

**Stagecoach Group Annual Report
and Financial Statements 2017**

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Adjusted earnings per share in line with expectations

- ⦿ Adjusted earnings per share of 24.4 pence (2016: 27.7 pence) in line with our expectations
- ⦿ Basic earnings per share of 5.5 pence (2016: 17.1 pence) reflect exceptional charges
- ⦿ Dividend per share for the year up 4.4% to 11.9 pence (2016: 11.4 pence)
- ⦿ Substantial further investment – net capital expenditure of £157.3m (2016: £187.0m)
- ⦿ Our expectation of 2017/18 earnings per share is broadly unchanged

Operational developments

- ⦿ Engaged in discussions with Department for Transport on contractual matters at Virgin Trains East Coast, including implications of Network Rail's reprioritised infrastructure programme
 - £84.1m exceptional charge to provide for anticipated losses under current contract, over the next two years
 - Business expected to be profitable from 2019
 - £44.8m non-cash exceptional impairment of franchise intangible asset
 - High customer satisfaction and around £525m to date in premium payments to taxpayer – average monthly payments around 30% more than made by Directly Operated Railways
- ⦿ Shortlisted for new East Midlands and South Eastern rail franchises
- ⦿ New joint venture with Virgin and SNCF shortlisted to bid for West Coast Partnership rail franchise
- ⦿ Management action taken across our bus operations in response to period of subdued revenue trends – targeted network, pricing and management changes
- ⦿ Improving revenue trends and contract opportunities in North America
- ⦿ Progress with digital and technology programme, including new initiatives outside of our core operating divisions

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Financial summary

	Results excluding intangible asset expenses and exceptional items*		Statutory results	
	2017	2016	2017	2016
Revenue (£m)	3,941.2	3,871.1	3,941.2	3,871.1
Total operating profit (£m)	192.8	228.8	47.3	171.1
Non-operating exceptional items (£m)	–	–	4.7	(2.0)
Net finance charges (£m)	(34.1)	(41.4)	(34.1)	(64.7)
Profit before taxation (£m)	158.7	187.4	17.9	104.4
Earnings per share (pence)	24.4p	27.7p	5.5p	17.1p
Proposed final dividend per share (pence)	8.1p	7.9p	8.1p	7.9p
Full year dividend per share (pence)	11.9p	11.4p	11.9p	11.4p

* see definitions in note 34 to the consolidated financial statements

1. Strategic report

1.1 Introduction

Stagecoach Group plc ("the Company") is the ultimate parent company of a group of companies ("the Group") principally involved in the sale and operation of passenger transport. The directors of Stagecoach Group plc ("the Directors") are pleased to present their report on the Group for the year ended 29 April 2017.

This section contains the Strategic report, which includes the information that the Group is required to produce to meet the need for a strategic report in accordance with the Companies Act 2006. Biographies of each director are contained in section 2 of this Annual Report and the Directors' report is set out in section 3.

1.2 Cautionary statement

The Strategic report has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to inform shareholders of the Company and to help them assess how the Directors have performed their duty to promote the success of the Company. This Strategic report contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this Strategic report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

1.3 Overview of the year ended 29 April 2017

We have achieved our recent expectation of adjusted earnings per share for the year ended 29 April 2017. Although the continuing trading challenges faced by our businesses are reflected in the financial results, we continue to manage the Group with its long-term success in mind. That approach is reflected in the substantial investment in the business during the year.

Our priority remains delivering safe, high quality and value-for-money travel for our customers. We are working closely with public sector partners to deliver on our joint responsibility for improving services, while also responding to the competitive environment from other modes of travel. We have made further significant investment in measures to make travel easier and more attractive to customers, as well as ensuring we have strong and sustainable transport businesses for the long-term.

Overall we have achieved further revenue growth during the year, although the rate of growth was more subdued than in previous years. Revenue for the year was up 1.8% at £3,941.2m (2016: £3,871.1m). Total operating profit (before intangible asset expenses and exceptional items) was £192.8m (2016: £228.8m). Unadjusted operating profit for the year was £47.3m (2016: £171.1m). Earnings per share before intangible asset expenses and exceptional items ("adjusted earnings per share") were 24.4p (2016: 27.7p), with the year-on-year decrease mostly due to the previously anticipated fall in operating profit from our UK Rail Division. Basic, unadjusted earnings per share decreased to 5.5p (2016: 17.1p), principally due to exceptional charges relating to Virgin Trains East Coast that are explained below.

We are engaged in discussions with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise, taking account of our respective rights and obligations under the current franchise agreement. While any new agreement remains subject to approvals and contract, based on our interactions with the Department for Transport, we expect to finalise new commercial terms during the next year. These will provide clarity for customers, staff, investors and other stakeholders on the future operation of the franchise, and offer value for money for taxpayers. We look forward to continuing to deliver our vision and plans for the franchise through to at least 2023. Reflecting our contractual rights and obligations, and based on our ongoing discussions with the Department for Transport and the reprioritisation of Network Rail's Infrastructure programme, we expect Virgin Trains East Coast to be profitable from 2019 with the potential to earn a profit margin commensurate with that of a "direct award" franchise. However, we also expect Virgin Trains East Coast to incur losses under the current contract. Accordingly, in the financial statements for the year ended 29 April 2017, we have recorded an exceptional pre-tax charge of £84.1m to reflect that the current contractual arrangements give rise to an onerous contract. The calculation of that onerous contract provision takes account of the Stagecoach parent company's £165m loan commitment to Virgin Trains East Coast, from which £57.5m was already loaned at 29 April 2017. 10% of any loan is funded by Virgin. We have also recorded a £44.8m impairment of intangible assets associated with the right to operate the franchise. The impairment charge is essentially an acceleration of amortisation and is a non-cash charge.

We have proposed a final dividend of 8.1p per share (2016: 7.9p), which, if approved, would give a total dividend per share for the year up 4.4%. We have slowed the rate of dividend growth relative to recent years to ensure that the dividend remains at a level we consider to be sustainable. The dividend per ordinary share grew significantly from 2001/2 to 2015/16 at a compound annual growth rate of over 11% and we continue to seek to grow the dividend. The final dividend would be payable on 4 October 2017 to shareholders on the register at 1 September 2017. Shareholders who wish to participate in the dividend re-investment plan for this dividend should elect to do so by 13 September 2017. Election requests should be made to the Company's registrars in good time before that date.

In our UK Bus operations, regional growth trends are mixed, reflecting the variable economic picture and retail environment in town and cities in different parts of the country. We have taken actions in response to the period of subdued revenue trends. As well as strengthening our UK Bus management team, our low fares strategy has given us scope to have a targeted approach to pricing and network changes. We are pleased at the increasing take up of our digital offerings, which benefit our customers and allow us better insight into their needs.

We have maintained our sustainable approach to bidding for bus contracts in London, with a focus on cost efficiencies and capital discipline. While this can result in changes to the scale of our contract portfolio at certain points in the bidding cycle, we believe our approach brings long-term benefits to the business.

In North America, we see some evidence of improving revenue trends in markets previously affected by sustained low fuel prices, and heightened competition from cars and airlines. Measures we have taken to match service provision with consumer demand are starting to flow through to improved yields. We are also pleased that our strategy of seeking to grow our contract work has resulted in some recent success.

We are a significant and experienced participant in the UK rail market. As well as managing our existing portfolio and investing in improvements for our customers, we are actively pursuing other opportunities which we believe can deliver long-term value. While we were disappointed not to have been awarded the new South Western franchise, there are other new franchise opportunities. We have been shortlisted for the new East Midlands and South Eastern franchises and have formed a new joint venture with Virgin and SNCF to bid for the West Coast Partnership franchise. Across the UK, revenue growth in the franchised rail market remains low by historical standards. Growth rates in 2016/17 at our inter-city businesses out-performed those at our London commuter business.

Strategic report

1.3 Overview of the year ended 29 April 2017 (continued)

We continue to invest in our people to equip them to meet the growing expectations of customers. Our employees are fundamental to our success and the Board extends its thanks to them for their hard work and professionalism. During the year, we have strengthened the Board with the appointments of Ray O'Toole and Julie Southern, both of whom bring considerable senior management experience and an in-depth understanding of transport.

Looking ahead, we remain cautious on the short-term outlook for revenue trends and operating profit in our bus and rail markets in the UK.

Nevertheless, we have not significantly changed our expectation of our 2017/18 adjusted earnings per share and there are several medium to long-term positive drivers for our businesses. These include urbanisation, population growth, and the growing demand for action on road congestion and air quality. We remain confident that we can continue to deliver long-term value to our customers and investors.

Revenue by division is summarised below:

REVENUE

	2017 £m	2016 £m	Functional currency	2017 Functional currency	2016 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	1,015.7	1,032.8	£	1,015.7	1,032.8	(1.7)%
megabus Europe	20.2	18.4	£	20.2	18.4	9.8%
UK Bus (London)	263.4	267.1	£	263.4	267.1	(1.4)%
North America	488.8	430.9	US\$	632.3	647.7	(2.4)%
UK Rail	2,160.7	2,129.1	£	2,160.7	2,129.1	1.5%
Intra-Group revenue	(7.6)	(7.2)	£	(7.6)	(7.2)	
Group revenue	3,941.2	3,871.1				

Operating profit by division is summarised below:

OPERATING PROFIT

	2017 £m	% margin	2016 £m	% margin	Functional currency	2017 Functional currency (m)	2016 Functional currency (m)
Continuing Group operations							
UK Bus (regional operations)	121.1	11.9%	137.3	13.3%	£	121.1	137.3
megabus Europe	(4.3)	(21.3)%	(24.1)	(131.0)%	£	(4.3)	(24.1)
UK Bus (London)	18.4	7.0%	20.2	7.6%	£	18.4	20.2
North America	19.3	4.0%	18.9	4.4%	US\$	25.0	28.4
UK Rail	31.0	1.4%	66.7	3.1%	£	31.0	66.7
Group overheads	(14.1)		(11.9)				
Restructuring costs	(4.8)		(3.1)				
Operating profit before joint ventures, intangible asset expenses and exceptional items	166.6		204.0				
Joint ventures – share of profit/(loss) after tax							
Virgin Rail Group	24.8		24.2				
Citylink	1.4		1.4				
Twin America	–		(0.8)				
Total operating profit before intangible asset expenses and exceptional items	192.8		228.8				
Intangible asset expenses	(16.8)		(15.8)				
Exceptional items	(128.7)		(41.9)				
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	47.3		171.1				

More details on the financial results for the year are provided in sections 1.5 and 1.6 of this Annual Report.

1.4 The Stagecoach Group

1.4.1 Overview of the Stagecoach Group and its business model

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, the United States and Canada. The Group employs around 40,000 people and operates bus, coach, train and tram services. The Group has four main divisions – UK Bus (regional operations), UK Bus (London), North America and UK Rail. During the year ended 29 April 2017, the Group exited the operations of its megabus Europe Division.

We offer greener, smarter travel in the UK and North America. Our principal business is providing passenger transport services, primarily by transporting people by bus, coach, train or tram. Our “This is Stagecoach Group” infographic provides more information and can be found on our website at:

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/pdf/infographic-sept-2016.pdf>

This section summarises the Group’s business model. We have revised the description of the business model included in prior years’ annual reports in an effort to more clearly describe the business model and reflect good practice in our reporting. The remaining parts of this section 1.4 are also important to an understanding of our business model and we cross-reference them where appropriate.

Stagecoach Group plc is a public limited company that is incorporated, domiciled and has its registered office in Scotland. Its ordinary shares are publicly traded and it is not under the control of any single shareholder.

