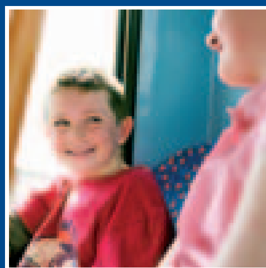
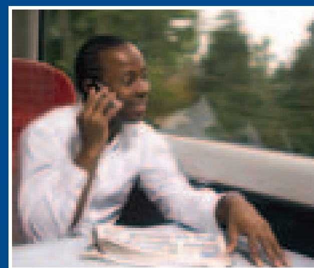




Stagecoach

STAGECOACH GROUP

Annual Report 2006

Business highlights

- Strong operational and financial performance across the Group
  - Fourth year of successive earnings growth
  - Dividend increased by 12.1%
- Innovation driving growth at UK Bus
  - 2.1% like for like passenger volume growth excluding London and megabus.com
  - Acquisition of bus operations in Merseyside, Yorkshire, Lincolnshire and Tayside
  - Named UK Bus Operator of the Year
- Excellent performance in UK Rail
  - Revenue up 5.7%
  - South West Trains operational performance among best in London and South East
  - £66.7m of revenue and profit share payable to DfT
  - Shortlisted for South Western rail franchise – innovative and value-for-money bid to build on record of operational and financial achievement
  - Named Rail Passenger Operator of the Year
- Further growth in North America
  - Strong revenue growth – overall US$ revenue from continuing operations up 11.0%
  - Continued margin growth despite significant cost pressures
  - Launch of budget inter-city coach service in United States
- Improved performance and revenue growth at Virgin Rail Group
  - Good progress on renegotiation of West Coast franchise
- Conditional sale of London bus business agreed for £263.6m
  - Bus division strategy to focus on less regulated bus operations outside London
- Disposal of New Zealand operations resulting in gain of £22.5m
- Appointment of Sir George Mathewson as a non-executive director

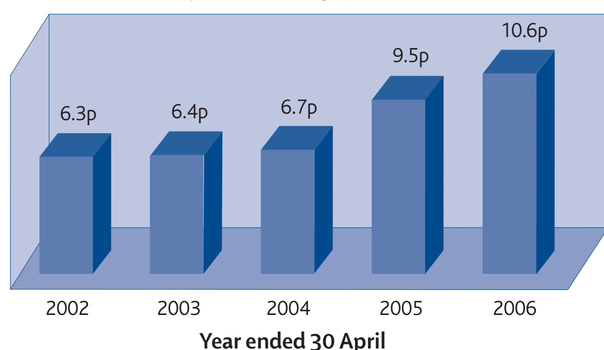
Financial highlights

Results reported under International Financial Reporting Standards ("IFRS") accounting policies

- 11.6% increase in earnings per share, excluding amortisation of intangible assets and exceptional items
- 42.7% increase in basic earnings per share

	Results excluding intangible asset amortisation and exceptional items		Reported results	
	2006	2005	**2006**	2005
Revenue from continuing operations, excluding acquisitions (£m)	**1,530.0**	1,413.4	**1,530.0**	1,413.4
Total operating profit (£m)	**156.6**	153.1	**136.1**	132.9
Profit before taxation (£m)	**140.6**	131.2	**115.0**	104.9
Earnings per share (pence)	**10.6p**	9.5p	**10.7p**	7.5p
Proposed final dividend (pence)	**2.6p**	2.3p	**2.6p**	2.3p
Full year dividend (pence)	**3.7p**	3.3p	**3.7p**	3.3p
Free cash flow (£m)	**175.5**	173.6	**175.5**	173.6
Net debt (£m)	**135.9**	214.6	**135.9**	214.6

Adjusted earnings per share

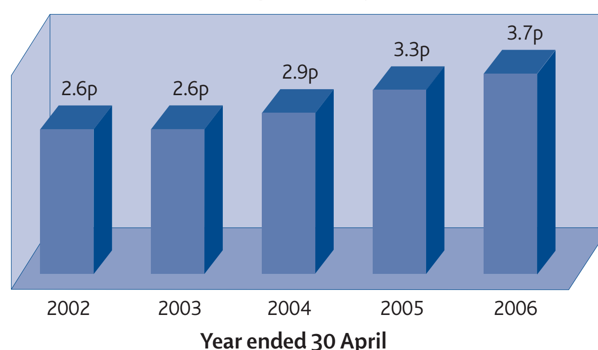


Year ended 30 April

Adjusted earnings per share is earnings per share before the amortisation of intangible assets and exceptional items. 2002 to 2004 are UK GAAP figures and 2005 and 2006 are IFRS figures.

The Group has faced a number of challenges following its acquisition of Coach USA in 1999. Management changes were made in 2002, including Brian Souter's return to the role of Chief Executive. Since 2002, the Group's businesses have been stabilised and management has delivered significant growth in earnings per share as illustrated above.

Dividend per ordinary share



Year ended 30 April

The Group seeks to grow the dividend per ordinary share as earnings grow. Since the restructuring of the Group commenced in 2002, the dividend per ordinary share has grown at an average cumulative annual growth rate of 9.2% and in addition, £241.3m was returned to shareholders in September 2004.

Contents

2 Chairman's statement
3 Chief Executive's review
4 Operating and Financial Review
18 Directors' biographies
19 Directors' report
22 Corporate governance report
26 Audit Committee report
27 Nomination Committee report
27 Health, Safety and Environmental Committee report
28 Remuneration Committee report
35 Group independent auditors' report
36 Consolidated financial statements
95 Company independent auditors' report
96 Company financial statements
103 Shareholder information
104 Five year financial summary

1. Chairman's statement

Stagecoach has achieved another strong set of results as we continue to deliver shareholder value through our successful organic growth strategy in our bus and rail operations in the UK and North America.

We have produced further revenue growth in our continuing businesses and enhanced our reputation for delivering high quality public transport services through market-leading innovation, effective marketing of our products and planning for the future through targeted investment.

During the year ended 30 April 2006, we acquired additional bus operations in the UK with the prospect of attracting even more passengers to our services. Our excellent rail performance, both operationally and financially, has also put us in a strong position when competing for new franchises.

During the year, we completed the disposal of our New Zealand operations and on 23 June 2006, we agreed the conditional sale of our London bus business to Macquarie Bank Limited for £263.6m. The London bus business has been a key part of the Group's success since 1994 and the sales price represents an excellent return for our shareholders. The sale is subject to regulatory approval and other closing conditions, and at the present time, we expect the sale to be completed within three months. In UK Bus, we will continue to pursue our successful growth strategy outside London, where we are leading our peer group in attracting new passengers to public transport.

Cost pressures, including fuel and insurance, remain a challenge for the Group, and we are continuing to manage these as part of our overall cost base. We believe that we have achieved the correct balance of retaining and growing our customer base, while maintaining a financially robust business.

The results for the year ended 30 April 2006 are the first full-year results to be reported in accordance with International Financial Reporting Standards ("IFRS") and the comparative amounts for the year ended 30 April 2005 have been restated accordingly. Group revenue for the year ended 30 April 2006 was £1,568.5m (2005: £1,420.5m). Operating profit before amortisation of intangible assets and exceptional items* was £156.6m (2005: £153.1m). Earnings per share before amortisation of intangible assets and exceptional items were up 11.6% at 10.6p (2005: 9.5p), the fourth year of successive earnings growth following the substantial restructuring of the Group in 2002.

Given the Board of Directors' confidence in the future prospects and financial strength of the Group, we are proposing a final dividend of 2.6p per share (2005: 2.3p), giving a total dividend for the year of 3.7p (2005: 3.3p). This is an increase of 12.1% and based on continued strong, stable cash flows and profits within the business, we will look to continue progressive dividend growth. The proposed final dividend is payable to shareholders on the register at 1 September 2006 and will be paid on 4 October 2006.

Stagecoach has made a promising start to the new financial year to 30 April 2007 and the current trading of the Group remains in line with our expectations. We are confident of achieving our objectives for the year.

At the heart of our strong performance this year have been our employees across all our operations. Their personal commitment to first-class customer service is crucial as we pursue our organic growth strategy. I would once again like to thank all our employees for their continued hard work and support.

I would like to welcome to the Group, Sir George Mathewson, who has joined Stagecoach as a Non-Executive Director. He has a formidable business background, including substantial experience with major UK-listed companies.

Graham Eccles retired as an Executive Director of the Group on 30 April 2006. I am very grateful to Graham for his significant contribution to the Group and to the UK rail industry over many years.

Russell Walls retires by rotation at the next Annual General Meeting due to be held in August 2006, and he has indicated that he does not intend to seek re-election. The Group has benefited significantly over the last six years from Russell's skills and experience. Russell is the Senior Independent Non-Executive Director and the Chairman of the Audit Committee. The Board will determine his successor to each of these roles in due course.

Graham and Russell leave the Group with all our best wishes for the future.

Our Group strategy is driven by innovation and investment, and we will continue to look for opportunities to increase shareholder value by growing our bus and rail businesses in the UK and North America.

Robert Speirs
Chairman

*Exceptional items are defined in note 1 on page 42

2. Chief Executive's review

This has been another excellent year for the Group and we have again achieved our objective of driving growth in our business, both organically and through targeted acquisitions. Our strong performance and success has resulted in independent recognition with Stagecoach companies named Britain's best bus operator and best rail passenger operator.

Stagecoach has further enhanced its reputation for innovation in both the bus and rail passenger transport markets through the development of new products and new ideas to attract more customers to our services.

The Group has been able to largely offset the significant cost pressures, particularly in relation to fuel, being experienced by all bus operators, through its focus on continued revenue growth and close management of controllable costs. The Group anticipates that these costs pressures will continue into the financial year to 30 April 2007 and it will remain proactive in seeking to offset the impact of these costs.

During the year, we made two key acquisitions in our UK Bus business, which have expanded our reach in new areas of the country and brought new opportunities to grow the market for bus travel. The integration of Glenvale Transport in Merseyside and the Traction Group operations in Yorkshire, Lincolnshire and Tayside is progressing well.

Our continued investment in new, accessible vehicles and industry-leading marketing campaigns has resulted in further organic passenger growth in our UK Bus division. Our telemarketing unit, which has been highly successful in attracting thousands of new bus users in the UK, has been expanded this year and we believe this approach can deliver further impressive results.

Our market-leading budget inter-city travel service, megabus.com, has again grown revenue this year, and we are excited by the prospects for our joint venture with ComfortDelGro to provide inter-city coach services in Scotland.

Stagecoach continues to develop productive partnerships with local authorities and this approach has produced passenger volume growth at our regional UK bus companies. We were the most successful of the major UK bus operators in our bids for Government-funded Kickstart schemes this year.

Since the end of the financial year, we have agreed the sale of our London bus operations. Stagecoach has been able to buck the national trend and achieve organic growth in its bus operations both inside and outside London although we believe there will be more moderate levels of growth in London in the future. Against that background, our UK Bus division will focus on less regulated bus operations outside London where we can drive growth through innovation, investment and strong marketing.

Our UK Rail division continues to perform strongly, combining good profitability with excellent operational performance and improved customer satisfaction.

The current South West Trains and Island Line franchises run until February 2007. Stagecoach is one of four remaining bidders for the new South Western franchise, which will combine the operations of South West Trains and Island Line from February 2007. We have transformed the South West Trains franchise, investing in new trains, driving up punctuality and improving customer satisfaction. Building on these achievements, we will submit a powerful, value-for money bid that we believe will put us in a strong position to win the new franchise.

The two Virgin Rail Group ("VRG") franchises, West Coast and CrossCountry, have delivered improved punctuality and customer satisfaction over the last year. Virgin CrossCountry is carrying a record 20m passengers a year, following the replacement of the entire train fleet and improved services and connections. On West Coast, passenger volumes have increased by nearly 40% in the last eight years and there are plans to run an unprecedented 20-minute frequency on the key London-Manchester corridor by 2008.

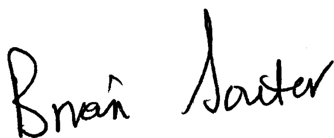
The renegotiation of the West Coast franchise is a central priority for the Group and we have been encouraged by the commitment shown by both VRG's management and the Department for Transport ("DfT") to agreeing revised commercial terms for the period through to 2012. We look forward to these terms being finalised over the next few months, resulting in a sustainable agreement in the long-term interests of passengers, taxpayers and shareholders.

Like the West Coast franchise, Virgin CrossCountry continues to operate on the basis of annual budgets set by the DfT. Stagecoach intends to bid jointly with Virgin for the new CrossCountry franchise when the tender process starts later this year. The new CrossCountry franchise is scheduled to start in November 2007.

Stagecoach is also excited by the opportunities to grow its rail portfolio and we will consider bids for the East Midlands and West Midlands operations when the Government announces its specification for these new franchises.

In North America, we have driven up revenue in our United States and Canada bus operations by concentrating on operational delivery, marketing of our core services, small bolt-on acquisitions and winning and retaining contract business. Despite fuel and insurance cost pressures, we have maintained our market position and we have achieved particularly impressive growth in our sightseeing operations where we have made improved use of online bookings via the Internet.

The tremendous commitment of our employees and managers has been central to the growth of our business over the past year. I believe that, despite significant cost pressures, the Group has the potential to achieve even more in the year ahead.



Brian Souter
Chief Executive

3. Operating and Financial Review

3.1 Statement of compliance

The Operating and Financial Review that follows is intended largely to reflect the recommendations of the Accounting Standard Board's 2006 reporting statement of best practice on the Operating and Financial Review. The statement has only recently been published and we intend to monitor developments in best practice with a view to further tailoring our Operating and Financial Review in the future to enhance its usefulness to readers of the Annual Report.

3.2 Cautionary statement

The Operating and Financial Review has been prepared for the shareholders of the Company, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. This Operating and Financial Review contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward looking statements in this Operating and Financial Review will be realised. The forward looking statements reflect the knowledge and information available at the date of preparation.

3.3 Group business objectives and long-term strategy

3.3.1 Business objectives and long-term strategy

The key elements of Stagecoach Group's business strategy to deliver long-term shareholder value are:

- To deliver organic growth across all of the Group's operations;
- To acquire businesses that are complementary to the Group's existing operations, in areas where the Group's management has proven expertise and which offer prospective returns on capital in excess of the Group's weighted average cost of capital;
- In addition to organic and acquisition growth, to maintain and grow the Group's UK Rail division by bidding for selected rail franchises and to seek to secure new franchises where the risk/return trade-off is acceptable. This part of the strategy includes working with VRG to secure an acceptable renegotiated West Coast Trains franchise.

A fundamental objective underlying this strategy is the continued provision of safe and reliable services to passengers.

Stagecoach Group has demonstrated particular strength in managing bus and coach businesses that operate scheduled services in a relatively deregulated environment. The Group's focus is on operations with critical mass in their own local markets. In rail, Stagecoach's skill centres on organic revenue and passenger volume growth, the management of significant change projects, the delivery of improved operational performance, and driving up customer satisfaction.

3.3.2 Key Performance Indicators

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level. The most important of these KPIs at a Group level focus on five key areas:

- Profitability
- Organic growth
- Safety
- Service delivery
- Staff retention

3.3.2.1 Profitability

The Group seeks to increase long-term value to its shareholders. While the Group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. For the Group as a whole, the key measure of short-term financial performance is earnings per share, before exceptional items and the amortisation of intangible assets ("Adjusted EPS"). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude exceptional items and the amortisation of intangible assets) divided by the weighted average number of ordinary shares ranking for dividend during the relevant period.

Adjusted EPS was as follows:

	Year ended 30 April	
	2006 pence	2005 pence
Adjusted EPS	**10.6p**	9.5p

3.3.2.2 Organic growth

A key element underpinning the Group's strategy is to deliver organic growth in revenue. The following measures of organic growth are monitored in respect of the Group's three divisions:

- UK Bus – growth in passenger journeys (excluding London where Transport for London ("TfL") receives the passenger revenue) measured as the percentage increase in the number of passenger journeys relative to the equivalent period in the previous year.
- Rail – growth in passenger miles measured as the percentage increase in the number of miles travelled by passengers relative to the equivalent period in the previous year.
- North America – growth in US$ revenue from continuing operations measured as the percentage increase in revenue relative to the equivalent period in the previous year.

The measures vary by division reflecting differences in the underlying business – for example, not all passenger revenue in North America is determined on a "per passenger" basis.

All of these growth KPIs involve a degree of estimation in respect of passenger volumes and are normalised to exclude businesses that have not been held by the Group for the whole of both periods. The organic growth KPIs were as follows:

	Year ended 30 April 2006 Growth %
UK Bus passenger journeys	2.1%
UK Rail passenger miles	
– South West Trains	1.3%
– VRG – West Coast	21.3%
– VRG – CrossCountry	4.3%
North America revenue	11.0%

3.3.2.3 Safety

In addition to providing reliable services, we seek to ensure the safety of our passengers, staff and others.

Health and safety matters are discussed on pages 15 and 16 of this Annual Report. Safety is monitored in various ways, including through a range of KPIs. Group level KPIs include the number of passenger injuries per million miles and staff lost time accidents per 100,000 hours worked.

Disposed businesses are excluded from the safety KPIs.

The safety KPIs were as follows:

	Year ended 30 April	
	2006	2005
Passenger injuries per million miles	**1.39**	1.47
Staff lost time accidents per 100,000 hours worked	**0.83**	0.98

3.3.2.4 Service delivery

We aim to provide a reliable service to support our organic growth strategy. Our measures of service delivery include:

- UK Bus – lost mileage measured as the percentage of planned miles to be operated that were not operated.

- Rail – punctuality measured on the basis of the DfT's Public Performance Measure (moving annual average) being the percentage of trains that arrive at their destination within 5 minutes (or 10 minutes for inter-city services) of their scheduled arrival time having called at all scheduled stations.

Due to the nature of the North American business, there is no single measure of service delivery for the North American division as a whole.

The service delivery KPIs were as follows:

	Year ended 30 April	
	2006 **%**	2005 %
UK Bus lost mileage	**0.5%**	0.8%
UK Rail punctuality		
– South West Trains	**90.0%**	82.5%
– VRG – West Coast	**84.2%**	72.5%
– VRG – CrossCountry	**81.3%**	77.5%

3.3.2.5 Staff retention

As noted on page 15, the Group's most important resource is its employees. We monitor staff turnover which is measured as the number of employees who left the Group (other than through business disposals) during the period as a proportion of the total average employees during the period. Staff turnover for the last two years was as follows:

	Year ended 30 April	
	2006 **%**	2005 %
UK Bus staff turnover	**18.1%**	22.4%
UK Rail staff turnover		
– South West Trains	**8.8%**	10.7%
– VRG	**6.2%**	7.7%
North America staff turnover	**21.9%**	24.0%

3.4 Description of the business

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, United States and Canada. The Group, including its London bus operations, employs around 31,000 people, and operates bus, coach, rail, and tram services. The Group has three main divisions – UK Bus, UK Rail and North America.

Stagecoach Group plc is a public limited company that is incorporated, domiciled and has its registered office in Scotland. Its shares are publicly traded and it is not under the control of any single shareholder.

Throughout this Annual Report, Stagecoach Group plc is referred to as "the Company" and the group headed by it is referred to as "the Group".

3.4.1 UK Bus

Our UK Bus division connects communities in more than 100 towns and cities across the country on a network stretching from the Highlands of Scotland to south-west England. It includes major city bus operations in , Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield and Cambridge.

Our UK Bus division, including our London bus business, operates a fleet of more than 8,000 buses across 20 regional companies. Each regional operating company is managed independently and is led by a Managing Director, reporting directly to the head of the UK Bus division.

Stagecoach operates express coach services linking major towns within its regional operating company areas. The Group also runs the market-leading budget inter-city coach service, megabus.com, which has a network covering 40 locations.

Our local and express bus services carry around two million passengers a day in rural and urban areas. Stagecoach's bus and coach services in the UK are operated on a commercial basis in a largely deregulated market. We also operate tendered services, including schools contracts, on behalf of local authorities. In our London bus business, routes are operated under contract to TfL.

3.4.2 North America

Stagecoach is a major provider of transport services in North America where the market is highly fragmented with several thousand operators. Our businesses include commuter services, tour and charter, sightseeing and school bus operations.

The United States business is headed by a Chief Operating Officer. Stagecoach runs around 2,600 vehicles in the United States where our operations are centred on the states of New York, New Jersey, Pennsylvania, West Virginia, Ohio, northern Indiana, northern Illinois and southern Wisconsin. Our services operate in major cities such as New York City, Newark, Pittsburgh, Chicago and Milwaukee.

In Canada, we own four operating companies, which together operate around 500 vehicles in the Provinces of Quebec and Ontario.

3.4.3 UK Rail

Stagecoach Group has major rail operations and has an involvement in operating around a quarter of the UK passenger rail network. The UK rail market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the DfT on the basis of bids by train operators.

The Group's principal wholly-owned rail business is South West Trains, the UK's biggest commuter franchise, which runs around 1,600 trains a day in south-west England out of London Waterloo railway station. The Group's other franchise is Island Line on the Isle of Wight. Both franchises are operated under contract until February 2007. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a 27-year concession running until 2024.

Stagecoach Group's rail division is headed by a Chief Executive, who reports directly to the Group Chief Executive. South West Trains, Island Line and Supertram each has a Managing Director, who reports to the Chief Executive of the Group's rail division, who is also Chairman of South West Trains.

3.4.4 New Zealand

In November 2005, Stagecoach Group sold all of its New Zealand operations to Infratil Limited, a company listed on the New Zealand Exchange that is a specialist investor in infrastructure and utility assets. The New Zealand business operates bus services in the Wellington and Auckland areas of New Zealand, and ferry services in the Auckland area. The net cash inflow from the disposal was £97.9m comprising the consideration of £107.0m less disposal costs of £3.1m and £6.0m of net cash disposed of. The sale resulted in a net gain on disposal of £22.5m.

3.4.5 Joint Ventures

3.4.5.1 Virgin Rail Group

Stagecoach Group has a 49% shareholding in Virgin Rail Group ("VRG"), which operates the West Coast and CrossCountry rail franchises. The other shareholder in VRG is the Virgin Group of Companies. The Chief Executive of Stagecoach Group's Rail division is Joint Chairman of VRG. The joint venture intends to bid for a new expanded CrossCountry franchise, which is being re-tendered by the Government and will run from November 2007. The West Coast franchise runs until 2012 and negotiations are underway to put the franchise, currently run on the basis of budgets set annually by the DfT, back on a commercial basis. Each franchise has a Managing Director, who reports to the VRG board, which includes Stagecoach Group representatives.

3.4.5.2 Scottish Citylink Coaches Limited

In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with transport group ComfortDelGro to operate megabus.com and Scottish Citylink coach services. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading provider of express coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.

3.5 Resources and relationships

3.5.1 Resources

Stagecoach Group has a range of resources that underpin its business and support its strategy. These assist in giving the Group a competitive advantage in the markets in which it operates. We continue to invest in the areas listed below to maintain our position among the market leaders in the public transportation sector.

3.5.1.1 Employees

Stagecoach Group's most important resource is its employees. We seek to recruit and retain the best employees in our sector, offering an excellent package of benefits, which allows us to deliver good customer service to our passengers. The Group's individual divisions invest significantly in the training and development of our people and we operate a successful graduate training scheme which provides one source of training the managers of the future. We also encourage our people to give something back to their local community and many are regularly involved in fundraising, payroll giving and in-kind support to a wide range of good causes. Further information about our commitment to corporate social responsibility is set out on pages 14 to 17.

3.5.1.2 Market research

An important element of the Group's success in growing its customer base lies in a track record of product innovation and new ideas on developing effective public transport systems. The Group invests significantly each year in market research. We have a dedicated telemarketing unit in the UK that communicates with current and non-users to build a detailed profile of what attracts people to use our services.

3.5.1.3 Corporate reputation, brand strength, and market position

Stagecoach is one of the best known public transport operators in the UK and is consistently rated highly for the quality of its services in research by Government and other independent organisations. We value our reputation, both as a public transport provider and as a key part of the communities in which we operate. Stagecoach has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

3.5.1.4 Natural resources and manufacturing technology

Operating our bus and rail services requires considerable use of natural resources, including diesel and electricity. We have arrangements in place to ensure that these resources are sourced as efficiently as possible and that our supplies are maintained to ensure the smooth functioning of our business. A number of experienced manufacturers supply our buses, coaches, trains and trams, which are produced to detailed specifications relevant to the individual markets in which they are required. We have carried out consultation with customer groups to ensure vehicle interiors meet the needs of our passengers.

3.5.1.5 Licences

Various licences are held by Stagecoach giving authority to operate our public transport services and these are maintained up to date as required.

3.5.2 Relationships

Stagecoach Group works closely with a range of bodies in each of the markets where we provide public transport services. Our stakeholders include:

Our People – we have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

Investors and the financial community – our shareholders are critical to our business success. We have a regular programme of meetings with investors and provide frequent updates to the markets and financial community on our performance. We are a constituent of the FTSE4Good index, which sets standards and tracks the performance of the leading socially responsible companies around the globe.

Customers – millions of people use our services every day, including commuters, schoolchildren, concessionary fares passengers and leisure travellers. We conduct extensive customer research to monitor our performance and to determine how we can improve the delivery and accessibility of our services.

Customer Interest Groups – our businesses have a regular and ongoing dialogue with bus and rail user groups. This includes presentations from senior managers on detailed aspects of our service as well as consultation and information sharing on particular issues.

Government – senior executives have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. In the UK, we work closely with the DfT, the Scottish Executive, Transport Scotland, the Welsh Assembly, and TfL.

Transport Authorities – we work closely with local authorities, including Passenger Transport Executives, Regional Transport Committees and Transit Authorities, in the delivery and planning of bus and rail services. Many of our businesses have partnership agreements in place to improve the delivery of public transport in their areas.

Government Advisory Bodies and Lobbying Groups – we also have constructive dialogue with organisations such as the Commission for Integrated Transport, which provides advice to the UK Government, and lobbying groups such as Transport 2000.

Transport and Industry Representation Groups – we are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail) and the Association of Train Operating Companies.

Suppliers – we rely on a range of suppliers to provide goods and services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers.

3.6 Overview of financial results

Stagecoach Group has produced an excellent set of results for the year ended 30 April 2006. Revenue from continuing operations (excluding acquisitions during the year) increased by £116.6m (8.2%) from £1,413.4m to £1,530.0m. Operating profit before exceptional items and intangible asset amortisation has increased from £153.1m to £156.6m.

Revenue by division (excluding the discontinued New Zealand operations) is summarised below:

REVENUE	2006	2005		2006	2005	
	£m		Currency	Local Currency (m)		Growth %
Continuing Group operations						
UK Bus	**775.7**	720.3	£	**775.7**	720.3	7.7
North America	**247.6**	213.7	US$	**439.5**	396.0	11.0
UK Rail	**506.7**	479.4	£	**506.7**	479.4	5.7
	1,530.0	1,413.4				
Acquisitions during the year						
UK Bus – Glenvale	**17.4**	Nil	£	**17.4**	Nil	n/a
UK Bus – Traction	**21.1**	Nil	£	**21.1**	Nil	n/a
	38.5	Nil				
Discontinued Group operations						
North America	**Nil**	7.1	US$	**Nil**	13.1	(100.0)
	Nil	7.1				
Total Group revenue	**1,568.5**	1,420.5				

Operating profit by division (excluding the discontinued New Zealand operations) is summarised below:

OPERATING PROFIT	2006		2005			2006	2005
	£m	% of revenue	£m	% of revenue	Currency	Local Currency (m)	
Continuing Group operations							
UK Bus	**88.6**	**11.4%**	87.7	12.2%	£	**88.6**	87.7
North America – excluding megabus	**17.7**	**7.1%**	15.5	7.0%	US$	**31.5**	28.7
North America – megabus	**(0.8)**	**n/a**	Nil	–	US$	**(1.5)**	Nil
UK Rail	**58.9**	**11.6%**	50.0	10.4%	£	**58.9**	50.0
Group overheads	**(10.0)**		(9.0)				
Restructuring costs	**(1.5)**		(1.4)				
	152.9		142.8				
Acquisitions during the year							
UK Bus – Glenvale	**(2.3)**		Nil				
UK Bus – Traction	**0.4**		Nil				
Joint ventures and associates							
Virgin Rail Group	**5.5**		10.7				
Citylink	**0.1**		Nil				
Other	**Nil**		(0.4)				
Total operating profit before intangible asset amortisation and exceptional items	**156.6**		153.1				
Intangible asset amortisation	**(20.5)**		(18.8)				
Exceptional items (net)	**Nil**		(1.4)				
Total operating profit	**136.1**		132.9				

3.7 Divisional Performance

3.7.1 UK Bus

Revenue in our UK Bus division, excluding acquisitions during the year, has increased by 7.7% to £775.7m (2005: £720.3m) and operating profit* is up to £88.6m, compared to £87.7m in the previous year. Operating margin was 11.4% compared to 12.2% in 2005. We are particularly pleased to report that excluding acquisitions, we have grown operating profit against a background of significant increases in fuel and other costs. In addition, the acquisitions in the year contributed £38.5m of revenue and a £1.9m operating loss.

Investment, innovation and growth

Stagecoach has an excellent track record of operating high-quality bus and coach services. We have delivered further growth in passenger volumes at our UK Bus division during the year as a result of our emphasis on new product development, investment and tailored marketing initiatives. We are attracting more people out of their cars and on to our public transport services and total passenger volumes on a like for like basis, excluding London and megabus.com, were up 2.1%. More than £50m has been spent in the past 12 months modernising our fleet, delivering more low-floor accessible buses and a more comfortable travelling environment for passengers.

We have expanded the reach of our UK Bus operations with the acquisition of two significant independent bus businesses in the past year, Glenvale Transport Limited ("Glenvale") and Traction Group Limited ("Traction Group"). As we anticipated at the time we acquired it, Glenvale has incurred losses as we restructure the operations. Revenue from the date of acquisition to 30 April 2006 was £17.4m and the operating loss was £2.3m. Traction Group, which has operations in Yorkshire, Lincolnshire and Tayside, contributed £21.1m to revenue and made an operating profit of £0.4m in the period since acquisition to 30 April 2006.

megabus.com, our market-leading inter-city bus service now has a network of services covering more than 40 locations in the UK. More modern double-decker coaches and a comprehensive package of press, billboard, radio and web-based marketing have helped drive further passenger growth. Around two million passengers have travelled with megabus.com during the year and we have improved both the average load factor and the average fare.

Provincial and city networks

We have achieved further organic passenger growth in our UK Bus division. Growth in our provincial and city networks has been driven by our focus on customer profiling research and targeted marketing. Our telemarketing unit at our headquarters in Perth has been expanded to launch new campaigns in the UK to encourage non-users to switch to bus travel. These campaigns, which include the offer of a week's free travel and focus in particular on parents and car users, have resulted in significant numbers of non-users switching to the bus.

Impressive passenger volume growth has been achieved in a number of our provincial networks, including Newcastle, Sheffield, Basingstoke, Devon, Thanet, Banbury, Barrow, and Merthyr. We have also achieved further passenger growth in our flagship operations in Cambridge on the "citi" branded network, supported by the introduction of real time information on some services. In Oxford, we have attracted more passengers on our Oxford Tube high-frequency express coach service to and from London and grown our market share on this competitive corridor. In Scotland, we have achieved passenger volume growth of 1.8% in our Western business, which was named 2005 UK Bus Operator of the Year.

The integration of Traction and Glenvale is progressing well. In Merseyside, we are focusing on developing strong core services as well as operating tendered routes on behalf of Merseytravel. We have completed a major vehicle replacement programme, which has resulted in more than half of the Glenvale fleet being upgraded. Following the decision by the Office of Fair Trading not to refer the acquisition of Traction to the Competition Commission, we have made a number of improvements to integrate the business into our UK Bus operations. A new integrated bus and tram network has been launched in Sheffield, delivering cheaper fares and better services to people in the city.

London

In June 2006, the Group agreed the conditional sale of its London bus operations to Macquarie Bank Limited. The business operates bus services in south and south-east London on behalf of TfL. The proceeds are expected to be around £264m and the sale will result in a consolidated net gain on disposal of approximately £120.0m.

Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision for our customers. Strong partnerships are the key to improving services and delivering value for money to taxpayers, a view that has been endorsed by the Government. We welcome the DfT's review of competition arrangements to make it easier to achieve sensible co-operation between operators on timetables and fares where this is in customers' interests. In Scotland and Wales, we continue to work with the devolved administrations to successfully deliver the concessionary fares schemes. We welcome the recent commitment by the Government to introduce a national free travel scheme for the elderly in England from 2008. Our bus companies are also looking forward to building relationships with Transport Scotland, the new National Transport Agency for Scotland, and the regional transport partnerships. Stagecoach is working with a number of local authorities on smartcard, multi-operator ticketing schemes and real time information, in places such as Manchester, Cambridge and south-west England, to make travel easier for passengers. Several of our companies also have close links with businesses and educational establishments to encourage travel by public transport.

Park and ride

We believe there is significant potential to develop park and ride around the UK as a solution to the problem of increasing congestion. Stagecoach is a partner with local authorities in a number of major park and ride sites where there has been significant growth. In November 2005, as part of our dynamic bus strategy for Manchester, we unveiled proposals for a series of park and ride sites at key interchanges on the M60 motorway to help cut city centre congestion and promote bus use. Stagecoach is also investigating the potential of "commercial" park and ride operations around the UK, where the operator would also buy and manage the facility, drawing on experience in the United States.

Kick Start

Stagecoach was the most successful large bus operator in the UK in the latest round of funding allocations from the DfT for Kickstart schemes to fund new bus services. More than 40% of the funding available was allocated to Stagecoach partnership schemes, which was a reflection of our success in using this model to generate organic passenger growth. We are also operating a number of Bus Route Development Grant schemes with support from the Scottish Executive and other initiatives backed by the devolved administration in Wales.

*References to the operating profit/loss or operating margin of a particular business throughout the Operating and Financial Review mean operating profit/loss (or operating margin) before amortisation of intangible assets, exceptional items and restructuring costs.

3.7.2 North America

North American trading continues to be encouraging, despite ongoing cost pressures in relation to fuel and insurance. Cost pressures have resulted in the closure of a number of smaller competitors and in some areas we have been able to absorb the additional customer base.

In March 2006, we launched our budget coach operation, megabus.com, in the United States. Passengers can travel on daily non-stop express coach services between Chicago and other Midwest cities from as low as US$1.

Revenue from North America for the year ended 30 April 2006 was US$439.5m (2005: US$409.1m). On a like for like basis, revenue was up by 9.7%. Operating profit excluding megabus was US$31.5m (2005: US$28.7m), resulting in an operating margin of 7.2%, compared to 7.0% the previous year. Converted to sterling, revenue for the year was £247.6m (2005: £220.8m). Operating profit excluding megabus for the year was £17.7m (2005: £15.5m), and the operating loss of megabus in North America was £0.8m (2005: £Nil), including marketing and other start-up costs.

We continue to experience strong revenue growth in our highly successful sightseeing businesses. The growth has been helped by the introduction of new double-decker buses and improved tours and marketing.

We have also seen further revenue growth in our express, commuter and scheduled airport services.

We have achieved a 100% contract retention rate in the past year and have been awarded a number of new contracts in our Chicago, Wisconsin and Pittsburgh businesses, while our Chicago tour operations have expanded services.

Student transportation services in Wisconsin have continued to grow and we have expanded in the state through the acquisition of a 30-school bus contract.

Charter revenues are up year on year and forward bookings are ahead of the same period last year, assisted by improved online booking capabilities through our redesigned Coach USA website. We have made a small bolt-on acquisition of a charter business in southern Pennsylvania. During the year, we closed some small under-performing charter locations in western New York State and reduced our casino services.

In Canada, revenue has grown by more than 25% despite a very competitive environment. Significant new contracts have been secured with the Greater Toronto Airports Authority and strong growth has also been achieved in transit contracts.

3.7.3 UK Rail

The Group's rail division has had another excellent year, with continued growth in revenue, including strong season ticket sales.

Revenue from our UK Rail subsidiaries for the year ended 30 April 2006 was up by 5.7% to £506.7m (2005: £479.4m). Operating profit increased to £58.9m (2005: £50.0m), with an operating margin of 11.6% (2005: 10.4%). Revenue was adversely affected by the terrorist attacks in London in July 2005, particularly revenue from off-peak travel. The impact on profit was less significant due to the revenue and profit share arrangements that South West Trains has with the DfT.

The reported operating profit is are after deducting £66.7m (2005: £46.0m) of amounts payable to the DfT under the revenue and profit sharing arrangements at South West Trains.

Rail bid costs of £11.7m (2005: £3.0m) were expensed during the year ended 30 April 2006 in arriving at the UK Rail operating profit of £58.9m (2005: £50.0m). These were principally in relation to the ongoing work on the bid for the South Western franchise and the unsuccessful bids on the Greater Western, Great Northern/Thameslink and Integrated Kent franchises.

South West Trains

South West Trains was named Passenger Operator of the Year and Rail Business of the Year within the past 12 months, reflecting our commitment to excellence. Recent operational performance at what is arguably the UK's biggest and most complex franchise is amongst the best achieved by train operating companies in London and the South East, with 90% of trains arriving on time (punctuality measured on the basis of the DfT's Passenger Performance Measure – see section 3.3.2.4 for the definition of this measure).

Providing a clean, safe, punctual and reliable service has resulted in the highest ever overall passenger satisfaction ratings achieved to date at South West Trains, jumping from 78% last spring to 83% in Spring 2006 (measured as the percentage of passengers surveyed who were satisfied with their overall journey experience).

In the last year, together with third parties, we have invested more than £7m in station refurbishments and security enhancements across the South West Trains' network.

megatrain.com, our budget rail service offering seats on off-peak services from just £1 plus booking fee, has attracted 50,000 passengers since we launched the first two trial routes in November 2005. The service has proved extremely successful in making the most efficient use of the capacity on the rail network. megatrain.com was extended to seven additional locations on the South West Trains network in April 2006, offering 5,000 cheap seats a week, and since June 2006, megatrain.com has started selling tickets on more than a fifth of all Virgin CrossCountry services. We are in discussions with the DfT about making the megatrain.com pilot project permanent.

South West Trains continues to work hard to maximise capacity on the network. We have entered into a lease for a further 17 Desiro class 450 trains, which will provide an extra 4,500 seats during peak times, and all units are expected to be in passenger service by the end of the franchise. Agreement has also been reached to lease nine three-car Class 158 trains to replace existing two-car trains on the West of England line, with the first of these expected to enter service in October 2006.

The £67m refurbishment of the Class 455 fleet operating on suburban routes is progressing well. The partnership project with the DfT, TfL, Porterbrook and Bombardier is expected to be completed by Spring 2008, delivering improved reliability and better passenger circulation due to the revised internal layout of the units.

Island Line

Island line became the first rail operation in the UK to be designated as a Community Rail route by the DfT in March 2006. Designation changes the approach to running the line, with greater emphasis on local management and meeting local needs. Various initiatives have been and are being implemented on this line, including additional car parking and a park and ride scheme. Separately, Island Line is being assisted by South West Trains on a project to modernise its ticketing machines.

Supertram

Passenger volumes at Sheffield Supertram continue to grow and the tram operation is now carrying a record 13 million people a year. A major three-year project has been launched to refresh the livery and interiors of the 25-strong tram fleet and the first of the improved vehicles entered service in January 2006. The programme will improve comfort and accessibility for passengers, as well as help to maintain the fleet's high standard of reliability. Stagecoach launched a new integrated tram and bus network in Sheffield in May 2006, offering joint tram and bus ticketing. Further marketing activity has focused on students and an improved website.

