39.1

In addition to the above interest in joint ventures, a loan receivable from New York Splash Tours LLC of £1.8m (2007: £1.8m) is reflected in note 21. New York Splash Tours LLC has net liabilities as at 30 April 2008 of £0.4m (2007: £0.4m). The Group has not recognised its share of the net liabilities but has assessed the loan receivable for impairment and a provision for impairment of £0.2m (2007: £0.2m) has been held against the receivable.

# Notes to the consolidated financial statements

## Note 14 Interests in joint ventures (continued)

The Group's share of the net assets of its joint ventures is analysed below:

	VRG	Citylink	Total 2008	Total 2007
	£m	£m	£m	£m
Non-current assets	5.9	0.2	6.1	21.1
Current assets	102.2	3.1	105.3	120.7
Current liabilities	(97.5)	(2.1)	(99.6)	(129.9)
Share of net assets	10.6	1.2	11.8	11.9
Goodwill	19.5	2.6	22.1	27.2
	30.1	3.8	33.9	39.1

The Group's share of post-tax results from joint ventures is analysed below:

	VRG	Citylink	New York Splash Tours LLC	Total 2008	Total 2007
	£m	£m	£m	£m	£m
Revenue	394.0	8.9	0.2	403.1	421.0
Expenses	(352.1)	(7.8)	(0.9)	(360.8)	(402.1)
Operating profit/(loss)	41.9	1.1	(0.7)	42.3	18.9
Finance income (net)	4.0	Nil	Nil	4.0	3.7
Taxation	(13.7)	(0.3)	0.3	(13.7)	(3.0)
Share of joint ventures' profit/(loss) after taxation	32.2	0.8	(0.4)	32.6	19.6

A net actuarial loss after taxation of £1.5m (2007: gain after taxation of £3.5m) was recognised in addition to the above in relation to VRG's defined benefit pension schemes.

## Note 15 Interest in associate

	2008	2007
	£m	£m
<b>Cost and net book value</b>		
At the beginning of year	Nil	1.0
Reclassification from liabilities	Nil	(1.0)
At end of year	Nil	Nil

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.

**Note 15 Interest in associate (continued)**

The principal associate is:

	Country of incorporation	Number of shares in issue at 30 April 2008	Nominal value of share capital in issue at 30 April 2008	% 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 £Nil (2007: £Nil).

The Group's share of post-tax results from its associate is analysed below:

	2008	2007
	£m	£m
Revenue	Nil	0.1
Expenses	Nil	(0.1)
Share of loss from interest in associate	Nil	Nil

The finance costs and taxation of the associate were less than £0.1m for the comparative year presented.

**Note 16 Available for sale and other investments**

	2008	2007
	£m	£m
<b>Cost / Valuation</b>		
At the beginning of year	2.7	4.5
Additions	0.3	0.4
Net fair value gains/(losses)	0.6	(1.9)
Disposals	Nil	(0.2)
Foreign exchange movements	Nil	(0.1)
At end of year	3.6	2.7
<b>Amounts written off</b>		
At the beginning of year	(1.6)	(0.3)
Impairment charge for year	(0.2)	(1.3)
At end of year	(1.8)	(1.6)
Net book value at beginning of year	1.1	4.2
Net book value at end of year	1.8	1.1

Movements in the available for sale reserve are shown in the consolidated statement of recognised income and expense. An impairment charge of £0.2m (2007: £1.3m) was reflected within operating costs in the consolidated income statement for the year ended 30 April 2008, (see note 3).

**Note 17 Acquisitions**

During the year 4 acquisitions have been concluded for a total consideration of £10.5m.

	2008
	£m
<b>Fair value to Group</b>	
Intangible fixed assets (excluding goodwill)	3.9
Property, plant and equipment	5.1
Other net liabilities	(0.4)
Net assets	8.6
Goodwill	1.9
Consideration	10.5
Less: deferred consideration outstanding	(0.9)
Less: net cash and cash equivalents acquired	(2.3)
Net cash outflow	7.3

The goodwill arising on the acquisitions is attributable to the value of the workforce, transport timetables, rosters, other business information and other potential economic benefits expected to be derived from the acquired businesses.



# Notes to 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.

The results of discontinued operations which have been included in the consolidated income statement, were as follows:

	<b>2008 Total</b>	2007 Total
	£m	£m
Revenue	<b>Nil</b>	76.1
Operating costs	<b>Nil</b>	(72.0)
Other operating income	<b>Nil</b>	1.1
Operating profit	<b>Nil</b>	5.2
Finance income (net)	<b>Nil</b>	0.6
Taxation	<b>Nil</b>	(1.8)
Profit for the year before exceptional gains	<b>Nil</b>	4.0
Exceptional gains	<b>19.9</b>	132.8
Profit for the year from discontinued operations	<b>19.9</b>	136.8

Gains of £19.9m (2007: £0.6m) for the year ended 30 April 2008 arose from the release of liabilities that were previously recorded for amounts potentially owing which are now no longer payable in respect of disposed businesses.

A gain of £132.2m arose on the disposal of the London bus operations during the year ended 30 April 2007, 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.

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 that year.

In addition to the discontinued operations noted above, a number of smaller business were disposed of during the year ended 30 April 2008.

In respect of the businesses disposed of, the consideration, net assets disposed and profit on disposal for the year ended 30 April 2008, were as follows:

	<b>2008 Discontinued</b>	<b>2008 Other</b>	<b>2008 Total</b>	2007 Total
	£m	£m	£m	£m
Net assets disposed and liabilities for future costs associated with the disposals	<b>(19.9)</b>	<b>1.2</b>	<b>(18.7)</b>	133.2
Profit on disposal	<b>19.9</b>	<b>3.3</b>	<b>23.2</b>	132.8
Net consideration	<b>Nil</b>	<b>4.5</b>	<b>4.5</b>	266.0
Deferred consideration	<b>Nil</b>	<b>(1.7)</b>	<b>(1.7)</b>	Nil
Net consideration received in year	<b>Nil</b>	<b>2.8</b>	<b>2.8</b>	266.0
Consideration received in the year	<b>Nil</b>	<b>2.8</b>	<b>2.8</b>	267.8
Costs of disposal	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	(1.8)
Net consideration received in the year	<b>Nil</b>	<b>2.8</b>	<b>2.8</b>	266.0
Net cash disposed of	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	(0.8)
Net cash inflow: disposals in the year	<b>Nil</b>	<b>2.8</b>	<b>2.8</b>	265.2
Net cash inflow: deferred consideration in respect of businesses disposed of in prior years	<b>Nil</b>	<b>0.8</b>	<b>0.8</b>	1.8
	<b>Nil</b>	<b>3.6</b>	<b>3.6</b>	267.0

## Note 19 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2008 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
Stagecoach South Western Trains Ltd	England	Train operating company
East Midlands Trains Limited	England	Train operating company
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

	2008	2007
	£m	£m
Parts and consumables	<b>21.3</b>	11.7

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:

	2008	2007
	£m	£m
At beginning of year	<b>2.0</b>	2.0
Charged to income	<b>1.0</b>	0.6
Amount released to income, not used	<b>(0.1)</b>	(0.3)
Amount utilised	<b>(0.8)</b>	(0.2)
Foreign exchange movements	<b>Nil</b>	(0.1)
At end of year	<b>2.1</b>	2.0

There was no material write down of inventories during the current or prior year.

# Notes to the consolidated financial statements

## Note 21 Trade and other receivables

	2008	2007
	£m	£m
<b>Non-current:</b>		
Loan to joint venture	1.8	1.9
Less: provision for impairment	<b>(0.2)</b>	<b>(0.2)</b>
	1.6	1.7
Prepayments and accrued income	1.0	0.9
Other receivables	0.3	0.3
	<b>2.9</b>	2.9
<b>Current:</b>		
Trade receivables	115.2	87.1
Less: provision for impairment	<b>(2.6)</b>	<b>(3.7)</b>
	112.6	83.4
Trade receivables – net	112.6	83.4
Other receivables	5.5	4.6
Prepayments and accrued income	46.4	37.1
VAT and other government receivables	20.5	17.0
	<b>185.0</b>	142.1

A loan of US\$3.6m (2007: US\$3.8m) to New York Splash Tours LLC is outstanding at 30 April 2008. The loan is interest bearing at 7% and is repayable by instalments. The loan outstanding as at 30 April 2008, translated at year end rates was £1.8m (2007: £1.9m) and is included in non-current trade and other receivables.

The movement in the provision for impairment of trade receivables was as follows:

	2008	2007
	£m	£m
At the beginning of the year	<b>(3.7)</b>	(1.6)
Impairment losses in year charged to income	<b>(0.5)</b>	(2.2)
Reversal of impairment losses credited to income	<b>0.8</b>	Nil
Amounts utilised	<b>0.8</b>	0.6
Acquired through business combinations	<b>Nil</b>	(0.5)
At end of year	<b>(2.6)</b>	(3.7)

Further information on credit risk is provided in note 28.

## Note 22 Cash and cash equivalents

	2008	2007
	£m	£m
Cash at bank and in hand	<b>262.2</b>	513.3

At 30 April 2008, the effective interest rate on cash at bank and in hand was 5.3% (2007: 5.35%). The amounts shown above include £113.3m (2007: £Nil) on three-month deposits maturing by June 2008. The remaining amounts are accessible to the Group within one day (2007: one day).

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

	2008	2007
	£m	£m
Cash and bank balances	<b>262.2</b>	513.3
Bank overdrafts (note 24)	<b>(0.6)</b>	(0.8)
	<b>261.6</b>	512.5

**Note 23 Trade and other payables**

	2008	2007
	£m	£m
<b>Current:</b>		
Trade payables	137.0	99.5
Accruals and deferred income	307.1	227.3
Cash-settled share based payment liability	3.6	Nil
Deferred grant income	1.9	1.5
PAYE and NIC payable	16.3	15.3
VAT and other government payables	1.3	2.3
	<b>467.2</b>	<b>345.9</b>
<b>Non-current:</b>		
Deferred grant income	2.7	4.6
Cash-settled share based payment liability	2.9	1.5
PAYE and NIC payable	0.5	0.2
Other payables	18.9	4.5
	<b>25.0</b>	<b>10.8</b>

**Note 24 Borrowings**

	2008	2007
	£m	£m
<b>Current:</b>		
Bank overdrafts	0.6	0.8
Bank loans and loan notes	36.0	37.0
Hire purchase and lease obligations	34.7	33.1
Redeemable 'B' preference shares	8.1	Nil
	<b>79.4</b>	<b>70.9</b>
<b>Non-current:</b>		
Bank loans and loan notes	214.7	Nil
US Dollar 8.625% Notes	180.4	183.2
Hire purchase and lease obligations	119.6	89.2
	<b>514.7</b>	<b>272.4</b>
<b>Total borrowings</b>	<b>594.1</b>	<b>343.3</b>

# Notes to the consolidated financial statements

## Note 24 Borrowings (continued)

The minimum lease payments under hire purchase and lease obligations fall due as follows:

	2008	2007
	£m	£m
Not later than one year	41.9	38.4
Later than one year but not more than five years	89.6	74.7
More than five years	49.1	28.7
	<b>180.6</b>	<b>141.8</b>
Future finance charges on hire purchase and finance leases	<b>(26.3)</b>	<b>(19.5)</b>
Carrying value of hire purchase and finance lease liabilities	<b>154.3</b>	<b>122.3</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 2008 (2007: US\$165.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2008 was £180.4m (2007: £183.2m), 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.

