

## 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 business performance, developments during the year, its position at the year end and likely future prospects, is set out in the Chairman's and Chief Executive's statement on pages 4 to 5, the Operating review on pages 6 to 17, and in the Finance Director's review on pages 18 to 21.

### Change of name

At the Annual General Meeting on 31 August 2001, a resolution was passed by shareholders to change the Company name from Stagecoach Holdings plc to Stagecoach Group plc.

### Group results and dividends

The results for the year are set out in the consolidated profit and loss account on page 34.

An interim dividend of 1.3 pence per ordinary share (net) was paid on 13 March 2002. The directors recommend a final dividend of 1.3 pence per ordinary share making a total dividend of 2.6 pence per share for the year. Subject to approval by shareholders, the final dividend will be paid on 9 October 2002 to those ordinary shareholders on the register at 6 September 2002.

### Directors and their interests

The names, responsibilities and biographical details of the directors appear on pages 22 and 23.

Keith Cochrane resigned as Group Chief Executive on 21 July 2002. The Board have subsequently appointed the Group Chairman, Brian Souter, as Acting Chief Executive, and Robert Speirs, Senior Independent Non-Executive Director, as Acting Non-Executive Chairman.

Iain Duffin was appointed a director on 12 September 2001 and will offer himself for election at the next Annual General Meeting. Barry Sealey and Frank Gallagher retired as directors at the Annual General Meeting on 31 August 2001. Brian Cox retired as a director on 3 July 2002.

Brian Souter and Ewan Brown retire by rotation at the 2002 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election.

Table A set out on page 26 gives the interests of the directors and their families in the share capital of the company:

### Substantial shareholdings

On 17 July 2002 (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	10.16%
Marathon Asset Management	4.35%
Standard Life Assurance Co	3.99%
Merrill Lynch Investment Managers	3.12%
Legal & General Assurance Society Ltd	3.07%

### 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 14,505,250 ordinary shares, representing 1.10% of the issued share capital at 30 April 2002. Since flotation in 1993, there have also been three invitations to UK employees to subscribe to the Group's sharesave ("SAYE") schemes, all of which have met with encouraging levels of response.

The Group periodically arranges meetings that bring together representatives from senior management and trade unions. Discussions take place regularly with the trade unions representing the vast majority of the Group's employees on a wide range of issues. 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.

The Group supports both continuous learning and improvement. The Group promotes learning through external and internal training courses as well as through continuous "on the job" training.

### 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 judgments 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 of 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

On 11 April 2002, Andersen resigned as auditors of the Company. As a result, the directors appointed PricewaterhouseCoopers to fill the casual vacancy. Accordingly, a resolution to confirm PricewaterhouseCoopers as continuing auditors of the Company, at remuneration to be fixed by the directors, will be proposed at the 2002 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 32 days' purchases (2001 – 34 days).

### Fixed assets

In the opinion of the directors, there is no material deficit in the open market value of the Group's interest in land and buildings relative to book value.

## Directors' report

Table A

	Number of shares			Equivalent number of shares		
	30 April 2002	22 July 2002	30 April and 20 June 2001*	30 April 2002	30 April 2001	
Ordinary shares of 0.5p each						
Brian Souter beneficial	167,306,920	167,306,920	160,341,225			
Brian Souter non-beneficial	15,450,145	15,450,145	22,415,840			
Keith Cochrane	40,251	40,251	35,160			
Brian Cox	688,595	688,595	688,490			
Graham Eccles	16,622	16,622	15,569			
Martin Griffiths	7,740	7,740	7,635			
Frank Gallagher	780,500	780,500	780,500			
Ewan Brown	Nil	Nil	Nil			
Ann Gloag beneficial	143,751,787	143,851,787	125,653,161			
Ann Gloag non-beneficial	2,804,564	2,804,564	20,903,190			
Janet Morgan	Nil	Nil	Nil			
Robert Speirs	18,500	18,500	18,240			
Russell Walls	6,000	6,000	6,000			
Iain Duffin	Nil	40,000	Nil			
				Share options held by Directors		
				Brian Souter	Nil	2,685
				Keith Cochrane	3,196,423	3,197,526
				Brian Cox	1,282,074	1,282,074
				Graham Eccles	648,953	317,920
				Martin Griffiths	776,182	451,482
				Frank Gallagher	1,276,450	1,276,450
				Ewan Brown	Nil	Nil
				Ann Gloag	12,022	14,707
				Janet Morgan	Nil	Nil
				Robert Speirs	Nil	Nil
				Russell Walls	Nil	Nil
				Iain Duffin	Nil	Nil

\*or date of appointment, if later.

Full details of options held as at 30 April 2002 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.

### Close company status

The directors are advised that at 30 April 2002 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 £0.5m (2001 – £0.7m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no payments for political purposes during the year (2001 – £Nil).

### Authority for company to purchase its own shares

At the 2001 Annual General Meeting, the Company was granted authority by its shareholders under section 166 of the Companies Act 1985 to repurchase up to 10% of its ordinary shares of 0.5p each. During the year, no shares were repurchased.

Under the existing authority, the Company may repurchase up to a further 131,878,154 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.

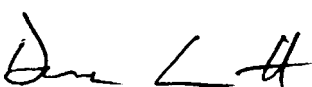
### Post balance sheet events

On 22 July 2002, Virgin Rail Group announced that it had agreed revised commercial terms with the UK's Strategic Rail Authority for its two UK rail franchises. We have considered the implications of the agreement for our net investment in Virgin Rail Group, as explained in note 15.

### Going concern

On the basis of current financial projections and the facilities available, the directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the accounts.

By order of the Board



DEREK SCOTT

Company Secretary

22 July 2002