

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.

A handwritten signature in black ink, appearing to read 'Robert Speirs'. The signature is fluid and cursive, written over a light background.

Robert Speirs
Chairman

*Exceptional items are defined in note 1 on page 42