SUMMARY ANNUAL REPORT 2004

STAGECOACH *GROUP*

Business highlights

Group

- strong year of growth and delivery of strategic objectives
- turnover from continuing operations up 4.9%
- operating margin improvement at continuing operations
- disposals of Citybus (Hong Kong) and non-core North American operations
- disposals of non-core investments in Road King and Trainline
- net debt down 88% by £492m from £560m to £68m
- proposed return of approximately £250m capital to shareholders through issue of redeemable "B" shares – equivalent to 18.0 pence per ordinary share

UK Bus

- turnover up 8.7%
- operating margin* up to 11.5% from 11.2% (including impact from increases in operating lease, National Insurance and pension costs)
- passenger volumes up 1.4% outwith London

North America (Coach USA)

- successful delivery of restructuring and disposal programme
- signs of recovery resulting in turnover from continuing operations up 5.1% in second half of year (constant currency)
- operating profit* up 5.7% on significantly reduced turnover base

Rail

- turnover up 6.1%
- operating profit* up 15.4%
- significant improvement in South West Trains' operational performance
- first UK rail integrated control centre opened by South West Trains and Network Rail
- partner in shortlisted bids for East Coast and Integrated Kent franchises
- partnership with Virgin and Deutsche Bahn to bid for inter-city rail franchises

*excluding restructuring costs, goodwill amortisation and exceptional items

Financial highlights

- total turnover £1,792m (2003: £2,077m)
- total operating profit† £148m (2003: £146m)
  - £142m (2003: £121m), excluding Citybus, Road King and Trainline disposals
  - statutory operating profit £130m (2003: loss of £466m)
- profit before tax† £120m (2003: £113m)‡
  - statutory profit before tax £96m (2003: loss of £500m)
- earnings per share† 6.7 pence (2003: 6.4 pence)
- full year dividend up 11.5% at 2.9 pence (2003: 2.6 pence)

† excluding goodwill amortisation and exceptional items

‡ prior year included £15.1m of non-recurring gains on repurchase of bonds and £8.5m non-recurring liquidated damages at South West Trains

Contents

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.

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.

Chief Executive's review

Stagecoach's development has always been driven by our ability to identify new ideas and growth opportunities at an early stage and to deliver them quickly. I am delighted that this year we have demonstrated yet again that we are at the cutting edge of new thinking in the provision of high quality bus and rail services.

Innovation can only become a reality with strong, effective management and a team of talented and committed people that understand our customers' needs. These qualities have underpinned our progress and success in the past 12 months as we attract more people to bus and rail travel and deliver increased value to our shareholders.

Our focus on new business development through investment in research is driving growth, particularly in our UK Bus networks. This year, we have launched two UK transport firsts – megabus.com, the country's first low cost internet bus network, and Yellow Taxibus, an innovative demand responsive service in Fife, Scotland. These projects are part of our strategy to tap into new markets and drive organic growth in our business.

Megabus.com is an excellent example of our ability to stay ahead of the competition by researching, developing and implementing new ideas quickly. Within less than a year, we have built an inter-city network that covers more than 20 routes in Scotland, England and Wales. Passenger numbers and revenues are ahead of our expectations.

We are working hard to refresh our provincial bus networks and have continued to invest in new vehicles during the year to 30 April 2004. In London, where we operate a large number of contracts on behalf of Transport for London ("TfL"), we have grown turnover this year by over 19%. Even with significant development of new services and increased cost pressures, we have increased our margins within our UK Bus division.

Our Rail division has delivered an outstanding performance, with operating profits up 15.4%. The new three-year franchise at South West Trains has started positively. Over the past year, there has been a notable reduction in the number of delay minutes attributed to South West Trains. This step-change in quality is all the more impressive having been achieved while managing the introduction of a new fleet of trains. Passengers are benefiting from record levels of investment as 40-year-old slam door carriages are replaced by the state-of-the-art Desiro fleet.

At our joint venture, Virgin Rail Group, we have strengthened the management team, which remains firmly focused on successfully renegotiating the West Coast and CrossCountry franchises.

Two-and-a-half years ago, Stagecoach launched its proposals for improved integration on the UK railways in our policy paper, "A Platform for Change". Gradually, our analysis of the issues and our thinking on the way forward for the country's fragmented rail network has gathered support and we have updated these ideas as part of our contribution to the Government's rail review.

I am delighted that South West Trains has proved to be part of the solution by joining with the infrastructure operator, Network Rail, to open the UK's first integrated operations control centre at Waterloo station in London. This has set the standard for similar centres elsewhere in the country. Similarly, both the Department for Transport and the Scottish Executive have adopted our "Kick Start" proposals for targeted funding to support the introduction of new bus services. We also welcome the Government's commitment to quality partnerships and structural stability in the UK Bus industry.

The past year has seen the completion of a major restructuring of our operations in North America. We now have an established core of more robust businesses, centred on our North East and North Central regions of the United States, and Canada. As promised a year ago, the operating profit of our North American business has been maintained on a significantly smaller base of operations and I am confident the business can make an increased contribution to earnings moving forward.

In New Zealand, we had a particularly successful financial year in 2002/03 as a result of the increased traffic associated with the America's Cup yacht race in Auckland. This year, without an uplift from such a major international event and despite a challenging operating environment, we have seen further passenger growth over our combined New Zealand operations, which continue to generate good returns for the Group.

The Group has made a promising start to the current financial year and trading is in line with our expectations.

Across all its businesses, Stagecoach has always retained a commitment to good environmental stewardship as part of its day-to-day public transport provision. We have set ourselves some challenging targets for the year ahead as part of a new wide-ranging Group environmental policy. Our trial of a next generation fuel additive product in our UK Bus division has potential to deliver significant cuts in fuel consumption and vehicle emissions that could have positive implications for the whole of the bus industry.

The hard work and loyalty of all our people and their positive response to our strategy has ensured Stagecoach has made a fast recovery. Now that we are firmly back on track, our challenge is to reposition the Group as a leading UK-based public transport specialist and continue to generate growth and shareholder value. I am confident the foundations we have put in place will ensure we are well placed for further success.

Brian Souter

Brian Souter
Chief Executive

Summary operating review

UK BUS

Overview

Turnover in our UK Bus division has increased by 8.7% to £650.2m (2003: £598.4m), with turnover at our London bus business up 19.1% on the prior year. Operating profits were up 11.6% to £74.8m, compared to £67.0m in the previous year. Operating margins were 11.5% compared to 11.2% in 2003. The reported profits include the effects of a further increase in the use of operating leases to fund new vehicles. Excluding the impact of this change in financing, operating margins increased from 11.3% to 12.0%. This is a very encouraging performance given that the reported profits have been achieved after taking account of increased National Insurance and pension costs.

Investment and innovation

This has been a year of innovation, investment and growth. Our firm commitment to modernising our fleet is continuing to help drive organic passenger growth across our business. Passenger volumes outwith London were up 1.4%. We have also introduced a number of products targeted at developing new markets to complement our traditional customer base.

Our award-winning megabus.com network, which offers low cost inter-city bus travel, combines the power of the Internet and our operational expertise to deliver an attractive and cleverly marketed service. A UK first, megabus.com now covers more than 20 routes in the UK. Significantly, the service is also attracting commuters out of their cars, which can only be of benefit in the battle against road congestion.

