

# Directors' report

## Principal activity and business review

The Group's principal activity is the provision of public transport services in the UK and overseas.

A review of the Group's business performance, developments during the year, its position at the year end and likely future prospects, is set out in the Chairman's statement on page 2, the Chief Executive's review on page 3 and the Operating and Financial Review on pages 4 to 14.

## Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 31.

An interim dividend of 1.0 pence per ordinary share (net) was paid on 9 March 2005. The Directors recommend a final dividend of 2.3 pence per ordinary share making a total dividend of 3.3 pence per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 5 October 2005 to those ordinary shareholders on the register at 2 September 2005.

A dividend of 0.346828 pence per "B" share was paid on 31 March 2005. The Company continues to accrue dividends on the "B" shares at the agreed rate of 70% of 6 months LIBOR. The next dividend on the "B" shares is due to be paid on 30 September 2005.

## Directors and their interests

The names, responsibilities and biographical details of the Directors appear on page 15. Their participation in full Board meetings and meetings of committees is given in the Corporate Governance report on page 19.

The Board reviews the development plans for the Board at least annually as part of its performance evaluation. The assessment involves a consideration of the balance of skills, knowledge and experience of the Directors. The Board also considers whether the Directors have sufficient time to properly discharge their duties, which includes a consideration of any other appointments that each director has. The re-elections of Brian Souter, Iain Duffin, Robert Speirs, Ewan Brown and Ann Gloag will be proposed at the 2005 Annual General Meeting and are consistent with the results of the Board's assessment. The Board believes that the performance of each of these Directors continues to be effective and that they continue to demonstrate commitment to their respective roles. The Board therefore considers it is appropriate that each of these Directors be re-elected at the 2005 Annual General Meeting.

Brian Souter and Iain Duffin retire by rotation at the 2005 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. As explained in the Corporate Governance report on page 18, Ewan Brown is considered to be an independent non-executive director by the Board. However, in recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown offers himself for annual re-election. Robert Speirs, Chairman, and Ann Gloag, who is a Non-Executive Director but is not independent, also offer themselves for annual re-election.

Tables A, B and C, set out opposite, give the interests of the Directors and their families in the share capital of the Company.

## Company Secretary

Derek Scott, who has a long association with the Group, stood down as Company Secretary at the 2004 Annual General Meeting. Ross Paterson, the Group's Financial Controller, was appointed as Company Secretary from that time. He is also Secretary to all Board Committees.

## Substantial shareholdings

On 21 June 2005 (being the latest practical date prior to the date of this report), the only disclosable shareholdings in excess of 3% (other than certain Directors' shareholdings) were as follows:

Marathon Asset Management Ltd	4.90%
Capital International Ltd	4.38%
Standard Life Investments Ltd	4.23%
Legal & General Investment Management Ltd	3.59%
Morley Fund Management Ltd (UK)	3.13%
Barclays Global Investors (UK) Ltd	3.09%

## Directors interests

TABLE A	Number of ordinary shares	
	30 April and 22 June 2005	30 April and 23 June 2004

### Ordinary shares of 12/19<sup>th</sup> p each (2004: 0.5p each)

Brian Souter	beneficial	<b>141,910,060</b>	179,254,818
	non-beneficial	<b>14,108,591</b>	17,821,379
Graham Eccles		<b>109,229</b>	115,048
Martin Griffiths		<b>15,830</b>	7,997
Ewan Brown		<b>Nil</b>	Nil
Ann Gloag	beneficial	<b>116,352,145</b>	146,971,155
	non-beneficial	<b>1,598,820</b>	2,019,564
Janet Morgan		<b>2,058</b>	2,600
Robert Speirs		<b>14,645</b>	18,500
Russell Walls		<b>15,833</b>	20,000
Iain Duffin		<b>31,670</b>	40,000

TABLE B	Number of "B" shares	
	30 April and 22 June 2005	30 April and 23 June 2004

### Redeemable B shares of 18p each

Brian Souter	beneficial	<b>1,388,888</b>	n/a
	non-beneficial	<b>Nil</b>	n/a
Graham Eccles		<b>257</b>	n/a
Martin Griffiths		<b>257</b>	n/a
Ewan Brown		<b>Nil</b>	n/a
Ann Gloag	beneficial	<b>1,388,888</b>	n/a
	non-beneficial	<b>Nil</b>	n/a
Janet Morgan		<b>Nil</b>	n/a
Robert Speirs		<b>Nil</b>	n/a
Russell Walls		<b>Nil</b>	n/a
Iain Duffin		<b>Nil</b>	n/a

TABLE C	Number of ordinary shares under option	
	30 April and 22 June 2005	30 April and 23 June 2004

