Notes to the financial statements

Note 1 UK GAAP accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

- **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

The Company is not required to prepare a cash flow statement under FRS 1 (revised).

- **Tangible fixed assets**

Tangible fixed assets are shown at their original historic cost net of depreciation and any provision for impairment as set out in note 2.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over their estimated useful lives, as follows:

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use.

- **Investments**

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

- **Taxation**

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

In accordance with FRS 19, "Deferred Taxation", full provision is made for deferred tax on a non-discounted basis in respect of all timing differences except those arising from the revaluation of fixed assets where there is no binding sale agreement and undistributed profits of overseas subsidiaries.

Deferred tax is calculated at rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent they are more likely than not to be recovered.

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

- **Foreign currencies**

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the profit and loss account.

For the principal rates of exchange used see the Group IFRS accounting policies on page 48.

- **Share based payment**

The Company issues equity-settled and cash-settled share based payments to certain employees.

The Company has applied the optional exemption contained within FRS 20, which allows it to apply the standard only to equity-settled share based payments granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by use of the Black-Scholes pricing model.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently intends to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash – settled transactions (see above).

Notes to the financial statements

Note 1 UK GAAP accounting policies (continued)

- **Dividends**

Dividends on ordinary shares are recorded in the financial statements in the period in which they are approved by the Company's shareholders, or in the case of interim dividends, in the period in which they are paid.

- **Financial instruments**

The accounting policy of the Company under FRS 25 "Financial instruments: Disclosure and presentation" and FRS 26 "Financial instruments: Measurement" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Disclosure and presentation" and IAS 39 "Financial instruments: Recognition and Measurement". Therefore for details of the Company's accounting policy for financial instruments refer to pages 50 to 52.

- **Investment in own shares**

In accordance with UITF Abstract 38, "Accounting for ESOP Trusts", own shares held by the Group's Employee Benefit Trust and Qualifying Employee Share Ownership Trust have been classified as deductions from shareholders' funds.

- **Interest bearing loans and borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

- **Pensions**

The Company accounts for pensions and similar benefits under FRS 17 "Retirement Benefits" and measures its obligations due at discounted present value.

Note 2 Tangible fixed assets

	£m
Cost	
At beginning and end of year	0.6
Depreciation	
At beginning and end of year	(0.5)
Net book value	
At beginning and end of year	0.1

Note 3 Investments

	Subsidiary undertakings £m
Cost	
Beginning of year	964.9
Additions	2.0
End of year	966.9
Amounts written off	
At beginning and end of year	Nil
Net book value, beginning of year	964.9
Net book value, end of year	966.9

Note 4 Debtors and prepaid charges

(a) Amounts falling due within one year are:

	2007	2006
	£m	£m
Trade debtors	**Nil**	0.3
Other prepayments and accrued income	**1.5**	3.2
VAT and other government debtors	**9.2**	10.1
Amounts owed by Group companies	**190.2**	0.1
	200.9	13.7

(b) Amounts falling due after more than one year are:

	2007	2006
	£m	£m
Amounts owed by Group companies	**Nil**	172.2

Credit risk with respect to debtors is low due to the fact that a large amount of the Company's balances are with subsidiary undertakings that it controls.

Note 5 Deferred tax asset

The Company movement during the year was as follows:

	2007	2006
	£m	£m
Beginning of year	**0.4**	0.6
Charge to profit and loss account	**(0.1)**	(0.2)
End of year	**0.3**	0.4

In the 2007 budget the UK government announced its intention to propose Parliament to reduce UK Corporate income tax rate from 30% to 28%. As of 30 April 2007 the change in the tax rate was not substantively enacted.

The deferred tax asset recognised can be analysed as follows:

	2007	2006
	£m	£m
Short-term timing differences	**0.3**	0.4

Note 6 Creditors

(a) Creditors: Amounts falling due within one year

	2007	2006
	£m	£m
Bank overdrafts	**Nil**	312.5
Bank loans and loan notes	**37.0**	37.7
Trade creditors	**0.8**	0.6
Accruals and deferred income	**4.8**	6.6
UK corporation tax payable	**1.3**	4.9
Amounts due to Group companies	**51.0**	36.4
	94.9	398.7

Trade creditors are non-interest bearing and are normally settled on 30 to 45 day terms.

(b) Creditors: Amounts falling due after more than one year

	2007	2006
	£m	£m
Accruals and deferred income	**0.7**	0.8
Amounts due to Group companies	**Nil**	12.7
	0.7	13.5

Notes to the financial statements

Note 6 Creditors (continued)

(c) Borrowings are repayable as follows

	2007	2006
	£m	£m
On demand or within 1 year		
Bank overdraft	**Nil**	312.5
Bank loans and loan notes	**37.0**	37.7
Total borrowings	**37.0**	350.2

Note 7 Financial instruments

The fair value of derivative financial instruments at 30 April 2007 are set out below:

	2007		2006	
	Fair value assets £m	Fair value liabilities £m	Fair value assets £m	Fair value liabilities £m
Forward foreign currency contracts – external	**Nil**	**Nil**	Nil	(0.1)
Forward currency contracts – internal	**Nil**	**Nil**	0.1	Nil
Fuel caps – external	**0.2**	**(6.3)**	1.4	(2.5)
Fuel caps – internal	**6.3**	**(0.2)**	2.5	(1.4)
Interest rate swap – external	**Nil**	**Nil**	Nil	(0.2)
	6.5	**(6.5)**	4.0	(4.2)

Included in the above £6.5m (2006: £4.2m) of fair value liabilities are £2.6m (2006: Nil) that relates to more than one year.

