

Note 24 Reserves

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Share premium account	392.4	386.1	392.4	386.1
Profit and loss account (note 10)	(6.9)	(77.3)	464.2	57.5
Capital redemption reserve	1.7	1.7	1.7	1.7
Own shares	(3.9)	Nil	(3.9)	Nil

Of the Company's profit and loss account balance £378.5m (2003: £57.5m) is distributable and £85.7m (2003: £Nil) is non-distributable. None of the other above reserves as at 30 April 2004 are regarded as distributable.

Details of own shares held are given in note 22.

The consolidated profit/(loss) for the financial year includes £445.1m (2003: loss of £578.3m) in respect of the Company.

The movement in the profit and loss account is given in note 10. The movement on other reserves is as follows:

	Group and company: share premium	Group and company: capital redemption reserve
	£m	£m
Beginning of year	386.1	1.7
Arising on new share issues	6.3	Nil
End of year	392.4	1.7

Cumulative goodwill of £113.8m (2003: £113.8m) has been written off against reserves in periods prior to the adoption of FRS 10 "Goodwill and Intangible Assets".

Notes to the accounts

Note 25 Consolidated cash flows

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

	2004	2003
	£m	£m
Operating profit/(loss) of Group companies	121.0	(469.8)
Depreciation	67.2	105.3
Impairment of tangible fixed assets at North America (Coach USA)	Nil	162.7
Impairment of goodwill at North America (Coach USA)	Nil	386.8
Loss on disposal of tangible fixed assets, other than properties	3.6	2.7
Goodwill amortisation	8.8	28.6
Provision for losses on operations to be terminated or sold	Nil	7.7
Decrease in stocks	7.3	11.7
(Increase)/decrease in debtors	(11.7)	13.6
Distribution reserve	Nil	0.2
Increase/(decrease) in creditors	24.3	(1.7)
(Decrease)/increase in provisions	(6.2)	24.4
Net cash inflow from operating activities	214.3	272.2

(b) Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash	347.4	(12.7)
Bond repayments	10.4	40.0
Cash flow from decrease in debt and lease financing	122.6	95.3
	480.4	122.6
Loans of disposed subsidiaries	47.3	Nil
Other movements	2.0	59.9
Movement in cash collateral	(37.3)	32.1
Decrease in net debt	492.4	214.6
Opening net debt	(560.0)	(774.6)
Closing net debt	(67.6)	(560.0)

(c) Analysis of net debt

	Opening £m	Cash flows £m	Cash collateral £m	Disposals £m	Other movements £m	Total £m
Cash	90.1	347.4	Nil	Nil	1.7	439.2
Cash collateral	74.6	(36.8)	(0.5)	Nil	Nil	37.3
Hire purchase and lease obligations	(80.6)	(25.4)	Nil	Nil	(26.4)	(132.4)
Bank loans and loan stock	(240.0)	147.5	0.5	47.3	3.1	(41.6)
Bonds	(404.1)	10.4	Nil	Nil	23.6	(370.1)
Totals	(560.0)	443.1	Nil	47.3	2.0	(67.6)

The net total of cash and cash collateral of £476.5m (2003: £164.7m) is classified in the balance sheet as £476.5m (2003: £164.7m) in cash at bank and in hand.

(d) Restricted cash

The cash collateral balance as at 30 April 2004 of £37.3m (2003: £74.6m) comprises balances held in trust in respect of loan notes of £33.7m (2003: £34.3m) and North America restricted cash balances of £3.6m (2003: £40.3m). In addition, cash includes train operating company cash of £71.6m (2003: £42.9m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

Note 25 Consolidated cash flows (continued)

(e) Purchase of subsidiary undertakings

	£m
Net assets acquired at fair value (see note 13)	0.7
Goodwill	1.2
	1.9
Consideration	
Cash and acquisition expenses paid in year	1.9

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

	£m
Cash paid in respect of acquisitions in year (see above)	1.9
Deferred consideration in respect of businesses acquired in prior years	5.5
	7.4

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

(f) Disposal of subsidiaries and other businesses

Details of net assets disposed of and the related sales proceeds are set out in note 13.

Businesses disposed of in the year contributed £14.6m to the Group's net operating cash flows, £4.1m to dividends received from joint ventures and associates, paid £0.2m in respect of net returns on investment and servicing of finance, paid £Nil in respect of taxation and utilised £3.1m for capital expenditure. The cash flows from the discontinued element of North America (Coach USA) are not included because they are not clearly distinguishable due to certain "shared" costs that relate to North America as a whole. However, the discontinued element of North America's cash flows is not believed to be material to the Group.