Urban and provincial networks

Stagecoach views customer research as a key element in growing our provincial bus networks. We have pioneered the use of geo-demographic research and sophisticated marketing in the bus industry and we are particularly encouraged by the resulting shift from the use of car to bus which has helped to drive further passenger growth in the past year. Campaigns in Hartlepool and Grimsby have seen excellent growth in sales of our weekly Megarider tickets. A telemarketing campaign and relaunch of the Cambridge-Haverhill corridor has boosted passenger volumes on the route.

The Cambridge "citi" network continues to expand and we have recently introduced the "citi" brand and a new network to Peterborough. In Oxford, we have introduced dedicated route branding on our urban network and converted our city fleet to 100% low-floor buses. Improvements to our Bedford network have reversed a 4% passenger decline and are now delivering 9% growth compared to the prior year.

Stagecoach is taking part in the development of core corridors in Newcastle and Sunderland as part of the Tyne and Wear Superoute network with Nexus Passenger Transport Executive. In Manchester, we have achieved further passenger growth this year and expect additional benefits from new quality bus corridor measures, including real time information, later this year.

London

Our London bus business, which has around a 16.0% share of the bus market in the capital, has had an excellent year. It continues to grow and win new business operated on behalf of Transport for London ("TfL") with reported turnover up 19.1% over the prior year. Virtually all existing contracts tendered to start in 2004-05 were retained, as well as new contracts won from competitors. Around 200 new double and single-decker vehicles have entered service in London, making the entire fleet low-floor. Work has also started on the construction of a depot to initially house a new articulated bus operation.

Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision. We firmly believe this partnership approach, endorsed by the Government, will deliver the best services and value for money to taxpayers. In Scotland and Wales, we are playing our part in the success of the free concessionary fares schemes where we have invested in new vehicles and increased frequencies. We are also closely involved in many smartcard and multi-operator ticketing schemes to make travel easier for passengers. In addition, we are also working with businesses and educational establishments to encourage travel by public transport.

Kick Start

Both the Department for Transport and the Scottish Executive are taking forward our Kick Start proposal for targeted funding to support the introduction of new bus services. Following the success of the initial pilot project in Perth, Scotland, we are also planning some further projects which are to be funded entirely by Stagecoach.

NORTH AMERICA

Overview

Turnover of our North American business for the year of US$576.4m (2003: US$939.0m) comprised US$382.6m (2003: US$377.3m) from continuing operations and US$193.8m (2003: US$561.7m) from discontinued operations. Operating profit increased from US$21.8m in 2003 to US$25.4m. We have grown operating profit despite the significant reduction in turnover arising from a number of business disposals. This increased profit has been achieved by growth in our continuing businesses and a managed reduction in overheads. Converted to sterling, the turnover of our North American business for the year was £336.8m, compared to £603.0m in the previous year. Operating profit was £14.8m, compared to £14.0m in 2003. This represents an operating margin of 4.4% (2003: 2.3%).

We have largely completed the restructuring of our operations in North America, which has resulted in a business with a clearly defined geography and more predictable revenue streams. Since 30 April 2003, we have completed the sale of our New England, West, South Central and South East regions, as well as the disposal of the Transit division and a number of our taxi businesses, including the major Texas taxi operations. Within the past few months we have completed the sale of taxi operations in West Palm Beach, Jacksonville and San Diego.

Our North American operations are now centred on three areas: our North East and North Central regions in the United States, and Canada.

North East

In the North East, our highly successful New York Sightseeing operation continues to expand. We have added additional tours to our product offering and have ordered 20 new open-topped double decker buses and 6 trolleys to cater for expanding passenger volumes.

There has been further investment in around 50 new motorcoaches for the commuter, charter, and express services operated by our Suburban, Community Coach and Shortline businesses, as well as new low-floor buses for our parking lot shuttle contract at Newark Airport. We received the last 26 motor coaches out of a 3 year delivery of 226 coaches funded by the State of New Jersey for use on commuter services. Additionally, we received State funds to undertake a refurbishment programme which significantly upgraded the quality of our Staten Island commuter service.

We are targeting new business in the North East and our local teams continue to work in close partnership with local, county and state officials in the delivery of transport provision. Our Community Coach business, for example, has secured a five-year contract with the State of New Jersey to operate 10 local transit routes in Passaic County.

North Central

Sales in the North Central region have been particularly encouraging in the second half of the year and bookings for the spring and summer periods have been stronger than for the past two years.

Our growing Wisconsin school bus business has secured a number of new contracts and contract renewals in the past year, worth over US$8.0m in annual revenue.

The University of Pittsburgh has renewed a five-year shuttle contract, while a three-year transit contract has been awarded to our Wisconsin company. In addition, we have won new commuter contracts in Chicago.

More than 40 motor coaches and 10 trolley buses have recently been replaced within the region, upgrading the fleet and enhancing our reputation within local communities as a high quality transportation provider.

Canada

The Coach Canada operations, located in the Provinces of Quebec and Ontario, are now recovering following the impact of the SARS outbreak in Toronto last year. Charter bookings for the first two months of the new financial year are up significantly over the prior year and there is evidence that tourists are returning to Toronto.

NEW ZEALAND

Overview

Our New Zealand operations continue to generate good returns for the Group. This year we have not benefited from the transport spin-off from the America's Cup yacht race as we did in 2002-03. However, on a like-for-like basis, and despite a challenging operating environment we have seen further passenger growth overall in New Zealand. Turnover from our New Zealand businesses increased from NZ$158.3m to NZ$160.9m. Operating profit fell from NZ$34.8m to NZ$29.5m. Whilst the operating margin for the year was lower, we remain pleased with the profits earned in New Zealand. Converted to sterling, turnover was £58.3m (2003: £51.0m) and operating profit was £10.7m (2003: £11.2m).

RAIL

Overview

Stagecoach Group has a significant involvement in the passenger rail market in the UK, including the country's biggest commuter franchise at South West Trains. Financial performance has benefited from continued cost control and a growth in passenger volumes at South West Trains of 3.2% year on year.

Turnover for our wholly-owned rail subsidiaries in the year was £438.9m (2003: £413.6m). Operating profit was up 15.4% to £44.1m (2003: £38.2m), representing an operating margin of 10.0% (2003: 9.2%). Profit exceeded original expectations due to a combination of higher revenue growth and continued cost control. The prior year profit includes liquidated damages of £8.5m in relation to the late delivery and reliability of Class 458 trains. Rail profits are stated after taking account of the costs of bidding for new franchises.

The operating profit of £44.1m includes £1.1m in respect of Sheffield Supertram compared to a small loss in the prior year which reflects the integration of the maintenance business and other management action to increase profitability..

