

23 June 2004

PROPOSED RETURN OF CAPITAL OF APPROXIMATELY £250 MILLION TO SHAREHOLDERS BY WAY OF REDEEMABLE "B" SHARES

Highlights

- Proposed Return of Capital of approximately £250 million to shareholders
- Return equivalent to 18 pence per Ordinary Share
- Return to be effected by the issue of redeemable "B" Shares
- Existing Ordinary Shares to be consolidated into Consolidated Ordinary Shares
- For every 24 Ordinary Shares held at 5.00 p.m. on 10 September 2004, Shareholders will receive 19 Consolidated Ordinary Shares and 24 B Shares
- Shareholders can have their B Shares redeemed for 18 pence each in cash on 22 September 2004. Alternatively they can retain all or some of their B Shares and receive a non-cumulative dividend equal to 70 per cent of 6 months' LIBOR, payable twice-yearly in arrears, until such shares are redeemed
- Return is conditional upon the approval of Shareholders, which will be sought at the AGM on 27 August 2004
- Return will create a more efficient capital structure whilst retaining sufficient financial flexibility to take advantage of future investment opportunities.

Background to the Proposals

Following a period of expansion by acquisition, a significant part of which was financed by the issue of new equity capital, Stagecoach has undergone significant restructuring over the past two years. The disposals of Citybus, the investment in Road King and large parts of Coach USA, have been completed. This has allowed management to focus on developing the UK bus and rail businesses, a smaller and more robust North American business, and the Group's New Zealand operations.

Stagecoach is now focused on a strong portfolio of cash generative businesses. The Group's strategy is now firmly directed towards delivering organic growth in revenues and profits from its existing businesses.

As the business activities of the Group have been reshaped, borrowings have reduced significantly. Net debt at 30 April 2004 was £67.6 million having fallen by £492.4 million over the previous year from £560.0 million as at 30 April 2003. This reduction in net debt has led the Board to review the efficiency of the Group's capital structure. As a result of this review, the Board has concluded that Stagecoach should return approximately £250 million to Shareholders. The aim of the proposed Return of Capital is to establish a more appropriate and efficient capital structure for the Group following the restructuring of its activities and thereby reduce its overall cost of capital. In reaching its decision that this was the right amount of capital to return to Shareholders, the Board has taken full account of the Group's development plans, access to funding and the Board's desire to maintain the Group's investment grade credit rating.

The proposed Return of Capital, equivalent to 18 pence per Ordinary Share is in addition to the final dividend proposed by the Board in respect of the year ended 30 April 2004, of 2.0 pence per Ordinary Share.

The Return of Capital will be achieved through the issue of redeemable "B" shares and is conditional, inter alia, on obtaining Shareholder approval at the AGM on 27 August 2004. A circular setting out details of the Proposals, together with notice for the AGM, will be sent to Shareholders in July 2004.

Choice of mechanism

The Board is proposing to effect the Return of Capital to Shareholders by means of an issue of redeemable shares called B Shares. The Board believes that this method provides a number of benefits:

- all Shareholders are treated equally, pro rata to the size of their existing shareholdings in Stagecoach;
- the relative proportions of equity held by Shareholders will not change as a result of the issue of the B Shares;
- the Return of Capital can be implemented in an orderly and timely manner with a lower risk of market distortions than alternative methods;
- Shareholders will be able to redeem the B Shares for cash without incurring commission or dealing charges.

Shareholders who wish to redeem the B Shares shortly after they are issued may do so. Alternatively, Shareholders may hold the B Shares until a later date if that suits their own tax position and/or individual preferences.

Terms of the Return of Capital

Under the terms of the proposals, Shareholders will receive:

For every 24 Ordinary Shares held on the Record Date (expected to be 10 September 2004):
24 B Shares and 19 Consolidated Ordinary Shares.

The Return of Capital is conditional upon the approval of Shareholders of the special resolution to be proposed at the Annual General Meeting. Shareholders will receive one B Share for each Ordinary Share held. The B Shares, which will be paid up out of the Company's share premium account, will have a nominal value of 18 pence each and the total nominal value of the B Shares issued will be approximately £250 million. The precise total nominal value of the B Shares issued will depend on the number of Ordinary Shares in issue on the Record Date, which is proposed to be 10 September 2004.

Fractional entitlements to Consolidated Ordinary Shares will be rounded down to the nearest whole Consolidated Ordinary Share. Any fractional entitlements so arising will be aggregated and sold in the market for the benefit of Stagecoach.

