

AUDIT COMMITTEE: Terms of Reference

Adopted pursuant to a resolution of the Board of Directors dated 19 February 2004, amending earlier resolutions dated 30 December 1992 and 9 March 2001.

Note: References to "The Committee" shall mean the Audit Committee and references to "The Board" shall mean the full Board of Directors of Stagecoach Group plc ("the Company").

A. Membership

1. The Committee shall comprise of a Chairman and at least two other Non-Executive Directors. (Other individuals may be invited to attend all or part of any meeting as and when appropriate, e.g. the Chairman of the Board, Executive Directors, the Head of Group Risk Assurance and representatives from the Group Finance function.)
2. All members of The Committee shall, in the opinion of The Board, be independent of the management of the Company.
3. The Board shall appoint The Committee Chairman who shall be a Non-Executive Director and determine the period for which he/she shall hold office. The Chairman of The Board shall not be a member of The Committee.
4. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of The Committee. At least one member of The Committee shall have recent and relevant financial experience. Appointments to The Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent, in the opinion of the Board.
5. The Company Secretary or his/her nominee shall be the Secretary of The Committee.

B. Meetings

1. The Committee shall meet formally at least three times a year and otherwise as required.
2. A meeting of The Committee may be called by any member of The Committee or by the Secretary.
3. Unless otherwise agreed, notice of each meeting confirming the date, the venue and time together with an agenda of items and relevant papers to be discussed shall be forwarded to each member of The Committee and, as appropriate, to any other person required to attend, not fewer than five working days prior to the date of the meeting. Notice of meetings of The Committee shall be given, together with the agenda, to all other Directors and, subject to paragraph 8 below, the external auditors.
4. The principal matters respectively for consideration at two meetings during any year shall be:
 - i) to review and discuss the financial statements and the draft preliminary announcement of the annual results, the annual report and any report in respect thereof from the external auditors; and
 - ii) to review and discuss the financial statements and the draft announcement of the interim results for the half year, the interim report and any report in respect thereof from the external auditors;

in each case prior to their submission to The Board for approval. The quorum for The Committee meetings shall be two. A duly convened meeting of The Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by The Committee.

In the absence of The Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

5. The Committee should meet with the internal and external auditors either together or with each separately, as deemed appropriate, on a regular basis, including once at the planning stage. The internal and/or external auditors may request a meeting with The Committee, if they consider that one is necessary, such request to be made in writing to the Secretary of The Committee.
6. A representative of the external auditors shall normally attend meetings of The Committee, except at the discretion of The Committee.
7. The Committee shall meet at least once a year with the Head of Group Risk Assurance and the external auditors, without management being present, to discuss their remit and any issues arising from their work. The Group Finance Director and, if appropriate, the Group Chief Executive shall attend meetings of The Committee held to review the matters referred to in paragraph 4 above and the Group Finance Director shall attend other meetings of The Committee.
8. The Committee or its Chairman shall report to The Board on its proceedings following each meeting on all relevant matters within The Committee's duties and responsibilities.
9. The Secretary shall keep records of all meetings of The Committee, including the names of those present and in attendance, with minutes of the proceedings and resolutions. The Secretary shall ascertain at the beginning of each meeting the existence of any conflict of interests and minute them accordingly.
10. After preliminary approval by the Chairman, copies of the minutes of the meetings shall be circulated promptly to all members of The Committee and to the Chairman of The Board. Any other Director may upon request to the Secretary of The Committee, as long as there is no conflict of interests, obtain copies of The Committee's minutes with relevant papers.
11. The Committee shall compile a report to shareholders on its activities, to be included in the Group's annual report.

C. Duties

The Committee shall:

1. Consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment or re-appointment of external auditors, including rotation of the partners assigned to the external audit, and any questions of resignation or dismissal of external auditors, and the arrangements for internal auditors. The Committee shall oversee the selection process for new auditors and if auditors resign the committee shall investigate the issues leading to this and decide whether any action is required.
2. Oversee and keep under review the relationship with external auditors. This includes:
 - the consideration of audit fees which should be paid as well as any other fees which are payable to auditors or affiliated firms in respect of non-audit activities, seeking to balance the maintenance of objectivity and value for money and whether the level of fees is appropriate to enable an adequate audit to be concluded;
 - discussions with external auditors and the Group Finance Director before the external audit commences concerning the nature and scope of the external audit and to review the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved;
 - approval of the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit, and ensure that it is consistent with the annual audit plan;
 - an annual assessment of the qualifications, expertise and resources, and the effectiveness of the external audit process which shall include a report from the external auditors on their own internal quality control procedures;