South West Trains

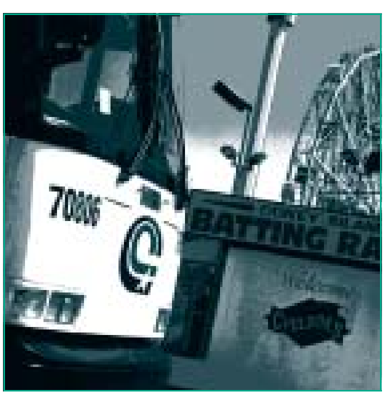
The new three-year franchise at South West Trains, which commenced in February 2004, has started well. We had already improved services in line with commitments made to the Strategic Rail Authority as part of the thirteen period extension to the original seven-year franchise. The new franchise runs until February 2007 and the agreement includes an opportunity to negotiate a five-year extension to 2012.

New trains

As at 30 April 2004, 42 of our £1billion order for 177 new state-of-the-art Desiro trains had been delivered into passenger service. This will increase by two new trains a week throughout the summer. In January 2004, the first of the slam-door fleet was scrapped and Network Rail has been making good progress on the necessary work to upgrade the network power supply to facilitate further roll-out of the new trains.

Infrastructure issues

We are delighted that South West Trains is the first TOC in the country to operate an integrated control centre in conjunction with Network Rail. The Wessex Integrated Control Centre, which opened at London Waterloo station in February 2004, is the first of eight centres that will cover the entire UK rail network. Equipped with the latest information technology, it will significantly improve our joint response to incidents and ensure delays and disruption to passengers are minimised.



Summary operating review

Punctuality and customer improvements

The punctuality of all trains operated by South West Trains has improved during the year. The number of delay minutes attributed to South West Trains' performance has reduced by 11.1% in the year. The forthcoming introduction in Winter 2004 of the most significant timetable changes since 1967 will help considerably in reducing the effect of incidents and promoting better timekeeping.

A new customer information system has now been fully implemented across the South West Trains network. Operated in partnership with Network Rail, it provides audible and visual information to customers about train running at our stations.

Commercial activity

Marketing continues to be focused on developing leisure off-peak travel to increase revenue and encourage the use of services among low frequency and non-users. Our Apex and SuperAdvance ticket promotions have been particularly successful, as well as the "£5 anywhere ticket" promotion, which gained approximately 25,000 extra journeys.

Island Line

Island Line, the Isle of Wight's rail franchise, is now operating on a new three-year franchise that runs concurrently with the South West Trains contract until 2007. The franchise is for the continued operation of the existing level of service. Island Line remains Britain's best performing railway in terms of punctuality and reliability and we are working with the SRA and local stakeholders to find a suitable solution for the long-term future of public transport on the Island.

Sheffield Supertram

Sheffield Supertram marked its 10th anniversary of operation earlier this year. Under Stagecoach ownership, performance has improved dramatically and passenger volumes have grown to reach a record 12.3 million this year as the business has moved into profit for the first time.

Rail business development

Stagecoach Group continues to evaluate new opportunities in the heavy and light rail sectors. Our strategy is focused on high-volume commuter and long-distance inter-city services. We are also looking to strengthen our position in the UK light rail market subject to being able to achieve sensible commercial terms.

Heavy rail

We have announced our intention to bid for the new inter-city franchises, including the East Coast franchise, with Virgin and Deutsche Bahn ("DB"). Stagecoach has a 33.3% interest in the bidding consortium. DB, which runs the largest vertically integrated railway in Western Europe, has unrivalled technical expertise in the area of high-speed operations, mixed traffic networks, infrastructure operations, and rolling stock specification and maintenance.

In addition, we are bringing our UK operating experience to the Danish State Railways' ("DSB") bid for the new Integrated Kent rail franchise. Stagecoach Group has taken a 29.9% stake in South Eastern Railways Ltd, the company established by DSB to bid for the franchise. DSB operates the majority of passenger rail services in Denmark, as well as franchise operations in other Scandinavian countries, and is one of the best performing operators in Europe.

Light rail

We are partners in two separate consortia seeking to run light rail/rapid transit systems in Manchester and South Hampshire. Greater Manchester Passenger Transport Executive shortlisted our Manchester consortium (GMTL Ltd) as one of two preferred bidders. Full and final bids have been submitted and we are currently awaiting a final decision on the award of the contract. Our South Hampshire consortia (SHSL Ltd) was one of two consortia that submitted an initial proposal in relation to the South Hampshire Rapid Transit System and discussions with the client are ongoing.

Virgin Rail Group

Our share of Virgin Rail Group's turnover for the year amounted to £288.4m (2003: £276.1m) and our share of operating profits was £13.5m (2003: £7.2m). Passenger volumes for the year were 2.5% above the prior year. The profit for the year was a result of both revenues and costs being better than the budget set by the SRA.

Franchise negotiations

Both the West Coast and CrossCountry franchises continue to operate on the basis of annual budgets set by the SRA as discussions progress on renegotiating the franchises on a long-term commercial basis through to 2012. This is a key strategic objective for the Group and we are pleased at the continuing progress that Virgin Rail Group is making.

New trains

In the meantime, Virgin Rail Group is also making excellent progress with the introduction of the new Voyager and Pendolino trains to the CrossCountry and West Coast franchises respectively. The Voyager programme has now been completed and the new trains are having a positive impact on customer perception and operational performance.

The fleet used by CrossCountry has become one of the most reliable currently used by any UK long distance inter-city operator and is significantly more reliable than the old rolling stock.

Virgin Rail Group has now taken delivery of well over 90% of its new trains and has a few more Pendolino deliveries to accept to enable renewal of the entire fleet. Network Rail is upgrading the West Coast Main Line to enable Pendolinos to travel at 125mph and to tilt around curves, which will enable journey times to be reduced. A new timetable – based on 125mph running – will be introduced from 27 September 2004.

Performance

During 2003/04, punctuality at Virgin Rail Group has improved despite the disruption on the network. CrossCountry has been working with the SRA to introduce timetable amendments to create a more robust service. As a result, CrossCountry's punctuality improved steadily through its financial year ended 28 February 2004, rising to second in the league table of Inter-City operators. West Coast's punctuality has also improved over the same period.

Management restructuring

Virgin Rail Group has finalised the re-structuring of its senior management team, which is giving greater operational focus across the business. Charles Belcher and Chris Gibb were put in charge of the West Coast and CrossCountry franchises respectively last year. Following detailed succession planning, Virgin Rail Group announced earlier this year that Tony Collins, currently Deputy Chief Executive, will step up to become Chief Executive in September. From the same date, Chris Green, currently Chief Executive, will become part-time Chairman. Stephen Murphy and Graham Eccles, currently co-Chairmen of Virgin Rail Group, will become senior non-executive directors.

DISPOSED OPERATIONS

Hong Kong

The Group completed the sale of its Hong Kong Citybus operations on 23 June 2003. The business was purchased by Delta Pearl Limited, a 100% indirect subsidiary of Chow Tai Fook Enterprises Limited, the privately owned company of the Cheng Yu Tung family and the major shareholder in New World Development Company Limited which in turn has an interest in New World First Bus Services Limited, one of Hong Kong's major bus operators. The disposal reduced consolidated net debt by £171.8m

Road King

During the year, Stagecoach sold its entire 30.6% shareholding in Road King Infrastructure Limited, a leading Hong Kong listed company with its core business in the investment, development, operation and management of toll roads and other infrastructure projects in China for a total consideration of £62.9m.

