



STAGECOACH GROUP

Summary Annual Report 2005



Business highlights

- strong year of organic growth in bus and rail operations in UK and overseas
- further growth in UK Bus division
 - turnover up 10.8%
 - kick start and telemarketing initiatives successfully introduced
 - investment in fleet, new product development and online sales
 - passenger volumes[†] up 1.5% in non-London operations; turnover up 7.1%
 - turnover in London bus business up 21.0%
 - operating margin* maintained at 11.5%, despite significant increases in fuel and other costs
- excellent performance by UK Rail division
 - turnover up 9.2%
 - South West Trains passenger volumes increased 4.8%
 - significant improvement in punctuality
 - first London operator to complete replacement of slam-door trains
- shortlisted for Greater Western, Thameslink/Great Northern and Integrated Kent rail franchises
- strong growth in North American operations
 - US\$ turnover growth of 12.7% from continuing operations
 - operating margin* up from 4.4% to 6.7%
 - 28.6% more tickets sold at New York Sightseeing
- market-leading positions maintained in New Zealand, despite competition and cost pressures
- management team strengthened with appointment of Ian Dobbs as Chief Executive of Rail division

*excluding restructuring costs, goodwill amortisation and exceptional items

[†]excluding megabus.com

Financial highlights

- turnover from continuing operations £1,787.6m (2004: £1,641.1m)
 - total operating profit[†] £156.7m (2004: £147.5m)
 - operating profit £132.8m (2004: £129.7m)
 - profit before tax[†] £136.8m (2004: £120.2m)
 - profit before tax £108.3m (2004: £95.8m)
 - earnings per share[†] 9.0p, up 34.3% from 6.7p
 - full year dividend up 13.8% to 3.3p (2004: 2.9p)
 - free cash flow £173.6m (2004: £209.5m)
 - £241.3m of capital returned to shareholders
- [†] excluding goodwill amortisation and exceptional items

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Chairman's statement



I am pleased to report that Stagecoach Group has had a strong year, delivering on our strategy for organic growth in our bus and rail operations in the UK and overseas. The Group has achieved excellent financial and operational performance, despite the substantial fuel and other cost pressures.

Stagecoach is continuing to lead the way in developing new ideas, innovative products and highly effective marketing to attract new passengers to public transport. By following this approach, combined with strong operational management and cost-control, we have driven up both passenger volumes and revenues across our business.

Our business is underpinned by a commitment to excellent customer service and a strong focus on the safety and security of our passengers and our people. We continue to have a proactive culture across the Group that puts safety at the top of our agenda.

The successes we have achieved are flowing through strongly to our shareholders, who benefited from the £241.3m return of capital programme during the year and also from increased dividends.

Total turnover for the year ended 30 April 2005 was £1,794.7m (2004: £1,792.3m). Operating profit before goodwill amortisation and exceptional items was £156.7m (2004: £147.5m). Earnings per share before goodwill amortisation and exceptional items were up 34.3% at 9.0p (2004: 6.7p).

Net debt increased by £147.0m from £67.6m at 30 April 2004 to £214.6m at 30 April 2005. Excluding the £265.0m of cash outflows relating to dividends and capital paid to shareholders, net debt fell by £118.0m as the Group continues to generate significant cash from its operations.

Given the Directors' confidence in the future prospects of the Group, as well as its financial strength, we are proposing a final dividend of 2.3p per share (2004: 2.0p), giving a total dividend for the year of 3.3p (2004: 2.9p). This is an increase of 13.8% and (based on continued strong cash flows and profits) we will look to continue with a policy of growing the dividends progressively. The proposed final dividend is payable to shareholders on the register at 2 September 2005 and will be paid on 5 October 2005.

We have strengthened our senior management team with the appointment of Ian Dobbs as Chief Executive of the Group's Rail Division. Ian has 28 years' experience in the rail industry in the UK and overseas. A former Divisional Director of British Rail, he was more recently Chief Executive Officer of the Victoria Public Transport Corporation in Australia, where he was responsible for the rail, tram and bus services. He will join the Group in July 2005.

Ian has a strong track record and we are confident he will drive forward Stagecoach's reputation as a first-class rail operator delivering high-quality services to passengers, value-for-money to taxpayers and an appropriate return to shareholders. He will have operational responsibility for all of the Group's rail interests, and will initially report to Graham Eccles, Stagecoach Group Executive Director – Rail, who has indicated that he intends to retire and step down from the Board in April 2006.

We have made a promising start to the new financial year and despite some industrial action in New Zealand in the early part of May, overall trading is in line with our expectations.

I am pleased that the hard work of our employees has been rewarded with another year of achievement across the Group. We believe there are significant opportunities for organic growth and the expansion of our rail portfolio, both of which can deliver increased value to our shareholders.

A handwritten signature in black ink, which appears to read 'Robert Speirs'. The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Robert Speirs
Chairman

Chief Executive's review



Organic growth across our business has driven Stagecoach's strong performance during the year.

We have built on our excellent track record in achieving growth in our UK bus operations as a result of our innovation, targeted marketing and consistent service delivery. Despite pressure on fuel costs, we have achieved further impressive results in the year, increasing operating profits* by 10.3% in our UK Bus division from £74.8m to £82.5m.

Our new telemarketing unit has been attracting thousands of new bus users and we expect our two-year campaign focusing on a new location every six-weeks to generate further organic growth in our provincial bus operations. megabus.com, the Group's low-cost inter-city bus service, has now expanded to cover over 30 towns and cities in the UK and we expect further growth in megabus.com's revenue during the year to 30 April 2006. We have also expanded our use of online sales to increase our share in other express coach markets, such as our premier London-Oxford service.

We continue to develop positive partnerships with local authorities where pro-bus policies coupled with our operational and marketing expertise are producing strong revenue and passenger volume growth in our non-London companies. Several of our initial Government-funded Kick Start schemes are already generating significant passenger volume growth after just six months and we have again significantly increased turnover at our regulated bus operations in London.

Our UK Rail division has performed ahead of our original expectations and we are extremely pleased with the strong growth in turnover and passenger volumes at South West Trains. UK Rail operating profit is up 10.2% and the outlook for the remainder of the SWT franchise remains positive.

Customers have experienced a significantly improved service following the introduction of the new timetable at South West Trains in December 2004, with more frequent departures from the busiest stations. Train punctuality has progressively increased, with over 90% of trains now arriving on time (measured on the basis of the Strategic Rail Authority's Public Performance Measure), and we are confident that this new improved timetable and its inherent reliability will stimulate further passenger volume growth.

We have almost completed the UK's biggest introduction of new rolling stock at South West Trains with the minimum of delays for passengers. South West Trains has replaced its old slam-door rolling stock earlier than any other London operator, as part of the project to introduce 155 state-of-the-art Desiro units with a total value of around £1 billion.

Passengers have responded extremely positively to the new trains and improved service. The most recent National Rail Trends data published by the Strategic Rail Authority indicated that the number of passengers who rated their overall journey with South West Trains as satisfactory or good was 5% higher than the equivalent period in the previous year. This improvement was one of the highest for an operator in the London and South East area.

Stagecoach Group has a significant share of the UK passenger rail market and a key strategic priority is to maximise the current significant opportunities to grow our franchise portfolio. We have been shortlisted for the Greater Western and Thameslink/Great Northern franchises. We are also working hard with our partners, Danish State Railways, to win the new Integrated Kent franchise.