Note 26 Guarantees and other financial commitments

(a) Guarantees

The Company is a party to bank guarantees in respect of guarantees, loans, overdrafts and other facilities provided to certain Group undertakings of which £80.9m was outstanding at 30 April 2004 (2003: £81.0m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments

Capital commitments are as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Contracted for but not provided For delivery in one year	81.7	50.5	60.2	16.8

At 30 April 2004, £16.8m of the total capital commitments relates to overseas operations (30 April 2003: £32.6m).

Notes to the accounts

Note 26 Guarantees and other financial commitments (continued)

(c) Operating lease and similar commitments

South West Trains has contracts with Network Rail for access to the railway infrastructure (track, stations and depots) for the period until February 2007. South West Trains also has contracts which commit it to lease rolling stock from Angel Trains Contracts Ltd, HSBC Rail (UK) Ltd and Porterbrook Leasing Limited.

Commitments for payments in the next year under these operating leases are as follows:

	2004	2003
	£m	£m
Under one year	19.8	72.9
Between one year and five years	217.2	131.6
Five years and over	0.9	0.8

Commitments for payments in the next year under other operating leases are as follows:

	2004		2003	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Under one year	Nil	0.5	3.6	3.0
Between one year and five years	1.5	9.0	5.8	9.5
Five years and over	5.8	6.4	6.9	1.9

(d) Pension commitments

(i) Summary of schemes operated

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

- The South West Trains section of the Railways Pension Scheme ("RPS");
- The Island Line section of the Railways Pension Scheme ("RPS");
- The Stagecoach Group Pension Scheme ("SGPS");
- A number of UK Local Government Pension Schemes ("LGPS").

These defined benefit schemes cover the majority of the Group's UK employees. These schemes are devised in accordance with local employment terms and conditions. Each scheme is administered independently of the employers and the scheme assets are held in trusts that are managed by investment managers appointed by the schemes' trustees.

In addition, the Group contributes to a number of defined contribution schemes covering non-UK employees.

(ii) Accounting for pensions under SSAP 24

The Group has applied SSAP24, "Accounting for pension costs" in preparing its accounts. The total pension cost reported in the profit and loss account and the cash outflow to the Group in the year ended 30 April 2004 can be analysed as follows:

	Pension cost		Cash outflow	
	2004 £m	2003 £m	2004 £m	2003 £m
UK Bus/Group overheads				
- SGPS	16.9	14.0	18.6	15.5
- LGPS	3.4	2.7	3.6	3.0
- Other	0.4	0.8	0.1	0.9
Rail				
- RPS	11.3	12.1	13.0	5.9
Coach USA	0.9	1.6	0.9	1.6
	32.9	31.2	36.2	26.9

The balance sheet position of each scheme as at 30 April 2004 is analysed below. It should be noted that the balance sheet position under SSAP 24 that is shown on page 63 is not equivalent to an actuarial estimate of the scheme's funding position at the balance sheet date. The net balance sheet asset of £26.7m (2003: £23.4m) shown on page 63 is the sum of the cumulative differences between contributions paid by the employers into the schemes and the charge to the profit and loss account.

Note 26 Guarantees and other financial commitments (continued)

(d) Pension commitments (continued)

	Prepayment		Provision		Net	
	2004	2003	2004	2003	2004	2003
UK Bus/Group overheads						
– SGPS	22.0	20.3	Nil	Nil	22.0	20.3
– LGPS	14.9	14.9	Nil	(0.2)	14.9	14.7
– Other	Nil	Nil	(3.6)	(3.3)	(3.6)	(3.3)
Rail						
– RPS	Nil	Nil	(6.6)	(8.3)	(6.6)	(8.3)
	36.9	35.2	(10.2)	(11.8)	26.7	23.4

The accounting for each of the defined benefit schemes is based on the most recent formal valuation of the relevant scheme, updated where appropriate to the financial year-end immediately following the date of the valuation. The key details for each scheme are as follows:

	Most recent full actuarial valuation of scheme	Latest actuarial review for SSAP 24 accounting purposes	Funding Level %	Market value of assets £m
UK Bus/Group overheads				
– SGPS	5 April 2002	30 April 2002	105	325.9
– LGPS	31 March 2001	30 April 2001	121	186.6
Rail				
– RPS	31 December 2001	31 December 2001	105	225.5

The above defined benefit schemes are funded at contribution rates determined by independent actuaries on the basis of triennial valuations using the projected unit method. The assumptions that have the most significant effect on the results of valuations are those relating to the rate of return on investments and the rates of increases in earnings and pensions. The valuations referred to above for SSAP 24 accounting purposes assume that investment returns, net of management expenses, will exceed earnings growth by an average of at least 3.5% per annum. Present and future pensions are assumed to increase at an average of 2.6% per annum for SGPS and 2.5% per annum for the other defined benefit schemes.