- an annual assessment of the auditors' independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the audit firm as a whole, including the provision of any non-audit services, and the level of fees paid by the Group compared to the overall fee income of the audit firm, office, individual partner and other related requirements;
 - satisfaction that there are no relationships (such as family, employment, investment, financial or other business) between the auditors and the Group other than in the ordinary course of business, and agreeing with The Board a policy on the employment of former employees of the Group's external auditors, and then monitoring compliance with the policy; and
 - discussions on such issues as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Group's auditing standards. Non-audit work with cumulative fees of more than £50,000 per annum requires the prior approval of the Committee Chairman or his deputy.
3. Review the Company's statement on financial reporting, risk management and internal control systems and procedures prior to its consideration by The Board and, in particular, to keep under review:
- i) the procedures for identifying business risks and controlling their financial impact on the Group;
 - ii) management's report on the major threats to the achievement of key business objectives and the risks that are recommended to be retained with the Stagecoach Group;
 - iii) the Group's policies for detecting and preventing fraud;
 - iv) the Group's policies for ensuring that it complies with relevant regulatory and legal requirements; and
 - v) the operational effectiveness of the afore-mentioned policies and procedures.

4. Monitor the integrity and review the financial statements for the parent Company, major subsidiary and associated undertakings, and the Stagecoach Group as a whole, and the draft announcements of preliminary annual results and half-year results and any other formal announcements relating to financial performance, and draft interim and annual reports to shareholders, together with any reports and/or letters in respect thereof from the external auditors, prior to their submission to The Board for approval, such review focusing particularly on, and challenging where necessary :
- i) the methods used to account for significant or unusual transactions where different accounting approaches are possible.
 - ii) appropriate disclosure of information, taking account of the clarity of disclosure and the context in which disclosures are made.
 - iii) compliance with accounting standards.
 - iv) any changes in accounting policies and practices and consistency of accounting policies both on a year to year basis and across the Stagecoach Group.
 - v) significant judgmental areas and the making of appropriate estimates.
 - vi) significant fluctuations in accounting figures or ratios.
 - vii) unusual circumstances, commitments or contingent liabilities.
 - viii) post balance sheet events.
 - ix) any outstanding or prospective material litigation.
 - x) significant adjustments relating from the work of external auditors.
 - xi) the going concern assumption.

- xii) All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management areas)
 - xiii) compliance with laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate.
 - xiv) any major questions raised by external auditors with management and replies received, including representation letters.
 - xv) any existing or prospective legislation which impacts upon financial performance of the Company or the Stagecoach Group.
5. Review the findings of the audit with the external auditors. This review shall include, but not be limited to, the following:
- discussion of any major issues which arose during the audit;
 - any accounting and audit judgments;
 - levels of errors identified during the audit;
 - any representation letter(s) requested by the external auditors before they are signed by management;
 - the overall effectiveness of the audit.
6. Review the external auditors' management letters and management's responses to the auditors' findings and recommendations.
7. Review, assess and approve the remit, strategy and annual programme of the Stagecoach Group Risk Assurance (internal audit) function, including costs; consider and monitor the major findings of work done by the Group Risk Assurance function and management's responses thereto and review promptly a summary of all their reports; consider co-ordination of work done by internal and external auditors; monitor and review the effectiveness of the Stagecoach Group's Risk Assurance function in the context of the Group's overall risk

management system and ensure that the Group Risk Assurance function is adequately resourced to enable it to perform its function effectively and in accordance with the relevant professional standards and has appropriate standing within the Company and is free from management or other restrictions.

8. Approve the appointment and removal of the Head of Group Risk Assurance and ensure that the head of Group Risk Assurance has the right of direct access to the Chairman of The Committee.
9. Ensure that the Chairman of The Committee or another member of The Committee attends the AGM prepared to respond to any shareholder questions on The Committee's activities and any report to shareholders.
10. Review the Stagecoach Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these speaking up (or whistleblowing) arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
11. Review the annual financial statements of the Group's major pension funds, where not reviewed by the Board as a whole.
12. Require that an annual statement of the reimbursement of claims for expenses (including P11D expenses) for each Executive Director be tabled for review by The Committee.
13. Consider such other topics as are either referred to The Committee by The Board or may be defined by The Committee and notified to The Board.
14. Review The Committee's own performance, constitution and terms of reference to ensure it is operating effectively and to recommend any changes it considers necessary to the Board for approval.

D. Authority

The Committee shall:

1. Have access to sufficient resources in order to carry out its duties, including assistance from the Company Secretary, as required.
2. Be provided with appropriate and timely training, both in the form of induction training for new members and a programme of ongoing training for all members.
3. Have the right to seek any necessary information to fulfil its duties and to call any employee to be questioned at a meeting of the Committee as and when required.
4. Have the right to obtain outside legal help and any other professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties and to secure the attendance at The Committee's meeting(s) of outsiders with relevant experience and expertise if The Committee considers this necessary.