

Operating profit from continuing businesses increased from £141.9m to £156.7m. Operating profit is summarised below:

| OPERATING PROFIT | 2005 | | 2004 | | Currency | 2005 | 2004 |
|--------------------------------|---------------|---------------|--------|---------------|----------|--------------------|-------|
| | £m | % of turnover | £m | % of turnover | | Local Currency (m) | |
| Continuing operations | | | | | | | |
| UK Bus | 82.5 | 11.5% | 74.8 | 11.5% | £ | 82.5 | 74.8 |
| North America | 14.8 | 6.7% | 14.8 | 4.4% | US\$ | 27.4 | 25.4 |
| New Zealand | 8.7 | 14.7% | 10.7 | 18.4% | NZ\$ | 23.7 | 29.5 |
| Rail | 48.6 | 10.1% | 44.1 | 10.0% | £ | 48.6 | 44.1 |
| Virgin Rail Group (49% share) | 12.7 | 4.0% | 13.5 | 4.7% | £ | 12.7 | 13.5 |
| Others | (0.4) | – | (0.4) | – | £ | (0.4) | (0.4) |
| Group overheads | (8.8) | – | (8.4) | – | £ | (8.8) | (8.4) |
| Restructuring costs | (1.4) | – | (7.2) | – | £ | (1.4) | (7.2) |
| | 156.7 | | 141.9 | | | | |
| Discontinued operations | | | | | | | |
| Citybus (Hong Kong) | Nil | – | 1.0 | 5.6% | HK\$ | Nil | 12.8 |
| Trainline | Nil | | (2.4) | | | | |
| Road King | Nil | | 7.0 | | | | |
| | 156.7 | | 147.5 | | | | |
| Goodwill amortisation | (22.5) | | (17.8) | | | | |
| Exceptional items | (1.4) | | Nil | | | | |
| Total operating profit | 132.8 | | 129.7 | | | | |

UK Bus Overview

UK Bus has had an excellent year and this is reflected in the strong financial performance. Turnover in our UK Bus division has increased by 10.8% to £720.3m (2004: £650.2m). Operating profit was up 10.3% to £82.5m, compared to £74.8m in the previous year. We are particularly pleased to report a continued strong operating margin, maintained at 11.5%, despite higher fuel costs, an increased use of operating leases to finance new vehicles and costs associated with the development of new products, such as megabus.com. Excluding the impact of additional operating leases and losses relating to the development of megabus.com, UK Bus operating margin was 12.6% versus 12.2% in 2004.

Investment, innovation and growth

Stagecoach's commitment to investment and innovation has delivered further growth in passenger volumes at our UK Bus division during the year. We are experiencing growth both in our deregulated provincial bus operations and in the regulated London environment. We have continued to modernise our fleet and introduce new buses, helping to change passengers' perceptions of bus travel. Supported by effective partnerships with local transport authorities, targeted strategic marketing and further development of innovative products, we have again grown our passenger volumes. Total passenger volumes, excluding London and megabus.com, were up 1.5%.

Our pioneering megabus.com product, which offers low cost intercity bus travel via the Internet, has grown sharply during the year and we now have a network of services covering over 30 towns and cities in the UK. We have recently added a telephone booking facility to complement online sales and we are confident this will further help to stimulate demand. A new fleet of luxury double-decker coaches was introduced during the year at a cost of £6.6m, driving up the quality of travel for passengers on longer distance routes. Around 1.3m passengers have travelled with megabus.com during the year and we have improved both the average load factor and the average fare.

Stagecoach has signed an agreement with Siemens Transportation Systems to develop a new optical guidance bus product for the UK. We have agreed to investigate adapting the Siemens optical guidance system for use on conventional buses and will work together to scope the technical, operational and statutory issues around the potential

introduction of the technology on a city-wide basis. Optical guidance, as part of a comprehensive package of pro-public transport measures, has huge potential to help tackle the increasing road congestion that is affecting many parts of the UK and generate further passenger volume growth.

Provincial and city networks

We are continuing to drive passenger volume growth in our provincial and city networks through our focus on customer profiling research and targeted marketing. A new telemarketing unit has been established at our headquarters in Perth and has launched a series of campaigns in the UK to encourage non-users to switch to bus travel. The campaigns, which include the offer of a week's free travel and focus in particular on parents and car users, have resulted in up to one in five of those contacted switching to the bus. Stagecoach is concentrating on a new town or city every six weeks and intends to target up to 20% of its UK bus networks over the next two years.

Significant year-on-year passenger volume growth has been achieved in a number of our provincial networks, including Bedford, Basingstoke, Corby and Peterborough. We have also attracted significant growth in areas such as Exeter, rural Devon, Gloucester, Swindon, Cheltenham, Aldershot and Northampton.

The Cambridge "citi" network continues to expand more than three years after Stagecoach invested over £4m in improved services. Boosted by a strong partnership with Cambridgeshire County Council, the city has seen one of the biggest rises in public transport use in the UK with bus use increasing by around 45% in three years.

In Oxford, we have attracted more passengers on our Oxford Tube high-frequency express coach service to and from London. This follows the introduction of a new 25-vehicle fleet of luxury, disability accessible, double-decker coaches. We have also developed our use of online sales to increase market share.

Stagecoach has continued to work successfully with Nexus Passenger Transport Executive to develop core corridors in Newcastle, Sunderland and South Shields as part of the Tyne and Wear Superoute network. We are also working with Greater Manchester Passenger Transport Executive on a number of new technology programmes including real time information, the delivery of bus times to mobile phones and smart cards to make travel easier for passengers.

