

Directors' report

Principal activity and business review

The Group's principal activity is the provision of public transport services.

A review of the Group's activities and developments during the year, together with future prospects, is set out in the Chairman's Statement on pages 2 and 3, the Chief Executive's Review on pages 4 to 8, the Operating Review on pages 16 to 33 and in the Finance Director's Review on pages 36 to 42.

Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 54.

An interim dividend of 1.3 pence per ordinary share (net) was paid on 14 March 2001. The directors recommend a final dividend of 2.5 pence per ordinary share making a total dividend of 3.8 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 10 October 2001 to those ordinary shareholders on the register at 7 September 2001.

Directors and their interests

The names, responsibilities and biographical details of the current directors appear on pages 34 and 35.

Russell Walls was appointed a director on 30 June 2000 and his election was approved by shareholders at the 2000 Annual General Meeting.

Graham Eccles and Janet Morgan were appointed directors on 11 September 2000 and 27 April 2001 respectively and offer themselves for election at the next Annual General Meeting.

Graham Eccles has a service contract with a rolling 12 months' notice period. Janet Morgan does not have a service contract.

Barry Sealey has announced his intention to retire as a director and will not seek re-election at the 2001 Annual General Meeting.

Frank Gallagher has also announced his intention to retire as a director and will not seek re-election at the 2001 Annual General Meeting.

Barry Hinkley resigned as a director on 25 July 2000.

Robert Speirs and Brian Cox retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election. Robert Speirs does not have a service contract. Brian Cox has a service contract with a rolling 24 months' notice period. Table A set out on page 44 gives the interests of the directors and their families in the share capital of the company.

Substantial shareholdings

On 31 May 2001 (being the latest practical date prior to the date of this report), the only disclosable shareholdings in excess of 3% (other than certain directors' shareholdings) were as follows:

Franklin Templeton Investments	9.96%
Standard Life Assurance Co	3.66%
Marathon Asset Management	3.96%
Baillie Gifford & Co	3.97%

Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and to maintain and, where possible, improve operational performance. The Group is also committed to providing equality of opportunity to current employees and potential employees. This applies to appropriate training, career development and promotion opportunities for all employees regardless of physical disability, gender, religion or ethnic origin. The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's profit sharing schemes and are encouraged to invest through participation in share option schemes. An Inland Revenue approved Employee Share Ownership Plan ("non-statutory ESOP") was introduced for UK employees in 1991 and a similar plan was introduced in 2000 for New Zealand employees. The Group has since 1994 allocated up to 3% of relevant profits to allot free shares to the majority of UK employees under approved profit share schemes. Employee trusts under approved ESOP share schemes held 15,418,001 ordinary shares, representing 1.17% of the issued share capital at 30 April 2001. Since flotation in 1993, there have also been two invitations to UK employees to subscribe to the Group's sharesave ("SAYE") schemes, both of which have met with encouraging levels of response.

The Group also established a European Works Council in 1998, bringing together representatives from senior management and trade unions in European Community member states where the Group has significant business interests and numbers of employees. In 2000, a similar Works Council was established in New Zealand.

The Group also produces a range of internal newsletters and information circulars which keep employees abreast of developments. Employees are encouraged to discuss matters of interest to them and subjects affecting day to day operations of the Group with management. Discussions also take place regularly with the trade unions representing the vast majority of the Group's employees on a wide range of issues.

TABLE A

		Number of shares	
		30 April and 20 June	30 April and 14 June
		2001	2000
Ordinary shares of 0.5p each			
Brian Souter	beneficial	160,341,225	163,341,225
	non-beneficial	22,415,840	19,415,840
Keith Cochrane		35,160	33,178
Brian Cox		688,490	688,390
Graham Eccles		15,569	14,585
Frank Gallagher		780,500	780,500
Martin Griffiths		7,635	7,535
Ewan Brown		Nil	Nil
Ann Gloag	beneficial	125,653,161	131,640,818
	non-beneficial	20,903,190	20,903,190
Janet Morgan		Nil	Nil
Barry Sealey		252,115	252,115
Robert Speirs		18,240	18,240
Russell Walls		6,000	4,000
		Number of shares	
		30 April	30 April
		2001	2000
Share options held by Directors			
Brian Souter		2,685	2,601
Keith Cochrane		3,197,525	1,487,084
Brian Cox		1,282,074	1,086,889
Graham Eccles		317,920	98,725
Frank Gallagher		1,278,976	78,050
Martin Griffiths		451,482	68,478
Ewan Brown		Nil	Nil
Ann Gloag		14,707	14,246
Janet Morgan		Nil	Nil
Barry Sealey		Nil	Nil
Robert Speirs		Nil	Nil
Russell Walls		Nil	Nil

Full details of options held as at 30 April 2001 are contained in Note 7b to the accounts.

No director had a material interest in the loan stock or in the share capital of any subsidiary company.

The Group supports continuous learning and continuous improvement. The Group promotes the "open learning" concept and has established a number of open learning centres to facilitate its employees' development.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the Group, and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group, and enable them to ensure that the accounts comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Arthur Andersen as auditors of the company, at remuneration to be fixed by the directors, will be proposed at the Annual General meeting.

Supplier payment policy and practice

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the accounts of those companies. As the company is a holding company, trade creditor days is not a relevant figure. For the Group as a whole, the trade creditors outstanding at the year end represented 34 days' purchases (2000 – 36 days).

Close company status

The directors are advised that at 30 April 2001 the Company was not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Charitable and political contributions

Group companies made charitable commitments of £0.7 million (2000 – £1.3 million) during the year. This is in line with the Group's policy of setting aside approximately 0.5% of budgeted pre-tax profits for charitable purposes.

It is the Group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year.

Authority for company to purchase its own shares

The Company has repurchased 91,077,021 ordinary shares of 0.5p each during the year under authorities granted by its shareholders under section 166 of the Companies Act 1985. This represents 6.5% of the shares in issue at the beginning of the financial year. The shares were repurchased at an average price of 68.1 pence per share. The total consideration in respect of the shares repurchased during the year was £62.0 million. All of the shares that were repurchased were immediately cancelled.

The Company considers that these purchases were beneficial to shareholders as they will result in an increase in earnings per share. Under the existing authority, the company may repurchase up to a further 92,193,021 shares. A resolution will be placed at the next Annual General Meeting that the company be authorised to repurchase up to 10% of its ordinary shares of 0.5p each, and this will replace the existing authority.

Change of name

The directors propose the Company name be changed from Stagecoach Holdings plc to Stagecoach Group plc. The proposal will be put to shareholders at the 2001 Annual General Meeting.

Electronic communication with shareholders

As a result of recent changes to legislation, the Company is proposing to update its articles of association to allow electronic communication with shareholders, where shareholders choose this medium of communication with the Company. There are several references to shareholder communications throughout the articles of association and in light of this, it is convenient to adopt new articles of association which will also include other minor amendments. The principal changes between the existing articles and the new articles are set out in the circular to shareholders enclosed with the Annual Report.

Post balance sheet events

The Group announced on 18 June 2001 the disposal of its Portuguese bus operations for a consideration of approximately £11 million plus the repayment of inter-company debt of approximately £3 million. In addition, the purchaser will assume debt in relation to the business of £2.9 million and future bus purchase commitments of £1.8 million. Completion is expected to occur over the next few weeks, and will result in a net gain on disposal of approximately £6 million.

By order of the Board



DEREK SCOTT

Company Secretary

20 June 2001