Throughout this Annual Report, Stagecoach Group plc is referred to as “the Company” and the group headed by it is referred to as “Stagecoach” and/or “the Group”.

Section 1.4.2 summarises our strategy and section 1.4.3 explains what we do and provides a description of each of our key business segments, markets and where appropriate, market share.

Business culture

We are committed to conducting business in a socially responsible way and we believe this to be consistent with our business objectives and strategy.

Indeed, by taking a responsible approach towards the environment and the wider community, we believe we will enhance our objective to deliver organic growth.

The Group began life as a family business in 1980 and the entrepreneurship and expertise of the founding family has played a significant part in its growth. The founding family continues to play a part in the management of the Group. Although we have been publically listed on the London Stock Exchange since 1993, we aim to maintain an entrepreneurial culture, reflecting our family heritage. That involves encouraging sensible risk taking while managing risks appropriately and responding to risks that do crystallise. It is inevitable and appropriate for a group of its size that the Group has a number of policies and procedures to ensure appropriate behaviours but these are designed to avoid stifling entrepreneurship. More information on the Group’s core values and policies is provided in section 1.8.1 of this Annual Report.

We operate a relatively devolved management structure. That reflects our view that in operating local transport services, day-to-day decision making should be made by local managers who understand the dynamics of their particular markets. We aim to have relatively short chains of command that facilitate the effective exchange of information and enable timely decision making. Delegated authorities and other policies and procedures are in place to achieve an appropriate balance between the benefits we perceive of devolved management and the need for proportionate management of overall risk.

Sources of revenue

We have a number of revenue streams, principally arising from:

- Amounts we receive from individuals or groups of individuals to travel on our transport services;
- Amounts we receive from government bodies in respect of travel by individuals on our transport services – for example, in the UK, older people and people with disabilities are legally entitled to travel on our bus services at certain times free of charge but we receive revenue from government bodies in respect of that travel;
- Amounts we receive from government bodies as payment to us for operating transport services under contract – for example, a US Transit Authority may pay us to run specified bus services. Any amount payable by individual passengers would flow to the US Transit Authority and our revenue would be from that authority;
- Amounts we receive from corporations or others for operating transport services under contract – for example, a university might pay us to operate a bus service to shuttle students around its campus;
- Subsidy we receive from government bodies to financially support the operation of transport services they consider to be socially desirable.

We also earn other income, which may include income from:

- commissions for selling travel on other operators’ transport services;
- undertaking maintenance work on other operators’ vehicles;
- selling advertising space on vehicles and premises we operate;
- access income for others to use railway stations and depots that we operate;
- selling fuel to other transport operators;
- property rental;
- Network Rail in respect of UK railway operating performance regimes;
- The UK Department for Transport under UK rail revenue risk sharing arrangements.

Strategic report

1.4.1 Overview of the Stagecoach Group and its business model (continued)

Key costs and inputs

Our main tangible fixed assets are property, coaches, buses and technology. Our trains, as well as some of our property, buses and coaches, are operated under operating leases.

Our people are key to providing our services. Notwithstanding developments in technology, our business remains relatively labour intensive. Around a third of our consolidated operating costs are staff costs and in our bus divisions, the proportion is higher. Relationships with our people and their trade unions are important to the success of the business.

Our other major operating costs are:

- amounts payable to the UK Department for Transport under rail franchise agreements for the right to operate the relevant franchises;
- amounts payable to Network Rail by our UK train operating companies for use of the railway infrastructure (tracks, stations etc.);
- diesel and electricity to fuel or power our buses, coaches, trains and trams;
- insurance costs and claims costs;
- material and consumables, including replacement parts for vehicles;
- depreciation and lease charges for the vehicles, properties and technology that we operate.

Section 1.4.4 of this Annual Report sets out more information on the key relationships and resources that underpin what we do.

Cash conversion

For the most part, our revenues and operating costs (excluding depreciation) are converted to cash within a short timescale. Indeed, payment for travel by individuals tends to occur prior to or at the time of travel whereas costs tend to be settled in arrears. The exceptions to this are most significant in the UK Rail segment where the complex, contractual arrangements can result in greater timing differences between the recognition of items in income and the effect of those items on cash.

Competitive advantages

We see our key sources of competitive advantage as being:

- Our operational excellence – providing safe, reliable, good quality, value for money, customer-focused transport services;
- Innovation – we have a long record of innovation, including being the first private company to secure a rail franchise in the UK in the 1990s and also, in disrupting the market for inter-city coach travel by introducing megabus.com in the 2000s as a low-cost, internet-only coach travel retailer;
- Our commercial expertise in designing transport networks, pricing our services and marketing our services;
- Our brands – our operational excellence and commercial expertise is reflected in our generally high customer satisfaction scores meaning that our key brands are well regarded in their respective markets;
- Our relationships – we view our relationships with employees, trade unions and government bodies, in particular, as key advantages to our business;
- Our expertise in bidding and managing complex contracts, particularly in the UK Rail market where we see success as being predicated on a combination of bidding and winning new contracts on acceptable commercial terms, actively managing those contracts during their term and effective management of the day-to-day train operations;
- The economies of scale of being a relatively large transport provider.

Value for other stakeholders

As well as the financial value we generate for our investors, lenders and people, we provide value to a wider group of stakeholders, including:

- Public transport offers environmental benefits versus wide-scale car usage and can contribute to efforts to reduce pollution and improve air quality, benefiting the public in general;
- Our business generates significant tax contributions to public finances across employee, sales, corporation, property and other taxes;
- We contribute around £1m per annum to charities as well as providing non-financial support to charities and the communities in which we operate.

Risks

We do face a number of risks. Section 1.4.5 sets out the principal risks to the achievement of our strategy and objectives which include political, regulatory, technological and macroeconomic risks.

Changes in regulation and technology in particular are likely to drive an evolution of our business model.

Key performance indicators

Section 1.4.6 describes how we measure and monitor progress against our objectives and strategy, and how we are performing.

1.4.2 What we look to achieve (business objectives and long-term strategy)

Group strategy	
The key elements of the Group's business strategy to deliver long-term shareholder value are:	
• To deliver organic growth across all of the Group's operations by providing safe, reliable, good quality, customer-focused transport services that deliver a positive customer experience at a reasonable price; • To acquire businesses that are complementary to the Group's existing operations, in areas where the Group's management has proven expertise and which offer prospective returns on capital in excess of the Group's weighted average cost of capital; • In addition to organic and acquisition growth, to maintain and grow the business by bidding for selected rail franchises and bus contracts to seek to secure new franchises and contracts where the risk/return trade-off is acceptable.	

1.4.3 What we do (description and strategy of each business segment)

UK Bus (regional operations)	
Description	The UK Bus (regional operations) Division connects communities in more than 100 towns and cities across the UK on bus networks stretching from the Highlands of Scotland to south west England. These include major city bus operations in Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield, Cambridge and Exeter. The UK Bus (regional operations) Division operates a fleet of around 6,900 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates inter-urban services linking major towns within its regional operating company areas. The Group also runs the budget inter-city coach service, megabus.com, and the UK Bus (regional operations) Division includes megabus.com coach services within the UK. In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro. The joint venture is responsible for the Scottish Citylink express coach network and megabus.com branded services to, from and within Scotland. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading retailer of scheduled, inter-city coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.
Regulatory environment	The current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985. This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality. The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. Most of the Division's revenue is from customers paying for their own travel by bus. The Division also operates tendered services, including schools contracts, on behalf of local authorities. Around 10% of the UK Bus (regional operations) revenue is receivable from local authorities in respect of such tendered and school services. For some services, the Group receives revenue from passengers as well as tendered revenue from a local authority. Around 24% of the UK Bus (regional operations) revenue is earned from statutory concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying older people and people with disabilities, at no charge to the passenger, on the same bus services that are also available to the wider public. So, the Group would typically receive both revenue from passengers and also, concessionary revenue from a local authority in respect of a single bus service and in some cases, may also receive tendered revenue for the same service.
Strategy	The strategy of the UK Bus (regional operations) is to deliver value over time driven by organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused bus services at a reasonable price to customers. This may be supplemented by winning new tendered or contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 23% of the UK Bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel within Great Britain by residents of England. The NTS found that bus is mainly used for trips of between one and 25 miles, and that in 2015, there was an average of 914 trips per person per year. Trips by car or van accounted for 78% of distance travelled, bus trips accounted for 5%, rail trips accounted for 10% and walking, cycling and other modes accounted for 7%. There therefore remains significant market opportunity to stimulate modal shift from car to bus. According to the NTS, around 30% of bus journeys are for shopping, 20% for leisure, 17% for education, 21% for commuting and business, 12% are for personal business (e.g. visits to services such as banks, medical consultations etc.) and for other purposes.
Macroeconomic factors	Although UK Bus (regional operations) revenue is not immune to macroeconomic changes, it is less exposed than in many other types of business. In addition, the Group can adjust the pricing and frequency of the majority of its services and is therefore well placed to respond to any changes in demand for particular services. We estimate that around 70% of the costs vary with operating miles.
Competition	The UK Bus (regional operations) face competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are three other groups publicly quoted on the London Stock Exchange (FirstGroup, National Express Group, and Go-Ahead Group) and Arriva, which is owned by Deutsche Bahn. New, potential, sources of competition are emerging, often enabled by digital developments. Potential new competitors include ride-sharing websites, digitally-driven taxi services and aggregators of travel services.
Future market developments	The level of Government investment in the UK Bus industry has come under pressure in recent years with reductions in Bus Service Operators' Grant (a rebate of fuel tax) and constraints on the payments made by Government to bus operators for carrying older people and people with disabilities at no charge to the passenger. Funding of tendered services by local government has also reduced. The Division does continue to face risks related to regulatory changes and availability of public funding as noted in section 1.4.5. Technological developments present both opportunities and threats to growing passenger volumes. There are positive long-term conditions for further growth in demand for UK Bus services created by population growth, increasing urbanisation, rising road congestion, supportive government policy and public concerns for the environment, which augur well for the future of the Division.

Strategic report

1.4.3 What we do (description and strategy of each business segment) (continued)

megabus Europe	
Description	The megabus Europe Division operated megabus.com inter-city coach services within mainland Europe and between the UK and mainland Europe. The Division's revenue was principally derived from the sale of inter-city coach journeys via its own websites until the sale of the retailing part of the Division to FlixBus in July 2016. Since that date, the Division's revenue was principally derived from operating services under contract to FlixBus.
Regulatory environment	The regulatory environment for inter-city coach services in Europe varies by country. The principal countries served by the Division were the UK, France, Germany and Italy. Each of those countries permits commercially operated inter-city coach services but some require specific route authorisations to be held.
Strategy and market opportunity	Having sold the retailing part of the megabus Europe Division to FlixBus, and ceased operating services under contract to FlixBus, the Group now has no further operations within the Division.

UK Bus (London)	
Description	The Group is the fourth largest operator in the London bus market, with an estimated 13% share of that market. The business operates from 9 depots and has a fleet of around 1,300 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and taking the cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period with the potential for it to be extended by two years. The UK Bus (London) Division currently has over 80 separate contracts to provide bus services on behalf of Transport for London – this spreads the Division's risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.
Strategy	Our strategic focus in the London bus market is now on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 13% of the bus operating mileage contracted by Transport for London to bus operators. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
Competition	UK Bus (London) faces competition to win Transport for London contracts from other bus operators, the largest of which are Go-Ahead Group, Arriva, Metrolink, RATP, Transit Systems and Abellio.
Future market developments	In the short-term, revenue growth could come from inflationary price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. Continuing population growth in London and positive government policy on public transport can contribute to a positive long-term outlook for the business.