The South West Trains franchise runs until February 2007 and we have already started preparing for a possible tender in 2006. Under our management since 1996, South West Trains passengers have benefited from record investment in new trains, significant operational improvements and new initiatives to boost security and customer service. Our strong financial management has delivered value for money to passengers and taxpayers, as well as an excellent return to our shareholders, and we believe we will be in a strong position to retain the franchise.

*References to the operating profit or operating margin of a particular business throughout the Chief Executive's Review and Operating and Financial Review mean operating profit (or operating margin) before goodwill amortisation, exceptional items and restructuring costs.

We are pleased to have been involved in helping to shape the future direction of the railways during the Government's recent review. A number of Stagecoach proposals, including better integration on the network, have been put in place and the results are helping to reduce delays and improve network management.

At the two Virgin Rail Group ("VRG") franchises, West Coast and CrossCountry, we are particularly pleased at the improving reliability for passengers and the step-change in the travelling environment that has been delivered with the introduction of new trains.

The re-negotiation of the West Coast franchise is a key strategic priority for the Group. We look forward to continuing our discussions with Government in late 2005, following the agreement to gather more revenue, passenger and operational data to assist the re-negotiation of the franchise for the period through to 2012. Passenger volumes on the West Coast mainline have risen approximately 20% in the period since 18 September 2004 in response to the introduction of new faster Pendolino trains. Journey times on the key London-Manchester route have been reduced by more than half an hour, while the frequency of services between the two cities has been doubled, attracting many airline passengers to rail travel.

These results are extremely encouraging and many more people can be attracted back to the railways if this uplift in quality of service is matched by further and sustained progress in infrastructure provision by Network Rail. With these excellent long-term prospects, we believe we can re-negotiate a franchise agreement which is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

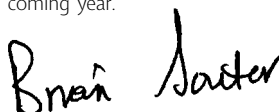
Like the West Coast franchise, Virgin CrossCountry continues to operate on the basis of annual budgets set by the Strategic Rail Authority ("SRA"). We are awaiting the SRA's decision on the future of the franchise. If the SRA decides to put the franchise out to open competition, we are confident that VRG, as the incumbent operator with an excellent track record, will be in a strong position to win the franchise.

Overseas, we have a strong set of bus businesses in the North American and New Zealand markets. In North America, we are pleased to report strong US\$ turnover growth of 26.4% in the sightseeing and tour parts of our continuing businesses. While we have significantly reduced our ongoing exposure to these markets through our restructuring programme, the leisure-related businesses we have retained are now benefiting from a more stable US economy and from the recovery in charter and sightseeing markets. To stimulate further growth we have recently launched a new website for our North American operations, which incorporates online sales as part of our revenue development strategy.

The non-leisure parts of our continuing North American businesses have also seen good growth, with US\$ turnover from scheduled services and commuter services up 7.8% on the prior year. In addition, we have continued to win and retain school bus and other contracts resulting in US\$ turnover growth of 6.2% over the prior year.

In New Zealand, while there has been increased competition from the railways in Auckland, operating margins remain satisfactory at 14.7% (2004: 18.4%) and we are satisfied with the performance of the division although ongoing industrial action in Auckland is likely to impact financial performance in the short term.

None of this could have been achieved without the tremendous commitment from our people, who have ensured the Group has delivered on its strategy. We have an excellent team of senior managers across the Group and I believe we are well placed to deliver further growth in the coming year.



Brian Souter
Chief Executive

Summary operating review

Group strategy

Stagecoach Group's strategy is to focus on organic growth in local transport operations with critical mass and good future potential in our core UK, North American and New Zealand markets. We also continue to look for complementary bolt-on acquisition opportunities in these geographic locations, which offer the prospect of additional profitable growth.

Through a combination of operational expertise and applying our entrepreneurial skills in our core geographic markets, we believe we can maximise shareholder value.

We have a very strong position in UK Bus and are confident we can achieve further organic growth by continuing to demonstrate entrepreneurial vision and innovation, supported by targeted and effective marketing and a commitment to partnerships with transport authorities.

In UK Rail, where we already have a significant share of the passenger rail market, we are targeting a number of opportunities that fit with our strategy of long-distance inter-city and high-volume commuter franchises. We are currently shortlisted for the Greater Western and Thameslink/Great Northern Rail franchises and we have a 29.9% stake in the Danish State Railways bid for the Integrated Kent franchise.

A key element of our rail strategy is agreeing new long-term commercial arrangements for Virgin Rail Group's West Coast franchise. VRG would also look to bid for the CrossCountry franchise if it is put to the market and, as the incumbent operator, VRG is in a strong position to win the franchise.

In North America, our strategy is to organically grow our mix of scheduled, charter, sightseeing and school bus operations, as well as assessing potential bolt-on acquisitions in the non-leisure related parts of the business. We are targeting further growth in our New Zealand bus operations by adopting a number of marketing strategies successfully used elsewhere in the group.

UK Bus

Overview

UK Bus has had an excellent year and this is reflected in the strong financial performance. Turnover in our UK Bus division has increased by 10.8% to £720.3m (2004: £650.2m). Operating profit was up 10.3% to £82.5m, compared to £74.8m in the previous year. We are particularly pleased to report a continued strong operating margin, maintained at 11.5%, despite higher fuel costs, an increased use of operating leases to finance new vehicles and costs associated with the development of new products, such as megabus.com. Excluding the impact of additional operating leases and losses relating to the development of megabus.com, UK Bus operating margin was 12.6% versus 12.2% in 2004.

Investment, innovation and growth

Stagecoach's commitment to investment and innovation has delivered further growth in passenger volumes at our UK Bus division during the year. We are experiencing growth both in our deregulated provincial bus operations and in the regulated London environment. We have continued to modernise our fleet and introduce new buses, helping to change passengers' perceptions of bus travel. Supported by effective partnerships with local transport authorities, targeted strategic marketing and further development of innovative products, we have again grown our passenger volumes. Total passenger volumes, excluding London and megabus.com, were up 1.5%.

Our pioneering megabus.com product, which offers low cost intercity bus travel via the Internet, has grown sharply during the year and we now have a network of services covering over 30 towns and cities in the UK. We have recently added a telephone booking facility to complement online sales and we are confident this will further help to stimulate demand. A new fleet of luxury double-decker coaches was introduced during the year at a cost of £6.6m, driving up the quality of travel for passengers on longer distance routes. Around 1.3m passengers have travelled with megabus.com during the year and we have improved both the average load factor and the average fare.

Provincial and city networks

We are continuing to drive passenger volume growth in our provincial and city networks through our focus on customer profiling research and targeted marketing. A new telemarketing unit has been established at our headquarters in Perth and has launched a series of campaigns in the UK to encourage non-users to switch to bus travel. The campaigns, which include the offer of a week's free travel and focus in particular on parents and car users, have resulted in up to one in five of those contacted switching to the bus. Stagecoach is concentrating on a new town or city every six weeks and intends to target up to 20% of its UK bus networks over the next two years.

The Cambridge "citi" network continues to expand more than three years after Stagecoach invested over £4m in improved services. Boosted by a strong partnership with Cambridgeshire County Council, the city has seen one of the biggest rises in public transport use in the UK with bus use increasing by around 45% in three years.