Trainline

In February 2004, Stagecoach Group announced it had sold its 49.0% shareholding in Trainline Holdings Limited to Virgin Investments Limited for £4 million in cash, which included the repayment of outstanding loans.

GROUP STRATEGY

The Group strategy is to focus on local transport operations with critical mass and good organic growth potential. We will also pursue complementary acquisition opportunities, which offer the prospect of additional profitable growth. Through a combination of getting the basics right and applying our entrepreneurial skills in our core geographic markets, we believe we can maximise shareholder value.

We have a strong position in UK Bus and we are confident we can achieve further organic growth from our networks by continuing to apply entrepreneurial vision and innovation.

In Rail, where we already have a significant interest in the passenger rail market, we believe there are a number of exciting opportunities. As well as maximising value from our existing franchises, we will be working hard with our partners to win the new Integrated Kent and East Coast franchises. In addition, we will consider other opportunities in the inter-city and London commuter networks. We are also committed to agreeing new long-term commercial arrangements for the two rail franchises at Virgin Rail Group and we hope to conclude discussions in the near future.

The Group's substantial residual operations in North America are well-placed to benefit from the recovery in the US economy. We have a solid core of companies, which have already delivered on our prediction that they would out-perform the returns produced by the division prior to its restructuring. Coupled with our first-class operations in New Zealand, we have a strong overseas portfolio.

CURRENT TRADING AND OUTLOOK

While still early in the new financial year, we have made a promising start and trading in all four major divisions is in line with our expectations.

We believe we are entering an exciting phase for the Group. Our renewed focus, combined with strong cash-generative qualities and a substantially de-risked portfolio, means there is real potential to drive the Group forward in the year ahead.

CORPORATE SOCIAL RESPONSIBILITY

Overview

Our business is central to the lives of the communities we serve. Our bus and rail services deliver a range of critical economic and environmental benefits, while boosting social inclusion and bringing people together. Encouraging more people to use public transport is central to the future success of our Group, and also to the future of every one of us. That is why we believe that, together with our numerous stakeholders, we have a common interest. How we make that happen is equally important. That is why Stagecoach has always taken its wider corporate responsibilities seriously and the responsible way we do business is firmly embedded in our company's culture.

Our stakeholders

Stagecoach Group works in partnership with a range of bodies in each of the markets where we provide public transport services. Our stakeholders include:

Investors and the financial community – our shareholders, bondholders and lenders are critical to our business success. We have a regular programme of meetings with investors and provide frequent updates to the markets and financial community on our performance. We are a constituent of the FTSE4Good index, which sets standards and tracks performance of the leading socially-responsible companies around the globe.

Customers – millions of people use our services every day, including commuters, schoolchildren, concessionary fares passengers and leisure travellers. We conduct extensive customer research to monitor our performance and determine how we can improve the delivery and accessibility of our services.

Customer Interest Groups – our businesses have a regular and on-going dialogue with bus and rail user groups. This includes presentations from senior managers on detailed aspects of our service as well as consultation and information sharing on particular issues.

Government – senior executives have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. In the UK, we work closely with the Department for Transport, the Strategic Rail Authority, the Scottish Executive and the Welsh Assembly, and Transport for London.

Transport Authorities – we also work closely with local authorities, including Passenger Transport Executives, Regional Transport Committees and Transit Authorities, in the delivery and planning of bus and rail services.

Summary operating review

Government Advisory Bodies and Lobbying Groups – we also have constructive dialogue with organisations such as the Commission for Integrated Transport, which provides advice to the UK Government, and lobbying groups such as Transport 2000.

Transport and Industry Representation Groups – we are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail) and the Association of Train Operating Companies.

Our People – we have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

Suppliers – we rely on a range of suppliers to provide services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers.

People moving people

The people who really make Stagecoach tick are our employees, from drivers and engineers to customer service and support staff. They are crucial to improving the public perception of public transport. Significant investment in time and resources ensures that we have the right people on board to deliver what our customers need.

As you would expect from a responsible company, we respect and value our staff. We have a strong commitment to equal opportunities and partnership working with trade unions.

We also recognise the need for on-going training and development, not just so our people can do their job, but so they can develop individually. In our UK Bus division, we have developed a new driver training programme, backed up by a comprehensive DVD with practical help and advice on handling common issues faced on a daily basis. We also have one of the biggest commitments to vocational qualifications of any bus operator, and more than 30% of our current drivers have either completed or are working towards a S/NVQ.

At South West Trains our centralised Recruitment Centre and the state of the art Operations Training Centre are at the heart of our "Recruit for Attitude, Train for Skill" strategy. It is complemented by vocational training, support for managers and employee recognition programmes.

Stagecoach works hard to improve skills and raise standards of customer service across our companies through open learning. In Auckland, New Zealand, for example, we have introduced a specially-equipped bus that has a rolling programme of visits to depots in the metropolitan area to make open learning available to all our local staff.

We are also looking to develop the managers of the future through our graduate development programme. Our engineering apprenticeship programme in the UK promotes careers through local schools.

We want to be there to help our people when they need it most. For example, at South West Trains we have a partnership with Care First, which offers an employee assistance programme that includes a 24-hour confidential counselling service and legal helpline. We also have a support programme for employees at our UK Bus division. Our business is simple: people moving people. And we want to build a workforce of people that feel proud to work for us.

Access for All

No two customers are the same and we recognise that we all have our individual needs. Accessibility is important and, as far as possible within the resources we have available, we are making it easier to use public transport.

We are continuing our programme that will ultimately result in all our buses in the UK being fully low-floor. Each year, hundreds of new accessible vehicles are added to our fleet and already all buses operated in London are entirely low floor with wheelchair access. Significant investment is also taking place in our North American business in partnership with federal agencies.

As well as introducing new accessible Desiro trains, South West Trains provides station-based ramps to enable wheelchair users to board and alight with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis, at no extra charge, to transport them to their nearest accessible station.

Access for all is also about staff training and we continue to maintain links with disability groups to ensure both the needs of our passengers and employees are considered. Our new bus interiors, for example, were designed in consultation with groups representing people with various levels of ability, both in terms of visual impairment and mobility.

Stagecoach is also working with key stakeholders to improve accessibility across the transport industry. In New Zealand, for example, we assisted the Human Rights Commission to draw up the terms of reference for an enquiry into the provision of accessible transport.

Safety first

Safety and security for both our customers and our people are at the heart of our business. We have a proactive culture across the Group that puts safety at the top of our agenda.

Across Stagecoach Group, health and safety is monitored and reported on in every company. Immediate action is taken to address issues in our business processes. Safety is part of a well-defined risk management process across our business. A main board executive director, Graham Eccles, has specific responsibility for safety issues across the Group and the board is updated on safety matters at each of its meetings. Safety matters are also considered at the board and management meetings of each of our businesses.

Our Group Health, Safety and Environmental Committee, chaired by our non-executive director Janet Morgan and also comprising Graham Eccles and Iain Duffin, reports regularly to the Board on these matters. They have access to internal safety executives and external consultants.

In the current climate, Stagecoach and other major operators are in contact with national bodies putting in place processes and measures to prevent or mitigate the impact of potential terrorist attacks on public transportation.

