

**8 December 2004**

**Stagecoach Group plc - Interim results for the six months ended 31 October 2004**

**Highlights**

- Strong half-year of organic growth in bus and rail operations in UK and overseas
- £241.4m of capital returned to shareholders
- Growth in operating margins in North American bus operations to 11.7% from 6.8%
- Innovative growth ideas fuelling good underlying performance at provincial UK bus operations – turnover outwith London up 6.3%
- Continued revenue growth in London bus business with turnover up 22.1%
- UK Bus operating margins up to 10.9% from 10.8%
  - 12.1% versus 11.4% excluding impact of operating leases, megabus.com and Taxibus
- Strong revenue and passenger growth at South West Trains – turnover up 8.3%
- Shortlisted for InterCity East Coast and Integrated Kent rail franchises

**Financial Highlights**

- Turnover from continuing operations £882.0m (2003 - £826.8m), up 6.7%
- Total operating profit\* £78.5m (2003 - £76.9m, £72.6m excluding Citybus, Road King and Trainline disposals)
- Operating profit £69.9m (2003 - £67.3m)
- Profit before tax\* £69.2m (2003 - £60.3m)
- Profit before tax £57.2m (2003 – £44.8m)
- Earnings per share\* 4.0p, up from 3.2p
- Free cash flow £128.8m (2003 - £100.3m)
- Interim dividend up 11.1% to 1.0p (2003 - 0.9p)

\* excluding goodwill amortisation and exceptional items

**Commenting on the results, Stagecoach Chief Executive, Brian Souter said:** “Strong underlying profit growth has been achieved across our businesses despite the significant increases in fuel prices affecting public transport operators and I am confident that our robust portfolio of cash-generative businesses will continue to deliver further growth.

“We have achieved increased operating margins at our UK bus operations as the benefits of our innovative ideas and new products start to flow through. South West Trains continues to deliver turnover ahead of our original expectations and customers are already benefiting from the introduction of the new £1billion fleet of Desiro trains.

“We have also met our objective of increased operating margins at our restructured North American operations and encouragingly there has been significant turnover growth.”

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**Note to Editors:**

High resolution photographs are available to the media free of charge at [www.newscast.co.uk](http://www.newscast.co.uk) (telephone +44 (0) 207 608 1000).

## Chairman's statement

Stagecoach Group has produced a strong set of results for the six months ended 31 October 2004, as we continue to deliver our strategy to achieve organic growth in our bus and rail operations. We are particularly encouraged by the underlying performance in our UK and North American bus businesses, where our market-leading ideas and new products are attracting new passengers to public transport, and our rail operations, where revenues are significantly ahead of our original expectations. Stagecoach has a strong portfolio of profitable and cash generative businesses that we are confident will produce further growth and provide good returns to our shareholders.

The strong financial performance should not detract from the fact that the key priority for all of our businesses remains the safety and security of our customers and our people. We continue to have a proactive culture across the Group that puts safety at the top of our agenda.

In the period, we have returned £241.4m in capital to our shareholders through the issue of new redeemable "B" preference shares. This programme has given the Group a more efficient capital structure whilst retaining the financial flexibility to make targeted complimentary acquisitions and explore specific UK rail franchise opportunities. After taking account of the £220.4m of "B" shares that have been redeemed to date, our net debt was £214.4m at 31 October 2004 (30 April 2004 - £67.6m), reflecting continuing strong underlying cash generation.

Total turnover for the six months was £886.4m (2003 - £963.8m). Excluding the impact of disposed businesses, turnover grew 6.7% from £826.8m to £882.0m. Total operating profit (before goodwill amortisation and exceptional items) was £78.5m (2003 - £76.9m). Excluding the prior year impact of the disposals of Citybus, Road King and Trainline, the equivalent operating profit was up 8.1% from £72.6m.

The Board has declared an interim dividend of 1.0p per share (2003 – 0.9p), an 11.1% increase, which reflects our confidence in the prospects for the Group. The interim dividend is payable to shareholders on the register at 11 February 2005 and will be paid on 9 March 2005. Based on continued strong, stable cash flows and profits within the business, we will look to continue progressive dividend growth.

Stagecoach's investment in innovation and development is now delivering impressive results at our bus operations in the UK. Megabus.com, the country's first low-cost inter-city bus service, has now expanded to cover 30 cities in the UK. Our innovative telemarketing and Kick Start initiatives, coupled with an excellent operational track-record and positive partnerships, have produced strong revenue and passenger growth across our provincial operations, while turnover at our London bus operations has grown by a further 22.1%.

In Rail, where we already have a significant share of the UK passenger rail market, we believe there are a number of exciting opportunities. As well as maximising value from our existing franchises, we will be working hard with our partners to win the new InterCity East Coast and Integrated Kent franchises.

South West Trains continues to perform ahead of expectations and we are extremely pleased with the strong growth in revenue and passenger volumes. We are committed to giving our customers an improved service and I am delighted customers are experiencing improved punctuality at the same time South West Trains is managing the complex introduction of a new fleet of trains. Passengers are now benefiting from a record £1billion investment as 40-year-old slam door trains are replaced by state-of-the-art Desiro trains.

The Government recently announced its plans to redraw the UK rail franchise map by reducing the number of franchises from 25 to 19 as a first step. We believe that this will assist moves to improve integration across the network.

Virgin Rail Group ("VRG"), in which we have a 49% shareholding, has continued to progress negotiations with the Strategic Rail Authority ("SRA") regarding new long-term commercial arrangements for the West Coast Mainline franchise through to 2012. In the meantime, VRG continues to operate the franchise on the basis of annual budgets set by the SRA.

VRG believes that the West Coast franchise has excellent long-term prospects and many more people can be attracted back to the railways if the uplift in quality of service delivered by the new Pendolino tilting trains and timetable is matched by further and sustained progress in infrastructure provision by Network Rail.

Like the West Coast Mainline franchise, the Virgin CrossCountry franchise continues to operate on the basis of annual budgets set by the SRA, while we await its decision on the future of the franchise. VRG will continue to operate CrossCountry for at least the next 12 months. If the SRA decides to put the franchise out to open competition, as the incumbent operator with an excellent track record, we are confident that Virgin Rail Group will be in a good position to win the franchise.

In North America, despite pressure on fuel prices and insurance costs, the Group's substantial retained operations have already delivered to plan by out-performing the operating margins produced by the division prior to restructuring. We have achieved revenue growth of 13.8% in our continuing North American business over the past six months and coupled with our operations in New Zealand, we have a strong and growing overseas portfolio.

The Group is firmly on the path of growth and we have made an encouraging start to the second half of the financial year. I am pleased to report that the current trading of the Group remains in line with our expectations. I believe that the Group's portfolio of businesses offers good prospects for further growth and increased shareholder value.

**Robert Speirs**  
**Chairman**

**8 December 2004**

## Chief Executive's review

### Overview

The Group has made an excellent start to the year and I am very encouraged by the strong underlying performance in the face of a number of substantial cost pressures, particularly the price of fuel. Our significant investment in new product development and innovative approaches to marketing public transport is paying off with organic growth in our bus and rail operations in the UK and overseas.

Public transport remains one of the safest ways to travel and Stagecoach continues to have a proactive culture across the Group that puts safety for our customers and employees at the heart of our business. Health and safety issues are monitored and reported on in every company and considered regularly by senior management and the Board. Stagecoach Group has a good safety record and, to ensure these high standards are maintained, we constantly keep our safety arrangements under review and are committed to putting in place any improvements required to our safety governance arrangements.