Stagecoach has continued to work successfully with Nexus Passenger Transport Executive to develop core corridors in Newcastle, Sunderland and South Shields as part of the Tyne and Wear Superoute network. We are also working with Greater Manchester Passenger Transport Executive on a number of new technology programmes including real time information, the delivery of bus times to mobile phones and smart cards to make travel easier for passengers.

Severe flooding affected our Carlisle operations in January 2005, with 85 vehicles in the fleet written off due to water damage. However, the company was able to maintain services to passengers and a £4m fleet of 39 low-floor vehicles was delivered in June this year, making all inner city services in Carlisle easy access for the elderly, people with disabilities and parents with young children. The financial impact of the flooding was largely mitigated by insurance, although an exceptional loss of £0.8m was reported for the year to 30 April 2005, representing the "excess" on the insurance policy and other additional costs.

London

Our London bus business has achieved further significant growth this year. Turnover increased by 21.0% during the year as a result of winning and retaining contracts operated on behalf of Transport for London ("TfL"). During the year, we began operating an £11m contract for an articulated bus service out of our new £2.3m depot in Stratford. We have also invested a further £1m in improved operational and engineering facilities at our existing depots. Our excellent operational performance, which has followed a close focus on the recruitment and retention of drivers, has resulted in quality incentive payments from TfL and increased operating profits. Nearly 90 new double-decker vehicles were introduced in our operations in the capital during the year and our London fleet is now 100% low floor.

Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision for our customers. We agree with the Government that strong partnerships are the key to improving services and delivering value for money to taxpayers. In Scotland and Wales, we continue to work with the devolved administrations to successfully deliver the concessionary fares schemes. We have been working with the Scottish Executive to help shape the new Scotland-wide concessionary fares scheme and we welcome the recent commitment by the Government to introduce free travel for the elderly in England. Stagecoach is working with a number of local authorities on smartcard, multi-operator ticketing schemes and real time information, in places such as Manchester, Cambridge and south-west England, to make travel easier for passengers. We are also working with businesses and educational establishments to encourage travel by public transport. Our work in Devon has been identified as an example of best practice by the Energy Saving Trust, a non-profit making organisation set up by the Government to help tackle climate change and improve air quality. In Oxford, we have also established a new network in partnership with Brookes University. These partnerships are delivering results, attracting more people to bus travel and helping to address congestion in our towns and cities.

Kick Start

Stagecoach was successful in the first round of funding allocations following the decision by the Department for Transport, the Scottish Executive and the devolved administration in Wales to take forward our Kick Start proposal for targeted funding to support the introduction of new bus services. We have already achieved high levels of passenger volume growth after only six months of starting partnership projects in Thanet, Chesterfield and Caerphilly. We have achieved similar success with projects of our own, including in Swindon, following the success of our initial pilot project in Perth, Scotland, where passenger volumes are still growing nearly five years after the initial investment.

North America

Overview

North American trading has been very encouraging. Excluding discontinued operations, turnover increased 12.7% from US\$351.3m to US\$396.0m. Including discontinued operations, turnover at our North American operations was US\$409.1m compared to US\$576.4m in the previous year. Operating profit was US\$27.4m (2004: US\$25.4m), representing an improvement in operating margin from 4.4% to 6.7%. Converted to sterling, turnover was £220.8m (2004: £336.8m) and operating profit was £14.8m (2004: £14.8m).

North East

In the North East region, we have achieved further significant passenger and revenue growth in our highly successful New York Sightseeing operation. 28.6% more tickets were sold in the year following the addition of new tours to our product offering. A fleet of 20 new open-top double-decker sightseeing coaches entered service in spring 2005, bringing the fleet to 74 open-top vehicles for the 2005-06 season. A further six new trolley buses have also entered service on a new tour in partnership with the History Channel.

Express and commuter coach services have also performed well. Services between New York City and New York State/Eastern Pennsylvania, for example, have generated turnover growth of 6.8% while a marketing campaign targeted at Newark Airport has produced further growth in our Newark Airport Express service.

During the year, we have won a number of new contracts with private and public sector organisations, including business operated on behalf of New Jersey Transit and Newark Airport.

North Central

Scheduled services in the North Central region have seen significant growth, partly as a result of increased air travel in the United States and following a bolt-on acquisition of a small business in Rockford, Illinois.

Charter sales have grown steadily over the period following increased marketing, operational improvements and targeted pricing initiatives.

North Central's Sightseeing and tour operations have seen overall turnover growth of 11.7%. Our Chicago Sightseeing and tour operation, which offers a mix of double decker and trolley tours, has achieved significant turnover growth. Plans are in place to develop new and improved tours in the coming year.

We have won a number of college shuttle contracts in the Pittsburgh market and our growing Wisconsin school bus business, which accounts for around 27.3% of the North Central region's turnover, has successfully retained a number of contracts that were re-tendered during the year.

Canada

Coach Canada's charter C\$ turnover is up 34.7% on the previous year. Charter business, which was impacted by the SARS outbreak in Toronto two years ago, has recovered strongly.

New Zealand

Turnover and operating profit from our New Zealand businesses were in line with our expectations. Turnover was similar to last year at NZ\$160.6m (2004: NZ\$160.9m). Operating profit was NZ\$23.7m (2004: NZ\$29.5m). The operating margin of 14.7% (2004: 18.4%) remains satisfactory but does reflect ongoing cost pressures and increased competition from railways in the Auckland market. Converted to sterling,

turnover was £59.0m (2004: £58.3m) and operating profit was £8.7m (2004: £10.7m).

Rail Overview

Our UK Rail division has had an excellent year. We are extremely pleased with the strong growth in turnover and passenger volumes at South West Trains, which has been stimulated by improvements for customers centred on punctuality and the quality of the travelling environment.

Turnover for our wholly-owned rail subsidiaries in the year was £479.4m (2004: £438.9m), with passenger volumes at South West Trains up 4.8% on the prior year. Operating profit was up 10.2% to £48.6m (2004: £44.1m), representing an operating margin of 10.1% (2004: 10.0%). This includes liquidated damages of £2.6m in relation to late delivery of new Desiro trains and reliability of class 458 trains.

Our strong performance at South West Trains has also benefited the taxpayer, with £46.0m (2004: £27.9m) in revenue and profit sharing payments being payable to the SRA in respect of the financial year ended 30 April 2005.

South West Trains

The new three-year franchise at South West Trains, which commenced in February 2004, is running extremely well and management has achieved significant improvements in train service delivery and passenger satisfaction. Therefore, we are well placed to continue to operate services beyond the end of the existing South West Trains franchise in February 2007.

New trains and technology improvements

Our programme to introduce 155 new Desiro trains is almost complete. This has been achieved with very few delays affecting passengers. We are the first London operator to have phased out the last of the old Mark I slam door trains and have completed the fleet replacement programme more quickly than any other train company.

We are also working with the SRA, Transport for London, rolling stock leasing company Porterbrook, and the train manufacturer, Bombardier, on a £67m project to refurbish our 91 unit Class 455 fleet. Launched in November 2004, the project will deliver improved reliability and a better train layout for passengers on suburban routes.

Punctuality and customer improvements

South West Trains has achieved a major improvement in train punctuality during the year. Since the introduction of the new timetable in December 2004, punctuality has progressively improved, with over 90% of trains now arriving on time (measured using the SRA's Public Performance Measure). This is one of the best performances of any operator on the London and South East network. We are confident the new improved timetable and its inherent reliability will stimulate further passenger volume growth.