### (b) Repayment profile

Borrowings are repayable as follows:

	2008	2007
	£m	£m
<b>On demand or within 1 year</b>		
Bank overdraft	0.6	0.8
Bank loans and loan notes	36.0	37.0
Hire purchase and lease obligations	34.7	33.1
Redeemable 'B' preference shares	8.1	Nil
<b>Within 1-2 years</b>		
US Dollar 8.625% Notes	180.4	Nil
Hire purchase and lease obligations	19.2	23.5
<b>Within 2-5 years</b>		
Bank loans and loan notes	214.7	Nil
US Dollar 8.625% Notes	Nil	183.2
Hire purchase and lease obligations	52.8	39.7
<b>Over 5 years</b>		
Hire purchase and lease obligations	47.6	26.0
Total borrowings	<b>594.1</b>	<b>343.3</b>
Less current maturities	<b>(79.4)</b>	<b>(70.9)</b>
Non-current portion of borrowings	<b>514.7</b>	<b>272.4</b>

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 £36.0m (2007: £37.0m) are backed by guarantees provided under Group banking facilities.

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

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



## Note 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	(44.1)	6.8	(37.3)
Charge to income statement	(9.4)	(0.1)	(9.5)
Sale/closure of subsidiary undertakings and other businesses	(0.8)	Nil	(0.8)
Charge to equity	(10.3)	Nil	(10.3)
Foreign exchange movements	Nil	0.2	0.2
End of year	(64.6)	6.9	(57.7)

The deferred tax liabilities after more than one year are £64.6m (2007 £44.1). The deferred tax asset due after more than one year is £1.9m (2007 £2.2m). The deferred tax asset of £6.9m (2007: £6.8m) 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 two years (2007: three years).

Deferred taxation is calculated as follows:

	2008	2007
	£m	£m
Accelerated capital allowances	(79.7)	(75.4)
Pension temporary differences	(9.1)	10.9
Short-term temporary differences	31.1	27.2
	(57.7)	(37.3)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	2008	2007
	£m	£m
Accelerated capital allowances	3.6	4.3
Pension temporary differences	21.6	17.5
Short-term temporary differences	(15.7)	1.5
	9.5	23.3

## Note 26 Provisions

	2008	2007
	£m	£m
Token redemption provision	17.9	19.4
Insurance provisions	98.0	85.4
Environmental provisions	3.1	2.7
Provisions for onerous contracts	0.2	0.9
	119.2	108.4

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	19.4	85.4	2.7	0.9	108.4
Provided during year (after discounting)	Nil	38.3	0.8	Nil	39.1
Unwinding of discount	Nil	3.3	Nil	Nil	3.3
Utilised in the year	Nil	(29.5)	(0.4)	(0.7)	(30.6)
Arising on business combinations	Nil	0.2	Nil	Nil	0.2
Arising on sale of tokens during year	4.9	Nil	Nil	Nil	4.9
Redemption of tokens	(6.4)	Nil	Nil	Nil	(6.4)
Foreign exchange movements	Nil	0.3	Nil	Nil	0.3
End of year	17.9	98.0	3.1	0.2	119.2
30 April 2008:					
Current	11.6	33.9	1.5	0.2	47.2
Non-current	6.3	64.1	1.6	Nil	72.0
	17.9	98.0	3.1	0.2	119.2
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

# Notes to the consolidated financial statements

## Note 27 Retirement benefits

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");
- The East Midlands Trains section of the Railways Pension Scheme ("RPS"); and
- A number of UK Local Government Pension Schemes ("LGPS").

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 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 were as follows:

	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
Equities	382.5	455.9	154.5	0.6	Nil	993.5
Bonds	122.5	64.2	53.5	0.7	Nil	240.9
Cash	71.8	1.6	21.6	0.3	Nil	95.3
Property	36.8	88.7	19.4	Nil	Nil	144.9
Fair value of plan assets	613.6	610.4	249.0	1.6	Nil	1,474.6
Present value of obligations	(586.3)	(590.9)	(247.9)	(2.6)	(4.4)	(1,432.1)
Restriction on surplus to be recognised	Nil	Nil	(9.3)	Nil	Nil	(9.3)
Net assets/(liabilities) recognised in the balance sheet	27.3	19.5	(8.2)	(1.0)	(4.4)	33.2
Assets recognised in the balance sheet	27.3	19.5	4.8	Nil	Nil	51.6
Liabilities recognised in the balance sheet	Nil	Nil	(13.0)	(1.0)	(4.4)	(18.4)

During the year ended 30 April 2008, both the Yorkshire Traction Company Limited Pension Plan ("YTC") and the Strathtay Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO") were merged with SGPS. All assets and liabilities of YTC and SSO were transferred into SGPS.

### 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 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 (liabilities)/assets 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	Nil	4.8	11.8	Nil	Nil	Nil	Nil	16.6	
Liabilities recognised in the balance sheet	(27.3)	Nil	(10.0)	(8.3)	(2.9)	(0.8)	(3.5)	(52.8)	

The major categories of plan assets as a percentage of total plan assets are as follows:

	2008	2007
	%	%
Equities	67.4	68.9
Bonds	16.3	14.4
Cash	6.5	7.3
Property	9.8	9.4
	100.0	100.0

## Note 27 Retirement benefits (continued)

The amounts recognised in the income statement were as follows:

Year ended 30 April 2008	Funded plans						Unfunded and DC plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
Defined benefit schemes:								
Current service cost	10.9	17.7	2.8	1.2	0.4	0.1	Nil	33.1
Past service adjustments	(3.1)	Nil	Nil	Nil	Nil	Nil	3.0	(0.1)
Curtailments	Nil	(0.3)	Nil	Nil	Nil	Nil	Nil	(0.3)
Interest cost	32.1	16.9	13.9	2.7	0.5	0.1	0.2	66.4
Expected return on plan assets	(44.7)	(24.5)	(19.2)	(2.7)	(0.5)	(0.1)	Nil	(91.7)
Total defined benefit (credit)/costs	(4.8)	9.8	(2.5)	1.2	0.4	0.1	3.2	7.4
Defined contribution costs	Nil	Nil	Nil	Nil	Nil	Nil	1.2	1.2
Total included in staff costs	(4.8)	9.8	(2.5)	1.2	0.4	0.1	4.4	8.6

The actual return on plan assets for the year ended 30 April 2008 was £(50.0)m.

The past service adjustment arising in the year ended 30 April 2007 (shown in the table below) principally related to the introduction of a cap on the level of future increases in pensionable pay for the majority of members of the Stagecoach Group Pension Scheme. The past service adjustments arising in the year ended 30 April 2008 principally related to (i) the introduction of a cap on the level of future increases in pensionable pay in respect of certain other members of the Stagecoach Group Pension Scheme and (ii) the recognition of unfunded liabilities in respect of past service by members of a Local Government Pension Scheme, following clarification of the Group's obligations in respect of the past service.

Year ended 30 April 2007	Funded plans						Unfunded and DC plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
Defined benefit schemes:								
Current service cost	16.4	14.2	3.4	1.3	0.5	0.3	Nil	36.1
Past service adjustment	(28.9)	Nil	Nil	Nil	Nil	Nil	Nil	(28.9)
Interest cost	33.7	12.9	13.8	2.8	0.5	Nil	Nil	63.7
Expected return on plan assets	(38.4)	(18.2)	(17.7)	(3.4)	(0.5)	Nil	Nil	(78.2)
Unwinding of franchise adjustment	Nil	(0.3)	Nil	Nil	Nil	Nil	Nil	(0.3)
Total defined benefit (credit)/costs	(17.2)	8.6	(0.5)	0.7	0.5	0.3	Nil	(7.6)
Defined contribution costs	Nil	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	0.3	0.4	(7.2)

The actual return on plan assets for the year ended 30 April 2007 was £133.4m.

An analysis of pension costs included in the income statement between continuing and discontinued operations is set out in the table below. Discontinued operations relate to the London bus operations which were disposed of in August 2006.

	Continuing Operations	Discontinued Operations	Total
	£m	£m	£m
	(see Note 7 Staff Costs)		
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 past service credit	18.1	3.6	21.7
Past service credit	(28.9)	Nil	(28.9)
	(10.8)	3.6	(7.2)

# Notes to the consolidated financial statements

## Note 27 Retirement benefits (continued)

The movements in the net liability/(asset) recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2008 were as follows:

Year ended 30 April 2008	Funded plans						Unfunded plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
At beginning of year – liability/(asset)	27.3	(4.8)	(1.8)	8.3	2.9	0.8	3.5	36.2
Rail franchise changes	Nil	4.2	Nil	Nil	Nil	Nil	Nil	4.2
Merger of scheme	11.5	Nil	Nil	(7.7)	(3.8)	Nil	Nil	Nil
Total (income)/expense	(4.8)	9.8	(2.5)	1.2	0.4	0.1	3.2	7.4
Actuarial (gains)/losses	(13.0)	(7.5)	16.9	0.1	0.9	0.1	(2.1)	(4.6)
One-off employers' contributions	(30.0)	(3.3)	Nil	Nil	Nil	Nil	Nil	(33.3)
Other employers' contributions and settlements	(18.3)	(17.9)	(4.4)	(1.9)	(0.4)	Nil	(0.2)	(43.1)
At end of year – (asset)/liability	(27.3)	(19.5)	8.2	Nil	Nil	1.0	4.4	(33.2)

The movements in the net liability/(asset) recognised in the balance sheet in respect of defined benefit plans 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 – liability	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 (income)/expense	(17.2)	8.6	(0.5)	0.7	0.5	0.3	Nil	(7.6)
Actuarial (gains)/losses	(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)	Nil	(0.1)	(39.2)
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 total present value of the defined benefit obligations were as follows:

	2008	2007
	£m	£m
At beginning of year	1,325.0	1,461.6
Current service cost	33.1	36.1
Part service adjustments	(0.1)	(28.9)
Interest cost	66.4	63.7
Unwinding of franchise adjustment	Nil	(0.3)
Members' contributions paid	23.6	22.8
Actuarial gains and losses	(154.2)	(25.6)
Benefits paid	(50.9)	(43.6)
Curtailements	(0.3)	Nil
Rail franchise changes	189.5	417.8
Disposal – settlement and curtailment	Nil	(578.4)
Foreign exchange	Nil	(0.2)
At end of year	1,432.1	1,325.0

Movements in the total fair value of scheme assets were as follows:

	2008	2007
	£m	£m
At beginning of year	1,290.2	1,239.4
Expected return on scheme assets	91.7	78.2
Actuarial gains and losses	(141.7)	55.2
One-off employers' contributions	33.3	77.0
Other employers' contributions and settlements	43.1	39.2
Members' contributions paid	23.6	22.8
Benefits paid	(50.9)	(43.6)
Rail franchise changes	185.3	406.1
Disposal – settlement and curtailment	Nil	(583.9)
Foreign exchange	Nil	(0.2)
At end of year – total fair value of assets	1,474.6	1,290.2
Adjustment for unrecoverable surplus	(9.3)	(1.4)
Value of assets recognised	1,465.3	1,288.8

## Note 27 Retirement benefits (continued)

The amounts recognised in the statement of recognised income and expense were as follows:

	2008	2007
	£m	£m
Actual return less expected return on pension scheme assets	<b>(141.7)</b>	55.2
Experience adjustment, arising on scheme liabilities	<b>(28.6)</b>	(18.1)
Adjustment for unrecognised surplus	<b>(7.9)</b>	(1.4)
Changes in assumptions underlying the present value of the liabilities	<b>182.8</b>	43.7
<b>Total actuarial gain recognised</b>	<b>4.6</b>	79.4

The history of experience adjustments is as follows:

	2008	2007	2006	2005
Experience adjustments on scheme liabilities:				
Experience adjustments (£m)	<b>(28.6)</b>	(18.1)	(92.7)	(6.8)
Scheme liabilities (£m)	<b>(1,432.1)</b>	(1,325.0)	(1,461.6)	(1,114.2)
Percentage of scheme liabilities (%)	<b>2.0%</b>	1.4%	6.3%	0.6%
Experience adjustments on scheme assets:				
Experience adjustments (£m)	<b>(141.7)</b>	55.2	196.9	10.5
Scheme assets (£m)	<b>1,474.6</b>	1,290.2	1,239.4	893.3
Percentage of scheme assets (%)	<b>(9.6)%</b>	4.3%	15.9%	1.2%

The cumulative amount of actuarial gains and losses on Group defined benefit schemes recognised in the statement of recognised income and expense since 1 May 2004 is a £47.0m gain (2007: £42.4m gain).