Turnover by division is summarised below:

<b>Group Turnover (excluding joint ventures)</b>	<b>6 months to 31 October 2004</b>	6 months to 31 October 2003	Currency	<b>6 months to 31 October 2004</b>	6 months to 31 October 2003	Growth %
	<b>£m</b>	£m		<b>Local currency (m)</b>		
<b>Continuing Group operations</b>						
UK Bus	<b>351.1</b>	317.9	£	<b>351.1</b>	317.9	10.4
North America	<b>119.2</b>	116.3	US\$	<b>216.1</b>	189.9	13.8
New Zealand	<b>26.2</b>	26.4	NZ\$	<b>73.4</b>	73.6	(0.3)
UK Rail	<b>234.8</b>	216.7	£	<b>234.8</b>	216.7	8.4
	<b>731.3</b>	677.3				
<b>Discontinued Group operations</b>						
Citybus (Hong Kong)	<b>Nil</b>	17.8	HK\$	<b>Nil</b>	227.8	
North America	<b>4.4</b>	117.7	US\$	<b>8.0</b>	192.1	
	<b>4.4</b>	135.5				
<b>Total Group turnover</b>	<b>735.7</b>	812.8				

Operating profit by division is summarised below:

Operating Profit	6 months to 31 October 2004		6 months to 31 October 2003		Currency	6 months to 31 October 2004	6 months to 31 October 2003
	£m	% of turnover	£m	% of turnover		Local currency (m)	Local currency (m)
<b>Continuing Group Operations</b>							
UK Bus	38.2	10.9	34.3	10.8	£	38.2	34.3
North America	14.4	11.7	15.9	6.8	US\$	26.1	26.0
New Zealand	3.9	14.9	4.9	18.6	NZ\$	10.9	13.7
UK Rail	21.6	9.2	21.5	9.9	£	21.6	21.5
Group overheads	(4.2)	-	(4.2)	-			
Restructuring costs	(0.3)	-	(4.1)	-			
	<u>73.6</u>		<u>68.3</u>				
<b>Discontinued Group operations</b>							
Citybus (Hong Kong)	Nil	-	1.0	5.6	HK\$	Nil	12.8
	<u>73.6</u>		<u>69.3</u>				
<b>Joint ventures and associates</b>							
Virgin Rail Group	5.1		5.0				
Road King (Discontinued)	Nil		5.0				
Trainline (Discontinued)	Nil		(1.7)				
Other	(0.2)		(0.7)				
	<u>78.5</u>		<u>76.9</u>				
Goodwill amortisation	(8.0)		(9.6)				
Exceptional items	(0.6)		-				
<b>Total operating profit</b>	<u>69.9</u>		<u>67.3</u>				

## UK Bus

Stagecoach operates around 7,000 buses in nearly 100 towns and cities across the UK, from the Highlands of Scotland to south-west England. We have substantial operations in a number of key cities, including London, Manchester, Newcastle, Oxford and Cambridge.

Turnover from our UK Bus operations was up 10.4% to £351.1 m, compared to £317.9m in the prior year. Operating profit\* was £38.2m (2003 – £34.3m). Operating margin was 10.9%, compared to 10.8% in 2003. The increases in operating profit and operating margin are after taking account of £1.1m more costs from the increasing use of operating leases and an increase of £1.5m in losses related to the development of megabus.com and Taxibus. Excluding the impact of these items, UK Bus margin was 12.1% versus 11.4% in 2003.

Growth is continuing in our strong provincial bus networks across the UK and passenger volumes outside London have increased by approximately 1.3% before taking account of additional journeys made on megabus.com. In Cambridge, for example, where we have an excellent partnership relationship with the County Council and other stakeholders, our long-term approach to improving services has delivered excellent passenger growth in three years. In London, where we operate buses on behalf of Transport for London, we have grown turnover by 22.1% by winning new contracts and securing existing business. While we are encouraged by the tremendous rate of growth in London, we do not expect this growth rate to continue indefinitely.

\* References to the operating profit of a particular division in the Chief Executive's review refer to operating profit before restructuring costs, goodwill amortisation and exceptional items. Further details of the divisional split of operating profit can be found in Note 5 to the interim financial information contained in this announcement.

We have been delighted with the progress of our ground-breaking megabus.com product, which offers low-cost inter-city travel. More than one million journeys have been made using the service and passenger volumes have grown dramatically in the past six months. New long-distance routes have been introduced and we now link 30 cities in the UK with a fleet of around 60 double-decker buses, coaches and articulated vehicles. Stagecoach recently placed a £6.5m order for 25 new luxury 89 seat double-decker coaches for the rapidly growing service and the first of these are due to be delivered by the end of 2004. The new vehicles will be used to increase the quality of the megabus.com product on long-distance routes to and from London, and for future expansion plans. Further routes have moved into profit in the past six months as load factors and average fares have improved and we are satisfied that megabus.com is a product with an exciting commercial future.

In October, Stagecoach launched a sophisticated transport marketing campaign in a drive to get more people to travel by bus. The campaign is using detailed customer research techniques pioneered by the supermarkets to encourage people to get out of their cars and onto public transport. We expect to target up to 20% of our bus networks over the next two years, with a major focus on parents with young children and commuters. A new telemarketing unit has been set up at our headquarters in Perth and the team will concentrate on a different town or city every six weeks using detailed geodemographic research to focus on people whose lifestyle is most suited to switching to bus travel.

As part of our efforts to develop new markets for bus travel, we recently signed an agreement with Siemens Transportation Systems to develop a new optical guidance bus product for the UK. Stagecoach will work with Siemens to investigate adapting its optical guidance system for use on conventional buses and look at the potential for introducing the technology on a city-wide basis.

We are continuing to develop new projects using the Kick Start pump-priming concept, which has been adopted by both the Department for Transport ("DfT") and the Scottish and Welsh Executives. The projects for which we received funding earlier this year have started well and we are in the process of developing further initiatives of our own as part of our drive to reinvigorate the UK bus network.

In addition, we have showcased hybrid electric bus technology across the UK in a bid to encourage local authorities to introduce the environmentally-friendly technology in their areas. Stagecoach has already won the UK's first local authority contract to run a complete hybrid electric bus service in Newcastle from spring 2005.

We have also completed a commercial evaluation of a new fuel additive that could transform the environmental and operational performance of buses across the UK. Last year, the Group signed an agreement with Cerulean International, the Oxford-based subsidiary of Oxonica, to trial the next generation product in up to 1,000 Stagecoach vehicles. Completed trials in the north west of England and London have delivered a 5% fuel consumption reduction as well as a significant cut in carbon deposits in the engine and lower vehicle emissions. We will now be rolling out the use of the additive across all of our UK Bus operations.

## **North America**

North American trading has been very encouraging. Turnover for the six months to 31 October 2004 of US\$224.1m (2003 - US\$382.0m) comprised US\$216.1m (2003 - US\$189.9m) from continuing operations, up 13.8% and US\$8.0m (2003 - US\$192.1m) from discontinued operations. On a like for like basis, turnover was up by 12.7%. Operating profit was US\$26.1m (2003 - US\$26.0m), resulting in an improved operating margin of 11.7%, up from 6.8%. Converted to sterling, turnover for the six months to 31 October 2004 was £123.6m (2003 - £234.0m). Operating profit for the six months was £14.4m (2003 - £15.9m).

We are pleased to report strong turnover growth in the leisure-related parts of our business. While we have significantly reduced our ongoing exposure to these markets through our restructuring programme, the businesses we have retained are now benefiting from a more stable US economy.

Our New York Sightseeing business, which has a leading market share, continues to achieve both passenger volume and turnover growth as we add more tours to the product portfolio. We are expecting delivery in the spring of 2005 of a fleet of 20 new deluxe open-top double-decker vehicles, which will allow us to operate a more frequent service for visitors and provide even more upper-deck seats for tourists.

Our retained North American operations have already delivered on our plan to out-perform the operating margins produced by the division prior to restructuring. This has been achieved despite a background of rising fuel and insurance costs, and an unpredictable claims environment.

The North American business continues to be seasonal; in recent years, the business has reported a small operating loss in the second half of the financial year.

## **New Zealand**

Stagecoach New Zealand, which operates around 1,000 buses in Auckland and Wellington, the country's largest metropolitan areas, is now operating on a basis which is more sustainable in the longer term, following two years of good patronage growth and the impact of the Americas Cup in 2002/03.

Turnover from our New Zealand businesses was in line with our expectations at NZ\$73.4m (2003 - NZ\$73.6m), while operating profit was NZ\$10.9m (2003 - NZ\$13.7m). This represents an operating margin of 14.9% (2003 - 18.6%), which reflects pressure on costs and increased rail competition in the market. Converted to sterling, turnover was £26.2m (2003 - £26.4m) and operating profit was £3.9m (2003 - £4.9m).

## **Rail**

We operate two wholly owned UK heavy rail franchises – South West Trains and Island Line - and Sheffield Supertram.

Turnover from our UK Rail subsidiaries for the six months to 31 October 2004 was up by 8.4% to £234.8m (2003 - £216.7m). Overall passenger volumes at South West Trains increased by 4.2% over the equivalent six-month period last year. Operating profit increased to £21.6m (2003 - £21.5m), with an operating margin of 9.2% (2003 - 9.9%).