Stagecoach and other transport operators are working in partnership with national governments and other agencies to improve bus and rail safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses and trains. We continue to invest in CCTV technology and other measures to deter anti-social behaviour and have many programmes up and down the country to educate the next generation of public transport users.

All South West Trains rolling stock is fitted with the Train Protection Warning System and the new, modern Desiro units provide a safer travelling environment. We are also working with Network Rail and British Transport Police to identify hot-spots and ensure effective measures are taken on both trains and at stations to reduce incidents of assault, trespass and vandalism. Our award-winning TravelSafe Officers partnership with British Transport Police which helps ensure passenger safety – has been extended in the past year to cover more routes and stations on the South West Trains network.

Public transport by bus, coach and train is the safest way to travel. Stagecoach Group itself has a good safety record, but there is no room for complacency. We constantly keep our safety arrangements under review and are committed to putting in place any improvements required to our safety governance arrangements.

Caring for our community

Stagecoach has always done far more than provide lifeline services and significant job opportunities in local communities around the world. We feel part of the very communities we serve and regularly share our success with local people.

Every year, we help fund the vital work of local, national and international charities through in-kind support and financial assistance. During 2003-04 £268,000 was donated by the Group to help these worthwhile causes. Financial support has assisted the work of children's and cancer charities as well as organisations helping people with sight impairment and genetic disorders.

Our community support goes well beyond just money with hundreds of our people devoting many hours of their own time every day to local projects. Our businesses also provide a huge amount of in-kind support, while our people also give charities the benefit of their expertise during secondments.

Much of the backing we provide is focused on education and young people. We work closely with schools and police on local crime prevention initiatives and education of youngsters about the dangers and consequences of anti-social behaviour. Our support also assists many local initiatives that help provide opportunities for young people.

Our work is also helping promote social inclusion within our communities. For example, in west Scotland we have sponsored the Quads initiative in conjunction with North Ayr Social Inclusion Partnership, Starthclyde Police, Learn Direct Scotland and South Ayrshire Council to help adults with learning difficulties and young people with social problems.

Stagecoach has continued to support the UK educational charity businessdynamics, which provides courses designed to build the skills and confidence of young people as they prepare to enter the worlds of work and further education.

Our businesses in North America and New Zealand are also active members of the community, helping support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services.

Stagecoach New Zealand is a long-standing supporter of the Starship Foundation, which helps the country's leading specialist paediatric hospital. All fares collected on a specially-liveried Stagecoach bus in Auckland go to the Starship Foundation and the money is used to provide a range of additional equipment and staff training for the medical facility.

These are only a few examples of our work, but in everything we do, we hope people see us as we see them – good neighbours that care for our community.

A sustainable environment

Travelling by bus or train is one way we can all help to reduce pollution, cut road congestion and improve the quality of life for us all in our towns and cities. Major employers are working with us to develop travel plans that reduce dependence on the car to get to work.

However, even public transport has an inevitable impact on our environment. That is why Stagecoach is committed to playing its part in building a sustainable environment and improving the environmental management of our operations.

We were delighted to publish our updated Environmental Policy statement towards the end of 2003. This document outlines our commitment to good environmental stewardship and we have set ourselves some stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling. We have pledged to measure and report on a range of key performance indicators each year. A copy of the full environmental policy document is available on our website at www.stagecoachgroup.com.

Every day we work hard to make sure our transport operations are as environmentally sustainable as possible. Across our global operations, we provide support and training for our employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance.

New buses and trains meet the latest stringent standards and we continue to investigate new fuels and cleaner technologies. Stagecoach has signed an agreement with Cerulean International Ltd, the Oxford-based subsidiary of the nanomaterials company Oxonica Ltd, to trial a next generation fuel additive product in up to 1,000 buses across the UK. Initial trials are progressing well, delivering reduced fuel consumption, cuts in vehicle emissions and cost savings that could be of significant benefit to the bus industry.

Stagecoach is using environmentally friendly hybrid electric buses in New Zealand on an inner city circuit in Auckland. We have plans to showcase a specially-adapted vehicle to local authorities across the UK this summer.

South West Trains has undertaken a review of its environmental management system to ensure it continues to comply with legislation. Comprehensive asbestos surveys are currently being carried out at all stations and depots. South West Trains has also introduced a complete smoking ban on its train services, which has improved the travelling environment for passengers and has been welcomed by customers.

Stagecoach is working directly with government to address environmental issues. In New Zealand, we have instituted a sustainable transport management plan in association with Auckland Regional Council and the Sustainable Businesses Network. The objective is to reduce water and energy consumption and cut emissions and wastes. It is intended to be a pilot for measures that may eventually become compulsory for all bus operators in the Auckland region.

Despite the huge progress and investment we have made in the area of environmental sustainability, we realise we are not perfect. This is only a start and we have a long way to go, but we are moving in the right direction.

Directors

1 Robert Speirs, Non-Executive Chairman

A non-executive director of the Group since March 1995. In July 2002, he was appointed by the Board as Non-Executive Chairman. A former Group Finance Director of The Royal Bank of Scotland plc, Robert Speirs is also Chairman of The Miller Group Ltd. Aged 67.

2 Brian Souter, Chief Executive

A co-founder of Stagecoach, Brian Souter is architect of the company's strategy and philosophy. He has extensive knowledge of the ground transportation industry around the world and is responsible for managing all of the Group's operations. He is also Chairman of ScotAirways Group Ltd and until its disposal in January 2004, he was a board member of Road King Infrastructure Ltd. He is a Chartered Accountant. Aged 50.

3 Martin Griffiths, Finance Director

Appointed Finance Director in April 2000, Martin Griffiths is responsible for the Group's overall financial policy, taxation and treasury management. He also has responsibility for the overall management of the Group's property portfolio. He won Young Scottish Finance Director of the Year Award in 2004 and is a Chartered Accountant. Aged 38.

4 Graham Eccles, Executive Director – Rail

Graham Eccles has over 35 years' experience in the rail industry and has held a number of senior management posts. He has been a member of the Board since September 2000 and prior to that was managing director of South West Trains from 1999. He is responsible for the management of all the Group's rail operations and business development opportunities in the rail market. In addition, he has main board responsibility for Group safety matters. Graham Eccles is a director of Virgin Rail Group Holdings Ltd and is an advisor to Network Rail. Aged 57.

5 Ewan Brown CBE, Non-Executive Director

Ewan Brown has been a non-executive director of the Group since 1988. He was appointed Chairman of the Nomination Committee in June 2004. He is a former executive director and is currently a non-executive director of Noble Grossart Ltd. His other non-executive directorships include John Wood Group plc and Lloyds TSB Group plc. He is also Chairman of Lloyds TSB Scotland plc and Transport Initiatives Edinburgh Ltd. Aged 62.

6 Iain Duffin, Non-Executive Director

Iain Duffin became a non-executive director of the Group in September 2001. He was appointed Chairman of the Remuneration Committee on 1 May 2003. He is a non-executive Chairman of Origo Services and Beattie Media Group. He has previously held executive positions in the UK and the US with a number of organisations including Macfarlane Group plc, LucasVarity plc, ITT Corporation and Hughes Aircraft. Aged 57.