Rail franchising opportunities

Stagecoach is delighted to have been shortlisted for the new South Western franchise, which runs from February 2007 and is made up of the current South West Trains and Island Line networks. We believe our record of achievement at South West Trains will enhance the Group's bid for the new franchise. Passengers are benefiting from record investment in new trains, consistently high operational performance, as well as innovation with new ideas such as our budget train service, megatrain.com. We are delivering for passengers, taxpayers and our shareholders, and we will be submitting innovative and competitive proposals to the Government by 30 June. A final decision is expected from Government in Autumn 2006.

We were disappointed that our bids for the Thameslink/Great Northern and Greater Western franchises and our joint bid with DSB for the Integrated Kent franchise were unsuccessful. However, we will continue to bid for future rail franchises on what we believe to be an acceptable risk profile, offering good value for both the Government and our shareholders. We are excited by the opportunities to grow our rail portfolio, which include the new East Midlands and West Midlands franchises. Stagecoach also plans to bid jointly with Virgin for the new CrossCountry franchise when it is tendered later this year. All three of these new franchises are expected to commence in November 2007.

3.7.4 New Zealand

The results of the discontinued New Zealand division are included within the profit for the year from discontinued operations line on the face of the income statement with the prior year comparative results also reclassified to this line. The disposed New Zealand operations contributed profit after taxation of £4.3m (2005: £7.3m) to the overall Group profit. The disposal of New Zealand also resulted in a gain of £22.5m in the current year.

3.7.5 Joint Ventures

3.7.5.1 Virgin Rail Group

Our share of VRG's revenue for the 12-month period amounted to £357.4m (2005: £315.2m) and our share of profit after finance income and taxation was £5.5m (2005: £10.7m). Of this, operating profit was £5.3m (2005: £14.2m), net finance income was £1.7m (2005: £1.7m) and the net tax charge was £1.5m (2005: £5.2m).

Both of VRG's franchises currently operate on the basis of annual budgets set by the DfT whereby the franchises earn a specified profit before tax margin. VRG's negotiations with the Government over new commercial terms for the West Coast franchise that extends through to 2012 are progressing well and we look forward to an agreement being reached later this year. Our objective is to secure an arrangement which is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

In our announcement of our interim results for the six months ended 31 October 2005, we explained that the results included the benefit of additional financial support that VRG expected to receive from the DfT. We are pleased to report that VRG and the DfT have now agreed the total financial support for VRG's financial year to 4 March 2006 and the DfT has now paid this in full to VRG.

Passenger numbers are continuing to grow on West Coast, with annual journeys now approaching 19 million – an increase of 20% on the previous year. Revenue has also increased significantly as the improved performance of the Pendolino trains continue to generate new traffic. VRG has been particularly successful in competing with the airlines on the key London–Manchester route. Over the last two years, rail's share of the combined rail/airline market has increased from one third to around two thirds on that route. Customer service has also improved and, in the latest National Passenger Survey (Spring 2006), 90% of passengers were satisfied with their overall journey experience.

The Virgin CrossCountry franchise has grown passenger journeys by 7% over the past year and now carries in excess of 20 million passengers a year. Customer satisfation has been further improved and in the latest National Passenger Survey (Spring 2006), 84% of passengers were satisfied with their overall journey experience.

The Government announced in October 2005 that a new CrossCountry franchise would be created by incorporating the current Central Trains inter-regional routes into the existing CrossCountry network. As part of the re-mapping process, the DfT also announced its decision to re-let the CrossCountry franchise and the pre-qualification process is expected to begin in the summer of 2006. Stagecoach and Virgin plan to submit a joint bid for the franchise through VRG. Based on its strong track record of passenger growth and performance improvements, we believe VRG will be well placed to win any tender for the new CrossCountry franchise.

3.7.5.2 Scottish Citylink Coaches Limited

We are excited by the prospects for our joint venture with ComfortDelGro to operate inter-city coach services in Scotland, which we believe can compete strongly with existing rail services and attract car users to public transport.

Our share of Scottish Citylink Coaches Limited's ("Citylink") revenue from the inception of the joint venture in September 2005 to 30 April 2006 amounted to £3.8m and our share of operating profit was £0.1m. The business is seasonally strongest over the Summer and therefore these results do not reflect the most profitable part of the year.

The Office of Fair Trading decided in March 2006 to refer the Citylink joint venture to the Competition Commission. While we were surprised and disappointed at this decision, we are assisting the Commission with its enquiries and have had positive discussions to date. We are confident that the Commission will realise the main competition to the coach is the car and inter-city rail services and that the joint venture can deliver the biggest improvement to inter-city coach services in Scotland in years.

3.8 Other financial matters

3.8.1 Depreciation and amortisation

Earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items from continuing businesses (pre-exceptional EBITDA) amounted to £225.1m (2005: £219.4m) and is analysed in note 2(f) to the consolidated financial statements. Total depreciation for the year was £68.7m (2005: £62.8m). Amortisation of intangible assets increased from £18.8m to £20.5m. This principally reflects the charge in relation to new intangibles acquired this year coupled with the full year effect of the charge in relation to intangibles acquired during the course of last year partly offset by the decrease in the goodwill charge for VRG which totalled £13.1m (2005: £14.7m).

During the year ended 30 April 2005, the Directors reviewed the period over which the goodwill in respect of VRG was being expensed, in light of the status of negotiations on VRG's franchises. As a result, it was decided that the expensing of goodwill in respect of VRG should be accelerated. This led to an increased charge in the six months to 30 April 2005 and the six months to 31 October 2005 with goodwill charges in the six months to 30 April 2006 reducing as a result of this previous acceleration. Although IFRS 3 'Business Combinations' does not generally allow the amortisation of goodwill, the West Coast and CrossCountry train franchises that VRG operates have finite lives therefore the goodwill is charged to the income statement in line with the remaining term of these franchises.

Amortisation of £2.9m (2005: £2.9m) was charged on the intangible asset that arises from the Group's right to operate its rail franchises, £2.0m (2005: £1.1m) was charged in relation to non-compete contracts, £2.4m (2005: £Nil) was charged in relation to customer contracts acquired as part of business combinations and £0.1m (2005: £0.1m) was charged in relation to software costs.

3.8.2 Exceptional items

The definition of exceptional items is contained within note 1 to the consolidated financial statements on page 42.

A net exceptional gain before tax of £17.4m (2005: loss of £7.5m) was recorded. This comprised a gain on the sale of the New Zealand division of £22.5m, a net loss in respect of other disposed and closed operations of £7.0m, a gain on sale of other investments of £1.1m and a gain on the sale of properties of £0.8m.

A tax credit of £2.8m (2005: £1.6m) was recognised in respect of exceptional items resulting in net exceptional gains after tax of £20.2m (2005: loss of £5.9m).

3.8.3 Net finance costs

Net finance costs decreased from £21.9m to £16.0m as a result of a lower average net debt during the year. The ratio of pre-exceptional EBITDA from continuing businesses to net finance charges was 14.1 times compared to 10.0 times in 2005, reflecting the reduced finance costs.

3.8.4 Taxation

The tax charge and the effective tax rate for the year is analysed in the table on page 11.

Including the tax charge that is presented as a component of the share of profit from joint ventures but excluding any tax in relation to discontinued operations, the tax charge for the year of £27.9m (2005: £30.5m) represented an effective tax rate of 23.9% (2005: 27.7%). The equivalent effective tax rate before the amortisation of intangible assets and exceptional items was 23.2% (2005: 24.3%).

TAXATION	2006			2005		
	Pre-tax profit £m	Tax £m	Effective Rate %	Pre-tax profit £m	Tax £m	Effective Rate %
Excluding intangible asset amortisation and exceptional items						
– Before joint ventures	**135.0**	**(31.4)**	**23.3%**	120.5	(28.0)	23.2%
– Joint ventures	**7.1**	**(1.5)**	**21.1%**	15.9	(5.2)	32.7%
	142.1	**(32.9)**	**23.2%**	136.4	(33.2)	24.3%
Intangible asset amortisation	**(20.5)**	**2.2**		(18.8)	1.1	
Exceptional items	**(5.1)**	**2.8**		(7.5)	1.6	
	116.5	**(27.9)**	**23.9%**	110.1	(30.5)	27.7%
Joint venture tax	**(1.5)**	**1.5**		(5.2)	5.2	
Reported in income statement	**115.0**	**(26.4)**		104.9	(25.3)	

The above table excludes the profit and tax in respect of discontinued New Zealand operations.

3.8.5 Earnings and dividends

Overall earnings per share before intangible asset amortisation and exceptional items increased by 11.6% to 10.6 pence, compared to 9.5 pence in 2005, reflecting the strong trading performance. Basic earnings per share (taking account of all exceptional items and intangible asset amortisation) were 10.7 pence (2005: 7.5 pence).

Dividend cover (before intangible asset amortisation and exceptional items) was 3.1 times (2005: 3.0 times). The total proposed dividend in respect of ordinary shares for the year is 3.7 pence (2005: 3.3 pence).

3.8.6 Liquidity

The Group has complied with all of its banking covenants throughout the financial year. The Group is subject to certain market standard banking covenants which include a limit on the level of net debt compared to EBITDA.

As at 30 April 2006, the Group's committed credit facilities were £644.3m (2005: £688.8m), £295.1m (2005: £327.4m) of which were utilised, including utilisation for the issuance of bank guarantees, bonds and letters of credit. These facilities include £375.0m of bank facilities maturing in 2009.

The Group's liquidity position improved during the year following the cash received in relation to the disposal of the New Zealand division offset by the cash cost of the acquisitions of Glenvale and Traction.

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The rail operations maintain cash balances to meet working capital requirements and the franchise agreement restrict the transfer of this cash: unless DfT consent is obtained, cash can only be transferred by loan or dividend to the extent that the relevant train operating company has distributable profits.

Had the Group's rail franchises ended on the balance sheet date, consolidated net debt would have increased by £122.7m (2005: £95.2m) as a result of train operating company cash of £89.2m (2005: £61.3m) and the repayment of inter-company loans of £36.7m (2005: £35.1m) offset by distributable reserves of £3.2m (2005: £1.2m).

£33.0m (2005: £33.5m) of cash is held as collateral against a bank guarantee issued in relation to £37.7m (2005: £38.3m) of the Group's loan note holders and £0.8m (2005: £0.8m) is held in relation to North America restricted cash balances.

The Group is able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has an investment grade rating which should allow it access at short notice to additional bank and capital markets debt funding.

3.8.7 Shares in issue

The weighted average number of ordinary shares during the year used to calculate basic earnings per share was 1,075.8m (2005: 1,154.5m). The number of shares ranking for dividend at 30 April 2006 was 1,088.3m (2005: 1,063.0m), with a further 5.3m (2005: 6.5m) of ordinary shares held by employee trusts and not ranking for dividend.

The Group has authority to repurchase 107,675,827 ordinary shares. This authority expires at the 2006 AGM and shareholders will be asked to renew the general authority to repurchase up to 10% of the issued ordinary share capital.

3.8.8 Net assets

Net assets at 30 April 2006 were £211.6m (2005: £115.4m) with the increase principally reflecting the strong reported profit for the year of £115.4m, which includes the gain on sale of the Group's New Zealand division.

3.8.9 Retirement benefit obligations

The reported net assets of £211.6m (2005: £115.4m) are after taking account of retirement benefit obligations of £222.2m (2005: £220.9m) and related deferred tax assets. The overall increase in these obligations of £1.3m includes net obligations of £21.5m in respect of the defined benefit pension schemes of companies acquired during the year. Excluding the impact of these acquisitions, the retirement benefit obligations fell by £20.2m during the year.

Of the total retirement benefit obligations, £176.3m (2005: £160.3m) relates to the Stagecoach Group Pension Scheme ("SGPS"). The Group will make additional pension contributions prior to the planned sale of its London bus operations, which will reduce retirement benefit obligations by approximately £60.0m.

3.8.10 Cash flows

The strong cash generative nature of the Group is once again highlighted by free cash flow of £175.5m (2005: £173.6m). Net cash outflows from investing activities were £9.9m (2005: £50.8m), including £104.4m (2005: £14.7m) of cash inflows from the disposal of subsidiaries and other businesses, which for the year ended 30 April 2006 primarily related to the disposal of our New Zealand division.

3.8.11 Net debt

IFRS does not explicitly define net debt. The Group will therefore continue to use the UK GAAP definition of net debt.

Net debt decreased from £214.6m at 30 April 2005 to £135.9m at 30 April 2006. This decrease reflects the benefit of ongoing cash generation from our core operations coupled with the disposal of the New Zealand division. Offsetting this is the redemption of the remaining redeemable 'B' preference shares of £13.9m and the £48.6m impact from acquisitions of subsidiaries.

The impact of purchases of property, plant and equipment (excluding those acquired as part of business combinations) for the year on net debt was £102.6m (2005: £99.7m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £91.9m (2005: £73.5m) and new hire purchase debt of £10.7m (2005: £26.2m).

3.8.12 Capital Expenditure

Additions to property, plant and equipment (excluding those acquired as part of business combinations) for the year were:

	2006	2005
	£m	£m
UK Bus	**73.2**	51.4
North America	**25.5**	33.8
UK Rail	**1.9**	7.5
Discontinued operations	**3.2**	10.8
	103.8	103.5

The differences between the amounts shown above and the impact of capital expenditure on net debt arose from movements in fixed asset deposits and creditors.

Capital expenditure in the year ending 30 April 2007 is anticipated to be of an amount similar to that reported above. Capital expenditure in the longer-term is expected to moderate but to remain in excess of depreciation.

3.8.13 Acquisitions and disposals

The Group acquired the entire share capital of Glenvale on 12 July 2005. The consideration paid for the shares was £3.4m in cash and the Group assumed the net debt of Glenvale at acquisition totalling £7.8m. The fair value of the net liabilities acquired totalled £6.4m (including the £7.8m of assumed net debt) resulting in goodwill of £9.8m. In the period from acquisition to 30 April 2006, Glenvale contributed £17.4m to revenue and made an operating loss of £2.3m.

On 12 September 2005, the Group acquired 35% of the share capital of Citylink in return for transferring certain rights to the Motorvator and megabus.com operations in Scotland. Stagecoach accounts for its investment in the combined business as a joint venture. In the period from creation to 30 April 2006, the joint venture made a £0.1m contribution to the Group's operating profit.

On 14 December 2005, the Group acquired the entire share capital of Traction. The consideration paid for the shares was £26.0m, which was satisfied by £21.5m in cash and the issue of 4,022,070 Stagecoach ordinary shares of 12/19th pence each. Stagecoach has assumed Traction's net debt of £11.0m. The fair value of the net assets acquired totalled £17.8m (including the £11.0m of assumed net debt) and acquisition costs of £0.4m were incurred resulting in goodwill of £8.6m. In the period from acquisition to 30 April 2006, Traction contributed £21.1m to revenue and made an operating profit of £0.4m.

On 29 November 2005, the Group disposed of its entire New Zealand operations to Infratil Limited, a company listed on the New Zealand Exchange that is a specialist investor in infrastructure and utility assets. The net cash inflow from the disposal was £97.9m comprising the consideration of £107.0m less disposal costs of £3.1m and £6.0m of net cash disposed of. After transaction costs and the impact of the Group's foreign exchange hedges, the disposal resulted in a gain of £22.5m. Operating profit of £5.5m (2005: £8.7m) was reported in respect of the New Zealand division in the period from 1 May 2005 to the date of disposal, and was included within "profit for the year from discontinued operations" in the consolidated income statement.

3.8.14 Capital

The Group regards its capital as comprising its equity, cash, borrowings and any similar items. As at 30 April 2006, the Group's capital comprised:

	2006	2005
	£m	£m
Market value of ordinary shares in issue	**1,183.8**	1,101.6
Cash	**198.5**	140.0
Borrowings	**(334.4)**	(354.6)
Net debt (see section 3.8.11)	**(135.9)**	(214.6)

The Group manages its capital centrally and its objective in managing capital is to optimise the returns to its shareholders whilst safeguarding the Group's ability to continue as a going concern and as such its ability to continue to generate returns for its shareholders. The Group also takes account of the interests of other stakeholders when making decisions on its capital structure.

The capital structure of the Group is kept under regular review and will be adjusted from time to time to take account of changes in the size or structure of the Group, economic developments and other changes in the Group's risk profile. The Group will adjust its capital structure from time to time by any of the following: issue of new shares, dividends, return of capital to shareholders and borrowing/repayment of debt. There are a number of factors that the Group considers in evaluating capital structure, including the likely funding requirements for retirement benefit obligations and maintaining the Group's investment grade credit rating. The principal ratios that the Directors consider are (1) Net Debt to EBITDA, (2) EBITDA to interest and (3) Net Debt to market capitalisation. It is a matter of judgement as to what the optimal levels are for these ratios.

3.8.15 Treasury policies and objectives

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

Treasury risk management

For details of the Group's treasury risk management see note 27 to the consolidated financial statements.

Liquidity and funding

The policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

Fuel hedging

For details of the Group's fuel hedging see note 27 to the consolidated financial statements.

Currency rate risk

For details of how the Group manages currency rate risk see note 27 to the consolidated financial statements.

Credit risk

For details of how the Group controls credit risk see note 27 to the consolidated financial statements.

Major financing transactions

During the year the Group entered into various hire purchase and finance lease arrangements as described in note 31 to the consolidated financial statements.

Interest rate risk management

For details of how the Group manages interest rate risk see note 27 to the consolidated financial statements.

3.8.16 Critical accounting policies

The Group's material accounting policies are set out in note 1 to the consolidated financial statements.

Preparation of the consolidated financial statements in accordance with IFRS requires directors to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual outcomes could differ from those estimated.

The Directors believe that the accounting policies discussed below represent those accounting policies that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to our reported results. The discussion below should be read in conjunction with the full statement of accounting policies.

Goodwill and impairment

In certain circumstances, IFRS requires property, plant and equipment, intangible assets and goodwill to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant cash-generating unit ("CGU") or net realisable value, if higher. The discount rate applied in determining the present value of future cash flows is based on the Group's estimated weighted average cost of capital with appropriate adjustments made to reflect the specific risks associated with the CGU. Estimates of cash flows are consistent with management's plans and forecasts. The estimation of future cash flows and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Insurance

The Group receives claims in respect of traffic incidents and employee incidents. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies. Provision is made for the estimated cost to the Group (net of insurance recoveries) to settle claims for incidents occurring prior to the balance sheet date. The estimation of the balance sheet insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The eventual settlements on such claims may differ from the amounts provided for at the balance sheet date. This is of greater risk in "younger" operations with a shorter claims history from which to make informed estimates of provisions.

Taxation

The Group's tax charge is based on the pre-tax profit for the year and tax rates in force. Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities. Assessment of the likely outcome is based on historical experience, professional advice from external advisors, and the current status of any judgemental issues. However, the final tax cost to the Group may differ from the estimates.

Pensions

The determination of the Group's pension benefit obligation and expense for defined benefit pension plans is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 26 to the consolidated financial statements and include among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future salary levels. A portion of the plan assets is invested in equity securities. Equity markets have experienced volatility, which has affected the value of the pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

Property, plant and equipment

Property, plant and equipment, other than land, are depreciated on a straight-line basis to write off the cost or valuation less estimated residual value of each asset over their estimated useful lives. Useful lives are estimated based on a number of factors, including the expected usage of the asset, expected deterioration and technological obsolescence. If another depreciation method (for example, reducing balance) was used or different useful lives were applied, this could have a material effect on the Group's depreciation charge and net profit.

3.9 Current trading and outlook

The current financial year to 30 April 2007 has started well and trading is in line with our expectations.There are a number of exciting opportunities across the Group and we are confident of achieving our objectives for the year.

3.10 Principal risks and uncertainties

Like most businesses, there are a range of risks and uncertainties facing the Group and the matters described below are not intended to be an exhaustive list of all possible risks and uncertainties.

Generally, the Group is subject to risk factors both internal and external to its businesses. External risks include global political and economic conditions, competitive developments, supply interruption, regulatory changes, foreign exchange, materials and consumables (including fuel) prices, pensions funding, environmental risks, strikes and litigation. Internal risks include risks related to capital expenditure, acquisitions, regulatory compliance and failure of internal controls. Details of risk management procedures are given on pages 24 and 25.

The focus below is on those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's long-term performance.

3.10.1 Sustainability of rail profits

A significant element of the Group's revenues and profits are generated by UK rail franchises. There is a risk that the Group's revenues and profits could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises.

In particular, the Group operates the South West Trains and Island Line franchises, which end in February 2007. The Group is one of four remaining bidders short-listed in the tender for a new South Western franchise that will replace the South West Trains and Island Line franchises. There is a risk that the Group does not win the new franchise or wins it on less favourable terms than at present. The successful bidder is due to be announced later in 2006. If the Group wins the new franchise, the Directors expect profits from the new franchise to be less than those earned by the equivalent existing franchises.

The Group's joint venture, Virgin Rail Group, operates the CrossCountry rail franchise (due to be re-tendered for a new franchise to run from November 2007) and the West Coast rail franchise, which is currently being renegotiated. There is a risk that Virgin Rail Group does not win the new CrossCountry franchise or wins it on unfavourable terms. There is a further risk that Virgin Rail Group is unable to renegotiate the West Coast franchise or renegotiates it on unfavourable terms.

There are opportunities for the Group to win new franchises, including the West Midlands franchise and the East Midlands franchise which are due to be tendered with a view to new franchises running from November 2007.

In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises, including the new South Western franchise. Appropriately experienced personnel are retained to work on rail bids and third party consultants are engaged to provide additional expertise. The Board approves the overall rail bidding strategy and the key parameters for each bid.

3.10.2 Breach of franchise

The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The Group may also lose some or all of the amounts set aside as security for the performance bonds and the season ticket bonds. As the holder of a 49% joint venture interest in Virgin Rail Group, the Group has less control over the joint venture's operations and that means the Group's management may be less able to prevent a breach of the Virgin Rail Group franchise agreements.

Compliance with franchise conditions are closely managed and monitored and procedures are in place to minimise the risk of non-compliance.

3.10.3 Pension scheme funding

The Group participates in a number of defined benefit pension schemes. There is a risk that the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies.

Decisions on pension scheme funding, asset allocation and benefit promises are taken by management in consultation with the pension scheme trustees, trade unions and suitably qualified advisors. A Pensions Oversight Committee has been established comprising the Finance Director, a Non-Executive Director and other senior executives, to oversee the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.

3.10.4 Insurance and claims environment

The Group receives claims in respect of traffic incidents and employee claims. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" on insurance policies.

There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. In the US, in particular, there is a risk given the size of the "excess", that a small number of large-value claims could have a material impact on the Group's financial performance.

The Group has a proactive culture that puts health and safety at the very top of its agenda and this helps mitigate the potential for claims arising. Further details on the Group's management of health and safety are provided on pages 15 and 16.

Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.

3.10.5 Regulatory changes and availability of public funding

Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects.

Similarly, many of the Group's businesses benefit from some form of financial support from government including direct financial support, government contracts and concessionary fare schemes. There is a risk that the availability of sufficient government financial support differs due to regulatory or other changes.

Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in various industry and national trade bodies along with domestic and international government forums. The Group seeks to maintain good, co-operative relationships with all levels of government, including the introduction of ideas that offer cost-effective ways of improving public transport.

3.10.6 Management and Board succession

Whilst the Group currently has sufficient personnel to manage its business, there is a risk that this does not remain the case.

Succession planning for the Directors and senior management is a key issue and as such is considered by the Nomination Committee and the Board. The appropriate level of management deals with recruitment and retention of other staff.

3.10.7 Catastrophic events

There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises.

The Group has a proactive culture that puts health and safety at the very top of its agenda in order to mitigate the potential for major incidents. In the unlikely event that a major incident did occur, the Group has procedures in place for responding to such incidents.

3.10.8 Treasury risks

Details of the Group's treasury risks are discussed in note 27 to the consolidated financial statements, and include the risks arising from movements in fuel prices.

3.11 Corporate social responsibility

Stagecoach Group takes its corporate responsibilities seriously and the responsible way we do business is firmly embedded in our Group's culture. From our approach to safety and the environment, to how we treat our people, our customers, our local communities and other key stakeholders, we have a very clear set of values.

As well as providing a range of economic and environmental benefits, our bus and rail services help promote social inclusion and bring people together. We are committed to encouraging more people to use public transport. This is central to our growth strategy, to the future success of our Group, and also important to the future of the communities in which we operate around the world. We have the same long-term goal of sustainable development as our stakeholders and it is in our collective interest to have an ongoing dialogue on how that can best be achieved.

Our Code of Business Conduct, which can be found on our website at www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf, confirms our core values and policies in a number of areas: how we deal with our employees, suppliers, customers, competitors, and the wider communities in which we work. These values apply to every director, manager and employee in all our companies across our global operations.

It is one thing to have a vision, but how that vision is implemented is equally important. Like any business in any sector, we can get better. We are continually striving to improve our policies, practices and service delivery to make an increasingly positive impact on society and the environment. Building trust with our stakeholders in the wider community is vital and providing clear information on our progress and performance is part of that process.

Stagecoach has put in place a number of performance indicators that reflect our engagement with a range of stakeholders and these are tracked on a regular basis.

3.11.1 Stakeholders

Stagecoach Group works in partnership with a range of bodies in each of the markets where we provide public transport services.

Further information on our stakeholders and how we build relationships with them can be found on page 6.

3.11.2 Our People

Stagecoach is a people business and it is the quality of our employees that ensure we can deliver a first-class quality of service day in, day out. They are crucial to our objective of attracting more people to public transport. None of this happens by chance. We invest significant time and resources to ensure we have the right people on board to deliver what our customers need.

We respect and value our staff, and we have a strong commitment to equal opportunities and partnership working with trade unions.

As a major employer, we also recognise the need for ongoing training and development, not just so our people can do their job, but so they can develop individually. In our UK Bus division, we have one of the best vocational training programmes of any UK Bus operator, designed to raise standards among and recognise the key contribution of our drivers. To date, some 60.9% of our UK Bus drivers have either achieved or are working towards the S/NVQ qualification. Our close focus on recruitment and retention has resulted in achieving a full complement of drivers. This has been assisted by improved pay, better training and mentoring schemes.

South West Trains achieved Investors in People status in September 2005 as a result of its huge investment in its employees to ensure they have the right skills, knowledge, experience and behaviour to provide a first-class service to passengers. South West Trains' centralised Recruitment Centre and the state of the art Operations Training Centre are continuing to deliver benefits to our employees and better service to our customers. South West Trains also has in place vocational training, support for managers, employee recognition programmes and round-the-clock open learning access for its staff.

In North America, we have set up a centralised driver training school, which has improved our recruitment and training processes. Our Canadian business has focused closely on improved screening of job applicants prior to training and this has resulted in improvements in the quality of employees recruited.

We are also looking to develop the managers of the future through our graduate recruitment initiative at Stagecoach UK Bus and South West Trains. Our engineering apprenticeship programme in the UK promotes careers through local schools and career development agencies. We have also worked closely with government-funded enterprise agencies to get the long-term unemployed back into work, because many have vital skills that are being overlooked.

Stagecoach wants to be there to help our people when they need it most. For example, at South West Trains we have a partnership with Care First, which offers an employee assistance programme that includes a 24-hour confidential counselling service and legal helpline.

We are one of a number of employers across the UK involved in a pilot scheme to research and test various ways to improve financial capability in the workplace. The multi-agency project - co-ordinated by the Financial Services Authority ("FSA"), the independent financial watchdog - involves offering our staff one to one surgeries and hard copy material. The workplace is seen as an ideal way to get information and education on finance to adults and active participation by employers is vital.The pilot is part of a national strategy to improve access to information, advice and personal finance education, so that consumers are better equipped to make sound choices when looking after their money and their future financial security.

3.11.3 Accessibility

We recognise that every customer we serve has their own specific individual needs and accessibility is a key factor in providing attractive public transport services. As far as possible within the resources we have available, we are continuing to make it easier for people to use our bus and rail services. This includes tailoring our network and frequency of services to meet demand.

We have made further progress during the year on our long-term programme to ensure all our buses in the UK are fully low-floor. We have announced a further investment in new accessible vehicles in the UK for the year ending 30 April 2007. We are also helping provide demand responsive transport services in the UK, which are meeting the needs of those with mobility problems who require a service from their front door.

Significant investment is also taking place in our North American business, where we continue to lead the industry in terms of accessibility. As well as introducing new coaches that meet the Americans with Disabilities Act legislation, we have an ongoing programme to retro-fit coaches with lifts each year.

On the South West Trains network, we provide station-based ramps to enable wheelchair users to board and alight trains with maximum convenience.To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis to and from stations with step-free access at no extra charge.

Access for all is also about staff training and we continue to maintain links with disability groups to ensure both the needs of our passengers and employees are considered. At Sheffield Supertram, for example, the first of our trams have been refreshed with textured grab rails and improved seating layouts to help passengers with visual impairment. We are also currently undertaking trials of new higher visibility destination blinds and investigating the potential for automated public address announcements.

Many people now access transport information online and our award-winning Stagecoach Group website, www.stagecoachgroup.com, has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind.

3.11.4 Health and Safety

As a major international public transport operator, a commitment to the highest standards of safety is at the heart of our business. We strictly adhere to legislative regulations in all our areas of operation. Breach of these regulations could result in criminal and/or civil legal proceedings, fines and potential loss of contracts and licences to operate. Stagecoach has an excellent safety record and we have a proactive culture across the Group that ensures the health and safety of our customers and our employees is our top priority. Health and safety is monitored and reported on across Stagecoach Group and immediate action is taken to address issues in our business processes. We have a Health, Safety and Environmental Committee that considers health, safety and environmental issues across the Group and reports to the Board on these matters. The Committee is chaired by a non-executive director. Safety matters are also considered at the Board and management meetings of each of our businesses. Our employees are provided with appropriate health and safety training and encouraged to report any concerns. We expect our suppliers and contractors to have a similar commitment to complying with appropriate regulations in this area.

Safety and security issues around public transport were highlighted by the terrorist attacks in London in July 2005. Stagecoach operated both of the buses that were targeted in the attacks and our employees have been commended for their response to these tragic incidents. We will continue to stress the need for vigilance by our staff and customers, while at the same time ensuring accessibility to our public transport services.

In our UK Bus division, we are working in partnership with government and other agencies to improve bus safety and security. While crime and vandalism rates are relatively low, we are aware they can discourage people from travelling on buses. Stagecoach signed the UK's largest single order for CCTV in buses in the UK in April 2006. The £1.2m deal will ensure all new buses ordered by Stagecoach for delivery during the year ending 30 April 2007 will be fitted with state-of-the-art digital CCTV systems from LOOK CCTV. As well as assisting in our drive to increase on-board security for our passengers and employees, the systems can check the movement of traffic and pedestrians as part of an accident prevention campaign.

Stagecoach has a number of joint programmes in place with schools and the police to deter anti-social behaviour and educate the next generation of

public transport users. We are also working with a number of local authorities in areas such as Oxford, Mansfield, Cheltenham and Gloucester to develop late night bus networks to help reduce town centre crime. At an operational level, we have in place a process of route risk assessments to identify potential safety issues. As well as our own investment in ongoing driver training, we are supporting the work of the Road Operators' Safety Council to drive up standards in the industry. Stagecoach has also helped fund safety campaigns focused on other road users, including cyclists and drivers of agricultural vehicles.

South West Trains ("SWT") is involved in the ground-breaking TravelSafe Officer security and anti-crime partnership with British Transport Police. The initiative continues to help reduce crime across the network and SWT has also received 47 Secure Station awards, more than any other train operating company. The successful withdrawal of Mark 1 rolling stock and the full introduction of the Desiro fleet has helped deliver a safer and more secure railway. Passengers are also benefiting from CCTV improvements and better lighting at 53 South West Trains stations within the London area. Work has also been undertaken to further enhance SWT's Safety Management System, supported by training and briefing programmes for employees. Implementation of our Engineering Competency Management System is also continuing. As well as improved contractor management, SWT has developed a new safety training programme for trade union health and safety representatives. This total commitment to safety led to SWT winning the Sir Robert Horton Safety Award at the National Rail Awards in 2005.

In North America, we continue to meet or exceed all Federal and State regulations in the area of safety. Regular safety audits are carried out at our facilities to ensure high standards of health and safety are maintained. We have enhanced our driver recruitment and training policies, as well as reducing the maximum permitted continuous hours of service for drivers, as part of our commitment to a safe, well-rested team. Management performance incentives include targets related to the reduction of preventable accidents. The management team in the United States has continued to support the work of the Federal Government and other agencies in implementing anti-terrorism measures. We have now installed GPS tracking in more than 1,000 coaches for security and monitoring purposes. In Canada, we have a dedicated Occupational Health and Safety Policy Committee whose members are drawn equally from management and workforce representatives.

Public transport – whether by bus, coach, train or tram - remains the safest way to travel. Stagecoach Group itself has a good safety record, but we are not complacent and we constantly keep our safety arrangements under review.

3.11.5 Environment

The Group is committed to making continuing progress in improving the environmental management of its operations and helping to build a sustainable environment. Across our global operations, we provide support and training for our employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance. Our Environmental Policy sets out our commitment to good environmental stewardship and we have put in place stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling.

Stagecoach has made further progress this year in improving the environmental management of our operations and helping to build a sustainable environment. We believe public transport can play a significant part in reducing pollution, cutting congestion and contributing to a higher quality of life in our communities. Stagecoach is also taking steps to ensure its operations are carried out in a responsible manner.

We have worked closely with consultants Arthur D Little to measure the environmental impact of our transport operations in the past 12 months. Arthur D Little have also assisted in setting new stretching targets as part of our commitment to good environmental stewardship. These key performance indicators cover reductions in emissions, lower water and energy consumption, minimising waste and identifying opportunities for recycling.

Our internal processes designed to track environmental data have been further strengthened this year and have extended the measurement of our performance to cover our operations in Canada. New Zealand operations, which were divested in December 2005, are not included in the data for the year ended 30 April 2006.

Full details of our performance, compiled in conjunction with Arthur D Little, can be found on the Stagecoach Group website at http://www.stagecoachgroup.com/scg/csr/environment/performance/.

We have delivered further improvement in the direct emissions per passenger journey from our bus and train fleets. This has been achieved through our investment in new vehicles and rolling stock, as well as through the use of new fuels and cleaner technologies. Stagecoach has ordered a number of new Euro 4 engined vehicles for our bus operations in the UK, which have the potential to deliver improved fuel consumption and engine reliability. The use of biodiesel has been increased to around 1,800 buses in the UK and we are continuing to use the Envirox fuel additive across our UK Bus fleet. Stagecoach is also involved in a number of projects to fit exhaust gas re-circulation systems to some of our vehicles in the UK. More than 1500 of our buses in the UK are now fitted with CRTs, a 24% increase from 30 April 2005. In our North American operations, we are the first company in New York to fit our buses for use with low sulphur fuel, which significantly reduces emissions. The Group has also introduced more accurate calculation methods to assess our performance in the area of direct emissions, particularly in our UK Rail division.

Indirect emissions from our bus operations on a per passenger journey basis have dropped significantly over the past 12 months. As well as being influenced by the growth in passenger volumes, this has been assisted in particular by ongoing efforts to reduce energy consumption at our UK Bus sites. We are working with Manchester-based Vickers Electronic Limited to introduce a specialist Energy Management System, which is in use at more than 50 sites. As well as cost savings, the system is benefiting the environment. Consumption savings at 29 gas-fired Stagecoach sites are running at more than 11,000,000 kWh per annum, which represents an emissions reduction of more than 4,000 tonnes of carbon dioxide per year. While indirect emissions per passenger journey and in total have increased in our rail operations, this reflects the continued introduction of Desiro trains. As well as offering a greatly improved travelling experience for passengers, these state-of-the-art trains use higher levels of electricity than earlier rolling stock. Since 2003, the Group's indirect emissions from energy consumption at offices and depots have reduced by 14.4%.

Water consumption in our bus operations has reduced per passenger journey by more than 50%, assisted by the introduction of upgraded wash facilities, better wash management and initiatives to identify and repair water system leaks. The water consumption at our rail operations on a per passenger journey basis has remained at similar levels to the previous year.

The Group is continuing to focus on improving the collection of data around the production of vehicle maintenance and other waste in its UK and North American operations. South West Trains, for example, has introduced a complete waste management system called Garbology where pressure crushers are used to compress waste and maximise the space available for waste disposal. We are also reviewing what measures can be taken to increase the proportion of waste recycled from our bus and rail operations. While waste recycled from our rail operations has increased from 6.2% in the 12 months to 30 April 2005 to 40.0% in the 12 months to 30 April 2006, waste recycled from our bus operations has dropped from 31.9% in the 12 months to 30 April 2005 to 29% in the 12 months to 30 April 2006.

Across our operations, we provide support and training for our employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance. The environmental training programme at our UK Bus division has been fully revised. Around 200 depot managers, safety representatives and supervisors have been trained in the last two years, with all key personnel to be trained every three years on a rolling programme. In Manchester, a campaign is currently underway on all new double deck vehicles to reduce engine idling time to a maximum of 15 minutes, after which the engine will shut down.

We have also continued our support for the road safety charity Brake and other organisations to benchmark and share good practice in safe driving and driving methods designed to improve fuel efficiency. At South West Trains, Wimbledon Traincare depot has achieved ISO14001 accreditation and other units are currently being assessed by the British Standards Institute as part of our commitment to continuous improvement in environmental management.

In many areas, Stagecoach is working in partnership with major employers to help develop travel plans that reduce the dependence of employees on the car to get to work.

Stagecoach has made further improvements and investment in the area of environmental sustainability over the past year, however we recognise that we can do more. We want to build on the progress we have made and, as part of our commitment, we have set new stretching environmental targets across our business.

3.11.6 Community investment and charitable activities

For more than 25 years, Stagecoach has been a key part of local communities around the world. As well as providing lifeline transport services and significant job opportunities, the Group is committed to investing in each of the communities we serve. We want local people to share in our success and that is why every year we help fund the vital work of local, national and international charities.

During the year ended 30 April 2006, Stagecoach Group donated £0.6m (2005: £0.3m) to help many worthwhile causes, including many health charities and local community projects in areas where we provide lifeline public transport services.

In July 2005, many people lost their lives as a result of the terrorist attack in London and these shocking events touched our Group directly. The Group donated £100,000 to the London Bombings Relief Fund, which was set up by the Mayor of London in association with the British Red Cross to help provide practical assistance to the victims' families. Stagecoach also matched the fund-raising of its employees around the country who wanted to play their part in responding positively to these tragic events.

Hundreds of our employees devote their own time every day to local projects that make a real difference in their area. Our businesses provide much-needed in-kind support, while our people also give charities the benefit of their expertise during secondments. We also believe in recognising the contribution local people make in their own communities every year, which is why we have co-sponsored Scotland's annual Our Heroes Awards.

Much of the backing we provide is focused on education and young people, assisting organisations such as the National Society for the Prevention of Cruelty to Children, NCH, the children's charity, and PiggybankKids, which supports a wide range of children's projects.

We work closely with schools and police on local crime prevention initiatives and education of youngsters about the dangers and consequences of anti-social behaviour. Stagecoach is backing an innovative education, prevention and intervention programme designed to educate parents, and other carers, about drugs. The initiative, developed by the national charity Care for the Family, gives parents the information and skills they need to help their children understand the harmful use of drugs, alcohol and tobacco. With the support of Stagecoach, more than 1,000 parents in South Manchester will be able to benefit from tailored How to Drug Proof Your Kids courses. Our support also assists many local initiatives that help provide opportunities for young people. Stagecoach recently pioneered the Park & Read concept in Cambridge as part of World Book Day, offering quick read books on all park & ride services. In Scotland, we are involved in innovative street football and twilight league initiatives in conjunction with local clubs and the police.

Stagecoach is also helping promote social inclusion with our communities to help those who are the most vulnerable. A national agreement with Guide Dogs for the Blind, for example, allows the dog trainers free travel on our buses.