This dramatic improvement for passengers has followed the most radical timetable change for nearly 40 years. The new timetable provides consistency for customers, additional peak time services and capacity into London Waterloo and a series of measures to reduce the effect of incidents and promote better timekeeping.

Commercial activity

Marketing activity at South West Trains has been focused on two key areas: developing leisure off-peak travel to increase revenue and a wider campaign to improve customer perception of our services. We have achieved further success with our Apex and SuperAdvance ticket promotions, and our leisure and reduced fare income is increasing at a faster rate than other train operators in London and the South East.

Island Line

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

Summary operating review

Sheffield Supertram

Sheffield Supertram, Britain's first state-of-the-art tramway, has achieved further passenger volume growth during the year. The network has carried a record 12.8m passengers during the year and has delivered further growth in profits. Passenger volume growth has been achieved, boosted by the regeneration of residential areas along the tram routes as well as improved leisure and retail facilities in Sheffield. A number of passenger improvements are being introduced across the network, including the roll-out of CCTV technology and the launch of an automated passenger announcement system.

Rail business development

The Group is in an excellent position to expand its rail portfolio and currently has an involvement in three shortlisted franchise bids that are an excellent fit with our strategy of concentrating on long-distance inter-city and high-volume commuter franchises.

Stagecoach is shortlisted for the Greater Western and Thameslink/Great Northern Rail franchises. Covering the West Country to London, the Greater Western franchise includes long-distance, regional and local services in the Thames Valley, Cotswolds, Bristol and the surrounding area and the West of England, with some cross-border services into South Wales. The seven-year franchise will run from 1 April 2006 with a potential three-year automatic extension if agreed performance targets are met. The enlarged Thameslink/Great Northern franchise, serving large numbers of commuters, will cover services between Bedford and Brighton, as well as between Peterborough, King's Lynn, Cambridge and London. The four-year franchise is expected to begin operations on 1 April 2006, with two extra years if agreed performance targets are met. There is also a possible further extension for up to three years to facilitate work on the Thameslink 2000 project.

While we were disappointed that our joint bid with Virgin for the Inter City East Coast franchise was unsuccessful earlier this year, we believe we can develop strong bids for these new franchises that deliver first-class passenger service, excellent value for taxpayers and a good return to shareholders.

We also have a 29.9% stake in the Danish State Railways ("DSB") bid for the Integrated Kent franchise. The franchise includes routes on the national rail network currently operated by South Eastern Trains throughout Kent, parts of Sussex and South East London. It will also incorporate new domestic services on the Channel Tunnel Rail Link ("CTRL"). 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. We believe our UK experience of both commuter and inter-city services will help deliver a powerful bid for the franchise.

Virgin Rail Group

Stagecoach has a 49% share in Virgin Rail Group ("VRG"), which operates the West Coast and CrossCountry inter-city rail franchises that link more than 130 stations across the UK. Both franchises continue to operate on the basis of annual budgets set by the SRA.

Our share of Virgin Rail Group's turnover for the year amounted to £315.2m (2004: £288.4m) and our share of operating profit was £12.7m (2004: £13.5m).

Both VRG's franchises operate on the basis of a Letter Agreement signed with the SRA in July 2002. Negotiations will re-commence on the West Coast franchise in September 2005 with a view to agreeing revised commercial terms for the franchise through to 2012. The SRA has terminated negotiations on the CrossCountry franchise and has the right to re-tender this franchise, although it is required to give at least 12 months' notice to VRG if it intends to terminate the existing franchise.

Under the Letter Agreement, the SRA sets an annual budget, including the level of financial support, for each franchise. The SRA has set challenging budgets for VRG's financial year to 4 March 2006. In particular, discussions are continuing with the SRA regarding CrossCountry's requirement for additional cash funding from July 2005.

West Coast

A £1.2 billion fleet of Pendolino tilting trains, operating at up to 125mph, has successfully entered passenger service on what is one of the main

arteries of the UK rail network. Journey times for passengers on some routes are being cut by more than 20%.

Increasing numbers of customers have been attracted to travel on the new state-of-the-art trains. Passenger volumes on the West Coast mainline have risen by approximately 20% in the period since the new Red Revolution timetable and faster Pendolino trains were introduced in September 2004.

VRG will recommence negotiations with the Government in the autumn of this year with a view to agreeing a re-negotiated franchise through to 2012. Earlier this year, VRG and the SRA agreed that more time was required to assess revenue, passenger and operational data. Both parties agreed to allow a full year's impact of the new West Coast timetable to be assessed up to September 2005. In the meantime, VRG will continue to operate the West Coast franchise under the terms of the Letter Agreement signed in July 2002 and is committed to working with all other stakeholders to further improve services to passengers. We believe this sensible and constructive approach will help deliver a re-negotiated franchise agreement that is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

CrossCountry

CrossCountry, which is serviced by a fleet of modern Voyager trains, has achieved further improvement in performance during the year. Since the start of 2005, more than 80% of trains are arriving on time (as measured by the SRA's Public Performance Measure) and, VRG is working hard to improve this further.

The improvements have helped transform travellers' perceptions, with CrossCountry being named the top performer in the InterCity sector of the SRA-commissioned National Passenger Survey last year.

Like the West Coast Mainline franchise, the Virgin CrossCountry franchise continues to operate on the basis of annual budgets set by the SRA, while we await its decision on the future of the franchise. If the SRA decides to put the franchise out to open competition, we are confident that VRG, as the incumbent operator with an excellent track record of sustained improvement, will be in a strong position to win the franchise.

Current trading and outlook

While still early in the new financial year we have made a promising start and, despite some industrial action in New Zealand in the early part of May, overall trading is in line with our expectations.

There are a number of exciting new opportunities across the Group that we are pursuing this year and this, combined with our focus on innovation in our existing businesses and our strong cash generation, means there is real potential to deliver further growth and shareholder value.

Corporate social responsibility

As well as providing a range of economic and environmental benefits, our bus and rail services help cement social inclusion and bring people together. We are committed to encouraging more people to use public transport. It is central to our growth strategy, to the future success of our Group, and also important to the future of the communities in which we operate around the world. In short, we have the same long-term goal of sustainable development as our numerous stakeholders and it is in our collective interest to have an ongoing dialogue on how that can be achieved.

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 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 UK Index, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards.

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 ongoing 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, the Welsh Assembly and Transport for London.

Transport Authorities – we 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.

Government Advisory Bodies and Lobbying Groups – we 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.

A people business

Stagecoach is a people business and it is the quality of our employees, from drivers and engineers to customer service and support staff that ensure we can deliver a first-class quality of service day in, day out. They are crucial to our objective of attracting more people to public transport. None of this happens by chance. We invest significant time and resources to ensure we have the right people on board to deliver the best possible service to customers.

We respect and value our staff, and we have a strong commitment to equal opportunities and partnership working with trade unions. Stagecoach also offers its UK employees the opportunity to join a pension scheme as well as providing attractive pay and conditions packages.

As a major employer, we also recognise the need for ongoing 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 one of the best vocational training programmes of any operator, designed to raise standards among and recognise the key contribution of our people. To date, some 50.7% of our current UK Bus drivers and 72.6% of our UK Bus engineers have either achieved or are working towards the S/NVQ qualification. During the year, we have focused closely on recruitment and retention of drivers and have made significant progress as a result of a number of measures, including improved pay, better training and mentoring schemes. We have also established links overseas, as part of the expansion of the EU, to recruit drivers to complement our employment campaigns in the UK.

