Chairman's statement

'The continued increase in the dividend reflects our confidence in the Group's future prospects and is underpinned by our continued strong cash flows'

This year has been a period of consolidation for the Stagecoach Group. Turnover from continuing operations for the year was £2,067.3 million (2000 – £1,760.7 million) and operating profit before exceptional items and goodwill amortisation from continuing operations was £197.8 million (2000 – £209.0 million). These results include a first full year contribution from Coach USA.

While we continue to make good progress with the integration of Coach USA the business has not met the profit expectations that we envisaged at the time of our acquisition. As a result, we have revised our expectations regarding future profitability and have recorded a write down of Coach USA goodwill of £376.0 million. This has resulted in an overall reported pre-tax loss for the year of £316.5 million. This write down of goodwill does not affect the Group's continued strong cash flows or financing arrangements.

Earnings per share before goodwill amortisation and exceptional items were 7.8 pence (2000 – 13.4 pence). A final dividend of 2.5 pence per share (2000 – 2.4 pence) is proposed, giving a total dividend for the year of 3.8 pence (2000 – 3.6 pence). The continued increase in the dividend reflects our confidence in the Group's future prospects and is underpinned by our continued strong cash flows.

Recent events, including the tragic accident at Hatfield, have again highlighted the importance of rail safety and the safety of all customers and employees continues to be paramount. Rail operating performance has been affected during the year by emergency engineering work carried out by Railtrack. Conditions for our customers and staff at both South West Trains and Virgin Rail Group have been difficult. While South West Trains had returned to normal operating conditions by mid-February, due to the nature of its two franchise national network, progress at Virgin Rail Group was slower and this had an impact on its financial results in the year. However, I am pleased to report that a compensation settlement satisfactory to both Virgin Rail Group and Railtrack has now been agreed.

Stagecoach Group, along with others in the industry, remains firmly committed to rebuilding the confidence of passengers and working in partnership with government and its appointed regulators to deliver a modern, efficient and safe railway.

Achieving this aim will require significant investment and Stagecoach already has a proven investment record in both bus and rail. The Group – either directly with South West Trains or through Virgin Rail Group – has now arranged investment in more rolling stock than any other train operator. As these new trains come into service all parties in the railway industry will require to work together to improve the quality of service to our customers.

We were, of course, delighted to be awarded preferred bidder status for a new 20-year franchise at South West Trains and are currently working with the Strategic Rail Authority and Railtrack to finalise a new franchise agreement that will allow us to begin introducing exciting improvements to the South West Trains network. In partnership with Siemens and Angel Trains we have already placed new rolling stock orders worth in excess of £1 billion for the new franchise for delivery from Autumn 2002 onwards. This investment will eliminate all slam door trains in South West Trains by the end of 2004.

Dr Janet Morgan joined the Board as an independent non-executive during the year and I am delighted that we will be benefiting from her knowledge and experience. Barry Sealey, our senior independent non-executive director, has expressed a desire to retire and has therefore decided not to seek re-election at the AGM in August. I would like to put on record my personal thanks to Barry for the outstanding contribution he has made to the Group over the last nine years. We wish him an enjoyable and well earned retirement. Robert Speirs will replace Barry as the senior independent non-executive and we intend to appoint another independent non-executive director in due course.

Frank Gallagher has indicated his intention to retire from his duties as CEO of Coach USA and his main Board responsibilities at the forthcoming AGM but I am pleased that we will continue to benefit from Frank's knowledge and experience as non-executive Chairman of Coach USA. I would like to thank him for his contribution to the Stagecoach Board over the last 16 months. A new CEO for Coach USA will be appointed in early course. Keith Cochrane will continue to drive forward the ongoing business changes.

The last 18 months have been a challenging and often difficult period for our Group. However, our businesses continue to be underpinned by strong cash flows and a significant proportion of our revenues have displayed good organic growth. Our Taxi division at Coach USA and our Asia-Pacific businesses are notable examples of this. We remain focused on our core bus and rail businesses in our selected geographic markets and will continue to explore ways of generating further value for shareholders by reviewing the overall mix of our portfolio with a clear objective to maximise our return on capital employed. Trading performance to date at Coach USA has been disappointing for all of us but we remain firmly of the view that North America still provides significant growth opportunity for the Group in the longer term.

The new South West Trains franchise is a very exciting development for us and we are also working closely with our partners at Virgin to restore train performance and reliability and this is progressing well, aided by the introduction of new trains on the Cross Country network.

Our people around the world are, and always will be, our greatest assets and their commitment and support remains invaluable. We will continue to give our staff the leadership, tools and confidence to serve our customers well.

I believe we are well placed to meet the opportunities and challenges of the current financial year.

B Souter

BRIAN SOUTER
Chairman