7 Ann Gloag OBE, Non-Executive Director

Ann Gloag co-founded Stagecoach in 1980 and served as an executive director until May 2000. She is a past winner of the Businesswoman of the Year Award and European Women in Achievement Award. She is a trustee of the Princess Royal Trust for Carers, an international Board member of Mercy Ships and a non-executive director of OPTOS. In June 2004, she was awarded an OBE for services to charity. Aged 61.

8 Dr Janet Morgan, Non-Executive Director

Dr Janet Morgan, Lady Balfour of Burleigh, became a non-executive director in April 2001. She is Chairman of the Health, Safety & Environmental Committee. She is also chairman of the Nuclear Generation Decommisioning Fund and a non-executive director of Cable & Wireless plc, BPB plc and other companies. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and Chairman of the Scottish Cultural Resources Access Network. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 58.

9 Russell Walls, Non-Executive Director

Appointed as a non-executive director in June 2000. Russell Walls is the current Chairman of the Audit Committee and is the senior independent non-executive director. He is a non-executive director of Signet Group plc and Aviva plc. He was previously Group Finance Director of BAA plc and Wellcome PLC. For many years he worked abroad with Coats Viyella plc where he was Group Finance Director from January 1990. He is a fellow of the Association of Chartered Certified Accountants. Aged 60.

Key to photograph

4	8	3	2	1	9	5	6	7

Summary directors' report

Important note

The summary financial statement is a summary of the information in the 2004 Annual Report and Accounts. It does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or the Group. For further information, the full annual accounts, the auditors' report on those accounts and the report of the directors should be consulted. All shareholders receive either the Summary Annual Report or the full Annual Report and Accounts. A copy of the full 2004 Annual Report and Accounts may be obtained, free of charge, from the company's registrar at the address and telephone number shown on page 14. If you wish to receive the full Annual Report and Accounts for all future financial years you should inform Lloyds TSB Registrars in writing, at the same address.

Principal activity and business review

The Group's principal activity is the provision of public transport services in the UK and overseas.

A review of the Group's business performance, developments during the year, its position at the year end and likely future prospects, is contained on pages 2 to 9.

Directors

The names, responsibilities and biographical details of the directors appear on page 10.

Graham Eccles, Janet Morgan and Robert Speirs retire by rotation at the 2004 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. Ewan Brown, who is considered an independent non-executive director by the Board, but may not be considered independent under the revised Combined Code, and Ann Gloag, who is not an independent non-executive director, being eligible offer themselves for annual re-election.

Report of the auditors

The auditors' report on the full accounts for the year ended 30 April 2004 was unqualified, and did not contain any statement, under section 237(2) or section 237(3) of the Companies Act 1985.

Corporate Governance Combined Code Statement

The Group recognises the importance of, and is committed to, high standards of corporate governance. The Stock Exchange published the Combined Code in June 1998, which incorporated the work of the Cadbury, Greenbury and Hampel Committees. The Group has complied with the requirements of the Combined Code throughout the year.

In July 2003, a Revised Combined Code was issued for the financial years commencing on or after 1 November 2003. The Group will keep under review its current corporate governance procedures in light of the recommendations contained within it for its financial year ending 30 April 2005.

Post balance sheet events

During June 2004, the Group cancelled existing bank facilities amounting to £195m which were due to expire in the period to December 2004 and replaced these with revolving credit facilities amounting to approximately £440m which primarily mature in June 2009. These facilities provide significant undrawn headroom.

Summary remuneration report

The Board supports the principles of good corporate governance relating to directors' remuneration and has applied them as described below.

In accordance with Schedule 7A "Directors' Remuneration Report" of the Companies Act 1985, those paragraphs that have been audited have been highlighted as such.

This is the Summary remuneration report. The full version of the remuneration report is contained in the 2004 Annual Report and Accounts. As stated on page 11, the full 2004 Annual Report and Accounts may be obtained from the Company's registrar at the address and telephone number shown on page 14.

The graph below charts the performance of the Stagecoach Group Total Shareholder Return (TSR) (share value movement plus reinvested dividends) over the past 5 years compared with that of the FTSE Transport All-Share Index, the FTSE Mid 250 Index and the FTSE All-Share Index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2004.

In assessing the performance of the Company's TSR the Board believes the comparator groups it has chosen represent a fair benchmark both in terms of the nature of the business activity and size of company.

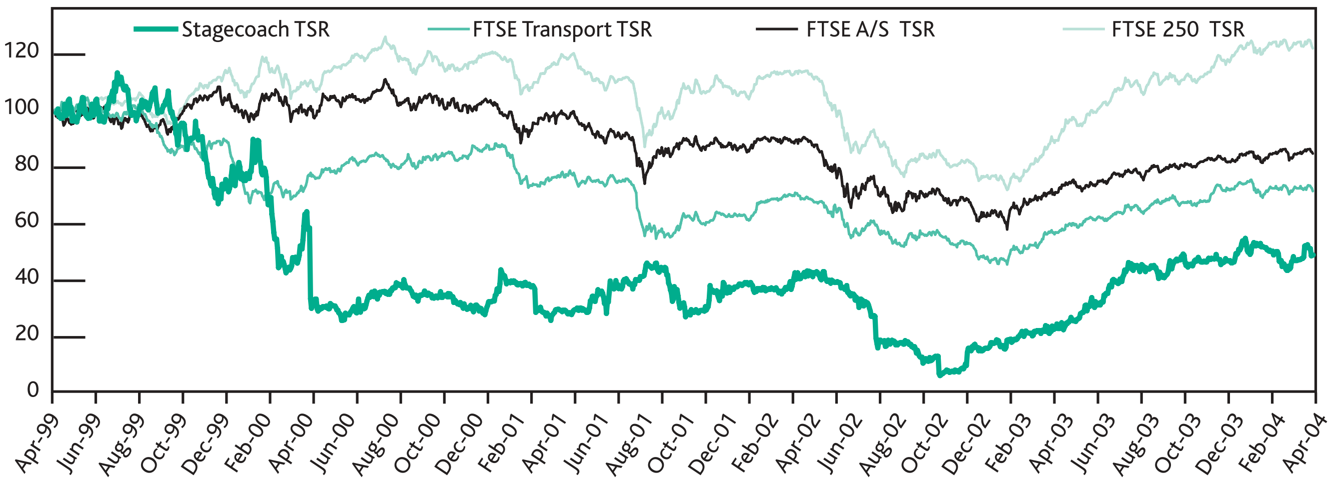
Remuneration policy

Our remuneration policy is consistent with our prior year policy, which was approved by the shareholders at the 2003 AGM.

