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

Composition

During the year, the Remuneration Committee was chaired by Robert Speirs and the other members were Ewan Brown (until September 2001), Russell Walls, Iain Duffin, Janet Morgan and Ann Gloag, all non-executive directors, a majority of whom are independent. 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 when 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 to 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. Performance targets include not only traditional financial indicators but also personal targets, successful investment, innovation, customer satisfaction, achievement of regulatory requirements, including health and safety, and environmental targets.

To this end, the Remuneration Committee reviews the existing remuneration of the executive directors in consultation with the Chairman and the Chief Executive 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, Towers Perrin, who were previously instructed to review the existing remuneration of all the directors and senior executives during 1999 and 2000.

The Remuneration Committee believes that remuneration packages should reward the efforts of all staff since a motivated workforce is a key element of Group performance. The Committee recognises that executive directors bear greatest responsibility for delivering corporate strategy which underpins long-term sustainable performance. While the Remuneration Committee's report focuses on incentive schemes for senior executives, there are also a number of bonus schemes within group companies, in addition to the UK-only SAYE schemes.

Executive directors' remuneration

A detailed analysis of directors' remuneration for the year with prior year comparatives appears in note 7 to the accounts on pages 49 to 51.

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 and after-tax profits, specific individual 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. The maximum potential bonus for executive directors in 2002/2003 ranges from 60% to 75% of basic salary. Actual bonuses awarded in respect of 2001/2002 ranged from Nil to 25%.

Other benefits

Certain executive directors receive car, fuel, telephone and healthcare taxable benefits. The value of such benefits is included within the analysis of directors' remuneration presented in note 7 to the accounts on pages 49 to 51.

Pensions

Under the terms of their service agreements, executive directors are entitled to become members of one of the Stagecoach Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension schemes. 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 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 2001/2002.

(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. The scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. 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 normal options is subject to earnings per share outperforming inflation by 2% per annum cumulatively (for options awarded up until 2001) and by 3% to 5% per annum cumulatively for more recent options. Exercise of super options is subject to achievement of top quartile total shareholders' return compared to other Transport Sector shares in the UK (excluding FTSE 100). Two awards were made to directors under this scheme in 2001/2002.

(iv) The Stagecoach Long Term Bonus Scheme – One director had an outstanding long term bonus arrangement at 30 April 2002, details of which are given in note 7 to the accounts.

Directors' service agreements

With the exception of one director who has now retired, 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.

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 benefits will not be more than a termination payment of up to one times salary and certain benefits and 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
Senior Independent Non-Executive Director
Chairman of the Remuneration Committee
22 July 2002