1.4.3 What we do (description and strategy of each business segment) (continued)

North America	
Description	The North America Division provides bus and coach transport services in the United States and Canada. Our businesses include the operation of bus services under contract to transit authorities and others; commuter bus services; inter city coach services; bus tours; charter operations; and sightseeing bus services. The Division encompasses megabus.com North America, a low cost inter-city coach business, which sells inter-city coach journeys within North America and operates or sub-contracts the coach services. The North America business is headed by a chief operating officer. Stagecoach currently operates approximately 2,200 vehicles in the United States and Canada. In addition to its wholly-owned operations in North America, Stagecoach had an interest in a joint venture, Twin America LLC, with CitySights NY, which the Group sold to its joint venture partner in February 2017. The joint venture principally operated sightseeing bus services in New York. Prior to disposing its stake in Twin America, the Group held 60% of the economic rights and 50% of the voting rights in the joint venture.
Regulatory environment	The North America business operates on a commercial basis in a largely deregulated market. It also operates some tendered services for local authorities and services contracted by corporations.
Strategy	The strategy of the North America Division is to deliver organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused services at a reasonable price to customers. This may be supplemented by winning new contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group estimates that it has less than 4% of the bus and coach market in North America. The latest US Department of Transportation's Bureau of Transportation Statistics, published in 2017, show that in 2015 some 86% of transportation to work was by car, compared with only 5% by public transport. The opportunity to stimulate modal shift from car to bus and coach is substantial.
Macroeconomic factors	The North American operations are arguably more exposed to macroeconomic factors than the UK Bus operations as a greater proportion of their revenue is derived from customers using its services for leisure purposes, including its charter, tour and sightseeing services. Demand for its services, particularly megabus.com, is also affected by movements in oil prices. It nevertheless has some flexibility over pricing and supply, enabling it to effectively respond to changes in macroeconomic conditions.
Competition	The business faces competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Megabus.com faces competition from the car but also from other coach operators, airlines and train operators. FirstGroup and National Express Group are also major operators of coach and bus services in North America.
Future market developments	The Group has taken a leading role in the development of bus and coach travel in North America through its megabus.com services. The market for inter-city coach travel, such as that provided by megabus.com, has grown rapidly and while megabus.com revenue has declined more recently reflecting lower oil prices, we expect the inter-city coach market to continue to present significant long-term opportunities to the Group. We are also exploring new contract opportunities in North America.

Strategic report

1.4.3 What we do (description and strategy of each business segment) (continued)

UK Rail	
Description	Stagecoach Group has major rail operations in the UK. Our principal rail subsidiaries are South West Trains, East Midlands Trains and Virgin Trains East Coast. South West Trains runs train services in south west England out of London Waterloo railway station, and operates Island Line services on the Isle of Wight. The South West franchise is due to run until August 2017 and the Group will not operate that business thereafter. From 11 November 2007, we have operated the East Midlands Trains business. The business comprises main line train services running to London St Pancras, regional rail services in the East Midlands area and inter-regional services between Norwich and Liverpool. The East Midlands Trains franchise is contracted to run until at least March 2018. The UK Department for Transport has the option to extend the franchise by up to one-year and has already indicated its intention to extend the franchise until at least November 2018. Stagecoach has a 90% share in the Virgin Trains East Coast business with the Virgin Group of Companies holding the other 10%. The Virgin Trains East Coast franchise began in March 2015 and is planned to run until 31 March 2023, with the option for a one-year extension at the discretion of the UK Department for Transport. It provides inter-city train services between London and a number of locations including Edinburgh, Newcastle, Leeds and York. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. Stagecoach Group has a 49% shareholding in a joint venture, Virgin Rail Group, which operates the West Coast Trains rail franchise. The current West Coast Trains rail franchise runs until March 2018. The other shareholder in Virgin Rail Group is the Virgin Group of Companies. South West Trains, East Midlands Trains, Virgin Trains East Coast and the tram operations each have a managing director, who reports to the Managing Director of the UK Rail Division, who in turn reports to the Chief Executive. Virgin Rail Group has a managing director, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.
Regulatory environment	The UK rail operating market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the Department for Transport on the basis of competitive bids. Train operating companies operate passenger trains on the UK rail network. The UK railway infrastructure is owned and operated by Network Rail, a "not for dividend" company that invests any profits into improving the railway. Network Rail runs, maintains and develops tracks, signalling systems, bridges, tunnels, level crossings and key stations.
Strategy	In rail, we seek to deliver organic growth across all of our existing operations and to maintain and grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable.
Market opportunity	The market opportunity in rail arises from the potential to retain existing and/or win new franchises, and also, from the potential to attract increased use of the Group's rail services. With a number of franchises expected to be tendered within the next few years, there is scope to win new franchises.
Macroeconomic factors	The rail operations are exposed to macroeconomic factors with passenger revenue correlated to Gross Domestic Product ("GDP") and employment levels. The exposure is further increased by the relatively fixed cost base of the business which restricts the scope to reduce costs in response to reduced demand. The Group's South West Trains franchise has significant protection against macroeconomic risks due to the receipt of revenue support from Government whereby Government pays the Group a proportion of the shortfall of actual revenue to the revenue expected when the Group agreed franchise terms. The Group's East Midlands Trains and Virgin Trains East Coast franchise, as well as the West Coast Trains franchise operated by the Group's Virgin Rail Group joint venture, are not entitled to revenue support in the form received by South West Trains. They do, however, have "GDP sharing" agreements that are intended to ensure that the Department for Transport bears most of the risk of variances in revenue resulting from UK GDP differing from that expected at the time of the applicable franchise agreement. On bids for new franchises, the Group's evaluation of macroeconomic risks is a key component of the bid process.
Competition	The business faces competition for customers not only from other train operators but also from other modes of transport. The main competitors that bid against the Group for UK rail franchises are FirstGroup, Go Ahead Group, Arriva, MTR, Keolis, Trenitalia, SNCF, Eurostar, Serco and Abellio.
Future market developments	The UK Department for Transport has a clear schedule in place for re-tendering rail franchises. The Group will assess each opportunity to bid for a new rail franchise on a case-by-case basis. The UK continues to see growth in demand for rail services presenting opportunities for the Group's existing rail interests and also in its bids for new franchises.

1.4.4 What we need, to do what we do (resources and relationships)

Stagecoach Group has a range of resources and relationships, including contractual relationships, that underpin its business and support its strategy. These assist in giving the Group a competitive advantage in the markets in which it operates.

Customers

Millions of people use our services and our relationship with our customers is important to us. To deliver organic growth in revenue, a key element of our strategy, we need to provide services that people want to use.

We conduct customer research to monitor our performance and to determine how we can improve the quality, delivery and accessibility of our services. We are passionate about providing good customer service and our businesses have regular and ongoing discussions with bus and rail user groups. This includes presentations from managers on aspects of our service as well as consultation and information sharing on particular issues.

An important element of the Group's success in growing its customer base lies in its record of product innovation and new ideas on developing effective public transport systems.

Employees

Human resources are key to the Group's business and the Group's relationship with its employees is therefore fundamental to achieving its objectives.

We aim to recruit and retain the best employees in our sector, offering an excellent package of benefits, which allows us to deliver good customer service to our passengers. The Group's individual divisions invest significantly in the training and development of our people and we operate a successful graduate training scheme which provides one source of training for the managers of the future. We have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

The financial community

Our shareholders and lenders are critical to our business success. We have a regular programme of meetings with investors and provide frequent updates to the markets and financial community on our performance.

We have contractual arrangements with banks and other finance providers for the provision of funds and financial products to the Group.

Government and regulatory bodies

Our managers have ongoing relationships with national and local government in our main countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. We work with local authorities, including passenger transport executives, regional transport committees and transit authorities, in the delivery and planning of bus and rail services. Many of our businesses have partnership agreements in place to improve the delivery of public transport in their areas. In the UK, we work closely with the Department for Transport, the Scottish Government, Transport Scotland, the Welsh Government and Transport for London.

We contract with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis. We have franchise agreements with the Department for Transport governing the supply of franchised rail services in the UK.

We have constructive dialogue with organisations such as the Commission for Integrated Transport, which provides advice to the UK Government, and lobbying groups such as the Campaign for Better Transport.

Suppliers

We rely on a range of suppliers to provide goods and services linked to our bus and rail operations. All of our businesses have various contractual relationships with suppliers, including purchase contracts with fuel suppliers, vehicle suppliers, IT companies and spare part suppliers.

The operation of our rail franchises depends upon a number of contractual relationships with suppliers, including contracts with Network Rail governing station and track access arrangements, leases with rolling stock companies for the lease of trains and maintenance contracts for the maintenance of trains.

Information technology is increasingly important to effectively operate our services and to meet our customers' expectations. Significant investment, internal management resource and external supplier input support the development and operation of IT systems.

Corporate reputation, brand strength and market position

Stagecoach is one of the best known public transport operators in the UK and is consistently rated highly for the quality of its services in research by independent organisations. We value our reputation, both as a public transport provider and as a key part of the communities in which we operate. Stagecoach has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

Natural resources and manufacturing technology

Operating our bus and rail services requires considerable use of natural resources, including diesel and electricity. We have arrangements in place to ensure that these resources are sourced efficiently and that our supplies are maintained to ensure the smooth functioning of our business. A number of experienced manufacturers supply our buses, coaches, trains and trams, which are produced to detailed specifications relevant to the individual markets in which they are required.

Licences

Various licences are held by Stagecoach giving authority to operate our public transport services and these are maintained up to date as required.

Transport and industry representation groups

We are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail), the Rail Delivery Group and the American Bus Association.

Strategic report

1.4.5 The challenges we face (principal risks and uncertainties)

Like most businesses, there is a range of risks and uncertainties facing the Group and the matters described below are not intended to be an exhaustive list of all possible risks and uncertainties.

Generally, the Group is subject to risk factors both internal and external to its businesses. External risks include global political and economic conditions, competitive developments, supply interruption, regulatory changes, foreign exchange, materials and consumables (including fuel) prices, pensions funding, environmental risks, industrial action, litigation and the risk of terrorism. Internal risks include risks related to capital expenditure, acquisitions, regulatory compliance and failure of internal controls.

The Board of Directors determines the nature and extent of the principal risks that it is willing for the Group to take in achieving its strategic objectives. Information on the risk management process is provided in section 4.12. The focus below is on those specific risks and uncertainties that the Directors believe are the most significant to the Group, taking account of the likelihood of occurrence of each risk and the potential effect on the Group.