The estimated amounts of contributions expected to be paid by the Group to the schemes during the financial year ending 30 April 2009 is £58.7m (estimated at 30 April 2007 for year ended 30 April 2008: £71.5m).

The principal actuarial assumptions used were as follows:

	2008	2007
Rate of increase in salaries – SGPS	<b>3.4%</b>	3.4%
Rate of increase in salaries – other defined benefit schemes	<b>4.9%</b>	4.4%
Rate of increase of pensions in payment		
– SGPS	<b>3.4%</b>	2.8%
– other defined benefit schemes	<b>2.4%-3.4%</b>	2.3%-2.9%
Discount rate	<b>6.6%</b>	5.5%
Inflation	<b>3.4%</b>	2.9%
Expected long-term rates of return as at 30 April were:		
Equities*	<b>8.3%</b>	8.3%
Bonds	<b>5.3%</b>	5.3%
Cash	<b>5.0%</b>	5.3%
Property	<b>7.5%</b>	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. The weighted average life expectancies assumed as at 30 April 2008 were:

	2008
	years
Current pensioners aged 65 – male	<b>16.9</b>
Current pensioners aged 65 – female	<b>20.8</b>
Future pensioners at age 65 (aged 45 now) – male	<b>18.7</b>
Future pensioners at age 65 (aged 45 now) – female	<b>22.5</b>



# Notes to the consolidated financial statements

## Note 28 Financial instruments

### (a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries, associates and joint ventures accounted for in accordance with International Accounting Standard 27 ("IAS 27"), *Consolidated and Separate Financial Statements*, International Accounting Standard 28 ("IAS 28"), *Investments in Associates*, and International Accounting Standard 31 ("IAS 31"), *Interests in Joint Ventures*.
- Retirement benefit assets and obligations.
- Contracts for contingent consideration in a business combination.
- Financial instruments, contracts and obligations under share based payment transactions.

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments, provisions and deferred grant income) are not financial liabilities or financial assets. Accordingly, provisions, deferred grant income and amounts payable or receivable in respect of corporation tax, sales tax (including UK Value Added Tax), payroll tax and other taxes are excluded from the disclosures provided in this note.

### (b) Carrying values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities on the consolidated balance sheet and their respective fair values were:

	Other balance sheet note	2008	2007	2008	2007
		Carrying value	Carrying value	Fair value	Fair value
		£m	£m	£m	£m
<b>Financial assets</b>					
Financial assets at fair value through profit or loss		<b>Nil</b>	Nil	<b>Nil</b>	Nil
Held-to-maturity investments		<b>Nil</b>	Nil	<b>Nil</b>	Nil
Loans and receivables					
– Non-current assets					
– Other receivables	21	<b>0.3</b>	0.3	<b>0.3</b>	0.3
– Loan to joint venture	21	<b>1.6</b>	1.7	<b>1.6</b>	1.7
– Current assets					
– Trade receivables, net of impairment	21	<b>112.6</b>	83.4	<b>112.6</b>	83.4
– Other receivables	21	<b>5.5</b>	4.6	<b>5.5</b>	4.6
– Cash and cash equivalents	22	<b>262.2</b>	513.3	<b>262.2</b>	513.3
Available-for-sale financial assets					
– Non-current assets					
– Available for sale and other investments	16	<b>1.8</b>	1.1	<b>1.8</b>	1.1
<b>Total financial assets</b>		<b>384.0</b>	604.4	<b>384.0</b>	604.4
<b>Financial liabilities</b>					
Financial liabilities at fair value through profit or loss		<b>Nil</b>	Nil	<b>Nil</b>	Nil
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Other payables	23	<b>(18.9)</b>	(4.5)	<b>(18.9)</b>	(4.5)
– Borrowings	24	<b>(514.7)</b>	(272.4)	<b>(514.8)</b>	(284.8)
– Current liabilities					
– Trade payables	23	<b>(137.0)</b>	(99.5)	<b>(137.0)</b>	(99.5)
– Accruals and deferred income	23	<b>(307.1)</b>	(227.3)	<b>(307.1)</b>	(227.3)
– Borrowings	24	<b>(79.4)</b>	(70.9)	<b>(79.2)</b>	(70.7)
<b>Total financial liabilities</b>		<b>(1,057.1)</b>	(674.6)	<b>(1,057.0)</b>	(686.8)
<b>Net financial liabilities</b>		<b>(673.1)</b>	(70.2)	<b>(673.0)</b>	(82.4)

Derivatives that are designated as effective hedging instruments are not shown in the above table. Information on the carrying value of such derivatives is provided in note 28(j).

The fair values of financial assets and financial liabilities shown above are determined as follows:

- The carrying value of loans to joint ventures, trade receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- Market prices are used, where available, to determine the fair value of available for sale financial assets. Market prices are available for available-for-sale financial assets with a carrying value of £0.6m (2007: £Nil). For example, for available for sale investments in the shares of a company quoted on a recognised stock exchange, the fair value of the asset is determined with reference to the quoted "bid" price as at the balance sheet date. £1.2m (2007: £1.1m) of available for sale financial assets for which market prices are not available are measured at cost because their fair value cannot be measured reliably – the fair value of these assets is shown in the above table as being equal to their carrying value.
- The carrying value of trade payables, other payables and accruals and deferred income is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.

## Note 28 Financial instruments (continued)

### (b) Carrying values of financial assets and financial liabilities (continued)

- The fair value of borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value, except in respect of (i) certain finance lease obligations where the interest rate is at a significant discount to market rates and (ii) bank loans where unamortised arrangements fees of £0.3m (2007: £Nil) are excluded from the fair value. The fair value of the discounted-rate finance lease obligations has been determined by discounting future forecast cash flows at an estimate of the market interest rate for the debt at 30 April 2008, being 6.3% (2007: 6.3%).
- The fair value of fixed-rate US\$ notes is determined with reference to the market value of the notes.
- The carrying value of fixed rate hire purchase and finance lease liabilities is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.

We do not consider that the fair value of financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate US\$ bonds, would be affected by changes in market interest rates. We estimate that a 100 basis points reduction in market interest rates, would increase the fair value of the US\$ notes liability by around £2.4m (2007: £4.0m).

### (c) Nature and extent of risks arising from financial instruments

The Group's use of financial instruments exposes it to a variety of financial risks, principally:

- Market risk – including currency risk, interest rate risk and price risk;
- Credit risk; and
- Liquidity risk.

This note (c) presents qualitative information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk: there have been no significant changes to these matters during the year ended 30 April 2008. This note (c) also provides summary quantitative data about the Group's exposure to each risk. In addition, information on the Group's management of capital is provided in section 3.8.15 of the Operating and Financial Review on page 13 of this Annual Report.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance and financial position 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.

A Group Treasury Committee and central treasury department ("Group Treasury") oversee financial risk management in the context of policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Group Treasury is responsible for the execution of derivative financial instruments to manage financial risks. Certain financial risk management activities (for example, the management of credit risk arising from trade and other receivables) are devolved to the management of individual business 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.

#### (i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and commodity prices will affect the Group's financial performance and/or financial position. The objective of the Group's management of market risk is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group enters into derivative financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally the Group seeks to apply hedge accounting in order to reduce volatility in the consolidated income statement.

#### Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency translation risk principally as a result of net investments in foreign operations and borrowings denominated in foreign currencies.

The Group has overseas investments in Canada and the USA. To minimise balance sheet translation exposure, the Group hedges the sterling carrying value of overseas operations through borrowings denominated in their functional currency or, where appropriate, through the use of derivative financial instruments. Gains and losses arising from hedging instruments that provide a hedge against foreign net investments are recognised in the statement of recognised income and expense.

The Group's objective in managing and measuring foreign currency translation risk associated with net investments in foreign operations and borrowings denominated in foreign currencies is to maintain an appropriate cost of borrowing and retain some potential for benefiting from currency movements whilst partially hedging against adverse currency movements. It is the Group's policy to examine each overseas investment individually and to adopt a strategy based on current and forecast political and economic climates. The Group measures foreign currency translation risk by identifying the carrying value of assets and liabilities denominated in the relevant foreign currency and quantifying the impact on equity of changes in the relevant foreign currency rate.

The Group's consolidated income statement is exposed to movements in foreign exchange rates in the following ways:

- The translation of the revenues and costs of the Group's North American operations; and
- The translation of interest payable on US dollar denominated debt.

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

The Group's consolidated balance sheet exposures to foreign currency translation risk were as follows:

	2008	2007
	£m	£m
<b>US dollars</b>		
- Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	134.7	145.2
- Cash	15.0	17.5
- Borrowings	(185.9)	(177.8)
<b>Canadian dollars</b>		
- Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	37.7	30.3
- Cash	0.2	1.3
- Borrowings	(4.6)	(4.3)
<b>Euros</b>		
- Cash	Nil	0.5
Net exposure	(2.9)	12.7

The amounts shown above are the carrying values of all items in the consolidated balance sheet that would have differed at the balance sheet date had a different foreign currency exchange rate been applied, except that commodity derivatives that are cash flow hedges are excluded.

The sensitivity of the Group's consolidated balance sheet to translation exposures is illustrated below:

	2008	2007
<b>US dollar</b>		
US dollar balance sheet foreign exchange rate	1.9806	1.9999
Impact of 10% depreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.7825	1.7999
- Decrease in consolidated equity (£m)	(4.0)	(1.7)
Impact of 10% appreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	2.1787	2.1999
- Increase in consolidated equity (£m)	3.3	1.4
<b>Canadian dollar</b>		
Canadian dollar balance sheet foreign exchange rate	1.9947	2.2102
Impact of 10% depreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.7952	1.9892
- Increase in consolidated equity (£m)	3.7	3.0
Impact of 10% appreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	2.1942	2.4312
- Decrease in consolidated equity (£m)	(3.0)	(2.5)

The above sensitivity analysis is based on the following assumptions:

- Only those foreign currency assets and liabilities that are directly affected by changes in foreign exchange rates are included in the calculation.
- The above calculations assume that the exchange rates between any pair of currencies other than the pair stated do not change as a result of the change in the exchange rate between the pair stated.