We have continued to support the UK educational charity businessdynamics, which provides courses designed to build the skills and confidence of young people as they prepare to enter the worlds of work and further education.

Our South West Trains rail franchise operates services in 13 different English counties, where we are involved in many projects to boost social inclusion across our extensive network. The Lymington Heritage Line was launched last year with the purchase and refurbishment of two trains, now in their original British Rail livery. The initiative, which is helping to make the line more cost effective and safeguard its future, has won a National Community Rail Award. The DfT is now concluding consultation regarding proposed designation of the route as a Community Rail Line.

Overseas, a convoy of coaches from our United States operations helped assist the Hurricane Katrina relief effort in New Orleans. The support team helped evacuate some of the thousands of people made homeless by the disaster. Coach USA employees also donated bottled water, food items and toiletries, which were delivered to the American Red Cross to be distributed to those in need.

These are only a small number of examples of our work in supporting and working with our local communities. This approach has been a cornerstone of our business philosophy for more than a quarter of a century and we will continue to work hard to be a responsible part of these communities in the future.

Robert Speirs

Brian Souter

Martin Griffiths

Graham Eccles

Ann Gloag OBE

Ewan Brown CBE

Iain Duffin

Sir George Mathewson

Dr Janet Morgan

Russell Walls

4. Directors' biographies

Details of corporate governance, including the operation of the Board of Directors, are given in section 6 of this Annual Report. A brief biography of each director is given below.

4.1 Robert Speirs, Non-Executive Chairman

Robert Speirs has been a non-executive director of the Group since March 1995. In July 2002, he was appointed by the Board as Non-Executive Chairman. He is currently a non-executive director of Victoria Mortgage Funding Ltd and Chairman of the Miller Group Ltd. He is a former Group Finance Director of The Royal Bank of Scotland plc. Robert Speirs is Chairman of the Nomination Committee. Aged 69.

4.2 Brian Souter, Chief Executive

The co-founder of Stagecoach, Brian Souter is the architect of the Group's strategy and philosophy. He has extensive knowledge of the ground transportation industry around the world and is responsible for managing all of the Group's operations. He is also Chairman of ScotAirways Group Ltd. He was named Businessman of the Year at the Insider Elite Awards 2004 and is a Chartered Accountant. Aged 52.

4.3 Martin Griffiths, Finance Director

Appointed Finance Director in April 2000, Martin Griffiths is responsible for the Group's overall financial policy, taxation and treasury management. He also has responsibility for the overall management of the Group's property portfolio and supports the Chief Executive in all aspects of new business development across the Group. He is a member of the Group's Pension Oversight Committee and was a director of Trainline Holdings Limited up until June 2006. He won the Young Scottish Finance Director of the Year Award in 2004 and is a Chartered Accountant. Aged 40.

4.4 Graham Eccles, Executive Director Rail (retired 30 April 2006)

Graham Eccles has over 40 years' experience in the rail industry and has held a number of senior management posts. Up until his retirement in April 2006, he was a member of the Board, which he joined in September 2000 and prior to that was Managing Director of South West Trains from 1999. He was responsible for the management of all the Group's rail operations. In addition, he had main board responsibility for Group safety matters and was also a member of the Health, Safety and Environmental Committee until earlier this year. Aged 59.

4.5 Ewan Brown CBE, Non-Executive Director

Ewan Brown has been a non-executive director of the Group since 1988 and chairs the Group's Pensions Oversight Committee. He is a non-executive director of Noble Grossart Ltd and Lloyds TSB Group plc where he chairs the Audit Committee. He is also Chairman of Lloyds TSB Scotland plc and was a non-executive director of John Wood Group plc until May 2006. Aged 64.

4.6 Iain Duffin, Non-Executive Director

Iain Duffin became a non-executive director of the Group in September 2001. He was appointed Chairman of the Remuneration Committee on 1 May 2003 and is also a member of the Audit Committee and Health, Safety and Environmental Committee. He is a non-executive Chairman of Origo Services and Beattie Media Group. He has previously held executive positions in the UK and the US with a number of organisations including Macfarlane Group plc, Lucas Varity plc, ITT Corporation and Hughes Aircraft. Aged 59.

4.7 Ann Gloag OBE, Non-Executive Director

Ann Gloag co-founded Stagecoach in 1980 and served as an executive director until May 2000. She became a member of the Health, Safety and Environmental Committee in June 2005. She is a past winner of the Businesswoman of the Year Award and European Women in Achievement Award. She is an international Board member of Mercy Ships. In June 2004, she was awarded an OBE for services to charity. Aged 63.

4.8 Sir George Mathewson, Non-Executive Director

Sir George Mathewson joined the Group as a non-executive director on 8 June 2006. He was Chairman of The Royal Bank of Scotland Group plc ("Royal Bank") until his retirement on 28 April 2006. Sir George is currently an advisor to the Royal Bank and is also a director of the Scottish Investment Trust plc. In November 2001, he was appointed to the Board of Directors of the Institute of International Finance and in June 2005, he became president of the International Monetary Conference. Sir George joined the Advisory Committee of Bridgepoint Capital Limited in January 2004 and in November 2004, he was appointed a member of the Financial Reporting Council. Sir George is also chairman of Toscafund Holdings, a hedge fund. Aged 66.

4.9 Dr Janet Morgan, Non-Executive Director

Dr Janet Morgan, Lady Balfour of Burleigh, became a non-executive director in April 2001. She is Chairman of the Health, Safety & Environmental Committee and is a member of the Audit, Remuneration and Nomination Committees. She is also Chairman of the Nuclear Liabilities Fund and is a non-executive director of Murray International Investment Trust and other companies. She was a non-executive director of BPB plc until December 2005. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and a Trustee of the National Library of Scotland. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 60.

4.10 Russell Walls, Non-Executive Director

Appointed as a non-executive director in June 2000, Russell Walls is the Chairman of the Audit Committee and is a member of the Remuneration Committee and the Nomination Committee. He is the senior independent non-executive director. He is Chairman of Delphic Europe Limited, a non-executive director of Signet Group plc and Aviva plc and is a member of the Conflicts Clearance Committee of the ABN AMRO Infrastructure Capital Equity Fund. He was previously Group Finance Director of BAA plc and Wellcome PLC. For many years he worked abroad with Coats Viyella plc where he was Group Finance Director from January 1990. He is a fellow of the Association of Chartered Certified Accountants. Russell Walls retires by rotation at the 2006 AGM and has indicated that he does not intend to seek re-election. Aged 62.

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 12/19th p 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 12/19th p 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.

5.5 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

6. Corporate governance report

6.1 Introduction

The Stagecoach Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group in conformity with the Combined Code.

This section of the report discusses Stagecoach Group's corporate governance arrangements and management structures. It also includes the disclosures recommended by the Combined Code, and describes how the principles of good corporate governance that are set out in the Combined Code have been applied. In line with best practice, separate reports are provided from each of the Audit Committee, Nomination Committee, Health, Safety and Enviromental Committee and Remuneration Committee.

6.2 Compliance with the Combined Code

The Directors believe that the Group currently complies with all of the recommendations contained in the Combined Code.

6.3 Composition of the Board

The Combined Code suggests that independent Non-Executive Directors should make up at least half of the Board (excluding the Chairman). Following Graham Eccles retirement on 30 April 2006 and Sir George Mathewson's appointment on 8 June 2006, the Company's Board comprises nine Directors. Excluding the Chairman, the Board considers there to be five independent Non-Executive Directors.

		Chairman	Independent Non-Executive Director	Other Director
Robert Speirs	Chairman	✓		
Ewan Brown	Non-Executive Director		✓	
Iain Duffin	Non-Executive Director		✓	
Sir George Mathewson	Non-Executive Director		✓	
Janet Morgan	Non-Executive Director		✓	
Russell Walls	Senior Independent Non-Executive Director		✓	
Ann Gloag	Non-Executive Director			✓
Brian Souter	Chief Executive			✓
Martin Griffiths	Finance Director			✓

Ewan Brown, one of the five independent Non-Executive Directors, has served on the Board since 1988 and is a non-executive director of Noble Grossart, which is an advisor to the Company. The Company recognises and understands investor concerns over longer-serving Non-Executive Directors but nevertheless continues to regard Ewan Brown as independent. Ewan Brown's long association with the Group enables him to provide a robust and effective challenge to management because of the sound and detailed knowledge of the Group's business that he has developed. The Board believes that Ewan Brown's length of service enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. In recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown will stand for annual re-election as a director. In addition, Ewan Brown does not now serve on the Remuneration Committee or the Audit Committee. In assessing independence, the Board takes into account the wider composition and balance of the Board as a whole.

In determining the independence of Non-Executive Directors, the Board considers a number of factors. In particular the Board satisfies itself on the following questions:

- Does the Director provide a robust and effective challenge to management?
- Is the Director prepared to challenge others' beliefs, assumptions and viewpoints for the overall good of the Group and its shareholders?
- Does the Director effectively contribute to constructive debate by the Board?
- Is the Director willing to stand up to defend his or her own beliefs and viewpoints for the overall good of the Group and its shareholders?
- Does the Director have a sound and detailed knowledge of the Group's business that enables him or her to effectively question strategy and management's running of the business?

6.4 Operation of the Board

The Board is scheduled to meet six times each year. Additional meetings of the Board are held to consider matters arising between scheduled Board meetings, where a decision of the Board is required prior to the next scheduled meeting.

The Chairman ensures that meetings of the Board and shareholders are properly conducted and is responsible for setting and moving forward the Board's agenda. Leadership of the Board (by the Chairman) is not the same as the leadership required (from the Group Chief Executive) to turn the Board's strategic and policy decisions into actions. The Group Chief Executive has day-to-day responsibility for all business of the Group and carries out the agreed strategy and policies of the Board. The split of the Chairman's and Chief Executive's responsibilities is in writing and has been approved by the Board.

The Directors' biographies appear on page 18 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Non-Executive Directors bring an independent viewpoint and create an overall balance.

The Executive and Non-Executive Directors have a complementary range of financial, operational and entrepreneurial experience that ensures no one director or viewpoint is dominant in the decision-making process. The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors, led by the Senior Independent Non-Executive Director, meet without the Chairman at least annually.

All Directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the Company Secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as Directors. The Company Secretary, whose appointment and removal is a matter for the Board as a whole, is responsible to the Board for ensuring the Board procedures are complied with.

All Directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all Directors are required to stand for re-election by shareholders at least every three years. Non-Executive Directors who are not considered by the Board to be independent, or are considered independent but have served on the Board for more than nine years, submit themselves for annual re-election. Each director receives induction training on appointment and subsequently such training or briefings as are considered necessary to keep abreast of matters affecting their roles as Directors. The Chairman endeavours to ensure that all Directors (including any newly appointed Directors) attend the Annual General Meeting, providing an opportunity for shareholders to meet the Directors.

The number of full Board meetings during the year was 6. The full Board meets once a year at an operational location and regular verbal communication is maintained by the Chairman between meetings to ensure all Directors are well informed on strategic and operational issues.

The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major acquisitions or disposals. The Directors have full and timely access to information with Board papers distributed in advance of meetings.

The Board keeps the roles and contribution made by each director under review and changes in responsibilities are made where necessary to improve the Board's effectiveness. To provide a more manageable process and better control, certain of the Board's powers have been delegated to committees.

Minutes are taken of each meeting of the Board and its Committees. Where any director has significant concerns that cannot be resolved about the running of the Group or a proposed action, these concerns are recorded in the minutes. It is also the Group's policy that where a director resigns, the director is asked to provide a written statement to the Chairman of any concerns leading to his or her resignation.

6.5 Operational Management of the Group

The Board delegates the operational management of the Group to the Group Chief Executive and Executive Directors. The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in videoconferences with non-board senior management. Following the Group's disposal of its New Zealand operations in November 2005, there are three principal operating divisions (UK Bus: headed by a Managing Director, North America: headed by two Chief Operating Officers and UK Rail: headed by a Chief Executive) which each comprise a varying number of autonomous business units, each headed by a chairman or managing director who is responsible for the day-to-day performance of the business unit. Each chairman or managing director is supported by his/her own management teams.

A Rail Business Development Committee, comprising the two Group Executive Directors and other senior management, oversees the performance and development of the Group's rail business, including bidding on new rail franchises.

The Group's joint venture, Virgin Rail Group, is headed by a Chief Executive. Virgin Rail Group board meetings were attended by the Group Executive Director of Rail and the Company Secretary during the year. On the Group Executive Director of Rail's retirement, the Chief Executive of the Rail division assumed this role.

6.6 Performance evaluation

The Board assesses its own performance and the performance of each individual Board member; this assessment is co-ordinated and directed by the Chairman with the support of the Company Secretary. The Senior Independent Non-Executive Director co-ordinates the Board's assessment of the performance of the Chairman. As part of the assessment process, the Non-Executive Directors meet without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present. The Chairman obtains feedback from each individual Director on the performance of the Board and other Board members – this involves the completion of a questionnaire and a follow-up discussion. In the same way, the Senior Independent Non-Executive Director obtains feedback from each individual director on the performance of the Chairman. A similar process is undertaken to assess the performance of each of the Board's committees.

The Directors have reviewed the effectiveness of the Board as a whole and its committees. Each Director has assessed the effectiveness of the Board and each committee of which he or she is a member.

The assessment of effectiveness included :

- Consideration of the effectiveness of the formal Board and committee meetings;
- The nature and extent of the Board's interaction with the management of the Group;
- The timeliness, relevance and accuracy of the information provided to the Board and its committees;
- The allocation of the Board's time between differing priorities including the time spent on strategic considerations relative to other matters; and
- The composition of the Board and its committees.

The Board has considered the results of these assessments and has concluded that overall the Board and the committees continue to operate in an effective and constructive manner.

6.7 Audit Committee

Following Ewan Brown's resignation from the Audit Committee on 2 December 2005, the Audit Committee now comprises three independent Non-Executive Directors. It receives reports from major business functions including the Risk Assurance Function. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The Audit Committee report is set out on page 26.

6.8 Remuneration Committee

The Remuneration Committee makes recommendations to the Board for ensuring that the Executive Directors' remuneration is appropriate to attract, motivate and retain Executive Directors of the quality needed to run the Group's business successfully. The constitution and operation of the Remuneration Committee complies with the principles and provisions of the Combined Code and this is detailed in the Remuneration Committee report laid out on pages 28 to 34.

6.9 Nomination Committee

The Nomination Committee currently comprises four Non-Executive Directors (one of whom is the Chairman of the Company) that the Board considers to be independent. The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments.

The Nomination Committee report is set out on page 27.

6.10 Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director, Janet Morgan, and comprises one other independent Non-Executive Director, Iain Duffin, and one other Non-Executive Director, Ann Gloag who joined the Committee in June 2005. One Executive Director, Graham Eccles was also a member of the Committee until his retirement on 30 April 2006. The Committee was established to discuss health, safety and environmental issues across the Group and to report regularly to the Board on these matters. It has access to internal safety executives and also external consultants.

The Health, Safety and Environmental Committee report is set out on page 27.

6.11 Individual director participation at meetings

The following is a table of participation in full Board meetings and meetings of committees by Director during the year ended 30 April 2006:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee		Health, Safety and Environmental Committee		Nomination Committee	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Robert Speirs	6	6	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Brian Souter	6	6	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	6	6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Graham Eccles	6	6	n/a	n/a	n/a	n/a	3	3	n/a	n/a
Ewan Brown	6	6	2	2	n/a	n/a	n/a	n/a	1	1
Iain Duffin	6	6	4	4	3	3	3	3	n/a	n/a
Ann Gloag	6	6	n/a	n/a	n/a	n/a	2	3	n/a	n/a
Sir George Mathewson	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Janet Morgan	5	6	3	4	3	3	3	3	0	0
Russell Walls	5	6	4	4	3	3	n/a	n/a	0	0

6.12 Relations with shareholders

The Board endeavours to present a balanced and understandable assessment of the Group's position and prospects in all of its communications with shareholders.

The Board considers communications with shareholders, whether large or small, external or employee, to be extremely important. The Group holds periodic meetings with representatives of major institutional shareholders, other fund managers and representatives of the financial press.

The programme of investor relations includes presentations in London of the full-year and interim results and meetings with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are being effectively communicated and shareholder objectives are known. During the year, written responses are given to letters or e-mails received from shareholders and all shareholders receive interim and annual reports or the summary annual report. Each shareholder is given the opportunity to elect which document they require and this allows our reporting to be more focused towards the needs of individual shareholders. Information is also available on the Group's website (http://www.stagecoachgroup.com).

The Board receives regular updates on the views of shareholders through briefings from the Chairman and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants. The Senior Independent Non-Executive Director is available to shareholders where contact through the normal channels is inappropriate, or has failed to resolve concerns.

Private and institutional shareholders are welcome to attend and participate at the Annual General Meeting and any Extraordinary General Meetings. The Group aims to ensure that all Directors, including the chairmen of the Audit, Remuneration, Nomination and Health, Safety and Environmental Committees are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other Directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. Resolutions are proposed annually in respect of the financial statements, and the Remuneration report. At each Annual General Meeting, the Chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution, and the number of abstentions. Details of the proxy votes are also published on the Group's website at http://www.stagecoachgroup.com/scg/ir/shareholder/agm/
The Company and its Registrars have established procedures to ensure that votes cast are properly received and recorded.

6.13 Risk management

The Group has an ongoing process for identifying, evaluating and managing the significant risks that it faces. The Board regularly reviews the process, and the Board considers that the process accords with the Turnbull Guidance on internal control.

The principal risks and uncertainties facing the Group are discussed on pages 13 and 14.

The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or reduced and, in some cases, transferred to third parties. Internal controls are used to identify and manage acceptable levels of risk. The Directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control, and for reviewing its effectiveness. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

Certain of the Group's businesses are subject to significant risk. Each identified business risk is assessed for its probability of occurrence and its potential severity of occurrence. Where necessary, the Board considers whether it is appropriate to accept certain risks that cannot be fully controlled or mitigated by the Group.

The Group's risk management process is presently being introduced to those businesses recently acquired by the Group but was embedded throughout the rest of the businesses during the financial year ended 30 April 2006 and up to the date of the approval of this report. The Board has carried out a review of the effectiveness of the Group's internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that the processes are in place to ensure that risks are appropriately managed.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit. The Audit Committee meets with representatives of operating units because this is one way for an independent and objective appraisal of risk management to be obtained.

Self-assessment of risk conducted by the Directors and senior management is ongoing and has been considered at several levels, with each division maintaining a separate risk profile.

The Group Risk Assurance function, which is outsourced to and managed by Deloitte, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for maintaining the integrity and improving where possible the Group's full risk management process in the context of the Group's overall goals.

The Audit Committee reviews Group Risk Assurance plans, as well as external audit plans and any business improvement opportunities that are recommended by the external auditors.

Virgin Rail Group has its own audit committee and internal audit function. The Group's risk management process does not specifically cover Virgin Rail Group, but the Group maintains an overview of Virgin Rail Group's business risk management process through representation on the board and audit committee. Stagecoach management representatives also meet regularly with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures. The Group's Audit Committee reviews the financial statements of Virgin Rail Group together with the minutes, external audit presentations, management presentations and internal audit presentations from the Virgin Rail Group audit committee meetings.

6.14 Internal control

The wider process described above and the key procedures noted below, enable the Directors to confirm that they have reviewed the effectiveness of the system of internal control of the Group during the year. The key procedures, which the Directors have established, are as follows:

- an annual budgeting process with periodic re-forecasting of out-turn, identifying key risks and opportunities. All budgets are presented to a panel consisting of Executive Directors and/or senior managers by each business unit's management team, before being approved by the Board.
- reporting of financial information to the Board encompassing income statement, cash flow, balance sheet and key performance indicators. Group management monitors the results throughout each financial year.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned periodically by the Group of areas where significant inherent risks have been identified, such as treasury management, insurance provisioning, pensions strategy and competition policy.
- a decentralised organisation structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- control over the activities of joint ventures and associated undertakings through Stagecoach representation on the boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system covers the Group's senior management and is based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis is placed on cash flow management. Bank balances are reviewed on a daily basis, cash flows are compared to budget on a four-weekly basis and any material variances between earnings and expected cash flows are investigated.
- regular reporting to the Board and/or its Committees on specific matters including updated key risks, taxation, pensions, insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.
- each operating unit maintains controls and procedures appropriate to the business. A written certificate is provided at least annually by the management of each business confirming that they have reviewed the effectiveness of the system of internal control during the year. As might be expected, a number of minor internal control weaknesses were identified by this procedure. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the maintenance and improvement of our risk management procedures.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.

6.15 Pension schemes

The assets of the Group's pension schemes are held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. There are twelve trustees for the principal UK scheme of whom five are employee representatives nominated by the members on a regional basis and one is a pensioner trustee. The chairman of the trustees of the principal UK scheme served for eight years as a fund member elected representative on the National Association of Pension Funds' investment council. He also sits independently on two industry-wide schemes, as a DTI appointed trustee of the Mineworkers' Pension Scheme and as an elected representative of all railway employers on the board of the Railways Pension Scheme. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

PricewaterhouseCoopers LLP acts as the actuary and investment advisor for a pension scheme acquired as part of the acquisition of Traction Group Limited during the year, The Yorkshire Traction Company Limited Pension Plan. Pricewaterhouse Coopers do not act as actuaries or advisors of any of the other principal UK pension schemes.

During the financial year ended 30 April 2005, a Pensions Oversight Committee was established. This Committee is chaired by a Non-Executive Director and also comprises one Executive Director and other members of senior management. The Committee operates at a strategic level and its remit covers all matters affecting the Group's pension schemes from the perspective of the Group, and it will consider, develop and propose recommendations to the Board in respect of such issues as may arise. The Committee reviews pension scheme funding issues and implications, investment strategy, and the related administration for all of the employee pension schemes of the Group and its wholly owned subsidiaries.

7. Audit Committee report

7.1 Composition of the Audit Committee

The Audit Committee presently comprises three independent Non-Executive Directors. At the present time, its members are Russell Walls (Chairman), Janet Morgan and Iain Duffin. Russell Walls is a former Finance Director of a FTSE 100 company. The Committee therefore has significant recent and relevant financial expertise and is appropriately qualified to undertake its duties in an effective manner. Ewan Brown resigned from the Committee on 2 December 2005.

7.2 Operation of the Audit Committee

The Audit Committee met four times during the year and has met a further time in June 2006. It receives reports from major business functions including the Risk Assurance Function (internal audit), which is outsourced and managed by Deloitte. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at
http://www.stagecoachgroup.com/scg/csr/corpgov/committees/audit.pdf

7.3 Review of External Auditors

The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid and advance approval of any other fees in excess of £50,000 cumulative which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

The Committee formally assesses the effectiveness of the external audit process on an annual basis.

The Audit Committee, having considered the external auditors' performance during their period in office, recommends re-appointment. The audit fees of £0.7m for PricewaterhouseCoopers LLP and non-audit related fees of £0.1m were discussed by the Audit Committee and considered appropriate given the current size of the Group and the level of corporate activity undertaken during the year. The Committee believes the level and scope of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a good understanding of the Group's operations. Other accounting or consulting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified.

7.4 Policy on the Auditors Providing Non-Audit Services

Procedures in respect of other services provided by the auditors are :

- Audit related services - These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to approval by the Audit Committee.
- Tax consulting - It is the Group's policy to select the advisor for each specific piece of tax consulting work who has the most appropriate skills and experience for the work required. The Group uses a range of advisors for tax consulting, including the auditors where they are best suited to the work being undertaken, subject to approval by the Audit Committee.
- General consulting - For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken. The auditors are only permitted to provide general consulting when the Group, the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest.

7.5 Review of Risk Assurance Function

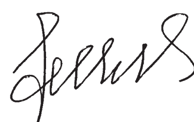
The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function (internal auditors). There have been no instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Audit Committee conducts a continuous review of the relationship between the Group and the Risk Assurance Function. This review includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

The Committee formally assesses the effectiveness of the risk assurance function on an annual basis.

7.6 "Speaking Up" Policy

The Audit Committee reviews the Group's "Speaking Up" policy, which provides a mechanism for employees with serious concerns about the interests of others or the Group to come forward. The Committee ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. The Committee takes a particular interest in any reports of possible improprieties in financial reporting.



Russell Walls
Chairman of the Audit Committee

28 June 2006

8. Nomination Committee report

8.1 Composition of the Nomination Committee

The Nomination Committee currently comprises four Non-Executive Directors that the Board considers to be independent, Robert Speirs (who acts as Chairman), Ewan Brown, Russell Walls and Janet Morgan. The Committee may also include, by invitation, the other Non-Executive Directors, as necessary. Brian Souter resigned from the Nomination Committee during the year.

8.2 Operation of the Nomination Committee

The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments. Based on its assessment, the Committee will prepare a description of the role and the required attributes for each particular appointment. The description will include a job specification, the estimate of the time commitment expected, and the Group's policy on Directors having other significant commitments. Potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their other commitments as they arise. The Committee will identify suitable candidates and make proposals for each appointment, although final appointments are the responsibility of the Board as a whole.

Non-Executive Directors receive a letter of appointment. For any new appointments, the letter of appointment will set out the expected time commitment.

No Director of the Company is currently a chairman of a FTSE 100 company.

The terms of reference of the Nomination Committee are available on the Group's website at http://www.stagecoachgroup.com/scg/csr/corpgov/committees/nom.pdf

8.3 Succession Planning Arrangements

The Board and the Nomination Committee recognise the importance of succession planning to ensure that the Group continues to prosper in the longer term. The Group operates a decentralised organisational structure with clearly defined limits of responsibility and authority, and oversight from head office. This structure provides the opportunity for managers to develop in some of the Group's smaller business units before progressing to wider and more responsible roles. The Group has a history of developing good managers who have progressed to take on senior positions within the Group. The Group operates a graduate recruitment programme, and some of the graduates recruited have gone on to become Managing Directors of individual business units.

The Nomination Committee is mindful of the need to ensure appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seeks to identify new Directors and senior managers to ensure succession of Directors is conducted in a managed way, without significant disruption to the ongoing business of the Group.

Robert Speirs
Chairman of the Nomination Committee

28 June 2006

9. Health, Safety and Environmental Committee report

9.1 Composition of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director, Janet Morgan, and comprises one other independent Non-Executive Director, Iain Duffin, and one other Non-Executive Director, Ann Gloag who joined the Committee in June 2005. One Executive Director, Graham Eccles was also a member of the Committee until his retirement on 30 April 2006.

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at http://www.stagecoachgroup.com/scg/csr/corpgov/committees/health.pdf

9.2 Operation of the Health, Safety and Environmental Committee

The Committee was established to discuss health, safety and environmental issues across the Group and to report regularly to the Board on these matters. The Committee also approves the Group's overall strategic safety network. It has access to internal safety executives and also external consultants.

Managers from each of the Group's key divisions attend meetings of the Committee from time to time providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters.

The Committee visits operational locations to observe health, safety and environmental management in practice.

The Committee receives reports on trends in health and safety indicators across the Group as well as information on significant accidents involving the Group.

Details of the Group's health, safety and environmental policies and activities are contained in section 3.11.4 on pages 15 and 16 of this Annual Report.

Janet Morgan
Chairman of the Health, Safety and Environmental Committee

28 June 2006

10. Remuneration Committee report

The Board supports the principles of good corporate governance relating to Directors' remuneration and has applied them as described below.

In accordance with Schedule 7A "Directors' Remuneration Report" of the Companies Act 1985, those paragraphs that have been audited have been highlighted as such.

10.1 Composition of the Remuneration Committee

During the year ended 30 April 2006, Iain Duffin chaired the Remuneration Committee and the other members were Russell Walls and Janet Morgan, all three of whom are independent Non-Executive Directors. The Committee, which was established in December 1992, has delegated responsibility for approving the remuneration and terms of employment for the Executive Directors and the Chairman, including pensions rights and any compensation payments. The Remuneration Committee also monitors and makes appropriate recommendations with respect to the remuneration of other senior management.

The Board of Directors as a whole, having given due regard to the required time commitment and responsibilities, sets the fees and expenses payable to the Non-Executive Directors. Non-Executive Directors do not hold any share options, nor do they participate in any incentive plans or pension schemes with the exception of Ann Gloag who receives a pension accrued when she was an executive director. The members of the Remuneration Committee have no personal interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Stagecoach Group.

Both the constitution and operation of the Remuneration Committee comply with the principles incorporated in the Combined Code. In preparing this Remuneration report, the Remuneration Committee has followed the provisions of the Combined Code.

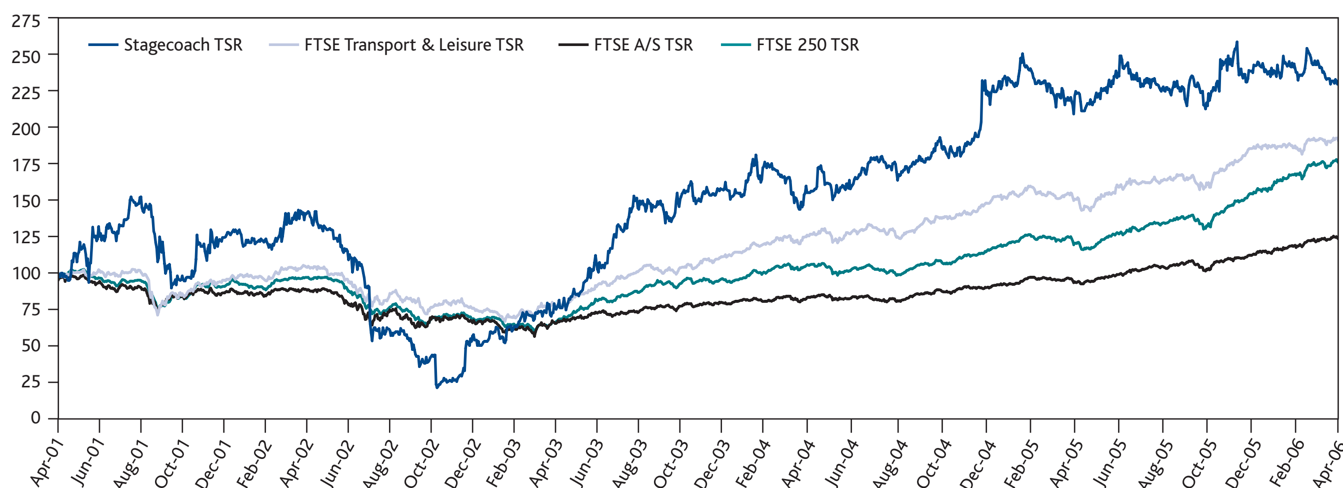
The terms of reference of the Remuneration Committee are available on the Group's website at http://www.stagecoachgroup.com/scg/csr/corpgov/committees/remun.pdf

10.2 Performance graph

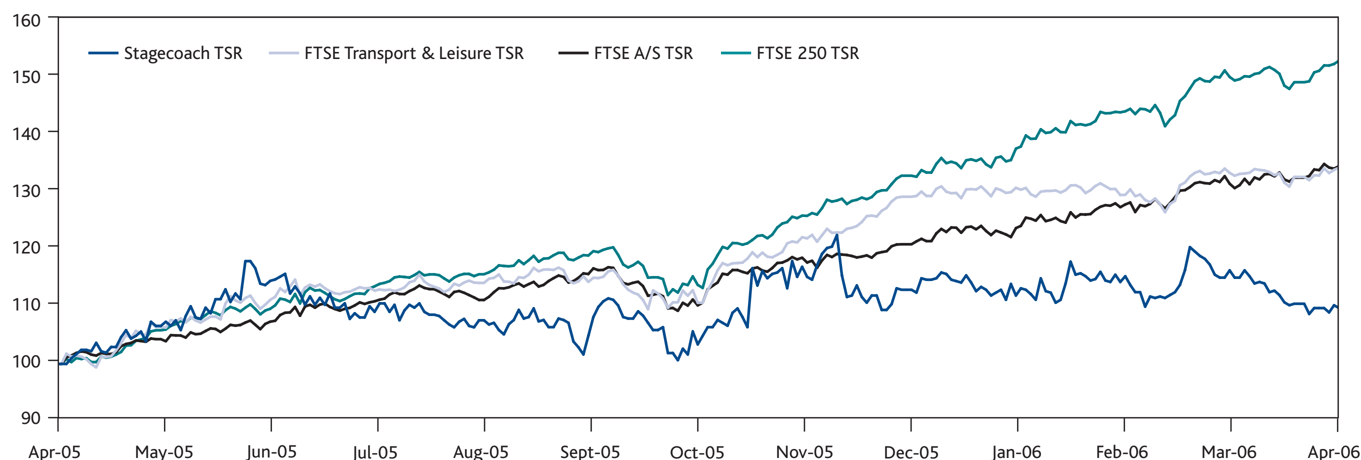
The graph below charts the performance of the Stagecoach Group Total Shareholder Return (''TSR'') (share value movement plus reinvested dividends) over the 5 years to 30 April 2006 compared with that of the FTSE Transport and Leisure All-Share Index, the FTSE Mid 250 Index and the FTSE All-Share Index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2006.

In assessing the performance of the Company's TSR the Board believes the comparator groups it has chosen represent a fair benchmark both in terms of the nature of the business activity and size of company.

Stagecoach TSR Comparative Performance since 30 April 2001



Stagecoach 1 Year TSR Comparative Performance to 30 April 2006



10.3 Remuneration Policy

The Remuneration Policy was approved by our shareholders at the 2005 Annual General Meeting. The Remuneration Committee follows the Combined Code in designing performance-related remuneration schemes.

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance-related elements and that these performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short- and long-term targets. Performance targets include traditional financial indicators and personal targets, successful investment, innovation, staff development, customer satisfaction and achievement of regulatory requirements, including health and safety and environmental targets.

To this end, the Remuneration Committee reviews the existing remuneration of the Executive Directors, in consultation with the Chief Executive, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the prospects for the Group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach Group and of average earnings for all employees. With regard to pensions, the Remuneration Committee has access to reports from the trustees and scheme actuaries regarding the cost of pension obligations.

Shareholders are invited to specifically approve all new long-term remuneration plans (whether share-settled or cash-settled plans) and any significant changes to existing plans, except where otherwise permitted by the Listing Rules. New arrangements were approved by shareholders at the 2005 Annual General Meeting and the Committee considers that the arrangements that were approved by shareholders remain appropriate.

The Remuneration Committee believes that remuneration packages should reward the efforts of all staff since a motivated workforce is a key element of Group performance. The Committee recognises that Executive Directors bear the greatest responsibility for delivering corporate strategy that underpins long-term sustainable performance. While the Remuneration Committee's report focuses on incentive schemes for senior executives, there are also a number of performance-related bonus schemes within Group companies, in addition to the UK-only SAYE scheme.

10.4 Remuneration of Executive Directors and Other Executives (audited)

The remuneration of the Executive Directors and other executives may comprise a number of elements from the following:

- Basic salary;
- Performance-related annual cash bonuses;
- Executive Participation Programme ("EPP");
- Benefits in kind and other allowances;
- Pension arrangements;
- Share options;
- Long Term Bonus Scheme ("LTBS"); and
- Long Term Incentive Plan ("LTIP").

The participation of the three Executive Directors in the above arrangements during the year ended 30 April 2006 is summarised in Table 1. The Executive Directors have not received executive share options in the year ended 30 April 2006 and the LTBS has been unwound following shareholder approval of the EPP and LTIP at the 2005 AGM.

Each Executive Director's remuneration package is tailored to the individual to ensure an appropriate balance of reward for responsibilities, motivation, retention and share participation, whilst ensuring the overall packages are appropriate to recruit and retain high quality executives capable of achieving the Group's objectives.

Directors' remuneration for the year ended 30 April 2006 is shown in Table 2 below and Directors' pension benefits are shown in Table 3 on page 30.

TABLE 1 – DIRECTORS' PARTICIPATION	Basic Salary/Annual bonus	EPP	Benefits in kind	Pension	Share Options	LTBS	LTIP
Brian Souter	YES	YES	YES	YES	NO*	NO	YES
Graham Eccles	YES	NO‡	YES	YES	NO*	YES†	NO‡
Martin Griffiths	YES	YES	YES	YES	NO*	NO	YES

* The Executive Directors have not received further awards of executive share options, following the approval of the EPP and LTIP at the 2005 AGM

† The LTBS has now been unwound following Graham Eccles' retirement on 30 April 2006

‡Graham Eccles has not participated in the EPP nor the LTIP because he retired as a Director on 30 April 2006

TABLE 2 – DIRECTORS' REMUNERATION (amounts in £000)	Salary/fees		Performance related bonus (cash)		Performance related bonus (EPP)		Benefits in kind		Non-pensionable allowances†		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Executive directors												
Brian Souter	**499**	484	**204**	339	**204**	Nil	**17**	17	**n/a**	n/a	**924**	840
Graham Eccles	**269**	261	**161**	183	**Nil**	Nil	**25**	24	**44**	46	**499**	514
Martin Griffiths	**242**	220	**103**	154	**103**	Nil	**20**	20	**36**	33	**504**	427
Non-executive directors												
Ewan Brown	**38**	32	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**38**	32
Ann Gloag	**38**	32	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**38**	32
Robert Speirs	**110**	90	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**110**	90
Russell Walls	**38**	32	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**38**	32
Janet Morgan	**38**	32	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**38**	32
Iain Duffin	**38**	32	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**38**	32
Total	**1,310**	1,215	**468**	676	**307**	Nil	**62**	61	**80**	79	**2,227**	2,031

† Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits

TABLE 3 – DIRECTORS ' PENSION BENEFITS (amounts in £000)	Additional accrued benefits in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less Directors' contributions
	Excluding inflation	**Including inflation**	**2006**	2005	**2006**	2005	**2006**	2005	
Executive directors									
Brian Souter	**51**	**70**	**264**	244	**489**	439	**167**	146	**135**
Graham Eccles	**11**	**14**	**25**	21	**74**	64	**35**	33	**35**
Martin Griffiths	**12**	**15**	**30**	26	**89**	78	**13**	12	**13**

Graham Eccles and Martin Griffiths were not members of the Group pension schemes before the introduction of the pensionable salary cap in June 1989. They are each paid a non-pensionable allowance, which is equivalent to the cost of a money purchase contribution of 20% of their salary in excess of the pensionable salary cap.

During the year ended 30 April 2002, the remaining proceeds of a small self administered money purchase scheme (''SSAS'') established for Brian Souter and Ann Gloag in 1992 were transferred into the Stagecoach Group Pension Scheme to secure additional final salary type benefits equivalent in actuarial value to the proceeds transferred. The additional benefits are reflected in the disclosure of Brian Souter's accrued benefits above. In Ann Gloag's case, her share of the SSAS assets along with the cash equivalent of her benefits in the Stagecoach Group Pension Scheme were transferred into a personal pension arrangement that provides her with an annual pension of £81,000. Employer contributions to the SSAS ceased in 2000 for Ann Gloag and in 2001 for Brian Souter.

Directors who are members of the Stagecoach Group Pension Scheme have the option to pay additional voluntary contributions (''AVCs''). Neither the contributions nor the resulting benefits of any AVCs are included in the table above.

Each of the elements of remuneration is discussed further below.

10.5 Basic salary

The salary of individual Executive Directors is reviewed at 1 May each year. Account is taken of individual achievements, together with any changes in responsibilities that may have occurred and, as stated above, the salaries for similar roles in comparable companies.

10.6 Performance-related annual cash bonuses

An annual discretionary bonus scheme for the Executive Directors was first introduced in 1993. Bonuses are non-pensionable.