Description of risk	Management of risk	Developments in year ended 29 April 2017 and since	Section in Annual Report
Catastrophic events			
There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises. In extreme cases, services could be suspended or structural changes imposed on the Group as a result of regulatory or other action. A series of less severe incidents could have similar consequences.	While it is not possible to fully eliminate these risks, the Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the unlikely event that a major incident did occur, the Group has procedures in place to respond. The Group periodically rehearses its response to a hypothetical major incident. The Group has insurance arrangements in place to reduce the financial effect on the Group of certain claims against it.	No significant matters to report.	
Terrorism			
There have been multiple acts of terrorism on public transport systems and other terrorist attacks that, whilst not directly targeting public transport, have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.	The Group has plans in place designed to reduce the operational and financial impact of a terrorist incident. It also has checks in place such as vehicle inspections to reduce the risk.	We believe that recent high profile terrorist attacks in major European cities, including London and Manchester, continue to suppress demand for public transport, particularly for longer distance UK Rail services.	1.5.5
Economy			
The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. In particular, the revenue of the Group's UK rail operations is historically correlated with factors such as UK Gross Domestic Product and Central London Employment. In North America, a greater proportion of the revenue from bus operations is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. Other factors, such as movements in fuel prices, can also affect revenue, costs and profit. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.	Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk. In bidding for new rail franchises, the evaluation of macroeconomic risks is a key element of the bid process. Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.	- During the year ended 29 April 2017, the Group's wholly owned South West Trains rail franchise received revenue support from the Department for Transport, such that the Department was and is at risk for the majority of any difference between actual and expected revenue. - The Virgin Trains East Coast franchise, East Midlands Trains franchise and West Coast Trains franchise, operated by the Group's Virgin Rail Group joint venture, all have "GDP sharing" agreements that are intended to ensure that the Department for Transport and the train operator share the risk of variances in franchise revenue resulting from UK GDP differing from that expected at the time of the respective franchise agreements.	1.5.1 and 1.5.5

1.4.5 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2017 and since	Section in Annual Report
Economy (continued)			
		- We believe that macroeconomic factors have contributed to slower revenue and passenger volume growth in the UK businesses during the year and since. - The ongoing negotiation of the terms of the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our pension, financial instruments and other balances. UK policy following the UK leaving the European Union may affect the UK economy, including the availability and cost of staff.	
Rail cost base			
A substantial element of the cost base in the Group's UK Rail Division is essentially fixed because under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is therefore unable to flex supply in response to short-term changes in demand. In addition, a significant part of the cost base is comprised of payments to the infrastructure provider, Network Rail, and payments under train operating leases which are committed and do not vary with revenue. Accordingly, a significant proportion of any change in revenue (for example, arising as a result of the risks described above in respect of terrorism and the economy) will impact profit from the UK Rail Division.	The Group looks to achieve sensible risk sharing arrangements in its rail franchise agreements. The Group's franchise bids are designed to deliver an acceptable risk-reward trade-off. As described above, economic and terrorism risks are closely managed. In addition, the Group remains focused on controlling costs in the UK Rail Division.	Revenue growth at Virgin Trains East Coast has been lower than that assumed in the bid, which has reduced the expected profitability of that business. We have recorded a £84.1m pre-tax exceptional expense to provide for the current onerous status of the contract at Virgin Trains East Coast.	1.5.5
Sustainability of rail profit			
A significant element of the Group's revenue and profit is generated by UK rail franchises, which have a finite duration. There is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises. Included within that overall risk, is the risk that the Group wins a franchise on terms that are unrealistic (whether due to error or overly optimistic assumptions) and which as a result, adversely affects the Group's financial performance and/or financial position.	In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises. Appropriately experienced personnel are retained to work on rail bids and third party consultants are engaged to provide additional expertise. The Board approves the overall rail bidding strategy and the key parameters for each bid.	- The Group was unsuccessful in its bid for the new South West Trains franchise, and the existing franchise is due to end in August 2017. We expect the financial impact of losing the franchise to include an increase in the Group's reported net debt of around £100m. - During the year, the Government confirmed that it requires a short-term franchise of approximately twelve months to cover the period from the end of the current West Coast franchise in March 2018 until the planned start of the West Coast Partnership franchise in April 2019. Virgin Rail Group is in discussions with the Department for Transport with a view to agreeing commercial terms for Virgin Rail Group to continue operating the West Coast Trains business through to at least March 2019. - The East Midlands Trains franchise is contracted to run until at least March 2018, although the DfT has an existing contractual option to extend it up until March 2019. - The Group is one of three shortlisted bidders for the next East Midlands Trains franchise. - The Group is also shortlisted for the new South Eastern rail franchise.	1.5.5 and 1.5.6

Strategic report

1.4.5 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2017 and since	Section in Annual Report
Breach of franchise			
The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and consequently, the related revenues and cash flows. The Group may also lose some or all of the amounts committed for the shareholder loan facilities, the performance bonds and the season ticket bonds. The Group can do more to prevent breaches of franchise where it has control than where it has joint control. As the holder of a 49% joint venture interest in Virgin Rail Group, the Group has less control over the joint venture's operations and that means the Group's management may be less able to prevent a breach of the Virgin Rail Group franchise agreement.	Our UK Rail businesses are subject to complex contractual arrangements. Contractual management is an important part of our rail activities because the way in which contracts are managed can be a significant determinant of financial performance. Compliance with franchise conditions is closely managed and monitored and procedures are in place to minimise the risk of non-compliance. The Group maintains an overview of Virgin Rail Group's business risk management process through representation on its board and audit committee.	We are engaged in constructive discussions with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise, taking account of our respective rights and obligations under the existing franchise agreement. While any new agreement remains subject to approvals and contract, we expect to finalise new commercial terms during the next year.	1.5.5
Changing customer habits			
There are opportunities for the Group to shape its services and its interaction with its customers in response to changes in customer habits such as their working patterns and shopping. People travel on the Group's bus, train and tram services for a variety of reasons, including in some cases, to get to and from work and/or to get to and from shopping locations. Changes in people's working patterns, shopping habits and/or other preferences could affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. For example, increases in the proportion of working time that people spend at home, or in the level of shopping undertaken online, could affect demand for travel.	The Group monitors trends in revenue and passenger numbers across its businesses. In forecasting future revenue and passenger numbers, including in respect of bids for new rail franchises, the Group considers research and evidence on changing customer behaviour. The Group will, from time to time, vary its timetables, pricing, range of ticket types and transport networks in response to actual or anticipated changes in demand.	- Lower rates of growth seen recently in the UK rail sector are partly a result of changes in working patterns. On our London commuter rail services, we have seen evidence of changing working patterns resulting in variations in demand by weekday. - In recent years, we have adjusted the timetables for certain of our North America commuter bus services to adapt to changes in working patterns.	1.5.5
Pension scheme funding			
The Group participates in a number of defined benefit pension schemes. There is a risk that the reported net pension asset/liability and/or the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Intervention by regulators could also affect the contributions required. Any increase in contributions will reduce the Group's cash flows. Any significant increase in pension liabilities could affect the Group's credit ratings.	Decisions on pension scheme funding, asset allocation and benefit promises are taken by management and/or pension scheme trustees in consultation with trade unions and suitably qualified advisors. A Pensions Oversight Committee comprising the Finance Director, a Non-Executive Director and other senior executives, oversees the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.	Pension scheme liabilities have increased during the year, principally due to a fall in corporate bond yields.	1.6.9

1.4.5 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2017 and since	Section in Annual Report
Insurance and claims environment			
The Group receives claims in respect of traffic incidents and employee claims. The Group protects itself against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" on insurance policies. There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. In the US, in particular, there is a risk that given the size of the "excess", that a small number of large-value claims could adversely impact the Group's financial performance and/or financial position.	The Group has a proactive culture that puts health and safety at the top of its agenda and this helps mitigate the potential for claims arising. Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.	No significant matters to report.	
Regulatory changes and availability of public funding			
Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects. We see the greatest risk in this respect as being the risk that some bus services in the UK outside London become subject to franchising (whereby a government body specifies the bus services and puts them out to tender) compared to the current model where commercial bus operators are free to design and operate their own services. Similarly, many of the Group's businesses benefit from government investment in bus and train services, including tax rebates, the provision of equipment, contracted services and concessionary travel schemes for passengers. There is a risk that the availability of government finances changes due to political, regulatory or other reasons. There is also a risk that the Group suffers financial or reputational damage as a result of non-compliance with laws or regulations or as a result of the Group having a different interpretation of laws or regulations from others. In addition, in the case of tax, there is a risk the Group suffers reputational damage because of how others perceive the Group's approach to a tax matter even where the Group has complied with the applicable laws and regulations.	Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in various trade bodies and government forums. The Group seeks to maintain good, cooperative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where regulatory changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it. The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.	- The greater devolution of powers within the UK, reflected in the Bus Services Act 2017, could see the introduction of franchised bus networks in some areas of England, which could affect our commercialised bus operations. - There are growing signs that the Scottish Government is considering giving local authorities the option to franchise bus services and councils to set up municipal bus companies as part of measures to be included in a planned Transport Bill. Some of the measures in the Bus Services Act referred to above (such as open data and smart ticketing) could provide a basis for developing bus policy in Scotland. The timing of the Transport Bill is yet to be confirmed. The Bill is also expected to cover legislation on enhancing and improving the regulation of road works, matters around parking and also, air quality. - The Ontario Ministry of Transportation is consulting on proposals to deregulate the current market, which may ultimately lead to a more open, private-sector driven inter-city coach market in this part of Canada.	1.5.1
Management and Board succession			
The Group values the continued services of its senior employees, including its directors and management who have skills that are important to the operation of the Group's business. The success of the Group could be adversely affected if effective succession planning is not in place.	Succession planning for the Directors and senior management is an important issue and as such is considered by the Nomination Committee (as described in section 6.5) and the Board. The appropriate level of management deals with recruitment and retention of other staff.	Changes in the Company's Board of Directors during the year are explained in section 1.3 of this Annual Report.	

Strategic report

1.4.5 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2017 and since	Section in Annual Report
Disease			
There is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. Such a fall in demand would have a negative impact on the Group's revenue and financial performance.	The Group has plans in place to respond to any significant outbreak of disease.	No significant matters to report.	
Information security			
There is a risk that confidential and/or commercially sensitive information relating to and/or held by the Group is subject to unauthorised access, use, disclosure, modification, perusal, recording or destruction. There is also a risk that the Group's information and/or systems are subject to disruption, corruption or failure due to security breaches.	An Information Security Board oversees the management of information security risks, and takes appropriate advice from suitably experienced third party consultants and internal experts. Investment is made in appropriate policies, people and technology to reduce the severity and likelihood of information security risks crystallising.	No significant matters to report.	
Information technology			
The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group. An increasing proportion of the Group's sales are made digitally. There is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue.	The Group is continually investing in its information technology systems, people and suppliers to ensure the robustness of its information technology. It is developing new digital platforms and continues to look to ensure that it secures reliable service provision.	A Digital and Technology Committee was established during the year to monitor the development and effectiveness of digital strategies across the Group.	
Litigation			
The Group is exposed to the risk of commercial and consumer litigation arising from the legal environment in some markets, particularly the United States.	The Group has compliance programmes in order to reduce the risk of material litigation against the Group.	The US Department of Justice's investigation of the conduct of company personnel in responding to discovery obligations relating to Twin America is no longer ongoing.	1.5.6.2
Competition			
Loss of business to existing competitors or new entrants to the markets in which we operate could have a significant impact on our business. We face competition for customers not only from other operators of trains, trams, coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Developments in new technology and/or new business models could affect the competitive environment in which the Group operates. Technological developments could enable new competitors and/or business models to be developed that disrupt or compete with the Group's business. Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key divisions.	We monitor competitive developments in each of our markets and respond as appropriate. That includes monitoring developments in technology and business models that could affect the competitive landscape. Multi-modal travel portals, taxi hailing technology and businesses, ride-sharing technology and businesses, and autonomous vehicles are amongst the developments we are monitoring and assessing. We work with local authorities, including passenger transport executives, regional transport committees and transit authorities, in the delivery and planning of bus and rail services.	Sustained low fuel prices have led to increased competition from cars and airlines.	1.5.1, 1.5.4 and 1.5.5

Details of the Group's treasury risks are discussed in note 25 to the consolidated financial statements, and include the risk to operating costs arising from movements in fuel prices.

1.4.6 How we measure our performance (key performance indicators)

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level to measure the Group's progress in achieving its objectives. The most important of these KPIs at a Group level focus on four key areas:

- Profitability
- Organic growth
- Safety
- Service delivery

KPI 1 – profitability
The overall strategy of the Group is intended to promote the success of the Group and create long-term value to shareholders. In the shorter term, we measure progress towards this overall aspiration by monitoring growth in adjusted earnings per share.
KPI 2 – organic growth
To create long-term value, we aim to deliver organic growth in revenue. We measure progress on this by division, looking at like-for-like growth in passenger volumes and/or revenue as we consider most appropriate for the particular division.
KPIs 3 and 4 – safety and service delivery
To deliver organic growth in revenue, we aim to provide safe and reliable transport services that people want to use. We measure safety and service delivery by division using a range of measures appropriate for each business.