The Group's consolidated income statement exposures to foreign currency translation risk were as follows:

	2008	2007
	£m	£m
<b>US dollars</b>		
- US\$ element of North American operating profit	19.6	15.1
- Intangible asset amortisation	(0.3)	(0.4)
- Redundancy / restructuring costs	(0.2)	Nil
- Share of loss of joint ventures	(0.4)	(0.2)
- Loss on disposed operations and sale of investments	(5.0)	(2.3)
- Net finance costs	(16.5)	(17.4)
- Net tax charge	(0.2)	0.7
<b>Canadian dollars</b>		
- C\$ element of North American operating profit	2.0	3.4
- Net finance costs	(0.2)	(0.5)
- Net tax charge	(0.6)	(1.0)
Net exposure	(1.8)	(2.6)

## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

The operating profit figures shown in the above table reconcile to the operating profit for North America shown in the segmental information in note 2(b) as follows:

	2008	2007
	£m	£m
US\$ element of North American operating profit shown above	19.6	15.1
C\$ element of North American operating profit shown above	2.0	3.4
Share based payment charges denominated in sterling	(0.6)	(0.4)
Operating profit shown in segmental information	21.0	18.1

The sensitivity of the Group's consolidated income statement to translational exposures is illustrated below:

	2008	2007
<b>US dollar</b>		
US dollar average foreign exchange rate	2.0072	1.9103
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.8065	1.7193
– Decrease in consolidated profit after taxation (£m)	(0.3)	(0.5)
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	2.2079	2.1013
– Increase in consolidated profit after taxation (£m)	0.3	0.4
<b>Canadian dollar</b>		
Canadian dollar average foreign exchange rate	2.0525	2.1738
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.8473	1.9564
– Increase in consolidated profit after taxation (£m)	0.1	0.2
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	2.2578	2.3912
– Decrease in consolidated profit after taxation (£m)	(0.1)	(0.2)

The above sensitivity analysis is based on the following assumptions:

- Only those income statement items directly affected by changes in foreign exchange rates are included in the calculation. For example, changes in commodity prices that indirectly occur due to changes in foreign exchange rates are not included in the sensitivity calculation.
- The above calculations assume that the exchange rates between any pair of currencies other than the pair stated do not change as a result of the change in the exchange rate between the pair stated.

#### Foreign currency transactional risk

Foreign currency transactional risk is the risk that future cash flows (such as from sales and purchases of goods and services) will fluctuate because of changes in foreign exchange rates.

The Group is exposed to limited foreign currency transactional risk due to the low value of foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. Group Treasury carries out forward buying of currencies where appropriate.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2008 there were no material net transactional foreign currency exposures (2007: £Nil).

The Group's exposure to commodity price risk includes a foreign currency element due to the impact of foreign exchange rate movements on the sterling cost of fuel for the Group's UK operations. The effect of foreign exchange rate movements on sterling-denominated fuel prices is managed through the use of fuel derivative financial instruments denominated in the functional currency in which the fuel is purchased. Further information on fuel hedging is given under the heading "Price risk" on page 85.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk principally through its borrowings and interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates) and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to minimise the risk of changes in interest rates significantly affecting future cash flows and/or profit. 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 financial instruments are also used where appropriate to generate the desired interest rate profile.

The Group measures interest rate risk by quantifying the relative proportions of each of gross debt and net debt that are effectively subject to fixed interest rates and considers the duration for which the relevant interest rates are fixed.

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

At 30 April 2008, the interest rate profile of the Group's interest bearing financial liabilities 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	237.2	161.4	398.6	5.7%	4.5
US Dollar	Nil	190.9	190.9	6.0%	1.8
Canadian Dollar	0.6	4.0	4.6	5.1%	3.9
Gross borrowings	237.8	356.3	594.1	5.8%	3.1

At 30 April 2007, the interest rate profile of the Group's interest bearing financial liabilities 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

All of the above figures take into account the effect of current interest rate derivatives and also the close out of interest rate swaps previously used to manage the interest rate profile of borrowings.

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

The maturity profile of the Group's borrowings is shown in note 24(b).

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £262.2m (2007: £513.3m). Financial assets on which fixed interest is receivable total £2.1m (2007: £2.2m) before impairment and comprise US\$ denominated loan notes receivable and a loan to a joint venture. The net financial assets on which fixed interest is receivable have a weighted average interest rate of 7.0% (2007: 7.3%) and an average maturity of 2.6 years (2007: 3.2 years).

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit, loss or the carrying value of financial instruments that are not cash flow hedges.

The impact of a change of 100 basis points on all relevant floating interest rates on annualised interest payable on balances outstanding at the balance sheet date was:

	2008	2007
	£m	£m
Interest rates 100 basis points higher		
- Decrease in net finance charges	0.3	3.6
- Increase in net tax charge	(0.1)	(1.1)
- Increase in profit after taxation	0.2	2.5
Interest rates 100 basis points lower		
- Increase in net finance charges	(0.3)	(3.6)
- Decrease in net tax charge	0.1	1.1
- Decrease in profit after taxation	(0.2)	(2.5)

The above sensitivity analysis is based on the following methods and assumptions:

- All relevant floating interest rates (including Bank of England base rate and LIBOR) change by 100 basis points.
- The change is calculated by working out an annualised interest charge on the amounts outstanding at the balance sheet date and comparing this to the same charge re-calculated for a change of 100 basis points in the interest rate. While this provides some indication of the impact on future profit and cash flows from changes in interest rates, it does not necessarily indicate the extent to which the profit for the years ended 30 April 2007 and 30 April 2008 would have differed had the interest rates applying during those years been different.
- The impact of changes in interest rates on items that are not financial instruments (for example, provisions and pension assets/obligations) is excluded.



## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

##### Price risk

The Group is exposed to equity security price risk because of an investment held by the Group and classified on the consolidated balance sheet as available for sale. The Group's equity investment is publicly traded and is included in the AIM UK equity index. At 30 April 2008 the investment was carried at £0.6m (2007: £Nil). Any reasonable movement, therefore, on the equity share price would not have a material impact on the Group's financial position.

The Group is also exposed to commodity price risk. The Group's operations as at 30 April 2008 consume approximately 328m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel.

The Group's objective in managing commodity price risk is to minimise adverse movements in its profit and cash flow as a result of movements in fuel prices. The Group has a policy of managing 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. The Group's exposure to commodity price risk is measured by quantifying the element of projected future fuel costs, after taking account of derivatives in place, which varies due to movements in fuel prices. Group Treasury is responsible for the processes for measuring and managing commodity price risk.

The Group's overall fuel costs include the impact of delivery margins, fuel taxes and fuel tax rebates. These elements of fuel costs are not managed as part of Group Treasury's commodity price risk management and are managed directly by business unit management.

The Group uses a number of fuel derivatives to hedge against movements in the price of 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. Gasoil used in the UK Rail 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 and the UK Rail division, they also hedge the currency risk due to the commodity being priced in US\$ and the functional currency of the two divisions being pounds sterling. The fuel derivatives include swaps, collars and caps.

At 30 April 2008 and 30 April 2007, the projected fuel costs (excluding premiums payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months was:

	2008	2007
	£m	£m
Costs subject to fuel swaps, caps and collars:		
- UK Bus	(60.1)	(40.8)
- UK Rail	(14.5)	Nil
- North America	(17.6)	(15.5)
	<b>(92.2)</b>	<b>(56.3)</b>
Costs not subject to fuel swaps, caps and collars:		
- UK Bus	(5.0)	(6.9)
- UK Rail	(7.5)	(3.6)
- North America	(7.7)	(1.3)
	<b>(20.2)</b>	<b>(11.8)</b>
<b>Total</b>	<b>(112.4)</b>	<b>(68.1)</b>

The figures in the above table are after taking account of derivatives and applying the fuel prices and foreign exchange rates as at the balance sheet date.

If all of the relevant fuel prices were 10% higher at the balance sheet date, the amounts in the above table would change by the following:

	2008	2007
	£m	£m
Costs subject to fuel swaps, caps and collars:		
- UK Bus	Nil	Nil
- UK Rail	Nil	Nil
- North America	Nil	Nil
	<b>Nil</b>	<b>Nil</b>
Costs not subject to fuel swaps, caps and collars:		
- UK Bus	(0.5)	(0.7)
- UK Rail	(0.7)	(0.4)
- North America	(0.8)	(0.1)
	<b>(2.0)</b>	<b>(1.2)</b>
<b>Decrease in projected profit before taxation</b>	<b>(2.0)</b>	<b>(1.2)</b>

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

If all of the relevant fuel prices were 10% lower at the balance sheet date, the amounts would change by the following:

	2008	2007
	£m	£m
Costs subject to fuel swaps, caps and collars:		
– UK Bus	Nil	0.7
– UK Rail	Nil	Nil
– North America	Nil	Nil
	<b>Nil</b>	<b>0.7</b>
Costs not subject to fuel swaps, caps and collars:		
– UK Bus	0.5	0.7
– UK Rail	0.7	0.4
– North America	0.8	0.1
	<b>2.0</b>	<b>1.2</b>
Increase in projected profit before taxation	<b>2.0</b>	<b>1.9</b>

#### (ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and business unit management, and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. 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.

In determining whether a financial asset is impaired, the Group takes account of:

- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns;
- In the case of receivables, the latest available information on the counterparty's creditworthiness such as available financial statements, credit ratings etc.

In the case of equity investments classified as available for sale assets, a significant or prolonged reduction in the fair value of the assets is considered as an indicator that the securities are impaired.

The movement in the provision for impairment of trade and other receivables is shown in note 21.

An impairment loss of £0.2m was recognised in the year ended 30 April 2008 (2007: £1.3m) in respect of available for sale and other investments.

The table below shows the maximum exposure to credit risk for the Group at the balance sheet date:

	Gross	Impairment	Net exposure	Gross	Impairment	Net exposure
	2008	2008	2008	2007	2007	2007
	£m	£m	£m	£m	£m	£m
Available for sale financial assets and other investments	3.6	(1.8)	1.8	2.7	(1.6)	1.1
Financial assets at fair value through profit or loss	Nil	Nil	Nil	Nil	Nil	Nil
Trade receivables	115.2	(2.6)	112.6	87.1	(3.7)	83.4
Loans and other receivables (excludes taxes receivable, prepayments and accrued income)	7.6	(0.2)	7.4	6.8	(0.2)	6.6
Cash and cash equivalents – pledged as collateral	33.0	Nil	33.0	33.4	Nil	33.4
Cash and cash equivalents - other	229.2	Nil	229.2	479.9	Nil	479.9
Excluding derivative financial instruments	388.6	(4.6)	384.0	609.9	(5.5)	604.4
Commodity derivatives used for hedging	44.4	Nil	44.4	1.7	Nil	1.7
Total exposure to credit risk	<b>433.0</b>	<b>(4.6)</b>	<b>428.4</b>	<b>611.6</b>	<b>(5.5)</b>	<b>606.1</b>

In addition to the "on balance sheet" exposure to credit risk shown above, the Group has operating leases with third parties that are subject to back-to-back operating leases between the Group and East London Bus Group Limited, which acquired the Group's London bus operations in 2006. The Group is exposed to the risk that East London Bus Group Limited is unable to meet its obligations under the operating leases although the Group would have access to the underlying assets in those circumstances. At 30 April 2008, the future contractual cash flows payable by East London Bus Group Limited under the relevant leases was £9.2m (2007: £16.8m), of which £4.8m (2007: £7.6m) is due within one year, £1.6m (2007: £4.8m) is due between one and two years, £2.8m (2007: £3.5m) is due between two and five years, and £Nil (2007: £0.9m) is due after more than five years.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK Department for Transport, other government bodies and financial institutions with short-term credit ratings of A1 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (ii) Credit risk (continued)

The Group's total net exposure to credit risk by geographic region is analysed below:

	2008	2007
	£m	£m
United Kingdom	400.6	579.9
North America	27.8	26.2
	<b>428.4</b>	<b>606.1</b>

The Group's financial assets by currency is analysed below:

	2008	2007
	£m	£m
Sterling	386.8	566.9
US dollars	38.0	29.1
Canadian dollars	3.8	9.6
Others	Nil	0.5
	<b>428.4</b>	<b>606.1</b>

All of the above financial assets' carrying amounts are representative of their maximum credit exposure.

