

5. Directors' report

5.1 Principal activity

The Group's principal activity is the provision of public transport services in the UK and overseas. A fuller description of the Group's business is provided in section 3.3 of this Annual Report.

5.2 Business review

The Group is required to produce a business review complying with the requirements of section 234ZZB of the Companies Act 1985. 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.

The Operating and Financial Review, which forms part of the Directors' report, is contained in section 3 of this Annual Report.

5.3 Group results and dividends

The results for the year are set out in the consolidated income statement on page 40.

An interim dividend of 1.2p per ordinary share was paid on 7 March 2007. The Directors recommend a final dividend of 2.9p per ordinary share making a total dividend of 4.1p per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 3 October 2007 to those ordinary shareholders on the register at 31 August 2007.

5.4 Directors and their interests

The names, responsibilities and biographical details of the Directors appear on pages 20 and 21. Their participation in full Board meetings and meetings of committees is given in the Corporate governance report on page 28.

Janet Morgan retires by rotation at the 2007 Annual General Meeting in accordance with the Articles of Association and being eligible offers herself for re-election. As explained in the Corporate governance report on page 26, 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. Other Non-Executive Directors, including the Chairman, who are not treated as independent are also subject to annual re-election. Accordingly,

Note that the number of ordinary shares shown in Table A below reflects the impact of the share capital consolidation in May 2007 (see section 3.8.13 of this Annual Report).

TABLE A		Number of ordinary shares		
		27 June 2007	30 April 2007 (or date of resignation, if earlier)	30 April and 28 June 2006 (or date of appointment, if later)
Brian Souter	beneficial	91,283,212	141,996,118	141,910,060
	non-beneficial	9,069,808	14,108,591	14,108,591
Martin Griffiths		10,176	15,830	15,830
Ewan Brown		Nil	Nil	Nil
Iain Duffin		20,359	31,670	31,670
Ann Gloag	beneficial	74,848,081	116,430,352	116,352,145
	non-beneficial	1,027,812	1,598,820	1,598,820
Sir George Mathewson	(appointed 8 June 2006)	Nil	Nil	Nil
Janet Morgan		1,323	2,058	2,058
Robert Speirs		9,414	14,645	14,645
Russell Walls	(resigned 25 August 2006)	N/A	15,833	15,833

At 27 June 2007, Brian Souter and Ann Gloag each held 150,000 B Shares of 63 pence each in addition to their interests in ordinary shares shown above.

TABLE B		Number of ordinary shares under option and/or Executive Participation Plan units	
		30 April and 27 June 2007 (or date of resignation, if earlier)	30 April and 28 June 2006 (or date of appointment, if later)
Brian Souter		4,769,488	4,585,671
Martin Griffiths		838,521	781,579
Ewan Brown		Nil	Nil
Iain Duffin		Nil	Nil
Ann Gloag		Nil	Nil
Sir George Mathewson	(appointed 8 June 2006)	Nil	Nil
Janet Morgan		Nil	Nil
Robert Speirs		Nil	Nil
Russell Walls	(resigned 25 August 2006)	Nil	Nil

Robert Speirs, Chairman, and Ann Gloag, who is a Non-Executive Director but is not independent, also offer themselves for annual re-election. We announced today the appointment of Garry Watts as an independent Non-Executive Director with effect from 1 July 2007 and Garry will offer himself for election at the 2007 Annual General Meeting. Russell Walls served as a director until 25 August 2006.

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, Ewan Brown, Ann Gloag and Janet Morgan will be proposed at the 2007 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 2007 Annual General Meeting.

The Listing Rules of the Financial Services Authority (LR 9.8.6 R(1)) require listed companies such as Stagecoach to disclose in their Annual Reports the beneficial and non-beneficial interests of each director that have been notified to the relevant company under the Companies Act 1985. The sections of the Companies Act 1985 (sections 323 to 329 and paragraphs 2 to 2B of Schedule 7) that required the Company to maintain a register of directors' interests have now been repealed but the relevant section of the Listing Rules has not been deleted. As the requirements to disclose directors' interests are now unclear, we have continued to show the interests of the Directors and connected persons in the share capital of the Company – see tables A and B below.

The Directors' interests set out in tables A and B have been determined on the same basis as in previous years, which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure and Transparency Rules of the Financial Services Authority. Accordingly, the interests of Brian Souter and Ann Gloag shown below do not represent their voting rights determined in accordance with the Disclosure and Transparency Rules which as at 30 April 2007, including vested but unexercised options, were 122,919,617 and 83,346,482 respectively, and at 27 June 2007 were 81,171,095 and 53,579,880 respectively.

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 5,825,879 (30 April 2006: 4,690,333) ordinary shares of 12/19th pence each as at 30 April 2007. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 369,399 (30 April 2006: 628,285) ordinary shares of 12/19th pence each as at 30 April 2007. Full details of options held as at 30 April 2007 are contained in the Directors' remuneration report on pages 35 and 36.

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

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 extended 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

By 26 June 2007 (being the latest practical date prior to the date of this report), the Company had been notified of the following holders each holding in excess of 3% of the voting rights in the Company (other than certain Directors' shareholdings details of which are set out in section 5.4 of this report):

Legal and General Group plc	3.42%
Deutsche Bank AG	3.04%
BlackRock Investment Managers	5.21%
JP Morgan Chase & Co.	4.82%

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, belief, race 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, 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. The Group has a policy in place called "speaking up" which is designed to ensure processes exist whereby employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

5.8 Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the Group and the parent company financial statements in accordance with applicable law and regulations,

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required by:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Directors' remuneration report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

5.9 Suppliers 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. The Company normally settles trade creditors on 30 to 45 day terms. For the Group as a whole, the trade creditors outstanding at the year end represented 28 days' purchases (2006: 32 days).