At South West Trains, our centralised Recruitment Centre and the state of the art Operations Training Centre are continuing to deliver benefits to our employees and better service to our customers.

In North America, we have set up a new centralised driver training school in our North East division, which has improved the quality and consistency of provision. Our Canada division has focused closely on harnessing the power of the Internet to attract new employees and has been working in partnership with Workopolis, Canada's leading internet recruitment service.

Stagecoach has been working with the Department of Labour in New Zealand on a project to source employees outwith the country under established quota arrangements.

We are also looking to develop the managers of the future through our graduate recruitment initiative.

Stagecoach wants to support its 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.

Improving accessibility

Every customer we serve is unique, each with their own specific individual needs. We recognise that accessibility is crucial in providing attractive public transport services and, as far as possible within the resources we have available, we are making it easier to use our bus and rail services.

We have made further progress during the year on our programme that will ultimately result in all our buses in the UK being fully low-floor. Each year, hundreds of new, more easily accessible vehicles are added to our fleet and already all buses operated in London are entirely low floor with wheelchair access. We are also helping provide new demand responsive transport services, which are meeting the needs of those with mobility problems who require a service from their front door.

Significant investment is also taking place in our North American business in partnership with federal agencies. This year, our New York Sightseeing business introduced a fleet of 20 new open-top double-decker vehicles with improved wheelchair access ramps for disabled customers.

On the South West Trains network, we provide station-based ramps to enable wheelchair users to board and alight our new accessible Desiro trains with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis to and from stations with step-free access at no extra charge.

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.

Many people now access transport information online and our recently relaunched Stagecoach Group website, www.stagecoachgroup.com, has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind.

Health and safety

Stagecoach has a proactive culture across the Group that puts health and safety at the very top of our agenda. Bus, coach and rail travel is significantly safer than similar journeys by car, and the safety and security of both our customers and our people are at the core of how we operate our business.

Health and safety is monitored and reported on in every company across Stagecoach Group and 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 to the Board on these matters. They have access to internal safety executives and external consultants.

Summary operating review

In our UK Bus division, we are working in partnership with the Government and other agencies to improve bus safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses. We continue to invest in CCTV technology, driver safety screens and other measures to protect our passengers and our people. We have a number of joint programmes in place with schools and the police to deter anti-social behaviour and educate the next generation of public transport users. Stagecoach is also working with a number of local authorities in areas such as Oxford, Mansfield, Cheltenham and Gloucester to develop late night bus networks to help reduce town centre crime. At an operational level, we have in place a process of route risk assessments to identify potential safety issues.

Rail travellers on the South West Trains network are benefiting from a safer environment on our new, state-of-the-art Desiro trains and on our refurbished Class 455 trains, which are being fitted with CCTV technology. All South West Trains rolling stock is fitted with the Train Protection Warning System, which stops a train automatically at red signals. Our award-winning TravelSafe Officers partnership with British Transport Police, which helps ensure passenger safety, has been extended further in the past year to cover more routes and stations on the South West Trains network. Investment in both TravelSafe Officers and CCTV has helped cut crime on the network by 8.6% in the first half of 2004 and 20% in the second half of the year. Work is continuing 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.

In North America, we carry out regular safety audits of our facilities to ensure high standards of health and safety are maintained. Along with other major operators, we have assisted national bodies to put in place processes to address the impact of potential terrorist attacks on public transportation.

Our business in New Zealand has a programme in place to reduce the incidence of workplace injury and sickness and we conduct regular workplace inspections. An annual review of health and safety issues is carried out jointly by management and union representatives. We also have a special project team in place to address the issue of driver assaults.

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.

Part of the community

For nearly 25 years, Stagecoach has been a key part of communities. As well as providing lifeline transport services and significant job opportunities, we take an active role in the communities where we operate.

We want local people to share in our success and that is why every year we help fund the vital work of local, national and international charities. During the year ended 30 April 2005, £0.3m (2004: £0.3m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects in areas where Stagecoach provides lifeline bus services.

Like many companies, Stagecoach and its employees were touched by the Asian tsunami disaster and its impact on people living in the area. The Group pledged £100,000 to help the relief effort and building work, and also matched pound for pound the £40,000 raised by our employees in the UK, North America and New Zealand. The £180,000 raised was channelled through four charities – Save the Children, British Red Cross, Tearfund and World Vision – which are part of the Disasters Emergency Committee.

Stagecoach's support for the community is not just about money. Hundreds of our employees devote their own time every day to local projects that make a real difference in their area. Our businesses provide much-needed in-kind support, while our people also give charities the benefit of their expertise during secondments. Earlier this year, for example, we provided transport for a group of children from Beslan in Russia who were on a month-long stay in Scotland following the terrorist siege at a school in their homeland. We have provided similar assistance to groups of children affected by the Chernobyl disaster and its aftermath.

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. In Strathclyde, we have two information and training vehicles, which are used by the police to work with youngsters in housing estates in Glasgow and Ayrshire to cut crime and vandalism. At South West Trains, there is a focus on projects designed to give young people alternatives to anti-social behaviour, particularly highlighting the dangers of trespassing on railway lines.

Stagecoach is also helping promote social inclusion with our communities and help those who are the most vulnerable. We have a national agreement with Guide Dogs for the Blind that allows the dog trainers free travel on our buses.

We have 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. We have also supported a number of arts initiatives and this year marked the 10th anniversary of our sponsorship of the Mari Markus Gomori children's concerts, which have been attended by more than 40,000 schoolchildren.

Overseas, our businesses support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services. We have again provided transport facilities to assist the annual Tartan Day celebrations in New York, while similar support has been provided to a group of British police officers that make an annual visit to the city to honour the Britons killed in the September 11 terrorist attacks.

In New Zealand, Stagecoach 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.

Supporting the community. Working with the community. Part of the community. That is the cornerstone of our business philosophy and the key to building positive relationships with our stakeholders.

Building a sustainable environment

Stagecoach has made good progress this year in improving the environmental management and sustainability of its operations. Public transport has a key role to play in reducing pollution levels, alleviating road congestion and improving the quality of life in our towns and cities. However, we are also working hard to ensure our own day-to-day transport operations are carried out in a responsible manner.

Stagecoach worked with consultants, Arthur D. Little, to update and improve our Group Environmental Policy two years ago. That policy sets out our commitment to good environmental stewardship and we have put in place stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling.

The Group has put in place a number of internal measures to minimise the impact of our operations on the environment. We have also improved the processes designed to track environmental data, which has produced more accurate information from which to analyse performance. Details of our performance, compiled by Arthur D. Little, can be found on the Stagecoach Website at <http://www.stagecoachgroup.com>

We have achieved a significant improvement in the direct emissions per passenger journey from our bus and train fleets. There has been a reduction across all measures, with some decreasing by more than 25%. This has been achieved through the introduction of newer vehicles and rolling stock, which meet the latest stringent environmental standards. We are also looking at new fuels and cleaner technologies to improve our performance, as well as providing further training for our drivers.

Following a 12-month trial, we are now rolling out the use of the Envirox fuel additive across our UK Bus division. In tests on 1,000 vehicles, the product has delivered a 5% fuel efficiency saving and associated reductions in emissions. We have also launched a biodiesel trial in a number of our buses in New Zealand.

