

Return of Capital

UK Taxation of Chargeable Gains - further general guidance regarding the allocation of base cost and disposals of Stagecoach Shares

Apportionment of historic base cost; Proportion of base cost allocated to -	<u>Market Value</u>	<u>Proportion Of Base Cost</u>
<ul style="list-style-type: none">• The B Shares is based on <i>market values</i> of approximately:	18 pence	20.78%
<ul style="list-style-type: none">• Apportionment factor for the Consolidated Ordinary Shares of 12/19 pence is:	86.65 pence	79.22%

The following note is intended as a general guide only and does not constitute tax advice to any shareholders. This note deals only with non-corporate shareholders who are resident or ordinarily resident in the UK and are beneficial owners of their Stagecoach Shares. All Shareholders are strongly recommended to consult their independent advisers if they are in any doubt as to their tax position. This note must be read in conjunction with the circular to Shareholders dated 14 July 2004.

Some shareholders have asked for more guidance on the tax implications of the Return of Capital and in particular on the allocation of their historic base cost between their B Shares and their holding of Consolidated Ordinary Shares. This note discusses the treatment of shares acquired in the Company by individuals at any time after its flotation in April 1993.

Following the close of the London Stock Exchange (LSE) on 10 September 2004, the B Shares were issued and the consolidation of the Ordinary Shares took place. The Consolidated Ordinary Shares were admitted to trading on the LSE at 8.00am on 13 September 2004.

The new combined holding of B Shares and Consolidated Ordinary Shares will have the same base cost (allowable expenditure) as the shareholder's original holding of Ordinary Shares immediately before the B share issue. The combined holding will be treated as the same asset, acquired at the same time and for the same consideration as the original holding. On a disposal of the whole or any part of the new holding (i.e., being a disposal of Consolidated Ordinary or B Shares) a shareholder's base cost for the disposed shares should be apportioned between the

Consolidated Ordinary Shares and the B shares in proportion to their respective market values on the first day of dealings in the Consolidated Ordinary Shares. The first day was 13 September 2004 and hence for these purposes the *market value* of the B Shares was estimated at approximately **18 pence**, and the *market value* of the Consolidated Ordinary Shares (to be calculated in accordance with Section 272 of the Taxation of Capital Gains Act 1992) was **86.65 pence**.

Looking only at shareholdings acquired after the flotation on 27 April 1993 these will be identified for tax purposes as either:

1. Acquisitions on or after 6 April 1998 - each acquisition of shares is dealt with separately and not pooled, or
2. Shares acquired before 6 April 1998 - all acquisition of such shares are pooled together.

To determine the allocation of the capital gains tax base cost where the original Ordinary Shares were purchased at different dates, it is necessary to match the new holdings with the acquisitions to which they relate. New B Shares and Consolidated Ordinary Shares issued in respect of shareholdings acquired post 6 April 1998 should be identified with each separate share purchase after 6 April 1998 and will take on the base cost of that share purchase. New B Shares and Consolidated Ordinary Shares issued in respect of a shareholding acquired before 6 April 1998 will take on the base cost of the share pool.

Disposals should be matched with acquisitions in the following order:

1. Acquisitions on or after 6 April 1998 (using a LIFO basis); then
2. Shares acquired before 6 April 1998 (the share pool).

In this note the redemption of the B Shares is treated as a disposal of the new holding.

Attached for illustrative purposes only is an example calculation dealing with the part disposal (through redemption, or a sale) of a holding in B Shares:

Illustrative calculation of the redemption of 12,000 B Shares, from an original holding of 19,000 Ordinary Shares

Ordinary Shares - Historic Base Cost Data

Acquisition date	Number of shares	Cost Per share £	CGT Indexation (*) £	Historic Base cost for CGT £
13-Oct-95	10,000	0.4820	411.86	5,231.86
11-Nov-99	2,000	1.4800	n/a	2,960.00
17-Jul-01	7,000	0.7875	n/a	5,512.50
	<u>19,000</u>			<u>13,704.36</u>

Consolidated Ordinary Shares of 12/19 pence

Number of shares	Estimated Market Value £	Allocation of CGT Base cost £	Base cost per share £
7,917	6,860.08	4,144.41	0.5235
1,583	1,371.67	2,344.64	1.4811
5,542	4,802.14	4,366.74	0.7879
<u>15,042</u>	<u>13,033.89</u>	<u>10,855.80</u>	<u>0.7217</u>

B Shares

Number of shares	Estimated Market Value £	Allocation of CGT Basis £	Base cost per share £
10,000	1,800.00	1,087.44	0.1087
2,000	360.00	615.36	0.3077
7,000	1,260.00	1,145.76	0.1637
<u>19,000</u>	<u>3,420.00</u>	<u>2,848.56</u>	<u>0.1499</u>

	<u>No of shares</u>	<u>Per share</u>	<u>£</u>
Proceeds from redemption of B Shares	12,000	0.1800	2,160.00
Less : allocation of CGT base cost			
	7,000	0.1637	<u>(1,145.76)</u>
	2,000	0.3077	<u>(615.36)</u>
	3,000	0.1087	<u>(326.10)</u>
			(2,087.22)
Taxable Gain / (Loss) on disposal before reliefs			<u><u>72.78</u></u>

Data

Estimated market values

13th Sept

£

Consolidated Ordinary Shares	0.8665	Market Value calculated in accordance with s.272 TCGA 1992
B shares	0.1800	Estimated market value

(*) Indexation allowance is calculated by multiplying the original cost by the indexation factor

Indexation Factor = (RPI at April 1998 less RPI at date of acquisition) / RPI at date of acquisition

Indexation Factor = (162.6 - 149.8) / 149.8 = 0.085447263

(NB there is no restriction on the number of decimal places this factor is to be rounded to)

Therefore in this example the Indexation Allowance is = (10,000 x 0.482) x 0.085 = 411.86

RPI = Retail Price Index

There is no additional indexation post April 1998