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## Chief Executive's statement 2003

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We are seeing steady performance benefits across the Group as a result of our concentration on operationally led management. I believe this has reinvigorated the entrepreneurial approach of management and we are well placed to deliver growth in our operations, despite the worldwide economic slowdown.

I am pleased to report that we remain on course to restructure our Coach USA division and to meet our strategic aims for the business within the 12 to 18 month timetable we outlined in December 2002. We have already announced the disposals of Coach USA's Transit division, New England, West, and South Central regions and a number of its taxi businesses. Together, the gross consideration for these amounts to over US\$220m.

We intend to retain the North East and North Central regions, which together accounted for around one-third of Coach USA's turnover in the year ended 30 April 2003. We are developing the businesses within the Coach USA portfolio that perform well and have predictable revenue streams, as well as reducing our exposure to charter and leisure-related businesses. In addition, we have successfully retained key management and further reduced our corporate and regional overhead base. Trading at Coach USA, as we predicted, remains challenging and we have not seen any major improvement in the trading environment. Nevertheless, Coach USA remains cash generative and profitable. We have many strong performing businesses in the residual Coach USA portfolio and we are continuing to redeploy existing assets to maximise asset utilisation and to eliminate unnecessary capital expenditure.

We have now agreed financial and commercial terms with the SRA for a new three-year franchise at South West Trains. The deal, which has been recommended to the Department for Transport and the Treasury by the SRA Board, is currently

awaiting final approval. Together with the current one-year extension, this would result in a franchise for the period until February 2007. This will cement our leading position within the UK rail market and combines the right balance of risk and return for our shareholders.

Our Rail division has delivered a strong operating profit for the year. At South West Trains, our concentration on driving up operational performance has resulted in significant improvements and we are progressing well with the planned introduction of our new £1bn Desiro train fleet. At Virgin Rail Group, the business is benefiting from the focus on service delivery and significant investment in new trains. The replacement of the entire CrossCountry fleet has been completed with the introduction of new Virgin Voyagers, while the first of the new state-of-the-art Pendolino trains are also in service.

Network infrastructure difficulties remain a concern, however, and we have implemented a range of measures to mitigate the effects on our operation as well as working closely with Network Rail and the Strategic Rail Authority.

Our UK Bus division, the traditional core of the Group, is performing well. We are benefiting from revenue and passenger growth in provincial towns where we are working in partnership with forward-looking local authorities. We have been particularly successful in the London market, where we have retained and won a number of tenders. New tenders and the operation of additional vehicles on behalf of Transport for London have added £14.6m in revenue in the year ended 30 April 2003. Passenger volumes in London are up 8.8% and we see further opportunities for growth following the introduction of congestion charging earlier this year. Operating profits and margins for the UK Bus division have risen, despite increases in pension and other labour costs.

We are taking an industry lead in generating new ideas and believe our "Kick Start" proposal, which is now being taken forward by the UK Government, can benefit communities across



Brian Souter  
Chief Executive

the country. The proposal is that the Government sets aside funds, which are used to give short-term impetus for the introduction of new services with the aim that such services would become commercially viable within three years from their commencement. It can deliver more comprehensive bus services, reduced road congestion, better value for the taxpayer with important environmental and social inclusion benefits. As well as bidding for Government funding in this area, we will continue with our own "Kick Start" programme of investment in buses for routes identified as having organic growth potential and we are looking at the development of a number of new products and ideas targeted for growth in the next twelve months.

In New Zealand, where we are the biggest bus operator, our operations have delivered further strong growth. We continue to work in close partnership with national and local government to improve bus services, investing heavily in our operation. "Kick Start" pump-priming funding has helped enhance services on key corridors and bus passenger growth in Auckland has continued to be strong. In addition, we remain actively interested in running the suburban rail networks in both Wellington and Auckland.

Under our ownership since 1999, our Hong Kong Citybus operation has produced strong organic growth in passenger volumes and a significant reduction in operating costs. Following an approach for the business, we reviewed the strategic options for Stagecoach Group in the region. It was our view that there were limited opportunities to develop significantly elsewhere in other Pacific Rim countries and the long-term prospects for the business in Hong Kong were uncertain. A number of factors were assessed in coming to a decision, including the future economic climate in Hong Kong, the growing levels of regulation and the

inability to grow profit without very significant investment or critical mass synergies. While the outbreak of Severe Acute Respiratory Syndrome ("SARS") earlier this year continues to impact the profitability of the Hong Kong business, our assessment of the sale was based on a long-term view of the profitability and capital requirements of the business and not the immediate trading conditions. The market for franchised bus operations is competitive and the purchaser already had an interest in a significant franchised bus operation. The proposed combination will benefit from synergies and economies of scale and this will give a solid platform for the further investment that is required in the Hong Kong franchised bus market. On that basis, we believe the sale of Citybus was in the best interests of the business and Stagecoach shareholders, and it will allow Stagecoach management to continue to deliver our strategy as a leading international transport provider.

While still early in the new financial year, the Group has started the year well and is trading in line with our expectations.

I am delighted with the contribution our people across the globe have made in meeting the challenges of the past year and I would like to thank them and our customers for their continued support. I am certain we can deliver better services, more value to shareholders, and continued security for our employees.

BRIAN SOUTER  
Chief Executive  
25 June 2003