Stagecoach has showcased a futuristic hybrid electric bus across the UK to encourage local authorities to introduce the environmentally-friendly vehicle in their areas. The state-of-the-art vehicle, which has been successfully operated by Stagecoach in Auckland, New Zealand, has the advantage of being able to run emission-free in densely populated areas and the battery-powered technology means it is extremely quiet on the road. Stagecoach has already won a local authority contract to run the vehicles on a new route on the Quayside in Newcastle and the service is now in operation.

Water consumption in our bus and train operations has reduced per passenger journey by over 10%, assisted by the introduction of upgraded wash facilities, better bus wash management and initiatives to identify and repair water system leaks. In North America, for example, we have introduced new water recycling units at two of our main facilities in New York and New Jersey, which have the potential to reduce water usage by 70%.

The Group has continued to make progress in controlling the production of vehicle maintenance and other waste in its UK and overseas operations, while there has been a significant increase in recycling of waste from our bus operations in particular, rising from 20.4% in the 12 months to 30 April 2004 to 31.9% the following year.

While we have achieved a further improvement in some measures of indirect emissions from our bus and train operations, we note that there has been an increase in CO₂ produced by our bus and train depots and offices, as well as our train operations. The main reason for the increase has been the step-change we have delivered in the working environment for our people and the rail travelling environment for our customers. While we have installed new energy efficient heating systems and low energy lighting at several bus depots in the UK, many depot refurbishments have included extra internal and external lighting for a better and more secure working environment. There has also been an increase in the use of electronic communication. Overseas, two additional depots have been included in the collection of data in New Zealand. Moving forward, a number of our UK Bus sites are to be fitted with a smart energy metering system to help identify savings opportunities and benchmark performance as part of a major Carbon Trust pilot project.

At South West Trains, the new Desiro trains have provided a major uplift in travel comfort with improved air-conditioning, on-board information systems and better safety features. These improvements are helping to generate modal shift from car to public transport, which has a positive impact on the environment. However, the rolling stock is heavier and, combined with the improved acceleration, this means there is a greater draw on the electricity supply. Controlled Emission Toilet-emptying facilities and upgraded tanking facilities at a number of locations have resulted in increased water and electricity usage. Station improvement projects have involved additional air conditioning systems, better exterior

and platform lighting and new customer information systems. While these have been designed using energy efficient systems and have significantly improved passenger satisfaction, there has been an impact on electricity, gas and water consumption.

In line with the targets set out in our Environmental Policy document, we have taken further steps to improve our environmental management across our global operations. We have improved the quality and accuracy of the data, as well as the calculation methodology. Emissions in our UK Bus division have been calculated based on the proportions of different types of bus in service pre-Euro, Euro I, Euro II and Euro III providing significantly more accurate calculations. In New Zealand, we have developed and implemented a new method of monitoring water use, which has identified bus washes for future water usage reduction programmes. Waste monitoring has improved at our Supertram operations, which is also now tracking general waste data. There has also been improved waste calculations at South West Trains and Island Line as a result of using more specific factors from the Department for the Environment, Food and Rural Affairs ("DEFRA") and SITA to estimate weight to volume ratios of general waste.

We have continued to provide support and training for our employees to ensure compliance with legislation, effective waste management, improved energy consumption and better environmental performance. Our UK Bus division, for example, has run a comprehensive environmental training programme for around 200 managers over the past two years. The division is also working with the road safety charity BRAKE and other companies to benchmark and share good practice in safe driving and driving methods which increase fuel efficiency. During 2005-06, following the evaluation of measures undertaken in our Manchester depots, we are running an electrical energy reduction campaign across the UK Bus division. We have appointed specialist company Inenco to manage our gas and electricity purchasing in the UK Bus division. Inenco will be making recommendations on a utility purchasing policy, expected to include alternative energy sources, and measures to reduce energy consumption. South West Trains has undertaken a review of its environmental management system to ensure it continues to comply with legislation.

Major employers are working with us to develop travel plans that reduce dependence on the car to get to work. Stagecoach's work to promote bus use among businesses in Exeter – including the Met Office and the Royal Devon & Exeter Hospital – has been identified as an example of best practice within the industry.

Despite the improvements and investment we have made in the area of environmental sustainability over the past year, we recognise more work has still to be done. But we remain committed to building on the progress we have made and exceeding the stretching targets we have set our business.



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. He is currently a non-executive director of Victoria Mortgage Funding Ltd and Chairman of the Miller Group Ltd. He is a former Group Finance Director of The Royal Bank of Scotland plc. Robert Speirs is a member of the Nomination Committee. Aged 68.

2 Brian Souter, Chief Executive

The co-founder of Stagecoach, Brian Souter is the 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. He was named Businessman of the Year at the Insider Elite Awards 2004 and is a Chartered Accountant. Brian Souter is a member of the Nomination Committee. Aged 51.

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 and supports the Group Chief Executive in all aspects of new business development across the Group. He won the Young Scottish Finance Director of the Year Award in 2004 and is a Chartered Accountant. Aged 39.

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 and is a member of the Health, Safety and Environmental Committee. Graham Eccles is co-chairman of Virgin Rail Group Holdings. Aged 58.

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 and is a member of the Audit Committee. 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 Tie Ltd. Aged 63.

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 and is also a member of the Audit Committee and Health, Safety and Environmental Committee. 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, LucasVaryity plc, ITT Corporation and Hughes Aircraft. Aged 58.

7 Ann Gloag OBE, Non-Executive Director

Ann Gloag co-founded Stagecoach in 1980 and served as an executive director until May 2000. She became a member of the Health, Safety and Environmental Committee in June 2005. 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 62.

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 and is a member of the Audit and Remuneration Committees. She is also Chairman of the Nuclear Liabilities Fund and is a non-executive director of BPB plc and other companies. She was a non-executive director of Cable & Wireless until 23 July 2004. Dr Morgan is a Fellow of the Royal Society of Edinburgh, a Trustee of the Carnegie Trust for the Universities of Scotland and a Trustee of the National Library of Scotland. She was a member of the Central Policy Review Staff of the Cabinet Office. Aged 59.

9 Russell Walls, Non-Executive Director

Appointed as a non-executive director in June 2000, Russell Walls is the Chairman of the Audit Committee and is a member of the Remuneration Committee. He 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 61.

Key to photograph

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Summary directors' report

Important note

The summary financial statement is a summary of the information in the 2005 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 2005 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 4 to 9.

Directors

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

Brian Souter and Iain Duffin retire by rotation at the 2005 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. Ewan Brown is considered to be an independent non-executive director by the Board. However, in recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown offers himself for annual re-election. Robert Speirs, Chairman, and Ann Gloag, who is a Non-Executive Director but is not independent, also offer themselves for annual re-election.

Report of the auditors

The auditors' report on the full accounts for the year ended 30 April 2005 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 Stagecoach Board is accountable to shareholders and others for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group. In July 2003, a revised Combined Code ("the Combined Code") was issued for financial years commencing on or after 1 November 2003.

The Directors believe that the Group currently complies with all of the recommendations contained in the Combined Code, other than that one of the Non-Executive Directors regarded as independent by the Board does not satisfy all of the criteria suggested by the Combined Code for determining Directors' independence.

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 2005 Annual Report and Accounts. As stated on page 11, the full 2005 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 5 years to 30 April 2005 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 2005.