Further details on how we calculate these key performance indicators, our targets and our recent performance is summarised below.

Profitability

Adjusted earnings per share is earnings per share before exceptional items and intangible asset expenses ("Adjusted EPS"). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude exceptional items and intangible asset expenses) divided by the weighted average number of ordinary shares ranking for dividend during the relevant period.

Adjusted EPS was as follows:

	Target	Year ended		
		29 April 2017 pence	30 April 2016 pence	30 April 2015 pence
Adjusted EPS	To increase in excess of the UK Consumer Prices Index	24.4p	27.7p	26.7p

Organic growth

The following measures of organic growth are monitored:

- UK Bus (regional operations) and megabus Europe – growth in passenger journeys measured as the percentage increase in the number of passenger journeys relative to the equivalent period in the previous year.
- Rail – growth in passenger miles measured as the percentage increase in the number of miles travelled by passengers relative to the equivalent period in the previous year.
- UK Bus (London) and North America – growth in constant currency revenue from continuing operations measured as the percentage increase in revenue relative to the equivalent period in the previous year.

The measures vary by division reflecting differences in the underlying businesses – for example, a significant proportion of the revenue in North America and all of the revenue in UK Bus (London) is not determined on a "per passenger" basis.

Throughout this Annual Report, references to passenger volume growth for UK Bus or Rail businesses mean growth determined on the basis set out here.

Certain of these growth KPIs involve a degree of estimation in respect of passenger volumes. All of the organic growth KPIs are normalised to exclude businesses that have not been held by the Group for the whole of the relevant year and the preceding year. The growth figures for the year ended 29 April 2017 are also normalised for differences in the number of days in each year.

	Target	Year ended 29 April 2017 Growth %	Year ended 30 April 2016 Growth %	Year ended 30 April 2015 Growth %
UK Bus (regional operations) passenger journeys		(1.5)%	(0.8)%	0.1%
megabus Europe passenger journeys		n/a	235.0%	65.1%
UK Bus (London) revenue		(0.8)%	2.5%	6.4%
UK Rail passenger miles				
– South West Trains	Positive growth each year	(0.8)%	2.7%	3.9%
– East Midlands Trains		2.1%	1.2%	6.3%
– Virgin Trains East Coast		2.1%	1.7%	n/a
– Virgin Rail Group – West Coast Trains		5.9%	2.6%	10.2%
North America revenue		(2.1)%	(3.5)%	0.9%

The reduction in passenger journeys at UK Bus (regional operations) in the year ended 29 April 2017 is partly attributable to weak underlying local economic conditions in some parts of the UK, sustained lower fuel prices, worsening road congestion and increased competition from other transport providers.

The lower revenue in North America during the year ended 29 April 2017 reflects the actions we have taken at our megabus.com inter-city coach business to match our services with changes in demand from customers.

The increase in passenger miles at West Coast Trains during the year ended 29 April 2017 partly reflects the prior year impact of the temporary closure of Lamington viaduct in southern Scotland, which carries the West Coast mainline railway.

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1.4.6 How we measure our performance (key performance indicators) (continued)

Safety

Safety is monitored in various ways, including through a range of KPIs. Businesses acquired or disposed of in the year are excluded from the safety KPIs. Eight of the more important safety KPIs are reported below:

	Target	Year ended 29 April 2017	Year ended 30 April 2016	Year ended 30 April 2015
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	18.6	20.4	19.8
megabus Europe – number of blameworthy accidents per 1 million miles travelled		n/a	11.9	6.7
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		45.8	35.6	28.5
US – number of blameworthy accidents per 1 million miles travelled		6.9	6.2	4.4
South West Trains – workforce lost time injuries per 1,000 staff		1.4	1.4	1.5
East Midlands Trains – workforce lost time injuries per 1,000 staff		0.9	1.3	1.1
Virgin Trains East Coast – workforce lost time injuries per 1,000 staff		1.1	1.5	n/a
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		1.0	1.3	1.8

An increased proportion of newer, less experienced bus drivers, combined with the impact of greater road congestion, have contributed to the increased rate of blameworthy accidents at UK Bus (London) during the year ended 29 April 2017. While the increase tends to be mostly low speed manoeuvring incidents, each incident is investigated and health and safety remains our top priority.

We believe the increase in the number of blameworthy accidents in North America during the year ended 29 April 2017 reflects an increased focus on reporting all such incidents, irrespective of how minor, rather than being indicative of deteriorating safety performance.

Service delivery

Our measures of service delivery include:

- UK Bus (regional operations), megabus Europe and UK Bus (London) – reliability measured as the percentage of planned miles to be operated that were operated.
- Rail – punctuality measured on the basis of the Department for Transport's Public Performance Measure (moving annual average) being the percentage of trains that arrive at their final destination within 5 minutes (or 10 minutes for inter-city services) of their scheduled arrival time having called at all scheduled stations. References to rail punctuality throughout this Annual Report refer to punctuality calculated on this basis.

Due to the nature of the North American business, there is no single measure of service delivery for the North American Division as a whole.

Service delivery KPIs are not reported for businesses acquired or disposed of in the year.

The service delivery KPIs were as follows:

	Target	Year ended		
		29 April 2017 %	30 April 2016 %	30 April 2015 %
UK Bus (regional operations) reliability	>99.0%	99.5%	99.4%	99.5%
megabus Europe reliability	>99.0%	n/a	99.7%	99.3%
UK Bus (London) reliability	>99.0%	97.9%	97.4%	97.2%
UK Rail punctuality				
– South West Trains	>90.0%	87.0%	90.0%	90.1%
– East Midlands Trains	>85.0%	92.1%	92.8%	92.3%
– Virgin Trains East Coast	>85.0%	83.1%	85.0%	n/a
– Virgin Rail Group – West Coast Trains	>85.0%	89.4%	86.2%	84.4%

The adverse trends in punctuality during the year ended 29 April 2017 at South West Trains and Virgin Trains East Coast in particular, reflect the poor Network Rail operational performance on these parts of the network. In contrast, punctuality has improved at West Coast during the year, reflecting positive work by Network Rail and Virgin Rail Group.

1.5 Divisional Performance

1.5.1 UK Bus (regional operations)

Summary

- High margin public transport business – c.12% operating margin
- High passenger satisfaction – 86% in England, 90% in Scotland
- Further investment in digital and technology
- Action taken in response to a period of subdued revenue trends – targeted network, pricing and management changes
- No change in our expectation of 2017/18 operating profit

Financial performance

The financial performance of the UK Bus (regional operations) Division (excluding exceptional items) for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue	1,015.7	1,032.8	(1.7)%
Like-for-like* revenue	1,008.3	1,023.7	(1.5)%
Operating profit*	121.1	137.3	(11.8)%
Operating margin	11.9%	13.3%	(140)bp

While the operating profit for the year ended 29 April 2017 of £121.1m (2016: £137.3m) fell short of the target we set at the start of the financial year, the UK Bus (regional operations) Division remains a strong business with an operating margin of almost 12%, passenger satisfaction of 86% in England and passenger satisfaction of 90% in Scotland. We have made further investment in the future of the business, in new vehicles and new technology.

The Division is organised and managed based on a number of core regional bus businesses. Across those businesses, the operating margins in the year ranged upwards from around 8%. Although the margin varies from business to business, each of them continues to deliver a satisfactory level of profitability.

Like-for-like revenue can be analysed as follows:

	2017 £m	2016 £m	Change
Commercial on and off bus revenue			
– megabus.com	23.8	24.0	(0.8)%
– other	596.6	601.0	(0.7)%
Concessionary revenue	246.6	246.2	0.2%
Commercial & concessionary revenue	867.0	871.2	(0.5)%
Tendered and school revenue	99.9	110.3	(9.4)%
Contract revenue	38.8	39.3	(1.3)%
Hires and excursions	2.6	2.9	(10.3)%
Like-for-like revenue	1,008.3	1,023.7	(1.5)%

The like-for-like revenue growth rates across our core regional bus businesses ranged from around minus 4% to plus 4% in the year, reflecting our view that the subdued revenue trends reflect variations in local economies and traffic conditions to a greater extent than they reflect any nationwide structural changes in transport markets.

The age at which older people are entitled to free bus travel in England has been increasing in line with changes to the state pension entitlement age. Therefore, the number of older people eligible for free bus travel in England has reduced year-on-year. While that has some adverse effect on the number of concessionary passenger journeys on our bus services, it should have a positive effect on the number of commercial (i.e. where the passenger pays for his or her own travel) journeys. To understand the year-on-year revenue trends, therefore, we consider commercial and concessionary revenue together.

* See definitions in note 34 to the consolidated financial statements

Like-for-like combined commercial and concessionary revenue was 0.5% lower than in the previous year, although there was some improvement in revenue trends in the second half of the year.

Total like-for-like passenger journeys fell by 1.5%, largely as a result of weak underlying local economic conditions in some parts of the UK, sustained lower fuel prices and worsening road congestion. We continually review and adjust our local bus networks to take account of changing patterns of demand. We have therefore taken action in response to the current period of subdued revenue trends.

In partnership with transport authorities, we seek to maximise the value from their funding for socially necessary services to provide as wide a set of bus networks as possible for local communities. Revenue from tendered and school services provided under contract has continued to decline, as a result of local authorities reducing spending due to budget constraints. While contract revenue also declined year-on-year, that revenue stream does vary from year to year based on the particular contract opportunities available.

Road works and worsening road congestion in many towns and cities are increasingly having a negative impact on customer use of bus services, damaging reliability and adding to operating costs. Along with other bus operators, we are increasing pressure on local authorities to take practical steps to address road congestion and invest in bus priority measures which can help improve mobility and air quality for everyone.

The movement in operating margin was built up as follows:

Operating margin – 2015/16 **13.3%**

Change in:

Staff costs	(1.8)%
Fuel costs	1.5%
Gain on disposal of property	0.6%
Depreciation	(0.6)%
Other	(1.1)%

Operating margin – 2016/17 **11.9%**

The main changes in the operating margin shown above are:

- Staff costs have continued to rise against a backdrop of subdued revenue.
- Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.
- Non-exceptional gains on property disposals, principally on two specific properties, were higher than in the previous year.
- Our continued investment in our vehicle fleet and technology is reflected in higher depreciation charges.
- Other costs have increased, including higher IT and digital costs as we progress our digital programme.

Networks and pricing

Providing our customers with value for money travel is at the heart of our strategy. Independent research by transport specialists TAS, published in February 2017, found that weekly bus travel offered by Stagecoach is almost 10% cheaper than the UK average. Stagecoach was also found to have the country's lowest average single bus fares. Our market-leading low fares, and the fact that there were no price rises on many of our tickets in the previous 12 months, has also given us flexibility to make targeted changes to pricing recently whilst remaining competitive to the private car.

We are pleased to have partnered with Special Olympics Great Britain to support its National Games in Sheffield in August 2017. We will provide daily transport for around 3,000 competitors and their sports coaches between their event accommodation and the 13 sports venues.

We are continuing to develop our megabus.com inter-city coach brand in the UK. In May 2017, we significantly expanded the network with a series of new routes across the Midlands and south-west England, offering direct links to Heathrow or Gatwick Airport from 13 towns and cities.