At the start of each financial year, the Board agrees specific objectives for each Executive Director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual cash bonus for each Executive Director for the year just ended. This is based on the Director's performance in achieving the objectives agreed. These comprise both financial and non-financial objectives. For Executive Directors, the financial objectives for the year ended 30 April 2006 were to better the Group's financial targets for the financial year with respect to measures of earnings before interest and taxation, earnings per share, and net debt. The non-financial objectives are specific to each Executive Director and cover matters such as safety targets, environmental targets, successful investment, innovation, staff development, customer satisfaction, successful business acquisitions/disposals and regulatory requirements.

In making its judgement of performance for the last financial year, the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, and relative total return to shareholders over the year, as well as other strategic developments and operating improvements. Bonuses awarded to Executive Directors in respect of the year ended 30 April 2006 are shown in Table 4.

TABLE 4 – DIRECTORS' BONUSES	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
Director	Cash	Shares	Cash	Shares
Brian Souter	41%	41%	50%	50%
Graham Eccles	60%	Nil	70%	Nil
Martin Griffiths	42.5%	42.5%	50%	50%

50% of the actual annual bonus payable to Brian Souter and Martin Griffiths is settled in cash, with the balance deferred as shares under the EPP (see section 10.7).

For the year ending 30 April 2007, Brian Souter and Martin Griffiths each have a maximum potential bonus of up to 100% of basic salary, 70% for meeting demanding financial objectives and 30% for meeting personal non-financial objectives. 50% of any actual bonus will be deferred as shares under the EPP.

10.7 Executive Participation Programme

A new Executive Participation Programme (''EPP'') was approved at the 2005 Annual General Meeting. The first awards under the EPP will be for the financial year ended 30 April 2006, with deferred shares allocated in June or July 2006.

The intention of the EPP is to further align the interests of managers with shareholders by giving managers a greater direct interest in the performance of the Company's shares. The EPP is such that the executives can benefit from both capital growth (i.e. increases in share price) and dividend yield. The EPP is also designed to provide an incentive for managers to remain with the Group and forms a core part of the Group's succession and management development plans.

Awards under the EPP can be to Executive Directors and other managers. Participants are required to sacrifice 50% of their actual annual bonus award and are awarded deferred shares with an initial market value approximately equal to the amount of the actual cash bonus foregone.

Absolute and full entitlement to the shares is deferred for three years.

There are no specific performance conditions attaching to the release of deferred shares because the annual bonus is already subject to performance conditions and there are no awards of matching shares in respect of annual bonuses - the EPP is to encourage executives to invest an element of their annual bonus in the Company's shares. The EPP is an effective retention programme in that a participant would lose his or her entitlement to the deferred shares if he/she left of his/her own volition during the three-year deferral period.

Where an individual receives an award under the EPP, he or she does not also receive an award of executive share options in the same financial year.

10.8 Benefits in kind and other allowances

Certain Executive Directors receive car, fuel, telephone and healthcare taxable benefits. Other allowances may be provided as an additional cash payment: for example, an Executive Director may receive a cash allowance in lieu of a company car. The value of such benefits is included within Table 2 on page 29 of this report.

10.9 Pension arrangements

Under the terms of their service agreements, Executive Directors are entitled to become members of one of the Stagecoach Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension schemes. The Stagecoach Group pension schemes are designed to provide a pension for Executive Directors of up to two-thirds of final pensionable salary completed up to normal retirement age, subject to HMRC (formerly Inland Revenue) limits.

The Remuneration Committee has reviewed the implications of the new pensions regime introduced by the Pensions Act 2004. A notional pensionable earnings cap has been introduced to replace the previous statutory pensionable earnings cap and no other changes have been made to date. The Committee will look to work to the general principle of not increasing the rate of accrual of pensions benefit nor to increase the annual cost to the Group as a result of the new regime.

Martin Griffiths and Graham Eccles were subject to the statutory pensionable earnings cap that existed until 5 April 2006 and since then, the Company has continued to impose a notional pensionable earnings cap. The Company makes cash contributions to Martin Griffiths and Graham Eccles for the part of their salary that exceeds the cap. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided under the Group pension scheme.

10.10 Share options (audited)

The Executive Directors are not expected to receive further awards of executive share options, following the approval of the EPP and LTIP by shareholders at the 2005 AGM. However, the Executive Directors continue to hold executive share options that were previously awarded.

Two Directors exercised Executive share options during the year. Details are shown in Table 5 below.

The interests of Directors who have options to subscribe for ordinary shares of the Company, together with movements during the year, are shown in Table 6 on page 32. All of the share options were granted for nil consideration. The exercise price of the share options reflects the mid-market price immediately preceding the time of the award: the Group's policy is not to offer executive share options at a discount to the mid-market price. The mid-market price of the underlying ordinary shares at 30 April 2006 was £1.08 per share (30 April 2005: £1.03 per share). The Company's ordinary shares traded in the range £1.01 to £1.23 (year ended 30 April 2005: £0.76 to £1.23) during the year to that date.

Share options are subject to certain performance criteria as discussed on page 32.

In addition to the share options shown in Table 6 on page 32, one Director holds options issued under the Group's Save As You Earn scheme. Details are shown in Table 7 on page 32.

Further information on these options is detailed in note 29 to the consolidated financial statements on pages 81 and 82.

TABLE 5 – OPTIONS EXERCISED IN YEAR Original date of grant	Date of exercise/sale	Number of ordinary shares under option	Exercise price per share £	Average selling price per share £	Gain before transaction costs and taxes £
Graham Eccles					
Shares sold immediately on exercise of options					
23 July 2002	7 December 2005	480,000	0.3750	1.1612	377,376
5 December 2002	7 December 2005	703,704	0.2700	1.1612	627,141
		1,183,704			1,004,517
Martin Griffiths					
Shares sold immediately on exercise of options					
23 July 2002	22 February 2006	480,000	0.3750	1.1400	367,200
5 December 2002	7 December 2005	666,667	0.2700	1.1612	594,134
		1,146,667			961,334
Total		2,330,371			1,965,851

TABLE 6 – EXECUTIVE SHARE OPTIONS Grant Date	As at 1 May 2005	Exercised in year (see Table 5)	Lapsed in year	As at 30 April 2006	Exercise price £	Date from which exercisable	Expiry date
Brian Souter							
23 July 2002	1,226,667	Nil	Nil	1,226,667	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	1,703,704	Nil	Nil	1,703,704	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	582,645	Nil	Nil	582,645	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	291,022	Nil	Nil	291,022	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	564,548	Nil	Nil	564,548	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	217,085	Nil	Nil	217,085	1.1150	10 Dec 2007	10 Dec 2011
	4,585,671	Nil	Nil	4,585,671			
Graham Eccles							
19 October 1998	40,396	Nil	(40,396)	Nil	2.2280	19 Oct 2001	19 Oct 2005
19 July 1999	61,524	Nil	Nil	61,524	2.0310	19 Jul 2002	19 Jul 2006
23 July 2002	480,000	(480,000)	Nil	Nil	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	703,704	(703,704)	Nil	Nil	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	309,917	Nil	Nil	309,917	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	154,799	Nil	Nil	154,799	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	304,665	Nil	Nil	304,665	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	117,152	Nil	Nil	117,152	1.1150	10 Dec 2007	10 Dec 2011
	2,172,157	(1,183,704)	(40,396)	948,057			
Martin Griffiths							
19 October 1998	29,820	Nil	(29,820)	Nil	2.2280	19 Oct 2001	19 Oct 2005
19 July 1999	35,519	Nil	Nil	35,519	2.0310	19 Jul 2002	19 Jul 2006
23 July 2002	480,000	(480,000)	Nil	Nil	0.3750	23 Jul 2005	23 Jul 2009
5 December 2002	666,667	(666,667)	Nil	Nil	0.2700	5 Dec 2005	5 Dec 2009
26 June 2003	254,132	Nil	Nil	254,132	0.6050	26 Jun 2006	26 Jun 2010
12 December 2003	126,935	Nil	Nil	126,935	0.8075	12 Dec 2006	12 Dec 2010
25 June 2004	256,997	Nil	Nil	256,997	0.8575	25 Jun 2007	25 Jun 2011
10 December 2004	98,822	Nil	Nil	98,822	1.1150	10 Dec 2007	10 Dec 2011
	1,948,892	(1,146,667)	(29,820)	772,405			

TABLE 7 SAYE OPTIONS	At 1 May 2005 and 30 April 2006 No. of ordinary shares
Martin Griffiths	9,174

The executive share options shown in Table 6 that were awarded on or before 5 December 2002 have vested and may be exercised at any time.

All of the outstanding executive share options shown in Table 6 were issued under The Stagecoach Unapproved Executive Share Option Scheme (''the Scheme''). The Scheme was established in September 1997, when it was approved by shareholders at the Annual General Meeting. The scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. This scheme is also used to reward senior executives throughout the Group, at the Board's discretion.

In December 2004, the Board and the Remuneration Committee agreed to remove from the Scheme, the ability to award ''Super Options''. Therefore, all executive share options awarded on or after 4 December 2004, are ''Ordinary Options'' which are exercisable between three and seven years after the date of award. The maximum level of executive share options that can now be issued to a given individual in any financial year is two times that individual's salary, calculated by comparing the salary to the total number of shares covered by the options multiplied by the exercise price. The Board and the Remuneration Committee also agreed to remove from the Scheme, the facility for the performance condition to be re-tested. Re-testing is prohibited for all executive share options awarded on or after 4 December 2004. Accordingly, the exercise of executive share options awarded on or after 4 December 2004 is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum cumulatively - the base year is the latest financial year ended prior to the award of the option and the performance condition may not be re-tested. For ordinary options awarded up until June 2001, exercise of the options is subject to earnings per share outperforming inflation over three consecutive financial years by 2% per annum cumulatively. For ordinary options awarded after June 2001 but prior to 4 December 2004, exercise of the options is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum, or earnings per share outperforming inflation over four consecutive financial years by 4% per annum, or earnings per share outperforming inflation over five consecutive financial years by 5% per annum.

No awards were made to Directors under this scheme in the financial year ended 30 April 2006. This follows the new EPP and LTIP remuneration arrangements put in place for the year ended 30 April 2006, following shareholder approval at the 2005 AGM.

Under the rules of the Company's share option schemes, and consistent with guidance issued by the Association of British Insurers (''ABI''), there are limits on the number of share options that can be granted that are to be satisfied with the issue of new shares. Following the consolidation of

ordinary shares related to the return of capital in September 2004, the number of executive share options that had been granted in the previous 10 years exceeded 5% of the issued number of ordinary shares - therefore, it is not possible to satisfy any new grants of share options under the executive share option schemes with newly issued shares since to do so would exceed the limits under the share schemes. Accordingly, the Board and the Remuneration Committee has determined that all future grants of share options under the executive share option schemes will be satisfied with existing shares until such time as there is sufficient headroom available under the new issue share limits.

The Group's Employee Share Ownership Trusts are used to acquire and finance shares to meet contingent obligations under share based incentive schemes that are not expected to be satisfied through the issue of new shares. At 30 April 2006, these trusts held 5,318,618 (2005: 6,501,545) 12/19th Ordinary Shares in the Company, representing 0.5% (2005: 0.6%) of the total issued Ordinary Shares. The Company follows the ABI guideline that the shares held by Employee Share Ownership Trusts should not exceed 5% of the total shares in issue. The Employee Share Ownership Trusts have waived the right to receive dividends on the shares held by them.

10.11 Long Term Bonus Scheme

The Long Term Bonus Scheme was intended to motivate and retain certain key executives at the Board's discretion. It has been unwound following shareholder approval of the LTIP and EPP remuneration arrangements at the 2005 AGM and Graham Eccles retirement on 30 April 2006.

Graham Eccles and Martin Griffiths were the only participants in The Stagecoach Executive Directors' Long Term Bonus Scheme. Under this Scheme, Graham Eccles could be awarded an additional annual bonus of £100,000 per financial year for each of the three years commencing 1 May 2003. The performance condition of the Scheme was such that the bonuses were payable if the growth in earnings per share each financial year outperformed inflation by at least 5%. The performance conditions in respect of the years ended 30 April 2004, 30 April 2005 and 30 April 2006 were satisfied.

In conjunction with the introduction of the new long-term remuneration schemes, Martin Griffiths waived his entitlement to any current or future amounts under the existing Long Term Bonus Scheme. As Graham Eccles retired on 30 April 2006 his existing arrangement under the Long Term Bonus Scheme remained in place and the final payment will be made in June 2006, all the necessary conditions having been satisfied.

10.12 Long Term Incentive Plan

For a small number of senior executives, including Executive Directors, a new long-term incentive plan (''LTIP'') was approved at the 2005 AGM. The LTIP introduces stringent performance criteria related to total shareholder return (''TSR''). TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured against a comparator group, which is the list of FTSE 250 companies. The first awards under the LTIP were made in August 2005, and the awards to Directors are shown in Table 8 below.

Under the LTIP, executives are awarded notional units with each unit having a value equal to one of the Company's ordinary shares, at the discretion of the Remuneration Committee. The maximum award in relation to any financial year for an individual is limited to 150% of the individual's basic salary.

The individual would need to remain with the Company for three years in order to receive full entitlement to the deferred shares. The number of shares that would be released after the three years is calculated as follows:

- If TSR is negative, irrespective of the TSR of the comparator group, no shares are released;
- If TSR is positive but is less than the median TSR of the comparator group, no shares are released ;
- If TSR exceeds the median of the comparator group, 33% of the shares are released ;
- If TSR is in the top quartile of the comparator group, 100% of the shares are released ;
- If TSR is higher than the median but less than the top quartile, the proportion of shares to be released would be between 33% and 100% depending on the exact ranking against the comparator group.

Accordingly, the awards are closely tied to the rewards to shareholders as a whole. An independent third party will calculate the TSR measures for the purposes of determining the extent to which the performance condition is satisfied.

There is no re-testing of LTIP performance conditions.

10.13 International Financial Reporting Standards ("IFRS")

The Remuneration Committee has taken steps to ensure that it can continue to measure financial performance on a consistent basis notwithstanding the transition from UK GAAP to IFRS accounting policies.

Certain elements of remuneration are determined based on the financial performance of the Group or a part of the Group. In determining financial performance, the Remuneration Committee will ensure that financial performance is determined on a consistent basis. Where available, the Committee will determine financial performance with reference to amounts determined in accordance with IFRS. For the financial year ended 30 April 2004 and prior, no IFRS amounts are available. Where performance is being measured relative to any period ending on or before 30 April 2004, the Committee will use UK GAAP amounts and where necessary, ensure that the performance measures for later periods (including those periods where the primary financial statements are reported in accordance with IFRS) are restated to UK GAAP.

Where there is any doubt about whether targets or bonus arrangements have been fulfilled as a consequence of the transition from UK GAAP to IFRS, the Remuneration Committee will work with the Audit Committee on the matter.

TABLE 8 — LTIP GRANTED IN YEAR Grant Date	Awards granted in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Vesting Date
Brian Souter 26 August 2005	450,293	13,875	464,168	26 Aug 2008
Martin Griffiths 26 August 2005	218,510	6,732	225,242	26 Aug 2008

10.14 Directors' service agreements

The details of the Executive Directors' service contracts are summarised in the table below:

Name of director	Date of contract	Notice period
Brian Souter	2 April 1993 (amended 26 January 1996)	12 months
Graham Eccles*	27 October 2000	12 months
Martin Griffiths	8 August 2000	12 months
* now retired		

It is the Company's policy that Executive Directors should have 12-month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants that will be rigorously applied.

Non-Executive Directors are appointed by a letter, which makes no specific provision for notice periods. Non-Executive Directors are subject to election and re-election by shareholders as described on page 22.

10.15 Early termination

If the Company terminates an Executive Director's contract, the costs for which the Company is liable will vary depending on length of service and are subject to mitigation. The costs will include a termination payment of up to one times annual salary only and certain benefits and retirement benefits funded under the Company's pension schemes.

10.16 Change of control

The following apply where there is a change in control of the Company:

- Executive Directors are entitled to normal termination benefits as outlined above, except where the Director is offered and has refused employment on terms and conditions that were no less favourable to those in place prior to the change of control ;
- With respect to Executive Share Options, options can be exercised within six months of the change of control. For options granted prior to 14 January 2002, the performance condition will not apply. For options granted on or after 14 January 2002, the extent to which the performance condition is applied shall be determined by the Remuneration Committee;
- Under the EPP, shares deferred would automatically vest on a change of control;
- Under the LTIP, LTIP units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the TSR performance condition.

10.17 Outside appointments

Under the terms of their service agreements, Executive Directors require Board approval before accepting any external appointment. Details of remuneration earned where an Executive Director serves as a Non-Executive Director elsewhere are disclosed in note 34 to the financial statements on page 87.

10.18 Transactions in which Directors have had a material interest (audited)

10.18.1 Noble Grossart Limited

Ewan Brown (a Non-Executive Director of Stagecoach) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year amounted to £20,100 (2005: £145,950), including £Nil (2005: £125,500) in respect of Noble Grossart's role as financial advisor in connection with the return of capital in September 2004. Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2006 6,354,443 (2005: 6,354,443) ordinary shares in the Company, representing 0.6% (2005: 0.6%) of the ordinary shares in issue and Nil (2005: 8,026,665) B shares in the Company. The prior year B share figure represented 10.4% of the B shares in issue at that date. The remaining B shares in issue were all redeemed on 30 September 2005.

10.18.2 Alexander Dennis Limited

On 21 May 2004, Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a Non-Executive Director of Stagecoach) together gained control of 39.3% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see 10.18.1 above) controls a further 29.5% of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2006, the Group purchased £46.5m (period from 21 May 2004 to 30 April 2005: £25.5m) of vehicles from Alexander Dennis Limited and £2.9m (period from 21 May 2004 to 30 April 2005: £2.4m) of spare parts and other services.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules. For the year ended 30 April 2006, the Group has placed orders totalling £41.6m (period from 21 May 2004 to 30 April 2005: £49.3m) with Alexander Dennis Limited for the purchase of new vehicles. Of this £41.6m (period from 21 May 2004 to 30 April 2005: £49.3m), vehicles accounting for £3.9m (period from 21 May 2004 to 30 April 2005: £5.1m) were delivered prior to 30 April 2006 and are included in the total purchases of £46.5m (period from 21 May 2004 to 30 April 2005: £25.5m) referred to above.

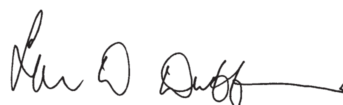
10.18.3 ScotAirways Group Ltd

Brian Souter is Chairman of ScotAirways Group Ltd. During the year the Group purchased flights from ScotAirways Group Ltd totalling £76,168 (2005: £74,905).

10.19 Remuneration policy approval

An ordinary resolution to receive and approve this Remuneration Report will be proposed at the 2006 Annual General Meeting.

On behalf of the Board



IAIN DUFFIN
Chairman of the Remuneration Committee

28 June 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STAGECOACH GROUP PLC

We have audited the Group financial statements of Stagecoach Group plc for the year ended 30 April 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately (on page 95) on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2006 and on the information in the Remuneration Committee report that is described as having been audited.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance report reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Directors' report, the Chief Executive's review, the Operating and Financial Review, the Corporate Governance report, the Audit Committee report, the Nomination Committee report and the Health, Safety and Environmental Committee report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 April 2006 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 30 April 2006 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

28 June 2006

Consolidated income statement

For the year ended 30 April 2006

	Notes	2006 Performance pre intangibles and exceptional items £m	2006 Intangibles and exceptional items £m	2006 Results for the year £m	2005 Performance pre intangibles and exceptional items £m	2005 Intangibles and exceptional items £m	2005 Results for the year £m
Revenue	2	**1,568.5**	**Nil**	**1,568.5**	1,420.5	Nil	1,420.5
Operating costs	3	**(1,627.2)**	**(7.4)**	**(1,634.6)**	(1,453.8)	(5.5)	(1,459.3)
Other operating income	4	**209.7**	**Nil**	**209.7**	176.1	Nil	176.1
Operating profit of Group companies	2	**151.0**	**(7.4)**	**143.6**	142.8	(5.5)	137.3
Share of profit/(loss) of joint ventures – after finance income and taxation		**5.6**	**(13.1)**	**(7.5)**	10.7	(14.7)	(4.0)
Share of profit/(loss) of joint ventures:							
Operating profit/(loss)		**5.4**	**(13.1)**	**(7.7)**	14.2	(14.7)	(0.5)
Finance income (net)		**1.7**	**Nil**	**1.7**	1.7	Nil	1.7
Taxation		**(1.5)**	**Nil**	**(1.5)**	(5.2)	Nil	(5.2)
		5.6	**(13.1)**	**(7.5)**	10.7	(14.7)	(4.0)
Share of loss from interest in associate – after finance charges and taxation		**Nil**	**Nil**	**Nil**	(0.4)	Nil	(0.4)
Total operating profit: Group and share of joint ventures and associates	2	**156.6**	**(20.5)**	**136.1**	153.1	(20.2)	132.9
Gain on sale of properties	3	**Nil**	**0.8**	**0.8**	Nil	1.3	1.3
Loss on disposed operations and sale of investments	3	**Nil**	**(5.9)**	**(5.9)**	Nil	(7.4)	(7.4)
Profit before interest and taxation		**156.6**	**(25.6)**	**131.0**	153.1	(26.3)	126.8
Finance costs	5	**(24.6)**	**Nil**	**(24.6)**	(35.2)	Nil	(35.2)
Finance income	5	**8.6**	**Nil**	**8.6**	13.3	Nil	13.3
Profit before taxation		**140.6**	**(25.6)**	**115.0**	131.2	(26.3)	104.9
Taxation	7	**(31.4)**	**5.0**	**(26.4)**	(28.0)	2.7	(25.3)
Profit for the year from continuing operations		**109.2**	**(20.6)**	**88.6**	103.2	(23.6)	79.6
Profit for the year from discontinued operations	17	**4.3**	**22.5**	**26.8**	7.3	Nil	7.3
Profit for the year		**113.5**	**1.9**	**115.4**	110.5	(23.6)	86.9
Profit attributable to equity shareholders of the parent		**113.5**	**1.9**	**115.4**	110.1	(23.6)	86.5
Earnings per share							
– Adjusted/Basic	9	**10.6p**		**10.7p**	9.5p		7.5p
– Diluted	9	**10.4p**		**10.6p**	9.3p		7.3p
Earnings per share from continuing operations							
– Adjusted/Basic	9	**10.2p**		**8.2p**	8.9p		6.9p
– Diluted	9	**10.0p**		**8.1p**	8.7p		6.7p
Dividends per ordinary share							
– Interim paid	8			**1.1p**			1.0p
– Final proposed	8			**2.6p**			2.3p

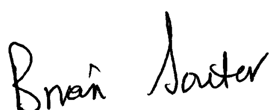
The accompanying notes form an integral part of this consolidated income statement.

Consolidated balance sheet

As at 30 April 2006

	Notes	2006 £m	2005 £m
ASSETS			
Non-current assets			
Goodwill	10	**100.1**	93.6
Other intangible assets	11	**17.3**	9.2
Property, plant and equipment	12	**708.8**	694.2
Interests in joint ventures	13	**52.0**	56.1
Interests in associate	14	**1.0**	1.0
Financial assets: Available for sale and other investments	15	**4.2**	1.8
Deferred tax asset	24	**8.4**	4.1
Other receivables	20	**1.6**	6.7
		893.4	866.7
Current assets			
Inventories	19	**13.2**	12.5
Trade and other receivables	20	**179.9**	169.2
Financial assets: Derivative instruments at fair value	27	**3.7**	Nil
Cash and cash equivalents	21	**198.5**	140.0
		395.3	321.7
Total assets		**1,288.7**	1,188.4
LIABILITIES			
Current liabilities			
Trade and other payables	22	**341.3**	357.6
Current tax liabilities		**29.0**	33.3
Financial liabilities: Borrowings	23	**66.3**	126.5
Financial liabilities: Derivative instruments at fair value	27	**2.8**	Nil
Provisions	25	**63.2**	55.6
		502.6	573.0
Non-current liabilities			
Other payables	22	**9.2**	8.1
Financial liabilities: Borrowings	23	**291.2**	228.1
Deferred tax liabilities	24	**5.2**	5.5
Provisions	25	**46.7**	37.4
Retirement benefit obligations	26	**222.2**	220.9
		574.5	500.0
Total liabilities		**1,077.1**	1,073.0
Net assets		**211.6**	115.4
EQUITY			
Ordinary share capital	28	**6.9**	6.8
Redeemable 'B' preference shares	28	**n/a**	13.9
Share premium account	30	**174.8**	163.4
Retained earnings	30	**(212.1)**	(294.4)
Capital redemption reserve	30	**243.0**	229.1
Own shares	30	**(6.1)**	(6.8)
Translation reserve	30	**4.0**	3.4
Available for sale reserve	30	**1.9**	Nil
Cash flow hedging reserve	30	**(0.8)**	Nil
Total equity		**211.6**	115.4

These financial statements have been approved for issue by the Board of Directors on 28 June 2006.



Brian Souter
Chief Executive

Martin A Griffiths
Finance Director

The accompanying notes form an integral part of this consolidated balance sheet.

Consolidated statement of recognised income and expense

For the year ended 30 April 2006

	Notes	2006 £m	2005 £m
Income and expense recognised directly in equity			
Foreign exchange differences on translation of foreign operations (net of hedging)		**4.7**	3.4
Actuarial gains/(losses) on Group defined benefit pension schemes	26	**13.9**	(50.9)
Actuarial gains/(losses) on joint ventures' defined benefit pension schemes		**5.2**	(9.1)
Net fair value gains on cash flow hedges	27	**9.2**	Nil
Net fair value gains on available for sale investments	15	**1.9**	Nil
		34.9	(56.6)
Transfers to the income statement			
Exchange differences on disposal of foreign operations	17	**(3.9)**	Nil
Cash flow hedges reclassified and reported in profit for the year	27	**(17.3)**	Nil
		(21.2)	Nil
Tax on items taken directly to or transferred from equity			
Tax on foreign exchange differences on translation of foreign operations		**(0.2)**	Nil
Tax effect of actuarial (gains)/losses on Group defined benefit pensions schemes		**(4.2)**	15.3
Tax effect of share of actuarial (gains)/losses on joint ventures' defined benefit pension schemes		**(1.5)**	2.7
Tax effect of cash flow hedges		**Nil**	Nil
Tax effect of share based payments		**2.9**	Nil
	7	**(3.0)**	18.0
Net income/(expense) not recognised in income statement		**10.7**	(38.6)
Profit for the year attributable to equity shareholders of the parent		**115.4**	86.5
Total recognised income and expense for the year attributable to equity shareholders of the parent		**126.1**	47.9
Effect of changes in accounting policy:			
Balances recognised on the adoption of IAS 32 and IAS 39, net of taxation		**(7.7)**	Nil

The accompanying notes form an integral part of the consolidated statement of recognised income and expense.

Consolidated cash flow statement

For the year ended 30 April 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations	31	**203.0**	200.7
Tax paid		**(27.5)**	(27.1)
Net cash from operating activities ("free cash flow")		**175.5**	173.6
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	31	**(27.7)**	(5.9)
Disposals of subsidiaries and other businesses, net of cash disposed of	17	**104.4**	14.7
Purchases of property, plant and equipment		**(91.9)**	(73.5)
Disposals of property, plant and equipment	31	**8.2**	7.1
Purchase of intangible assets		**(0.6)**	(0.3)
Purchase of other investments		**(2.8)**	(0.2)
Disposal of other investments		**0.6**	0.6
Movement in loans to joint ventures		**0.3**	6.7
Purchase of investments in joint ventures		**(0.4)**	Nil
Net cash used in investing activities		**(9.9)**	(50.8)
Cash flows from financing activities			
Issue of shares		**7.0**	5.3
Redemption of 'B' shares		**(13.9)**	(227.4)
Expenses on issue of 'B' shares		**Nil**	(0.4)
Redemption of 'B' shares by employee ownership trusts		**Nil**	1.7
Investment in own ordinary shares by employee share ownership trusts		**Nil**	(1.9)
Sale of own ordinary shares by employee share ownership trusts		**0.7**	4.8
Repayments of hire purchase and lease finance		**(35.1)**	(92.5)
Proceeds of sale and leaseback transaction		**49.5**	Nil
Repayment of borrowings		**(73.9)**	(110.1)
Dividends paid on ordinary shares		**(36.6)**	(37.2)
Sale of tokens		**7.4**	10.2
Redemption of tokens		**(11.4)**	(10.9)
Net cash used in financing activities		**(106.3)**	(458.4)
Net increase/(decrease) in cash and cash equivalents		**59.3**	(335.6)
Cash and cash equivalents at the beginning of the year		**138.5**	476.5
Exchange rate effects		**0.5**	(2.4)
Cash and cash equivalents at the end of year	21	**198.3**	138.5

The accompanying notes form an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

	Notes	Ordinary share capital £m	Redeemable 'B' preference shares £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Translation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total equity £m
Balance at 1 May 2004		6.7	–	392.4	(75.7)	1.7	(3.9)	–	–	–	321.2
Profit for the year		–	–	–	86.9	–	–	–	–	–	86.9
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	–	3.4	–	–	3.4
Actuarial losses on Group defined benefit pension schemes		–	–	–	(50.9)	–	–	–	–	–	(50.9)
Actuarial losses on joint ventures' defined benefit pension schemes		–	–	–	(9.1)	–	–	–	–	–	(9.1)
Tax on items taken directly to equity (for split see Consolidated statement of recognised income and expense on page 38)		–	–	–	18.0	–	–	–	–	–	18.0
Own shares purchased		–	–	–	–	–	(5.4)	–	–	–	(5.4)
Own shares sold		–	–	–	–	–	2.5	–	–	–	2.5
'B' shares issued from share premium		–	241.3	(241.3)	–	–	–	–	–	–	–
Redemption of 'B' shares		–	(227.4)	–	(227.4)	227.4	–	–	–	–	(227.4)
Expenses on issue of 'B' shares		–	–	(0.4)	–	–	–	–	–	–	(0.4)
Arising on new ordinary share issues		0.1	–	12.7	–	–	–	–	–	–	12.8
Credit in relation to share based payment		–	–	–	1.4	–	–	–	–	–	1.4
Dividends	8	–	–	–	(37.6)	–	–	–	–	–	(37.6)
Balance at 30 April 2005		6.8	13.9	163.4	(294.4)	229.1	(6.8)	3.4	–	–	115.4
Balances recognised on the adoption of IAS 32 and IAS 39, net of taxation		–	(13.9)	–	(0.9)	–	–	(0.2)	–	7.3	(7.7)
Balance at 1 May 2005		6.8	–	163.4	(295.3)	229.1	(6.8)	3.2	–	7.3	107.7
Profit for the year		–	–	–	115.4	–	–	–	–	–	115.4
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	–	4.7	–	–	4.7
Actuarial gains on Group defined benefit pension schemes		–	–	–	13.9	–	–	–	–	–	13.9
Actuarial gains on joint ventures' defined benefit pension schemes		–	–	–	5.2	–	–	–	–	–	5.2
Net fair value gains on cash flow hedges		–	–	–	–	–	–	–	–	9.2	9.2
Net fair value gains on available for sale investments		–	–	–	–	–	–	–	1.9	–	1.9
Exchange differences on disposal of foreign operations		–	–	–	–	–	–	(3.9)	–	–	(3.9)
Cash flow hedges reclassified and reported in profit for the year		–	–	–	–	–	–	–	–	(17.3)	(17.3)
Tax on items taken directly to equity (for split see Consolidated statement of recognised income and expense on page 38)		–	–	–	(3.0)	–	–	–	–	–	(3.0)
Own shares sold		–	–	–	–	–	0.7	–	–	–	0.7
Redemption of 'B' shares		–	–	–	(13.9)	13.9	–	–	–	–	–
Arising on new ordinary share issues		0.1	–	11.4	–	–	–	–	–	–	11.5
Credit in relation to share based payment		–	–	–	2.2	–	–	–	–	–	2.2
Dividends	8	–	–	–	(36.6)	–	–	–	–	–	(36.6)
Balance at 30 April 2006		6.9	–	174.8	(212.1)	243.0	(6.1)	4.0	1.9	(0.8)	211.6

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

These consolidated financial statements are the first full-year financial statements of the Group to be presented in accordance with International Financial Reporting Standards ("IFRS").

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

- **Basis of preparation**

The consolidated financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS for the first time. The financial statements have also been prepared in accordance with IFRSs as endorsed by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements are presented in pounds sterling, the functional and presentational currency of the Group, and all values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

- **IFRS transitional arrangements and new standards adopted early**

When preparing the Group's IFRS balance sheet at 1 May 2004, the date of transition to IFRS, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

- Business combinations – the provisions of IFRS 3 'Business Combinations' have been applied prospectively from 1 May 2004. For business combinations prior to 1 May 2004, the accounting for the combinations was not restated on the adoption of IFRS.
- Employee benefits – the accumulated actuarial gains and losses in respect of employee defined benefit plans have been recognised in full at the date of transition. The Group has also adopted the amendment to IAS 19 'Employee Benefits' early, allowing actuarial gains and losses to be charged to the statement of recognised income and expense in the period they arise.
- Share based payment transactions – the requirements of IFRS 2 'Share-based Payment' have not been applied to equity instruments that were granted before 7 November 2002 or equity instruments that were granted after 7 November 2002 that had vested before the date of transition, being 1 May 2004.
- Financial instruments – the Group has chosen not to restate comparative information with respect to IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.
- Cumulative translation differences – the accumulated translation difference at the date of transition has been set at zero for all foreign operations.
- Fair value as deemed cost – the Group has chosen to use the exemption allowing it to adopt the fair value of certain fixed assets as deemed cost on transition to IFRS.

The Group has also early adopted the amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'.

The disclosures required by IFRS 1 'First-time adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRSs are given in note 36.

- **New standards and interpretations not applied**

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

	Effective date
• IFRS 4 – Insurance contracts (Amendment to IAS 39 and IFRS 4)	1 January 2006
• IFRS 7 – Financial instruments: Disclosures	1 January 2007
• IAS 21 – Amendment, Net investment in foreign operations	1 January 2006
• IAS 39 – Amendments to IAS 39, Fair value option	1 January 2006
• IAS 39 – Amendments to IAS 39, Transition and initial recognition of financial assets and liabilities (Day 1 profits)	1 January 2006
• IAS 39 – Amendments to IAS 39, Cash flow hedge accounting	1 January 2006
• IAS 39 – Amendments to IAS 39 and IFRS 4, Financial guarantee contracts	1 January 2006
• IFRIC 4 – Determining whether an arrangement contains a lease	1 January 2006
• IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
• IFRIC 6 – Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005
• IFRIC 7 – Applying the Restatement Approach under IAS 29, 'Financial Reporting in Hyperinflationary Economies'	1 March 2006
• IFRIC 8 – Scope of IFRS 2, 'Share-based payment'	1 May 2006
• IFRIC 9 – Re-assessment of embedded derivatives	1 June 2006

Upon adoption of IFRS 7, the Group will need to expand the disclosures in relation to the fair value of its financial instruments and its risk exposure. The adoption of this standard is not expected to materially impact the Group's profit or net assets.

The Directors do not anticipate that that adoption of any of the other above standards or interpretations will have a material impact on the Group's financial statements in the period of initial application.

- **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

- **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings, joint ventures and associates made up to 30 April in each year.

The consolidated income statement includes the results of businesses purchased from the effective date of acquisition and excludes the results of disposed operations and businesses sold from the effective date of disposal.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Subsidiaries, associates and joint ventures**

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Intercompany transactions, balances, income and expenses are eliminated on consolidation.

(ii) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting.

Joint ventures are enterprises that the Group has the power to jointly govern the enterprises' financial and operating policies with other investors based on contractual agreement.

Associates are enterprises, other than joint ventures, that are not controlled by the Group over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence.

Under the equity method of accounting, the Group's consolidated income statement includes the Group's share of profits less losses of joint ventures and associates, while the share of net assets of joint ventures and associates is included in the Group's consolidated balance sheet. Where the Group's share of losses in a joint venture or associate exceeds its interest in that enterprise, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in each business: unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's investment in joint ventures and associates includes goodwill on acquisition.

The Group applies its own accounting policies and estimates when accounting for its share of joint ventures and associates, making appropriate adjustments where necessary, having due regard to all relevant factors.

- **Presentation of income statement and exceptional items**

Where applicable, income statement information has been presented in a columnar format, which separately highlights the amortisation of intangible assets and exceptional items. This is intended to enable users of the financial statements to determine more readily the impact of the amortisation of intangible assets and exceptional items on the results of the Group.

Unlike UK GAAP, there is no definition of "exceptional items" in IFRS. For this purpose, "exceptional items" are items which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to present fairly the financial performance of the Group.

- **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Although these estimates and assumptions are based on management's best knowledge, actual results may ultimately differ from those estimates and assumptions used.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement of retirement benefit obligations, the measurement and impairment of goodwill and the measurement of insurance provisions. The measurement of retirement benefit obligations requires the estimation of future changes in salaries, inflation, the expected return on scheme assets and the selection of a suitable discount rate (see note 26). The Group determines whether goodwill arising on business combinations is impaired on an annual basis and this requires the estimation of value in use of the cash generating units to which the goodwill is allocated. This requires estimation of future cash flows and the selection of a suitable discount rate (see note 10). The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group.

Those accounting policies that the Directors believe require the greatest exercise of judgement are described on page 13.

- **Revenue**

Revenue represents gross revenue earned from public transport services and excludes payments received on account. Amounts receivable for tendered services and concessionary fare schemes are included as part of revenue. Where appropriate, amounts are shown net of rebates and VAT. Revenues incidental to the Group's principal activity (including advertising income and maintenance income) are reported as miscellaneous revenue (see note 4).

Rail revenue includes amounts attributable to the train operating companies, based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry) in respect of passenger receipts. Franchise agreement receipts from the Department for Transport ("DfT") and local Passenger Transport Executives are treated as other operating income (see note 4). Franchise agreement payments to the DfT/SRA are recognised in operating costs.

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided.

Note 1 IFRS accounting policies (continued)

• Revenue (continued)

Net compensation receivable by UK Rail companies in respect of service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the expected period of disruption and is shown as other operating income.

Income from advertising and other activities is recognised as the income is earned.

Finance income is recognised as interest accrues using the effective interest method.

• Government grants

Grants from the government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Revenue grants receivable in respect of the operation of rail franchises in the UK are credited to the income statement in the period in which the related expenditure is recognised in the income statement or where they do not relate to any specific expenditure, in the period in which the grant is receivable. These rail franchise grants are classified within other operating income.

• Share based payments

The Group issues equity-settled and cash-settled share based payments to certain employees.

The Group has applied the optional exemption contained within IFRS 1, which allows it to apply IFRS 2 only to equity instruments granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by use of the Black-Scholes pricing model.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled by the Group, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date. Changes in the carrying amount of the liability are recognised in the income statement for the period.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently intends to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

• Operating profit

Operating profit is stated after charging restructuring costs and after the share of after-tax results of associates and joint ventures but before finance income, finance costs, non-operating exceptional items, taxation and profit from discontinued operations.

• Taxation

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

• Dividends

Dividends on ordinary shares are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders, or in the case of interim dividends, in the period in which they are paid.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Due to the nature of the Group's operations, the business segments can be directly aligned with the geographical segments. The Group is managed, and reports internally on a basis consistent with its three segments which consist of UK Bus, North America, and UK Rail. The New Zealand division was disposed of during the year ended 30 April 2006 and its results for that year (up to the date of disposal) and for the comparative year are now included within the profit for the year from discontinued operations.

- **Foreign currency translation**

The financial statements of overseas subsidiaries are maintained in the local currencies in which the entities transact business. The trading results of overseas subsidiaries are translated into sterling using average rates of exchange. Exchange differences arising on the translation of the opening net assets and results of overseas operations, together with exchange differences arising on net foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in overseas operations, are recognised as a separate component of equity being the translation reserve.