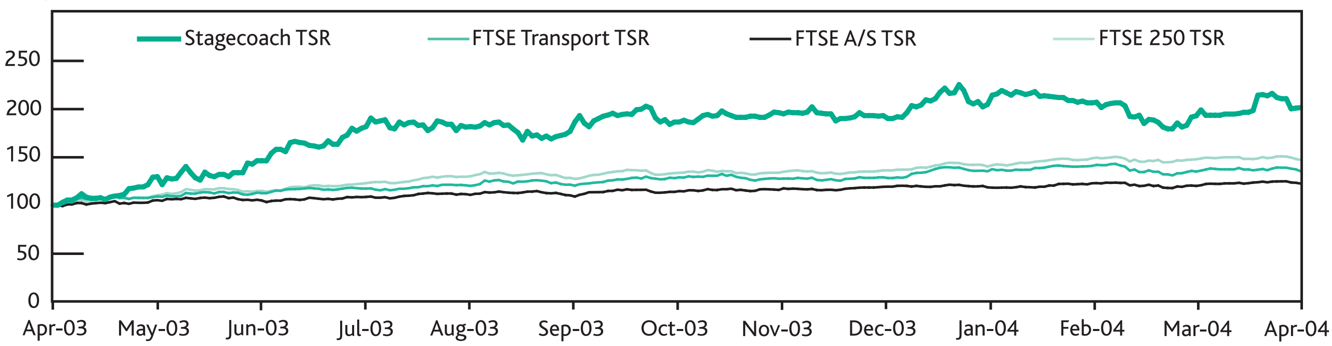
In determining appropriate levels of remuneration for the executive directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving the Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance related elements. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short- and long-term targets. Performance targets include not only traditional financial indicators but also personal targets, successful investment, innovation, staff development, customer satisfaction and achievement of regulatory requirements, including health and safety and environmental targets.

To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Group Chief Executive making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the growth prospects for the Stagecoach Group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach Group and of average earnings for all employees. With regard to pensions, the Remuneration Committee has access to reports from the trustees and scheme actuaries regarding the cost of pension obligations.

Stagecoach TSR Comparative Performance since 1 May 1999



Stagecoach TSR Comparative Performance since 1 May 2003



The Committee has also appointed and taken advice during the year from a firm of independent executive remuneration consultants, Inbucon Consulting, which was instructed to review the existing remuneration of all executive directors and the chairman. Inbucon Consulting also provided training to the Committee in the year.

The Remuneration Committee believes that remuneration packages should reward the efforts of all staff since a motivated workforce is a key element of Group performance. The Committee recognises that executive directors bear greatest responsibility for delivering corporate strategy which underpins long-term sustainable performance. While the Remuneration Committee's report focuses on incentive schemes for senior executives, there are also a number of performance-related bonus schemes within group companies, in addition to the UK-only SAYE schemes.

Directors' remuneration (audited) was as follows in Table 1 (amounts in £000)

TABLE 1	Salary/fees		Performance related bonus		Benefits in kind		Compensation for loss of office		Non-pensionable allowances†		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Executive directors												
Brian Souter	**470**	460	**329**	322	**18‡**	18	**Nil**	Nil	**n/a**	n/a	**817**	800
Keith Cochrane*	**Nil**	81	**Nil**	Nil	**Nil**	8	**Nil**	543	**Nil**	108	**Nil**	740
Brian Cox*	**Nil**	37	**Nil**	Nil	**Nil**	4	**Nil**	Nil	**n/a**	n/a	**Nil**	41
Graham Eccles	**250**	190	**175**	114	**21**	13	**Nil**	Nil	**44**	26	**490**	343
Martin Griffiths	**205**	180	**143**	108	**20‡**	20	**Nil**	Nil	**29**	23	**397**	331
Non-executive directors												
Ewan Brown	**30**	27	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**n/a**	n/a	**30**	27
Ann Gloag	**30**	27	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**n/a**	n/a	**30**	27
Robert Speirs	**90**	72	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**n/a**	n/a	**90**	72
Russell Walls	**30**	27	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**n/a**	n/a	**30**	27
Janet Morgan	**30**	27	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**n/a**	n/a	**30**	27
Iain Duffin	**30**	27	**Nil**	Nil	**Nil**	Nil	**n/a**	n/a	**n/a**	n/a	**30**	27
Total	**1,165**	1,155	**647**	544	**59**	63	**Nil**	543	**73**	157	**1,944**	2,462

*Resigned or retired prior to 30 April 2003.
†Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits.
‡Includes cash payments in lieu of provision of company car.

Graham Eccles and Martin Griffiths participate in the Stagecoach Executive Directors' Long Term Bonus Scheme. Under this scheme, Graham Eccles may be awarded an additional annual bonus of £100,000 per financial year for each of the three years commencing 1 May 2003 and Martin Griffiths may be awarded an additional annual bonus of £50,000 for each of the five years commencing 1 May 2003. The performance condition of the Scheme is such that the bonuses are payable if the growth in earnings per share each financial year outperforms inflation by at least 5%. The performance condition in respect of the year ended 30 April 2004 was satisfied and therefore subject to the relevant individual remaining a full-time employee of the Group, the bonus in respect of that year will be paid at the end of the three or five year period.

Directors' pension benefits (audited) were as follows in Table 2 (amounts in £000)

TABLE 2	Additional accrued benefits in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less directors' contributions
Executive directors	**Excluding inflation**	**Including inflation**	2004	2003	2004	2003	2004	2003	
Brian Souter	**44**	**60**	**226**	209	**391**	348	**127**	**138**	**99**
Graham Eccles	**11**	**12**	**18**	15	**53**	44	**29**	**26**	**29**
Martin Griffiths	**11**	**14**	**23**	19	**68**	58	**10**	**9**	**10**

Independent auditors' statement to the members of Stagecoach Group plc

We have examined the summary financial statement of Stagecoach Group plc.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the summary annual report in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summary annual report with the annual accounts, the Directors' report and the Remuneration report, and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summary annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the Company's members in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, ''The auditors' statement on the summary financial statement'' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the annual accounts, the Directors' report and the Remuneration report of Stagecoach Group plc for the year ended 30 April 2004 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

23 June 2004

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Derek Scott

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Summary consolidated profit and loss account