### Number of Ordinary shares of 12/19<sup>th</sup> p each held under option (2004: 0.5p each)

Brian Souter	<b>4,585,671</b>	3,804,038
Graham Eccles	<b>2,172,157</b>	2,297,373
Martin Griffiths	<b>1,958,066</b>	2,298,573
Ewan Brown	<b>Nil</b>	Nil
Ann Gloag	<b>Nil</b>	Nil
Janet Morgan	<b>Nil</b>	Nil
Robert Speirs	<b>Nil</b>	Nil
Russell Walls	<b>Nil</b>	Nil
Iain Duffin	<b>Nil</b>	Nil

In addition to their individual interests in shares, Brian Souter, Graham Eccles and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 4,690,333 (30 April 2004: 4,636,924) ordinary shares of 12/19<sup>th</sup> pence (2004: 0.5 pence) each as at 30 April 2005. Graham Eccles and Martin Griffiths are also potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 1,811,212 (30 April 2004: 4,887,606) ordinary shares of 12/19<sup>th</sup> pence each as at 30 April 2005. Full details of options held as at 30 April 2005 are contained in the Remuneration Report on pages 23 to 29.

No director had a material interest in the loan stock or in the share capital of any subsidiary company.

## Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and to maintain and, where possible, improve operational performance. The Group is also committed to providing equality of opportunity to current employees and potential employees. This applies to appropriate training, career development and promotion opportunities for all employees regardless of physical disability, gender, religion or belief and racial or ethnic origin. The Group gives full consideration to applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share option schemes. Since 1996, there have been four invitations to UK employees to subscribe to the Group's Sharesave ("SAYE") schemes, all of which have met with encouraging levels of response. 4,310 employees applied to participate in the most recent SAYE invitation, and the savings contracts commenced on 1 April 2005.

The Group periodically arranges meetings that bring together representatives from senior management and trade unions. Discussions take place regularly with the trade unions representing the vast majority of the Group's employees on a wide range of issues. The Group also produces a range of internal newsletters and information circulars that keep employees abreast of developments. Employees are encouraged to discuss matters of interest to them and subjects affecting day-to-day operations of the Group with management.

The Group is committed to developing a culture of openness across all its businesses and ensuring the highest standards of probity and accountability. The Board actively encourages employees with serious concerns about the interests of others or the Company to come forward. During the financial year ended 30 April 2005, the Group issued an updated policy called "speaking up" to employees, which is designed to ensure processes exist where employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

## Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and of the Group, and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group, and enable them to ensure that the accounts comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Supplier payment policy and practice

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the accounts of those companies. As the Company is a holding Company, trade creditor days is not a relevant figure. For the Group as a whole, the trade creditors outstanding at the year-end represented 31 days' purchases (2004: 33 days).

## Fixed assets

In the opinion of the Directors, the open market value of the Group's interest in land and buildings exceeds the net book value. As part of the transition to International Financial Reporting Standards, the net book value of certain land and buildings is expected to be revalued upwards by approximately £53m as of 1 May 2004. The revaluation is not expected to give rise to additional tax liabilities.

## Close company status

The Directors are advised that at 30 April 2005 the Company was not a close company within the meaning of the Income and Corporation Taxes Act 1988.

## Charitable and political contributions

Group companies made charitable donations of £0.3m (2004: £0.3m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year (2004: £Nil).

## Authority for company to purchase its own shares

At the 2004 Annual General Meeting, the Company was granted authority by its shareholders under section 166 of the Companies Act 1985 to repurchase up to 10% of its ordinary shares. During the year, no ordinary shares were repurchased. Under the existing authority, the Company may repurchase up to a further 134,073,290 shares. This authority will expire on 26 February 2006 unless revoked, varied or renewed prior to this date.

A resolution will be placed at the next Annual General Meeting that the Company be authorised to repurchase up to 10% of its ordinary shares of 12/19<sup>th</sup> pence each, which, if passed, will lapse on or before 31 December 2006. If the resolution is approved, the existing authority that was granted at the 2004 Annual General Meeting will lapse.

## Return of Capital

Following the passing of a special resolution at the 2004 Annual General Meeting, we have successfully completed the return of £241.3m of capital to shareholders by the issue of redeemable B shares, of which 77,189,641 'B' shares (£13.9m) have still to be redeemed.

Having taken account of the cashflow generation of the Group and the potential bonding requirements on current rail franchise bids, the Board is now comfortable with the Group's current capital structure. The Board will, however, continue to keep the Group's capital structure under review.

## Going Concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the accounts.

## Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, at remuneration to be fixed by the Directors, will be proposed at the next Annual General Meeting.

By order of the Board



ROSS PATERSON  
Company Secretary

22 June 2005