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction.

On disposal of a foreign subsidiary, the amount of any exchange differences relating to the subsidiary that has been deferred in the translation reserve is recognised in the income statement within the reported gain or loss on disposal. The Group has taken the IFRS 1 exemption which allows accumulated exchange differences at the date of transition, being 1 May 2004, to be set to zero for all foreign subsidiaries.

PRINCIPAL RATES OF EXCHANGE	**2006**	2005
New Zealand Dollar		
Period end rate – (2006 is as at date of disposal)	**2.4606**	2.6088
Average rate – (2006 is average up to date of disposal)	**2.5641**	2.7240
US Dollar:		
Year end rate	**1.8176**	1.9099
Average rate	**1.7751**	1.8530
Canadian Dollar:		
Year end rate	**2.0368**	2.3969
Average rate	**2.1079**	2.3621

- **Business combinations and goodwill**

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Prior to 1 May 2004, goodwill was amortised over its estimated useful life; such amortisation ceased on 30 April 2004 but goodwill amortisation expensed prior to 1 May 2004 was not reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any impairment of goodwill is recognised immediately in the income statement.

Where goodwill forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the disposed operation when determining the overall gain or loss on disposal.

Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to reserves in accordance with the UK accounting standards then in force. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves.

- **Impairment of non-current assets**

Property, plant and equipment, intangible assets (excluding goodwill), financial assets and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

- **Impairment of non-current assets (continued)**

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised immediately in the income statement.

- **Intangible assets**

Intangible assets acquired separately from a business combination are capitalised at cost. The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset. Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably.

Amortisation is calculated on the straight-line method to write-off the cost or fair value at acquisition (as the case may be) of each asset over their estimated useful lives shown below. Goodwill is not amortised unless it relates to a rail franchise of a finite duration.

Customer contracts	over the life of the contract (1 to 6 years for current contracts)
Right to operate rail franchise	over the life of the franchise (3 years from February 2004 to February 2007 for current franchises)
Non-compete contracts	between 2 and 5 years for current contracts
Software costs	2 to 5 years

Marketing costs incurred during the start-up phase of a new activity are charged to the income statement as incurred.

- **Property, plant and equipment**

On transition to IFRS the Group adopted the optional exemption contained within IFRS 1 'First-time adoption of International Financial Reporting Standards' allowing it to use the fair value of certain property, plant and equipment as deemed cost.

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment.

Depreciation is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives as follows:

Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	period of lease
IT and other equipment, furniture and fittings	3 to 10 years
Public Service Vehicles ("PSVs") and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Heritable and freehold land is not depreciated

The carrying value of items of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis.

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

- **Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out ("FIFO") or average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

- **Pre-contract costs**

The costs associated with securing new rail franchises are expensed as incurred, except where it is highly probable that a contract will be awarded in which case they are recognised as an asset and are charged to the income statement over the life of the franchise.

- **Hire purchase and lease obligations**

Assets acquired under hire purchase and finance lease arrangements, where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges, and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Assets capitalised under finance leases and other similar contracts are depreciated over the shorter of the lease terms and their useful economic lives.

Assets capitalised under hire purchase contracts are depreciated over their useful economic lives.

Rentals under operating leases are charged on a straight-line basis over the lease term.

The principal restriction on assets held under finance lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Tokens**

Tokens issued by National Transport Tokens Limited, a subsidiary of the Group, are credited to a token redemption provision to the extent they are expected to be redeemed. Redemptions are offset against this provision and associated handling commission paid to third parties is included in operating costs. Funds from the sale of tokens required for token redemption are included as a financing activity in the consolidated cash flow statement.

The estimate of the balance sheet provision for token redemption is remeasured at each balance sheet date and is based on the value of tokens issued by the Group but not yet redeemed at the balance sheet date. Allowance is made for the estimated proportion of tokens in issue that will never be redeemed. This allowance is estimated with reference to historic redemption rates. At 30 April 2006, it has been estimated that 97% (30 April 2005: 97%) of tokens in issue will be redeemed.

- **Environmental provisions**

Provisions for environmental costs are recognised when the Group has a legal or constructive obligation to undertake environmental clean-ups or other work in respect of environmental matters and the associated costs can be reasonably estimated.

The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligations.

- **Insurance**

The Group receives claims in respect of traffic incidents and employee claims. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" on insurance policies.

Provision is made on a discounted basis for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date. The estimate of the balance sheet insurance provisions is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group. The provision is set after taking account of advice from third party actuaries.

- **Retirement benefit obligations**

The Group contributes to a number of pension schemes. The principal defined benefit occupational schemes are as follows:

- The Stagecoach Group Pension Scheme ("SGPS")
- The South West Trains section of the Railways Pension Scheme ("RPS")
- The Island Line section of the Railways Pension Scheme ("RPS")
- A number of UK local Government Pension Schemes ("LGPS")
- The Yorkshire Traction Company Limited Pension Plan ("YTC")
- The Strathtay Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO")

The Group accounts for pensions and similar benefits in accordance with IAS 19 "Employee Benefits", as amended to allow actuarial gains and losses to be charged to the statement of recognised income and expense in the period they arise. In respect of these defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at market value. The operating and financing costs of such plans are included within operating profit and are disclosed separately in the notes to the financial statements; service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

A full actuarial valuation is undertaken triennially for each scheme with the deficit being updated annually by independent actuaries using the projected unit credit method. The present value of the scheme obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related obligations.

The liability recognised for the relevant sections of RPS represents only that part of the net deficit of each section that the employer expects to fund over the life of the franchise to which the section relates.

For defined contribution schemes, the Group pays contributions to privately administered pension plans. Once the contributions have been paid, the Group has no further payment obligations. The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

- **Financial instruments**

The Group has opted to apply IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 1 May 2005 without restating prior periods. Consequently, the Group's prior accounting policies under UK GAAP has been used for the 2005 comparatives. The policy under UK GAAP for derivative financial instruments is shown on page 48. The effect of the adoption of IAS 32 and IAS 39 on reserves at 1 May 2005, is a cumulative reduction to net assets of £7.7m as detailed in the consolidated statement of changes in equity on page 40. The main adjustments were reclassifying the Group's redeemable preference shares from equity to debt resulting in a £13.9m reduction to net assets and the recognition of the fair value of the Group's fuel price swaps as a hedge leading to the creation of a £7.3m cash flow hedging reserve and a net increase in net assets of £6.6m. The disclosure of the accounting policies that follow for financial instruments are those that apply under IAS 32 and IAS 39.

Financial assets

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held to maturity investments or as available for sale. They include cash and cash equivalents, trade receivables, other receivables, loans, other investments and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

Financial assets (continued)

Financial assets at fair value through profit or loss: Financial assets classified as held for trading and other assets designated as such on inception are classified as financial assets at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for sale in the short-term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets in this category are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments: Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method. Held-to-maturity gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process. Investments intended to be held for an undefined period cannot be included in this classification.

Available-for-sale financial assets: Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the above categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the asset is derecognised or until the asset is determined to be impaired, at which time the cumulative gain or loss reported in equity is included in the income statement.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables, other payables, borrowings and derivative financial instruments. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss: Financial liabilities classified as held for trading and derivative liabilities that are not designated as effective hedging instruments are classified as financial liabilities at fair value through profit or loss. Liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.

Other: All other financial liabilities not classified as fair value through the profit or loss are measured at amortised cost using the effective interest method.

Fair values

The fair value of quoted investments is determined by reference to appropriate market prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using pricing models and discounted cash flow analysis. Otherwise assets are carried at cost.

Derivative financial instruments

From 1 May 2005, derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, including intra-group transactions; or
- Hedges of net investment in a foreign entity.

Net gains or losses arising from changes in the fair value of all other derivatives, which are classified as held for trading, are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments from an accounting perspective.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges: For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both the derivative and the hedged item are taken to the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

For hedged items carried at amortised cost, the hedge adjustment is amortised through the income statement such that it is fully amortised by maturity.

Cash flow hedges: For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of recognised income and expense, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of recognised income and expense are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For cash flow hedges of forecast fuel purchases, the transfer is to operating costs within the income statement.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

Derivative financial instruments (continued)

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recorded in the statement of recognised income and expense remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of recognised income and expense are transferred to the income statement.

Hedges of net investment in a foreign entity: For hedges of the net investment in a foreign entity, the effective portion of the gain or loss on the hedging instrument is recorded in the statement of recognised income and expense, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of recognised income and expense are transferred to the income statement when the foreign entity is sold.

Non-derivative financial liabilities can be designated as hedges of a net investment in a foreign entity and are subject to the same requirements as derivative hedges of a net investment in a foreign entity.

Trade and other receivables

Trade debtors and other receivables are carried at original invoice amount less provision made for impairment of these receivables. Where the time value of money is material, receivables are carried at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments, less bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Interest bearing loans and borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Trade and other payables

Trade payables are not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

Preferred shares

From 1 May 2005, preferred shares, which are redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, are classified as liabilities. The dividend on these preferred shares is recognised in the income statement as an interest expense. Prior to 1 May 2005, preferred shares were recognised in equity and the dividends were recognised as an appropriation of profit.

Derivative financial instruments under UK GAAP

Prior to 1 May 2005, the policy for derivative financial instruments under UK GAAP was as set out below.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group. Gains and losses arising on these contracts are either held off balance sheet or deferred on balance sheet and recognised either in the income statement or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's financial statements. Gains and losses arising on derivatives hedging overseas net investments are recognised in the statement of recognised income and expense.

For interest rate and commodity swaps to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate or fuel cost by converting a fixed rate to a variable rate or vice versa. Cash flows under these swaps are recognised by adjusting net interest payable and fuel costs over the periods of the contracts. Gains and losses arising from the termination of these contracts are deferred on balance sheet and amortised to the income statement over the remaining period of the related hedged item or recognised immediately in the income statement where the hedge item no longer exists.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position no longer exists or the hedge is no longer effective, provision is made for any fair value loss on the instrument at that time.

- **Share capital**

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Where the Company, its subsidiaries or employee share ownership trusts sponsored by the Company purchases the Company's ordinary share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

The accounting policy in relation to preferred shares is included in the accounting policy for financial instruments above.

Note 2 Segmental information

The Group is managed, and reports internally, on a basis consistent with its three continuing business segments which consist of UK Bus, North America and UK Rail. The Group's New Zealand operations were disposed of during the year ended 30 April 2006 and therefore there is no segment income statement information provided for the New Zealand segment, however balance sheet segment information is provided for the comparative year in note 2(c). Due to the nature of the services the Group provides, the primary and secondary segments coincide. The IFRS accounting policies set out in these financial statements are applied consistently, where appropriate to each segment.

The segmental information provided in this note is on the basis of three primary segments, and gives the details for both business segments and geographical segments as follows:

Segment name	*Business segment*	*Geographical segment*
UK Bus	Coach and bus operations	United Kingdom
North America	Coach and bus operations	North America
UK Rail	Rail operations	United Kingdom

UK Bus and North America provide coach and bus services while UK Rail provides rail services.

The Group has interests in two joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus. The results of these joint ventures are shown separately in notes 2(b) and 2(f).

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue is the same in all cases.

No material part of each segment's revenue shown below relates to transactions with other segments.

	2006	2005
	£m	£m
Continuing operations		
UK Bus – continuing excluding acquisitions in year	**775.7**	720.3
– acquisitions in year	**38.5**	Nil
North America	**247.6**	213.7
Total bus continuing operations	**1,061.8**	934.0
UK Rail	**506.7**	479.4
Total continuing operations	**1,568.5**	1,413.4
Discontinued operations		
North America	**Nil**	7.1
Group revenue	**1,568.5**	1,420.5

The discontinued revenue from North America for the prior year is shown above rather than being reclassified to the profit on discontinued operations line on the face of the income statement. This is due to the fact that the expenses and profit from the discontinued element of North America for the prior year are not clearly distinguishable due to certain "shared" costs that relate to North America as a whole. Consequently, as we cannot reallocate the expenses and profit from the discontinued element of North America to the profit on discontinued operations in the income statement, the discontinued element of the revenue remains above. The profit from the discontinued element of North America is in any case believed to be immaterial.

The revenue from the discontinued New Zealand division forms part of the profit for the year from discontinued operations line on the face of the income statement on page 36 and is shown separately in note 17.

Total revenue (excluding revenue from discontinued operations) comprises:

	2006	2005
	£m	£m
Group revenue (shown above)	**1,568.5**	1,420.5
Other operating income (note 4)	**209.7**	176.1
Share of profit of joint ventures	**5.6**	10.7
Finance income	**8.6**	13.3
	1,792.4	1,620.6

Notes to the consolidated accounts

Note 2 Segmental information (continued)

(b) Operating profit

	2006			2005		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Continuing operations						
UK Bus – continuing, excluding acquisitions in year	**88.6**	**Nil**	**88.6**	87.7	(0.8)	86.9
– acquisitions in year	**(1.9)**	**Nil**	**(1.9)**	Nil	Nil	Nil
North America	**16.9**	**Nil**	**16.9**	15.5	Nil	15.5
Total bus continuing operations	**103.6**	**Nil**	**103.6**	103.2	(0.8)	102.4
UK Rail	**58.9**	**Nil**	**58.9**	50.0	Nil	50.0
Total continuing operations	**162.5**	**Nil**	**162.5**	153.2	(0.8)	152.4
Group overheads	**(10.0)**	**Nil**	**(10.0)**	(9.0)	(0.6)	(9.6)
Amortisation of intangible assets	**Nil**	**(7.4)**	**(7.4)**	Nil	(4.1)	(4.1)
Redundancy/restructuring costs	**(1.5)**	**Nil**	**(1.5)**	(1.4)	Nil	(1.4)
Total operating profit of continuing Group operations	**151.0**	**(7.4)**	**143.6**	142.8	(5.5)	137.3
Share of profit of joint ventures – after finance income and taxation – Virgin Rail Group	**5.5**	**Nil**	**5.5**	10.7	Nil	10.7
Operating profit	**5.3**	**Nil**	**5.3**	14.2	Nil	14.2
Finance income (net)	**1.7**	**Nil**	**1.7**	1.7	Nil	1.7
Taxation	**(1.5)**	**Nil**	**(1.5)**	(5.2)	Nil	(5.2)
	5.5	**Nil**	**5.5**	10.7	Nil	10.7
– Citylink	**0.1**	**Nil**	**0.1**	Nil	Nil	Nil
Operating profit	**0.1**	**Nil**	**0.1**	Nil	Nil	Nil
Finance income (net)	**Nil**	**Nil**	**Nil**	Nil	Nil	Nil
Taxation	**Nil**	**Nil**	**Nil**	Nil	Nil	Nil
	0.1	**Nil**	**0.1**	Nil	Nil	Nil
Goodwill charge on investment in continuing joint ventures	**Nil**	**(13.1)**	**(13.1)**	Nil	(14.7)	(14.7)
Share of loss of associate – after finance charges and taxation Continuing – other	**Nil**	**Nil**	**Nil**	(0.4)	Nil	(0.4)
Total operating profit: Group and share of joint ventures and associates	**156.6**	**(20.5)**	**136.1**	153.1	(20.2)	132.9

The operating profit from the discontinued element of North America for the prior year is not separately shown because it is not clearly distinguishable due to certain "shared" costs that relate to North America as a whole. However, the discontinued element of North America's operating profit is not believed to be material in the context of the Group's operating profit as a whole for the year ended 30 April 2005. The operating profit from the discontinued New Zealand division forms part of the profit for the year from discontinued operations line on the face of the income statement on page 36 and is shown separately in note 17.

Note 2 Segmental information (continued)

(c) Gross assets and liabilities

	2006			2005		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus	**626.0**	**(187.4)**	**438.6**	559.4	(189.0)	370.4
North America	**244.8**	**(45.1)**	**199.7**	232.2	(62.0)	170.2
UK Rail	**89.7**	**(196.9)**	**(107.2)**	97.0	(184.0)	(87.0)
New Zealand (Discontinued)	**Nil**	**Nil**	**Nil**	86.0	(11.1)	74.9
	960.5	**(429.4)**	**531.1**	974.6	(446.1)	528.5
Central functions	**68.3**	**(256.0)**	**(187.7)**	11.6	(233.5)	(221.9)
Joint ventures	**52.0**	**–**	**52.0**	56.1	–	56.1
Associate	**1.0**	**–**	**1.0**	1.0	–	1.0
Borrowings and cash	**198.5**	**(357.5)**	**(159.0)**	140.0	(354.6)	(214.6)
Taxation	**8.4**	**(34.2)**	**(25.8)**	5.1	(38.8)	(33.7)
Total	**1,288.7**	**(1,077.1)**	**211.6**	1,188.4	(1,073.0)	115.4

Central assets and liabilities include the token provisions, interest payable and receivable on Group debt and other net assets of the holding company.

(d) Capital expenditure on property, plant and equipment

The capital expenditure on property, plant and equipment shown below is on an accruals basis, not on a cash basis, and includes expenditure on property, plant and equipment through business combinations.

	2006	2005
	£m	£m
UK Bus – continuing, excluding acquisitions in year	**64.5**	51.4
UK Bus – acquisitions in year	**54.4**	1.2
North America	**26.3**	33.9
UK Rail	**1.9**	7.5
Discontinued operations	**3.2**	10.8
	150.3	104.8

(e) Capital expenditure on intangible assets

The capital expenditure on intangible assets (including goodwill) shown below includes acquisitions through business combinations.

	2006	2005
	£m	£m
UK Bus – continuing, excluding acquisitions in year	**Nil**	2.5
UK Bus – acquisitions in year	**35.4**	Nil
North America	**0.2**	1.2
UK Rail	**0.4**	0.2
	36.0	3.9

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(f) EBITDA, depreciation and amortisation expense

The results of each segment are further analysed below:

	Year ended 30 April 2006							
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	Depreciation expense £m	Operating profit sub-total £m	Amortisation of intangible assets £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus - continuing, excluding acquisitions in year	133.0	Nil	(44.4)	88.6	(1.2)	Nil	(0.2)	87.2
- acquisitions in year	0.5	Nil	(2.4)	(1.9)	(2.4)	Nil	(0.8)	(5.1)
North America	32.9	Nil	(16.0)	16.9	(0.8)	Nil	Nil	16.1
UK Rail – subsidiaries	64.7	Nil	(5.8)	58.9	(3.0)	Nil	(0.4)	55.5
UK Rail – joint venture (Virgin Rail Group)	5.3	0.2	Nil	5.5	(13.1)	Nil	Nil	(7.6)
UK Bus – joint venture (Citylink)	0.1	Nil	Nil	0.1	Nil	Nil	Nil	0.1
Group overheads	(9.9)	Nil	(0.1)	(10.0)	Nil	Nil	(0.1)	(10.1)
Restructuring costs	(1.5)	Nil	Nil	(1.5)	Nil	Nil	1.5	Nil
Associate	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	225.1	0.2	(68.7)	156.6	(20.5)	Nil	Nil	136.1

	Year ended 30 April 2005							
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	Depreciation expense £m	Operating profit sub-total £m	Amortisation of intangible assets £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus	132.5	Nil	(44.8)	87.7	(0.5)	(0.8)	(0.4)	86.0
North America	30.0	Nil	(14.5)	15.5	(0.7)	Nil	(0.1)	14.7
UK Rail – subsidiaries	53.4	Nil	(3.4)	50.0	(2.9)	Nil	(0.8)	46.3
UK Rail – joint venture (Virgin Rail Group)	14.2	(3.5)	Nil	10.7	(14.7)	Nil	Nil	(4.0)
Group overheads	(8.9)	Nil	(0.1)	(9.0)	Nil	(0.6)	(0.1)	(9.7)
Restructuring costs	(1.4)	Nil	Nil	(1.4)	Nil	Nil	1.4	Nil
Associate	(0.4)	Nil	Nil	(0.4)	Nil	Nil	Nil	(0.4)
	219.4	(3.5)	(62.8)	153.1	(18.8)	(1.4)	Nil	132.9

Note 3 Operating costs and exceptional items

	2006	2005
	£m	£m
Materials and consumables	**169.9**	145.2
Staff costs (note 6)	**782.6**	712.8
Depreciation on property, plant and equipment		
– owned assets	**56.2**	42.3
– leased assets under hire purchase agreements and finance leases	**12.5**	20.5
Loss on disposal of plant and equipment	**1.9**	3.0
Repairs and maintenance expenditure on property, plant and equipment	**18.1**	16.1
Amortisation of intangible assets		
– customer contracts	**2.4**	Nil
– non-compete contracts	**2.0**	1.1
– rail franchise	**2.9**	2.9
– software costs	**0.1**	0.1
Network Rail charges	**147.2**	128.2
Operating lease rentals payable		
– Plant and equipment	**117.0**	116.6
– Property	**5.7**	5.6
Other external charges	**316.1**	264.9
Total operating costs – continuing operations	**1,634.6**	1,459.3

Included within external charges are fees paid to the Group's auditors, an analysis of which is provided below:

	£000	£000
Audit services		
– statutory audit	**680.0**	590.0
– audit-related regulatory reporting	**2.5**	72.0
Other assurance services	**87.9**	71.4
Tax services		
– compliance services	**Nil**	6.4
– advisory services	**17.0**	67.0
Provision of training and related materials	**18.0**	0.5
Advice re return of capital and related matters	**Nil**	140.0
	805.4	947.3
Auditors' remuneration – audit (Company)	**20.0**	20.0

In addition to the above charges included within profit before taxation for continuing businesses, £6.3m (2005: £13.1m) was incurred in relation to materials and consumables, £17.5m (2005: £28.2m) was incurred for staff costs, £3.0m (2005: £4.5m) was incurred for depreciation on owned property, plant and equipment, £3.0m (2005: £4.5m) was incurred in relation to repairs and maintenance, £0.1m (2005: £0.1m) was incurred for plant and equipment operating lease rental payments and £0.3m (2005: £0.5m) was incurred for property operating lease rental payments and £2.9m (2005: £1.3m) was incurred in relation to external charges in relation to our disposed New Zealand business.

In addition to the above fees paid to the auditors for the Group's continuing businesses which were included within profit before taxation, £Nil (2005: £50,000) was incurred in relation to our disposed New Zealand business comprising £Nil (2005: £45,000) for statutory audit services and £Nil (2005: £5,000) for other assurance services which is included within profit for the year from discontinued operations.

Fees paid for non-audit services in the UK totalled £111,805 (2005: £341,795).

The following items have been treated as exceptional:

	2006	2005
	£m	£m
Gain on sale of New Zealand operations	**22.5**	Nil
Gain on sale of other investments	**1.1**	Nil
Loss in respect of other disposed and closed operations	**(7.0)**	(7.4)
Return of capital costs	**Nil**	(0.3)
Impairment of minority investment	**Nil**	(0.3)
Loss re flooding at Carlisle depot	**Nil**	(0.8)
Gain on sale of properties	**0.8**	1.3
	17.4	(7.5)
Tax effect of exceptional items	**2.8**	1.6
	20.2	(5.9)

Notes to the consolidated financial statements

Note 4 Other operating income

	2006	2005
	£m	£m
Miscellaneous revenue	**53.8**	46.4
Rail franchise support, excluding incentive payments	**111.1**	91.9
Rail liquidated damages	**0.7**	2.6
Rail incentive payments	**44.1**	35.2
	209.7	176.1

In addition to the above, other operating income for continuing businesses, £1.2m (2005: £1.9m) was recognised in relation to miscellaneous revenue in relation to our disposed New Zealand business.

Miscellaneous revenue comprises revenue incidental to the Group's principal activity. It includes advertising income, maintenance income and property income.

Rail franchise support is the gross amount of financial support receivable in respect of rail franchises from the DfT and formerly, the Strategic Rail Authority ("SRA"). Partly offsetting this, the Group recognised amounts payable to the DfT/SRA under revenue and profit share agreements for the South West Trains rail franchise totalling £66.7m (2005: £46.0m), which are included within operating costs.

Rail liquidated damages of £0.7m (2005: £2.6m) relate to amounts received by South West Trains for the late delivery and reliability of trains.

Rail incentive payments comprise receipts from/payments to the DfT/SRA in respect of the operational performance of our rail companies measured against benchmarks set by the DfT/SRA. Payments are made to the DfT/SRA when performance is worse than the target benchmarks and conversely payments are received from the DfT/SRA when performance is better than that set by the benchmarks.

Note 5 Finance costs and income

	2006	2005
	£m	£m
Finance costs:		
Bank loans, overdraft interest payable and other facility costs	**3.6**	4.0
Hire purchase and finance lease interest payable	**3.3**	8.3
Interest payable on notes	**14.2**	19.7
'B' share dividends	**0.2**	n/a
Unwinding of discount on provisions	**3.3**	3.2
	24.6	35.2
Finance income:		
Interest receivable	**(8.3)**	(13.3)
Fair value gains on financial instruments not qualifying as hedges		
– interest rate swaps	**(0.2)**	Nil
– foreign exchange forward contracts	**(0.1)**	Nil
	(8.6)	(13.3)
Net finance costs	**16.0**	21.9

In addition to the above net finance costs for continuing businesses, £0.1m (2005: £0.3m) of finance income was recognised in relation to our disposed New Zealand business.

The remaining redeemable 'B' preference shares were redeemed on 30 September 2005. They attracted a non-cumulative preferential dividend set at 70% of 6 months' LIBOR. The dividend was payable on the nominal amount of 18 pence per 'B' share and was paid twice yearly in arrears on 31 March and 30 September. As explained in note 1, the Group has opted to apply IAS 32 and IAS 39 prospectively from 1 May 2005 without restating prior periods and accordingly, the dividends on 'B' shares of £0.4m for the year ended 30 April 2005 have been deducted directly from equity and are not deducted in arriving at the profit for that year.

Note 6 Staff costs

	2006	2005
	£m	£m
Staff costs		
Wages and salaries	**687.3**	624.8
Social security costs	**59.8**	53.8
Pension costs – defined contribution plans	**1.0**	0.6
Pension costs – defined benefit plans		
– current service cost	**42.5**	38.7
– interest cost	**57.7**	51.8
– expected return on assets	**(65.9)**	(57.5)
– unwinding of franchise adjustment	**(1.9)**	(0.7)
Share based payment costs	**2.1**	1.3
	782.6	712.8

	2006	2005
	£m	£m
Summary of directors' remuneration		
Aggregate emoluments	**2.2**	2.0
Gains made by directors on exercise of share options	**2.0**	0.6
	4.2	2.6

In addition to the above staff costs, £17.4m (2005: £28.1m) of wages and salaries and £0.1m (2005: £0.1m) of share based payment costs were incurred in relation to our disposed New Zealand business.

Further information on directors' remuneration, share options, incentive schemes and pensions is contained in the Remuneration Committee report on pages 28 to 34.

The average monthly number of persons employed by the Group during the year (including executive directors but excluding discontinued operations) was as follows:

	2006	2005
	number	number
UK operations	**24,295**	21,105
UK administration and supervisory	**2,438**	2,266
Overseas	**4,649**	4,353
	31,382	27,724

The average monthly number of persons employed by the Group during the year split by segment was as follows:

	2006	2005
	number	number
UK Bus	**22,078**	18,633
North America	**4,649**	4,353
UK Rail	**4,528**	4,615
Central	**127**	123
	31,382	27,724

Notes to the consolidated financial statements

Note 7 Taxation

(a) Analysis of charge in the year

	2006			2005		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Current tax:						
UK corporation tax at 30% (2005: 30%)	**20.2**	**Nil**	**20.2**	25.3	(0.3)	25.0
Prior year under provision for corporation tax	**1.0**	**Nil**	**1.0**	0.3	Nil	0.3
Foreign tax (current year)	**Nil**	**Nil**	**Nil**	0.5	Nil	0.5
Foreign tax (adjustments in respect of prior years)	**2.4**	**Nil**	**2.4**	0.1	Nil	0.1
Total current tax	**23.6**	**Nil**	**23.6**	26.2	(0.3)	25.9
Deferred tax:						
Origination and reversal of timing differences	**8.5**	**(5.0)**	**3.5**	3.8	(2.4)	1.4
Adjustments in respect of prior years	**(0.7)**	**Nil**	**(0.7)**	(2.0)	Nil	(2.0)
Total deferred tax	**7.8**	**(5.0)**	**2.8**	1.8	(2.4)	(0.6)
Tax on profit on ordinary activities	**31.4**	**(5.0)**	**26.4**	28.0	(2.7)	25.3

(b) Factors affecting tax charge for the year

	2006 £m	2005 £m
Profit on ordinary activities before tax	**115.0**	104.9
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	**34.5**	31.5
Effects of:		
Intangible asset allowances/deductions	**3.9**	4.5
Non-deductible expenditure	**6.8**	6.3
Utilisation of tax losses not previously recognised as deferred tax assets	**(19.2)**	(11.3)
Foreign taxes differences	**(0.6)**	(0.9)
Adjustments to tax charge in respect of prior years	**2.7**	(1.6)
Tax effect of share of results of joint ventures	**(1.7)**	(3.2)
Total taxation (note 7a)	**26.4**	25.3

(c) Factors that may affect future tax charges

There are no temporary differences associated with investments in overseas subsidiaries for which deferred tax liabilities have not been recognised.

Deductible temporary differences of £306.0m (2005: £370.0m) have not been recognised due to restrictions in the availability of their use.

(d) Tax on items charged to equity

	2006 £m	2005 £m
Tax on foreign exchange differences on translation of foreign operations	**(0.2)**	Nil
Tax effect of actuarial (gains)/losses on Group defined benefit pensions schemes	**(4.2)**	15.3
Tax effect of share of actuarial (gains)/losses on joint ventures' defined benefit pension schemes	**(1.5)**	2.7
Tax effect of cash flow hedges	**Nil**	Nil
Tax effect of share based payments	**2.9**	Nil
Total tax on items charged to equity	**(3.0)**	18.0
Tax recognised on the adoption of IAS 39	**0.5**	Nil

Note 8 Dividends

	2006	2005
	£m	£m
Amounts recognised as distributions in the year		
Dividends on ordinary shares		
Final dividend paid of 2.0p per share for the year ended 30 April 2004	–	26.5
Interim dividend paid of 1.0p per share for the year ended 30 April 2005	–	10.7
Final dividend paid of 2.3p per share for the year ended 30 April 2005	**24.6**	–
Interim dividend paid of 1.1p per share for the year ended 30 April 2006	**12.0**	–
Amounts recognised as distributions to equity holders in the year	**36.6**	37.2
Dividends on redeemable 'B' preference shares		
Accrued for the period	**n/a**	0.4
	36.6	37.6
Dividends proposed but neither paid nor included as liabilities in the financial statements		
Dividends on ordinary shares		
Final dividend paid of 2.3p per share for the year ended 30 April 2005	–	24.4
Final dividend proposed of 2.6p per share for the year ended 30 April 2006	**28.4**	–
	28.4	24.4

The proposed final dividend in respect of the year ended 30 April 2006 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If approved, the final dividend will be payable on 4 October 2006 to shareholders on the register at close of business on 1 September 2006.

The dividends proposed and the actual dividends recognised as distributions differ slightly due to the number of shares at the balance sheet date being different to that at the record date.

The redeemable 'B' preference shares attracted a non-cumulative preferential dividend set at 70% of 6 months' LIBOR. The dividend was payable on the nominal amount of 18 pence per 'B' share and was paid twice yearly in arrears on 31 March and 30 September. On adoption of IAS 32 and IAS 39 on 1 May 2005, the preference shares are reclassified as debt rather than equity and subsequently any dividends accrued since that date are classified as finance costs and are disclosed in note 5.

Note 9 Earnings per share

Basic earnings per share have been calculated by dividing the profit attributable to equity shareholders (net of any dividends on preference shares not already deducted in arriving at the reported profit) by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held by employee share ownership trusts and not ranking for dividend.

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to share options and long-term incentive plans. In respect of share options, a calculation was done to determine the number of ordinary shares that could have been acquired at fair value (determined based on the average annual market share price of the Company's ordinary shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration and no adjustment is made to earnings (numerator).

	2006	2005
Basic weighted average ordinary share capital (number of shares, million)	**1,075.8**	1,154.5
Dilutive ordinary shares		
– Executive Share Option Scheme	**14.7**	20.0
– Employee SAYE Scheme	**0.8**	3.6
– LTIP	**Nil**	Nil
Diluted weighted average ordinary share capital (number of shares, million)	**1,091.3**	1,178.1

Notes to the consolidated financial statements

Note 9 Earnings per share (continued)

	2006 £m	2005 £m
Profit after taxation	**115.4**	86.9
Dividends on 'B' shares	**n/a**	(0.4)
Profit after taxation and dividends on 'B' shares (for basic EPS calculation)	**115.4**	86.5
Amortisation of intangible assets	**20.5**	18.8
Exceptional items (see note 3)	**(17.4)**	7.5
Tax effect of amortisation of intangible assets and exceptional items	**(5.0)**	(2.7)
Profit for adjusted EPS calculation	**113.5**	110.1

	Earnings per share pence	Earnings per share pence
Basic	**10.7**	7.5
Adjusted basic	**10.6**	9.5
Diluted	**10.6**	7.3
Adjusted diluted	**10.4**	9.3

Earnings per share before the amortisation of intangible assets and exceptional items is calculated after adding back intangible asset amortisation and exceptional items after taking account of taxation, as shown on the consolidated income statement on page 36. This has been presented to allow shareholders to gain a clearer understanding of the underlying performance.

The basic and diluted earnings per share can be further analysed as follows:

	2006			2005		
	Earnings £m	Weighted average number of shares Million	Earnings per share Pence	Earnings £m	Weighted average number of shares Million	Earnings per share Pence
Basic						
– Continuing operations	**88.6**	**1,075.8**	**8.2p**	79.2	1,154.5	6.9p
– Discontinued operations	**26.8**	**1,075.8**	**2.5p**	7.3	1,154.5	0.6p
	115.4	**1,075.8**	**10.7p**	86.5	1,154.5	7.5p
Adjusted basic						
– Continuing operations	**109.2**	**1,075.8**	**10.2p**	102.8	1,154.5	8.9p
– Discontinued operations	**4.3**	**1,075.8**	**0.4p**	7.3	1,154.5	0.6p
	113.5	**1,075.8**	**10.6p**	110.1	1,154.5	9.5p
Diluted						
– Continuing operations	**88.6**	**1,091.3**	**8.1p**	79.2	1,178.1	6.7p
– Discontinued operations	**26.8**	**1,091.3**	**2.5p**	7.3	1,178.1	0.6p
	115.4	**1,091.3**	**10.6p**	86.5	1,178.1	7.3p
Adjusted diluted						
– Continuing operations	**109.2**	**1,091.3**	**10.0p**	102.8	1,178.1	8.7p
– Discontinued operations	**4.3**	**1,091.3**	**0.4p**	7.3	1,178.1	0.6p
	113.5	**1,091.3**	**10.4p**	110.1	1,178.1	9.3p

The following executive share options could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share for the years ended 30 April 2005 and 30 April 2006 as they would have been anti-dilutive (that is, their inclusion would have increased earnings per share) due to the exercise price exceeding the average share price for the year.

Award date	Outstanding as at 30 April 2005	Outstanding as at 30 April 2006	Exercise price £	Expiry date
8 September 1997	41,472	**Nil**	1.2810	8 September 2007
19 October 1998	273,548	**Nil**	2.2280	19 October 2005
19 July 1999	519,158	**407,657**	2.0310	19 July 2006
10 December 2004	1,592,013	**1,435,008**	1.1150	10 December 2011

Further details of executive share options are provided in note 29.

There have been no ordinary share transactions between the balance sheet date and date of approval of this report that would have significantly changed the number of ordinary shares outstanding at 30 April 2006.

Note 10 Goodwill

	2006	2005
	£m	£m
Cost		
At beginning of year	**93.6**	99.4
Acquired through business combinations	**20.7**	Nil
Sale/closure of subsidiary undertakings*	**(19.0)**	(1.3)
Translation adjustment	**4.8**	(4.5)
At end of year	**100.1**	93.6
Accumulated impairment losses		
At beginning and end of year	**Nil**	Nil
Net book value at beginning of year	**93.6**	99.4
Net book value at end of year	**100.1**	93.6

*The disposed goodwill included within note 17 includes £Nil (2005: £3.4m) of goodwill that was held in a disposal group prior to the business being sold and is threfore not included in the table above.

Details of acquisitions and disposals made during the year are contained within notes 16 and 17.

During the year, goodwill was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". No impairment charges (2005: £Nil) arose as a result of this review.

Goodwill was allocated to individual cash generating units for this impairment testing on the basis of the Group's operations. The carrying value of goodwill by cash generating unit is as follows:

	2006	2005
	£m	£m
UK Bus	**20.8**	0.3
North America	**79.3**	75.4
New Zealand	**n/a***	17.9
	100.1	93.6

*disposed of during the year

The assumptions used for the cash generating units included within the impairment reviews are as follows:

	Discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond five year period of management plan	
	2006	2005	**2006**	2005
UK Bus	**10.7%**	10.7%	**2.2%**	2.2%
North America	**9.0%**	9.0%	**2.75%**	2.75%
New Zealand	**n/a***	11.6%	**n/a***	2.75%

* New Zealand was disposed of during the year ended 30 April 2006 therefore no impairment review has been undertaken for that year

The discount rates represent the risk adjusted weighted average cost of capital appropriate for the cash flow generated.

The calculation of value in use for each cash generating unit is most sensitive to the assumptions over gross margin, discount rates, and the growth rate.

The assumptions used are considered to be consistent with the historical performance of each unit and to be realistically achievable in the light of economic and industry measures and forecasts.

Notes to the consolidated financial statements

Note 11 Other intangible assets

Year ended 30 April 2006

	Customer contracts	Non-compete contracts	Rail franchise	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	Nil	6.6	8.1	0.3	15.0
Acquired through business combinations	14.7	Nil	Nil	Nil	14.7
Additions	Nil	0.2	Nil	0.4	0.6
Translation adjustment	Nil	0.2	Nil	Nil	0.2
At end of year	14.7	7.0	8.1	0.7	30.5
Accumulated amortisation					
At beginning of year	Nil	(2.8)	(2.9)	(0.1)	(5.8)
Amortisation for year	(2.4)	(2.0)	(2.9)	(0.1)	(7.4)
At end of year	(2.4)	(4.8)	(5.8)	(0.2)	(13.2)
Net book value at beginning of year	Nil	3.8	5.2	0.2	9.2
Net book value at end of year	12.3	2.2	2.3	0.5	17.3

Intangible assets relate to customer contracts purchased as part of the Group's business combinations, non-compete contracts, the right to operate UK Rail franchises and software costs.

The amortisation of each of the above intangible assets is included within the operating costs line of the income statement.