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

The Remuneration Policy is consistent with our prior year policy, which was approved by the shareholders at the 2004 Annual General Meeting. However, the Committee has, with the assistance of the Group's advisers, KPMG LLP (UK), been reviewing the structure of remuneration for Executive Directors and senior management. Proposals will be submitted to shareholders at the 2005 Annual General Meeting to make changes to the various elements of remuneration in the context of the overall objectives of the Remuneration Policy. The Remuneration Committee follows Schedule A of the Combined Code in designing performance-related remuneration schemes.

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages

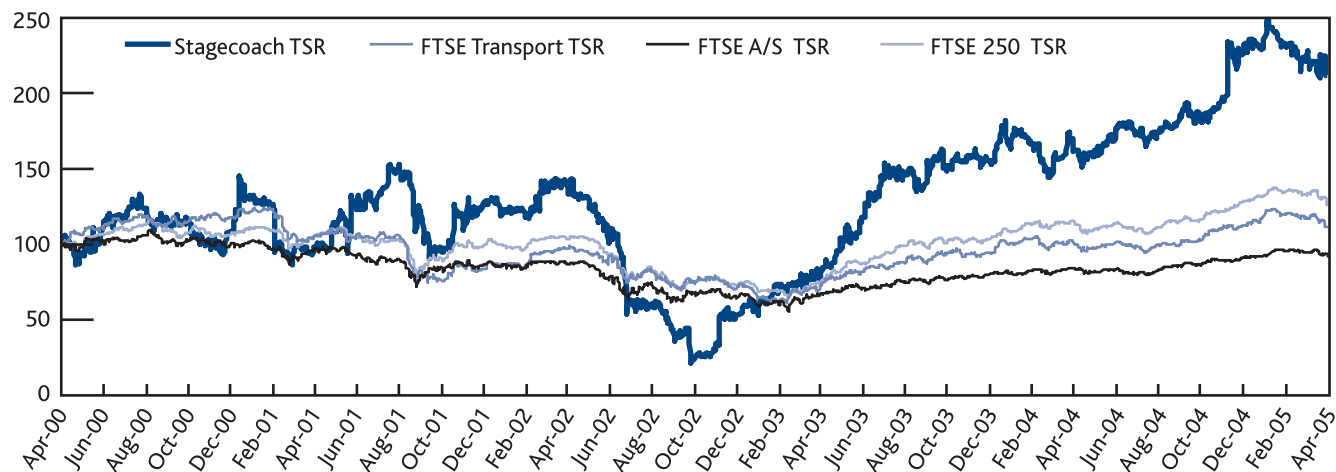
of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving the Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance-related elements and that these performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders. 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 traditional financial indicators and 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 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 prospects for the 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.

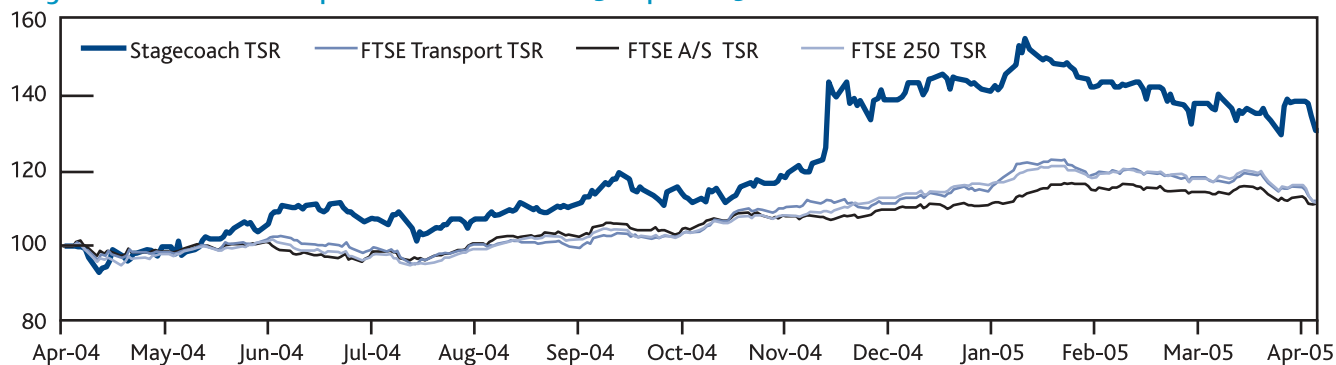
The Committee has taken advice during the financial year from a firm of independent executive remuneration consultants, Inbucon Consulting. Also, KPMG LLP (UK) provided guidance on the implementation of the proposed changes to the remuneration arrangements. Inbucon has no other relationship with the Group. KPMG LLP (UK) has from time to time provided other consultancy services to the Group and is the auditor of the Stagecoach Group Pension Scheme ("SGPS").

Shareholders are invited to specifically approve all new long-term remuneration plans (whether share-settled or cash-settled plans) and any significant changes to existing plans, except where otherwise permitted by the Listing Rules.

Stagecoach TSR Comparative Performance since 30 April 2000



Stagecoach 1 Year TSR Comparative Performance to 30 April 2005



Summary remuneration report

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

TABLE 1	Salary/fees		Performance related bonus		Benefits in kind		Non-pensionable allowances*		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Executive Directors										
Brian Souter	484	470	339	329	17	18	n/a	n/a	840	817
Graham Eccles	261	250	183	175	24	21	46	44	514	490
Martin Griffiths	220	205	154	143	20	20	33	29	427	397
Non-Executive Directors										
Ewan Brown	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Ann Gloag	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Robert Speirs	90	90	Nil	Nil	Nil	Nil	n/a	n/a	90	90
Russell Walls	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Janet Morgan	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Iain Duffin	32	30	Nil	Nil	Nil	Nil	n/a	n/a	32	30
Total	1,215	1,165	676	647	61	59	79	73	2,031	1,944

*Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits.

Gains made by directors on share options were as follows in Table 2 (amounts in £000)

TABLE 2	2005	2004
Graham Eccles	245	Nil
Martin Griffiths	315	Nil
Total gains on share options before transaction costs and taxes	560	Nil

Directors' pension benefits (audited) were as follows in Table 3 (amounts in £000)

TABLE 3	Additional accrued benefits in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less Directors' contributions
	Excluding inflation	Including inflation	2005	2004	2005	2004	2005	2004	
Executive Directors									
Brian Souter	47	66	244	226	439	391	146	127	116
Graham Eccles	10	14	21	18	64	53	33	29	33
Martin Griffiths	11	13	26	23	78	68	12	10	12

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 the greatest responsibility for delivering corporate strategy that 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 scheme.

Table 2 shows gains made by individual Directors from the exercise of share options during the year. The gains are calculated as at exercise date, although the shares may have been retained.

Graham Eccles and Martin Griffiths were not members of the Group pension schemes before the introduction of the pensionable salary cap in June 1989. They are each paid a non-pensionable allowance, which is equivalent to the cost of a money purchase contribution of 20% of their salary in excess of the pensionable salary cap.

During the year ended 30 April 2002, the remaining proceeds of a small self-administered money purchase scheme ("SSAS") established for Brian Souter and Ann Gloag in 1992 were transferred into the Stagecoach Group Pension Scheme to secure additional final salary type benefits equivalent in actuarial value to the proceeds transferred. The additional benefits are reflected in the disclosure of Brian Souter's accrued benefits above. In Ann Gloag's case, her share of the SSAS assets was used to secure additional money purchase benefits equivalent in actuarial value to the proceeds transferred. This provided her with an initial annual pension of £90,000, reduced to £81,000 from 1 March 2004. Employer contributions to the SSAS ceased in 2000 for Ann Gloag and in 2001 for Brian Souter.

