Letter of Comment No: /70 File Reference: 1204-001

21 October 2005

Alan Teixeira Senior Project Manager International Accounting Standards Board 30 Cannot Street London EC4M 6XH

Dear Sir

Exposure draft of proposed amendments to IFRS 3 Business Combinations.

We are pleased to provide you with our comments on the Exposure Draft concerning the proposed amendments to IFRS 3 'Business Combinations' issued by the International Accounting Standards Board in June 2005.

While we understand the IASB's theoretical rationale for many of the changes it is proposing in relation to IFRS 3, we share the concerns raised by the dissenting board members and other observers. Whilst the proposals may have theoretical merit, we believe they will further reduce the understandability of financial statements.

We concur with the IASB's theoretical view that every intangible asset should be separately valued in financial statements. In practice, however, the valuation of intangible assets is highly subjective. As such, we believe the IASB's proposals will lessen the accuracy and comparability of financial statements as two entities' could form substantially different judgements about similar assets. The proposals seem to start from the premise that the value of a business is the aggregate value of assets and liabilities. In practice, most businesses are valued as a whole, including those involved in business combinations. Acquiring companies typically value target companies based on a discounted cash flow analysis for the business as a whole rather than by assigning value to individual intangible assets. Accordingly, the IASB's proposals not only introduce substantial subjectivity to financial statements, they create a disconnection between the commercial basis on which business (and investors) assess business combinations and the basis for accounting for such business combinations.

We do not agree with the IASB's proposal that the acquisition costs should be expensed as incurred. Acquiring companies typically value target companies based on a discounted cash flow analysis for the business as a whole and take account of acquisition costs when determining whether or not to proceed with the acquisition. Commercially, therefore, acquisition costs are part of the value assigned to the sum of the acquired companies individual assets and liabilities. In practice, we believe the change proposed by the IASB will be largely academic as entities will separately disclose acquisition costs and encourage analysts to discount these when assessing the underlying profitability of the business.

We do not agree with the IASB's proposed accounting for step acquisitions. The exposure draft proposes that where an acquisition is achieved in stages, any interest

held by the acquirer immediately prior to the acquisition in which control is gained is re-measured to fair value, with the gain or loss recognised in the income statement.

An entity would recognise a gain where the fair value of the interest held by the acquirer immediately prior to the acquisition exceeds its book value. It is illogical that the acquisition would trigger a gain in the income statement in respect of the interest previously held but potentially, no gain would be recognised if the acquisition did not take place. We are increasingly concerned that IFRS is becoming an incohesive mix of historic cost accounting, fair value accounting and deemed cost accounting.

Please find enclosed with this letter answers to the Invitation to Comment questions in the ED itself.

Please do not hesitate to contact either of us if you require clarification on any of our comments.

Yours faithfully,

Ross Paterson Group Financial Controller / Company Secretary

Stagecoach Group PK

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Responses to the Invitation to Comment questions raised in the Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations

Question 1

Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

We agree that the objective and definition of a business combination are appropriate for accounting for all business combinations.

Question 2

Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

We agree that the definition of a business and the additional guidance given in paragraphs A2 to A7 are appropriate and sufficient for determining whether the assets acquired and liabilities assumed constitute a business.

Question 3

In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

We agree that in a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, it is appropriate to recognise 100 percent of the acquisition-date fair value of the acquiree. If an entity holds 90 per cent of the equity interests of another entity then it is fair to say that they have control over ALL the assets and liabilities of the entity and not just 90 per cent. Therefore it is acceptable to recognise 100 per cent of the fair value of the assets and liabilities and the acquisition date fair value and then recognise a non controlling interest.

Question 4

Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

We agree that there is sufficient guidance contained within the Exposure draft to allow the fair value of the acquiree to be measured.

Question 5

Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

We agree that the acquisition date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree is the best evidence of the fair value of that interest.

Question 6

Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

The accounting for contingent consideration is appropriate and does make accounting sense, however, the measurement principles are very judgemental. The rules are very opportunistic in that depending on managements best 'guess' the liability or asset may go up or down accordingly.

Question 7

Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We do not agree that acquisition costs should be expensed as incurred. While we acknowledge the fact that in a fair value world that the price the acquiree is willing to sell at is probably the best estimate of fair value, this is not typically how companies target potential combinations. As mentioned in our opening paragraphs acquiring companies typically value target companies based on a discounted cash flow analysis for the business as a whole and take account of acquisition costs when determining whether or not to proceed with the acquisition. Commercially, therefore, acquisition costs are part of the value assigned to the sum of the acquired companies individual assets and liabilities.

Question 8

Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

We believe that the proposed changes to business combinations are appropriate.

Question 9

Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

We agree that the fair value exceptions are required as these items are accounted for separately under other accounting standards.

Question 10

Is it appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

We do not agree that is appropriate for the acquirer to recognise in the profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the aquiree. It is illogical that an acquisition should trigger a gain in the income statement on something that was previously held. In addition if no acquisition takes place then potentially no gain may be recognised.

Question 11

Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

We agree with the proposed accounting suggested that if you have bought a 'bargain' (i.e. the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest) you recognise the gain immediately in the income statement.

Question 12

Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

We do not believe, at the present time, that there would a circumstance in which the amount of an overpayment could be measured reliably at the acquisition date.

Question 13

Do you agree that comparative information for prior periods presented in the financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

We do not agree that the comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments. Other standards do not require you to re-state comparatives for changes in estimates made during the period. Would it not be better to treat the movements as movements in the period?

Question 14

Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquitred and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

We agree that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree.

Question 15

Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting and why?

We agree with the disclosure objectives contained within the exposure draft and agree that the guidance provided aids in meeting these objectives. We also agree with the minimum disclosure requirements contained within the draft.

Question 16

Do you believe that an intangible assets that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill? If not why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:

- (a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability; and
- (b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

We do not believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill. The valuation of intangible assets can be highly subjective depending on the item to be measured.

Question 17

Do you agree that any changes in an acquirer's deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

We agree that any changes in an acquirer's deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination.

Question 18

Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved.

We do not believe that it is appropriate for the IASB and FASB to retain differences in standards when the whole idea of amending standards and the adoption of International Accounting Standards is to ensure a uniform set of accounting standards and policies. The IASB and FASB should reach a consensus in the same way any group of individual standard setters do.

Question 19

Do you find the bold type-plain type style of the Exposure Draft helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

We have no comments on the format of the bold type plain - type style of the Exposure Draft.