

- regular Board reporting on specific matters including updated key risks, taxation, pensions, insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.
- each operating unit maintains controls and procedures appropriate to the business. A written certificate is provided at least annually by the management of each business confirming that they have reviewed the effectiveness of the system of internal control during the year. As might be expected, a number of minor internal control weaknesses were identified by this procedure, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the maintenance and improvement of our risk management procedures.
- a commitment to best practice in external reporting.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.

### Pension schemes

The assets of the Group's pension schemes are held under trust, separate from the assets of the Group and are invested with independent fund managers. There are ten trustees for the principal UK scheme of whom five are employee representatives nominated by the members on a regional basis. The other trustees include senior Group and UK Bus executives. The chairman of the trustees of the principal UK scheme is an elected member of the National Association of Pension Funds' investment council. The auditors and actuaries of the principal UK pension schemes are both independent of the Group. Similar arrangements are in place for the South West Trains, Island Line, Sheffield Supertram and two Virgin Rail Group sections of the Railways Pension Scheme. PricewaterhouseCoopers LLP does not conduct the external audit of any significant pension schemes in which the Group participates.

During the financial year ended 30 April 2005, a Pensions Oversight Committee was established. This Committee is chaired by a Non-Executive Director and also comprises one Executive Director and other members of senior management. The Committee operates at a strategic level and its remit covers all matters affecting the Group's pension schemes from the perspective of the Company, and it will consider, develop and propose recommendations to the Board in respect of such issues as may arise. The Committee reviews pension scheme funding issues and implications, investment strategy, and the related administration for all of the employee pension schemes of the Company and its wholly owned subsidiaries.

## Audit Committee Report

In line with best practice, the Audit Committee has decided to present a separate annual report. This report relates to the financial year ended 30 April 2005.

### Composition of the Audit Committee

The Audit Committee comprises four Non-Executive Directors, all of who are considered by the Board to be independent. At the present time, its members are Russell Walls (Chairman), Janet Morgan, Ewan Brown and Iain Duffin. Of the members of the Audit Committee, Russell Walls is a former Finance Director of a FTSE 100 company and Ewan Brown is currently the chairman of an audit committee of a FTSE 100 company. The Committee has significant recent and relevant financial expertise and is appropriately qualified to undertake its duties in an effective manner.

### Operation of the Audit Committee

The Audit Committee met three times during the year and has met a further time in June 2005. It receives reports from all of the Group's major business functions including the Risk Assurance Function (internal audit), which is outsourced and managed by Deloitte. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual accounts and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at <http://www.stagecoachplc.com/sgc/investorinfo/corpgov>

### Review of External Auditors

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

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

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

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

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

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

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

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

### Review of Risk Assurance Function

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

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

## Corporate governance

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

### “Speaking Up” Policy

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



RUSSELL WALLS  
Chairman of the Audit Committee

22 June 2005

## Nomination Committee Report

In line with best practice, the Nomination Committee has decided to present a separate annual report. This report relates to the financial year ended 30 April 2005.

### Composition of Nomination Committee

The Nomination Committee currently comprises two Non-Executive Directors that the Board considers to be independent, Robert Speirs and Ewan Brown (who acts as Chairman) and one Executive Director, Brian Souter. The Committee may also include, by invitation, the other Non-Executive Directors, as necessary.

### Operation of the Nomination Committee

The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggest new appointments. Based on its assessment, the Committee will prepare a description of the role and the required attributes for each particular appointment. The description will include a job specification, the estimate of the time commitment expected, and the Group’s policy on Directors

having other significant commitments. Potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their commitments as they arise. The Committee will identify suitable candidates and make proposals for each appointment, although final appointments are the responsibility of the Board as a whole.

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

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

The terms of reference of the Nomination Committee are available on the Group’s website at <http://www.stagecoachplc.com/sgc/investorinfo/corpgov>.

### Succession Planning Arrangements

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

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



EWAN BROWN  
Chairman of the Nomination Committee

22 June 2005