Directors who are members of the Stagecoach Group Pension Scheme have the option to pay additional voluntary contributions ("AVCs"). Neither the contributions nor the resulting benefits of any AVCs are included in Table 3 above.

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 2005 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

22 June 2005

Registered office and advisers

Company Secretary

Ross Paterson

Registered Office

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Perth PH1 5TW
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Facsimile +44 (0) 1738 643 648
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Company number

SC 100764

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PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone +44 (0) 870 601 5366

Merchant Bankers

Noble Grossart Limited
48 Queen Street
Edinburgh EH2 3NH

Auditors

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Kintyre House
209 West George Street
Glasgow G2 2LW

Stockbrokers

Credit Suisse
1 Cabot Square
London E14 4QJ

Principal Bankers

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh EH3 9BN

Solicitors

Shepherd & Wedderburn, WS
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ET

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Summary consolidated profit and loss account

Year ended 30 April 2005

	2005			2004		
	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	1,794.7	Nil	1,794.7	1,792.3	Nil	1,792.3
Less: Share of joint ventures' turnover	(315.2)	Nil	(315.2)	(290.3)	Nil	(290.3)
Group turnover	1,479.5	Nil	1,479.5	1,502.0	Nil	1,502.0
Represented by:						
Continuing Group operations	1,472.4	Nil	1,472.4	1,352.7	Nil	1,352.7
Discontinued operations	7.1	Nil	7.1	149.3	Nil	149.3
Operating costs	(1,509.0)	(8.1)	(1,517.1)	(1,501.3)	(8.8)	(1,510.1)
Other operating income	173.9	(0.6)	173.3	129.1	Nil	129.1
Operating profit of Group companies	144.4	(8.7)	135.7	129.8	(8.8)	121.0
Share of operating (loss)/profit of joint ventures	12.7	(14.9)	(2.2)	10.7	(8.7)	2.0
Share of operating (loss)/profit from interest in associates	(0.4)	(0.3)	(0.7)	7.0	(0.3)	6.7
Total operating profit:						
Group and share of joint ventures and associates	156.7	(23.9)	132.8	147.5	(17.8)	129.7
Represented by:						
Continuing Group operations	144.4	(8.7)	135.7	128.8	(7.8)	121.0
Continuing joint ventures and associates	12.3	(15.2)	(2.9)	13.1	(9.0)	4.1
Discontinued Group operations	Nil	Nil	Nil	1.0	(1.0)	Nil
Discontinued joint ventures and associates	Nil	Nil	Nil	4.6	Nil	4.6
Total operating profit:						
Group and share of joint ventures and associates	156.7	(23.9)	132.8	147.5	(17.8)	129.7
Profit on sale of properties	Nil	1.3	1.3	Nil	0.5	0.5
Loss on disposal of operations	Nil	(5.9)	(5.9)	Nil	(7.1)	(7.1)
Profit on ordinary activities before interest and taxation	156.7	(28.5)	128.2	147.5	(24.4)	123.1
Finance charges (net)	(19.9)	Nil	(19.9)	(27.3)	Nil	(27.3)
Profit on ordinary activities before taxation	136.8	(28.5)	108.3	120.2	(24.4)	95.8
Taxation on profit on ordinary activities	(32.2)	2.7	(29.5)	(32.3)	41.1	8.8
Profit on ordinary activities after taxation	104.6	(25.8)	78.8	87.9	16.7	104.6
Equity dividends	(35.1)	Nil	(35.1)	(38.4)	Nil	(38.4)
Non-equity dividends	(0.4)	Nil	(0.4)	Nil	Nil	Nil
Retained profit for the year	69.1	(25.8)	43.3	49.5	16.7	66.2
Earnings per share – Adjusted/Basic	9.0p		6.8p	6.7p		7.9p
– Diluted	8.8p		6.6p	6.5p		7.8p

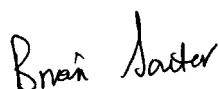
Summary consolidated balance sheet

As at 30 April 2005

	2005	2004
	£m	£m
Fixed assets	803.3	831.7
Current assets	375.3	717.1
Creditors: Amounts falling due within one year	(541.8)	(674.6)
Net current (liabilities)/assets	(166.5)	42.5
Total assets less current liabilities	636.8	874.2
Creditors: Amounts falling due after more than one year	(236.2)	(292.2)
Provisions for liabilities and charges	(181.6)	(192.0)
Net assets	219.0	390.0
Capital and reserves		
Equity share capital	6.8	6.7
Redeemable 'B' preference shares	13.9	Nil
Share premium account	163.4	392.4
Profit and loss account	(187.4)*	(6.9)
Capital redemption reserve	229.1	1.7
Own shares	(6.8)	(3.9)
Shareholders' funds	219.0	390.0
Analysis of shareholders' funds		
Equity	205.1	390.0
Non-equity	13.9	Nil
	219.0	390.0

*The profit and loss reserve deficit of £187.4m (2004: £6.9m) is the consolidated position after taking account of cumulative goodwill of £113.8m (2004: £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 2005 were £281.6m (2004: £374.6m).

Signed on behalf of the Board on 22 June 2005



BRIAN SOUTER
Chief Executive



MARTIN A GRIFFITHS
Finance Director

Summary consolidated cash flow statement

Year ended 30 April 2005

	2005	2004
	£m	£m
Net cash inflow from operating activities	198.5	214.3
Dividends from joint ventures and associates	23.5	4.1
Returns on investments and servicing of finance	(21.3)	0.5
Taxation	(27.1)	(9.4)
Capital expenditure and financial investment	(66.7)	(51.8)
Acquisitions and disposals	15.9	316.9
Equity dividends paid	(37.2)	(35.6)
Net cash inflow before financing	85.6	439.0
Financing	(418.2)	(91.6)
(Decrease)/increase in cash during the year	(332.6)	347.4
Free cash flow	173.6	209.5
Free cash flow per share	15.0p	15.9p

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

Shareholder information

Analysis of shareholders as at 30 April 2005

Range of holdings	No. of holders	%	Ordinary shares held	%
1 – 25,000	60,984	98.61	82,082,721	7.67
25,001 – 250,000	586	0.95	42,625,619	3.99
250,001 – 500,000	74	0.12	26,844,224	2.51
500,001 – 3,750,000	152	0.24	213,096,926	19.92
Over 3,750,000	48	0.08	704,895,737	65.91
	61,844	100.00	1,069,545,227	100.00

Classification of shareholders	No. of holders	%	Ordinary shares held	%
Individuals	59,865	96.80	322,679,328	30.17
Other corporate bodies	62	0.10	3,005,241	0.28
Banks and Nominees	1,723	2.79	678,097,604	63.40
Insurance and assurance companies	2	0.00	3,014,757	0.28
Limited companies	185	0.30	62,705,690	5.86
Pension funds	7	0.01	42,607	0.01
	61,844	100.00	1,069,545,227	100.00

Registrar

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), 81 George Street, Edinburgh EH2 3ES. 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 0.5% 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, 81 George Street, Edinburgh EH2 3ES.

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

Financial Calendar

Annual General Meeting
26 August 2005

Interim Report
December 2005

Payment Date – Ordinary shares
Final Dividend
5 October 2005

Interim Dividend
March 2006



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