



Our focused strategy and decisive action has consolidated the Group's position and will deliver greater stability and certainty going forward

Management's focused strategy and decisive action over the past four months has consolidated the Group's position and this will deliver greater certainty moving forward. In particular our North American and rail businesses will benefit from the restructuring of Coach USA and a new franchise at South West Trains.

All our divisions continue to trade profitably and we have achieved underlying revenue growth in our core bus operations in the UK and in the Pacific Rim. Each of our businesses continues to generate operating cash flows. In the six months ended 31 October 2002, net debt reduced by £114.8m to £659.8m reflecting these operating cash flows and the impact of favourable foreign currency movements. We currently have over £250m of available cash and undrawn but committed debt facilities.

Total turnover for the six months was £1,067.7m (2001 – £1,085.8m). Total operating profit (before goodwill amortisation and exceptional items) was £86.9m (2001 – £106.7m) and adjusted earnings per share on an equivalent basis were 4.4p (2001 – 4.1p).

The Directors have declared an interim dividend of 0.8p per share (2001 – 1.3p), consistent with the rebasing of the dividend announced in July. The proposed dividend reflects the Board's view of the Group's future prospects in light of the results of the Coach USA review, the agreement with the Strategic Rail Authority ('SRA') in respect of Virgin Rail Group, and the anticipated new franchise terms for South West Trains. The interim dividend is payable to shareholders on

the register at 14 February 2003 and will be paid on 12 March 2003.

We have now completed a comprehensive business review of our operations in North America, led by Chief Executive Brian Souter. The Board has agreed a way forward that will produce a smaller but more robust business, ensuring greater management and geographic focus.

Following the review, the Board has agreed a number of measures that include the sale and closure of non-core businesses and a decision to exit, over time, specific volatile and cyclical market segments. We will however continue to invest in and develop the strong and more stable businesses within the Coach USA portfolio, particularly in the North Eastern regions of the United States.

Following the review, we have written down the carrying value of Coach USA by £575.0m, to £376.9m.

We have achieved a major step forward at South West Trains with the decision by the Strategic Rail Authority to award the Group a new franchise. The agreement places responsibility for funding and delivering infrastructure projects with the SRA, leaving South West Trains to focus on delivering a better train service to passengers. We believe this is an excellent deal for both our passengers and our shareholders. Richard Bowker and his team at the SRA have made significant progress in railway franchising in the last few weeks and we were pleased to be the first train operator to agree outline franchise terms under the new arrangements.

At Virgin Rail Group, the West Coast and CrossCountry franchises continue to operate under SRA support until March 2003 and March 2004 respectively. Discussions are continuing with the SRA to renegotiate both franchises on a long-term commercial basis.

In UK Bus, Stagecoach has taken an industry lead by presenting plans to the Government to help reinvigorate the UK Bus network. We believe our Kick Start proposal for targeted funding – successfully implemented in New Zealand and trialled in our home town of Perth in Scotland – can benefit communities across the country, delivering more comprehensive bus services, reduced congestion, better value for the taxpayer, with important environmental and social inclusion benefits.

Following the business review in North America, I am delighted to announce that Brian Souter is taking up the position of Chief Executive of Stagecoach Group on a permanent basis. His energy and entrepreneurial skill have been the driving force behind the Group and I am confident Stagecoach will have a more focused strategy under his leadership.

In July, I was appointed Acting Non-Executive Chairman for a period of six months and I have enjoyed working with Brian to refocus the business. The Board has invited me to continue as Chairman and I am happy to accept this invitation.

The current trading of the Group remains in line with the expectations set out in the Company Statement of 23 October 2002. We continue to be encouraged by the performance of our core bus operations in the UK and the Pacific Rim which generate significant cash flow for the Group. Looking forward we anticipate greater stability in our US Bus and UK Rail businesses.



ROBERT SPEIRS

Chairman

4 December 2002