

19 April 2004

Stagecoach Group plc Company Statement

Stagecoach Group plc ("Stagecoach"), the international bus and train operator, is pleased to give an update on trading in advance of its close period and meetings between Stagecoach management and analysts. Stagecoach is also pleased to announce its intention to return up to £250m of capital to shareholders.

Stagecoach's earnings per share for the year ending 30 April 2004 will be ahead of market expectations, as a result of a strong profit contribution from the UK Rail Division, a lower than expected tax charge, and a share of profits in the second half of the year from Virgin Rail Group ("VRG" – the Group's 49% joint venture with the Virgin Group).

Trading update

Trading at all of the Group's key divisions is in line with market expectations, except for the Rail division, which has performed better than expected.

At South West Trains ("SWT") a combination of passenger revenue growth of approximately 5% and continued cost control will mean that operating profits from the Rail division for the year ending 30 April 2004 will be comfortably ahead of the prior year figure of £38.2m. As previously indicated we expect operating profits for the Rail Division in each of the three years to February 2007 of the new franchise at SWT to be in the region of £30 million.

VRG continues to operate based on a budget set by the Strategic Rail Authority ("SRA"). In the second half of the financial year, VRG has continued to out-perform against its budget and accordingly, we shall now report a profit for VRG in the second half of the year. Constructive discussions are continuing with the SRA regarding the West Coast and Cross Country franchise re-negotiations.

We have recently reached agreement with various tax authorities on a number of prior years' tax returns and provisions and as a result we expect to report an exceptional tax credit of approximately £40m. Excluding this exceptional credit, we expect the Group's effective tax rate for the year ending 30 April 2004 to be approximately 31%. On an ongoing basis we would expect the Group's effective tax rate to be in the range of 25% - 30%.

Net debt

Consolidated net debt will be lower than current market expectations. The Group's consolidated net debt is now less than £100m. This includes the cash benefit of corporation tax refunds received of approximately £26m. Also, in addition to the £52m that was previously announced for the disposal of a 25% shareholding in Road King Infrastructure Limited ("Road King"), Stagecoach has now received a further £12m in respect of the disposal of the remainder of its investment in Road King. The Group has no continuing involvement with Road King.

Proposed return of capital

Following the successful restructuring of the Group's business in North America, the sales of Citybus and the Group's investment in Road King, and the significant reduction in the Group's consolidated net debt, the Directors of Stagecoach have been considering opportunities to enhance shareholder value.

Consistent with the Group's previously stated strategy to focus on organic growth in our UK, North American and New Zealand bus and rail operations, and, after careful consideration of any other investment opportunities and of the ongoing capital requirements of the Group, the Directors propose to return capital to shareholders.

The Directors wish to ensure that the Group has an efficient and appropriate capital structure for a company operating in its business sector, after taking account of all relevant considerations. In particular, the Directors remain committed to at least maintaining the Group's investment grade credit rating and believe that by having an appropriate amount of short, medium and long-term debt, the Group can lower its overall cost of capital thus enhancing shareholder value. In view of this, the Directors are proposing to return up to £250m of capital to shareholders.

Further details of the proposed return of capital, which is likely to be on a structured pro-rata basis to all shareholders and which will be subject to shareholder and other approvals, will be provided with the announcement of the Group's results for the year ending 30 April 2004 on Wednesday 23 June 2004. It is expected that the return of capital and the repayment of the Group's Euro 6% notes in November 2004 will largely be made from the existing cash resources of the Group. The Directors expect that the return of capital will be completed by 31 December 2004.

The Directors do not intend that the return of capital will affect the level of dividends per share or the Group's progressive dividend policy.

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