Intangible assets arising during the year (including those acquired through business combinations) and the amortisation periods are as follows:

	Amortisation period years	Intangible additions £m
Subsidiaries – UK Bus business combinations additions	5	14.7
Subsidiaries – North America additions	2-5	0.2
Subsidiaries – UK Rail additions	2-5	0.4
		15.3

Year ended 30 April 2005

	Non-compete contracts	Rail franchise	Software costs	Total
	£m	£m	£m	£m
Cost				
At beginning of year	3.9	8.1	Nil	12.0
Acquired through business combinations	3.6	Nil	Nil	3.6
Additions	Nil	Nil	0.3	0.3
Sale/closure of subsidiary undertakings and other businesses	(0.7)	Nil	Nil	(0.7)
Translation adjustment	(0.2)	Nil	Nil	(0.2)
At end of year	6.6	8.1	0.3	15.0
Accumulated amortisation				
At beginning of year	(1.9)	Nil	Nil	(1.9)
Amortisation for year	(1.1)	(2.9)	(0.1)	(4.1)
Sale/closure of subsidiary undertakings and other businesses	0.2	Nil	Nil	0.2
At end of year	(2.8)	(2.9)	(0.1)	(5.8)
Net book value at beginning of year	2.0	8.1	Nil	10.1
Net book value at end of year	3.8	5.2	0.2	9.2

Note 12 Property, plant and equipment

Year ended 30 April 2006	Land and buildings	PSVs and other assets	Total
	£m	£m	£m
Cost			
At beginning of year	200.4	1,005.4	1,205.8
Additions	6.8	97.0	103.8
Acquired through business combinations	17.1	29.4	46.5
Disposals	(5.0)	(30.9)	(35.9)
Sale/closure of subsidiary undertakings and other businesses	(7.9)	(101.8)	(109.7)
Translation adjustment	2.2	20.4	22.6
At end of year	213.6	1,019.5	1,233.1
Depreciation			
At beginning of year	(3.4)	(508.2)	(511.6)
Charge	(4.7)	(67.0)	(71.7)
Disposals	0.9	23.7	24.6
Sale/closure of subsidiary undertakings and other businesses	1.1	43.1	44.2
Translation adjustment	(0.7)	(9.1)	(9.8)
At end of year	(6.8)	(517.5)	(524.3)
Net book value at beginning of year	197.0	497.2	694.2
Net book value at end of year	206.8	502.0	708.8
Included in the above are:			
Assets on hire purchase	Nil	95.3	95.3
Leased PSV assets	Nil	45.1	45.1
Short leasehold land and buildings	2.4	Nil	2.4
Long leasehold land and buildings	29.4	Nil	29.4

Heritable and freehold land amounting to £109.3m (2005: £98.2m) has not been depreciated.
Depreciation of £12.5m (2005: £20.5m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

Year ended 30 April 2005	Land and buildings	PSVs and other assets	Total
	£m	£m	£m
Cost			
At beginning of year	190.4	967.6	1,158.0
Additions	14.9	88.6	103.5
Acquired through business combinations	Nil	1.3	1.3
Disposals	(3.6)	(46.6)	(50.2)
Sale/closure of subsidiary undertakings and other businesses*	Nil	Nil	Nil
Translation adjustment	(1.3)	(5.5)	(6.8)
At end of year	200.4	1,005.4	1,205.8
Depreciation			
At beginning of year	(2.5)	(484.4)	(486.9)
Charge	(4.1)	(63.2)	(67.3)
Disposals	2.8	35.3	38.1
Sale/closure of subsidiary undertakings and other businesses*	Nil	Nil	Nil
Translation adjustment	0.4	4.1	4.5
At end of year	(3.4)	(508.2)	(511.6)
Net book value at beginning of year	187.9	483.2	671.1
Net book value at end of year	197.0	497.2	694.2
Included in the above are:			
Assets on hire purchase	Nil	124.3	124.3
Leased PSV assets	Nil	2.6	2.6
Short leasehold land and buildings	1.0	Nil	1.0
Long leasehold land and buildings	20.2	Nil	20.2

*During the year ended 30 April 2005, various businesses in North America were disposed of. As a result, property, plant and equipment with a net book value of £0.6m (see note 17) were disposed of. These are not included in the above table as these assets were transferred to a disposal group on transition to IFRS, being 1 May 2004.

IAS 16, "Property, plant and equipment", requires the initial measurement of property, plant and equipment at cost less accumulated depreciation. The exemption in IFRS 1 allow entities to use a value that is not depreciated cost as deemed cost on transition to IFRS. One of the options is to use fair value of the item at the date of transition to IFRS and allocate this as deemed cost. Certain of our UK Bus division's land and buildings have been valued at the date of transition to IFRS, being 1 May 2004, on the basis of existing use value by independent qualified valuers. This resulted in an increase of £53.9m to the carrying value of those land and buildings at 1 May 2004.

Notes to the consolidated financial statements

Note 13 Interests in joint ventures

The principal joint ventures are:

	Country of Incorporation	Number of shares in issue at 30 April 2006	Nominal Value of share capital in issue at 30 April 2006	% interest held
Virgin Rail Group Holdings Limited	United Kingdom	34,780	£3,478	49%
Scottish Citylink Limited	United Kingdom	1,643,312	£1,643,312	35%

The Group has two joint ventures, Virgin Rail Group Holdings Limited ("VRG") and Scottish Citylink Limited ("Citylink").

Virgin Rail Group Holdings Limited is the holding company of Virgin Rail Group Limited, which in turn is the holding company of CrossCountry Trains Limited and West Coast Trains Limited.

The Virgin Rail Group Holdings shareholders' agreement provides for joint decision making on key matters and equal representation on the Board. As a consequence, the investment has been accounted for as a joint venture.

As part of the original acquisition, the Group acquired a £20m shareholder loan to Virgin Rail Group Limited, now a subsidiary of Virgin Rail Group Holdings Limited. The shareholder loan bears interest at a fixed rate of 10% per annum. £10m of the original £20m loan was repaid on 28 April 2000, £3.3m was repaid on 23 September 2004 and £3.4m was repaid on 27 September 2004.

Unless otherwise agreed by the shareholders of Virgin Rail Group Holdings Limited, Virgin Rail Group Limited is restricted from paying dividends until any loans payable to the Virgin Rail Group Holdings Limited shareholders have been repaid. With the agreement of its shareholders, Virgin Rail Group Holdings Limited has declared a dividend of £15.7m in respect of its financial year ended 4 March 2006.

The Directors undertook an impairment review as at 30 April 2006 of the carrying value of the Group's 49% joint venture interest in VRG and concluded that there had been no impairment loss. The discount rate applied to the cash flow projections for the impairment review was 10.7% and the cash flows were based on the business plans for both of VRG's West Coast and CrossCountry franchises, which cover the period until the end of each franchise.

Stagecoach acquired 35% of the share capital of Citylink on 12 September 2005 in return for transferring certain rights to the Motorvator and megabus.com operations in Scotland. The Citylink shareholder agreement provides for joint and unanimous decision making on all key matters and therefore the investment has been accounted for as a joint venture.

	VRG	**Citylink**	**Total 2006**	Total 2005
	£m	£m	£m	£m
Cost				
At beginning of year	**70.8**	**Nil**	**70.8**	96.6
1 May 2005 IAS 32/39 adjustments	**(3.3)**	**Nil**	**(3.3)**	Nil
At beginning of year, restated	**67.5**	**Nil**	**67.5**	96.6
Additions	**Nil**	**3.1**	**3.1**	Nil
Share of recognised profits	**5.5**	**0.1**	**5.6**	10.7
Share of actuarial gains/(losses) on defined benefit pension schemes, net of tax	**3.7**	**Nil**	**3.7**	(6.4)
Dividends received	**Nil**	**Nil**	**Nil**	(23.5)
Loan repayment	**Nil**	**Nil**	**Nil**	(6.7)
Rounding	**(0.1)**	**Nil**	**(0.1)**	0.1
At end of year	**76.6**	**3.2**	**79.8**	70.8
Amounts written off				
At beginning of year	**(14.7)**	**Nil**	**(14.7)**	Nil
Goodwill charged during year	**(13.1)**	**Nil**	**(13.1)**	(14.7)
At end of year	**(27.8)**	**Nil**	**(27.8)**	(14.7)
Net book value at beginning of year	**56.1**	**Nil**	**56.1**	96.6
Net book value at beginning of year, restated	**52.8**	**Nil**	**52.8**	96.6
Net book value at end of year	**48.8**	**3.2**	**52.0**	56.1

Note 13 Interests in joint ventures (continued)

The Group's share of the net assets of its joint ventures is analysed below:

	VRG	Citylink	Total 2006	Total 2005
	£m	£m	£m	£m
Non-current assets	**24.9**	**0.3**	**25.2**	16.2
Current assets	**140.7**	**1.4**	**142.1**	116.3
Non-current liabilities	**(11.1)**	**Nil**	**(11.1)**	(21.3)
Current liabilities	**(135.4)**	**(1.1)**	**(136.5)**	(101.2)
Share of net assets	**19.1**	**0.6**	**19.7**	10.0
Goodwill	**29.7**	**2.6**	**32.3**	42.8
Shareholder loan notes	**n/a**	**n/a**	**n/a**	3.3
	48.8	**3.2**	**52.0**	56.1

On transition to IAS 32 and IAS 39 on 1 May 2005, the shareholder loan notes of £3.3m receivable from VRG were reclassified as financial assets and therefore as at 30 April 2006 were included within the current trade and other receivables line on the balance sheet.

The Group's share of post tax results from joint ventures is analysed below:

	VRG	Citylink	Total 2006	Total 2005
	£m	£m	£m	£m
Revenue	**357.4**	**3.8**	**361.2**	315.2
Expenses	**(352.1)**	**(3.7)**	**(355.8)**	(301.0)
Operating profit	**5.3**	**0.1**	**5.4**	14.2
Finance income (net)	**1.7**	**Nil**	**1.7**	1.7
Taxation	**(1.5)**	**Nil**	**(1.5)**	(5.2)
Share of profit of joint ventures	**5.5**	**0.1**	**5.6**	10.7

A net actuarial gain after tax of £3.7m (2005: loss of £6.4m) was recognised in addition to the above in relation to VRG's defined benefit pension schemes.

Note 14 Interests in associate

	2006	2005
	£m	£m
Cost and net book value		
At the beginning of year	**1.0**	1.4
Share of recognised losses	**Nil**	(0.4)
At end of year	**1.0**	1.0

Notes to the consolidated financial statements

Note 14 Interests in associate (continued)

The principal associate is:

	Country of Incorporation	Number of shares in issue at 30 April 2006	Nominal Value of share capital in issue at 30 April 2006	% interest held
Prepayment Cards Limited	United Kingdom	340,000	£340,000	23.5%

The Group's share of the net assets of its associate is analysed below:

	2006	2005
	£m	£m
Non-current assets	**4.0**	4.1
Current assets	**0.4**	0.3
Non-current liabilities	**(0.5)**	Nil
Current liabilities	**(4.5)**	(5.0)
Share of net liabilities	**(0.6)**	(0.6)
Goodwill	**1.6**	1.6
	1.0	1.0

The Group's share of post tax results from its associate is analysed below:

	2006	2005
	£m	£m
Revenue	**0.2**	0.3
Expenses	**(0.2)**	(0.7)
Share of loss from interest in associate	**Nil**	(0.4)

The finance costs and taxation of the associate were less than £0.1m for each year presented.

Note 15 Available for sale and other investments

	2006	2005
	£m	£m
Cost		
At the beginning of year	**2.1**	2.3
Additions	**2.8**	0.4
Acquired through business combinations	**0.2**	Nil
Net fair value gains	**1.9**	Nil
Disposals	**Nil**	(0.6)
Sale/closure of subsidiary undertakings	**(2.6)**	Nil
Translation adjustment	**0.1**	Nil
At end of year	**4.5**	2.1
Amounts written off		
At the beginning of the year	**(0.3)**	Nil
Impairment charge for year	**Nil**	(0.3)
At end of year	**(0.3)**	(0.3)
Net book value at beginning of year	**1.8**	2.3
Net book value at end of year	**4.2**	1.8

Investments above include £3.3m in relation to the fair value of the Group's investment in Oxonica plc which is listed on the Alternative Investment Market ("AIM") in the UK. The Group exercised options to acquire 2,035,485 ordinary shares during the year and the fair value of these shares is based on the quoted market "offer" price at 30 April 2006. The Group's holding in Oxonica plc shares at 30 April 2006 was 4.9% of the total issued share capital.

Note 16 Acquisitions

During the year 4 acquisitions of wholly owned subsidiaries have been concluded for a total consideration of £29.7m in cash and £4.5m in shares. The fair value of the net assets acquired was £13.5m giving rise to goodwill of £20.7m which has been capitalised. Furthermore a joint venture (Citylink) was formed between Stagecoach and ComfortDelGro during the year details of which are contained in note 13.

The aggregate fair value of the net assets acquired of wholly owned subsidiaries is as follows:

	UK Bus			Total	Total
	Glenvale	Traction	Other	2006	2005
	£m	£m	£m	£m	£m
Fair value to Group					
Intangible fixed assets (excluding goodwill)	0.6	14.1	Nil	**14.7**	3.6
Property, plant and equipment	6.5	37.9	2.1	**46.5**	1.3
Other net liabilities	(13.5)	(34.2)	Nil	**(47.7)**	(0.1)
Total (liabilities)/assets	(6.4)	17.8	2.1	**13.5**	4.8
Goodwill	9.8	8.6	2.3	**20.7**	Nil
Consideration	3.4	26.4	4.4	**34.2**	4.8
Add: Deferred consideration in respect of businesses acquired in prior years	Nil	Nil	0.1	**0.1**	1.1
Less: Shares issued	Nil	(4.5)	Nil	**(4.5)**	Nil
Less: Net cash and cash equivalents acquired	(2.2)	0.1	Nil	**(2.1)**	Nil
Net cash outflow	1.2	22.0	4.5	**27.7**	5.9

Full details of the significant acquisitions of Glenvale Transport Limited and Traction Group Limited are below. The Group acquired some other small businesses during the year in the UK and North America which are reflected in the "other" column above.

There were no adjustments to goodwill arising during the year ended 30 April 2006 which related to prior year acquisitions (2005: £Nil).

Glenvale Transport Limited

	Initial book value	Restatement to fair value	Fair value to the Group
	£m	£m	£m
Existing goodwill of Glenvale	5.2	(5.2)	Nil
Intangible fixed assets (excluding goodwill)	Nil	0.6	0.6
Property, plant and equipment	5.8	0.7	6.5
Inventories	0.4	(0.3)	0.1
Trade and other receivables	1.4	(0.2)	1.2
Cash and cash equivalents	2.2	Nil	2.2
Trade and other payables	(2.4)	(0.6)	(3.0)
Current tax liabilities	(1.2)	0.8	(0.4)
Borrowings	(10.0)	Nil	(10.0)
Deferred tax asset	1.2	0.1	1.3
Provisions	(1.2)	(1.2)	(2.4)
Retirement benefit obligations	(2.5)	Nil	(2.5)
Net liabilities acquired	(1.1)	(5.3)	(6.4)
Goodwill			9.8
Total consideration (settled in cash)			3.4
Less: Net cash and cash equivalents acquired			(2.2)
Net cash outflow			1.2

The Group acquired the entire share capital of Glenvale Transport Limited ("Glenvale") on 12 July 2005. The consideration paid for the shares was £3.4m in cash and the Group assumed the net debt of Glenvale at acquisition totalling £7.8m. The fair value of the net liabilities acquired totalled £6.4m (including the £7.8m of assumed net debt) resulting in goodwill of £9.8m. In the period from acquisition to 30 April 2006, Glenvale contributed £17.4m to revenue and made an operating loss of £2.3m. If the acquisition had been completed on the first day of the financial year, Group revenues for the year ended 30 April 2006 would have been £4.8m higher and Group profit attributable to equity holders of the parent would have been £0.2m lower.

Note 16 Acquisitions (continued)

Traction Group Limited

	Initial book value	Restatement to fair value	Fair value to the Group
	£m	£m	£m
Intangible fixed assets (excluding goodwill)	Nil	14.1	14.1
Property, plant and equipment	42.1	(4.2)	37.9
Inventories	0.9	(0.2)	0.7
Trade and other receivables	4.7	Nil	4.7
Cash and cash equivalents	5.7	Nil	5.7
Trade and other payables	(8.7)	(1.1)	(9.8)
Current tax assets	0.1	0.1	0.2
Borrowings – bank overdrafts	(5.8)	Nil	(5.8)
Borrowings – other	(10.9)	Nil	(10.9)
Derivative financial instruments	Nil	2.8	2.8
Deferred tax assets	0.9	0.4	1.3
Provisions	Nil	(4.1)	(4.1)
Retirement benefit obligations	(19.0)	Nil	(19.0)
Net assets acquired	10.0	7.8	17.8
Goodwill			8.6
Total consideration			26.4
Net consideration			26.0
Acquisition costs			0.4
Total consideration			26.4
Less: shares issued			(4.5)
Less: Net cash and cash equivalents acquired			0.1
Net cash outflow			22.0

On 14 December 2005, Stagecoach acquired the entire share capital of Traction Group Limited ("Traction"). The consideration paid for the shares was £26.0m (excluding £0.4m of directly attributable costs), which was satisfied by £21.5m in cash and the issue of 4,022,070 Stagecoach ordinary shares of 12/19th pence each. The share price used to value the shares issued as consideration was £1.13. Stagecoach has assumed Traction's net debt of £11.0m. The fair value of the net assets acquired totalled £17.8m (including the £11.0m of assumed net debt) and acquisition costs of £0.4m were incurred resulting in goodwill of £8.6m. In the period from acquisition to 30 April 2006, Traction contributed £21.1m to revenue and made an operating profit of £0.4m. If the acquisition had been completed on the first day of the financial year, Group revenues for the year ended 30 April 2006 would have been £36.7m higher and Group profit attributable to equity holders of the parent would have been £1.3m higher.

Note 17 Disposals

The Group disposed of its New Zealand operations on 29 November 2005 to Infratil Limited. The disposal was believed by the Directors to be the best way to maximise shareholder value from the New Zealand operations.

The results of the discontinued New Zealand operations that have been included in the consolidated income statement were as follows:

	2006	2005
	£m	£m
Revenue	**37.4**	59.0
Operating costs	**(33.1)**	(52.2)
Other operating income	**1.2**	1.9
Operating profit	**5.5**	8.7
Finance income	**0.1**	0.3
Taxation	**(1.3)**	(1.7)
Profit for the year before gain on disposal	**4.3**	7.3
Gain on disposal	**22.5**	Nil
Profit for the year from discontinued operations	**26.8**	7.3

A gain of £22.5m arose on the disposal of the New Zealand operations, being the proceeds of disposal less the carrying amount of the disposed business' net assets and goodwill at the date of disposal. No tax arose as a result of this gain.

In respect of the subsidiary undertakings that were disposed of during the year, the net assets disposed of were as follows:

	New Zealand	**Other**	**2006 Total**	2005 Total
	£m	£m	£m	£m
Goodwill	19.0	Nil	**19.0**	4.7
Other intangible assets	Nil	Nil	**Nil**	0.5
Property, plant and equipment	64.1	1.4	**65.5**	0.6
Investments	2.6	Nil	**2.6**	Nil
Cash and cash equivalents	6.0	Nil	**6.0**	Nil
Other current assets	6.3	Nil	**6.3**	4.5
Other liabilities	(13.2)	Nil	**(13.2)**	(0.3)
Provisions	(4.4)	Nil	**(4.4)**	Nil
Net assets disposed	80.4	1.4	**81.8**	10.0
Provisions and accruals for future costs associated with the disposals	4.9	9.6	**14.5**	7.9
Release of provision against receivable on prior year disposals	Nil	(1.4)	**(1.4)**	(1.7)
Foreign exchange recycled on disposal	(3.9)	Nil	**(3.9)**	Nil
Profit/(loss) on disposal	22.5	(7.0)	**15.5**	(7.4)
Net consideration	103.9	2.6	**106.5**	8.8
Total consideration	107.0	2.6	**109.6**	8.8
Less: disposal costs	(3.1)	–	**(3.1)**	Nil
Net consideration	103.9	2.6	**106.5**	8.8
Less: net cash disposed of	(6.0)	Nil	**(6.0)**	Nil
Less: deferred consideration outstanding (net of provision for doubtful debts)	Nil	Nil	**Nil**	(1.7)
Net cash inflow: disposals in year	97.9	2.6	**100.5**	7.1
Net cash inflow: deferred consideration in respect of businesses disposed in prior years	Nil	3.9	**3.9**	7.6
	97.9	6.5	**104.4**	14.7

Notes to the consolidated financial statements

Note 18 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2006 were:

Company	Country of registration or incorporation	Principal activity
Stagecoach Transport Holdings plc	Scotland	Holding company
SCOTO Limited	England	Holding company
SCUSI Limited	England	Holding company
Precis (1628) Limited	England	Holding company
The Integrated Transport Company Limited	Scotland	Holding company
Stagecoach (South) Ltd	England	Bus and coach operator
Stagecoach (North West) Ltd	England	Bus and coach operator
East Midland Motor Services Ltd	England	Bus and coach operator
Stagecoach Scotland Ltd	Scotland	Bus and coach operator
National Transport Tokens Ltd (99.9%)	England	Transport tokens
East Kent Road Car Company Ltd	England	Bus and coach operator
Stagecoach West Ltd	England	Bus and coach operator
PSV Claims Bureau Ltd	England	Claims handling
Busways Travel Services Ltd	England	Bus and coach operator
South East London and Kent Bus Co Ltd	England	Bus and coach operator
East London Bus and Coach Co Ltd	England	Bus and coach operator
Cleveland Transit Ltd	England	Bus and coach operator
Cambus Ltd	England	Bus and coach operator
Greater Manchester Buses South Ltd	England	Bus and coach operator
Stagecoach Services Limited	England	Provision of accounting and payroll services
The Yorkshire Traction Group Ltd	England	Bus and coach operator
South West Trains Ltd	England	Train operating company
Gray Line New York Tours Inc	United States	Bus and coach operator
Trentway-Wager Inc	Canada	Bus and coach operator

All companies operate in the countries shown above and, except for Stagecoach Transport Holdings plc, are indirectly held. The companies listed above include all those which principally affect the results and assets of the Group.The Group considers any subsidiary that has revenue greater than £25.0m, profit before interest and taxation greater than £2.5m, gross assets greater than £25.0m or gross liabilities greater than £25.0m to be a principal subsidiary. These thresholds exclude any intercompany amounts and investments in subsidiaries.

A full list of the Company's subsidiary undertakings will be annexed to the next annual return of the Company.

Note 19 Inventories

	2006	2005
	£m	£m
Parts and consumables	**13.2**	12.5

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. Changes in the provision for slow moving and obsolete stock were as follows:

	2006	2005
	£m	£m
At beginning of year	**1.7**	8.9
Charged to income	**0.1**	0.2
Amount utilised	**Nil**	(1.1)
Acquired through business combinations	**0.2**	Nil
Disposal of businesses	**Nil**	(6.3)
At end of year	**2.0**	1.7

There was no material write down of inventories during the current or prior year.

The provision of £8.9m as at 1 May 2004 predominantly related to a provision against the carrying value of taxicabs held in inventory. All of the remaining businesses that held taxicabs in inventory were disposed of during the year ended 30 April 2005 and the provision reduced accordingly.

Note 20 Trade and other receivables

	2006 £m	2005 £m
Non-current:		
Other receivables	**1.6**	6.7
	1.6	6.7
Current:		
Trade receivables	**82.6**	77.2
Less: provision for impairment	**(2.8)**	(3.0)
Trade receivables – net	**79.8**	74.2
Other receivables	**15.6**	22.9
Prepayments and accrued income	**71.1**	61.3
VAT and other government receivables	**10.1**	9.8
Foreign tax receivable	**Nil**	1.0
Loan to joint venture	**3.3**	n/a
	179.9	169.2

Note 21 Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**198.5**	140.0

At 30 April 2006, the effective interest rate on cash at bank and in hand was 4.6% (2005: 4.6%) and these were primarily overnight deposits having an average maturity of one day (2005: one day).

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

	2006 £m	2005 £m
Cash and bank balances	**198.5**	140.0
Bank overdrafts (note 23)	**(0.2)**	(1.5)
	198.3	138.5

Note 22 Trade and other payables

	2006 £m	2005 £m
Current:		
Trade payables	**104.4**	98.9
Accruals and deferred income	**216.7**	241.3
Deferred grant income	**1.4**	0.6
PAYE and NIC payable	**18.8**	16.8
	341.3	357.6
Non-current:		
Deferred grant income	**5.5**	3.2
Other payables	**3.7**	4.9
	9.2	8.1

Notes to the consolidated financial statements

Note 23 Borrowings

	2006	2005
	£m	£m
Current:		
Bank overdrafts	**0.2**	1.5
Bank loans and loan notes	**37.7**	104.9
Hire purchase and lease obligations	**28.4**	20.1
	66.3	126.5
Non-current:		
Bank loans and loan notes	**11.4**	7.2
US Dollar 8.625% Notes	**206.7**	174.9
Hire purchase and lease obligations	**73.1**	46.0
	291.2	228.1
Total borrowings	**357.5**	354.6

The minimum lease payments under hire purchase and lease obligations fall due as follows:

	2006	2005
	£m	£m
Not later than one year	**31.7**	22.9
Later than one year but not more than five years	**70.8**	39.9
More than five years	**8.6**	12.2
	111.1	75.0
Future finance charges on hire purchase and finance leases	**(9.6)**	(8.9)
Present value of hire purchase and finance lease liabilities	**101.5**	66.1

The Group in its ordinary course of business enters into hire purchase and finance lease agreements to fund or re-finance the purchase of vehicles. The lease agreements are typically for periods of 5 to 10 years and do not have contingent rent or escalation clauses.

The agreements have industry standard terms and do not contain any restrictions on dividends, additional debt or further leasing.

(a) US Dollar 8.625% Notes

On 9 November 1999, the Group issued US$500m of 8.625% Notes due in 2009. Interest on the Notes is payable six monthly in arrears. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 15 November 2009.

The cumulative par value of Notes repurchased was US$165.9m at 30 April 2006 (2005: US$165.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2006 was £206.7m (2005: £174.9m), after taking account of the notes purchased by the Group, the discount on issue, issue costs, accrued interest and the gain on close out of various interest rate swaps previously used to manage the interest rate profile of the Notes.

Note 23 Borrowings (continued)

(b) Borrowings are repayable as follows:

	2006	2005
	£m	£m
On demand or within 1 year		
Bank overdraft	**0.2**	1.5
Bank loans and loan notes	**37.7**	104.9
Hire purchase and lease obligations	**28.4**	20.1
Within 1-2 years		
Bank loans and loan notes	**0.8**	0.7
Hire purchase and lease obligations	**25.2**	12.1
Within 2-5 years		
Bank loans and loan notes	**10.6**	6.5
US Dollar 8.625% Notes	**206.7**	174.9
Hire purchase and lease obligations	**39.7**	22.3
Over 5 years		
Hire purchase and lease obligations	**8.2**	11.6
Total borrowings	**357.5**	354.6
Less current maturities	**(66.3)**	(126.5)
Non-current portion of borrowings	**291.2**	228.1

Interest terms on UK borrowings (except loan notes) are at annual rates between 0.35% and 0.65% over Bank of Scotland base rate or equivalent LIBOR rates. Interest terms on overseas borrowings are at annual rates of 0.5% above applicable local market borrowing rates. Interest on loan notes are at three months LIBOR or fixed interest. Loan notes amounting to £37.7m (2005: £38.3m) are backed by guarantees provided under Group banking facilities.

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemptions.

UK bank loans, overdrafts and US$ Notes are unsecured.

(c) Interest rate and currency profile of financial liabilities

The interest rate and currency profile of the financial liabilities of the Group on which interest is paid at 30 April 2006 was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	139.2	Nil	139.2	n/a	n/a
US Dollar	Nil	206.7	206.7	6.7%	3.5
Canadian Dollar	11.6	Nil	11.6	n/a	n/a
Gross borrowings	150.8	206.7	357.5	6.7%	3.5

The figures shown in the above table take into account the close out of various interest rate swaps previously used to manage the interest rate profile of borrowings.

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to three months based on market rates.

The Group's policies on managing interest rate risk and currency risk are explained in note 27.

The interest rate profile and currency profile of the financial liabilities of the Group on which interest is paid at 30 April 2005 was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	170.9	31.4	202.3	6.8%	4.5
US Dollar	1.5	143.5	145.0	6.8%	4.5
Canadian Dollar	7.3	Nil	7.3	n/a	n/a
Gross borrowings	179.7	174.9	354.6	6.8%	4.5

Note 23 Borrowings (continued)

(c) Interest rate and currency profile of financial liabilities (continued)

The maturity profile of the Group's borrowings was as follows:

	2006	2005
	£m	£m
Expiring within one year	**66.3**	126.5
Expiring in more than one year but less than two years	**26.0**	12.8
Expiring in more than two years but less than five years	**257.0**	203.7
Expiring beyond five years	**8.2**	11.6
Gross borrowings	**357.5**	354.6

(d) Interest rate and currency profile of financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £198.5m (2005: £140.0m). The cash deposits comprise deposits placed on money market at call, seven day, monthly rates and cash deposited with counterparty banks at commercially negotiated interest rates. The currency analysis is as follows:

	Floating rate	
	2006 £m	2005 £m
Currency		
Sterling	**186.8**	124.5
US Dollar	**11.7**	10.3
New Zealand Dollar	**Nil**	4.7
Canadian Dollar	**Nil**	0.5
Cash at bank and in hand	**198.5**	140.0

Financial assets on which no interest is receivable total £4.2m (2005: £1.8m) and comprise other investments of £4.2m (2005: £1.8m). These assets are denominated in Sterling £3.9m (2005: £0.5m), US dollars £0.3m (2005: £0.1m) and others £Nil (2005: £1.2m). Net financial assets (amounts due after one year from balance sheet date) on which fixed interest is receivable total £0.9m (2005: £5.4m) and comprise US$ denominated loan notes receivable. The net amount of £0.9m (2005: £5.4m) includes a provision for impairment of £1.3m (2005: £2.4m). The net financial assets have a weighted average interest rate of 8.9% (2005: 7.8%) and an average maturity of 2.8 years (2005: 3.5 years).

Trade and other receivables on which no interest has been received are excluded from the disclosures above.

(e) Currency exposures

The Group's objective in managing currency borrowings and net exposures arising from its investments in net assets of overseas subsidiaries is to maintain a low cost of borrowing and to retain some potential for currency related appreciation whilst partially hedging against currency depreciation. Foreign currency borrowings are taken out to provide for or to hedge against foreign net investments. Gains and losses arising from currency borrowings taken out to provide a hedge against foreign net investments are recognised in the statement of recognised income and expense.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2006 and 30 April 2005 there were no material net transactional foreign currency exposures.

(f) Borrowing facilities

The Group had the following undrawn committed banking and hire purchase facilities

	2006	2005
	£m	£m
Expiring within one year	**46.4**	43.8
Expiring in more than one year but no more than two years	**Nil**	Nil
Expiring beyond two years	**302.8**	317.6
	349.2	361.4

Note 24 Deferred tax

The Group movement in deferred tax during the year was as follows:

	Deferred tax liabilities	Deferred tax asset	Net
	£m	£m	£m
Beginning of year	(5.5)	4.1	(1.4)
Provided during year:			
(Charge)/credit to income statement	(7.1)	4.3	(2.8)
Acquired through business combinations	2.5	Nil	2.5
Sale/closure of subsidiary undertakings and other businesses	6.8	Nil	6.8
Charge to equity	(1.9)	Nil	(1.9)
End of year	(5.2)	8.4	3.2

The deferred tax liability due after more than one year is £5.2m (2005: £5.5m). The deferred tax asset due after more than one year is £3.0m (2005: £Nil). The deferred tax asset of £8.4m has been recognised in respect of tax losses. Based on tax workings scheduling the reversal of the asset, it is expected to be utilised over the next three years.

Deferred taxation is calculated as follows:

	2006	2005
	£m	£m
Accelerated capital allowances	**(90.4)**	(89.8)
Pension temporary differences	**64.3**	63.8
Short-term temporary differences	**29.3**	24.6
	3.2	(1.4)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	£m
Accelerated capital allowances	(4.3)
Pension temporary differences	(2.0)
Short-term temporary differences	3.5
	(2.8)

Note 25 Provisions

	2006	2005
	£m	£m
Token redemption provision	**20.9**	25.5
Insurance provisions	**83.2**	63.6
Environmental provisions	**3.1**	3.9
Provision for onerous contracts	**2.7**	Nil
	109.9	93.0

The token redemption provision relates to tokens issued to third parties to be redeemed as payment for transportation services.

The insurance provisions relate to insurance reserves on incurred accidents up to 30 April in each year where claims have not been settled. These are based on actuarial reviews and prior claims history.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel tanks or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required.

Provisions for onerous contracts relate to contracts that have been acquired through business combinations that have been identified as loss making.

The Group movement during the year was as follows:

	Token redemption provision	Insurance provisions	Environmental provisions	Provisions for onerous contracts	Total
	£m	£m	£m	£m	£m
Beginning of year	25.5	63.6	3.9	Nil	93.0
Provided during year	Nil	50.4	0.2	Nil	50.6
Unwinding of discount	Nil	3.3	Nil	Nil	3.3
Utilised in the year	Nil	(37.7)	(1.5)	(1.1)	(40.3)
Arising on sale of tokens during year	7.2	Nil	Nil	Nil	7.2
Acquired through business combinations	Nil	2.3	0.4	3.8	6.5
Redemption of tokens	(11.8)	Nil	Nil	Nil	(11.8)
Translation differences	Nil	1.3	0.1	Nil	1.4
End of year	20.9	83.2	3.1	2.7	109.9
30 April 2006:					
Current	13.4	44.9	3.1	1.8	63.2
Non-current	7.5	38.3	Nil	0.9	46.7
	20.9	83.2	3.1	2.7	109.9
30 April 2005:					
Current	16.3	35.4	3.9	Nil	55.6
Non-current	9.2	28.2	Nil	Nil	37.4
	25.5	63.6	3.9	Nil	93.0

Notes to the consolidated financial statements

Note 26 Retirement benefit obligations

The Group contributes to a number of pension schemes. The principal defined benefit occupational benefit schemes are as follows:

- The Stagecoach Group Pension Scheme ("SGPS");
- The South West Trains section of the Railways Pension Scheme ("RPS");
- The Island Line section of the Railways Pension Scheme ("RPS");
- A number of UK Local Government Pension Schemes ("LGPS");
- The Yorkshire Traction Company Limited Pension Plan ("YTC")
- The Strathtay Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO").

These schemes are devised in accordance with local employment terms and conditions. Each scheme is administered independently of the employers and the schemes assets are held in trusts that are managed by investment managers appointed by the schemes' trustees.

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of sections of the scheme following expiry of the related franchises. Therefore, the liability recognised for the relevant sections of RPS only represents that part of the net deficit of each section that the employer is obliged to fund over the life of the franchise to which the section relates. The restriction on the liabilities to show the impact of this "franchise adjustment" is shown below.

In addition, the Group contributes to a number of defined contribution schemes.

The amounts recognised in the balance sheet are determined as follows:

Year ended 30 April 2006	Funded plans							
	SGPS	**RPS**	**LGPS**	**YTC**	**SSO**	**Other**	**Unfunded plans**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Equities	444.5	324.8	174.5	33.5	5.0	0.7	Nil	983.0
Bonds	54.2	20.9	39.2	7.3	0.5	0.9	Nil	123.0
Cash	40.5	19.7	18.5	0.1	Nil	0.4	Nil	79.2
Property	37.5	6.9	8.5	1.3	Nil	Nil	Nil	54.2
Fair value of plan assets	576.7	372.3	240.7	42.2	5.5	2.0	Nil	1,239.4
Present value of funded/unfunded obligations								
– excluding franchise adjustment	(753.0)	(387.0)	(264.3)	(51.4)	(8.4)	(2.5)	(3.6)	(1,470.2)
– franchise adjustment	Nil	8.6	Nil	Nil	Nil	Nil	Nil	8.6
Net liability recognised in the balance sheet	(176.3)	(6.1)	(23.6)	(9.2)	(2.9)	(0.5)	(3.6)	(222.2)

Year ended 30 April 2005	Funded plans					
	SGPS	**RPS**	**LGPS**	**Other**	**Unfunded plans**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Equities	410.6	236.7	127.2	0.7	Nil	775.2
Bonds	Nil	17.1	36.6	0.8	Nil	54.5
Cash	20.7	14.7	17.6	0.3	Nil	53.3
Properties	Nil	3.1	7.2	Nil	Nil	10.3
Fair value of plan assets	431.3	271.6	188.6	1.8	Nil	893.3
Present value of funded/unfunded obligations						
– excluding franchise adjustment	(591.6)	(314.5)	(237.1)	(2.5)	(3.7)	(1,149.4)
– franchise adjustment	Nil	35.2	Nil	Nil	Nil	35.2
Net liability recognised in the balance sheet	(160.3)	(7.7)	(48.5)	(0.7)	(3.7)	(220.9)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2006	2005
	%	%
Equities	**79.3**	86.8
Bonds	**9.9**	6.1
Cash	**6.4**	6.0
Property	**4.4**	1.1
	100.0	100.0

Note 26 Retirement benefit obligations (continued)

The amounts recognised in the income statement were as follows:

Year ended 30 April 2006	Funded plans						
	SGPS	RPS	LGPS	YTC	SSO	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Defined benefit schemes:							
Current service cost	21.5	16.9	3.3	0.6	0.2	Nil	42.5
Interest cost	32.2	11.4	13.0	0.9	0.1	0.1	57.7
Expected return on plan assets	(36.8)	(13.5)	(14.5)	(1.0)	(0.1)	Nil	(65.9)
Unwinding of franchise adjustment	Nil	(1.9)	Nil	Nil	Nil	Nil	(1.9)
Total defined benefit costs	16.9	12.9	1.8	0.5	0.2	0.1	32.4
Defined contribution costs	Nil	Nil	Nil	Nil	Nil	1.0	1.0
Total, included in staff costs (Note 6)	16.9	12.9	1.8	0.5	0.2	1.1	33.4

The actual return on plan assets for the year ended 30 April 2006 was £262.8m.

Year ended 30 April 2005	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
Defined benefit schemes:						
Current service cost	20.2	14.2	4.0	Nil	0.3	38.7
Interest cost	29.4	9.9	12.4	0.1	Nil	51.8
Expected return on plan assets	(32.2)	(12.0)	(13.2)	(0.1)	Nil	(57.5)
Unwinding of franchise adjustment	Nil	(0.7)	Nil	Nil	Nil	(0.7)
Total defined benefit costs	17.4	11.4	3.2	Nil	0.3	32.3
Defined contribution costs	Nil	Nil	Nil	0.6	Nil	0.6
Total, included in staff costs (Note 6)	17.4	11.4	3.2	0.6	0.3	32.9

The actual return on plan assets for the year ended 30 April 2005 was £68.0m.