(iii) Accounting for pensions under FRS 17

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

The calculations of FRS 17 disclosures have been based on the most recent actuarial valuations, which have been updated to 30 April 2004 by an independent professionally qualified actuary to take account of the requirements of FRS 17.

The main financial assumptions used by the actuary were as follows:

	2004	2003	2002
	%	%	%
Rate of increase in salaries	4.3	4.0	4.0
Rate of increase of pensions in payment			
– SGPS	2.6	2.3	2.3
– Other defined benefit schemes	2.8	2.5	2.5
Discount rate	5.8	5.5	6.1
Inflation	2.8	2.5	2.5
Expected long-term rate of return as at 30 April were:			
Equities*	8.5	8.5	8.5
Bonds	5.8	5.3	5.9
Cash	4.0	3.8	4.0
Property	7.5	8.0	8.0

In applying FRS 17, the directors believe that the RPS schemes need to be considered separately. The directors understand that the Group has no rights or obligations in respect of the RPS schemes following the expiry of the South West Trains and Island Line franchises. Furthermore, the franchise payments in respect of relevant sections of the new South West Trains franchise to February 2007 take account of the cash cost of pension scheme funding during the franchise term.

The amounts relating to the RPS schemes are separately highlighted on page 64.

Notes to the accounts

Note 26 Guarantees and other financial commitments (continued)

(d) Pension commitments (continued)

The following amounts at 30 April 2004 were measured in accordance with the requirements of FRS 17:

	SGPS/Other	RPS	LGPS	Total	Total	Total
	2004 £m	2004 £m	2004 £m	2004 £m	2003 £m	2002 £m
Equities	360.2	217.7	117.9	695.8	519.9	638.9
Bonds	Nil	22.5	35.1	57.6	46.8	48.5
Cash	15.1	0.1	16.3	31.5	41.4	30.0
Property	Nil	1.3	7.7	9.0	13.0	14.3
Total market value of assets	375.3	241.6	177.0	793.9	621.1	731.7
Present value of scheme liabilities	(498.5)	(261.9)	(219.3)	(979.7)	(879.0)	(762.4)
Pension liability before tax	(123.2)	(20.3)	(42.3)	(185.8)	(257.9)	(30.7)
Related deferred tax asset	37.0	6.1	12.7	55.8	77.4	9.3
Net pension liability	(86.2)	(14.2)	(29.6)	(130.0)	(180.5)	(21.4)

If FRS 17 had been adopted, the amounts charged/(credited) to the profit and loss account would have been as follows:

	2004	2003
	£m	£m
Charge to operating profits		
– Current service cost	37.9	30.9
– Past service cost	Nil	Nil
	37.9	30.9
Finance (income)/cost		
– Expected return on assets	(50.4)	(60.7)
– Interest cost	48.3	48.1
	(2.1)	(12.6)

The following amounts would have been included within the Group statement of total recognised gains and losses (STRGL) under FRS 17:

	2004	2003
	£m	£m
Actual return less expected return on pension scheme assets	91.8	(185.6)
Experience gains and losses arising on the scheme liabilities	(22.1)	38.8
Changes in assumptions underlying the present value of the scheme liabilities	2.0	(85.6)
Actuarial gain/(loss) reported in STRGL	71.7	(232.4)

Actuarial gain as a percentage of scheme assets and liabilities at 30 April 2004 were as follows:

	2004	2003
	%	%
Actual return less expected return on pension scheme assets as a percentage of scheme assets	11.6	(29.9)
Experience gains and losses arising on the scheme liabilities as a percentage of the present value of scheme liabilities	2.3	4.4
Total actuarial gain/(loss) recognised in STRGL as a percentage of the present value of scheme liabilities	7.3	(26.4)

Note 26 Guarantees and other financial commitments (continued)

(d) Pension commitments (continued)

The movement in deficit during the year under FRS 17 would have been:

	2004	2003
	£m	£m
Deficit in schemes at the beginning of the year	(257.9)	(34.1)
Movement in the year:		
Current service cost	(37.9)	(30.9)
Contributions	36.2	26.9
Other finance income	2.1	12.6
Actuarial gain/(loss)	71.7	(232.4)
Deficit in schemes at the end of the year	(185.8)	(257.9)

If FRS 17 had been adopted in these financial statements, the Group's consolidated net assets and profit and loss reserve at 30 April 2004 would have been as follows:

	2004		2003	
	Profit and loss reserve £m	Net assets £m	Profit and loss reserve £m	Net assets £m
As currently stated	(6.9)	390.0	(77.3)	317.1
Net pension liability on FRS 17 basis	(130.0)	(130.0)	(180.5)	(180.5)
SSAP 24 net pension asset that will reverse on implementation of FRS 17	(26.7)	(26.7)	(23.4)	(23.4)
Deferred tax related to SSAP 24 items	8.0	8.0	7.0	7.0
Adjustment to net interest in joint ventures	(18.4)	(18.4)	(17.8)	(17.8)
Net assets on FRS 17 basis	(174.0)	222.9	(292.0)	102.4