South West Trains, which is operating a three-year franchise to February 2007 with the potential for a five-year extension, continues to perform ahead of expectations. We had originally anticipated annual operating profits of £20m to £25m from the new franchise, but strong revenue growth and tight cost control have enabled us to outperform that expectation. Turnover in the six-month period has grown by 8.3%. The taxpayer has also benefited as the SRA shares in the out-performance in revenues and in profits.

The introduction of the new £1billion fleet of Desiro trains, which is delivering a step-change in quality to passengers, is proceeding well. We have reached an important milestone with the introduction of more than 100 of the new units. Customers have experienced a positive trend in performance while South West Trains has managed the complex introduction of the new fleet.

We continue to focus closely on driving up operational performance, and the integrated control centre at London Waterloo, operated jointly with Network Rail, is having a positive effect on our ability to recover more quickly from operational incidents.

From December 2004, South West Trains will embark on one of the biggest changes in its history with the introduction of a new timetable. This is the biggest timetable change since 1967 and is designed to make significant improvements to our operating performance.

South West Trains' focus on customer service has been rewarded with a number of awards, including the Frontline Customer Service Team of the Year Award at the National Customer Service Awards. Our team at Waterloo station was also honoured at the National Rail Awards in September for its consistently high standards of service and its ability to deal with disruption on the network.

This summer, the UK Government announced the results of its wide-ranging review of the country's railways. Stagecoach supports the aim of improving the structure of the rail industry to ensure it works in the collective best interests of passengers, taxpayers and investors and we are pleased a number of our ideas for better integration have been endorsed by the Government.

The Transport Secretary recently set out proposals to merge the South West Trains and Island Line franchises as part of a redrawing of the UK rail franchise map, unless it is decided that the needs of the Island Line are better served by a form of community management as set out in the Government's White Paper. Stagecoach has operated both networks – the biggest and smallest rail franchises in the UK – since privatisation. We believe this is a logical step, which will further assist integration on the railways.

Stagecoach continues to evaluate targeted opportunities in the rail market, with a focus on high-volume commuter and long-distance inter-city franchises. We are pleased to have been shortlisted for the InterCity East Coast franchise, one of the UK's flagship routes, along with our partner, Virgin. The Stagecoach-Virgin joint venture recently submitted its tender to the Strategic Rail Authority and we believe our close focus on delivering a first-class operating performance coupled with our value for money proposals has allowed us to submit a strong bid for the franchise. We are also awaiting a decision from the SRA on the way forward for the new Integrated Kent Franchise where we are bringing our UK operating experience to Danish State Railways' ("DSB") shortlisted bid. Stagecoach Group has taken a 29.9% stake in South Eastern Railways Ltd, the company established by DSB to bid for the franchise, and we believe it would be an excellent fit with our successful South West Trains high-volume commuter network.

### **Virgin Rail Group**

Our joint venture with Virgin, Virgin Rail Group ("VRG"), in which Stagecoach has a 49% share, operates the West Coast and CrossCountry franchises. Our share of VRG's turnover for the period amounted to £150.7m (2003 - £149.5m) and our share of operating profit was £5.1m (2003 - £5.0m).

As explained in the Chairman's statement, VRG and the SRA are continuing to work on agreeing long-term commercial arrangements for the West Coast franchise. In the meantime, VRG continues to operate the franchise on the basis of an annual budget set by the SRA.

VRG has achieved a significant step forward with the introduction of the UK's first-ever 125mph tilting train timetable on the West Coast Mainline, which means faster and more frequent train services on routes to London Euston. More than 40 of the new nine coach tilting trains are now using the new 125mph line speed from London Euston to Manchester, Crewe and Birmingham. The new timetable increases the number of West Coast trains run each day from 175 to 213, giving passengers even more choice, while the fastest trains will provide journey time reductions of up to 22%. Further timetable and journey time improvements will be spread over the next 15 months, culminating in the completion of the track engineering work to Glasgow by December 2005.

Like the West Coast Mainline franchise, the Virgin CrossCountry franchise continues to operate on the basis of annual budgets set by the SRA, while we await its decision on the future of the franchise. VRG will continue to operate CrossCountry for at least the next 12 months. If the SRA decides to put the franchise out to open competition, as the incumbent operator with an excellent track record, we are confident VRG would be in a good position to win the franchise.

In the past year, VRG has transformed CrossCountry into one of the UK rail industry's best franchises. The entire train fleet has been replaced with new 125mph modern rolling stock at a cost of nearly £400m, passenger volumes have increased substantially since the introduction of the new trains and punctuality has been restored to pre-Hatfield levels. Passengers have responded by voting VRG the country's top-performing long-distance operator.

### **Depreciation and Amortisation**

Earnings before interest, taxation, depreciation, goodwill amortisation and exceptional items (pre-exceptional EBITDA) amounted to £110.2m (2003 - £111.4m). Depreciation for the period decreased from £34.5m to £31.7m. Goodwill amortisation fell from £9.6m to £8.0m. These decreases in goodwill amortisation and depreciation reflect the disposals completed in the prior year.

### **Restructuring Costs**

Non-exceptional restructuring costs included within operating profit amounted to £0.3m (2003 - £4.1m), of which £Nil (2003 - £3.5m) related to the restructuring at North America and £0.3m (2003 - £0.6m) related to redundancy costs incurred in our other divisions.

### **Exceptional Items**

Net exceptional charges before tax of £4.0m (2003 - £5.9m) were reported of which £0.6m (2003 - £Nil) is included within operating costs: £0.3m relating to costs associated with the return of capital and £0.3m relating to the write-down of an investment. Non-operating exceptional charges comprised a loss on the disposals and closures of parts of our North American businesses of £4.7m and a gain on sale of properties of £1.3m.

### **Interest**

Net finance charges decreased from £16.6m to £9.3m as a result of significant surplus cash retained until the return of capital in September 2004. The ratio of pre-exceptional EBITDA to net finance charges was 11.8 for the six months ended 31 October 2004 (2003 - 6.7).

At 31 October 2004, 45% (30 April 2004 - 49%) of the Group's gross borrowings of £577.5m (30 April 2004 - £544.1m) were covered by fixed and capped/floored interest rates. Following the repayment of the Eurobond in November 2004, this increased to approximately 70%.

## **Taxation**

The effective tax rate for the interim period is 29.5% (2003 – 33.7%) and the effective tax rate before goodwill amortisation and all exceptional items is 27.2% (2003 – 29.7%).

## **Earnings Per Share**

Overall, earnings per share before goodwill amortisation and exceptional items increased to 4.0p, compared to 3.2p in the prior year reflecting the strong performance at each of our core divisions. Basic earnings per share increased from 2.3p to 3.2p.

## **Shares in Issue**

The weighted average number of ordinary shares used to calculate basic earnings per share for the six months ended 31 October 2004 was 1,252.2m. Following the return of capital and the related 19 for 24 consolidation of ordinary shares, the number of ordinary shares ranking for dividend at 31 October 2004 was 1,053.4m, with a further 8.4m ordinary shares held by employee trusts and not ranking for dividend.

## **Net Assets**

Net assets at 31 October 2004 were £208.5m (30 April 2004 - £390.0m) with the decrease principally reflecting the return of capital during the six months.

During the year, we returned £241.4m of capital to shareholders by issuing new redeemable “B” shares. Of the £241.4m shares issued, £220.4m have been redeemed for cash during the six months and are included in the increase in net debt for the period. £21.0m of the “B” shares have yet to be redeemed and are therefore not included in the net debt of £214.4m as at 31 October 2004.

## **Net Debt**

Net debt increased from £67.6m at 30 April 2004 to £214.4m at 31 October 2004. Excluding the impact of the redeemed “B” Shares of £220.4m, net debt reduced by £73.6m in the six months. This includes the benefit of ongoing cash generation from our core operations, £21.4m received from joint ventures and £14.4m received from the disposal of businesses including a negotiated early settlement of the deferred consideration from the prior year disposal of Coach USA’s West and South Central Regions.

The strong cash generative nature of the Group is once again highlighted by free cash flow for the six months of £128.8m (2003- £100.3m).

The impact of capital expenditure for the six months on net debt was £59.6m (2003 - £38.2m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £35.8m (2003 - £27.3m) and new hire purchase debt of £23.8m (2003 - £10.9m)

The cash flows for the six months ended 31 October 2004 include some timing benefits that will reverse in the second half of the financial year ending 30 April 2005. These include (1) revenue and profit sharing amounts accrued by South West Trains as payable to the SRA, which are not due for payment until later in the financial year and (2) timing of interest payments with higher net interest payments expected in the second half of the financial year.

