

Chairman's statement



I am pleased to report that the Group has delivered a year of strong growth and demonstrated that we continue to lead the way in providing innovative public transport services. We have successfully delivered on the strategy that we outlined to restructure our North American operations, which has resulted in a more predictable business and contributed to a very significant reduction in Group debt.

Stagecoach Group now has a core portfolio of bus and rail businesses in the UK and overseas, with strong cash generation. Coupled with our solid financial position, I believe we have excellent potential to deliver good returns for shareholders.

Total turnover for the year ended 30 April 2004 was £1,792.3m (2003: £2,076.6m). Excluding the impact of disposed businesses, turnover grew by 4.9% from £1,581.4m to £1,659.4m. Operating profit before goodwill amortisation and exceptional items was £147.5m (2003: £146.4m). Excluding the impact of the disposals of Citybus, Chongqing Bus, Road King and Trainline, the equivalent operating profit grew from £121.0m to £141.9m. Earnings per share before goodwill amortisation and exceptional items were 6.7p (2003: 6.4p). The reduction in operating profits as a result of disposals was offset by growth in our continuing businesses and reduced finance charges reflecting the proceeds from disposals.

Last year, we stated our intention to pursue a progressive dividend policy. The Board of Directors is proposing a final dividend of 2.0p per share (2003: 1.8p), giving a total dividend for the year of 2.9p (2003: 2.6p). This is an increase of 11.5% and reflects the Board's firm confidence in the future prospects for the Group. The proposed final dividend of 2.0p per share will be paid on 6 October 2004 to shareholders on the register at 10 September 2004.

Consolidated net debt reduced by £492.4m in the year from £560.0m down to £67.6m. The significant reduction in net debt reflects the benefits of the strong cash generation from our core businesses, and the proceeds from the disposals of Citybus, Road King, Trainline and the non-core parts of our North American operations.

As previously announced, the Board proposes to return approximately £250m of capital to shareholders in order to achieve a more efficient capital structure. The Board believes that by adjusting the mix of equity and debt in the business, the Group can lower its overall cost of capital and generate further shareholder value. We are therefore proposing, in addition to the final dividend of 2.0p, to issue one redeemable B Share for every ordinary share, which can be converted to cash of 18.0p per B Share. Further details are provided in the separate circular sent to shareholders.

All of the Group's core divisions have continued to trade well, particularly our Rail division where we have seen improved performance and further growth in passenger volumes. The new three-year franchise at South West Trains has started well and is delivering good operating profits.

We welcome the Government's major review of the railways in the UK and, as part of the consultation process, we have made constructive proposals to deliver the integration we believe is vital to the future of the rail network.

A key strategic priority in the months ahead is finalising the negotiation of the CrossCountry and West Coast franchises, which at present continue to operate under annual budgets set by the Strategic Rail Authority ("SRA"). We are pleased with the progress that is being made and negotiations with the SRA are continuing towards concluding a detailed agreement in due course that will put both franchises on a long-term commercial basis through to 2012.

We will also be focusing on our bid with Virgin and Deutsche Bahn for the new Inter-City East Coast franchise, which would be an excellent addition to our rail portfolio. In addition, we are bringing our UK operating experience to the Danish State Railways' bid for the new Integrated Kent rail franchise and we will consider other opportunities in the inter-city and London commuter markets.

Renewed dynamism at our UK Bus operations has seen Stagecoach lead the industry with innovative ideas to attract more people to public transport. Megabus.com, the UK's first low cost internet bus service, encapsulates the entrepreneurial energy that drives the Group forward.

We have reported growth in operating profit* and operating margin at our North American business. In New Zealand, our business continues to generate good operating profits and produce new ideas on the delivery of bus services.

I am delighted that the loyalty of our investors has been rewarded with a year of significant progress across the Group. Our excellent performance is also the result of a committed contribution from our employees across the whole Group. Looking ahead, I believe there are good prospects for further growth and increased shareholder value from our portfolio of businesses.

A handwritten signature in black ink, appearing to read 'Robert Speirs'. The signature is fluid and cursive, written on a white background.

Robert Speirs
Chairman

*References to the operating profit of a particular division in the Chairman's statement, Chief Executive's review and Summary operating review refer to operating profit before restructuring costs, goodwill amortisation and exceptional items.