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Enhanced customer experience

We are continuing to invest in the quality of our services, initiatives to further increase customer satisfaction, and steps to deliver better air quality for local communities. In April 2017, we announced orders worth £70m for around 340 new Euro 6 standard vehicles for 2017/18, most of which will be built in the UK and support the country's manufacturing sector. Almost half the new vehicles ordered meet the Government's Low Carbon Emission Bus specification, while around two-thirds feature innovative stop-start technology to help improve fuel consumption and reduce emissions. All new vehicles are fitted with CCTV and USB charging points, while most will also offer free Wi-Fi. It brings our total investment in new buses and coaches in the UK to well over £1bn in the past 11 years, delivering around 7,000 new vehicles.

We have also further invested in our digital offerings. Our new Stagecoach Bus smartphone app provides customers with journey planning, next-stop information and live bus tracking, and enables people to buy and download bus tickets straight to their mobile phone. Smart ticketing is in place at all Stagecoach regional companies with more than two million StagecoachSmart cards in circulation and more than 330 million smart transactions every year. In partnership with other bus companies, we have ensured multi-operator smart ticketing is available in all of England's city regions, benefitting around 15 million people. We are pleased to have been part of the launch of Scotland's first smartcard multi-operator initiative covering Aberdeen City and Aberdeenshire, as well as the introduction of a similar initiative in Dundee. Further multi-operator schemes are set to follow in Glasgow and Edinburgh. These projects will provide a platform to deliver multi-modal travel in partnership with transport authorities. During 2016/17, we started the roll-out of contactless payment technology across our UK regional bus services. This technology allows passengers to pay for their travel with contactless credit or debit card, Apple Pay and Android Pay. The most recent independent research by Transport Focus shows that our customers continue to have high levels of satisfaction with Stagecoach services, as high as 93% in some areas, and we have again been rated as offering the best value for money of any major bus company.

Local partnerships and devolved arrangements

One of the Division's strengths is the breadth of partnership working with local authorities who understand the joint responsibility we share for improving bus services for passengers. We are pleased to have signed a new partnership agreement that will deliver significant investment in improved bus services in Merseyside over the next five years. The Liverpool City Region Bus Alliance, a partnership with Merseytravel and Arriva, will deliver more than £25m worth of investment in bus services in the first year to boost services for existing passengers and attract more people to bus travel. Around 80% of public transport journeys in the Liverpool City Region are made by bus, with overall customer satisfaction at 89%. The partnership will provide a more modern bus fleet, improved smartcard ticketing, Wi-Fi and USB charging on all new buses, joint marketing campaigns, improved bus links, and clearly defined targets around punctuality and passenger satisfaction. This builds on existing strong partnerships in several other city regions and local authority areas around the country. We are developing similar partnership proposals in conjunction with fellow bus operators for other key regions.

New mayors have been appointed in a number of areas where we operate local bus services. A further mayoral election for the Sheffield City Region will take place in May 2018. We look forward to continuing to engage with the newly appointed mayors and local authorities in these regions and demonstrating how a partnership between bus operators and the public sector offers the best and most cost effective route to deliver on their aspirations for stronger and smarter local bus networks.

The Bus Services Act came into effect in April 2017 and makes some amendments to the framework for the delivery of bus services in England outside of London. We are pleased that this enabling legislation has retained

a significant focus on partnerships and that some proposals introduced during its passage through Parliament which would not have benefitted either customers or taxpayers have been reversed. The important associated statutory instruments and guidance linked to the Act are not yet finalised and we are continuing to engage constructively with key stakeholders. Our focus is to ensure that there are proper protections for passengers, taxpayers and bus operators, including a robust and transparent assessment process for evaluating any proposed franchising of bus services. A National Transport Bill is expected to be introduced in Scotland in the near future. We are engaging with key stakeholders on what this may mean for our bus operations in Scotland and will continue to monitor developments.

Outlook

We continue to expect subdued revenue trends from our local bus services in the short-term. We have implemented targeted mileage reductions and selective fare rises, as we make changes to our services that we consider will support the long-term success of the business. Our costs remain well controlled, although the reduction in fuel costs in 2017/18 is anticipated to be more modest than that for the year ended 29 April 2017.

We have not significantly changed our expectation of the Division's operating profit for the year ending 28 April 2018 since our last update on trading.

1.5.2 megabus Europe

Summary

- Exit from megabus Europe business completed
- No further losses expected

Financial performance

The financial performance of the megabus Europe Division (excluding exceptional items) for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue and like-for-like revenue	20.2	18.4	9.8%
Operating loss	(4.3)	(24.1)	(82.2)%
Operating margin	(21.3)%	(131.0)%	10,970bp

The Group completed the sale of the retailing part of the megabus Europe business to FlixBus on 1 July 2016. The consideration was satisfied by the issue of a loan note and that loan note was settled in full in December 2016. The Group also agreed to transfer a number of vehicles to FlixBus, or a nominee of FlixBus. These transfers are now largely completed. After taking account of costs and losses related to the sale, we have reported a pre-tax exceptional loss on the disposal of the business of £6.9m. The exceptional loss has increased from the loss of £2.8m reported for the half-year ended 29 October 2016, mainly reflecting additional costs relating to the Group's exit from its operations in France.

The operating loss of £4.3m shown above represents the loss incurred prior to 1 July 2016, partly offset by a small profit from the operation from 1 July 2016 of an international network of coach services between the UK and mainland Europe. These services were operated by us under contract to FlixBus, where the revenue from passengers flowed to FlixBus and FlixBus paid us for the operation of the coach services. These services have now ceased operating. We have also ceased operating the other coach services we previously ran in mainland Europe prior to 1 July 2016. Losses on all of these services since 1 July 2016 and costs associated with terminating services, where applicable, have been accounted for as part of the exceptional loss on the sale of the retail business.

No further profits or losses are currently expected in respect of megabus Europe.

1.5.3 UK Bus (London)

Summary	
• Significant value delivered since 2010 acquisition	
• London Bus operator of the year 2017	
• Pressure on wage rates and competition for new contracts expected to result in lower operating profit in short-term	
• Significant value in freehold property portfolio	

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue	263.4	267.1	(1.4)%
Like-for-like revenue	263.4	265.6	(0.8)%
Operating profit	18.4	20.2	(8.9)%
Operating margin	7.0%	7.6%	(80)bp

We have generated significant value from our acquisition of the London bus business in 2010, when we paid around £60m to acquire the business. In the last three years alone, the business has delivered over £60m of operating profit.

The value of the business is supported by its freehold property portfolio. Property in London is expensive and our properties provide a strong base for the continuing operation of our bus services in East and South East London. We believe the properties would also realise significant value if they were to be sold to third parties.

As expected, like-for-like revenue was slightly down at 0.8% below the prior year. That reflected a net reduction in vehicle miles operated resulting from contract tenders concluded in the prior year. Revenue per vehicle mile increased 1.4%.

The movement in operating margin was built up as follows:

Operating margin – 2015/16	7.6%
Change in:	
Insurance and claims costs	0.7%
Fuel costs	0.6%
Staff costs	(0.3)%
Operating lease costs	(0.4)%
Other	(1.2)%
Operating margin – 2016/17	7.0%

Insurance and claims costs have reduced due to lower costs on the self-insured portion of claims.

Although the Division's fuel costs have reduced year-on-year, there is an offsetting effect from the impact of lower fuel costs on the indexation of contract revenue. Staff and other costs have continued to rise as a proportion of revenue.

We have built a sustainable business in the contracted London bus market through a measured approach to bidding, a focus on high operational quality and a close control of costs. Our East London bus business was named Bus Operator of the Year at the 2017 London Transport Awards in recognition of high levels of reliability, driving standards and customer satisfaction.

Road works and traffic congestion are a continuing challenge for operators in the London bus market. Engagement is ongoing with both Transport for London and the London Assembly on these issues. We believe congestion is a major factor in the decline in bus passenger volumes, which are now falling at a faster rate in the capital than in the rest of the country. While London bus operators do not take passenger

volume risk in the short-term, a combination of declining revenues and moves by central government to make the London bus network self-financing means that Transport for London's current business plan envisages no significant growth in London bus mileage for the next five years.

Outlook

We currently expect our UK Bus (London) operating profit to reduce in the year ending 28 April 2018. That reflects two main factors. Firstly, to ensure we recruit and retain sufficient bus drivers to continue to reliably provide the contracted bus services, we plan to increase our starting rates of pay for bus drivers reflecting market conditions in London. Secondly, we are seeing heightened competition for contracts in some parts of our London operations resulting in us losing some contracts. While this means that the 2017/18 operating margin is likely to be below our long-term aspiration of at least 7%, we plan to continue to bid for new contract opportunities at prices we believe would deliver appropriate rates of return.

1.5.4 North America

Summary	
• Actions taken to adjust megabus.com networks to reflect passenger demand	
• New contract wins	
• Introduction of low-cost digital offerings for customers	
• Targeting growth in operating profit in 2017/18	

Financial performance

The financial performance of the North America Division for the year ended 29 April 2017 is summarised below:

	2017 US\$m	2016 US\$m	Change
Revenue	632.3	647.7	(2.4)%
Like-for-like revenue	632.6	646.2	(2.1)%
Operating profit	25.0	28.4	(12.0)%
Operating margin	4.0%	4.4%	(40)bp

Like-for-like revenue was built up as follows:

	2017 US\$m	2016 US\$m	Change
megabus.com	193.0	202.9	(4.9)%
Scheduled service			
– Commercial revenue	158.1	159.5	(0.9)%
– Support from local authorities	20.5	19.0	7.9%
Charter	119.0	121.7	(2.2)%
Sightseeing and tour	23.8	27.9	(14.7)%
Contract services	118.2	115.2	2.6%
Like-for-like revenue	632.6	646.2	(2.1)%

The market in North America has been challenging in recent years due to the effects of sustained lower fuel prices, which have heightened car and air competition. However, trading at our megabus.com inter-city coach business shows some signs of improvement (with the rate of revenue decline further moderating and revenue per mile for the year up 3.2%) including as a result of the positive action we have taken to match our services with changes in demand from customers. As well as having taken proactive steps to reduce the mileage operated by megabus.com in North America, we are making targeted use of smaller vehicles. In addition, we have moved the core operating bases of our Midwest operation from Chicago to Wisconsin and Ohio to deliver a more efficient service. Marketing activity to promote the megabus.com

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brand in North America and to generate new customers is particularly focused on digital channels. We remain well positioned to quickly respond to further recovery in demand.

Trading at the other businesses in North America remains in line with our expectations. While revenue from the more leisure-dependent activities (charter, sightseeing and tour) reduced during the year, we saw better trends in our scheduled service and contract revenues. The fall in like-for-like revenue from sightseeing and tours largely reflects reductions in mileage at our sightseeing business in California. Contract revenue growth of 2.6% includes recent contract wins and we are currently in discussions regarding several further opportunities to secure new contract business.

As in the UK, the North America Division is expanding its digital initiatives. Given the smaller size of the North America business relative to our UK business, a number of our digital initiatives in North America have been focused on ideas that are relatively low cost to the business but which are valued by customers. As well as offering a link to buy travel on some of our current commuter services to and from New York City, our new www.commuterwiz.com website also allows commuters to provide us with details of their commutes to enable us to develop new services for journeys not already well served by public transport. Our airport express services have increased their online sales significantly following the launch of more mobile-friendly websites. We currently have a small group of staff working on how we can further improve our digital offerings, marketing, branding and overall customer service at our airport express services. A new www.stewartairportexpress.com website has recently been launched to promote and sell our new coach services between Stewart International Airport and New York City, linking the city to new low-cost international flights from Norwegian Air.