## **Acquisitions and Disposals**

There were no significant acquisitions undertaken during the period.

£14.4m of cash was received in respect of disposals, which mostly related to the negotiated early settlement of deferred consideration on disposals completed during last financial year.

## **Return of Capital**

Following the passing of a special resolution at the 2004 AGM we have successfully completed the return of £241.4m of capital to shareholders, with 116.5m 'B' Shares (£21.0m) still to be redeemed.

Having taken account of the cashflow generation of the Group and the bonding requirements on current rail franchise bids, the Board is now comfortable with the Group's current capital structure. The Board will, however, continue to keep the Group's capital structure under review and remains committed to a progressive dividend policy.

## **Fuel Hedging**

We currently use the equivalent of 1.8 to 1.9m barrels of diesel fuel in our bus operations. As a result, we are exposed to the movement in the underlying price of crude oil, which is the major driver of diesel prices. We manage the year on year volatility in our fuel costs by maintaining an ongoing fuel hedging programme where we use derivatives to effectively fix or cap the variable unit cost of a percentage of our current and future diesel volumes. If we had no hedging in place a US\$10 a barrel movement in the underlying prices would affect our fuel costs by US\$18m-US\$19m per annum.

After taking account of hedging, our average variable fuel price for the six months ended 31 October 2004 was equivalent to a crude oil price per barrel of approximately US\$33 (October 2003 - US\$24). This compares to the average price for the period of US\$44 (October 2003 - US\$30).

The average variable fuel price for the second half of the year is capped through hedging at a crude oil price equivalent to US\$37 per barrel (October 2003 - US\$24) compared to a crude price at the end of October 2004 of US\$52.

Therefore our full year variable fuel price is capped at an equivalent price of approximately US\$35 a barrel (April 2004 - US\$24) giving an expected year on year increase in variable fuel costs of approximately US\$18m to US\$19m.

For the financial year to 30 April 2006 we have hedged approximately 50% of our variable fuel costs at an equivalent price of US\$43 a barrel. Future expectations are for crude oil to range from US\$30 to US\$50 a barrel therefore our average variable fuel price will be in the US\$37 to US\$47 range.

We continue to manage fuel costs as part of our overall cost base, and our total costs of operation are taken into account when setting fares and contract prices.

## **International Financial Reporting Standards**

The Company will be required to produce financial statements and annual reports in line with International Financial Reporting Standards ("IFRS"), also known as International Accounting Standards ("IAS"). The Group's first full set of IFRS accounts, including comparatives, will be prepared for the year ending 30 April 2006. Interim IFRS accounts, including comparatives, will be prepared for the six months to 31 October 2005.

Our steering committee, set up to oversee the convergence to IFRS, has identified the main differences between IFRS and the current Group UK GAAP policies and is making good progress in establishing the accounting policies or changes that will be required. The net asset adjustments to IFRS as at 30 April 2004 have been calculated and will shortly be subject to review by the auditors. The convergence project is ongoing and the Committee will continue to monitor evolving best practice and will apply the standards that are required for adoption in due course.

The Company is committed to ensuring it complies with all material aspects of IFRS and until such time as its conversion project is complete, it is inappropriate to provide a comprehensive summary of all of the accounting differences that could impact the Company's financial statements. The most significant areas of difference that will affect net assets and EPS are in respect of financial instruments, pensions, goodwill, share based payment, dividends and "B" shares.

### **Accounting Policies**

There have been no changes to our accounting policies during the six months ended 31 October 2004. Our policies have been reviewed against recent accounting pronouncements and no significant changes are expected in the current financial year.

### **Current Trading and Outlook**

We continue to focus on local transport operations with critical mass and good organic growth potential. We will also pursue complementary acquisition opportunities, which offer the prospect of additional profitable growth. Through a combination of getting the basics right and applying our entrepreneurial skills in our core geographic markets, we believe we can maximise shareholder value.

We have a strong position in UK Bus and we are confident we can achieve further growth by developing our core networks, continuing to invest in innovation and development, and focusing on products to attract more people to public transport.

In Rail, we expect to see good growth in passenger revenue in our existing business. As well as maximising value from our existing franchises, we will be working hard with our partners to win the InterCity East Coast and Integrated Kent franchises. We will also consider other opportunities in the inter-city and London commuter networks as they emerge. As mentioned earlier, VRG is awaiting a decision on the SRA's plans for the future of CrossCountry and we and our Virgin Group partners are very focussed on agreeing new long-term commercial arrangements with the SRA for the West Coast Mainline franchise.

In North America, we expect to see further revenue growth and improvement in operating margins across the various businesses although turnover in the second half of the financial year remains seasonally lower. We also see a number of growth opportunities for our business in New Zealand.

With a sound performance in the first six months of the year, I am pleased to report that current trading remains in line with our expectations and I believe that the Group's portfolio of businesses offers good potential for further growth.

**Brian Souter**  
**Chief Executive**

**8 December 2004**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited					Audited	
		6 months to 31 October 2004			6 months to 31 October 2003			Year to 30 April 2004
		Performance pre goodwill and exceptionals	Goodwill and exceptional items	Results for the period	Performance pre goodwill and exceptionals	Goodwill and exceptional items	Results for the period	£m
	£m	£m	£m	£m	£m	£m		
<b>Turnover: Group and share of joint ventures</b>	5	886.4	Nil	<b>886.4</b>	963.8	Nil	<b>963.8</b>	1,792.3
Less: Share of joint ventures' turnover	5	(150.7)	Nil	<b>(150.7)</b>	(151.0)	Nil	<b>(151.0)</b>	(290.3)
Group turnover	5	735.7	Nil	<b>735.7</b>	812.8	Nil	<b>812.8</b>	1,502.0
Continuing Group operations	5	731.3	Nil	<b>731.3</b>	677.3	Nil	<b>677.3</b>	1,351.7
Discontinued operations	5	4.4	Nil	<b>4.4</b>	135.5	Nil	<b>135.5</b>	150.3
		735.7	Nil	<b>735.7</b>	812.8	Nil	<b>812.8</b>	1,502.0
Operating costs		(746.0)	(4.1)	<b>(750.1)</b>	(802.0)	(5.1)	<b>(807.1)</b>	(1,510.1)
Other operating income	4	83.9	Nil	<b>83.9</b>	58.5	Nil	<b>58.5</b>	129.1
<b>Operating profit of Group companies</b>	5	73.6	(4.1)	<b>69.5</b>	69.3	(5.1)	<b>64.2</b>	121.0
Share of operating profit/(loss) of joint ventures		5.1	(4.3)	<b>0.8</b>	2.8	(4.3)	<b>(1.5)</b>	2.0
Share of operating (loss)/profit from interest in associates		(0.2)	(0.2)	<b>(0.4)</b>	4.8	(0.2)	<b>4.6</b>	6.7
<b>Total operating profit: Group and share of joint ventures and associates</b>	5	78.5	(8.6)	<b>69.9</b>	76.9	(9.6)	<b>67.3</b>	129.7
Represented by:								
Continuing Group operations	5	73.6	(4.1)	<b>69.5</b>	68.3	(4.1)	<b>64.2</b>	121.0
Continuing joint ventures and associates	5	4.9	(4.5)	<b>0.4</b>	4.3	(4.5)	<b>(0.2)</b>	4.1
		78.5	(8.6)	<b>69.9</b>	72.6	(8.6)	<b>64.0</b>	125.1
Discontinued Group operations	5	Nil	Nil	<b>Nil</b>	1.0	(1.0)	<b>Nil</b>	Nil
Discontinued joint ventures and associates		Nil	Nil	<b>Nil</b>	3.3	Nil	<b>3.3</b>	4.6
<b>Total operating profit: Group and share of joint ventures and associates</b>	5	78.5	(8.6)	<b>69.9</b>	76.9	(9.6)	<b>67.3</b>	129.7
Gain on sale of properties	3	Nil	1.3	<b>1.3</b>	Nil	Nil	<b>Nil</b>	0.5
Loss on disposal of operations	3	Nil	(4.7)	<b>(4.7)</b>	Nil	(5.9)	<b>(5.9)</b>	(7.1)
<b>Profit on ordinary activities before interest and taxation</b>		78.5	(12.0)	<b>66.5</b>	76.9	(15.5)	<b>61.4</b>	123.1
Finance charges (net)		(9.3)	Nil	<b>(9.3)</b>	(16.6)	Nil	<b>(16.6)</b>	(27.3)
<b>Profit on ordinary activities before taxation</b>		69.2	(12.0)	<b>57.2</b>	60.3	(15.5)	<b>44.8</b>	95.8
Taxation on profit on ordinary activities	6	(18.8)	1.9	<b>(16.9)</b>	(17.9)	2.8	<b>(15.1)</b>	8.8
<b>Profit for the financial period</b>		50.4	(10.1)	<b>40.3</b>	42.4	(12.7)	<b>29.7</b>	104.6
Equity dividends (1.0p per share (0.9p – 31 October 2003; 2.9p – full year to 30 April 2004))		(10.7)	Nil	<b>(10.7)</b>	(11.9)	Nil	<b>(11.9)</b>	(38.4)
Non-equity dividends		(0.1)	Nil	<b>(0.1)</b>	Nil	Nil	<b>Nil</b>	Nil
<b>Retained profit for the period</b>		39.6	(10.1)	<b>29.5</b>	30.5	(12.7)	<b>17.8</b>	66.2
<b>Earnings per share</b>								
- Basic	7			<b>3.2p</b>			<b>2.3p</b>	7.9p
- Basic before goodwill amortisation and exceptional items	7			<b>4.0p</b>			<b>3.2p</b>	6.7p
- Diluted	7			<b>3.2p</b>			<b>2.2p</b>	7.8p

