

5. Directors' report

5.1 Principal activity

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

5.2 Business review

The Group is required to produce a business review complying with the requirements of section 234ZZB of the Companies Act. The Group has complied with these minimum requirements as part of the Operating and Financial Review, which also provides significant information over and above the statutory minimum.

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 17.

5.3 Group results and dividends

The results for the year are set out in the consolidated income statement on page 36.

An interim dividend of 1.1 pence per ordinary share was paid on 8 March 2006. The Directors recommend a final dividend of 2.6 pence per ordinary share making a total dividend of 3.7 pence per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 4 October 2006 to those ordinary shareholders on the register at 1 September 2006.

A dividend of 0.318271 pence per "B" share was paid on 30 September 2005. The remaining "B" shares in issue at 30 September 2005 were mandatorily redeemed on that date. This dividend on "B" shares is classified within finance costs under IFRS for the year ended 30 April 2006.

5.4 Directors and their interests

The names, responsibilities and biographical details of the Directors appear on page 18. Their participation in full Board meetings and meetings of committees is given in the Corporate governance report on page 24.

Graham Eccles retired as a director on 30 April 2006. Russell Walls will retire by rotation at the 2006 AGM and has indicated that he does not intend to seek re-election. Sir George Mathewson was appointed as a director on 8 June 2006 and will offer himself for election at the 2006 AGM.

Martin Griffiths retires by rotation at the 2006 Annual General Meeting in accordance with the Articles of Association and being eligible offers himself for re-election. As explained in the Corporate governance report on page 22, 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.

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 Robert Speirs, Martin Griffiths, Ewan Brown and Ann Gloag and the election of Sir George Mathewson will be proposed at the 2006 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/elected at the 2006 Annual General Meeting.

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

TABLE A	Number of ordinary shares	
	30 April and 28 June 2006	30 April and 22 June 2005

Ordinary shares of 12/19thp each

Brian Souter	beneficial	141,910,060	141,910,060
	non-beneficial	14,108,591	14,108,591
Graham Eccles*		111,766	109,229
Martin Griffiths		15,830	15,830
Ewan Brown		Nil	Nil
Iain Duffin		31,670	31,670
Ann Gloag	beneficial	116,352,145	116,352,145
	non-beneficial	1,598,820	1,598,820
Sir George Mathewson		Nil	Nil
Janet Morgan		2,058	2,058
Robert Speirs		14,645	14,645
Russell Walls		15,833	15,833

* retired 30 April 2006

TABLE B	Number of 'B' shares	
	30 April and 28 June 2006	30 April and 22 June 2005

Redeemable B shares of 18p each

Brian Souter	beneficial	Nil	1,388,888
	non-beneficial	Nil	Nil
Graham Eccles*		Nil	257
Martin Griffiths		Nil	257
Ewan Brown		Nil	Nil
Iain Duffin		Nil	Nil
Ann Gloag	beneficial	Nil	1,388,888
	non-beneficial	Nil	Nil
Sir George Mathewson		Nil	Nil
Janet Morgan		Nil	Nil
Robert Speirs		Nil	Nil
Russell Walls		Nil	Nil

* retired 30 April 2006

TABLE C	Number of ordinary shares under option	
	30 April and 28 June 2006	30 April and 22 June 2005

Number of Ordinary shares of 12/19thp each held under option

Brian Souter	4,585,671	4,585,671
Graham Eccles*	948,057	2,172,157
Martin Griffiths	781,579	1,958,066
Ewan Brown	Nil	Nil
Iain Duffin	Nil	Nil
Ann Gloag	Nil	Nil
Sir George Mathewson	Nil	Nil
Janet Morgan	Nil	Nil
Robert Speirs	Nil	Nil
Russell Walls	Nil	Nil

* retired 30 April 2006

In addition to their individual interests in shares, Brian Souter and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 4,690,333 (30 April 2005: 4,690,333) ordinary shares of 12/19th pence each as at 30 April 2006. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 628,285 (30 April 2005: 1,811,212) ordinary shares of 12/19th pence each as at 30 April 2006. Full details of options held as at 30 April 2006 are contained in the Remuneration report on pages 28 to 34.

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

5. Directors' report

5.5 Indemnification of Directors and Officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors. The Companies (Audit, Investigations and Community Enterprise) Act came into force on 6 April 2005. This Act extends the indemnities that a company can provide to its directors. The Company has subsequently indemnified each of its directors and certain of the Group's other officers against certain liabilities.

5.6 Substantial shareholdings

On 27 June 2006 (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:

Standard Life Investments Ltd	4.76%
Marathon Asset Management Ltd	4.55%
Capital International Ltd	4.28%
Legal & General Investment Management Ltd	3.49%
Schroder Investment Management (UK) Ltd	3.16%

5.7 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 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") scheme, all of which have met with encouraging levels of response.

The Group periodically arranges meetings that bring together representatives from 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 Group 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.

5.8 Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that present fairly, in accordance with IFRS, the state of affairs of the Group, and the profit or loss of the Group for that period. The Directors are also responsible for preparing financial statements for each financial year that give a true and fair view, in accordance with UK GAAP, of the state of affairs of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements of the Group comply with IFRS and the financial statements of the Company comply with UK GAAP;

- prepare the financial statements 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 financial statements of the Group comply with the Companies Act 1985 and Article 4 of the IAS regulation and the financial statements of the Company and the Remuneration report 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.

5.9 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 financial statements 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 32 days' purchases (2005 : 31 days).

5.10 Land and buildings

In the opinion of the Directors, the open market value of the Group's interest in land and buildings exceeded the net book value. As part of the transition to IFRS, the net book value of certain land and buildings has been revalued upwards by £53.9m as of 1 May 2004. The revaluation is not expected to give rise to additional tax liabilities.

5.11 Financial risk management

Information regarding the Group's financial risk management objectives and policies and exposure to price, credit, liquidity and cash flow risks can be found in note 27 to the consolidated financial statements.

5.12 Charitable and political contributions

Group companies made charitable donations of £0.6m (2005 : £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 (2005 : £Nil).

5.13 Authority for company to purchase its own shares

At the 2005 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 107,675,827 shares. This authority will expire on 31 December 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 its ordinary shares at the Directors' discretion up to a maximum number equal to 10% of the shares that are outstanding at the time of the Annual General Meeting. If passed, the resolution will lapse on or before 31 December 2007. If the resolution is approved, the existing authority that was granted at the 2005 Annual General Meeting will lapse.

5.14 Post balance sheet events

On 23 June 2006, the Group agreed to sell its London bus operations to Macquarie Bank Limited. The sale is subject to regulatory approval and other closing conditions and at the present time the Group anticipates the sale will complete within three months. The total proceeds for the sale are £263.6m in cash, subject to adjustments dependent on the net assets of the London bus operations at completion. The Group's consolidated gain on disposal is estimated at £120.0m although the gain will depend on the final determination of the net assets at completion of the sale.

5.15 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 financial statements.

5.16 Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Directors be authorised to fix the remuneration of the auditors.

By order of the Board



Ross Paterson
Company Secretary

28 June 2006