(e) Contingent liabilities

- (i) The Group's contingent liability for the full potential amount of deferred taxation on all timing differences is detailed in note 21.
- (ii) Certain of the Group's properties are the subject of contractual obligations to pay a share of the open market value to the former owners but only on the occurrence of certain specified events. The periods of these contractual obligations lapse on various dates up until 2005. There are no intentions to dispose of any of these properties at 30 April 2004.
- (iii) A performance bond backed by a bank facility for £44.3m (2003: £20.9m), a season ticket bond backed by an insurance arrangement for £30.4m (2003: £31.3) and a holding company guarantee of £15.7m (2003: £21.0m) have been provided to the UK's Strategic Rail Authority in support of the Group's franchise obligations at South West Trains Limited at 30 April 2004. These contingent liabilities are not expected to crystallise.
- (iv) The Group and its joint venture have, in the normal course of business, entered into a number of long term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.
- (v) Under UK Rail franchise agreements, the Group and its joint venture have agreed with the UK's Strategic Rail Authority annual amounts receivable or payable in respect of the operation of rail franchises for future periods.
Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.
- (vi) 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 accounts for the best estimate of the expenditure required to settle obligations arising under such legal actions. Having considered relevant legal advice, the Directors believe that there are no current actions that will have a material adverse effect on the Group's financial position as presented in these accounts.

Notes to the accounts

Note 26 Guarantees and other financial commitments (continued)

(f) Joint venture and associates

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

			2004	2003
	Joint venture £m	Associates £m	Total £m	Total £m
Annual commitments under non-cancellable operating leases	73.0	Nil	73.0	73.5
Capital commitments	0.5	Nil	0.5	0.5
Franchise performance bonds	14.7	Nil	14.7	14.7
Bank guarantee	Nil	Nil	Nil	2.4
Season ticket bond	1.1	Nil	1.1	1.1
Infrastructure investment commitments	Nil	Nil	Nil	0.9

Note 27 Related party transactions

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

Transactions in which directors have had a material interest are disclosed in the Remuneration report on pages 24 to 27.

At 30 April 2004, the Company had loan notes receivable of £10.0m (2003: £10.0m) from Virgin Rail Group Limited. The Company earned interest of £1.0m (2003: £1.0m) on the loan notes during the year.

During the year, Graham Eccles and another member of the Group's management were non-executive directors of Virgin Rail Group Holdings Limited. Fees of £25,000 (2003: £25,000) were payable to the Group by Virgin Rail Group Holdings Limited in this regard.

During the year, Brian Souter and another member of the Group's management were non-executive directors of Road King Infrastructure Limited. Fees of £12,788 (2003: £35,981) were paid to the Group by Road King Infrastructure Limited in this regard.

Brian Souter is Chairman of ScotAirways Group Ltd. During the year the Group purchased flights from ScotAirways Group Ltd totalling £99,123 (2003: £87,376).

Note 28 Post balance sheet events

During June 2004, the Group cancelled existing bank facilities amounting to £195m which were due to expire in the period to December 2004 and replaced these with revolving credit facilities amounting to approximately £440m which primarily mature in June 2009. These facilities provide significant undrawn headroom.

Shareholder information

Analysis of shareholders as at 30 April 2004

Range of holdings	No. of holders	%	Shares held	%
1 – 25,000	62,250	98.38	102,163,077	7.65
25,001 – 250,000	740	1.17	49,065,098	3.67
250,001 – 500,000	89	0.14	31,299,678	2.34
500,001 – 3,750,000	137	0.22	191,558,616	14.35
Over 3,750,000	56	0.09	961,272,131	71.99
	63,272	100.00	1,335,358,600	100.00

Classification of shareholders	No. of holders	%	Shares held	%
Individuals	61,094	96.58	410,871,050	30.77
Other corporate bodies	71	0.11	6,354,494	0.48
Banks and Nominees	1,892	2.99	851,255,984	63.75
Insurance and assurance companies	1	0.00	152,616	0.01
Limited companies	205	0.32	66,656,781	4.99
Pension funds	9	0.00	67,675	0.00
	63,272	100.00	1,335,358,600	100.00

Registrar and transfer office

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's name and address. Please write to: Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. Telephone 0870 601 5366. Registrar forms can be obtained on-line at <http://www.stagecoachgroup.com/sgc/investorinfo/forms/>

Stagecoach individual savings accounts

The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on 08457 22 55 25.

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

Low cost share dealing facility

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

Payment of dividends by BACS

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

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at favourable commission rates. Shareholders who would like further information should telephone Lloyds TSB Registrars Scotland on 0870 241 3018.