The following financial assets were past due, but not impaired at the balance sheet date:

	2008	2007
	£m	£m
Amounts 1 to 90 days overdue	18.3	10.4
Amounts 91 to 180 days overdue	0.9	0.3
Amounts 181 to 365 days overdue	2.2	1.4
Amounts more than 365 days overdue	Nil	Nil
	<b>21.4</b>	<b>12.1</b>

The Group does not hold any collateral in respect of its credit risk exposures set out above (2007: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2008 (2007: £Nil).

#### (iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's objective in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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.

As at 30 April 2008, the Group's committed credit facilities were £1,136.1m (2007: £1,085.5m), £546.0m (2007: £307.9m) of which were utilised, including utilisation for the issuance of bank guarantees, bonds and letters of credit.

The Group had the following undrawn committed banking and asset finance facilities:

	2008	2007
	£m	£m
Expiring within one year	142.9	29.2
Expiring in more than one year but not more than two years	22.2	Nil
Expiring beyond two years	425.0	748.4
	<b>590.1</b>	<b>777.6</b>

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 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 Group's principal lines of credit have been arranged on a bi-lateral basis with a group of relationship banks that provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit. The facilities amount in total to £847.4m and have been provided on a bi-lateral basis with eleven banks. Of these facilities, £742.8m matures in approximately four years in March 2012, £55.7m matures in February 2010 and £48.9m matures in March 2009.

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 of Asset Finance Facilities are dependent on the underlying assets and typically range between five and ten years. Asset Finance Facilities were satisfactorily renewed in February and March 2008.

In addition to the bi-lateral and Asset Finance Facilities, £38.3m of bank overdraft and other local facilities are in place.

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (iii) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including interest payments. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 30 April 2008	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
<b>Non derivative financial liabilities:</b>						
Unsecured bank loans	(214.7)	(215.0)	Nil	Nil	(215.0)	Nil
Unsecured bond issues	(180.4)	(191.2)	(14.6)	(176.6)	Nil	Nil
Redeemable preference shares	(8.1)	(8.1)	(8.1)	Nil	Nil	Nil
Finance lease liabilities	(30.1)	(33.1)	(17.9)	(2.1)	(7.8)	(5.3)
Hire purchase liabilities	(124.2)	(147.5)	(24.0)	(22.9)	(56.8)	(43.8)
Loan notes payable	(36.0)	(36.0)	(36.0)	Nil	Nil	Nil
Trade and other payables	(463.0)	(463.0)	(444.1)	(18.7)	Nil	(0.2)
Bank overdraft	(0.6)	(0.6)	(0.6)	Nil	Nil	Nil
	(1,057.1)	(1,094.5)	(545.3)	(220.3)	(279.6)	(49.3)
<b>Derivative financial liabilities:</b>						
Commodity derivatives used for hedging	(3.7)	0.6	0.2	0.2	0.2	Nil
	(1,060.8)	(1,093.9)	(545.1)	(220.1)	(279.4)	(49.3)

As at 30 April 2007	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
<b>Non derivative financial liabilities:</b>						
Unsecured bond issues	(183.2)	(210.3)	(14.4)	(14.4)	(181.5)	Nil
Finance lease liabilities	(38.2)	(42.0)	(21.7)	(11.3)	(5.0)	(4.0)
Hire purchase liabilities	(84.1)	(99.8)	(16.7)	(16.0)	(42.5)	(24.6)
Loan notes payable	(37.0)	(37.0)	(37.0)	Nil	Nil	Nil
Trade and other payables	(331.3)	(331.3)	(326.8)	(4.1)	Nil	(0.4)
Bank overdraft	(0.8)	(0.8)	(0.8)	Nil	Nil	Nil
	(674.6)	(721.2)	(417.4)	(45.8)	(229.0)	(29.0)
<b>Derivative financial liabilities:</b>						
Commodity derivatives used for hedging	(6.3)	Nil	Nil	Nil	Nil	Nil
	(680.9)	(721.2)	(417.4)	(45.8)	(229.0)	(29.0)

The "contractual cash flows" shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted cash flows in respect of interest up to and including the next rollover date are shown.

### (d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

## Note 28 Financial instruments (continued)

### (e) Reclassification of financial assets

There have been no reclassifications of financial assets between (1) those measured at cost or amortised cost and (2) those measured at fair value during the year ended 30 April 2008 (2007: None).

### (f) Collateral

Included within the cash and cash equivalents balance of £262.2m (2007: £513.3m) are £33.0m (2007: £33.4m) of cash balances that have been pledged as collateral for liabilities as follows:

- £32.2m (2007: £32.3m) has been pledged by the Group as collateral for £32.2m (2007: £32.3m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit at Bank of Scotland. Bank of Scotland has guaranteed the Group's obligations to the holders of the loan notes and to the extent that the Group fails to satisfy its obligations under the loan notes, Bank of Scotland shall use the cash collateral to satisfy such obligations.
- £Nil (2007: £0.4m) has been pledged by the Group as collateral for a liability under the Sale and Purchase Agreement relating to the disposal of a business by the Group. The amount was held in a separate Escrow account. The collateral amount was released during the year ended 30 April 2008 as the Group no longer has the liability.
- £0.8m (2007: £0.7m) has been pledged by the Group as collateral for liabilities to the vendors of certain businesses that the Group acquired in North America.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 30 April 2008 and 30 April 2007.

### (g) Compound financial instruments

The Group did not hold any compound financial instruments as at 30 April 2008 (2007: £Nil).

### (h) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2008 and 30 April 2007 and no loans payable are in default as at 30 April 2008 (2007: £Nil). The Group was in compliance with all bank loan covenants as at 30 April 2008 and as at 30 April 2007.

### (i) Income, expense, gains and losses

The following items of income, expense, gains and losses in respect of financial instruments have been recognised in the financial statements.

	2008	2007
	£m	£m
<b>Financial assets at fair value through profit or loss</b>	Nil	0.1
<b>Interest income and expense</b>		
Interest income for financial assets and financial liabilities that are not at fair value through profit or loss	21.6	21.3
Interest expense for financial assets and financial liabilities that are not at fair value through profit or loss	(41.9)	(17.8)
<b>Available for sale financial assets</b>		
Gains/(losses) recognised directly in equity	0.6	(1.9)
Impairment loss recognised in consolidated income statement	(0.2)	(1.3)
	(19.9)	0.4

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (i) Income, expense, gains and losses (continued)

The net finance (costs)/income reported in the consolidated income statement includes amounts that arise on non-financial liabilities and excludes amounts recognised directly in equity and impairment losses on investments. The net (loss)/gain presented on page 89 can be reconciled to the net finance (costs)/income reported in the consolidated income statement as follows:

		2008	2007
	Note	£m	£m
<b>Reconciliation to net finance (costs)/income:</b>			
Net (loss)/gain presented above		(19.9)	0.4
Unwinding of discount on provisions		(3.3)	(2.9)
Exclude (gains)/losses recognised directly in equity		(0.6)	1.9
Exclude impairment loss classified within other operating costs in consolidated income statement		0.2	1.3
Net finance (costs)/income reported in consolidated income statement	6	(23.6)	0.7

### (j) Hedge accounting

A summary of the Group's hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– None	– Not applicable
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps, collars, caps and floors)
	– Interest rate risks	– Derivatives (interest rate swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings
		– Derivatives (foreign currency forward contracts)

In addition to the risks hedged by the Group, the Group is also monitoring the following matters and may consider hedging in the future:

- The Group is exposed to movements in the price of electricity, particularly through its UK Rail division. The structure of electricity purchasing in the UK Rail industry limits the Group's ability to independently hedge against movements in electricity prices but the Group continues to monitor this risk. An element of anticipated electricity usage is purchased by the UK rail industry in advance at fixed prices so there is some degree of visibility of future electricity costs.
- The Group expects to be subject to the European Union Emissions Trading Scheme ("ETS") from 2012. The Group will evaluate opportunities to hedge its exposure to carbon credit prices under the ETS.

#### Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2008	2007
	£m	£m
<b>Non-current assets</b>		
Fuel derivatives	11.0	Nil
<b>Current assets</b>		
Fuel derivatives	33.4	1.7
<b>Current liabilities</b>		
Interest rate swaps	(0.7)	Nil
Fuel derivatives	(0.7)	(3.7)
	(1.4)	(3.7)
<b>Non-current liabilities</b>		
Interest rate swaps	(2.3)	Nil
Fuel derivatives	Nil	(2.6)
	(2.3)	(2.6)
<b>Total net carrying value</b>		
Interest rate swaps	(3.0)	Nil
Fuel derivatives	43.7	(4.6)
	40.7	(4.6)

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.



## Note 28 Financial instruments (continued)

### (j) Hedge accounting (continued)

#### 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. There were no embedded derivatives as at 30 April 2008 (2007: None) which were separately accounted for.

#### Cash flow hedges - fuel

As noted previously, the Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions. The majority of the Group's fuel derivatives as at 30 April 2008 cover periods up to 30 April 2009, with the latest period covered by a commodity price risk cash flow hedge being 30 April 2011. The cash flows are expected to occur and affect profit or loss in the same periods.

The movements in the fair value of fuel derivatives in the year were as follows:

	2008	2007
	£m	£m
<b>Fuel derivatives</b>		
Fair value at start of year	(4.6)	1.2
Changes in fair value during year taken to cash flow hedging reserve	57.4	(9.2)
Cash (received)/paid during the year	(9.1)	3.4
Fair value at end of year	43.7	(4.6)

The fair value of the fuel derivatives split by maturity was as follows:

	Assets	Liabilities
	£m	£m
<b>As at 30 April 2008</b>		
Within one year	33.4	(0.7)
1 to 2 years	5.6	Nil
2 to 3 years	5.4	Nil
	44.4	(0.7)
<b>As 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 fuel derivatives is further analysed by currency and segment as follows:

	Fair value	Notional quantity of fuel covered by derivatives
	£m	Million of litres
<b>As at 30 April 2008</b>		
Sterling denominated – UK Bus	19.6	179.0
Sterling denominated – UK Rail	18.0	142.5
US dollar denominated – North America	6.1	56.7
	43.7	378.2
<b>As at 30 April 2007</b>		
Sterling denominated – UK Bus	(4.5)	357.0
Sterling denominated – UK Rail	Nil	Nil
US dollar denominated – North America	(0.1)	123.0
	(4.6)	480.0

# Notes to the consolidated financial statements

## Note 28 Financial instruments (continued)

### (j) Hedge accounting (continued)

#### Cash flow hedges - interest

As noted previously, the Group uses a number of interest rate derivatives to hedge its exposure to floating interest rates. The Group's interest rate cash flow hedges cover periods up to 2 July 2012. The cash flows are expected to occur and affect profit or loss in the same periods.