The movement in the operating margin was built up as follows:

Operating margin – 2015/16	4.4%
Change in:	
Fuel costs	2.3%
Insurance and claim costs	(1.1)%
Staff costs	(1.0)%
Other	(0.6)%
Operating margin – 2016/17	4.0%

The main changes in the operating margin shown above are:

- Fuel costs have reduced by around US\$16m reflecting changes in vehicle miles operated, market fuel prices and our fuel hedging programme.
- The change in insurance and claims costs reflects our latest assessment of the required provision for claims.
- Overall staff costs are in line with the previous year but have risen as a proportion of our lower revenue base.

Outlook

As oil prices have stabilised, the trend in our megabus.com revenue per vehicle mile has improved. If these revenue trends continue to recover, we have the fleet capacity and operational plans to increase our overall vehicle mileage.

We also see growth opportunities for the Division in new contract wins but will remain disciplined in ensuring that our contract bids are designed to deliver a satisfactory rate of return on capital.

Given the actions we have taken to match our services with customer demand, and new contract opportunities, we are targeting growth in the Division's operating profit in 2017/18.

1.5.5 UK Rail

Summary

- Engaged in discussions with Department for Transport on contractual matters at Virgin Trains East Coast, including implications of Network Rail's reprioritised infrastructure programme
- Onerous contract provision at Virgin Trains East Coast, reflecting expected losses in the near-term, but business expected to be profitable from 2019
- Rate of Stagecoach UK Rail revenue growth ahead of sector
- South West Trains franchise due to end in August 2017
- Shortlisted for new East Midlands and South Eastern franchises
- Joint venture with Virgin and SNCF shortlisted to bid for new West Coast Partnership franchise
- Shortlisted for involvement in California High Speed Rail project

Financial performance

The financial performance of the UK Rail Division (excluding exceptional items) for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue	2,160.7	2,129.1	1.5%
Like-for-like revenue	2,160.7	2,118.0	2.0%
Operating profit	31.0	66.7	(53.5)%
Operating margin	1.4%	3.1%	(170)bp

As expected, profit at the UK Rail Division has declined year-on-year, principally due to our operations at Virgin Trains East Coast and South West Trains, where passenger revenue growth was insufficient to cover the combination of increased premia payments to Government and movements in operating costs.

Revenue growth at our UK Rail Division, and for the UK rail sector as a whole, has been lower over the last eighteen months or so than was generally seen in preceding years. Like-for-like revenue growth in our UK Rail Division was 2.0%. After normalising for differences in the timing of events between years and for one-off revenue effects, we estimate that underlying revenue growth was around 2.4%. This compares favourably to our estimate of 2.0% normalised revenue growth for UK franchised train operators in general over that period. We believe the reduced rate of growth over the last eighteen months or so reflects a number of factors including the following:

- Poor Network Rail operating performance impacting some train companies within our UK Rail Division, although Virgin Rail Group's West Coast franchise is seeing notable improvements in infrastructure performance.
- Increased car competition as a result of historically low fuel prices.
- Continued aggressive competition from airlines in light of lower fuel prices.
- Slower UK GDP growth and weakened consumer and business confidence, including uncertainty among consumers and businesses following the UK's decision to leave the European Union.
- The effect of changing working patterns on commuter services.

Virgin Trains East Coast – contractual arrangements

We are engaged in discussions with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise. This takes account of our respective rights and obligations under the existing franchise agreement, including in respect of the reprioritisation of Network Rail's infrastructure programme. Accordingly, we expect Virgin Trains East Coast to be profitable from 2019 under new commercial terms.

Virgin Trains East Coast has already delivered extensive promised improvements for passengers and completed a significant part of its

overall £140m investment programme for the franchise to create a more personalised travel experience for customers. This has included a complete upgrade of the existing train fleet, new services and extra capacity, improved fares and ticketing, as well as harnessing new technology to deliver better information, on-board service and station facilities. As a result, Virgin Trains East Coast has amongst the highest customer satisfaction of any franchised rail operator. At the same time, Virgin Trains East Coast has continued to meet its contractual and financial obligations, including delivering around £525m to 29 April 2017 in premium payments to the taxpayer. This is around 30% more than the average monthly payments made by Directly Operated Railways when it ran the East Coast route. Trading, however, at Virgin Trains East Coast have been challenging for some time, for the reasons we have set out in previous reports. Revenue and profit at Virgin Trains East Coast have been below the levels anticipated in our 2014 bid for the franchise, albeit the shortfalls are primarily due to macroeconomic and other external factors beyond its control. Revenue growth for the UK rail sector as a whole has also been adversely affected by macroeconomic and other external factors. Recently, the business has incurred operating losses. While revenue trends showed some improvement in the second half of the year to 29 April 2017, revenue is not growing as strongly as we anticipated and most recently, revenue has been adversely affected by increased terrorism concerns and political uncertainty. In addition, the amounts payable to and receivable from Network Rail in respect of operating performance remain volatile and uncertain.

Our bid for the franchise reflected forecast financial benefits of new rolling stock and enhanced railway infrastructure. While we and the Department for Transport continue to expect improved rolling stock and infrastructure, the scope and timing of those have been reprioritised such that they are not consistent with what was assumed in our franchise bid and then contracted. Our contractual position is that the financial risks related to changes in the scope and timing of new rolling stock and infrastructure rest with the Department for Transport.

We expect Virgin Trains East Coast to incur losses under the current contract but taking account of our contractual rights and obligations, we would expect the franchise to be profitable from 2019. Accordingly, in the financial statements for the year ended 29 April 2017, we have recorded an exceptional pre-tax charge of £84.1m to reflect that the current contractual arrangements give rise to an onerous contract. We have also recorded a £44.8m impairment of intangible assets associated with the right to operate the franchise. The impairment charge is essentially an acceleration of amortisation and is a non-cash charge. The Stagecoach parent company is committed to loan up to £165m to Virgin Trains East Coast, of which 10% is to be funded by Virgin. As at 29 April 2017, the loan to Virgin Trains East Coast was £57.5m.

Virgin Trains East Coast – revenue, investment and customer satisfaction

As previously highlighted, revenue at Virgin Trains East Coast remains below our original plans for the franchise, with like-for-like revenue growth in the year of 3.2%. However, customers are responding well to our improvements and we are yet to deliver some of the major elements of our planned investment programme to transform customer journeys and increase revenue.

We have now completed a £40m investment in upgrading the existing train fleet, which has seen nearly 25,000 new seats installed. Customers can also now benefit from 42 additional services per week between Edinburgh and London, providing 22,000 extra seats. Next year should see the introduction of completely new Azuma trains being built in the UK by Hitachi. We are continuing to innovate to make travel easier and more enjoyable for our customers. In an industry first, Virgin Trains East Coast extended its booking horizon from the industry standard of three months to six months in advance for weekday tickets and has recently extended this to include weekends. We have launched a global first in rail travel technology with our new Explorer app which helps customers navigate their way around stations to locate friends, shops and platforms. The app also enables real time automatic sign translation for international customers to read signs in their own language. On board,

we have had a positive response from customers to our “Beam” entertainment system, and we have introduced free WiFi for those customers that book direct with Virgin Trains East Coast. We have also transformed the dining and shopping experience for customers with a revamped menu and food bar packed with new products. A cross-Virgin Trains brand advertising campaign has been launched and Virgin Trains has also expanded its customer contact centre in Newcastle.

Our investment programme and marketing initiatives have had a positive impact on passenger volumes and customer satisfaction. There has been an increase in the number of passengers choosing train over plane, the result of a deliberate strategy by Virgin to win market share on the UK’s busiest domestic air route. Customers consistently rate Virgin Trains as one of the top long-distance rail franchise operators in the National Rail Passenger Survey (“NRPS”) commissioned by industry watchdog, Transport Focus. Figures for the autumn 2016 survey show 91% satisfaction, which is the best autumn result on the East Coast route in three years and puts Virgin Trains East Coast top of the franchised long-distance rail operators.

East Midlands Trains

Like-for-like revenue at East Midlands Trains grew 3.3% in the year. The business is delivering a strong financial performance and a share of that strong performance is being paid to the Department for Transport under the franchise “profit share” arrangement. The current East Midlands Trains franchise is contracted to run until 4 March 2018. The Department for Transport has the option to extend the contract by up to one year on commercial terms that have been agreed and has already indicated its intention to extend the franchise to November 2018.

South West Trains

South West Trains’ like-for-like revenue grew by 0.6% in the year. It currently receives revenue support from the Department for Transport such that any future shortfall in revenue versus our current expectation would be 80% offset by increased revenue support income from the Department.

We were disappointed to hear in March 2017 that we had been unsuccessful in our bid to operate the next South Western franchise. The current South West Trains franchise is due to expire in August 2017. In the final months of our franchise, we are continuing to work hard to deliver a professional service to our customers, meet our obligations and ensure a smooth transition to the new operator. Satisfaction amongst South West Trains passengers is continuing to increase, with the latest independent research by Transport Focus showing that overall satisfaction has risen to 83%, up from 81% in autumn 2015. Overall satisfaction with South West Trains services was higher than both the national and London & South East sector average.

We are proud to have operated the network under the South West Trains brand for more than 20 years. Over that time, we have delivered significant improvements for our customers. We believe we submitted a strong bid for the new South Western franchise. It offered a transformation in the travel experience for our customers, more investment to help the railway support the communities and economy of the south-west, as well as a substantial and deliverable financial benefit to taxpayers to help fund better public services.

We have received feedback from the Department for Transport on the various elements of our bid. Together with our own review of our bid, this will inform our approach to bids for other new franchises.

We are most grateful to all of our employees and partners who have been involved in delivering our vision for the railway in the south-west over the past two decades as well as those who contributed to our strong bid for the new franchise. We know they share our disappointment in the result.

Franchising update

We are pleased that the Group is one of three bidders to have been shortlisted by the Department for Transport for the new East Midlands rail franchise. The new franchise, which is likely to be for between seven

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and 15 years, is due to start in 2018 when the current East Midlands Trains contract comes to an end.

We have also been shortlisted to bid for the new South Eastern franchise. The franchise, which runs from 2018, incorporates rail services in south east London, Kent, the Medway towns and East Sussex. In April 2017, we confirmed that Stagecoach Group and Virgin Group had joined forces with French high speed operator, SNCF, to bid for the West Coast Partnership rail franchise. This creates a powerful world-class partnership, bringing together the team which has transformed inter-city rail travel in the UK with the most recognised and capable high speed operator in Europe. Collectively, we have been shortlisted to bid for the new franchise, which is expected to run from 2019 and include current West Coast services and the first three to five years of operation of High Speed 2 services. Stagecoach has a 50% share in the bid vehicle, West Coast Partnership Limited, with a 30% share held by SNCF and the remaining 20% owned by Virgin. It is envisaged that services under a successful bid would carry the Virgin brand.

We take some encouragement from how the UK franchising model is developing. The parent company of a franchised train operator is required to commit loan facilities, which can be drawn down by the train operator where necessary to meet contractual obligations or funding needs. We are encouraged by early signs of moderation in the amount of such loan commitments. We are also encouraged to hear that the Department for Transport recognises that the risk sharing arrangements on franchises awarded in recent years leaves train operators too financially exposed to risks outside of their control – in that regard, we welcome moves towards something more akin to a full sharing of revenue risk rather than just risk sharing arrangements based on specific macroeconomic measures.

We remain, however, concerned that the Department may continue to expect train operators to bear significant financial risks in relation to the availability of the train paths required to operate the train services that an operator planned in its franchise bid and/or in relation to Network Rail's delivery of infrastructure improvements. Both of these risks are affected by events outside of a train operator's control yet can have substantial financial consequences. We will continue to share our views and ideas on the UK franchising model with the Department for Transport.