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

## CONSOLIDATED BALANCE SHEET

	Unaudited		Audited
	As at 31 October 2004	As at 31 October 2003	As at 30 April 2004
	£m	£m	£m
<b>Fixed Assets</b>			
Intangible assets	97.6	111.9	103.5
Tangible assets	636.4	619.0	618.0
Investments			
- Investment in joint ventures	8		
Goodwill	53.4	67.8	57.5
Share of gross assets	128.8	153.1	98.8
Share of gross liabilities	(100.5)	(101.3)	(59.8)
Shareholder loan notes	3.3	10.0	10.0
	85.0	129.6	106.5
- Investment in associates	1.0	62.0	1.4
- Other investments	2.2	2.2	2.3
	822.2	924.7	831.7
<b>Current Assets</b>			
Stocks	12.3	19.4	13.4
Debtors and prepaid charges - due within one year	166.4	216.6	169.2
- due after more than one year	51.9	61.3	58.0
Cash at bank and in hand	363.1	338.1	476.5
	593.7	635.4	717.1
<b>Creditors: Amounts falling due within one year</b>	(716.2)	(475.5)	(674.6)
<b>Net current (liabilities)/assets</b>	(122.5)	159.9	42.5
<b>Total assets less current liabilities</b>	699.7	1,084.6	874.2
<b>Creditors: Amounts falling due after more than one year</b>	(303.2)	(522.6)	(292.2)
<b>Provisions for liabilities and charges</b>			
- Joint ventures			
Goodwill	Nil	0.6	0.3
Share of gross assets	Nil	4.8	Nil
Share of gross liabilities	Nil	(31.5)	(1.7)
Shareholder loan	Nil	3.3	0.4
- Other provisions	(188.0)	(202.6)	(191.0)
<b>Net assets</b>	208.5	336.6	390.0
<b>Capital and reserves</b>			
Equity share capital	6.7	6.6	6.7
Redeemable 'B' preference shares	21.0	Nil	Nil
Share premium account	154.1	389.1	392.4
Profit and loss account*	(191.5)*	(60.8)	(6.9)
Capital redemption reserve	222.1	1.7	1.7
Own shares	(3.9)	Nil	(3.9)
<b>Shareholders' funds – (including non-equity interests)</b>	208.5	336.6	390.0
Analysis of shareholders' funds			
Equity	187.4	336.6	390.0
Non-equity	21.1	Nil	Nil
	208.5	336.6	390.0

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

\* The profit and loss reserve deficit of £191.5m is the consolidated position after taking account of cumulative goodwill of £113.8m that was written off against reserves in periods prior to the adoption of FRS 10 "Goodwill and Intangible Assets". The holding company's profit and loss reserve as at 31 October 2004 was £218.0m, of which £132.3m was realised and distributable as at 31 October 2004.

## CONSOLIDATED CASH FLOW STATEMENT

		<b>Unaudited</b>	Audited
		<b>6 months to 31 October 2004 £m</b>	6 months to 31 October 2003 £m
			Year to 30 April 2004 £m
	<i>Notes</i>		
<b>Net cash inflow from operating activities</b>	9	<b>127.7</b>	214.3
<b>Dividends from joint ventures and associates</b>		<b>14.7</b>	4.1
<b>Returns on investments and servicing of finance</b>			
Interest paid		(7.4)	(37.9)
Interest element of hire purchase and lease finance		(3.7)	(5.8)
Interest received		10.1	44.2
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		<b>(1.0)</b>	0.5
<b>Taxation</b>		<b>(12.6)</b>	(9.4)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(35.8)	(56.0)
Sale of tangible fixed assets		6.0	4.2
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(29.8)</b>	(51.8)
<b>Acquisitions and disposals</b>			
Acquisition of subsidiaries		(2.3)	(7.4)
Cash of disposed subsidiaries		Nil	(4.3)
Purchase of other investments		(0.1)	Nil
Disposal of subsidiaries and other businesses		14.4	263.7
Disposal of investments in joint ventures and associates		Nil	64.9
Movement in loans to joint ventures		6.7	Nil
<b>Net cash inflow from acquisitions and disposals</b>		<b>18.7</b>	316.9
<b>Equity dividends paid</b>		<b>(26.6)</b>	(35.6)
<b>Net cash inflow before financing</b>		<b>91.1</b>	439.0
<b>Financing</b>			
Sale of tokens		2.8	13.5
Redemption of tokens		(5.7)	(11.9)
Issue of ordinary share capital for cash		3.5	6.4
Redemption of 'B' shares		(220.4)	Nil
Expenses on issue of 'B' shares		(0.4)	Nil
Investment in own ordinary shares		Nil	(3.9)
Decrease in collateral balances		1.7	37.3
Increase/(decrease) in borrowings		30.6	(158.4)
Repayments of hire purchase and lease finance		(12.8)	(60.3)
Cash inflows from lease finance		Nil	85.7
<b>Net cash outflow from financing</b>		<b>(200.7)</b>	(91.6)
<b>(Decrease)/increase in cash in period</b>	10	<b>(109.6)</b>	347.4
<b>Free cash flow</b>		<b>128.8</b>	209.5
<b>Free cash flow per share</b>		<b>10.3p</b>	15.9p

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

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

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<b>Unaudited</b>		Audited
	<b>6 months to</b>	6 months to	Year to
	<b>31 October</b>	31 October	30 April
	<b>2004</b>	2003	2004
	<b>£m</b>	£m	£m
<b>Profit for the financial period</b>	<b>40.3</b>	29.7	104.6
Translation differences on foreign currency net investments	<b>6.3</b>	(0.5)	(0.4)
UK tax effect of translation differences on foreign currency net investments	<b>Nil</b>	(0.6)	4.8
Share of other recognised gains and losses of associates	<b>Nil</b>	(0.2)	(0.2)
<b>Total recognised gains and losses relating to the period</b>	<b>46.6</b>	28.4	108.8

## RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	<b>Unaudited</b>		Audited
	<b>6 months to</b>	6 months to	Year to
	<b>31 October</b>	31 October	30 April
	<b>2004</b>	2003	2004
	<b>£m</b>	£m	£m
<b>Profit for the financial period</b>	<b>40.3</b>	29.7	104.6
Equity dividends	<b>(10.7)</b>	(11.9)	(38.4)
Non-equity dividends	<b>(0.1)</b>	Nil	Nil
	<b>29.5</b>	17.8	66.2
Other recognised gains and losses relating to the period			
- Translation differences on foreign currency net investments	<b>6.3</b>	(0.5)	(0.4)
- UK tax effect of translation differences on foreign currency net investments	<b>Nil</b>	(0.6)	4.8
- Share of other recognised gains and losses of associates	<b>Nil</b>	(0.2)	(0.2)
Equity ordinary share capital issued less costs	<b>3.5</b>	3.0	6.4
Own ordinary shares purchased	<b>Nil</b>	Nil	(3.9)
Redemption of 'B' preference shares	<b>(220.4)</b>	Nil	Nil
Expenses on issue of 'B' shares set against share premium	<b>(0.4)</b>	Nil	Nil
<b>Net (decrease)/increase in shareholders' funds</b>	<b>(181.5)</b>	19.5	72.9
<b>Opening shareholders' funds</b>	<b>390.0</b>	317.1	317.1
<b>Closing shareholders' funds</b>	<b>208.5</b>	336.6	390.0

## NOTES

### 1 BASIS OF PREPARATION

The financial information for the six months ended 31 October 2004 has not been audited, nor has the comparative financial information for the six months ended 31 October 2003. The comparative financial information for the year ended 30 April 2004 does not reflect all of the information contained in the Company's annual accounts. These annual accounts received an unqualified audit report and have been filed with the Registrar of Companies.