5.10 Land and buildings

In the opinion of the Directors, there is no material difference between the open market value of the Group's interest in land and buildings and its net book value.

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 28 to the consolidated financial statements.

5.12 Charitable and political contributions

Group companies made charitable donations of £0.7m (2006: £0.6m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no contributions for political purposes during the year (2006: £Nil).

5.13 Authority for company to purchase its own shares

At the 2006 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 109,679,158 ordinary shares. This authority will expire on 31 December 2007 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 ordinary shares that are outstanding at the time of the Annual General Meeting. If passed, the resolution will lapse on or before 31 December 2008. If the resolution is approved, the existing authority that was granted at the 2006 Annual General Meeting will lapse.

5.14 Shareholder and control structure

At 30 April 2007, the Company's issued share capital comprised a single class of shares, referred to as "ordinary shares". As at 30 April 2007, there were 1,100,998,707 (2006: 1,093,600,313) ordinary shares in issue with a nominal value of 12/19th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned.

The holders of ordinary shares are entitled to be paid the profits of the Company available for distribution and determined to be distributed pro-rata to the number of ordinary shares held.

There are no restrictions on the transfer of ordinary shares other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and;
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Group require the approval of the Company to deal in the Company's securities.

None of the ordinary shares in issue provide the holders with special control rights.

Section 5.6 of this Directors' report gives details of any shareholders (other than the Directors) that hold more than 3% of the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 5.4 of this Directors' report. Two directors of the Company, Brian Souter and Ann Gloag, who are siblings are interested in 24.9% of the ordinary shares in issue as at 30 April 2007 (2006: 25.0%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2007 (2006: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts hold a further 0.6% of the ordinary shares in issue as at 30 April 2007 (2006: 0.5%). The shares held by the trusts are for the benefit of employees of the Group, and the voting rights are exercised by the trustees.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Directors are appointed by ordinary resolution at a general meeting of holders of ordinary shares. The Directors have the power to appoint a director but any person so appointed by the Directors shall hold office only until the next annual general meeting and shall then be eligible for appointment by ordinary resolution at that meeting.

The Company's Articles of Association may only be amended by special resolution at a general meeting of holders of ordinary shares.

The powers of the Directors to issue or repurchase ordinary shares are set by an ordinary resolution at a general meeting of holders of ordinary shares. Section 5.13 of this Directors' report sets out the current authority for the Company to purchase its own shares.

Details of the redeemable B Shares and irredeemable C Shares that were issued to shareholders on 14 May 2007 are given in section 3.8.13 of this Annual Report.

5.15 Disapplication of pre-emption rights

The Company seeks approval at least annually from its shareholders for the disapplication of pre-emption rights. The approval sought is generally to disapply pre-emption rights in respect of equity securities up to approximately 5% of those in issue. The following ordinary shares have been issued on a non pre-emptive basis over the last five years:

Year ended 30 April	Shares issued on a non pre-emptive basis	Shares in issue at start of year	Shares issued on a non pre-emptive basis as a percentage of shares in issue
2007	7,398,394	1,093,600,313	0.7%
2006	24,055,086	1,069,545,227	2.2%
2005	13,505,982	1,335,358,600	1.0%
Total last 3 years	44,959,462		3.9%
2004	14,412,588	1,320,946,012	1.1%
2003	Nil	1,320,946,012	Nil
Total last 5 years	59,372,050		5.0%

The non pre-emptive issues by reason are summarised below:

Year ended 30 April	Issued in connection with employee share schemes	Issued as non-cash consideration to acquire business	Total
2007	7,398,394	Nil	7,398,394
2006	20,033,016	4,022,070	24,055,086
2005	13,505,982	Nil	13,505,982
Total last 3 years	40,937,392	4,022,070	44,959,462
2004	14,412,588	Nil	14,412,588
2003	Nil	Nil	Nil
Total last 5 years	55,349,980	4,022,070	59,372,050

At 30 April 2007, the Company had 1,100,998,707 ordinary shares in issue. The cumulative shares issued on a non pre-emptive basis as a percentage of the ordinary shares in issue at 30 April 2007 are:

Year ended 30 April 2007	0.7%
Three years ended 30 April 2007	4.1%
Five years ended 30 April 2007	5.4%

During the year ended 30 April 2005, the ordinary shares of the Company were consolidated with 19 shares issued for every 24 previously held. No adjustments have been made to the shares issued as shown in the table above to take account of the consolidation.

Following shareholder approval at the Extraordinary General Meeting on 27 April 2007, the ordinary shares of the Company were consolidated on 14 May 2007 with 9 shares issued for every 14 previously held. No adjustments have been made to the shares issued as shown in the table above to take account of the consolidation.

5.16 Post balance sheet events

Details on the return of value completed since the balance sheet date are contained within section 3.8.13 of this report.

Section 3.7.3.4 of this report gives details of the East Midlands rail franchise that the Group signed on 22 June 2007.

5.17 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.

5.18 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 section 234ZA of 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

27 June 2007