The movements in the fair value of interest rate derivatives used as hedging instruments in the year were as follows:

	2008	2007
	£m	£m
<b>Interest rate derivatives</b>		
Fair value at start of year	Nil	Nil
Changes in fair value during year taken to cash flow hedging reserve	(2.8)	Nil
Cash received	(0.2)	Nil
Fair value at end of year	(3.0)	Nil

The fair value of the interest rate derivatives split by maturity was as follows:

	Liabilities
	£m
<b>As at 30 April 2008</b>	
Within one year	(0.7)
1 to 2 years	(0.9)
2 to 3 years	(0.6)
3 to 4 years	(0.7)
4 to 5 years	(0.1)
	(3.0)

All of the interest rate derivatives are sterling denominated and are managed and held centrally.

#### Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Interest rate derivatives	Fuel derivatives	Total
	£m	£m	£m
Cash flow hedging reserve at 1 May 2006	Nil	(0.8)	(0.8)
Changes in fair value during the year taken to cash flow hedging reserve	Nil	(9.2)	(9.2)
Cash flow hedges reclassified and reported in profit for year	Nil	5.4	5.4
Cash flow hedging reserve at 30 April 2007	Nil	(4.6)	(4.6)
Changes in fair value during the year taken to cash flow hedging reserve	(2.8)	57.4	54.6
Cash flow hedges reclassified and reported in profit for year	(0.2)	(13.6)	(13.8)
Tax effect of cash flow hedges	0.9	(12.6)	(11.7)
Cash flow hedging reserve at 30 April 2008	(2.1)	26.6	24.5
Cash flow hedging reserve before tax	(3.0)	39.2	36.2
Tax	0.9	(12.6)	(11.7)
Cash flow hedging reserve after tax	(2.1)	26.6	24.5

There have been no instances during the year ending 30 April 2008 (2007: None) from a Group perspective where a forecast transaction for which hedge accounting had previously been used was no longer expected to occur.

#### Held for trading

The Group had a £50m 8.5% interest rate cap that matured in 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 was accounted for as a held for trading derivative (i.e. carried at fair value through profit or loss).

#### Hedge of overseas net investments

At 30 April 2008, the US\$334.1m (2007: US\$334.1m) of US\$ notes was designated as a hedge of overseas net investments.

## Note 29 Share capital

	2008	2007
	£m	£m
<b>Authorised ordinary share capital</b>		
936,428,571 (2007: 1,456,666,666) ordinary shares of 56/57 pence (2007: 12/19 pence) each	9.2	9.2

	2008		2007	
	No. of shares	£m	No. of shares	£m
<b>Allotted, called-up and fully-paid ordinary shares of 56/57 pence each (2007: 12/19 pence)</b>				
At beginning of year	1,100,998,707	7.0	1,093,600,313	6.9
Share capital consolidation (9 for 14 shares)	(393,213,824)	Nil	Nil	Nil
Allotted to employees and former employees under share option schemes	10,360,416	Nil	7,398,394	0.1
At end of year	718,145,299	7.0	1,100,998,707	7.0

The balance on the share capital account shown above 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 2008, the QUEST held 384,279 (2007: 369,399) ordinary shares in the Company and the EBT held 4,600,165 (2007: 5,825,879) ordinary shares in the Company. The trusts have waived dividends on the shares they hold.

On 14 May 2007, a share capital consolidation took place that replaced every 14 existing ordinary shares with 9 new ordinary shares. The effect of this share capital consolidation changed the par value of an ordinary share from 12/19 pence to 56/57 pence.

Also, on 14 May 2007 shareholders received 1 'B' share or 1 'C' share for each existing ordinary share held. This was a means of returning cash to shareholders. The 'B' and 'C' shares issued were subsequently dealt with as follows:

- A dividend of 63 pence per 'C' share was paid on 451,806,110 'C' shares, with the dividend paid to holders on 25 May 2007. These 'C' shares were then converted to deferred shares. The deferred shares have been subsequently cancelled.
- Employee share ownership trusts received 6,195,278 'C' shares and waived their entitlement to dividends on such shares. These 'C' shares were then converted to deferred shares. The deferred shares have been subsequently cancelled.
- 253,584,435 'B' shares were redeemed at 63 pence each with the redemption proceeds paid to holders on 5 June 2007.
- 365,219,584 'C' shares were sold to Credit Suisse Securities (Europe) Limited for 63 pence each and the proceeds paid to holders on 5 June 2007. The 'C' shares were subsequently purchased by the Company from Credit Suisse Securities (Europe) Limited at 63 pence each and were cancelled.
- 11,409,623 'B' shares were redeemed at 63 pence each with the redemption proceeds paid to holders on 30 November 2007.
- 12,783,677 'B' shares remained in issue at 30 April 2008 and may be redeemed at the option of the holder on 31 May and 30 November each year. These retained 'B' shares are entitled to receive a dividend at the rate of 70% of six month LIBOR, payable six-monthly in arrears on the par value of 63 pence per 'B' share.

The 'B' shares that remain in issue are classified as liabilities and the dividends payable on such shares are classified in the consolidated income statement within finance costs

# 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, share based payment charges of £6.7m (2007: £3.4m) have been recognised in the income statement during the year in relation to the above schemes.

In accordance with the transitional provisions of IFRS, the requirements of IFRS 2 have not been applied to equity-settled share based payments that: (i) were granted on or before 7 November 2002 or; (ii) were granted after 7 November 2002 but had vested before the date of transition, being 1 May 2004. Therefore the following disclosures relate only to equity-settled share based payments made after 7 November 2002 that had not vested by 1 May 2004, and to all cash-settled share based payments.

Grant date	Executive Share Option Scheme					SAYE	LTIP*	LTIP*	LTIP*
	December 2004 <sup>o</sup>	June 2004 <sup>o</sup>	December 2003 <sup>†</sup>	June 2003 <sup>†</sup>	December 2002 <sup>▲</sup>	February 2005 <sup>o</sup>	August 2005	June 2006	June 2007
Share price at grant/award date (£)	1.1150	0.8575	0.8075	0.6050	0.2700	1.1800	1.1075	1.1325	1.8075
Exercise price (£)	1.1150	0.8575	0.8075	0.6050	0.2700	1.0328	n/a	n/a	n/a
Number of employees holding options/units at 30 April 2008	36	20	11	2	Nil	349	8	9	9
Shares under option/notional units at 30 April 2008	999,635	1,431,282	567,622	360,367	Nil	909,097	1,611,723	1,807,949	1,229,335
Vesting period (years)	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	75%	75%	30%	30%	30%	30%
Option/award life (years)	7	7	7	7	7	3.5	3	3	3
Expected life (years)	4.4	4.4	4.4	4.4	3	3	3	3	3
Risk free rate	4.75%	4.64%	4.64%	3.79%	4.40%	4.56%	n/a	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%	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	0.70
Option pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Simulation	Simulation	Simulation

▲ These options became fully vested during the year to 30 April 2006.

† These options became fully vested during the year to 30 April 2007.

o These options became fully vested during the year to 30 April 2008.

\*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 2007	Exercised	Expired/Forfeited	At 30 April 2008	Exercise price £	Date from which exercisable	Expiry date
20 June 2001*	190,000	(190,000)	Nil	Nil	0.7075	20 June 2004	20 June 2008
23 July 2002*	1,679,958	(1,393,867)	Nil	286,091	0.3750	23 July 2005	23 July 2009
5 December 2002	1,844,908	(1,844,908)	Nil	Nil	0.2700	5 December 2005	5 December 2009
26 June 2003	1,234,024	(873,657)	Nil	360,367	0.6050	26 June 2006	26 June 2010
12 December 2003	1,153,023	(542,820)	(42,581)	567,622	0.8075	12 December 2006	12 December 2010
25 June 2004	4,617,060	(3,136,932)	(48,846)	1,431,282	0.8575	25 June 2007	25 June 2011
10 December 2004	1,371,305	(324,482)	(47,188)	999,635	1.1150	10 December 2007	10 December 2011
	12,090,278	(8,306,666)	(138,615)	3,644,997			

\* 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 2008 was £2.57 (2007: £1.87). The Company's ordinary shares traded in the range of £1.65 to £2.95 (2007: £0.93 to £1.89) during the year to that date.

As share options are exercised continuously throughout the year, the weighted average share price during the year of £2.26 (2007: £1.37) is considered 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	2,592	6,736,001
Options exercised	(2,096)	(5,496,050)
Options lapsed	(147)	(330,854)
End of year	349	909,097

#### 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 2008 were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Lapsed 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 2008 £	TSR ranking at 30 April 2008†	Vesting date
26 August 2005	1,583,442	Nil	Nil	28,281	1,611,723	0.4237	2.5175	20	26 Aug 2008
29 June 2006	1,776,219	Nil	Nil	31,730	1,807,949	0.4381	2.0886	2	29 June 2009
28 June 2007	Nil	1,268,616	(60,857)	21,576	1,229,335	0.6991	2.0478	9	28 June 2010

† 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	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Exercised in year (notional units)	Lapsed 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	1,173,610	Nil	(5,392)	(59,208)	15,226	1,124,236	30 June 2009	1,305,511	1.1525
28 June 2007	Nil	978,470	Nil	(30,446)	22,742	970,766	28 June 2010	1,775,639	1.8075

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

	2008	2007
	£m	£m
Share premium account	8.0	179.4
Retained earnings	(363.6)	91.8
Capital redemption reserve	410.8	243.0
Own shares	(12.6)	(7.3)
Translation reserve	5.7	3.0
Available for sale reserve	0.6	Nil
Cash flow hedging reserve	24.5	(4.6)

A reconciliation of the movements in the above reserves is shown in the Consolidated statement of changes in equity on page 45.

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 £373.7m (2007: £464.4m) in respect of the Company on a UK GAAP basis.