This announcement was approved by the Board of Directors on 8 December 2004. There have been no changes in accounting policies since those used in the annual accounts for the year ended 30 April 2004.

The interim report for the six months to 31 October 2004 will be published in the Financial Times on 9 December 2004. The interim report, which is extracted from this announcement and which includes the independent review report by the auditors, has been prepared in accordance with the Listing Rules of the Financial Services Authority. The full text of the interim report is included at the end of this announcement released to the London Stock Exchange.

## 2 FOREIGN CURRENCIES

The principal rates of exchange used to translate the results of foreign subsidiaries are as follows:

	<b>6 months to 31 October 2004</b>	6 months to 31 October 2003	Year to 30 April 2004
<b>New Zealand Dollar</b>			
Period end rate	<b>2.6784</b>	2.7617	2.8350
Average rate	<b>2.7985</b>	2.7875	2.7600
<b>US Dollar</b>			
Period end rate	<b>1.8323</b>	1.6970	1.7734
Average rate	<b>1.8131</b>	1.6324	1.7115
<b>Canadian Dollar</b>			
Period end rate	<b>2.2350</b>	2.2367	2.4388
Average rate	<b>2.4114</b>	2.2299	2.2985

## 3 EXCEPTIONAL ITEMS

The following items have been treated as exceptional:

	<b>Unaudited 6 months to 31 October 2004 £m</b>	6 months to 31 October 2003 £m	Audited Year to 30 April 2004 £m
Loss on disposal of operations	<b>(4.7)</b>	(5.9)	(7.1)
Return of capital costs	<b>(0.3)</b>	Nil	Nil
Impairment of minority investment	<b>(0.3)</b>	Nil	Nil
Gain on sale of properties	<b>1.3</b>	Nil	0.5
	<b>(4.0)</b>	(5.9)	(6.6)
Tax effect of exceptional items	<b>1.3</b>	2.0	(0.2)
	<b>(2.7)</b>	(3.9)	(6.8)

The loss on disposal of operations of £4.7m comprises pre-tax losses arising on the disposals and closures of parts of our North American businesses.

Net exceptional charges before tax of £5.9m for the six months ended 31 October 2003 relate to the total pre-tax losses arising on the disposals of Citybus, our investment in former associated companies operating in the Chinese city of Chongqing and various parts of North America (Coach USA).

The Directors also undertook an impairment review as at 30 April 2004 of the carrying value of the Group's 49% joint venture interest in Virgin Rail Group ("VRG") and concluded that there had been no impairment loss. VRG operates two UK rail franchises, West Coast and CrossCountry, both of which are currently operated under a Letter Agreement entered into in July 2002 ("the Letter Agreement"). On 6 August 2004, VRG was notified by the Strategic Rail Authority ("SRA") that it was suspending the renegotiation of the existing CrossCountry franchise which runs to 2012. VRG will continue to operate the CrossCountry franchise under the Letter Agreement until the SRA decides whether it intends to put the franchise out to open competition. Should the SRA decide to do so, VRG will receive at least 12 months' notice of termination.

No further communication has been received to date from the SRA with regard to its decision on CrossCountry. Negotiations on the West Coast franchise are progressing. The value of the Group's investment in VRG is dependent on the outcome of the discussions with the SRA on the two franchises. The Directors will continue to monitor the carrying value of the Group's investment in VRG as matters progress with the SRA. In particular, they have carefully reviewed the underlying assets and liabilities of VRG and made appropriate provision where considered necessary in accounting for Stagecoach Group's share of the consolidated net assets of VRG as at 31 October 2004, having given due regard to all relevant factors. The carrying value of the Company's investment in VRG as at 31 October 2004 was £85.0m.

#### 4 OTHER OPERATING INCOME

	Unaudited		Audited
	6 months to 31 October 2004 £m	6 months to 31 October 2003 £m	Year to 30 April 2004 £m
Miscellaneous revenue	21.3	21.8	46.8
Losses on disposal of assets, other than properties	(1.3)	(2.1)	(3.6)
Rail franchise support	63.9	38.8	85.9
	<b>83.9</b>	<b>58.5</b>	<b>129.1</b>

#### 5 SEGMENTAL ANALYSIS (A) TURNOVER

	Unaudited		Audited
	6 months to 31 October 2004 £m	6 months to 31 October 2003 £m	Year to 30 April 2004 £m
<b>Continuing operations</b>			
UK Bus	351.1	317.9	650.2
North America	119.2	116.3	204.3
New Zealand	26.2	26.4	58.3
Total bus continuing operations	496.5	460.6	912.8
UK Rail	234.8	216.7	438.9
<b>Total continuing operations</b>	<b>731.3</b>	<b>677.3</b>	<b>1,351.7</b>
<b>Discontinued operations</b>			
Citybus	Nil	17.8	17.8
North America	4.4	117.7	132.5
<b>Total discontinued operations</b>	<b>4.4</b>	<b>135.5</b>	<b>150.3</b>
<b>Group turnover</b>	<b>735.7</b>	<b>812.8</b>	<b>1,502.0</b>
Share of joint ventures' turnover			
Continuing			
- Virgin Rail Group	150.7	149.5	288.4
Discontinued			
- thetrainline	Nil	5.4	8.1
Elimination of inter-segment turnover	Nil	(3.9)	(6.2)
<b>Group turnover and share of joint ventures' turnover</b>	<b>886.4</b>	<b>963.8</b>	<b>1,792.3</b>

**5 SEGMENTAL ANALYSIS (CONTINUED)**  
**(B) OPERATING PROFIT**

	Unaudited						Audited
	6 months to 31 October 2004			6 months to 31 October 2003			Year to 30 April 2004
	Performance pre goodwill and exceptionals	Goodwill and exceptional items	Results for the period	Performance pre goodwill and exceptionals	Goodwill and exceptional items	Results for the period	
£m	£m	£m	£m	£m	£m	£m	
<b>Continuing operations</b>							
UK Bus	38.2	Nil	<b>38.2</b>	34.3	Nil	<b>34.3</b>	74.8
North America	14.4	Nil	<b>14.4</b>	15.9	Nil	<b>15.9</b>	14.8
New Zealand	3.9	Nil	<b>3.9</b>	4.9	Nil	<b>4.9</b>	10.7
<b>Total bus continuing operations</b>	<b>56.5</b>	<b>Nil</b>	<b>56.5</b>	<b>55.1</b>	<b>Nil</b>	<b>55.1</b>	100.3
UK Rail	21.6	Nil	<b>21.6</b>	21.5	Nil	<b>21.5</b>	44.1
<b>Total continuing operations</b>	<b>78.1</b>	<b>Nil</b>	<b>78.1</b>	<b>76.6</b>	<b>Nil</b>	<b>76.6</b>	144.4
Group overheads	(4.2)	(0.6)	<b>(4.8)</b>	(4.2)	Nil	<b>(4.2)</b>	(8.4)
Goodwill amortisation	Nil	(3.5)	<b>(3.5)</b>	Nil	(4.1)	<b>(4.1)</b>	(7.8)
Redundancy/restructuring costs	(0.3)	Nil	<b>(0.3)</b>	(4.1)	Nil	<b>(4.1)</b>	(7.2)
<b>Total operating profit of continuing Group companies</b>	<b>73.6</b>	<b>(4.1)</b>	<b>69.5</b>	<b>68.3</b>	<b>(4.1)</b>	<b>64.2</b>	121.0
<b>Discontinued operations</b>							
- Citybus	Nil	Nil	Nil	1.0	Nil	<b>1.0</b>	1.0
- Goodwill amortisation	Nil	Nil	Nil	Nil	(1.0)	<b>(1.0)</b>	(1.0)
<b>Total operating profit of discontinued Group operations</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>1.0</b>	<b>(1.0)</b>	<b>Nil</b>	Nil
<b>Total operating profit of Group companies</b>	<b>73.6</b>	<b>(4.1)</b>	<b>69.5</b>	<b>69.3</b>	<b>(5.1)</b>	<b>64.2</b>	121.0
Share of operating profit/(loss) of joint ventures							
Continuing							
- Virgin Rail Group	5.1	Nil	<b>5.1</b>	5.0	Nil	<b>5.0</b>	13.5
- other	Nil	Nil	Nil	(0.5)	Nil	<b>(0.5)</b>	(0.4)
Discontinued							
- thetrainline	Nil	Nil	Nil	(1.7)	Nil	<b>(1.7)</b>	(2.4)
Goodwill amortised on investments in continuing joint ventures	Nil	(4.3)	<b>(4.3)</b>	Nil	(4.3)	<b>(4.3)</b>	(8.7)
Share of operating (loss)/profit of associates							
Continuing							
- other	(0.2)	Nil	<b>(0.2)</b>	(0.2)	Nil	<b>(0.2)</b>	Nil
Discontinued							
- Road King	Nil	Nil	Nil	5.0	Nil	<b>5.0</b>	7.0
Goodwill amortised on investments in associates	Nil	(0.2)	<b>(0.2)</b>	Nil	(0.2)	<b>(0.2)</b>	(0.3)
<b>Total operating profit: Group and share of joint ventures and associates</b>	<b>78.5</b>	<b>(8.6)</b>	<b>69.9</b>	<b>76.9</b>	<b>(9.6)</b>	<b>67.3</b>	129.7

