Chief Executive's review

Organic growth across our business has driven Stagecoach's strong performance during the year.

We have built on our excellent track record in achieving growth in our UK bus operations as a result of our innovation, targeted marketing and consistent service delivery. Despite pressure on fuel costs, we have achieved further impressive results in the year, increasing operating profits* by 10.3% in our UK Bus division from £74.8m to £82.5m.

Our new telemarketing unit has been attracting thousands of new bus users and we expect our two-year campaign focusing on a new location every six-weeks to generate further organic growth in our provincial bus operations. megabus.com, the Group's low-cost inter-city bus service, has now expanded to cover over 30 towns and cities in the UK and we expect further growth in megabus.com's revenue during the year to 30 April 2006. We have also expanded our use of online sales to increase our share in other express coach markets, such as our premier London-Oxford service.

We continue to develop positive partnerships with local authorities where pro-bus policies coupled with our operational and marketing expertise are producing strong revenue and passenger volume growth in our non-London companies. Several of our initial Government-funded Kick Start schemes are already generating significant passenger volume growth after just six months and we have again significantly increased turnover at our regulated bus operations in London.

Our UK Rail division has performed ahead of our original expectations and we are extremely pleased with the strong growth in turnover and passenger volumes at South West Trains. UK Rail operating profit is up 10.2% and the outlook for the remainder of the SWT franchise remains positive.

Customers have experienced a significantly improved service following the introduction of the new timetable at South West Trains in December 2004, with more frequent departures from the busiest stations. Train punctuality has progressively increased, with over 90% of trains now arriving on time (measured on the basis of the Strategic Rail Authority's Public Performance Measure), and we are confident that this new improved timetable and its inherent reliability will stimulate further passenger volume growth.

We have almost completed the UK's biggest introduction of new rolling stock at South West Trains with the minimum of delays for passengers. South West Trains has replaced its old slam-door rolling stock earlier than any other London operator, as part of the project to introduce 155 state-of-the art Desiro units with a total value of around £1 billion.

Passengers have responded extremely positively to the new trains and improved service. The most recent National Rail Trends data published by the Strategic Rail Authority indicated that the number of passengers who rated their overall journey with South West Trains as satisfactory or good was 5% higher than the equivalent period in the previous year. This improvement was one of the highest for an operator in the London and South East area.

Stagecoach Group has a significant share of the UK passenger rail market and a key strategic priority is to maximise the current significant opportunities to grow our franchise portfolio. We have been shortlisted for the Greater Western and Thameslink/Great Northern franchises. We are also working hard with our partners, Danish State Railways, to win the new Integrated Kent franchise.

The South West Trains franchise runs until February 2007 and we have already started preparing for a possible tender in 2006. Under our management since 1996, South West Trains passengers have benefited from record investment in new trains, significant operational improvements and new initiatives to boost security and customer service. Our strong financial management has delivered value for money to passengers and taxpayers, as well as an excellent return to our shareholders, and we believe we will be in a strong position to retain the franchise.

*References to the operating profit or operating margin of a particular business throughout the Chief Executive's Review and Operating and Financial Review mean operating profit (or operating margin) before goodwill amortisation, exceptional items and restructuring costs.

We are pleased to have been involved in helping to shape the future direction of the railways during the Government's recent review. A number of Stagecoach proposals, including better integration on the network, have been put in place and the results are helping to reduce delays and improve network management.

At the two Virgin Rail Group ("VRG") franchises, West Coast and CrossCountry, we are particularly pleased at the improving reliability for passengers and the step-change in the travelling environment that has been delivered with the introduction of new trains.

The re-negotiation of the West Coast franchise is a key strategic priority for the Group. We look forward to continuing our discussions with Government in late 2005, following the agreement to gather more revenue, passenger and operational data to assist the re-negotiation of the franchise for the period through to 2012. Passenger volumes on the West Coast mainline have risen approximately 20% in the period since 18 September 2004 in response to the introduction of new faster Pendolino trains. Journey times on the key London-Manchester route have been reduced by more than half an hour, while the frequency of services between the two cities has been doubled, attracting many airline passengers to rail travel.

These results are extremely encouraging and many more people can be attracted back to the railways if this uplift in quality of service is matched by further and sustained progress in infrastructure provision by Network Rail. With these excellent long-term prospects, we believe we can re-negotiate a franchise agreement which is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

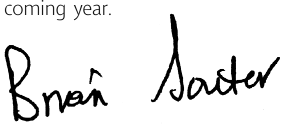
Like the West Coast franchise, Virgin CrossCountry continues to operate on the basis of annual budgets set by the Strategic Rail Authority ("SRA"). We are awaiting the SRA's decision on the future of the franchise. If the SRA decides to put the franchise out to open competition, we are confident that VRG, as the incumbent operator with an excellent track record, will be in a strong position to win the franchise.

Overseas, we have a strong set of bus businesses in the North American and New Zealand markets. In North America, we are pleased to report strong US$ turnover growth of 26.4% in the sightseeing and tour parts of our continuing businesses. While we have significantly reduced our ongoing exposure to these markets through our restructuring programme, the leisure-related businesses we have retained are now benefiting from a more stable US economy and from the recovery in charter and sightseeing markets. To stimulate further growth we have recently launched a new website for our North American operations, which incorporates online sales as part of our revenue development strategy.

The non-leisure parts of our continuing North American businesses have also seen good growth, with US$ turnover from scheduled services and commuter services up 7.8% on the prior year. In addition, we have continued to win and retain school bus and other contracts resulting in US$ turnover growth of 6.2% over the prior year.

In New Zealand, while there has been increased competition from the railways in Auckland, operating margins remain satisfactory at 14.7% (2004: 18.4%) and we are satisfied with the performance of the division although ongoing industrial action in Auckland is likely to impact financial performance in the short term.

None of this could have been achieved without the tremendous commitment from our people, who have ensured the Group has delivered on its strategy. We have an excellent team of senior managers across the Group and I believe we are well placed to deliver further growth in the coming year.



Brian Souter
Chief Executive