Shareholders will have the following choices in respect of the B Shares:

Choice 1: Immediate 18 pence Redemption

Under this choice, B Shares will be redeemed for 18 pence per B Share on or around 22 September 2004.

Choice 2: Deferred 18 pence Redemption

Shareholders who elect to retain all or some of their B Shares will not receive their cash in respect of any retained B Shares until a later date. A non-cumulative preferential dividend at a rate per annum equal to 70 per cent of six months' LIBOR will be paid twice yearly in arrears on 31 March and 30 September on the nominal amount of 18 pence per B Share retained until the B Shares are redeemed. LIBOR is the variable interest rate at which banks in London lend to each other and may change. The LIBOR rate will be taken at the start of the period to which the dividend relates. The first dividend will be paid on 31 March 2005 in respect of the period from the date of issue of the B Shares to 31 March 2005. The applicable LIBOR rate on 22 June 2004 was 5.0450% and 70% thereof is 3.5315%.

Shareholders will have the opportunity to have all (but not some only) of the retained B Shares redeemed by Stagecoach on 31 March and 30 September each year at 18 pence per B Share. The first opportunity to have the B Shares redeemed will be 31 March 2005.

Stagecoach may redeem at 18 pence per B share all of the B shares remaining in issue at any time after 30 September 2009, or at any time (not before 30 September 2005) after the total number of B Shares remaining in issue becomes less than 30 per cent of the total number of B Shares issued.

The B Shares will not be listed on the Official List and will not be admitted to trading on the London Stock Exchange. Although transferable, in the absence of a formal market for the B Shares, Shareholders' ability to sell the B Shares is likely to be limited.

Following the issue of the B Shares, every 24 Ordinary Shares will be consolidated into 19 Consolidated Ordinary Shares, which will have in all material respects the same rights as the Ordinary Shares. The consolidation is intended to:

- Ensure that the share price for Ordinary Shares is not directly impacted by the Return of Capital;

- Maintain the comparability of future earnings per share amounts with previously reported earnings per share amounts;
- Maintain the comparability of future dividend per share amounts with previously reported dividend per share amounts; and
- Maintain the intrinsic value of share options that have been previously granted.

Financial impact of the Return of Capital

On a pro forma basis, the consolidated net assets of Stagecoach Group plc will reduce by the amount of the Return of Capital.

The redemption of B Shares will be made out of the distributable reserves of Stagecoach Group plc, which were £378.5 million as at 30 April 2004. Distributable reserves will be reduced by approximately £250.0 million (excluding the costs associated with the Return of Capital) as a result of the issue and subsequent redemption of the B Shares.

Share options

Due to the nature and mechanics of the proposed Return of Capital, no adjustment is required to the number of shares over which participants in the Stagecoach Executive Share Option Scheme and the Save as You Earn ("SAYE") scheme have share options, nor to the amount payable on the exercise of such share options.

Participants in the option schemes do not participate in the Return of Capital. The proposed Consolidation is designed to ensure that the economic value of each Consolidated Ordinary Share is, as far as possible, the same as each Ordinary Share.

Dividend policy

It is not envisaged that the Return of Capital will affect the future level of dividends per share. The Board intends to continue to pursue a progressive dividend policy.

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APPENDIX 1

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Last time for receipt of Forms of Proxy for the AGM	12.00 noon on 25 August 2004
Voting Record Time for the AGM	6.00 p.m. on 25 August 2004
AGM	12.00 noon on 27 August 2004
Ex dividend date	8 September 2004
Last date for dealings in Ordinary Shares	10 September 2004
B Share Issue Record Time	5.00 p.m. on 10 September 2004
Consolidation Record Time	6.00 p.m. on 10 September 2004
Dealings commence in Consolidated Ordinary Shares	8.00 a.m. on 13 September 2004
CREST accounts credited with Consolidated Ordinary Shares and B Shares	13 September 2004
Last date for elections to redeem or retain B Shares	15 September 2004
Despatch of cheques and CREST accounts credited in respect of the Immediate 18 pence Redemption of B shares	By 22 September 2004
Despatch of share certificates in respect of B Shares for those electing for Deferred 18 pence Redemption	By 22 September 2004
Despatch of share certificates in respect of Consolidated Ordinary Shares	By 22 September 2004

All references to time in this document are to UK time unless otherwise stated.

The dates and times given in this document are based on Stagecoach's current expectation and may be subject to change.