The movements in the net liability recognised in the balance sheet for the year ended 30 April 2006 were as follows:

Year ended 30 April 2006	Funded plans							
	SGPS	RPS	LGPS	YTC	SSO	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of year	160.3	7.7	48.5	Nil	Nil	0.7	3.7	220.9
Acquired as part of business combinations	Nil	Nil	2.5	14.9	4.1	Nil	Nil	21.5
Total expense – as shown above	16.9	12.9	1.8	0.5	0.2	1.1	Nil	33.4
Actuarial losses/(gains)	19.2	(0.6)	(25.2)	(5.6)	(1.2)	(0.5)	Nil	(13.9)
Employers' contributions paid	(20.1)	(13.9)	(4.0)	(0.6)	(0.2)	(0.8)	(0.1)	(39.7)
At end of year	176.3	6.1	23.6	9.2	2.9	0.5	3.6	222.2

The movements in the net liability recognised in the balance sheet for the year ended 30 April 2005 were as follows:

Year ended 30 April 2005	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	120.4	8.1	42.6	0.3	3.5	174.9
Total expense – as shown above	17.4	11.4	3.2	0.6	0.3	32.9
Actuarial losses	43.5	1.4	5.8	0.2	Nil	50.9
Employers' contributions paid	(21.0)	(13.2)	(3.1)	(0.6)	(0.1)	(38.0)
Foreign exchange	Nil	Nil	Nil	0.2	Nil	0.2
At end of year	160.3	7.7	48.5	0.7	3.7	220.9

Note 26 Retirement benefit obligations (continued)

The movements in the total present value of the defined benefit obligations were as follows:

	2006	2005
	£m	£m
At beginning of year	**1,114.2**	969.3
Current service cost	**42.5**	38.7
Defined contribution costs	**1.0**	0.6
Interest cost	**57.7**	51.8
Unwinding of franchise adjustment	**(1.9)**	(0.7)
Members' contributions paid	**23.2**	22.3
Actuarial gains and losses	**183.0**	61.4
Benefits paid	**(34.2)**	(32.9)
Merger of small scheme	**Nil**	3.5
Acquired as part of business combination	**76.0**	Nil
Foreign exchange	**0.1**	0.2
At end of year	**1,461.6**	1,114.2

Movements in the total present value of fair value of scheme assets were as follows:

	2006	2005
	£m	£m
At beginning of year	**893.3**	794.4
Expected return on scheme assets	**65.9**	57.5
Actuarial gains and losses	**196.9**	10.5
Employers' contributions paid	**39.7**	38.0
Members' contributions paid	**23.2**	22.3
Benefits paid	**(34.2)**	(32.9)
Merger of small scheme	**Nil**	3.5
Acquired as part of business combination	**54.5**	Nil
Foreign exchange	**0.1**	Nil
At end of year	**1,239.4**	893.3

The amounts recognised in the statement of other recognised income and expense were as follows:

	2006	2005
	£m	£m
Actual return less expected return on pension scheme assets	**196.9**	10.5
Experience adjustment, arising on scheme liabilities	**(92.7)**	(6.8)
Changes in assumptions underlying the present value of the liabilities	**(90.3)**	(54.6)
Total actuarial gain/(loss) recognised	**13.9**	(50.9)

The history of experience adjustments is as follows:

	2006	2005
Experience adjustments on scheme liabilities:		
Experience adjustments (£m)	**(92.7)**	(6.8)
Scheme liabilities (£m)	**(1,461.6)**	(1,114.2)
Percentage of scheme liabilities (%)	**6.3%**	0.6%
Experience adjustments on scheme assets:		
Experience adjustments (£m)	**196.9**	10.5
Scheme assets (£m)	**1,239.4**	893.3
Percentage of scheme assets (%)	**15.9%**	1.2%

The estimated amounts of contributions expected to be paid to the schemes during the financial year ending 30 April 2007 is £40.2m (2006: £37.9m). The estimated contributions have not been adjusted to take into account the sale of our London bus business .

Note 26 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	2006	2005
	%	%
Rate of increase in salaries	**4.3**	4.3
Rate of increase of pensions in payment		
– SGPS	**2.7**	2.6
– other defined benefit schemes	**2.8**	2.8
Discount rate	**5.3**	5.4
Inflation	**2.8**	2.8
Expected long-term rates of return as at 30 April were:		
Equities*	**8.3**	8.5
Bonds	**5.0**	5.3
Cash	**4.5**	4.7
Property	**7.5**	7.5

* includes private equity

The expected return on plan assets is based on expectations at the beginning of the period for returns over the entire life of the benefit obligation. The expected returns are set in conjunction with external advisors and take account of market factors, fund managers' views and targets for future returns and where appropriate, historical returns.

The life expectancy assumptions used for each scheme are periodically reviewed.

Note 27 Derivative financial instruments and hedging

(a) Derivative financial instruments

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and commodity prices. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

Treasury risk management: The main areas of financial risk associated with the Group's businesses are managed by a centralised Group Treasury function. The Board regularly reviews these risks and approves the Group's treasury policy, which covers the management of these risks. Financial instruments are held to finance Group operations, to manage the financial risk exposures and to achieve greater certainty of future costs.

Fuel hedging: The Group's UK and North American bus operations (including the London bus operations) consume the equivalent of 1.9m barrels of diesel fuel per annum. As a result, the Group's profits are exposed to the movement in the underlying price of crude oil, which is the major driver of diesel prices. The Group manages the volatility in its fuel costs by maintaining an ongoing fuel-hedging programme whereby derivatives are used to fix or cap the variable unit cost of a percentage of anticipated fuel consumption. If the Group had no hedging in place, a movement of US$10 in the price of a barrel of crude oil would affect the Group's fuel costs by approximately US$19m.

The Group's fuel hedging levels are summarised below:

Financial year ended/ending 30 April	2006	2007	2008	2009
Proportion of actual/forecast fuel consumption hedged:				
– Hedged by fuel swaps	85%	18%	–	–
– Hedged by fuel collars	–	75%	44%	38%

We will adjust our hedging levels where appropriate as and when the planned disposal of the Group's London bus operations is completed.

Currency rate risk: The Group is exposed to limited transactional currency risk due to the small number of foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. Forward buying of currencies is carried out by the Group Treasury function where appropriate.

Following the disposal of its New Zealand operations in November 2005, the Group now only has overseas investments in Canada and the USA. To minimise balance sheet translation exposure, the Group hedges the sterling book value of overseas operations through borrowings denominated in their functional currency or, where necessary, through the use of derivative financial instruments which effectively convert sterling borrowings into borrowings of the functional currency, and through forward currency exchange contracts. It is Group policy to examine each overseas investment individually and to adopt a strategy based on current and forecast political and economic climates. The policy aims to allow the Group to maintain a low cost of funds and to retain some potential for currency appreciation whilst partially hedging against currency depreciation.

Credit risk: It is the Group's policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low.

Interest rate risk management: To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative instruments are also used where appropriate to generate the desired interest rate profile. At 30 April 2006, 70% (30 April 2005: 63%) of the Group's gross borrowings were fixed or capped.

For the year to 30 April 2006 floating rate Sterling borrowings of £50.0m (2005: £50.0m) were economically hedged with a collar with a cap rate of 8.5% and a floor of 4.5%. The cap and floor were not exercised during the year to 30 April 2006. On 28 April 2006 the floor was cancelled by the counterparty in accordance with the contract terms. Whilst the cap is considered an economic hedge of interest rate risk it has not been designated as an accounting hedge due to its low market value and low volatility.

Note 27 Derivative financial instruments and hedging (continued)

(b) Fair value of derivative financial instruments

The fair value of derivative financial instruments at 30 April 2006 is set out below:

	Fair value of derivative financial assets	Notional amount of fuel usage covered by derivative financial assets	Fair value of derivative financial liabilities	Notional amount of fuel usage covered by derivative financial liabilities
	£m		£m	
At 30 April 2006				
Derivatives held as cash flow hedges				
Fuel derivatives	3.7	53m litres	(2.5)	478m litres
	3.7		(2.5)	
Derivatives held for trading				
Interest rate cap	Nil		(0.2)	
Foreign exchange forward contracts	Nil		(0.1)	
	3.7		(2.8)	

(c) Embedded derivatives

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', all significant contracts to which the Group is a party have been reviewed for embedded derivatives. One (2005: None) embedded derivative was identified that IAS 39 required to be separately accounted for, being a fuel swap embedded in a Sale and Purchase Agreement. The embedded derivative had expired by 30 April 2006 and accordingly, no fair value is attributed to it at 30 April 2006.

(d) Cash flow hedges

The Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions. Ultra low sulphur diesel used in the UK Bus division is hedged by derivatives priced from the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps that have been determined to be effective hedges of the fuel used with a strong correlation in price movements between the two products. The fuel derivatives hedge the underlying commodity price risk (denominated in US$) and in the case of the UK Bus division, they also hedge the currency risk due to the commodity being priced in US$ and the functional currency of the UK Bus division being pounds sterling. The fuel derivatives include fixed price swaps and collars. The collars are hedges against the price of fuel being above a certain capped level or below a certain floor level. Collars have been used in preference to caps to reduce the overall cash cost of purchasing the cap protection.

The fair value of fuel derivatives as at 30 April 2006 was a net asset of £1.2m, shown in note 27(b) as an asset of £3.7m and a liability of £2.5m. The movements in the fair value of fuel derivatives in the year ended 30 April 2006 were as follows:

	£m
Fuel derivatives	
Fair value of as at 1 May 2005 (recognised on the adoption of IAS 32 and IAS 39)	**8.6**
Fair value at acquisition of derivatives acquired through business combinations	**2.9**
Changes in fair value during the year taken to cash flow hedging reserve	**9.2**
Changes in fair value during the year taken directly to income statement	**(1.3)**
Cash received during the year	**(18.2)**
Fair value as at 30 April 2006	**1.2**

Note 27 Financial instruments (continued)

(d) Cash flow hedges (continued)

The fair value of the fuel derivatives as at 30 April 2006 split by maturity was as follows:

	Fair value of assets	Fair value of liabilities
	£m	£m
At 30 April 2006		
Within one year	3.7	(1.3)
1 to 2 years	Nil	(0.7)
2 to 3 years	Nil	(0.5)
	3.7	(2.5)

The fair value of fuel derivatives is further analysed by currency and segment as follows

	30 April 2006		1 May 2005	
	Fair value	Notional amount of fuel usage covered by derivatives	Fair value	Notional amount of fuel usage covered by derivatives
	£m	million litres	£m	million litres
Sterling denominated – UK Bus	0.9	402.0	5.0	173.7
US Dollar denominated – North America	0.3	129.0	3.2	97.7
NZ Dollar denominated – New Zealand	Nil	Nil	0.4	20.5
	1.2	531.0	8.6	291.9

The fair value of the fuel derivatives shown above at 1 May 2005 and at 30 April 2006 does not correspond to the amount of the related cash flow hedging reserve at these dates. The amounts differ for two reasons: (1) the ineffective portion of the hedging instruments is dealt with directly in the income statement and (2) the fair value at acquisition of cash flow hedging instruments acquired through business combinations is accounted for as part of the accounting for the business combination.

The movements in the cash flow hedging reserve (all of which related to the above fuel derivatives) in the year ended 30 April 2006 were as follows:

	£m
Cash flow hedging reserve	
Fair value of as at 1 May 2005 (recognised on the adoption of IAS 32 and IAS 39)	**7.3**
Changes in fair value during the year taken to cash flow hedging reserve	**9.2**
Cash flow hedges reclassified and reported in profit for the year	**(17.3)**
Cash flow hedging reserve as at 30 April 2006	**(0.8)**

(e) Held for trading

At 30 April 2006, the Group had a US$20m forward foreign exchange contract whereby the Group purchases US$20m on 28 April 2007 and pays £11.1m. This contract covers the US$20m principal of the US$ notes that have not been designated as a hedge of net investments in foreign entities. The movement in fair value of the forward contract will offset movements in the US$ notes. Hedge accounting has not been sought due to the treatment of this derivative as a fair value hedge being the same as for the forward contract being classified as a derivative held for trading.

At 30 April 2006, the Group had an 8.5% interest rate cap which matures in October 2007. Due to the small fair value of the derivative, no hedge effectiveness testing was performed on transition to IAS 32 and IAS 39 and therefore, whilst considered to be an effective risk management derivative, it has been designated as a held for trading derivative.

There are no other derivative liabilities related to foreign exchange risks.

(f) Hedge of overseas net investments

At 30 April 2006 US$314.1m of the US$334.1m of US$ notes was designated as a hedge of net investments in foreign entities. The other US$20m of US$ notes were notionally matched against a forward foreign exchange contract at 30 April 2006, as described in note 27 (e) above.

Notes to the consolidated financial statements

Note 28 Called up share capital

	2006	2005
	£m	£m
Authorised		
1,456,666,666 (2005: 1,456,666,666) ordinary shares of 12/19 pence each	**9.2**	9.2
2005: 1,388,888,889 redeemable 'B' preference shares of 18 pence each	**n/a**	250.0
Total	**9.2**	259.2

	2006		2005	
	No of shares	£m	No of shares	£m
Allotted, called-up and fully-paid				
Ordinary shares of 12/19 pence each				
At 1 May	**1,069,545,227**	**6.8**	1,335,358,600	6.7
Allotted under share option schemes	**n/a**	**n/a**	5,374,302	–
At 9 September pre share consolidation	**n/a**	**n/a**	1,340,732,902	6.7
10 September share consolidation (19 shares for every 24 previously issued)	**n/a**	**n/a**	(279,319,355)	–
At 10 September post share consolidation	**n/a**	**n/a**	1,061,413,547	6.7
Allotted under share option schemes	**20,033,016**	**0.1**	3,067,259	–
Issued as part of business combination	**4,022,070**	**–**	–	–
Issued to employee share ownership trusts	**–**	**–**	5,064,421	0.1
At 30 April	**1,093,600,313**	**6.9**	1,069,545,227	6.8
Redeemable 'B' preference shares of 18 pence each				
At 1 May	**n/a**	**n/a**	Nil	Nil
Issued during year	**n/a**	**n/a**	1,340,732,902	241.3
Redeemed during year	**n/a**	**n/a**	(1,263,543,261)	(227.4)
At 30 April	**n/a**	**n/a**	77,189,641	13.9

The balance on the share capital account represents the aggregate nominal value of all ordinary shares in issue.

The redeemable 'B' preference shares were classified as a component of equity prior to the adoption of IAS 32 and 39 on 1 May 2005. Therefore, the comparatives for the year ended 30 April 2005 show the 'B' preference shares as equity. The 'B' preference shares were reclassified as liabilities on 1 May 2005, being the date on which IAS 32 and IAS 39 were adopted by the Group.

The redeemable 'B' preference shares attracted a non-cumulative preferential dividend set at 70% of 6 months' LIBOR. The dividend was payable on the nominal amount of 18 pence per 'B' share and was paid twice yearly in arrears on 31 March and 30 September. The redeemable 'B' shares were redeemable at their nominal value of 18 pence per share at the option of holders on 31 March and 30 September each year. As a result of the number of 'B' shares already redeemed, the Company was able to compulsorily redeem all the outstanding 'B' shares on 30 September 2005. The 'B' shares were not listed on a recognised Stock Exchange.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 30 April 2006, the QUEST held 628,285 (2005: 1,811,212) ordinary shares in the Company and the EBT held 4,690,333 (2005: 4,690,333) ordinary shares in the Company.

Note 29 Share based payments

The Group operates an Executive Share Option Scheme, a Save as You Earn Scheme ("SAYE") and a Long Term Incentive Plan ("LTIP"). The Group also operates an Executive Participation Plan ("EPP") but no awards have been made under the EPP on or before 30 April 2006. The Remuneration Committee report on pages 28 to 34 gives further details of each of these arrangements.

As disclosed in note 6, a share based payment charge of £2.2m (2005: £1.4m) has been recognised in the income statement during the year in relation to the above schemes, including £0.1m (2005: £0.1m) in relation to our disposed New Zealand operations.

In accordance with the transitional provisions of IFRS, the requirements of IFRS 2 have not been applied to equity instruments that were granted before 7 November 2002 or equity instruments that were granted after 7 November 2002 that had vested before the date of transition, being 1 May 2004. Therefore the following disclosures relate only to awards made after 7 November 2002 that had not vested by 1 May 2004.

	Executive Share Option Scheme					SAYE	LTIP*
Grant date	December 2004	June 2004	December 2003	June 2003	December 2002▲	February 2005	August 2005
Share price at grant/award date (£)	1.1150	0.8575	0.8075	0.6050	0.2700	1.1800	1.1075
Exercise price (£)	1.1150	0.8575	0.8075	0.6050	0.2700	1.0328	n/a
Number of employees holding options/units	60	59	59	33	6	3,797	8
Shares under option/ notional units at 30 April 2006	1,435,008	4,681,079	2,828,351	4,514,185	2,950,519	10,756,671	1,526,096
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	75%	75%	30%	30%
Option/award life (years)	7	7	7	7	7	3.5	3
Expected life (years)	4.4	4.4	4.4	4.4	3	3	3
Risk free rate	4.75%	4.64%	4.64%	3.79%	4.40%	4.56%	n/a
Expected dividends expressed as an average annual dividend yield	3.14%	3.38%	3.34%	4.30%	9.63%	3.05%	3.15%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%	†
Fair value per option/ notional unit at grant date (£)	0.26	0.20	0.19	0.28	0.09	0.30	0.42

▲These options became fully vested during the year to April 2006.

*LTIP awards are based on notional units. One notional unit has a value equal to one of the Company's ordinary shares. LTIP awards are not share options and are valued using a separate simulation model therefore some of the above disclosures are not applicable.

†Reflected in fair value.

Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward.

Executive Share Option Scheme

The movements in total Executive share options during the year were as follows:

Award date	At 1 May 2005	Exercised	Expired/ Forfeited	Cancelled	At 30 April 2006	Exercise price £	Date from which exercisable	Expiry date
11 October 1996*	606,522	(72,575)	–	–	533,947	1.0900	11 October 1999	11 October 2006
8 September 1997*	41,472	–	(41,472)	–	–	1.2810	8 September 2000	8 September 2007
19 October 1998*	273,548	–	(273,548)	–	–	2.2280	19 October 2001	19 October 2005
19 July 1999*	519,158	–	(59,883)	(51,618)	407,657	2.0310	19 July 2002	19 July 2006
15 June 2000*	383,920	(109,120)	–	(150,000)	124,800	0.6250	15 June 2003	15 June 2007
20 June 2001*	704,500	(362,800)	–	(63,600)	278,100	0.7075	20 June 2004	20 June 2008
23 July 2002*	12,224,959	(9,396,655)	(400,000)	(247,500)	2,180,804	0.3750	23 July 2005	23 July 2009
5 December 2002	13,162,696	(9,312,871)	(555,556)	(343,750)	2,950,519	0.2700	5 December 2005	5 December 2009
26 June 2003	5,134,640	(294,422)	(185,950)	(140,083)	4,514,185	0.6050	26 June 2006	26 June 2010
12 December 2003	3,345,951	(189,882)	(140,331)	(187,387)	2,828,351	0.8075	12 December 2006	12 December 2010
25 June 2004	5,387,122	(294,691)	(181,459)	(229,893)	4,681,079	0.8575	25 June 2007	25 June 2011
10 December 2004	1,592,013	–	(74,964)	(82,041)	1,435,008	1.1150	10 December 2007	10 December 2011
	43,376,501	(20,033,016)	(1,913,163)	(1,495,872)	19,934,450			

* The fair value of these options is not taken into account when determining the share based payment charge for the years ended 30 April 2006 or 30 April 2005 in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002.

All options were granted for nil consideration. The mid-market price for the ordinary shares at 30 April 2006 was £1.08 (2005: £1.03). The Company's ordinary shares traded in the range of £1.01 to £1.23 (2005: £0.76 to £1.23) during the year to that date.

As share options are exercised continuously throughout the year, the weighted average share price during the year of £1.12 (2005: £0.97) is representative of the weighted average share price at the date of exercise.

Notes to the consolidated financial statements

Note 29 Share based payments (continued)

Save as You Earn Scheme

Two issues from the SAYE scheme were in operation during the year as follows:

Issue	Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
C*	15 February 2002	1 April 2002	60.0p	1 April 2005	30 September 2005†
D	11 February 2005	1 April 2005	103.275p	1 April 2008	30 September 2008†

* The fair value of these options is not taken into account when determining the share based payment charge for the years ended 30 April 2006 or 30 April 2005 in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002.

†The expiry date of any individual SAYE option can be extended to be six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the applicable expiry date shown above.

The changes in the number of participating employees and options over ordinary shares were as follows:

	Issue C		Issue D	
	Number of employees	Ordinary shares under option	Number of employees	Ordinary shares under option
Beginning of year	645	1,806,189	4,291	12,198,449
Options exercised	(385)	(1,287,852)	(5)	(2,271)
Options lapsed	(260)	(518,337)	(489)	(1,439,507)
End of year	Nil	Nil	3,797	10,756,671

Long Term Incentive Plan

The first issue of LTIP awards was made in August 2005 therefore there is no information provided for the year ended 30 April 2005. Under the LTIP, executives are awarded notional units with a value equal to one of the Company's ordinary shares. A reconciliation of the notional units awarded for the LTIP over the year to 30 April 2006 is as follows:

Award date	Awards granted in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Fair value per LTIP unit at grant date £	Fair value per LTIP unit at 30 April 2006 £	TSR ranking at 30 April 2006†	Vesting date
26 August 2005	1,495,120	30,976	1,526,096	0.4237	0.1232	210	26 Aug 2008

† TSR ranking is based on the Group's TSR ranking in the FTSE 250 whereby 1 is top and 250 is bottom of the comparator group. The TSR ranking is calculated by independent advisors.

Note 30 Reserves

	2006	2005
	£m	£m
Share premium account	**174.8**	163.4
Retained earnings	**(212.1)**	(294.4)
Capital redemption reserve	**243.0**	229.1
Own shares	**(6.1)**	(6.8)
Translation reserve	**4.0**	3.4
Available for sale reserve	**1.9**	Nil
Cashflow hedging reserve	**(0.8)**	Nil

A reconciliation of the movements in the above reserves is shown in the Consolidated statement of changes in equity on page 40.

The balance of the share premium account represents the amounts received in excess of the nominal value of the ordinary shares offset by issue costs, bonus issues of shares and any transfer between reserves.

The balance held in the retained earnings reserve is the accumulated retained profits of the Group. The consolidated profit on ordinary activities after taxation for the financial year includes £52.0m (2005: £87.1m) in respect of the Company.

Cumulative goodwill of £113.8m (2005: £113.8m) has been written off against reserves in periods prior to 1 May 1998 in accordance with the UK accounting standards then in force and such goodwill will remain eliminated against reserves.

Details of own shares held are given in note 28. The own shares reserve represents the cost of shares in Stagecoach Group plc purchased in the market and held by the Group's two Employee Share Ownership Trusts to satisfy options under the Group's share option schemes offset by any sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The available for sale reserve records the changes in fair value on available-for-sale investments. On disposal, the cumulative changes in fair value are recycled to the income statement.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. On maturity, the cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 31 Consolidated cash flows

(a) Reconciliation of operating profit to cash generated from operations

	2006	2005
	£m	£m
Operating profit of Group companies	**143.6**	137.3
Operating profit of discontinued operations	**5.5**	8.7
Depreciation		
– continuing operations	**68.7**	62.8
– discontinued operations	**3.0**	4.5
Loss on disposal of plant and equipment	**1.9**	3.0
Amortisation of intangible assets	**7.4**	4.1
Share based payment expense		
– continuing operations	**2.1**	1.3
– discontinued operations	**0.1**	0.1
Impairment of investment	**Nil**	0.4
	232.3	222.2
Increase in inventories	**(0.9)**	(0.4)
Increase in receivables	**(24.4)**	(13.2)
Increase in payables	**14.9**	9.8
Increase/(decrease) in provisions	**6.8**	(14.8)
Decrease in retirement benefit obligations	**(6.3)**	(5.1)
	222.4	198.5
Interest paid	**(24.4)**	(26.2)
Interest received	**8.3**	13.6
Interest element of hire purchase contracts and finance lease payments	**(3.3)**	(8.3)
Non-equity dividends paid	**n/a**	(0.4)
Dividends received from joint ventures and associates	**Nil**	23.5
Cash generated from operations	**203.0**	200.7

(b) Proceeds from sale of property, plant and equipment

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2006	2005
	£m	£m
Net book values	**11.3**	12.1
Loss on disposal of plant and equipment	**(1.9)**	(3.0)
Gain on disposal of properties	**0.8**	1.3
Value of property, plant and equipment traded in	**(2.0)**	(6.1)
Movement in receivables for proceeds from sale of property, plant and equipment	**Nil**	2.8
Proceeds from sale of property, plant and equipment	**8.2**	7.1

(c) Reconciliation of net cash flow to movement in net debt

	2006	2005
	£m	£m
Increase/(decrease) in cash and cash equivalents	**59.3**	(335.6)
Bond repayments	**Nil**	181.0
Cash flow from decrease in debt and lease financing	**48.8**	21.6
	108.1	(133.0)
Other movements	**(8.5)**	(14.0)
Borrowings acquired as part of business combinations	**(20.9)**	Nil
Decrease/(increase) in net debt	**78.7**	(147.0)
Opening net debt (UK GAAP definition - see note 31 (d))	**(214.6)**	(67.6)
Closing net debt (UK GAAP definition - see note 31 (d))	**(135.9)**	(214.6)

Notes to the consolidated financial statements

Note 31 Consolidated cash flows (continued)

(d) Analysis of net debt

IFRS does not explicitly define "net debt". The analysis provided below therefore shows analysis of net debt as UK GAAP defines it. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	IAS 32 & IAS 39 adoption £m	Cashflows £m	New hire purchase £m	Foreign exchange movements £m	Acquisitions £m	(Charged)/ credited to income statement £m	Closing £m
Cash	104.2	Nil	59.8	Nil	0.5	Nil	Nil	164.5
Cash collateral	34.3	Nil	(0.5)	Nil	Nil	Nil	Nil	33.8
Hire purchase and finance lease obligations	(66.1)	Nil	(14.4)	(10.7)	Nil	(10.3)	Nil	(101.5)
Bank loans and loan stock	(112.1)	Nil	73.9	Nil	(0.3)	(10.6)	Nil	(49.1)
Bonds	(174.9)	Nil	Nil	Nil	(8.6)	Nil	(0.1)	(183.6)
UK GAAP Net Debt	(214.6)	Nil	118.8	(10.7)	(8.4)	(20.9)	(0.1)	(135.9)
Accrued interest on bonds	n/a	(6.9)	16.2	Nil	(0.4)	Nil	(16.2)	(7.3)
Separate recognition of foreign exchange forward contract	n/a	0.4	1.7	Nil	(2.1)	Nil	0.1	0.1
Redeemable 'B' shares	n/a	(13.9)	13.9	Nil	Nil	Nil	Nil	Nil
Unamortised gain on early settlement of interest rate swaps	n/a	(23.5)	Nil	Nil	Nil	Nil	7.6	(15.9)
Net borrowings	(214.6)	(43.9)	150.6	(10.7)	(10.9)	(20.9)	(8.6)	(159.0)

The net total of cash and cash collateral of £198.3m (2005: £138.5m) is classified in the balance sheet as £198.5m (2005: £140.0m) in cash and cash equivalents and £0.2m (2005: £1.5m) as bank overdrafts within borrowings.

(e) Restricted cash

The cash collateral balance as at 30 April 2006 of £33.8m (2005: £34.3m) comprises balances held in trust in respect of loan notes of £33.0m (2005: £33.5m) and North America restricted cash balances of £0.8m (2005: £0.8m). In addition, cash includes train operating company cash of £89.2m (2005: £61.3m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

Had the Group's rail franchises ended on the balance sheet date, consolidated net debt would have increased by £122.7m (2005: £95.2m) as a result of the train operating company cash of £89.2m (2005: £61.3m) and the repayment of inter-company loans of £36.7m (2005: £35.1m) offset by distributable reserves of £3.2m (2005: £1.2m).

(f) Purchase of subsidiary undertakings

	2006 £m	2005 £m
Net assets acquired at fair value (see note 16)	**13.5**	4.8
Goodwill (see note 10)	**20.7**	Nil
	34.2	4.8
Consideration:		
Shares issued in respect of acquisitions	**4.5**	Nil
Cash and acquisition expenses paid in year	**29.7**	4.8
	34.2	4.8

The cash paid during the year in respect of the purchase of subsidiary undertakings was as follows:

	2006 £m	2005 £m
Cash and acquisition expenses paid in year (see above)	**29.7**	4.8
Less: cash and cash equivalents acquired	**(2.1)**	Nil
Net cash paid in respect of acquisitions in year	**27.6**	4.8
Deferred consideration in respect of businesses acquired in prior years	**0.1**	1.1
	27.7	5.9

Details of net assets acquired and related considerations are set out in note 16. Businesses acquired in the year contributed £6.2m to the cash inflows from operating activities and a net cash outflow of £7.2m in respect of investing activities.

Note 31 Consolidated cash flows (continued)

(g) Disposal of subsidiaries and other businesses

Details of net assets disposed of and the related sales proceeds are set out in note 17.

Businesses disposed of in the year contributed £5.1m to the cash inflows from operating activities, £4.2m of cash outflows in respect of investing activities and £0.1m of cash inflows for financing activities.

(h) Non cash transactions

The principal non cash transactions are the issue of shares as consideration for the purchase of a subsidiary (Note 16) and the acquisition of property, plant and equipment using new hire purchase.

Note 32 Contingencies

Contingent liabilities

(i) A performance bond backed by a bank facility for £44.3m (2005: £44.3m), a season ticket bond backed by an insurance arrangement for £33.7m (2005: £32.5m) and a holding company guarantee of £15.7m (2005: £15.7m) have been provided to the DfT in support of the Group's franchise obligations at South West Trains Limited at 30 April 2006. These contingent liabilities are not expected to crystallise.

(ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have, in the normal course of business, entered into a number of long-term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.

(iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the DfT annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.

(iv) The Group and the Company are from time to time party to legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 30 April 2006, the liabilities in the consolidated financial statements for such claims total £4.4m (2005: £4.6m).

Note 33 Guarantees and other financial commitments

(a) Capital commitments

Capital commitments are as follows:	**2006**	2005
	£m	£m
Contracted for but not provided For delivery in one year	**55.4**	57.8

(b) Operating lease commitments

The following are the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2006:

	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2007	7.7	14.5	84.8	3.2	110.2
Year ending 30 April 2008	3.3	10.1	Nil	0.9	14.3
Year ending 30 April 2009	2.8	10.3	Nil	0.5	13.6
Year ending 30 April 2010	2.5	1.3	Nil	0.1	3.9
Year ending 30 April 2011	2.2	0.1	Nil	0.1	2.4
1 May 2011 and thereafter	8.6	Nil	Nil	Nil	8.6
	27.1	36.3	84.8	4.8	153.0

All operating lease commitments associated with South West Trains are assumed to terminate in February 2007, in line with the franchise end.

Notes to the consolidated financial statements

Note 33 Commitments (continued)

(b) Operating lease commitments (continued)

The following are the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2005:

	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2006	11.8	13.8	122.4	2.8	150.8
Year ending 30 April 2007	10.0	11.7	87.3	2.0	111.0
Year ending 30 April 2008	5.5	7.7	Nil	0.4	13.6
Year ending 30 April 2009	4.0	9.4	Nil	0.2	13.6
Year ending 30 April 2010	3.7	0.6	Nil	0.1	4.4
1 May 2010 and thereafter	13.8	Nil	Nil	Nil	13.2
	48.8	43.2	209.7	5.5	307.2

All operating lease commitments associated with South West Trains are assumed to terminate in February 2007, in line with the franchise end.

(c) Network Rail charges

South West Trains has contracts with Network Rail for access to the railway infrastructure (track, stations and depots) until February 2007. Commitments for payments under these contracts are as follows:

	2006	2005
	£m	£m
Lease payments due in respect of:		
Year ending 30 April 2007	**141.0**	101.3

All Network Rail charges are assumed to terminate in February 2007, in line with the franchise end.

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below are based on the latest statutory financial statements of the relevant companies:

	2006	2005
	£m	£m
Annual commitments under non-cancellable operating leases	**68.8**	71.4
Capital commitments	**Nil**	Nil
Franchise performance bonds	**14.7**	14.7
Season ticket bond	**1.2**	1.2

Note 34 Related party transactions

Transactions in which directors have had a material interest and details of directors' remuneration are disclosed in the Remuneration Committee report on pages 28 to 34.

At 30 April 2006, the Group had loan notes receivable of £3.3m (2005: £3.3m) from Virgin Rail Group Limited. The Group earned interest of £0.3m (2005: £0.7m) on the loan notes during the year.

During the year, Graham Eccles and other members of the Group's management were non-executive directors of Virgin Rail Group Holdings Limited. Fees of £25,000 (2005: £25,000) were payable to the Group by Virgin Rail Group Holdings Limited in this regard.

Brian Souter is Chairman of ScotAirways Group Ltd. During the year the Group purchased flights from ScotAirways Group totalling £76,168 (2005: £74,905).

On 21 May 2004, Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a Non-Executive Director of Stagecoach) together gained control of 39.3% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited controls a further 29.5% of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2006, the Group purchased £46.5m (period from 21 May 2004 to 30 April 2005: £25.5m) of vehicles from Alexander Dennis Limited and £2.9m (period from 21 May 2004 to 30 April 2005: £2.4m) of spare parts and other services.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules. For the year ended 30 April 2006, the Group has placed orders totalling £41.6m (period from 21 May 2004 to 30 April 2005: £49.3m) with Alexander Dennis Limited for the purchase of new vehicles. Of this £41.6m (period from 21 May 2004 to 30 April 2005: £49.3m), vehicles accounting for £3.9m (period from 21 May 2004 to 30 April 2005: £5.1m) were delivered prior to 30 April 2006 and are included in the total purchases of £46.5m (period from 21 May 2004 to 30 April 2005: £25.5m) referred to above.

The Group's defined benefit schemes are related parties of the Group. Details of contributions made to these schemes during the year are contained in note 26.

Note 35 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 that 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 of the London bus business at completion of the sale.

Note 36 Reconciliation of net assets and profit under UK GAAP to IFRS

Stagecoach Group plc ("the Group") previously prepared its consolidated financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") for periods up to and including 30 April 2005. From 1 May 2005 onwards, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee interpretations as endorsed by the European Union ("EU"). The results for the year ended 30 April 2006 represent the Group's first financial statements prepared in accordance with accounting policies based on IFRS and accordingly the comparative figures for the year ended 30 April 2005 have been restated in accordance with IFRS. Detailed transitional UK GAAP to IFRS reconciliations for the comparatives were issued on 29 September 2005 and can be found on the Group's website at: http://www.stagecoachgroup.com/scg/ir/finanalysis/reports.

In the announcement of 29 September 2005, we noted that the financial information presented may subsequently be impacted by changes in the business or to IFRS or the interpretation thereof. The comparative information reported in these results differs from that previously reported as a result of such changes.

The following changes have been made to the comparatives since the reconciliations published on 29 September 2005:	Year ended 30 April 2005
	£m
Income statement	
Increase in Group operating costs	(3.0)
Increase in Group other operating income	3.0
Increase in operating profit from joint ventures	1.0
	1.0

	As at 30 April 2005
	£m
Balance sheet	
Increase in provisions within current liabilities	(55.6)
Decrease in provisions within non-current liabilities	55.6
Decrease in interests in joint ventures	(6.0)
Decrease in net assets and equity	(6.0)

A loss on sale of plant and equipment of £3.0m has been reclassified from Group other operating income to Group operating costs.

Provisions totalling £55.6m previously classified as non-current liabilities have been reclassified to current liabilities.

An intangible asset had been previously recognised in relation to VRG in our prior IFRS restatement which represented the right to operate both the West Coast and CrossCountry franchises. This has been removed which results in an increase in profit for the year ended 30 April 2005 of £1.0m and a decrease in net assets of £6.0m at that date. This change results from further analysis undertaken by VRG and its auditors with respect to the application of IFRS to the contractual arrangements in respect of VRG's franchises.

The transitional balance sheet shown at 1 May 2005 to comply with IAS 32 and IAS 39 in the restatement has changed with net assets at 1 May 2005 decreasing by a further £0.5m. This reflects the discounting of our North American receivables in respect of disposals in prior years.

The year ended 30 April 2005 comparatives have also been updated to reflect the disposal of our New Zealand operations, with all income and expenses relating to the New Zealand division being reclassified to profit for the year from discontinued operations.

Reconciliation of Profit

For the year ended
30 April 2005

	Previously reported under UK GAAP	Employee Benefits (a)	Goodwill and intangibles (b)	Share Based Payments (c)	Joint ventures & associates net liabilities (e)	Assets held for sale (f)	First time adoption (g)	Joint ventures (h)	Other	Total effect of transition to IFRS	Restated under IFRS	Impact of discontinued operations	As reported under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	1,479.5	–	–	–	–	–	–	–	–	–	1,479.5	(59.0)	1,420.5
Operating costs	(1,517.1)	2.8	6.8	(1.4)	–	0.1	0.3	–	(3.0)	5.6	(1,511.5)	52.2	(1,459.3)
Other operating income (net)	173.3	1.7	–	–	–	–	–	–	3.0	4.7	178.0	(1.9)	176.1
Operating profit of Group companies	135.7	4.5	6.8	(1.4)	–	0.1	0.3	–	–	10.3	146.0	(8.7)	137.3
Share of operating loss of joint ventures (IFRS – after finance income and taxation)	(2.2)	1.6	0.1	–	–	–	–	(3.5)	–	(1.8)	(4.0)	–	(4.0)
Share of operating loss from interest in associates (IFRS – after finance charges and taxation)	(0.7)	–	0.3	–	–	–	–	–	–	0.3	(0.4)	–	(0.4)
Total operating profit: Group and share of joint ventures and associates	132.8	6.1	7.2	(1.4)	–	0.1	0.3	(3.5)	–	8.8	141.6	(8.7)	132.9
Gain on sale of properties	1.3	–	–	–	–	–	–	–	–	–	1.3	–	1.3
Loss on disposed operations	(5.9)	–	(0.4)	–	(1.0)	(0.1)	–	–	–	(1.5)	(7.4)	–	(7.4)
Profit before interest and taxation	128.2	6.1	6.8	(1.4)	(1.0)	–	0.3	(3.5)	–	7.3	135.5	(8.7)	126.8
Finance costs (net)	(19.9)	–	–	–	–	–	–	(1.7)	–	(1.7)	(21.6)	(0.3)	(21.9)
Profit before taxation	108.3	6.1	6.8	(1.4)	(1.0)	–	0.3	(5.2)	–	5.6	113.9	(9.0)	104.9
Taxation	(29.5)	(1.8)	(0.9)	–	–	–	–	5.2	–	2.5	(27.0)	1.7	(25.3)
Profit for the year from continuing operations	78.8	4.3	5.9	(1.4)	(1.0)	–	0.3	–	–	8.1	86.9	(7.3)	79.6
Profit for the year from discontinued operations	–	–	–	–	–	–	–	–	–	–	–	7.3	7.3
Profit for the year	78.8	4.3	5.9	(1.4)	(1.0)	–	0.3	–	–	8.1	86.9	–	86.9
Profit attributable to equity shareholders of the parent	78.8	4.3	5.9	(1.4)	(1.0)	–	0.3	–	–	8.1	86.9	–	86.9
Earnings per share													
– Basic	6.8p	0.4p	0.5p	(0.1)p	(0.1)p	–	–	–	–	0.7p	7.5p	–	7.5p
– Adjusted	9.0p	0.6p	–	(0.1)p	–	–	–	–	–	0.5p	9.5p	–	9.5p

Note: all adjustments are explained by reference to letter on pages 91 to 94.