The operating profit from the discontinued element of North America is not separately shown because it is not clearly distinguishable due to certain "shared" costs that relate to North America as a whole. However, the discontinued element of North America's operating profit is not believed to be material in the context of the Group's annual operating profit as a whole.

## 6 TAXATION

The taxation charge comprises:

	Unaudited						Audited
	6 months to 31 October 2004			6 months to 31 October 2003			Year to 30 April 2004
	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the period £m	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the period £m	
Group companies - UK	12.6	Nil	<b>12.6</b>	14.6	Nil	<b>14.6</b>	(14.6)
- Overseas	4.7	(1.9)	<b>2.8</b>	1.5	(2.8)	<b>(1.3)</b>	2.6
Share of joint ventures' tax	1.5	Nil	<b>1.5</b>	1.2	Nil	<b>1.2</b>	3.2
Share of associates' tax	Nil	Nil	<b>Nil</b>	0.6	Nil	<b>0.6</b>	Nil
	<b>18.8</b>	<b>(1.9)</b>	<b>16.9</b>	<b>17.9</b>	<b>(2.8)</b>	<b>15.1</b>	<b>(8.8)</b>

## 7 EARNINGS PER SHARE

Earnings per ordinary share have been calculated in accordance with FRS 14 'Earnings per Share', by calculating the profit on ordinary activities after taxation and non-equity dividends divided by the weighted average number of ordinary shares in issue during the period based on the following:

	Unaudited 6 months to 31 October 2004	6 months to 31 October 2003	Audited Year to 30 April 2004
Basic weighted average ordinary share capital (number of shares, million)	<b>1,252.2</b>	1,318.1	1,321.7
Dilutive ordinary shares			
- Executive Share Option Scheme	<b>19.9</b>	17.3	20.2
- Employee SAYE Scheme	<b>3.1</b>	1.3	2.2
Diluted weighted average ordinary share capital (number of shares, million)	<b>1,275.2</b>	1,336.7	1,344.1
	<b>£m</b>	£m	£m
Profit after taxation and non-equity dividends (for basic EPS calculation)	<b>40.2</b>	29.7	104.6
Goodwill amortised on subsidiaries	<b>3.5</b>	5.1	8.8
Goodwill amortised on joint ventures	<b>4.3</b>	4.3	8.7
Goodwill amortised on associates	<b>0.2</b>	0.2	0.3
Exceptional items (see note 3)	<b>4.0</b>	5.9	6.6
Tax effect of goodwill amortisation and exceptional items	<b>(1.9)</b>	(2.8)	(0.1)
Exceptional tax credit	<b>Nil</b>	Nil	(41.0)
Profit for adjusted EPS calculation	<b>50.3</b>	42.4	87.9

On 10 September 2004, the Company issued 1,340,732,902 18 pence "B" redeemable shares at the rate of 1 "B" redeemable share for every 1 ordinary share held.

The issue of "B" redeemable shares was followed by a share consolidation whereby shareholders received 19 consolidated ordinary shares for every 24 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" redeemable shares was combined with the share consolidation. The weighted average number of ordinary shares outstanding for the six months ended 31 October 2004 has been adjusted for the reduction in the number of ordinary shares from the date on which the issue of "B" redeemable shares and share consolidation took place. This treatment is consistent with paragraph 26 of Financial Reporting Standard 14, "Earnings per Share".

## 8 INVESTMENT IN JOINT VENTURES

	<b>Unaudited 6 months to 31 October 2004 £m</b>
Cost at 1 May 2004	<b>146.9</b>
Share of recognised profits	<b>4.0</b>
Dividends received	<b>(14.7)</b>
Repayment of loan	<b>(6.7)</b>
At 31 October 2004	<b>129.5</b>
Amounts written off at 1 May 2004	<b>(40.4)</b>
Goodwill amortised during period	<b>(4.1)</b>
At 31 October 2004	<b>(44.5)</b>
Net book value, 1 May 2004	<b>106.5</b>
Net book value, 31 October 2004	<b>85.0</b>

## 9 RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW FROM OPERATING ACTIVITIES

	<b>Unaudited 6 months to 31 October 2004 £m</b>	<b>Unaudited 6 months to 31 October 2003 £m</b>	<b>Audited Year to 30 April 2004 £m</b>
Operating profit of Group companies	<b>69.5</b>	64.2	121.0
Depreciation	<b>31.7</b>	34.5	67.2
Loss on sale of tangible fixed assets, other than properties	<b>1.3</b>	2.1	3.6
Impairment of investment	<b>0.3</b>	Nil	Nil
Goodwill amortisation	<b>3.5</b>	5.1	8.8
Decrease in stocks	<b>0.1</b>	5.4	7.3
Increase in debtors	<b>(8.4)</b>	(24.1)	(11.7)
Increase in creditors	<b>33.4</b>	26.1	24.3
Decrease in provisions	<b>(3.7)</b>	(1.9)	(6.2)
Net cash inflow from operating activities	<b>127.7</b>	111.4	214.3

During the period, the Group entered into hire purchase arrangements in respect of new assets with a total capital value at the inception of the contracts of £25.1m (31 October 2003 - £14.3m). After taking account of deposits paid up-front, new hire purchase liabilities of £23.8m were recognised.

## 10 RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	<b>Unaudited</b>	Audited
	<b>6 months to</b>	Year to
	<b>31 October</b>	30 April
	<b>2004</b>	2004
	<b>£m</b>	<b>£m</b>
(Decrease)/increase in cash	<b>(109.6)</b>	347.4
Cash flow from movement in debt and lease financing	<b>(17.8)</b>	133.0
	<b>(127.4)</b>	480.4
Loans of disposed subsidiaries	<b>Nil</b>	47.3
Other movements	<b>(17.7)</b>	2.0
Movement in cash collateral	<b>(1.7)</b>	(37.3)
(Increase)/decrease in net debt	<b>(146.8)</b>	492.4
Opening net debt	<b>(67.6)</b>	(560.0)
Closing net debt	<b>(214.4)</b>	(67.6)

## 11 ANALYSIS OF NET DEBT

	Opening	Cashflows	Cash	New Hire	Foreign	Closing
	£m	£m	collateral	Purchase	exchange	£m
			£m	£m	movements	
					£m	
Cash	439.2	(109.6)	Nil	Nil	(2.1)	327.5
Cash collateral	37.3	(1.5)	(0.2)	Nil	Nil	35.6
Hire purchase and lease obligations	(132.4)	12.8	Nil	(23.8)	Nil	(143.4)
Bank loans and loan stock	(41.6)	(4.6)	0.2	Nil	0.1	(45.9)
Bonds	(370.1)	(26.2)*	Nil	Nil	8.1	(388.2)
	<b>(67.6)</b>	<b>(129.1)</b>	<b>Nil</b>	<b>(23.8)</b>	<b>6.1</b>	<b>(214.4)</b>

The net total of cash and cash collateral of £363.1m (30 April 2004 - £476.5m) is classified in the balance sheet as cash at bank and in hand. The cash collateral balance as at 31 October 2004 of £35.6m (30 April 2004 - £37.3m) comprises balances held in trust in respect of loan notes of £33.6m (30 April 2004 - £33.7m) and North America restricted cash balances of £2.0m (30 April 2004 - £3.6m). In addition, cash includes train operating company cash of £103.4m (30 April 2004 - £71.6m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

\* The £26.2m movement in bonds relates to the cancellation of foreign exchange derivatives which is offset by a cash inflow of £26.2m in relation to these derivatives thereby resulting in a nil impact on net debt.