Those derivatives identified above as "internal" are where the counterparty is a subsidiary company. Those identified as "external" are where the counterparty is a third party financial institution.

In accordance with FRS 26, "Financial Instruments: Recognition and Measurement" the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. None were identified.

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 8 Pension liability, net of deferred tax

	2007	2006
	£m	£m
Unfunded pension liability	**3.5**	3.6
Deferred tax asset	**(1.1)**	(1.1)
	2.4	2.5

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above. See note 27 to the consolidated financial statements for the Group for more details about accounting for pensions.

Note 9 Called up share capital

	2007	2006
	£m	£m
Authorised		
1,456,666,666 (2006: 1,456,666,666) ordinary shares of 12/19 pence each	**9.2**	9.2
Allotted, called-up and fully paid		
1,100,998,707 (2006: 1,093,600,313) ordinary shares of 12/19 pence each	**7.0**	6.9

In accordance with UITF 38, all shares held by employee trusts are deducted from shareholders' funds and are not classified as assets.

The Company operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust 2003 ("EBT"). Shares held by these trusts are treated as a deduction from shareholders' funds in the financial statements. Other assets and liabilities of the trusts are consolidated in the Company's financial statements as if they were assets and liabilities of the Company. As at 30 April 2007, the QUEST held 369,399 (2006: 628,285) ordinary shares in the Company and the EBT held 5,825,879 (2006: 4,690,333) ordinary shares in the Company.

Note 10 Reconciliation of shareholders' funds

	Equity share capital £m	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m	Own shares £m	**Total £m**
At 1 May 2006	6.9	174.8	317.8	243.0	(6.1)	**736.4**
Profit for the year	Nil	Nil	464.4	Nil	Nil	**464.4**
Credit in relation to share based payment	Nil	Nil	2.0	Nil	Nil	**2.0**
Dividends	Nil	Nil	(41.5)	Nil	Nil	**(41.5)**
Ordinary shares issued during the year	0.1	4.6	Nil	Nil	Nil	**4.7**
Own shares sold	Nil	Nil	Nil	Nil	0.9	**0.9**
Own shares purchased	Nil	Nil	Nil	Nil	(2.1)	**(2.1)**
	7.0	179.4	742.7	243.0	(7.3)	**1,164.8**

As permitted by S230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit as disclosed above of £464.4m (2006: £52.0m) is consolidated in the results of the Group.

Note 11 Share based payment

For details of share based payment awards and fair values see note 30 to the Group financial statements on pages 84 and 85. The Company accounts for the share based payment charge for the year of £2.0m (2006: £2.2m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to the profit and loss account reserve to reflect the fact that the Company has no employees and all awards of share options in the Company's shares are to employees of subsidiary companies.

Note 12 Guarantees, other financial commitments and contingent liabilities

(a) The Company is party to bank guarantees in respect of guarantees, loans, overdrafts and other facilities provided to certain Group undertakings of which £32.5m was outstanding at 30 April 2007 (2006: £64.0m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

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

	2007 £m	2006 £m
Contracted for but not provided For delivery in one year	**63.2**	53.5

(c) Operating lease commitments
Annual charges for operating leases are made with expiry dates as follows:

	2007		2006	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Under one year	**Nil**	**Nil**	Nil	Nil
Between one year and five years	**Nil**	**3.1**	Nil	9.6
Five years and over	**0.3**	**0.5**	0.3	Nil

Note 13 Related party transactions

The Company has taken advantage of the exemption under FRS 8, "Related party disclosures" from having to provide related party disclosures in its own financial statements when those statements are presented with consolidated financial statements of its group. Details of related party disclosures provided by the Group can be found on page 90.

Note 14 Post balance sheet events

The Board announced on 14 March 2007 that Stagecoach would return approximately £700m to shareholders which equates to 63 pence per ordinary share in issue at the Record Date, being 11 May 2007. The return of value was approved by shareholders at an Extraordinary General Meeting on 27 April 2007. Since the balance sheet date, 277,777,735 B shares and 823,220,972 C Shares were issued in connection with the return of value. 253,584,435 B Shares were redeemed at 63 pence each and the remaining 24,193,300 B Shares are redeemable in the future at 63 pence each. A special dividend of 63 pence per C Share was paid or waived on 458,001,388 C Shares which then converted to Deferred Shares of negligible value. The remaining 365,219,584 C Shares were bought by Credit Suisse for 63 pence each and were later bought by the Company for 63 pence each and immediately cancelled. For every 14 ordinary shares held on the Record Date (being 11 May 2007), shareholders received 9 new ordinary shares and 14 B or C shares.

On 22 June 2007, the Group signed a contract to operate the East Midlands rail franchise. The new 7-year and 4-month franchise, which is worth £235m in annual revenue, will run from 11 November 2007.