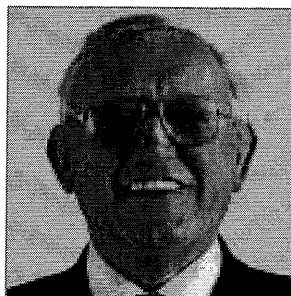


Chairman's statement



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 Finance Director's Review on pages 13 to 16.

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

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

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

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

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

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

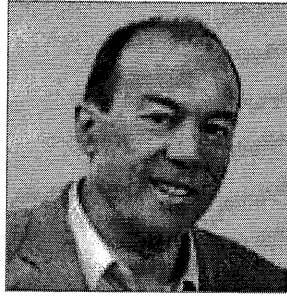
I am delighted that the loyalty of our investors has been rewarded with a year of significant progress across the Group. Our excellent performance is also the result of a committed contribution from our employees across the whole Group. Looking ahead, I believe there are good prospects for further growth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

A handwritten signature in black ink, appearing to read 'Robert Speirs', written in a cursive style.

Robert Speirs
Chairman

*References to the operating profit of a particular division in the Chairman's statement, Chief Executive's review and Operating review refer to operating profit before restructuring costs, goodwill amortisation and exceptional items. Further details of the divisional split of operating profit can be found in note 2(b) to the accounts.

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.

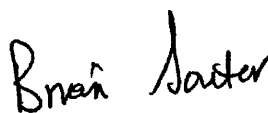
The past year has seen the completion of a major restructuring of our operations in North America. We now have an established core of more robust businesses, centred on our North East and North Central regions of the United States, and Canada. As promised a year ago, the operating profit of our North 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
Chief Executive

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.



Operating review

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.

We are certainly not perfect, but we are continually striving to improve our impact on society and the environment, from greater efficiency in our operations to building trust with our stakeholders in the wider community.

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.

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. Our people-centred approach was recognised by experts in the field when Beverley Shears, South West Trains' Human Resources Director, was awarded "HR Director of the Year" in the Personnel Today Awards.

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 have also worked closely with government-funded enterprise agencies to get the long-term unemployed back into work, because many have vital skills that are being overlooked.

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. In the United States, for example, we are working with the Federal Government to take part in multi-session anti-terrorism workshops that all employees are required to complete. Senior management in our North East division have contributed to a task force, organised by New Jersey Transit, to put in place contingency plans to deal with terrorist attacks, power outages, and other major disruptions.

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. In the United States in New Jersey, for example, we provide small grants and emergency transportation to municipal fire and rescue squads, many of whom operate on a volunteer basis.

Stagecoach New Zealand is a long-standing supporter of the Starship Foundation, which helps the country's leading specialist paediatric hospital.