

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.

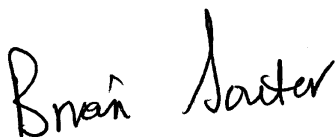
The renegotiation of the West Coast franchise is a central priority for the Group and we have been encouraged by the commitment shown by both VRG's management and the Department for Transport ("DfT") to agreeing revised commercial terms for the period through to 2012. We look forward to these terms being 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