Year ended 30 April 2004

	2004			2003		
	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m	Performance pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m
Turnover: Group and share of joint ventures	**1,792.3**	**Nil**	**1,792.3**	2,076.6	Nil	2,076.6
Less: Share of joint ventures' turnover	**(290.3)**	**Nil**	**(290.3)**	(277.9)	Nil	(277.9)
Group turnover	**1,502.0**	**Nil**	**1,502.0**	1,798.7	Nil	1,798.7
Represented by:						
Continuing Group operations	**1,371.0**	**Nil**	**1,371.0**	1,305.3	Nil	1,305.3
Discontinued operations	**131.0**	**Nil**	**131.0**	493.4	Nil	493.4
	1,502.0	**Nil**	**1,502.0**	1,798.7	Nil	1,798.7
Operating costs (including asset impairment)	**(1,501.3)**	**(8.8)**	**(1,510.1)**	(1,752.6)	(603.6)	(2,356.2)
Other operating income	**129.1**	**Nil**	**129.1**	87.7	Nil	87.7
Operating profit/(loss) of Group companies	**129.8**	**(8.8)**	**121.0**	133.8	(603.6)	(469.8)
Share of operating profit/(loss) of joint ventures	**10.7**	**(8.7)**	**2.0**	2.6	(8.7)	(6.1)
Share of operating profit from interest in associates	**7.0**	**(0.3)**	**6.7**	10.0	(0.3)	9.7
Total operating profit/(loss): Group and share of joint ventures and associates	**147.5**	**(17.8)**	**129.7**	146.4	(612.6)	(466.2)
Represented by:						
Continuing Group operations	**128.8**	**(7.8)**	**121.0**	114.7	(596.0)	(481.3)
Continuing joint ventures and associates	**13.1**	**(9.0)**	**4.1**	6.3	(9.0)	(2.7)
	141.9	**(16.8)**	**125.1**	121.0	(605.0)	(484.0)
Discontinued Group operations	**1.0**	**(1.0)**	**Nil**	19.1	(7.6)	11.5
Discontinued joint ventures and associates	**4.6**	**Nil**	**4.6**	6.3	Nil	6.3
Total operating profit/(loss): Group and share of joint ventures and associates	**147.5**	**(17.8)**	**129.7**	146.4	(612.6)	(466.2)
Profit/(loss) on sale of properties	**Nil**	**0.5**	**0.5**	Nil	(0.5)	(0.5)
Loss on disposal of operations	**Nil**	**(7.1)**	**(7.1)**	Nil	Nil	Nil
Profit/(loss) on ordinary activities before interest and taxation	**147.5**	**(24.4)**	**123.1**	146.4	(613.1)	(466.7)
Finance charges (net)	**(27.3)**	**Nil**	**(27.3)**	(33.5)	Nil	(33.5)
Profit/(loss) on ordinary activities before taxation	**120.2**	**(24.4)**	**95.8**	112.9	(613.1)	(500.2)
Taxation on profit/(loss) on ordinary activities	**(32.3)**	**41.1**	**8.8**	(28.8)	3.8	(25.0)
Profit/(loss) on ordinary activities after taxation	**87.9**	**16.7**	**104.6**	84.1	(609.3)	(525.2)
Dividends	**(38.4)**	**Nil**	**(38.4)**	(34.3)	Nil	(34.3)
Retained profit/(loss) for the year	**49.5**	**16.7**	**66.2**	49.8	(609.3)	(559.5)
Earnings/(loss) per share – Adjusted/Basic	**6.7p**		**7.9p**	6.4p		(40.0)p
– Diluted	**6.5p**		**7.8p**	6.4p		(40.0)p

Summary consolidated balance sheet

As at 30 April 2004

	2004 £m	2003 £m
Fixed assets	**831.7**	1,259.8
Current assets	**717.1**	455.0
Creditors: Amounts falling due within one year	**(674.6)**	(504.2)
Net current assets/(liabilities)	**42.5**	(49.2)
Total assets less current liabilities	**874.2**	1,210.6
Creditors: Amounts falling due after more than one year	**(292.2)**	(640.7)
Provisions for liabilities and charges	**(192.0)**	(252.8)
Net assets	**390.0**	317.1
Capital and reserves		
Equity share capital	**6.7**	6.6
Share premium account	**392.4**	386.1
Profit and loss account	**(6.9)***	(77.3)
Own shares	**(3.9)**	Nil
Capital redemption reserve	**1.7**	1.7
Shareholders' funds – Equity	**390.0**	317.1

*The profit and loss reserve deficit of £6.9m is the consolidated position after taking account of cumulative goodwill of £113.8m that was written off against reserves in periods prior to the adoption of FRS10, ''Goodwill and Intangible Assets.'' The holding company's distributable reserves as at 30 April 2004 were £378.5m (2003: £57.5m).

Signed on behalf of the Board on 23 June 2004

BRIAN SOUTER
Chief Executive

MARTIN A GRIFFITHS
Finance Director

Summary consolidated cash flow statement

Year ended 30 April 2004

	2004 £m	2003 £m
Net cash inflow from operating activities	**214.3**	272.2
Dividends from joint ventures and associates	**4.1**	5.3
Returns on investments and servicing of finance	**0.5**	(51.9)
Taxation	**(9.4)**	(7.8)
Capital expenditure and financial investment	**(51.8)**	(32.8)
Acquisitions and disposals	**316.9**	(4.8)
Equity dividends paid	**(35.6)**	(27.6)
Net cash inflow before financing	**439.0**	152.6
Financing	**(91.6)**	(165.3)
Increase/(decrease) in cash during the year	**347.4**	(12.7)
Free cash flow	**209.5**	217.8
Free cash flow per share	**15.9p**	16.6p

Free cash flow comprises net cash inflow from operating activities, dividends from joint ventures and associates, net cash inflow/(outflow) from returns on investments and servicing of finance, and taxation.

Shareholder information

Analysis of shareholders as at 30 April 2004

Range of holdings	No. of holders	%	Shares held	%
1 – 25,000	62,250	98.38	102,163,077	7.65
25,001 – 250,000	740	1.17	49,065,098	3.67
250,001 – 500,000	89	0.14	31,299,678	2.34
500,001 – 3,750,000	137	0.22	191,558,616	14.35
Over 3,750,000	56	0.09	961,272,131	71.99
	63,272	100.00	1,335,358,600	100.00

Classification of shareholders	No. of holders	%	Shares held	%
Individuals	61,094	96.58	410,871,050	30.77
Other corporate bodies	71	0.11	6,354,494	0.48
Banks and Nominees	1,892	2.99	851,255,984	63.75
Insurance and assurance companies	1	0.00	152,616	0.01
Limited companies	205	0.32	66,656,781	4.99
Pension funds	9	0.00	67,675	0.00
	63,272	100.00	1,335,358,600	100.00

Registrar and transfer office
All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's name and address. Please write to: Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. Telephone 0870 601 5366. Registrar forms can be obtained on-line at http://www.stagecoachgroup.com/sgc/investorinfo/forms/

Stagecoach individual savings accounts
The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on 08457 22 55 25.

The Company has also made arrangements with Stocktrade for Maxi and Mini ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 10 George Street, Edinburgh EH2 2PZ. Telephone 0131 240 0448.

Low cost share dealing facility
The Group has set up a low cost execution only share dealing facility with a division of Brewin Dolphin, Stocktrade, exclusive to Stagecoach shareholders. The commission is 0.6% up to £10,000 with 0.2% being charged on the excess thereafter, subject to a £15 minimum. Shareholders who would like further information should write to Stocktrade, PO Box 1076, 10 George Street, Edinburgh EH2 2PZ. Telephone 0845 601 0995, quoting dealing reference Low Co020. Postal dealing packs are available on request.

Payment of dividends by BACS
Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The mandates enable the Company to pay dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to shareholders of the BACS system is that the registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder bank or building society account. Shareholders who wish to benefit from this service should request the Company's registrar (address above) to send them a dividend/interest mandate form or alternatively complete the mandate form attached to the next dividend tax voucher they receive.

Dividend Re-Investment Plan
The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at favourable commission rates. Shareholders who would like further information should telephone Lloyds TSB Registrars Scotland on 0870 241 3018.

Company websites
More information can be found on the internet at:

www.stagecoachgroup.com
www.stagecoachbus.com
www.southwesttrains.co.uk
www.coachusa.com
www.stagecoach.co.nz
www.supertram.com
www.megabus.com
www.island-line.co.uk
www.virgintrains.co.uk

Financial Calendar
Annual General Meeting
27 August 2004

Final Dividend
6 October 2004

Interim Report
December 2004

Interim Dividend
March 2005

In addition to the key dates shown above, a separate circular has been sent to all shareholders which includes a proposed timetable for the issue and redemption of B shares.

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