# Notes to the consolidated financial statements

## Note 31 Reserves (continued)

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Cumulative goodwill of £113.8m (2007: £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 cumulative cost of shares in Stagecoach Group plc purchased in the market and held by the Group's two Employee Share Ownership Trusts offset by cumulative 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

	2008	2007
	£m	£m
Operating profit of continuing Group companies	<b>164.8</b>	166.4
Operating profit of discontinued operations	<b>Nil</b>	5.2
Depreciation		
– continuing operations	<b>66.6</b>	68.3
– discontinued operations	<b>Nil</b>	2.5
Loss on disposal of plant and equipment	<b>0.4</b>	0.2
Intangible asset expenses	<b>7.9</b>	9.6
Impairment of investments	<b>0.2</b>	1.3
Equity-settled share based payment expense	<b>1.7</b>	2.0
Operating cashflows before working capital movements	<b>241.6</b>	255.5
(Increase)/decrease in inventories	<b>(6.7)</b>	0.5
(Increase)/decrease in receivables	<b>(43.5)</b>	14.9
Increase/(decrease) in payables	<b>129.1</b>	(2.8)
Increase in provisions	<b>8.5</b>	13.7
Non cash exceptional pensions past service adjustment	<b>Nil</b>	(28.9)
Other differences between employer pension contributions and amounts recognised in the income statement	<b>(69.0)</b>	(94.9)
Cash generated by operations	<b>260.0</b>	158.0

### (b) Proceeds from sale of property, plant and equipment

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008	2007
	£m	£m
Net book values	<b>7.7</b>	6.8
Loss on disposal of plant and equipment	<b>(0.4)</b>	(0.2)
Gain on disposal of properties	<b>0.3</b>	3.6
Value of property, plant and equipment traded in	<b>(3.4)</b>	(0.9)
Movement in receivables and deposits for proceeds from sale of property, plant and equipment	<b>5.0</b>	1.7
Proceeds from sale of property, plant and equipment	<b>9.2</b>	11.0



## Note 32 Consolidated cash flows (continued)

### (c) Reconciliation of net cash flow to movement in net (debt)/funds

	2008	2007
	£m	£m
(Decrease)/increase in cash	<b>(251.3)</b>	315.1
Cash flow from movement in borrowings	<b>501.9</b>	40.9
	<b>250.6</b>	356.0
New hire purchase	<b>(63.4)</b>	(49.0)
Bonus issue of preference shares	<b>(693.6)</b>	Nil
Hire purchase debt of acquired subsidiaries	<b>(1.1)</b>	Nil
Other movements	<b>1.4</b>	15.3
(Increase)/decrease in net debt	<b>(506.1)</b>	322.3
Opening net funds/( debt) (as defined in note 32(d))	<b>186.4</b>	(135.9)
Closing net (debt)/funds (as defined in note 32(d))	<b>(319.7)</b>	186.4

### (d) Analysis of net funds/(debt)

IFRS does not explicitly define "net funds/debt". For the purpose of this note, net debt or net funds is the net of cash and borrowings as reported on the consolidated balance sheet, adjusted to exclude any accrued interest and deferred gains on derivatives. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase/ finance leases £m	Preference shares issued £m	Preference shares liability waived £m	Acquisitions £m	Foreign exchange movements £m	(Charged)/ credited to income statement £m	Closing £m
Cash	479.1	(250.9)	Nil	Nil	Nil	Nil	0.4	Nil	228.6
Cash collateral	33.4	(0.4)	Nil	Nil	Nil	Nil	Nil	Nil	33.0
Hire purchase and finance lease obligations	(122.3)	33.1	(63.4)	Nil	Nil	(1.1)	(0.6)	Nil	(154.3)
Bank loans and loan stock	(37.0)	(212.8)	Nil	Nil	Nil	Nil	Nil	(0.9)	(250.7)
Bonds	(166.8)	Nil	Nil	Nil	Nil	Nil	(1.5)	0.1	(168.2)
Preference shares	Nil	681.6	Nil	(693.6)	3.9	Nil	Nil	Nil	(8.1)
<b>Net funds/(debt)</b>	<b>186.4</b>	<b>250.6</b>	<b>(63.4)</b>	<b>(693.6)</b>	<b>3.9</b>	<b>(1.1)</b>	<b>(1.7)</b>	<b>(0.8)</b>	<b>(319.7)</b>
Accrued interest on bonds	(6.6)	7.3	Nil	Nil	Nil	Nil	(0.1)	(7.3)	(6.7)
Unamortised gain on early settlement of interest rate swaps	(9.8)	Nil	Nil	Nil	Nil	Nil	Nil	4.3	(5.5)
<b>Net borrowings (IFRS)</b>	<b>170.0</b>	<b>257.9</b>	<b>(63.4)</b>	<b>(693.6)</b>	<b>3.9</b>	<b>(1.1)</b>	<b>(1.8)</b>	<b>(3.8)</b>	<b>(331.9)</b>

The net total of cash and cash collateral of £261.6m (2007: £512.5m) is classified in the balance sheet as £262.2m (2007: £513.3m) in cash and cash equivalents and £0.6m (2007: £0.8m) as bank overdrafts within borrowings.

Cash and cash equivalents includes £113.8m (2007: £Nil) of amounts deposited in money market accounts that are due to mature between 1 May 2008 and 16 June 2008.

### (e) Restricted cash

The cash collateral balance as at 30 April 2008 of £33.0m (2007: £33.4m) comprises balances held in trust in respect of loan notes of £32.2m (2007: £32.3m), proceeds from the sale of businesses held in Escrow of £Nil (2007: £0.4m) and North America restricted cash balances of £0.8m (2007: £0.7m). In addition, cash includes train operating company cash of £142.3m (2007: £96.2m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained earnings.

### (f) Non cash transactions

The principal non cash transactions were the acquisition of property, plant and equipment using new hire purchase and finance leases.

During the year, the Group entered into hire purchase and finance lease arrangements in respect of new assets with a total capital value at inception of the contracts of £66.2m (2007: £51.6m). After taking account of deposits paid up front, new hire purchase and finance lease liabilities of £63.4m (2007: £49.0m) were recognised.

# Notes to the consolidated financial statements

## Note 33 Contingencies

### Contingent liabilities

(i) At 30 April 2008, the following bonds and guarantees were in place relating to the Group's rail operations:

	2008	2007
	£m	£m
Performance bonds backed by bank facilities		
– Stagecoach South Western Trains	33.5	10.7
– East Midlands Trains	18.2	Nil
– South West Trains	Nil	44.3
Season ticket bonds backed by bank facilities		
– Stagecoach South Western Trains	37.9	34.5
– East Midlands Trains	4.3	Nil
Intercompany loan facilities and guarantees		
– Stagecoach South Western Trains	25.0	25.0
– East Midlands Trains	35.0	Nil
– South West Trains	Nil	15.7

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 2008, the accruals in the consolidated financial statements for such claims total £9.8m (2007: £2.6m).

## Note 34 Guarantees and other financial commitments

### (a) Capital commitments

	2008	2007
	£m	£m
Capital commitments are as follows:		
Contracted for but not provided		
For delivery in one year	95.8	74.3

### (b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2008:

As at 30 April 2008	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 2009	20.0	1.5	127.8	7.6	156.9
Year ending 30 April 2010	19.7	0.9	127.8	7.4	155.8
Year ending 30 April 2011	19.8	0.6	127.8	6.6	154.8
Year ending 30 April 2012	20.2	0.4	127.8	5.2	153.6
Year ending 30 April 2013	19.8	0.4	127.8	3.3	151.3
1 May 2013 and thereafter	35.8	0.1	502.1	1.8	539.8
	135.3	3.9	1,141.1	31.9	1,312.2

All operating lease commitments associated with UK Rail franchises are assumed to terminate in line with the expected franchise end.

The amounts shown above do not include Network Rail charges, which are shown separately in note 34(c).

**Note 34 Guarantees and other financial commitments (continued)**

**(b) Operating lease commitments (continued)**

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2007:

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
	52.8	20.1	977.5	19.1	1,069.5

**(c) Network Rail charges**

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots) until the expected end of the franchises. Commitments for payments under these contracts as at 30 April 2008 are as shown below.

	2008
	£m
Lease payments due in respect of:	
Year ending 30 April 2009	194.0
Year ending 30 April 2010	65.5
Year ending 30 April 2011	65.5
Year ending 30 April 2012	65.5
Year ending 30 April 2013	65.5
1 May 2013 and thereafter	70.9
	526.9

Commitments for payments under these contracts as at 30 April 2007 were as follows:

	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

**(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:

	2008	2007
	£m	£m
Annual commitments under non-cancellable operating leases	47.9	60.4
Capital commitments	Nil	Nil
Franchise performance bonds	14.7	14.7
Season ticket bonds	1.5	1.3

The performance bonds at Virgin Rail Group Holdings Limited, a joint venture, require that the consolidated net assets of Virgin Rail Group Holdings Limited are no less than £25.0m (2007: £25.0m). This could restrict Virgin Rail Group Holding's ability to make distributions to the Group.

# Notes to the consolidated financial statements

## Note 35 Related party transactions

Details of major related party transactions during the year ended 30 April 2008 are provided below, except for those relating to the remuneration of the Directors and management.

### (i) 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 2008, the Group earned fees of £45,415 (2007: £25,000) from Virgin Rail Group Holdings Limited in this regard.

### (ii) 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 2008 amounted to £20,000 (2007: £20,000). At 30 April 2008, Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held 4,084,999 (2007: 6,354,443) ordinary shares in the Company, representing 0.6% (2007: 0.6%) of the Company's issued ordinary share capital

### (iii) Alexander Dennis Limited

Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 37.9% (30 April 2007: 37.2%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (ii) above) controls a further 28.4% (30 April 2007: 27.9%) 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 2008, the Group purchased £34.8m (2007: £42.8m) of vehicles from Alexander Dennis Limited and £3.2m (2007: £3.9m) 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.

### (iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 27 to the consolidated financial statements.

### (v) Robert Walters plc

Martin Griffiths became a non-executive director of Robert Walters plc in July 2006 and received remuneration of £39,167 (2007: £29,000 from 12 July 2006 to 30 April 2007) in respect of his services for the year ended 30 April 2008. Martin Griffiths holds 12,000 shares in Robert Walters plc which represents 0.01% of the issued share capital.

### (vi) Glasgow Income Trust plc

Martin Griffiths became a non-executive director of Glasgow Income Trust plc on 8 November 2007 and received £6,689 in respect of his services for the period ended 30 April 2008.

### (vii) Loan to New York Splash Tours LLC

An interest bearing loan of £1.8m (2007: £1.9m) was outstanding from a joint venture, New York Splash Tours LLC, as at 30 April 2008.

## Note 36 Post balance sheet events

On 16 May 2008, the Group completed the acquisition of Highland Country Buses Ltd and Orkney Coaches Ltd from Rapsons Coaches Ltd. The businesses acquired, which operate bus and coach services in the Highlands, Skye and Orkney, have annual revenue of approximately £12.5m, employ around 400 people and run a fleet of around 200 vehicles.

On 31 May 2008, holders of 2,904,318 redeemable 'B' preference shares elected to have these shares redeemed leaving 9,879,359 redeemable 'B' preference shares in issue.

# 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 2008 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 page 40 on the Group financial statements of Stagecoach Group plc for the year ended 30 April 2008.

## 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 on page 23.

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 2008;
- 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  
1 July 2008

# Company balance sheet

As at 30 April 2008

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

		2008	2007
	Notes	£m	£m
<b>Fixed assets</b>			
Tangible assets	2	0.1	0.1
Investments	3	968.6	966.9
		<b>968.7</b>	967.0
<b>Current assets</b>			
Debtors and prepaid charges – due within one year	4	162.6	200.9
Deferred tax asset	5	0.3	0.3
Derivative financial instruments at fair value – due within one year	7	20.8	6.5
– due after more than one year	7	5.6	Nil
Cash and cash equivalents		73.7	94.6
		<b>263.0</b>	302.3
<b>Creditors: Amounts falling due within one year</b>			
Trade and other creditors	6	(401.0)	(94.9)
Redeemable 'B' preference shares		(8.1)	Nil
Derivative financial instruments at fair value	7	(0.4)	(3.9)
		<b>(409.5)</b>	(98.8)
<b>Net current (liabilities)/assets</b>		<b>(146.5)</b>	203.5
<b>Total assets less current liabilities</b>		<b>822.2</b>	1,170.5
<b>Creditors: Amounts falling due after more than one year</b>			
Other creditors	6	(0.6)	(0.7)
Derivative financial instruments at fair value	7	Nil	(2.6)
<b>Net assets excluding pension liability</b>		<b>821.6</b>	1,167.2
<b>Pension liability, net of deferred tax</b>	8	(1.9)	(2.4)
<b>Net assets including pension liability</b>		<b>819.7</b>	1,164.8
<b>Capital and reserves</b>			
Equity share capital	9	7.0	7.0
Share premium account	10	8.0	179.4
Profit and loss account	10	406.5	742.7
Capital redemption reserve	10	410.8	243.0
Own shares	10	(12.6)	(7.3)
<b>Shareholders' funds</b>		<b>819.7</b>	1,164.8

These financial statements were approved for issue by the Board of Directors on 25 June 2008.

