

Remuneration report

The Board has applied the principles of good corporate governance relating to directors' remuneration as described below:

Composition

During the year, the Remuneration Committee was chaired by Robert Speirs and the other members were Ewan Brown, Russell Walls and Barry Sealey, all non-executive directors. The Committee, which was established in December 1992, is responsible for considering the remuneration and terms and conditions of employment of the executive directors, including the Chairman and the Chief Executive, on behalf of the Board and shareholders.

The non-executives' own fees and expenses are set by the Board of Directors as a whole. Non-executive directors do not hold any share options, nor do they participate in any incentive plans or pension schemes with the exception of Ann Gloag who receives a pension accrued whilst she was an executive director and who also holds SAYE options from that time. The members of the Remuneration Committee have no personal interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Stagecoach Group.

The constitution and operation of the Remuneration Committee comply with the principles incorporated in Schedule A of the Combined Code, with the prior consent of shareholders where necessary. In preparing this Remuneration Report, the Board has followed the provisions in Schedule B of the Combined Code.

Remuneration policy

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 ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance.

The Remuneration Committee believes that such packages should contain significant performance related elements. Performance targets are established to achieve consistency with the interests of

shareholders, with an appropriate balance between short and long-term targets.

To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Chairman, Brian Souter, and the Chief Executive, Keith Cochrane, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry in the UK and overseas. Proposals for the forthcoming year are then discussed in the light of the growth prospects for the Stagecoach Group. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Stagecoach Group and of average earnings for all employees.

The Committee has also taken further advice from a firm of executive remuneration consultants, who were previously instructed to review the existing remuneration of all the directors and senior executives during 1999.

Executive directors' remuneration

A detailed analysis of directors' remuneration appears in Note 7 to the accounts on pages 66 to 68.

Basic salary

The salary of individual executive directors is reviewed at 1 May each year. Account is taken of individual achievements, together with any changes in responsibilities that may have occurred and, as stated above, the salaries for similar roles in comparable companies.

Performance related bonuses

A discretionary bonus scheme for the executive directors was first introduced in 1993, payments being conditional on the achievement of target operating profits, specific performance and additional responsibilities. Bonuses are non-pensionable.

In making its judgement of performance for the last financial year the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, relative total return to shareholders over the period, earnings per share, and the overall profit achieved by the Group, as well as other strategic developments and operating improvements. Bonuses for executive directors ranged from Nil to 20% of basic salary.

Other benefits

Certain executive directors receive car, fuel, telephone and healthcare taxable benefits.

Pensions

Under the terms of their service agreements, executive directors are entitled to become members of one of the Stagecoach Group's contributory defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary into a personal pension scheme. The Stagecoach Group pension schemes are designed to provide a pension for executives of up to two-thirds of final pensionable salary completed up to normal retirement age, subject to Inland Revenue limits.

Share option schemes and long term incentive schemes

The Remuneration Committee has made awards to executive directors under four schemes:

- (i) The Stagecoach Profit Sharing Scheme – established in September 1991, this scheme is used to reward most UK employees in the Group with free shares based on up to 3% per annum of profits before taxation of the relevant parts of the Group. Four of the directors were awarded shares under this scheme in 2000/2001.
- (ii) The Stagecoach Executive Share Option Scheme – established in March 1992 when it was formally approved by the Inland Revenue, this scheme was also used to reward senior executives throughout the Group, at the Board's discretion. Awards have in the past been made to certain executive directors as a proportion of annual salary.
- (iii) The Stagecoach Unapproved Executive Share Option Scheme – established in September 1997, when it was approved by shareholders at the AGM, to take account of the changed tax treatment announced in 1995 and confirmed in the Finance Act 1996. This scheme is also used to reward senior executives throughout the Group, at the Board's discretion. Normal options awarded under the scheme are exercisable between three and seven years, but the scheme also permits "super options" exercisable between five and seven years. Exercise of super options is subject to earnings per share outperforming inflation by more than 5% per annum cumulatively and top quartile total shareholders' return compared to other Transport Sector shares in the

UK (excluding FTSE 100). Four awards were made to directors under this scheme in 2000/2001.

- (iv) The Stagecoach Long Term Bonus Scheme – two directors currently have long term bonus arrangements, details of which are given in note 7 to the financial statements.

Directors' service agreements

With one exception, no executive director's contract provides for a notice period of more than one year. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants that will be rigorously applied. The Remuneration Committee is aware that the term of one of these contracts is two years – this is longer than the one year recommended by Section B of the Best Practice Provisions, but the Committee believes that notice periods of up to two years, are reasonable and in the best interests of the shareholders, having regard to prevailing market conditions and current practice among UK public companies.

If an executive director's contract is terminated by the company, the benefits for which the company is liable may vary depending on length of service and are subject to mitigation. The certain benefits will not be more than a termination payment of up to twice (in the case of one of the directors this is three times) salary and certain benefits and enhanced early retirement benefits funded under the company's pension schemes.

Outside appointments

Under the terms of their service agreements, executive directors require Board approval before accepting any appointment.

On behalf of the Board



ROBERT SPEIRS

Non-executive director

Chairman of the Remuneration Committee

20 June 2001