Reconciliation of Equity

As at 30 April 2005

	Previously reported under UK GAAP	Opening balance sheet adjustment*	Employee Benefits (a)	Goodwill and intangibles (b)	Proposed dividends (d)	Joint ventures and associates net liabilities (e)	Assets held for sale (f)	First time adoption (g)	Other	Total effect of transition to IFRS	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ASSETS											
Non-current assets											
Goodwill	89.5	(4.1)	–	4.6	–	–	3.6	–	–	4.1	93.6
Other intangible assets	–	10.1	(2.9)	2.0	–	–	–	–	–	9.2	9.2
Property, plant and equipment	640.2	53.1	–	(0.2)	–	–	0.8	0.3	–	54.0	694.2
Interests in joint ventures	71.2	(9.9)	(5.1)	(0.1)	–	–	–	–	–	(15.1)	56.1
Interests in associates	0.7	–	–	0.3	–	–	–	–	–	0.3	1.0
Financial assets: Available for sale and other investments	1.7	–	–	0.1	–	–	–	–	–	0.1	1.8
Deferred tax asset	4.1	–	–	–	–	–	–	–	–	–	4.1
Other receivables	44.6	(40.8)	2.9	–	–	–	–	–	–	(37.9)	6.7
	852.0	8.4	(5.1)	6.7	–	–	4.4	0.3	–	14.7	866.7
Current assets											
Inventories	12.5	(1.6)	–	–	–	–	1.6	–	–	–	12.5
Trade and other receivables	174.1	11.2	(0.6)	0.1	–	–	2.1	–	(17.7)	(4.9)	169.2
Cash and cash equivalents	140.0	–	–	–	–	–	–	–	–	–	140.0
	326.6	9.6	(0.6)	0.1	–	–	3.7	–	(17.7)	(4.9)	321.7
Assets held for sale	–	8.1	–	–	–	–	(8.1)	–	–	–	–
Total assets	1,178.6	26.1	(5.7)	6.8	–	–	–	0.3	(17.7)	9.8	1,188.4
LIABILITIES											
Current liabilities											
Trade and other payables	357.6	(0.7)	–	–	–	–	0.7	–	–	–	357.6
Current tax liabilities	33.3	–	–	–	–	–	–	–	–	–	33.3
Financial liabilities: Borrowings	126.5	17.7	–	–	–	–	–	–	(17.7)	–	126.5
Dividends payable	24.4	(26.5)	–	–	2.1	–	–	–	–	(24.4)	–
Provisions	–	69.9	–	–	–	–	–	–	(14.3)	55.6	55.6
	541.8	60.4	–	–	2.1	–	0.7	–	(32.0)	31.2	573.0
Non-current liabilities											
Other payables	8.1	–	–	–	–	–	–	–	–	–	8.1
Financial liabilities: Borrowings	228.1	–	–	–	–	–	–	–	–	–	228.1
Deferred tax liabilities	78.7	(60.3)	(14.0)	1.1	–	–	–	–	–	(73.2)	5.5
Provisions – joint ventures	–	(1.0)	–	–	–	1.0	–	–	–	–	–
– others	102.9	(80.0)	0.1	–	–	–	0.1	–	14.3	(65.5)	37.4
Retirement benefit obligations (IAS 19 deficit)	–	175.0	45.9	–	–	–	–	–	–	220.9	220.9
	417.8	33.7	32.0	1.1	–	1.0	0.1	–	14.3	82.2	500.0
Liabilities associated with assets held for sale	–	0.8	–	–	–	–	(0.8)	–	–	–	–
Total liabilities	959.6	94.9	32.0	1.1	2.1	1.0	–	–	(17.7)	113.4	1,073.0
Net assets	219.0	(68.8)	(37.7)	5.7	(2.1)	(1.0)	–	0.3	–	(103.6)	115.4
EQUITY											
Ordinary share capital	6.8	–	–	–	–	–	–	–	–	–	6.8
Redeemable 'B' preference shares	13.9	–	–	–	–	–	–	–	–	–	13.9
Share premium account	163.4	–	–	–	–	–	–	–	–	–	163.4
Retained earnings	(187.4)	(68.8)	(37.7)	5.7	(2.1)	(1.0)	–	0.3	(3.4)	(107.0)	(294.4)
Capital redemption reserve	229.1	–	–	–	–	–	–	–	–	–	229.1
Own shares	(6.8)	–	–	–	–	–	–	–	–	–	(6.8)
Translation reserve	–	–	–	–	–	–	–	–	3.4	3.4	3.4
Total equity	219.0	(68.8)	(37.7)	5.7	(2.1)	(1.0)	–	0.3	–	(103.6)	115.4

Note: all adjustments are explained by reference to letter on pages 91 to 94.
* See reconciliation of equity as at 1 May 2004 on page 90

Reconciliation of Equity

As at 1 May 2004

	Previously reported under UK GAAP	Employee Benefits (a)	Goodwill and intangibles (b)	Proposed dividends (d)	Joint ventures and associates net liabilities (e)	Assets held for sale (f)	First time adoption (g)	Other	Total effect of transition to IFRS	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ASSETS										
Non-current assets										
Goodwill	103.5	–	(0.5)	–	–	(3.6)	–	–	(4.1)	99.4
Other intangible assets	–	8.1	2.0	–	–	–	–	–	10.1	10.1
Property, plant and equipment	618.0	–	–	–	–	(0.8)	53.9	–	53.1	671.1
Interest in joint ventures	106.5	(10.9)	1.0	–	–	–	–	–	(9.9)	96.6
Interest in associates	1.4	–	–	–	–	–	–	–	–	1.4
Financial assets: Available for sale and other investments	2.3	–	–	–	–	–	–	–	–	2.3
Other receivables	58.0	(41.6)	0.8	–	–	–	–	–	(40.8)	17.2
	889.7	(44.4)	3.3	–	–	(4.4)	53.9	–	8.4	898.1
Current assets										
Inventories	13.4	–	–	–	–	(1.6)	–	–	(1.6)	11.8
Trade and other receivables	169.2	(1.9)	(2.5)	–	–	(2.1)	–	17.7	11.2	180.4
Cash and cash equivalents	476.5	–	–	–	–	–	–	–	–	476.5
	659.1	(1.9)	(2.5)	–	–	(3.7)	–	17.7	9.6	668.7
Assets held for sale	–	–	–	–	–	8.1	–	–	8.1	8.1
Total assets	1,548.8	(46.3)	0.8	–	–	–	53.9	17.7	26.1	1,574.9
LIABILITIES										
Current liabilities										
Trade and other payables	356.2	–	–	–	–	(0.7)	–	–	(0.7)	355.5
Current tax liabilities	34.0	–	–	–	–	–	–	–	–	34.0
Financial liabilities: Borrowings	257.9	–	–	–	–	–	–	17.7	17.7	275.6
Dividends payable	26.5	–	–	(26.5)	–	–	–	–	(26.5)	–
Provisions	–	–	–	–	–	–	–	69.9	69.9	69.9
	674.6	–	–	(26.5)	–	(0.7)	–	87.6	60.4	735.0
Non-current liabilities										
Other payables	6.0	–	–	–	–	–	–	–	–	6.0
Financial liabilities: Borrowings	286.2	–	–	–	–	–	–	–	–	286.2
Deferred tax liabilities	76.2	(60.3)	–	–	–	–	–	–	(60.3)	15.9
Provisions – joint ventures	1.0	–	–	–	(1.0)	–	–	–	(1.0)	–
– others	114.8	(10.0)	–	–	–	(0.1)	–	(69.9)	(80.0)	34.8
Retirement benefit obligations	–	175.0	–	–	–	–	–	–	175.0	175.0
	484.2	104.7	–	–	(1.0)	(0.1)	–	(69.9)	33.7	517.9
Liabilities associated with assets held for sale	–	–	–	–	–	0.8	–	–	0.8	0.8
Total liabilities	1,158.8	104.7	–	(26.5)	(1.0)	–	–	17.7	94.9	1,253.7
Net assets	390.0	(151.0)	0.8	26.5	1.0	–	53.9	–	(68.8)	321.2
EQUITY										
Ordinary share capital	6.7	–	–	–	–	–	–	–	–	6.7
Share premium account	392.4	–	–	–	–	–	–	–	–	392.4
Retained earnings	(6.9)	(151.0)	0.8	26.5	1.0	–	53.9	–	(68.8)	(75.7)
Capital redemption reserve	1.7	–	–	–	–	–	–	–	–	1.7
Own shares	(3.9)	–	–	–	–	–	–	–	–	(3.9)
Total equity	390.0	(151.0)	0.8	26.5	1.0	–	53.9	–	(68.8)	321.2

Each of the adjustments required on pages 88 to 90 to restate the Group's results to 30 April 2005 from UK GAAP to IFRS together with any associated transitional arrangements, are explained below:

a IAS 19, "Employee Benefits"

A summary of the impact of IAS 19 is detailed below:

	Profit	Statement of recognised income and expense	Equity	
	30 April 2005 £m	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Operating profit	6.1	–	–	–
Taxation	(1.8)	–	–	–
Profit for the year	4.3	–	–	–
Recognised gains and losses	–	(42.0)	–	–
Net assets	–	–	(188.7)	(151.0)

IAS 19 requires the separate disclosure of the operating and financing elements of defined benefits pensions (and similarly funded employee benefits) but permits a number of alternatives for how these elements are classified in the income statement. The Group's policy is to classify the full impact of pensions on the income statement within operating costs.

The standard also permits a number of alternatives for the recognition of actuarial gains and losses. The Group's policy is to recognise any actuarial gains and losses in full immediately in the statement of recognised income and expense, as would have been required under FRS 17 in the UK. The option to account for actuarial gains and losses in this way is part of an IASB amendment to IAS 19. The amendment will be effective from 1 January 2006 with earlier adoption allowed. The Group has applied the revised standard voluntarily from the Group's transition date to IFRS of 1 May 2004.

The cash funding of the plans, which may from time to time involve special payments, is designed, in consultation with independent qualified actuaries, to ensure that present and future contributions should be sufficient to meet future liabilities.

As a result of adopting IAS 19, for the year ended 30 April 2005, there is an increase in operating profit of £6.1m and a related increase in the tax charge of £1.8m. Accordingly, profit for the year increased by £4.3m.

The balance sheet impact of the implementation of this standard in the Group's consolidated IFRS balance sheet was to reduce net assets by £151.0m at 1 May 2004 and by a cumulative £188.7m at 30 April 2005.

The rail franchise deficits reflected in the restated 30 April 2005 results reflect only that part of the deficits that we expect to fund over the life of the franchises. A 'franchise adjustment' has been made to the deficits to adjust them to reflect only the deficits that the Group is expected to be obliged to fund until the end of the relevant franchises.

On commencement of a rail franchise, an intangible asset is recognised which exactly offsets the initial recognition of that part of the rail deficit that the Group is expected to be obliged to fund until the end of the relevant franchise. In accordance with IAS 38 "Intangible Assets", this intangible asset is subsequently amortised on a straight line basis over the expected duration of the franchise. Total amortisation of £2.9m for the year ended 30 April 2005 has been recognised in relation to the amortisation of these intangible assets.

b IFRS 3, " Business Combinations"; IAS 38, "Intangible Assets"

A summary of the impact of IFRS 3 and IAS 38 is detailed below:

	Profit	Statement of recognised income and expense	Equity	
	30 April 2005 £m	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Operating profit	7.2	–	–	–
Loss on disposed operations	(0.4)	–	–	–
Taxation	(0.9)	–	–	–
Profit for the year	5.9	–	–	–
Recognised gains and losses	–	(0.2)	–	–
Net assets	–	–	6.5	0.8

IFRS 3 prohibits merger accounting and the amortisation of goodwill. The standard requires goodwill to be carried at cost with impairment reviews both annually and also where there are indications that the carrying value may not be recoverable.

b IFRS 3, " Business Combinations"; IAS 38, "Intangible Assets" (continued)

Under the transitional arrangements of IFRS 1, a company has the option of applying IFRS 3 prospectively from the transition date to IFRS. The Group has chosen this option rather than restate previous business combinations. The impact of IFRS 3 and associated transitional arrangements on the Group are as follows:

- all prior business combination accounting is frozen at the transition date of 1 May 2004;
- except where goodwill relates to businesses that operate UK rail franchises with finite durations, the value of goodwill is frozen at 1 May 2004 and amortisation previously reported under UK GAAP for the year ended 30 April 2005 is removed for IFRS restatements; and
- any negative goodwill at 1 May 2004 is reversed.

The impact on the operating profit for the year ended 30 April 2005 is an increase of £7.2m due principally to the non-amortisation of subsidiary and associates goodwill. The loss on disposed operations increases by £0.4m as a result of the non-amortisation of goodwill in relation to disposed operations. The associated tax impact of these adjustments is to recognise an additional charge of £0.9m for the year. The impact on profit for the year is therefore an increase of £5.9m. There is an additional £0.2m charge to the statement of recognised income and expense due to the affect the non-amortisation of goodwill has on the retranslation of goodwill denominated in foreign currencies.

There remains an annual charge for goodwill in relation to our investment in Virgin Rail Group of £14.7m in our restated IFRS results for the year ended 30 April 2005. This annual charge equals the goodwill amortisation recognised for Virgin Rail Group under our previously reported UK GAAP results. In our IFRS results we will continue to recognise an annual charge for goodwill in relation to Virgin Rail Group, which will equate to the amount we would have amortised under UK GAAP. Goodwill recognised in relation to the acquisition of a business operating a rail franchise has a finite life due to the fact that a franchise ends on a particular date. We therefore have to reduce the goodwill in relation to Virgin Rail Group with an annual charge to reflect the fact that we should have no goodwill left at the end of Virgin Rail Group's rail franchises. Under IFRS, on winning any new franchises, any consideration paid in excess of the relevant fair value of assets and liabilities acquired will represent a separate intangible asset, which would be amortised over the life of the franchise.

Net assets increased by £0.8m on transition at 1 May 2004 primarily due to the write back of negative goodwill within the share of net assets in Virgin Rail Group.

IFRS 1, "First-time Adoption of International Financial Reporting Standards" requires that an impairment review of goodwill be conducted in accordance with IAS 36, "Impairment of Assets" at the date of transition irrespective of whether an indication exists that goodwill may be impaired. A review of all of the Group's goodwill was undertaken in accordance with this standard and no further impairment losses arose as at 1 May 2004.

Under IAS 38, intangible assets are capitalised where they qualify for recognition by meeting the criteria specified within that standard. On transition to IFRS, some of the Group's already capitalised assets met the definition of an intangible asset contained within the standard and complied with the criteria for separate recognition. The result was that assets were reclassified and separately recognised as intangible assets as follows:

	Reclassified from goodwill	Reclassified from tangible fixed assets	Reclassified from receivables	Total
	£m	£m	£m	£m
At 1 May 2004	0.1	Nil	1.9	2.0
Additions in year	2.4	0.3	1.2	3.9
Disposals in year	Nil	Nil	(0.5)	(0.5)
Amortisation in year	(0.5)	(0.1)	(0.6)	(1.2)
Translation adjustment	Nil	Nil	(0.2)	(0.2)
At 30 April 2005	2.0	0.2	1.8	4.0

The total intangible asset amortisation recognised for the year ended 30 April 2005 was £4.1m. As mentioned in the employee benefits section on page 91, intangible asset amortisation of £2.9m representing the amortisation of the intangible asset recognised on transition that offsets the rail pension deficit is included in the total charge of £4.1m.

c IFRS 2, "Share based Payment"

A summary of the impact of IFRS 2 is detailed below:

	Profit	Equity	
	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Operating profit	(1.4)	–	–
Profit for the year	(1.4)	–	–
Net assets	–	Nil	Nil

In accordance with IFRS 2, the Group has recognised a charge to income based on the fair value of outstanding employee share options granted to employees. The fair value has been calculated using the Black-Scholes options valuation model and is charged to profit over the expected vesting period of relevant options, adjusted to reflect actual and expected levels of vesting.

The Group has applied the optional exemption within IFRS 1, which allows it to apply IFRS 2 only to share options granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

The operating profit impact of adopting IFRS 2 for the year ended 30 April 2005 is a charge of £1.4m. There is no impact on net assets.

d IAS 10, *"Events After the Balance Sheet Date"*

A summary of the impact of IAS 10 is detailed below:

	Profit	Equity	
	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Profit for the year	–	–	–
Net assets	–	24.4	26.5

IAS 10 requires that dividends declared to equity shareholders after the balance sheet date should not be recognised as a liability at the balance sheet date. This differs from the previously adopted UK GAAP treatment, which requires dividends declared after the balance sheet date to be treated as adjusting events and therefore recognised as a liability at the balance sheet date. The effect of this is to increase net assets and consolidated retained earnings at 1 May 2004 by £26.5m, representing the final dividend payable under UK GAAP for the year ended 30 April 2004, and to increase net assets for the year ended 30 April 2005 by a cumulative £24.4m.

e IAS 28, *" Investments in Associates"*

A summary of the impact of IAS 28 is detailed below:

	Profit	Equity	
	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Loss on disposed operations	(1.0)	–	–
Profit for the year	(1.0)	–	–
Net assets	–	–	1.0

Under IAS 28, where a group's share of losses of an associate exceeds its interest in the associate, that group should discontinue recognising its share of any further losses. The same principles apply to any share of losses of joint ventures. The result for the Group on transition is to increase net assets and consolidated retained earnings by £1.0m, being the reversal of the net liabilities of the Group's joint ventures previously recognised under UK GAAP.

During the year ended 30 April 2005, the joint ventures mentioned above were disposed of and subsequently the loss on disposed operations for the year ended 30 April 2005 was increased by £1.0m.

f IFRS 5, *"Non-current Assets Held for Sale and Discontinued Operations"*

A summary of the impact of IFRS 5 is detailed below:

	Profit	Equity	
	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Operating profit	0.1	–	–
Loss on disposed operations	(0.1)	–	–
Profit for the year	Nil	–	–
Net assets	–	Nil	Nil

IFRS 5 requires that any assets or disposal groups held for sale should be separately classified on the balance sheet where they meet the held for sale criteria contained within IFRS 5. At 1 May 2004 the Group's North American taxi operations met the criteria to be classified as held for sale as a disposal group. These businesses were disposed of by 30 April 2005. The impact on the consolidated opening balance sheet at 1 May 2004 is to reclassify £8.1m of assets to this category and £0.8m of liabilities. The movement for the year to 30 April 2005 reflects the disposal of these taxi companies contained within the disposal group at 1 May 2004.

Under IFRS 5 any non-current assets classified as being held for sale, whether individually or within a disposal group, should not be depreciated from the date they meet the criteria to be recognised as held for sale. Accordingly the effect of this is to increase operating profit by £0.1m, representing the non-depreciation of property, plant and equipment within the assets held for sale. In addition, the effect is to increase the reported loss on disposal of the taxi companies disposed of within the year to 30 April 2005 by £0.1m reflecting the increased asset values as a result of non-depreciation.

g IFRS 1, "First time adoption of International Financial Reporting Standards"

IAS 16, "Property, plant and equipment", requires initial measurement of property, plant and equipment at cost less accumulated depreciation. The exemption in IFRS 1 allows entities to use a value that is not depreciated cost as deemed cost on transition to IFRS. There are three possible values, any of which may be applied to any individual item of property, plant and equipment, that may be used as the basis of deemed cost at the date of transition. One of these is the option to use the fair value of the item at the date of transition to IFRS, and allocate this as deemed cost.

We have decided to adopt this exemption allowing us to adopt the fair value of certain fixed assets (being certain land and buildings of the UK Bus division) on transition as deemed cost. A summary of the impact is detailed below.

	Profit	Equity	
	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Operating profit	0.3	–	–
Profit for the year	0.3	–	–
Net assets	–	54.2	53.9

As a result of adopting the exemption in IFRS 1, for the year ended 30 April 2005, there is an increase in operating profit and profit for the year of £0.3m, representing the reduced depreciation charge on the revalued assets. The impact is a reduction in depreciation due to the split of deemed cost between land and buildings. Land is not depreciated whereas buildings are.

The balance sheet impact of the implementation of this standard in the Group's consolidated IFRS balance sheet was to increase net assets by £53.9m at 1 May 2004, and by a cumulative £54.2m at 30 April 2005.

h IAS 31, "Interests in joint ventures"

A summary of the impact of IAS 31 is detailed below:

	Profit	Equity	
	30 April 2005 £m	30 April 2005 £m	1 May 2004 £m
Operating profit	(3.5)	–	–
Finance costs (net)	(1.7)	–	–
Taxation	5.2	–	–
Profit for the year	Nil	–	–
Net assets	–	Nil	Nil

IAS 31, "Interests in joint ventures" requires the use of either proportionate consolidation or the equity method to consolidate jointly controlled entities. The Group will apply the equity method. Under UK GAAP requirements, only the gross equity method is allowed and there are a number of line items in the income statement for which the investor's share of its joint ventures results have to be included and disclosed: these include revenue, operating profit, interest and taxation. There are no such requirements under IAS 31. As a result of this, for the year ended 30 April 2005 we have reclassified £5.2m of tax charges and £1.7m of finance income relating to our joint venture, Virgin Rail Group, into a single line item in the income statement. The results of the joint venture are now shown net of interest and taxation charges. This is an income statement reclassification and therefore has no impact on overall net assets.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STAGECOACH GROUP PLC

We have audited the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2006 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately (on page 35) on the Group financial statements of Stagecoach Group plc for the year ended 30 April 2006.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, Remuneration Committee report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration Committee report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration Committee Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

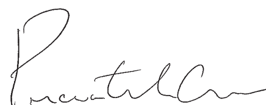
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Remuneration Committee report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2006; and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

28 June 2006

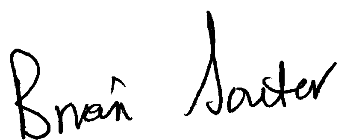
Company balance sheet

As at 30 April 2006

Prepared using UK Generally Accepted Accounting Policies (UK GAAP)

	Notes	2006 £m	2005 As restated £m
Fixed assets			
Tangible assets	2	**0.1**	0.1
Investments	3	**964.9**	924.3
		965.0	924.4
Current assets			
Debtors and prepaid charges – due within one year	4	**13.7**	21.6
– due after more than one year	4	**172.2**	166.6
Deferred tax asset	5	**0.4**	0.6
Derivative financial instruments at fair value	7	**4.0**	Nil
		190.3	188.8
Creditors: Amounts falling due within one year			
Trade and other payables	6	**(398.7)**	(351.6)
Derivative financial instruments at fair value	7	**(4.2)**	Nil
		(402.9)	(351.6)
Net current liabilities		**(212.6)**	(162.8)
Total assets less current liabilities		**752.4**	761.6
Creditors: Amounts falling due after more than one year	6	**(13.5)**	(38.3)
Net assets excluding pension liability		**738.9**	723.3
Pension liability, net of deferred tax	8	**(2.5)**	(2.8)
Net assets including pension liability		**736.4**	720.5
Capital and reserves			
Equity share capital	9	**6.9**	6.8
Redeemable 'B' preference shares	9	**n/a**	13.9
Share premium account	10	**174.8**	163.4
Profit and loss account	10	**317.8**	314.1
Capital redemption reserve	10	**243.0**	229.1
Own shares	10	**(6.1)**	(6.8)
Shareholders' funds		**736.4**	720.5
Analysis of shareholders' funds			
Equity		**736.4**	706.6
Non-equity		**n/a**	13.9
		736.4	720.5

These financial statements were approved by the Board of Directors on 28 June 2006 for issue.



Brian Souter
Chief Executive

Martin A Griffiths
Finance Director

The accompanying notes form an integral part of this balance sheet.

Notes to the financial statements

Note 1 UK GAAP accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

- **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable standards in the United Kingdom.

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

As permitted by FRS 1 (Revised), the Company has taken the exemption from preparing a cash flow statement.

- **Changes in accounting policy**

The Company has adopted FRS 17, 'Retirement benefits', FRS 20 "Share-based payments", FRS 21 "Events after the balance sheet date", FRS 25 "Financial instruments: Disclosure and presentation" and FRS 26 "Financial instruments: Measurement". The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly except that the exemption within FRS 25 and FRS 26 not to restate comparatives has been taken. Details of the effects of the prior year adjustments are given in note 14.

The Company has also adopted FRS 23, 'The Effects of Changes in Foreign Exchange Rates', and FRS 28, 'Corresponding amounts', in the year. The adoption of these did not have any impact on the overall reported results.

- **Tangible fixed assets**

Tangible fixed assets are shown at their original historic cost net of depreciation and any provision for impairment as set out in note 2.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over their estimated useful lives, as follows:

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use.

- **Investments**

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

- **Taxation**

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

In accordance with FRS 19, "Deferred Taxation", full provision is made for deferred tax on a non-discounted basis in respect of all timing differences except those arising from the revaluation of fixed assets where there is no binding sale agreement and undistributed profits of overseas subsidiaries.

Deferred tax is calculated at rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent they are more likely than not to be recovered.

- **Foreign currencies**

Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

For the principal rates of exchange used see the Group IFRS accounting policies on page 44.

- **Share based payment**

The Company issues equity-settled and cash-settled share based payments to certain employees.

The Company has applied the optional exemption contained within FRS 20, which allows it to apply the standard only to share options granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity settled share based payments is estimated by use of the Black-Scholes pricing model.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Notes to the financial statements

Note 1 UK GAAP accounting policies (continued)

- **Share based payment (continued)**

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently intends to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash – settled transactions (see above).

- **Dividends**

Dividends on ordinary shares are recorded in the financial statements in the period in which they are approved by the Company's shareholders, or in the case of interim dividends, in the period in which they are paid.

- **Financial instruments**

The accounting policy of the Company under FRS 25 "Financial instruments: Disclosure and presentation" and FRS 26 "Financial instruments: Measurement" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Disclosure and presentation" and IAS 39 "Financial instruments: Recognition and Measurement". Therefore for details of the Company's accounting policy for financial instruments refer to pages 46 to 48. The Company has used the exemption within FRS 25 and FRS 26 not to restate comparatives and therefore the previous UK GAAP accounting policies have been used for the 2005 comparatives. For details of the previous accounting policies for derivative financial instruments refer to page 48.

- **Investment in own shares**

In accordance with UITF Abstract 38, "Accounting for ESOP Trusts", own shares held by the Group's Employee Benefit Scheme and Qualifying Employee Share Trust have been classified as deductions from shareholders' funds.

- **Interest bearing loans and borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

- **Pensions**

The Company accounts for pensions and similar benefits under FRS 17 "Retirement Benefits" and measures its obligations due at discounted present value.

Note 2 Tangible fixed assets	£m
Cost	
Beginning of year	0.9
Disposals	(0.3)
End of year	0.6
Depreciation	
Beginning of year	(0.8)
Charge	Nil
Disposals	0.3
End of year	(0.5)
Net book value, beginning of year	0.1
Net book value, end of year	0.1

Note 3 Investments

	Subsidiary undertakings As restated £m
Cost	
Beginning of year	923.0
FRS 20 adjustments	1.3
Beginning of year, restated	924.3
Additions	79.2
Disposals	(38.6)
End of year	964.9
Amounts written off	
At beginning and end of year	Nil
Net book value, beginning of year	923.0
Net book value, beginning of year restated	924.3
Net book value, end of year	964.9

Note 4 Debtors and prepaid charges

Amounts falling due within one year are:

	2006 £m	2005 £m
Trade debtors	**0.3**	0.2
Other prepayments and accrued income	**3.2**	11.2
VAT and other government debtors	**10.1**	9.8
UK corporation tax debtors	**Nil**	0.4
Amounts owed by Group companies	**0.1**	Nil
	13.7	21.6

Amounts falling due after more than one year are:

	2006 £m	2005 As restated £m
Amounts owed by Group companies	**172.2**	166.6

Credit risk with respect to debtors is low due to the fact that a large amount of the Company's balances are with subsidiary undertakings that it controls.

Note 5 Deferred tax asset

The Company movement during the year was as follows:

	2006 £m	2005 £m
Beginning of year	**1.5**	1.1
FRS 17 adjustments (see note 14)	**(0.9)**	(0.9)
Beginning of year, restated	**0.6**	0.2
(Charge)/credit to profit and loss account	**(0.2)**	0.4
End of year	**0.4**	0.6

Note 5 Deferred tax asset (continued)

The deferred tax asset recognised can be split as follows:

	2006 £m	2005 As restated £m
Short-term timing differences	**0.4**	0.6

Note 6 Creditors

(a) Creditors: Amounts falling due within one year

	2006 £m	2005 As restated £m
Bank overdrafts	**312.5**	197.0
Bank loans and loan notes	**37.7**	104.8
Trade creditors	**0.6**	1.7
Accruals and deferred income	**6.6**	15.9
Other creditors		
– UK corporation tax payable	**4.9**	Nil
– PAYE and NIC payable	**Nil**	0.2
Amounts due to Group companies	**36.4**	32.0
	398.7	351.6

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

(b) Creditors: Amounts falling due after more than one year

	2006 £m	2005 £m
Accruals and deferred income	**0.8**	0.8
Amounts due to Group companies	**12.7**	37.5
	13.5	38.3

(c) Borrowings are repayable as follows

	2006 £m	2005 £m
On demand or within 1 year		
Bank overdraft	**312.5**	197.0
Bank loans and loan notes	**37.7**	104.8
Total borrowings	**350.2**	301.8

Note 7 Financial instruments

In accordance with the transitional arrangements for FRS 25 and FRS 26, the exemption regarding comparatives has been taken. Accordingly no comparatives are given in this note. The fair value of derivative financial instruments at 30 April 2006 are set out below:

	Fair value assets £m	Fair value liabilities £m
Forward foreign currency contracts – external	**Nil**	(0.1)
Forward currency contracts – internal	**0.1**	Nil
Fuel caps – external	**1.4**	(2.5)
Fuel caps – internal	**2.5**	(1.4)
Interest rate swap – external	**Nil**	(0.2)
	4.0	(4.2)

Those derivatives identified above as "internal" are where the counterparty is a subsidiary company. Those identified as "external" are where the counterparty is a third party financial institution.

In accordance with FRS 26, "Financial Instruments: Recognition and Measurement" the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. None were identified.

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 8 Pension liability, net of deferred tax

	2006	2005
	£m	As restated £m
Unfunded pension liability	**3.6**	3.7
Deferred tax asset	**(1.1)**	(0.9)
	2.5	2.8

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above.

Note 9 Called up share capital

	2006	2005
	£m	£m
Authorised		
1,456,666,666 (2005: 1,456,666,666) ordinary share of 12/19 pence each	**9.2**	9.2
2005: 1,388,888,889 redeemable 'B' preference shares of 18 pence each	**n/a**	250.0
Total	**9.2**	259.2
Allotted, called-up and fully paid		
1,093,600,313 (2005: 1,069,545,227) ordinary shares of 12/19 pence each	**6.9**	6.8
2005: 77,189,641 redeemable 'B' preference shares of 18 pence each	**n/a**	13.9
Total	**6.9**	20.7

The redeemable 'B' preference shares attracted a non-cumulative preferential dividend set at 70% of 6 months' LIBOR. The dividend was payable on the nominal amount of 18 pence per 'B' share and was paid twice yearly in arrears on 31 March and 30 September. The redeemable 'B' shares were redeemable at their nominal value of 18 pence per share at the option of holders on 31 March and 30 September each year. As a result of the number of 'B' shares already redeemed, the Company was able to compulsorily redeem all the outstanding 'B' shares on 30 September 2005. The 'B' shares were not listed on a recognised Stock Exchange.

In accordance with UITF 38, all shares held by employee trusts are deducted from shareholders' funds and are not classified as assets.

The Company operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust 2003 ("EBT"). Shares held by these trusts are treated as a deduction from shareholders' funds in the financial statements. Other assets and liabilities of the trusts are consolidated in the Company's financial statements as if they were assets and liabilities of the Company. As at 30 April 2006, the QUEST held 628,285 (2005: 1,811,212) ordinary shares in the Company and the EBT held 4,690,333 (2005: 4,690,333) ordinary shares in the Company.

Note 10 Reconciliation of shareholders' funds

	Equity share capital	Redeemable 'B' preference shares	Share premium account	Profit and loss account	Capital redemption reserve	Own shares	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
At 30 April 2005 (as previously stated)	6.8	13.9	163.4	288.4	229.1	(6.8)	**694.8**
Prior year adjustments (see note 14):							
FRS 20	Nil	Nil	Nil	1.3	Nil	Nil	**1.3**
FRS 21	Nil	Nil	Nil	24.4	Nil	Nil	**24.4**
At 1 May 2005 (as restated)	6.8	13.9	163.4	314.1	229.1	(6.8)	**720.5**
Profit for the year	Nil	Nil	Nil	52.0	Nil	Nil	**52.0**
Credit in relation to share based payment	Nil	Nil	Nil	2.2	Nil	Nil	**2.2**
Dividends	Nil	Nil	Nil	(36.6)	Nil	Nil	**(36.6)**
Redemption of 'B' shares	Nil	(13.9)	Nil	(13.9)	13.9	Nil	**(13.9)**
Ordinary shares issued during the year	0.1	Nil	11.4	Nil	Nil	Nil	**11.5**
Own shares sold	Nil	Nil	Nil	Nil	Nil	0.7	**0.7**
	6.9	Nil	174.8	317.8	243.0	(6.1)	**736.4**

As permitted by S230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

Note 11 Share based payment

For details of share based payment awards and fair values see note 29 to the Group financial statements on pages 81 and 82. The Company accounts for the share based payment charge for the year of £2.2m (2005: £1.3m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to the profit and loss account reserve to reflect the fact that the Company has no employees and all awards of share options in the Company's shares are to employees of subsidiary companies.

Notes to the financial statements

Note 12 Guarantees, other financial commitment & contingent liabilities

(a) The Company is party to bank guarantees in respect of guarantees, loans, overdrafts and other facilities provided to certain Group undertakings of which £64.0m was outstanding at 30 April 2006 (2005: £81.4m) and provides cross-guarantees to certain subsidiary undertakings under VAT group provisions.

(b) Capital commitments
Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2006	2005
	£m	£m
Contracted for but not provided For delivery in one year	**53.5**	53.4

(c) Operating lease commitments
Commitments for payments in the next year under operating leases are as follows:

	2006		2005	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Under one year	**Nil**	**Nil**	Nil	Nil
Between one year and five years	**Nil**	**9.6**	Nil	9.5
Five years and over	**0.3**	**Nil**	0.3	0.3

Note 13 Related party transactions

The Company has taken advantage of the exemption under FRS 8, "Related party disclosures" from having to provide related party disclosures in its own financial statements when those statements are presented with consolidated financial statements of its group. Details of related party disclosures provided by the Group can be found on page 87.

Note 14 Prior year adjustment

The Company policy for accounting for share based payments and dividends was changed during the year to comply with FRS 20, "Share based payments" and FRS 21, "Events after the Balance Sheet Date". The comparative figures in the primary statements and notes have been restated to reflect the new policies.

FRS 20 requires the fair value of outstanding share options granted to employees to be recognised as a charge in the profit and loss account. Previous UK GAAP treatment required the instrinsic value to be recognised as a charge in the profit and loss account. FRS 21 requires that dividends declared to equity shareholders after the balance sheet date should not be recognised as a liability at the balance sheet date. This differs from the previous UK GAAP treatment which required dividends declared after the balance sheet date to be recognised as a liability at the balance sheet date.

The effect of the changes for each of these is summarised below:

FRS 20, "Share based payments" **Balance sheet**	**2006**	2005
	£m	£m
Increase in investments in subsidiaries	**2.1**	1.3
Increase in net assets	**2.1**	1.3
Increase in profit and loss account reserve	**2.1**	1.3
FRS 21, "Events after the Balance Sheet Date" **Profit and loss account**		
Decrease in dividends recorded in the profit and loss account	**4.0**	24.4
Increase in profit for the financial year	**4.0**	24.4
Balance sheet		
Decrease in dividend payable creditor	**4.0**	24.4
Increase in net assets	**4.0**	24.4
Increase in profit and loss account reserve	**4.0**	24.4

The adoption of FRS 17, "Retirement Benefits," and FRS 23, "The Effects of Changes in Foreign Exchange Rates" have had no impact on overall reported results. On the adoption of FRS 17, deferred taxation in respect of pension liabilities for the comparative year has been reclassified from deferred tax asset within current assets to the pension liability, net of deferred taxation line on the face of the balance sheet. The adoption of FRS 25, "Financial Instruments: Disclosure and Presentation" and FRS 26, "Financial Instruments: Measurement", which requires all derivatives to be fair valued in the balance sheet has also had no net impact on reported results due to the Company having external derivatives matched by equal and opposite internal derivatives.

Shareholder information
Analysis of shareholders as at 30 April 2006

Range of holdings	Number of holders	%	Ordinary shares held	%
1 – 25,000	48,958	98.33	73,542,011	6.72
25,001 – 250,000	555	1.11	41,849,418	3.83
250,001 – 500,000	78	0.16	28,740,268	2.63
500,001 – 3,750,000	145	0.29	202,597,122	18.53
Over 3,750,000	54	0.11	746,871,494	68.29
	49,790	100.00	1,093,600,313	100.00

Classification of shareholders	Number of holders	Ordinary %	shares held	%
Individuals	47,979	96.36	312,185,842	28.55
Other corporate bodies	52	0.11	10,234,740	0.94
Banks and Nominees	1,604	3.22	715,840,728	65.45
Limited companies	149	0.30	55,297,868	5.06
Pension funds	6	0.01	41,135	0.00
	49,790	100.00	1,093,600,313	100.00

Registrar

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's name and address. Please write to: Lloyds TSB Registrars Scotland, PO Box 28506, Finance House, Orchard Brae, Edinburgh EH4 1WQ. Telephone 0870 601 5366. Registrar forms can be obtained on-line at http://www.stagecoachgroup.com/scg/ir/shareholder/registrar/

Stagecoach individual savings accounts

The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on 08457 22 55 25.

The Company has also made arrangements with Stocktrade for Maxi and Mini ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 81 George Street, Edinburgh EH2 3ES. Telephone 0131 240 0448.

Low cost share dealing facility

The Company has set up a low cost execution only share dealing facility with a division of Brewin Dolphin, Stocktrade, exclusive to Stagecoach shareholders. The commission is 0.5% up to £10,000 with 0.2% being charged on the excess thereafter, subject to a £15 minimum.

Shareholders who would like further information should write to Stocktrade, 81 George Street, Edinburgh EH2 3ES. Telephone 0845 601 0995, quoting dealing reference Low Co020. Postal dealing packs are available on request.

Payment of dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The mandates enable the Company to pay dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to shareholders of the BACS system is that the registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder bank or building society account. Shareholders who wish to benefit from this service should request the Company's registrar (address above) to send them a dividend/interest mandate form or alternatively complete the mandate form attached to the next dividend tax voucher they receive.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at favourable commission rates. Shareholders who would like further information should telephone Lloyds TSB Registrars Scotland on 0870 241 3018.

Five year financial summary

	IFRS 2006	IFRS 2005	UK GAAP 2004	UK GAAP 2003	UK GAAP 2002
	£m	£m	£m	£m	£m
Results					
Revenue	**1,568.5**	1,420.5	1,792.3	2,076.6	2,114.4
Operating profit/(loss)	**136.1**	132.9	129.7	(466.2)	96.5
Finance charges (net)	**(16.0)**	(21.9)	(27.3)	(33.5)	(59.8)
Profit/(loss) before taxation	**115.0**	104.9	95.8	(500.2)	42.0
Tax (charge)/credit	**(26.4)**	(25.3)	8.8	(25.0)	(15.0)
Profit/(loss) attributable to equity shareholders of the parent	**115.4**	86.9	104.6	(525.2)	27.0
Net assets					
Non-current assets	**893.4**	866.7	831.7	1,259.8	1,981.0
Current assets	**395.3**	321.7	717.1	455.0	483.6
Current liabilities (excluding provisions)	**(439.4)**	(517.4)	(674.6)	(504.2)	(524.0)
Non-current liabilities (excluding provisions)	**(527.8)**	(462.6)	(292.2)	(640.7)	(808.1)
Provisions	**(109.9)**	(93.0)	(192.0)	(252.8)	(223.4)
Total equity	**211.6**	115.4	390.0	317.1	909.1
Cash and debt					
Cash at bank and in hand	**198.5**	140.0	476.5	164.7	150.0
Gross debt	**(334.4)**	(354.6)	(544.1)	(724.7)	(924.6)
Net debt (UK GAAP)	**(135.9)**	(214.6)	(67.6)	(560.0)	(774.6)
Cash flow					
Free cash flow	**175.5**	173.6	209.5	217.8	184.3
Ratios					
Earnings per ordinary share*	**10.6p**	9.5p	6.7p	6.4p	6.3p
Dividends per ordinary share	**3.7p**	3.3p	2.9p	2.6p	2.6p
Free cash flow per ordinary share	**16.3p**	15.0p	15.9p	16.6p	14.1p
Ordinary shares in issue at year end	**1,093.6m**	1,069.5m	1,335.4m	1,320.9m	1,320.9m

*before intangible asset amortisation and exceptional items

The effect of the adoption of IFRS on the information for the year ended 30 April 2005 is given in note 36 of the Group financial statements on pages 87 to 94.

Registered office, advisers and financial calendar

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Financial Calendar

Annual General Meeting
25 August 2006

Payment Date – Ordinary Shares
Final Dividend
4 October 2006

Interim Report
December 2006

Interim Dividend
March 2007

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