*Brian Souter*

Brian Souter  
Chief Executive

*Martin A Griffiths*

Martin A Griffiths  
Finance Director

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



# Notes to the Company 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 Financial Reporting Standard 1 ("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 comparing 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 profit 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 49.

### • 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.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the profit and loss account to the extent that the amount of the expense recorded by each subsidiary company is less than the amount recharged to it by the Company.

#### 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 (or as an increase in investments in subsidiary undertakings) over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense or investment 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 or investment 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 expects 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 Company 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 51 to 53.

### • 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 of year	0.6
Additions	0.2
Disposals	(0.2)
At end of year	0.6
<b>Depreciation</b>	
At beginning and end of year	(0.5)
<b>Net book value</b>	
At beginning of year	0.1
At end of year	0.1

## Note 3 Investments

	Subsidiary undertakings
	£m
<b>Cost</b>	
Beginning of year	966.9
Additions	1.7
End of year	968.6
<b>Amounts written off</b>	
At beginning and end of year	Nil
Net book value, beginning of year	966.9
Net book value, end of year	968.6

**Note 4 Debtors and prepaid charges**

Amounts falling due within one year were:

	<b>2008</b>	2007
	£m	£m
Other prepayments and accrued income	<b>0.4</b>	1.5
VAT and other government debtors	<b>14.7</b>	9.2
UK corporation tax receivable	<b>1.0</b>	Nil
Amounts owed by Group companies	<b>146.5</b>	190.2
	<b>162.6</b>	200.9

**Note 5 Deferred tax asset**

The movement in the deferred tax asset during the year was as follows:

	<b>2008</b>	2007
	£m	£m
Beginning of year	<b>0.3</b>	0.4
Charge to profit and loss account	<b>Nil</b>	(0.1)
End of year	<b>0.3</b>	0.3

The deferred tax asset recognised can be analysed as follows:

	<b>2008</b>	2007
	£m	£m
Short-term timing differences	<b>0.3</b>	0.3

**Note 6 Creditors**

(a) Creditors: Amounts falling due within one year

	<b>2008</b>	2007
	£m	£m
Bank overdrafts	<b>297.0</b>	Nil
Bank loans and loan notes	<b>36.0</b>	37.0
Trade creditors	<b>0.1</b>	0.8
Accruals and deferred income	<b>4.0</b>	4.8
UK corporation tax payable	<b>Nil</b>	1.3
Amounts due to Group companies	<b>63.9</b>	51.0
	<b>401.0</b>	94.9

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

	<b>2008</b>	2007
	£m	£m
Accruals and deferred income	<b>0.6</b>	0.7

(c) Borrowings were repayable as follows:

	<b>2008</b>	2007
	£m	£m
<b>On demand or within 1 year</b>		
Bank overdraft	<b>297.0</b>	Nil
Bank loans and loan notes	<b>36.0</b>	37.0
Total borrowings	<b>333.0</b>	37.0

# Notes to the Company financial statements

## Note 7 Financial instruments

The fair values of derivative financial instruments at 30 April 2008 are set out below:

	2008		2007	
	Fair value assets £m	Fair value liabilities £m	Fair value assets £m	Fair value liabilities £m
Fuel derivatives – external	26.4	(0.4)	0.2	(6.3)
Fuel derivatives – internal	Nil	Nil	6.3	(0.2)
	<b>26.4</b>	<b>(0.4)</b>	6.5	(6.5)

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

	2008	2007
	£m	£m
Unfunded pension liability	2.7	3.5
Deferred tax asset	(0.8)	(1.1)
	<b>1.9</b>	<b>2.4</b>

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 more details on retirement benefits.

## Note 9 Called up share capital

	2008	2007
	£m	£m
<b>Authorised ordinary share capital</b> 936,428,571 (2007: 1,456,666,666) ordinary shares of 56/57 pence (2007: 12/19 pence) each	9.2	9.2
<b>Allotted, called-up and fully paid ordinary share capital</b> 718,145,299 (2007: 1,100,998,707) ordinary shares of 56/57 pence (2007: 12/19 pence) each	7.0	7.0

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 2008, the QUEST held 384,279 (2007: 369,399) ordinary shares in the Company and the EBT held 4,600,165 (2007: 5,825,879) ordinary shares in the Company.

Further information on share capital, including in respect of redeemable ‘B’ Shares, is provided in note 29 to the consolidated financial statements.

## 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 2007	7.0	179.4	742.7	243.0	(7.3)	<b>1,164.8</b>
Profit for the year	Nil	Nil	373.7	Nil	Nil	<b>373.7</b>
Credit in relation to share based payment	Nil	Nil	1.7	Nil	Nil	<b>1.7</b>
Dividends	Nil	Nil	(30.0)	Nil	Nil	<b>(30.0)</b>
Ordinary shares issued during the year	Nil	7.7	Nil	Nil	Nil	<b>7.7</b>
Own shares sold	Nil	Nil	Nil	Nil	3.1	<b>3.1</b>
Own shares purchased	Nil	Nil	Nil	Nil	(8.4)	<b>(8.4)</b>
Return of value to shareholders	Nil	(175.8)	(674.4)	160.6	Nil	<b>(689.6)</b>
Expenses associated with return of value	Nil	(3.3)	Nil	Nil	Nil	<b>(3.3)</b>
Preference shares redeemed	Nil	Nil	(7.2)	7.2	Nil	<b>Nil</b>
At 30 April 2008	7.0	8.0	406.5	410.8	(12.6)	<b>819.7</b>

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit as disclosed above of £373.7m (2007: £464.4m) 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 94 and 95. The Company accounts for the equity-settled share based payment charge for the year of £1.7m (2007: £2.0m) 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. The Company accounts for the cash-settled share based payment charge for the year of £5.0m (2007: £1.4m), by recording a liability for this amount and recording a corresponding entry as a charge through the profit and loss account. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the profit and loss account.

## Note 12 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £54.1m (2007: £69.0m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the company balance sheet.

In addition, the Company has provided guarantees to third parties of £43.2m (2007: £34.5m) in respect of contingent liabilities that are neither included in the consolidated balance sheet nor the company balance sheet.

The Company is also party to cross-guarantees whereby the bank overdrafts, bank loans and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the legal liabilities referred to in note 33 (iv) to the consolidated financial statements on page 98.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2008	2007
	£m	£m
Contracted for but not provided For delivery in one year	<b>82.1</b>	63.2

(c) Operating lease commitments

Annual charges for operating leases are made with expiry dates as follows:

	2008		2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Between one year and five years	<b>Nil</b>	<b>3.1</b>	Nil	3.1
Five years and over	<b>0.3</b>	<b>0.5</b>	0.3	0.5

## 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. Related party disclosures provided by the Group can be found on page 100.

# Shareholder information

## Analysis of shareholders as at 30 April 2008

Range of holdings	Number of holders	%	Ordinary shares held	%
1 – 25,000	43,132	98.56	46,671,816	6.50
25,001 – 250,000	410	0.94	34,135,121	4.76
250,001 – 500,000	59	0.13	21,792,652	3.03
500,001 – 3,750,000	123	0.28	160,278,875	22.32
Over 3,750,000	38	0.09	455,266,835	63.39
	43,762	100.00	718,145,299	100.00

Classification of shareholders	Number of holders	%	Ordinary shares held	%
Individuals	41,983	95.93	199,313,056	27.76
Other corporate bodies	47	0.11	5,118,808	0.71
Banks and Nominees	1,601	3.66	485,268,291	67.57
Limited companies	127	0.29	28,431,660	3.96
Pension funds	4	0.01	13,484	0.00
	43,762	100.00	718,145,299	100.00

### Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrars and clearly state the shareholder's name and address. Please write to: Equiniti Limited, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. Telephone 0871 384 2408. 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 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 registrars (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 the Company's registrars, Equiniti Limited, on 0871 384 2408.



## Five year financial summary – consolidated

	IFRS 2008**	IFRS 2007**	IFRS 2006**	IFRS 2005**	UK GAAP 2004
	£m	£m	£m	£m	£m
<b>Results</b>					
Revenue	1,763.6	1,504.6	1,343.9	1,420.5	1,792.3
Operating profit	192.3	180.9	112.5	132.9	129.7
Net finance (costs)/income	(23.6)	0.7	(15.9)	(21.9)	(27.3)
Profit before taxation	167.3	184.1	91.5	104.9	95.8
Tax credit/(charge)	61.9	(43.6)	(20.3)	(25.3)	8.8
Profit attributable to equity shareholders of the parent	249.1	277.3	115.4	86.9	104.6
<b>Net assets</b>					
Non-current assets	880.7	779.4	893.4	866.7	831.7
Current assets	502.0	669.1	395.3	321.7	717.1
Current liabilities (excluding provisions)	(558.1)	(445.1)	(438.2)	(517.4)	(674.6)
Non-current liabilities (excluding provisions)	(625.0)	(382.7)	(529.0)	(462.6)	(292.2)
Provisions	(119.2)	(108.4)	(109.9)	(93.0)	(192.0)
Total equity	80.4	512.3	211.6	115.4	390.0
<b>Cash and debt</b>					
Cash at bank and in hand	262.2	513.3	198.5	140.0	476.5
Gross debt***	(581.9)	(326.9)	(334.4)	(354.6)	(544.1)
Net (debt)/funds***	(319.7)	186.4	(135.9)	(214.6)	(67.6)
<b>Cash flow</b>					
Net cash flow from operating activities after tax	325.0	162.3	175.5	173.6	209.5
<b>Ratios</b>					
Adjusted earnings per ordinary share*	20.3p	11.7p	10.6p	9.5p	6.7p
Dividends per ordinary share	5.4p	4.1p	3.7p	3.3p	2.9p
Net cash from operating activities after tax per ordinary share	45.1p	14.9p	16.3p	15.0p	15.9p
Ordinary shares in issue at year end	718.1m	1,101.0m	1,093.6m	1,069.5m	1,335.4m

\*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 are as reported under UK GAAP.

\*\*\* excluding any accrued interest and deferred gains on derivatives.

# 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

Equiniti

PO Box 28448

Finance House

Orchard Brae

Edinburgh EH4 1WQ

Telephone +44 (0) 871 384 2408\*

## 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 Ueberior House

11 Earl Grey Street

Edinburgh EH3 9BN

## Solicitors

Shepherd & Wedderburn LLP

1 Exchange Crescent

Conference Square

Edinburgh EH3 8UL

Herbert Smith

Exchange House

Primrose Street

London EC2A 2HS

## Financial Calendar

Annual General Meeting

29 August 2008

Payment Date – Ordinary Shares

Final Dividend

1 October 2008

Interim Report

December 2008

Interim Dividend

March 2009

\*Calls to this number will be charged at 8p per minute from a BT number. Other telephone providers' costs may vary.





# 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)