# **APPENDIX**

**Stagecoach Group plc  
Interim Report for the six months ended 31 October 2004  
(to be published in the Financial Times on 9 December 2004)**

**Consolidated Profit & Loss Account**  
For the six months ended 31 October 2004

	Unaudited 6 months ended 31 Oct 2004 £m	Unaudited 6 months ended 31 Oct 2003 £m	Audited Year ended 30 April 2004 £m
<b>Turnover: Group and share of joint ventures</b>	886.4	963.8	1,792.3
Less: Share of joint ventures' turnover	(150.7)	(151.0)	(290.3)
<b>Group turnover</b>	<b>735.7</b>	<b>812.8</b>	<b>1,502.0</b>
Continuing Group operations	731.3	677.3	1,351.7
Discontinued operations	4.4	135.5	150.3
Operating costs	(750.1)	(807.1)	(1,502.0)
Other operating income	83.9	58.5	129.1
<b>Operating profit of Group companies</b>	<b>69.5</b>	<b>64.2</b>	<b>121.0</b>
Share of operating profit/(loss) of joint ventures	0.8	(1.5)	2.0
Share of operating (loss)/profit from interest in associates	(0.4)	4.6	6.7
<b>Total operating profit: Group and share of joint ventures and associates</b>	<b>69.9</b>	<b>67.3</b>	<b>129.7</b>
Represented by:			
Continuing Group operations	69.5	64.2	121.0
Continuing joint ventures and associates	0.4	(0.2)	4.1
Discontinued joint ventures and associates	69.9	64.0	125.1
	Nil	3.3	4.6
<b>Total operating profit: Group and share of joint ventures and associates</b>	<b>69.9</b>	<b>67.3</b>	<b>129.7</b>
Gain on sale of properties	1.3	Nil	0.5
Loss on disposal of operations	(4.7)	(5.9)	(7.1)
<b>Profit on ordinary activities before interest and taxation</b>	<b>66.5</b>	<b>61.4</b>	<b>123.1</b>
Finance charges (net)	(9.3)	(16.6)	(27.3)
<b>Profit on ordinary activities before taxation</b>	<b>57.2</b>	<b>44.8</b>	<b>95.8</b>
Taxation on profit on ordinary activities	(16.9)	(15.1)	8.8
<b>Profit for the financial period</b>	<b>40.3</b>	<b>29.7</b>	<b>104.6</b>
<b>Equity dividends (1.0p per share (0.9p – 31 October 2003; 2.9p – full year to 30 April 2004))</b>	<b>(10.7)</b>	<b>(11.9)</b>	<b>(38.4)</b>
<b>Non-equity dividends</b>	<b>(0.1)</b>	<b>Nil</b>	<b>Nil</b>
<b>Retained profit for the period</b>	<b>29.5</b>	<b>17.8</b>	<b>66.2</b>
<b>Earnings per share</b>			
- Basic	3.2p	2.3p	7.9p
- Basic before goodwill amortisation and exceptional items	4.0p	3.2p	6.7p
- Diluted	3.2p	2.2p	7.8p

**Consolidated Balance Sheet**

As at 31 October 2004

	Unaudited 31 Oct 2004 £m	Unaudited 31 Oct 2003 £m	Audited 30 April 2004 £m
<b>Fixed Assets</b>			
Intangible assets	97.6	111.9	103.5
Tangible assets	636.4	619.0	618.0
Investments	88.2	193.8	110.2
	<b>822.2</b>	<b>924.7</b>	<b>831.7</b>
<b>Current Assets</b>			
Stocks	12.3	19.4	13.4
Debtors and prepaid charges			
- due within one year	166.4	216.6	169.2
- due after more than one year	51.9	61.3	58.0
Cash at bank and in hand	363.1	338.1	476.5
	593.7	635.4	717.1
<b>Creditors: Amounts falling due within one year</b>	<b>(716.2)</b>	<b>(475.5)</b>	<b>(674.6)</b>
<b>Net current (liabilities)/assets</b>	<b>(122.5)</b>	<b>159.9</b>	<b>42.5</b>
<b>Total assets less current liabilities</b>	<b>699.7</b>	<b>1,084.6</b>	<b>874.2</b>
<b>Creditors: Amounts falling due after more than one year</b>	<b>(303.2)</b>	<b>(522.6)</b>	<b>(292.2)</b>
<b>Provisions for liabilities and charges</b>	<b>(188.0)</b>	<b>(225.4)</b>	<b>(192.0)</b>
<b>Net assets</b>	<b>208.5</b>	<b>336.6</b>	<b>390.0</b>
<b>Capital and reserves</b>			
Equity share capital	6.7	6.6	6.7
Redeemable 'B' preference shares	21.0	Nil	Nil
Share premium account	154.1	389.1	392.4
Profit and loss account	(191.5)	(60.8)	(6.9)
Capital redemption reserve	222.1	1.7	1.7
Own shares	(3.9)	Nil	(3.9)
Shareholders' funds (including non-equity interests)	208.5	336.6	390.0
Analysis of shareholders' funds			
Equity	187.4	336.6	390.0
Non-equity	21.1	Nil	Nil
	<b>208.5</b>	<b>336.6</b>	<b>390.0</b>

**Consolidated Cash Flow Statement**

For the six months ended 31 October 2004

	Unaudited 6 months ended 31 Oct 2004 £m	Unaudited 6 months ended 31 Oct 2003 £m	Audited Year Ended 30 April 2004 £m
Net cash inflow from operating activities	127.7	111.4	214.3
Dividends from joint ventures and associates	14.7	4.1	4.1
Returns on investments and servicing of finance	(1.0)	1.0	0.5
Taxation	(12.6)	(16.2)	(9.4)
Capital expenditure and financial investment	(29.8)	(24.6)	(51.8)
Acquisitions and disposals	18.7	249.0	316.9
Equity dividends paid	(26.6)	(23.8)	(35.6)
Net cash inflow before financing	91.1	300.9	439.0
Financing	(200.7)	(88.6)	(91.6)
<b>(Decrease)/increase in cash in period</b>	<b>(109.6)</b>	<b>212.3</b>	<b>347.4</b>
<b>Free cash flow</b>	<b>128.8</b>	<b>100.3</b>	<b>209.5</b>
<b>Free cash flow per share</b>	<b>10.3p</b>	<b>7.6p</b>	<b>15.9p</b>

**Chairman's Statement**

Stagecoach Group has produced a strong set of results for the six months ended 31 October 2004, as we continue to deliver our strategy to achieve organic growth in our bus and rail operations. We are particularly encouraged by the underlying performance in our UK and North American bus businesses, where our market-leading ideas and new products are attracting new passengers to public transport, and our rail operations, where revenues are significantly ahead of our original expectations. Stagecoach has a strong portfolio of profitable and cash generative businesses that we are confident will produce further growth and provide good returns to our shareholders.

Total turnover for the six months was £886.4m (2003 - £963.8m). Excluding the impact of disposed businesses, turnover grew 6.7% from £826.8m to £882.0m. Total operating profit (before goodwill amortisation and exceptional items) was £78.5m (2003 - £76.9m). Excluding the prior year impact of the disposals of Citybus, Road King and Trainline, the equivalent operating profit was up 8.1% from £72.6m.

The Board has declared an interim dividend of 1.0p per share (2003 - 0.9p), an 11.1% increase, which reflects our confidence in the prospects for the Group. The interim dividend is payable to shareholders on the register at 11 February 2005 and will be paid on 9 March 2005. Based on continued strong, stable cash flows and profits within the business, we will look to continue progressive dividend growth.

The Group is firmly on the path of growth and we have made an encouraging start to the second half of the financial year. I am pleased to report that the current trading of the Group remains in line with our expectations. I believe that the Group's portfolio of businesses offers good prospects for further growth and increased shareholder value.

Robert Speirs, Chairman

**Independent Review Report to Stagecoach Group plc**

**Introduction**

We have been instructed by the Company to review the financial information which comprises the consolidated profit and loss account, consolidated balance sheet, and consolidated cash flow statement. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

**Directors' Responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

**Review Work Performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with UK Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

**Review Conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2004.

PricewaterhouseCoopers LLP, Chartered Accountants, Glasgow  
8 December 2004