

Chairman's statement



Stagecoach has delivered a year of strong growth in its bus and rail operations in the UK and North America, providing further excellent returns to our shareholders.

We continue to achieve impressive passenger growth by providing a high quality and 'green' alternative to the car. Across the business, we have achieved strong like-for-like revenue growth and, while cost pressures remain a challenge, we have been able to improve the operating profit margin.

Capitalising on its industry leadership and entrepreneurial flair, the UK Bus division is continuing to perform strongly. The Group's North American operations are benefiting from good revenue growth and a rigorous focus on controllable costs. In Rail, both South West Trains and the Group's joint venture, Virgin Rail Group ("VRG"), are experiencing strong passenger volume and revenue growth and we are excited by the prospects for the new East Midlands rail franchise that we will begin operating in November 2007.

Group revenue from continuing operations for the year ended 30 April 2007 was up 12.0% at £1,504.6m (2006: £1,343.9m). Operating profit from continuing operations before intangible asset expenses and exceptional items* was £161.3m (2006: £133.0m). Earnings per share before intangible asset expenses and exceptional items were 11.7p (2006: 10.6p). In addition, there were net exceptional gains before tax of £169.6m, principally arising from the profit of £132.2m on the sale of the Group's London bus operations, which was completed in August 2006.

We are proposing a final dividend of 2.9p per share (2006: 2.6p), giving a total dividend for the year of 4.1p (2006: 3.7p). This is an increase of 10.8% and we will look to continue to grow the dividend progressively. The proposed final dividend is payable to shareholders on the register at 31 August 2007 and will be paid on 3 October 2007.

In March 2007, the Board announced plans to return approximately £700m to shareholders in view of the proceeds from the sale of the New Zealand and London bus businesses and continuing strong cash generation across the Group. The proposals, approved by shareholders on 27 April 2007, give the Group a more efficient capital structure. The return of value, which equated to 63.0p per ordinary share, was completed in June 2007.

In February 2007, a Virgin Rail Group Pendolino train travelling from London Euston to Glasgow was derailed near Lambrigg in Cumbria. We were deeply

saddened at the incident, and our condolences go to the family of the passenger who lost her life and those who were injured. The Rail Accident Investigation Board has identified the cause of the accident as a faulty set of points. Responsibility for maintaining the points rests with Network Rail. Virgin Rail Group has been working with Network Rail to ensure lessons are learnt from this serious incident. Network Rail responded quickly to the incident and with a clear chain of command. Precautionary checks on similar sets of points suggested the fault at Lambrigg was an isolated one. It is clear that the quality of the train itself prevented further loss of life. Customers can remain assured that the safety and security of our passengers and our people is paramount for the Group and all its businesses, and this is underpinned by a proactive safety culture.

During the year, Russell Walls stepped down from the Board of Directors and Sir George Mathewson joined the Board as a non-executive director. The Group benefited significantly over six years from Russell's skills and experience and I thank him for his strong contribution. In addition, I am pleased that Garry Watts will join the Group as a non-executive director with effect from 1 July 2007. Garry brings a wide range of experience and I am sure he will make a strong contribution to the Board.

I would again like to thank our employees across our international operations who have ensured that our strategy has been delivered on the ground. Putting passengers first is at the heart of what we do every day and we can look forward with confidence to growing our public transport operations further in the year ahead.

We have made a strong start to the new financial year and current trading of the Group remains in line with our expectations.

A handwritten signature in black ink, appearing to read 'Robert Speirs', written in a cursive style.

Robert Speirs
Chairman

27 June 2007

*There is no explicit 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 nature, size or incidence in order to allow a proper understanding of the underlying performance of the Group.