

Chief Executive's review



Stagecoach's development has always been driven by our ability to identify new ideas and growth opportunities at an early stage and to deliver them quickly. I am delighted that this year we have demonstrated yet again that we are at the cutting edge of new thinking in the provision of high quality bus and rail services.

Innovation can only become a reality with strong, effective management and a team of talented and committed people that understand our customers' needs. These qualities have underpinned our progress and success in the past 12 months as we attract more people to bus and rail travel and deliver increased value to our shareholders.

Our focus on new business development through investment in research is driving growth, particularly in our UK Bus networks. This year, we have launched two UK transport firsts – megabus.com, the country's first low cost internet bus network, and Yellow Taxibus, an innovative demand responsive service in Fife, Scotland. These projects are part of our strategy to tap into new markets and drive organic growth in our business.

Megabus.com is an excellent example of our ability to stay ahead of the competition by researching, developing and implementing new ideas quickly. Within less than a year, we have built an inter-city network that covers more than 20 routes in Scotland, England and Wales. Passenger numbers and revenues are ahead of our expectations.

We are working hard to refresh our provincial bus networks and have continued to invest in new vehicles during the year to 30 April 2004. In London, where we operate a large number of contracts on behalf of Transport for London ("TfL"), we have grown turnover this year by over 19%. Even with significant development of new services and increased cost pressures, we have increased our margins within our UK Bus division.

Our Rail division has delivered an outstanding performance, with operating profits up 15.4%. The new three-year franchise at South West Trains has started positively. Over the past year, there has been a notable reduction in the number of delay minutes attributed to South West Trains. This step-change in quality is all the more impressive having been achieved while managing the introduction of a new fleet of trains. Passengers are benefiting from record levels of investment as 40-year-old slam door carriages are replaced by the state-of-the-art Desiro fleet.

At our joint venture, Virgin Rail Group, we have strengthened the management team, which remains firmly focused on successfully renegotiating the West Coast and CrossCountry franchises.

Two-and-a-half years ago, Stagecoach launched its proposals for improved integration on the UK railways in our policy paper, "A Platform for Change". Gradually, our analysis of the issues and our thinking on the way forward for the country's fragmented rail network has gathered support and we have updated these ideas as part of our contribution to the Government's rail review.

I am delighted that South West Trains has proved to be part of the solution by joining with the infrastructure operator, Network Rail, to open the UK's first integrated operations control centre at Waterloo station in London. This has set the standard for similar centres elsewhere in the country. Similarly, both the Department for Transport and the Scottish Executive have adopted our "Kick Start" proposals for targeted funding to support the introduction of new bus services. We also welcome the Government's commitment to quality partnerships and structural stability in the UK Bus industry.

The past year has seen the completion of a major restructuring of our operations in North America. We now have an established core of more robust businesses, centred on our North East and North Central regions of the United States, and Canada. As promised a year ago, the operating profit of our North American business has been maintained on a significantly smaller base of operations and I am confident the business can make an increased contribution to earnings moving forward.

In New Zealand, we had a particularly successful financial year in 2002/03 as a result of the increased traffic associated with the America's Cup yacht race in Auckland. This year, without an uplift from such a major international event and despite a challenging operating environment, we have seen further passenger growth over our combined New Zealand operations, which continue to generate good returns for the Group.

The Group has made a promising start to the current financial year and trading is in line with our expectations.

Across all its businesses, Stagecoach has always retained a commitment to good environmental stewardship as part of its day-to-day public transport provision. We have set ourselves some challenging targets for the year ahead as part of a new wide-ranging Group environmental policy. Our trial of a next generation fuel additive product in our UK Bus division has potential to deliver significant cuts in fuel consumption and vehicle emissions that could have positive implications for the whole of the bus industry.

The hard work and loyalty of all our people and their positive response to our strategy has ensured Stagecoach has made a fast recovery. Now that we are firmly back on track, our challenge is to reposition the Group as a leading UK-based public transport specialist and continue to generate growth and shareholder value. I am confident the foundations we have put in place will ensure we are well placed for further success.

A handwritten signature in black ink that reads "Brian Souter". The signature is written in a cursive, slightly slanted style.

Brian Souter
Chief Executive