

Chairman's and Chief Executive's statement

*Robert Speirs and
Brian Souter*



In common with the transport sector as a whole, Stagecoach Group has faced unprecedented challenges over the past year. The economic aftermath of the tragic events of September 11 in the USA and the well-documented problems of the UK rail infrastructure network resulted in a difficult trading environment.

Turnover for the year was £2,111.4m (2001 – £2,083.5m). Operating profit before goodwill amortisation and exceptional items was £166.6m (2001 – £198.9m). Earnings per share on an equivalent basis were 6.3 pence (2001 – 7.5 pence).

The Board of Directors are recommending that a final dividend of 1.3 pence per share (2001 – 2.5 pence) is proposed, giving a total dividend of 2.6 pence (2001 – 3.8 pence). This rebasing of the dividend reflects the reduction in current year profitability and the current outlook.

The new financial year has begun with a major step forward in each of our two main rail businesses. At South West Trains, we signed a deed of amendment in June 2002 to the existing franchise which is due to expire in February 2003. This provides for additional funding to be made available by the Strategic Rail Authority to facilitate work on a number of new projects that will form part of the new long-term franchise at South West Trains. The signing of the new franchise agreement is expected later this year.

At Virgin Rail Group, we have reached an agreement with the Strategic Rail Authority that ensures the ongoing commercial viability of the West Coast Main Line and CrossCountry franchises. While discussions are continuing over the longer-term structure of both franchises, this is a very positive development in the delivery of a new inter-city rail network. Together, Virgin Rail Group and South West Trains account for

around 25% of the revenues of the UK rail network and these two developments will help to secure our long-term presence in that market.

During the year, passenger services at South West Trains were disrupted by industrial action. We felt the disputes were unjustified and unnecessary. We had a clear strategy to protect our passengers' interests and this proved to be successful. We believe the strong management action adopted will make the process easier to manage in the future and we will continue to seek to create an improved industrial relations climate.

We also believe that the train operating companies must be involved with the Strategic Rail Authority in the development of its strategy for the UK rail network. Earlier in the year, we issued a document entitled "A Platform for Change". This document was intended as a discussion paper that advocated vertical integration for the railways, which would be achieved by bringing the trains and the track under a single management structure. We continue to believe that a more integrated rail industry would not only further support the delivery of a safe and reliable rail network but would also align with the interests of passengers and shareholders alike.

In North America, we were encouraged by the way Coach USA was moving forward prior to September 11. Our challenge is to regain that momentum against a backdrop of global uncertainty and a difficult operating environment.

The cost base of Coach USA is firmly under control but revenues and therefore operating profits for the first two months of the new financial year were below our expectations. Reported revenues were disappointing across Coach USA. The uncertain economic environment in North America has led to reduced

We are focusing on innovative transport solutions across all our global operations

spending by organisations and individuals on leisure activities and this has impacted our charter, tour, airport, taxi and sightseeing related businesses. Our scheduled line run operations have also been disappointing as commuter traffic has fallen reflecting the economic down-turn. As a result of this further setback at Coach USA the Board has asked Brian Souter to initiate a full review of our North American business. He will report to the Board the findings of this review by December 2002.

We are deeply saddened that Keith Cochrane has resigned as Chief Executive of the Group. Keith has worked very hard for Stagecoach as Chief Executive and previously as Finance Director. As a result of Keith's resignation, the Board has appointed us as Acting Chief Executive and Acting Non-Executive Chairman respectively. Following the completion of the business review of Coach USA, the Board will agree the most appropriate management structure for the Group going forward.

During the year, Iain Duffin joined our board as an independent non-executive director. His considerable managerial experience gained on both sides of the Atlantic is already benefiting the Group.

Brian Cox retired as Executive Director – UK Bus on his 55th birthday. Brian was instrumental in the reorganisation of our UK Bus operations and he has played a key role in the strengthened marketing and re-branding of our bus services. We would like to put on record our personal thanks for his strong and valued contribution to Stagecoach over the past 15 years.

It has been a particularly difficult and challenging year for the people who manage and deliver frontline services to customers. We want to record our grateful thanks for their energy, loyalty

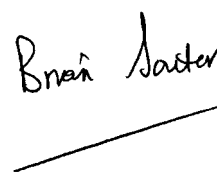
and hard work. We will continue to invest in our people; they have a crucial role to play at all levels in an increasingly competitive marketplace.

Stagecoach is focusing on innovative solutions to passenger transport needs in all its global operations. At Citybus, our excellent operational performance to date has put us in a good position to capitalise on new franchise opportunities which the Hong Kong Government has announced; in New Zealand we are working closely with Government and have introduced new services that are already delivering organic growth; in UK Rail we are working in partnership with the Strategic Rail Authority and others to deliver long-term benefits to our passengers at Virgin Rail and South West Trains; and in our UK Bus division we continue to work closely in partnership with Transport for London and a number of local authorities and make significant investment in equipment and our people to deliver long-term growth.

It is vital that the entrepreneurial drive that private ownership delivers is maintained and harnessed to keep on delivering safety and service for the travelling public and value for our shareholders.



ROBERT SPEIRS
Acting Non-Executive Chairman



BRIAN SOUTER
Acting Chief Executive