

Directors' report

Principal activity and business review

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

A review of the Group's business performance, developments during the year, its position at the year end and likely future prospects, is set out in the Chairman's statement on page 2, the Chief Executive's review on page 3, the Operating review on pages 4 to 12, and the Finance Director's review on pages 13 to 16.

Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 29.

An interim dividend of 0.9 pence per ordinary share (net) was paid on 10 March 2004. The directors recommend a final dividend of 2.0 pence per ordinary share making a total dividend of 2.9 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 6 October 2004 to those ordinary shareholders on the register at 10 September 2004.

Directors and their interests

The names, responsibilities and biographical details of the directors appear on page 17.

Graham Eccles, Janet Morgan and Robert Speirs retire by rotation at the 2004 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. Ewan Brown, who is considered an independent non-executive director by the Board, but may not be considered independent under the revised Combined Code, and Ann Gloag, who is not an independent non-executive director, being eligible offer themselves for annual re-election.

Tables A and B, set out on page 19, give the interests of the directors and their families in the share capital of the Company.

Substantial shareholdings

On 22 June 2004 (being the latest practical date prior to the date of this report), the only disclosable shareholdings in excess of 3% (other than certain directors' shareholdings) were as follows:

Barclays Global Investors (UK) Ltd	6.90%
Marathon Asset Management Ltd	4.88%
Capital International Ltd	4.43%
Legal & General Investment Management (UK)	3.48%
Liontrust Asset Management	3.44%

Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and to maintain and, where possible, improve operational performance. The Group is also committed to providing equality of opportunity to current employees and potential employees. This applies to appropriate training, career development and promotion opportunities for all employees regardless of physical disability, gender, religion or belief and racial or ethnic origin. The Group gives full consideration to applications for employment from disabled persons where a handicapped or 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 and career development and promotion to disabled employees wherever appropriate.

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

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

Directors' responsibilities

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

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

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

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, at remuneration to be fixed by the directors, will be proposed at the next Annual General Meeting.

Supplier payment policy and practice

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the accounts of those companies. As the Company is a holding Company, trade creditor days is not a relevant figure. For the Group as a whole, the trade creditors outstanding at the year-end represented 33 days' purchases (2003: 34 days).

TABLE A		Number of shares	
		30 April and 23 June 2004	30 April and 25 June 2003
Ordinary shares of 0.5p each			
Brian Souter	beneficial	179,254,818	177,477,868
	non-beneficial	17,821,379	17,059,829
Graham Eccles		115,048	37,258
Martin Griffiths		7,997	7,997
Ewan Brown		Nil	Nil
Ann Gloag	beneficial	146,971,155	147,071,155
	non-beneficial	2,019,564	2,804,564
Janet Morgan		2,600	Nil
Robert Speirs		18,500	18,500
Russell Walls		20,000	20,000
Iain Duffin		40,000	40,000

TABLE B		Number of shares	
		30 April and 23 June 2004	30 April and 25 June 2003
Share options held by Directors			
Brian Souter		3,804,038	2,930,371
Graham Eccles		2,297,373	1,832,657
Martin Griffiths		2,298,573	1,922,849
Ewan Brown		Nil	Nil
Ann Gloag		Nil	Nil
Janet Morgan		Nil	Nil
Robert Speirs		Nil	Nil
Russell Walls		Nil	Nil
Iain Duffin		Nil	Nil

Full details of options held as at 30 April 2004 are contained in the Remuneration Report on pages 24 to 27.

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

Fixed assets

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

Close company status

The directors are advised that at 30 April 2004 the Company was not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Charitable and political contributions

Group companies made charitable donations of £0.3m (2003: £0.7m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year (2003: £Nil).

Authority for company to purchase its own shares

At the 2003 Annual General Meeting, the Company was granted authority by its shareholders under section 166 of the Companies Act 1985 to repurchase up to 10% of its ordinary shares of 0.5 pence each. During the year, no shares were repurchased. Under the existing authority, the Company may repurchase up to a further 132,094,601 shares. This authority will expire on 28 February 2005 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 up to 10% of its ordinary shares of 0.5 pence each, which, if passed, will lapse on or before 26 February 2006.

Return of Capital

The disposals of Citybus, Road King and significant parts of North America (Coach USA) have resulted in a substantial change to the Group's capital structure. The Group's net debt has reduced significantly and the proportion of the Group's funding provided by debt, rather than equity, has fallen accordingly. As a consequence of this we have announced our intention to return approximately £250 million to shareholders via an issue of redeemable B shares.

At the 2003 AGM the shareholders passed a special resolution that £200m of the Company's share premium account be converted into a new special reserve of the Company. Given that the share premium account is now being proposed to be partly used for the return of capital, the Directors have decided not to seek the Court of Session's confirmation of the reduction in the share premium account.

Going Concern

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

By order of the Board



DEREK SCOTT
Company Secretary

23 June 2004