Operating and Financial Review

Severe flooding affected our Carlisle operations in January 2005, with 85 vehicles in the fleet written off due to water damage. However, the company was able to maintain services to passengers and a £4m fleet of 39 low-floor vehicles was delivered in June this year, making all inner city services in Carlisle easy access for the elderly, people with disabilities and parents with young children. The financial impact of the flooding was largely mitigated by insurance, although an exceptional loss of £0.8m was reported for the year to 30 April 2005, representing the "excess" on the insurance policy and other additional costs.

London

Our London bus business has achieved further significant growth this year. Turnover increased by 21.0% during the year as a result of winning and retaining contracts operated on behalf of Transport for London ("TfL"). During the year, we began operating an £11m contract for an articulated bus service out of our new £2.3m depot in Stratford. We have also invested a further £1m in improved operational and engineering facilities at our existing depots. Our excellent operational performance, which has followed a close focus on the recruitment and retention of drivers, has resulted in quality incentive payments from TfL and increased operating profits. Nearly 90 new double-decker vehicles were introduced in our operations in the capital during the year and our London fleet is now 100% low floor.

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. We agree with the Government that strong partnerships are the key to improving services and delivering value for money to taxpayers. In Scotland and Wales, we continue to work with the devolved administrations to successfully deliver the concessionary fares schemes. We have been working with the Scottish Executive to help shape the new Scotland-wide concessionary fares scheme and we welcome the recent commitment by the Government to introduce free travel for the elderly in England. 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. We are also working with businesses and educational establishments to encourage travel by public transport. Our work in Devon has been identified as an example of best practice by the Energy Saving Trust, a non-profit making organisation set up by the Government to help tackle climate change and improve air quality. In Oxford, we have also established a new network in partnership with Brookes University. These partnerships are delivering results, attracting more people to bus travel and helping to address congestion in our towns and cities.

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 in and around our main towns and cities. Stagecoach is a partner with local authorities in a number of major and growing park and ride sites. Feryrtoll in Fife, Scotland, doubled in size this summer to offer 1,000 car parking spaces and we are now running 12 buses an hour across the Forth Road Bridge into Edinburgh as car users are attracted to the benefits of public transport. There has been significant growth in car users using the five award-winning park and ride services in and around Cambridge, where every one of the 20 buses used by Stagecoach has low-floor access for people with disabilities and parents with young children. During the year, we won a contract for a park and ride facility in east Hull to give a public transport alternative for motorists. Stagecoach is now investigating the potential of "commercial" park and ride operations around the UK, where the operator would also buy and manage the facility. This approach has been successfully delivered in the United States and we believe there is potential to introduce the concept in the UK.

Kick Start

Stagecoach was successful in the first round of funding allocations following the decision by the Department for Transport, the Scottish Executive and the devolved administration in Wales to take forward our Kick Start proposal for targeted funding to support the introduction of new bus services. We have already achieved high levels of passenger volume growth after only six months of starting partnership projects in

Thanet, Chesterfield and Caerphilly. We have achieved similar success with projects of our own, including in Swindon, following the success of our initial pilot project in Perth, Scotland, where passenger volumes are still growing nearly five years after the initial investment.

North America

Overview

North American trading has been very encouraging. Excluding discontinued operations, turnover increased 12.7% from US\$351.3m to US\$396.0m. Including discontinued operations, turnover at our North American operations was US\$409.1m compared to US\$576.4m in the previous year. Operating profit was US\$27.4m (2004: US\$25.4m), representing an improvement in operating margin from 4.4% to 6.7%. Converted to sterling, turnover was £220.8m (2004: £336.8m) and operating profit was £14.8m (2004: £14.8m).

North East

In the North East region, we have achieved further significant passenger and revenue growth in our highly successful New York Sightseeing operation. 28.6% more tickets were sold in the year following the addition of new tours to our product offering. A fleet of 20 new open-top double-decker sightseeing coaches entered service in spring 2005, bringing the fleet to 74 open-top vehicles for the 2005-06 season. A further six new trolley buses have also entered service on a new tour in partnership with the History Channel.

Express and commuter coach services have also performed well. Services between New York City and New York State/Eastern Pennsylvania, for example, have generated turnover growth of 6.8% while a marketing campaign targeted at Newark Airport has produced further growth in our Newark Airport Express service.

During the year, we have won a number of new contracts with private and public sector organisations, including business operated on behalf of New Jersey Transit and Newark Airport.

North Central

Scheduled services in the North Central region have seen significant growth, partly as a result of increased air travel in the United States and following a bolt-on acquisition of a small business in Rockford, Illinois.

Charter sales have grown steadily over the period following increased marketing, operational improvements and targeted pricing initiatives.

North Central's Sightseeing and tour operations have seen overall turnover growth of 11.7%. Our Chicago Sightseeing and tour operation, which offers a mix of double decker and trolley tours, has achieved significant turnover growth. Plans are in place to develop new and improved tours in the coming year.

We have won a number of college shuttle contracts in the Pittsburgh market and our growing Wisconsin school bus business, which accounts for around 27.3% of the North Central region's turnover, has successfully retained a number of contracts that were re-tendered during the year.

Canada

Coach Canada's charter C\$ turnover is up 34.7% on the previous year. Charter business, which was impacted by the SARS outbreak in Toronto two years ago, has recovered strongly.

During the year, we purchased a small sightseeing operation in Montreal and have introduced four heritage double-decker buses from the UK as part of the expansion of the operation.

A major three-year contract to run services on behalf of the town of Whitby was renewed in November 2004, with annual revenues worth C\$3.7m.

We are pleased that our retained North American operations have delivered our plan to out-perform the operating margins being achieved by the division prior to restructuring. This has been achieved despite a background of rising fuel and insurance costs and an unpredictable claims environment.