We are one of five bidders shortlisted for an early train operator ("ETO") contract for a new high-speed railway being constructed in California. The ETO will provide advice during the design and construction of the new rail system and would also be expected to initially run the train service. We look forward to further understanding the objectives and expectations of the high-speed rail authority with regards to the project.

Outlook

Our UK Rail operating profit for 2017/18 will reflect the end of our South West Trains franchise with an expected full-year profit at East Midlands Trains being partly offset by the costs of bidding for new opportunities. We continue with our emphasis on growing revenue, controlling costs and managing contracts.

Revenue has been weaker in recent weeks reflecting the effects on demand of the dreadful terrorist attacks in Manchester and London as well as political uncertainty related to the General Election and the UK's planned exit from the European Union. This in turn increases uncertainty in forecasting revenue for the weeks and months ahead.

We will continue to consider rail bidding opportunities where we believe we can deliver benefits to passengers and add value for our investors. Our record of winning franchises, actively managing the contracts during the life of franchises and operational excellence leaves us well placed to consider contract opportunities, not just in the UK but also overseas.

1.5.6 Joint Ventures

1.5.6.1 Virgin Rail Group

Summary
• Profit growth, record punctuality and high customer satisfaction • Revenue growth ahead of sector average • Opportunity for further "Direct Award" franchise through to March 2019

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m
49% share		
Revenue	556.8	525.3
Operating profit	31.5	32.6
Net finance income	0.5	0.7
Taxation	(7.2)	(9.1)
Profit after tax	24.8	24.2
Operating margin	5.7%	6.2%

Our share of Virgin Rail Group's profit after tax increased from £24.2m in 2015/16 to £24.8m in 2016/17. The business continues to deliver strong profit margins for a franchised UK rail operator, notwithstanding the slowing of UK rail sector revenue growth. Virgin Rail Group's West Coast rail franchise continues to perform well, with revenue growth higher than the industry average, and that is benefitting taxpayers through profit share payments by the business to the UK Department for Transport. The franchise, which is contracted to run until March 2018, is continuing to perform ahead of our expectations at the time the contract was agreed. The Government has confirmed that it plans a short-term franchise of approximately 12 months to cover the period from the end of the current West Coast franchise in March 2018 until the planned start of the West Coast Partnership franchise in April 2019. Virgin Rail Group is in discussions with the Department for Transport with a view to agreeing commercial terms to that end.

In March 2017, Virgin Trains marked 20 years of operating services on the West Coast route. Over the past two decades, Virgin Trains has revolutionised UK train travel with the introduction of new trains and increased frequency along the route, as well as setting the industry benchmark for customer service. Latest National Rail Passenger Survey results showed 90% customer satisfaction on West Coast, amongst the highest in the UK franchised rail sector. Passenger growth and satisfaction have also coincided with punctuality reaching its highest ever level since privatisation, as a result of strong partnership working with Network Rail.

During 2016/17, Virgin Trains West Coast has delivered further improvements for customers. It is the first train company to automatically compensate customers who book advance tickets through virgintrains.com or its app if their train service is delayed. In partnership with thetrainline.com, Virgin Trains has also become the first operator to give customers the option to add train tickets straight to their Apple Wallet. Recently, the company unveiled its vision for the station of the future, with a radical new £1m-plus open plan design for Birmingham International's ticket office. It features more user friendly information screens, improved ticket machines and touch screen information points. Customers can access roving staff equipped with tablets, wireless charging for devices, cashless payment at car park barriers to reduce queues and free station Wi-Fi.

1.5.6.2 Twin America

Financial performance

In February 2017, the Group completed the sale of its interest in the Twin America LLC joint venture. Twin America was a joint venture between Stagecoach North America and City Sights. It principally operated sightseeing bus services in New York City. Stagecoach North America, which held 50 per cent of the voting rights and 60 per cent of the economic rights of the joint venture, sold its interest to City Sights. We have recognised an exceptional gain of £11.6m in respect of the disposal. Our share of Twin America's profit for the year ended 29 April 2017 is not material. In the year ended 30 April 2016, we determined that the carrying value of the Group's investment in Twin America was impaired and an impairment loss was recorded to reduce the carrying value to nil as at 30 April 2016.

Litigation

Related to the Twin America litigation involving the Group's North America Division, which we have set out in previous reports and which as noted in our annual report for the year ended 30 April 2016 was settled, the Department of Justice investigated the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Group co-operated with the investigation, which is no longer ongoing, and we do not anticipate any further action.

1.5.7 Other businesses

We see both structural risks and opportunities from advancements in areas such as autonomous vehicles, electric vehicles, digital transport information and retail channels, the sharing economy such as digitally enabled car sharing and different operating models for transport. We continue to monitor developments in and participate in trials in these areas.

In some cases, our participation in these areas sits outside our existing, core operating divisions. That is because we believe we can better harness multi-modal opportunities and explore new areas of transport outwith the day-to-day management of the core divisions.

For example, earlier in 2017, we launched the TravelHero app. The TravelHero concept is to provide a customer the opportunity to select from multiple travel modes and/or operators for his or her journey. The app allows customers to plan, book, pay for and make travel. We are currently trialling it in Canterbury, East Kent where it can be used to plan and purchase travel by buses and taxis.

Also, earlier this year, we invested in Global Travel Ventures and now hold around 20% of the equity in that company. Global Travel Ventures builds clever technology to create better deals for travellers. In January 2017, it launched the first independent rail ticketing website, www.ticketclever.com, in Great Britain for five years and the UK's first post-pay contactless bus ticketing system outside London. www.ticketclever.com uses Global Travel Ventures' in-house cloud technology to offer more cheap train journeys than anywhere else, saving up to 60% compared with station kiosks or other websites for on-the-day purchases.

1.6 Other financial matters

1.6.1 Pre-exceptional EBITDA, depreciation and intangible asset expenses

Earnings from continuing operations before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £345.4m (2016: £370.0m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

	2017 £m	2016 £m
Total operating profit before intangible asset expenses and exceptional items	192.8	228.8
Depreciation	145.5	132.2
Add back joint venture finance income & tax	7.1	9.0
Pre-exceptional EBITDA	345.4	370.0

The income statement charge for regular intangible asset amortisation increased from £15.8m to £16.8m, principally due to higher software amortisation associated with investment in technology.

Depreciation increased by £13.3m, reflecting continued capital investment and the effect of foreign exchange movements on the sterling amount of depreciation for the North America Division.

1.6.2 Exceptional items

The following exceptional items were recognised in the year ended 29 April 2017:

- A pre-tax exceptional loss of £3.2m was recognised in respect of an impairment of surplus vehicles following the withdrawal of the megabus Sleeper services in the UK.
- A pre-tax exceptional gain of £7.1m was recognised in respect of the disposal of a depot within the UK Bus (regional operations) Division. We do not ordinarily show gains and losses on the disposals of land and buildings as exceptional items. However, we consider that this gain arising from the sale of a single UK Bus depot is sufficiently large that it should be presented as an exceptional gain to allow a proper understanding of the Group's financial performance.
- As explained in section 1.5.2, a pre-tax exceptional loss of £6.9m was recognised in relation to the sale of the retailing part of the megabus Europe business.
- A pre-tax exceptional loss of £3.7m was recorded in relation to the megabus.com Midwest restructuring of operations, as explained in section 1.5.4.
- As explained in section 1.5.5, an exceptional pre-tax expense of £84.1m has been recorded in respect of an onerous contract provision for Virgin Trains East Coast and an exceptional charge of £44.8m has also been recognised in respect of Virgin Trains East Coast intangible assets.
- As explained in section 1.5.6.2, a pre-tax exceptional gain of £11.6m was recognised in respect of the disposal of the Group's interest in Twin America.

The net effect of exceptional items was a pre-tax loss of £124.0m (2016: £67.2m).

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1.6.3 Net finance costs

Net finance costs, excluding exceptional items, for the year ended 29 April 2017 were £34.1m (2016: £41.4m) and can be further analysed as follows:

	2017 £m	2016 £m
<i>Finance costs, excluding exceptional items</i>		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	4.7	5.9
Hire purchase and finance lease interest payable	1.7	2.1
Interest payable and other finance costs on bonds	22.0	25.9
Unwinding of discount on provisions	3.5	3.9
Interest charge on defined benefit pension schemes	3.7	5.3
	35.6	43.1
<i>Finance income</i>		
Interest receivable on cash	(1.2)	(1.4)
Effect of interest rate swaps	(0.3)	(0.3)
	(1.5)	(1.7)
Net finance costs, excluding exceptional items	34.1	41.4

The fall in net finance costs includes the benefit of the full-year effect of our 2015 bond re-financing.

1.6.4 Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge including our share of joint ventures' tax relative to the Group's profit before tax excluding joint ventures' tax. On that basis, the effective tax rate for the year ended 29 April 2017, excluding exceptional items, was 17.5% (2016: 18.9%).

The tax charge can be analysed as follows:

Year to 29 April 2017	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	166.3	(28.3)	17.0%
Intangible asset expenses	(16.8)	2.1	12.5%
	149.5	(26.2)	17.5%
Exceptional items	(124.0)	18.8	15.2%
	25.5	(7.4)	29.0%
Reclassify joint venture taxation for reporting purposes	(7.6)	7.6	
Reported in income statement	17.9	0.2	(1.1)%

The effective tax rate, excluding exceptional items, of 17.5% is lower than the 19.9% rate of UK corporation tax for the year. The difference is principally due to the utilisation of previously unrecognised historic tax losses.

The cash tax paid in the year of £21.6m compares to a tax credit for Group companies of £0.2m shown above. The largest difference relates to the £18.8m tax credit recognised on exceptional items that has yet to affect cash tax.

Where there is uncertainty regarding the amount of tax that will ultimately be payable, the Group generally recognises a liability for the maximum amount it expects will be payable or an asset for the minimum amount it expects to receive. In respect of periods up to 29 April 2017, the Group therefore considers there to be a low risk that it will be required to pay significantly more tax than is provided for in the consolidated financial statements. The areas where the Group sees uncertainty around the amount of tax that is payable relate to the financing of and transactions with overseas operations, losses incurred by overseas operations in the ordinary course of business and overseas tax audits.

Taking account of the planned further reduction in the rates of UK corporate tax rate, and assuming that the composition of the Group remains broadly unchanged, we consider the Group's sustainable, effective tax rate to be in the range of 18% to 23%.

1.6.5 Fuel costs

The Group's operations as at 29 April 2017 consume approximately 411m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

The proportion of the Group's projected fuel usage that is now hedged using fuel swaps is as follows:

Year ending April:	2018	2019	2020	2021
Total Group	81%	70%	48%	1%

The Group has no fuel hedges in place for periods beyond April 2021.

1.6.6 Cash flows and net debt

Net debt (as analysed in note 29(c) to the consolidated financial statements) has, as expected, increased from 30 April 2016, reflecting additional investment in our businesses, movements in foreign exchange rates causing an increase in the sterling value of our US dollar debt, dividend payments and UK Rail working capital timing differences, partly offset by continued strong cash generation from operations.

Net cash from operating activities before tax for the year ended 29 April 2017 was £253.7m (2016: £301.9m) and can be further analysed as follows:

	2017 £m	2016 £m
EBITDA of Group companies before exceptional items	312.1	336.2
Cash effect of exceptional items	(3.7)	-
(Gain)/loss on disposal of property, plant and equipment	(4.3)	0.5
Equity-settled share based payment expense	1.9	2.2
Working capital movements	(53.7)	(35.2)
Net interest paid	(26.7)	(30.6)
Dividends from joint ventures	28.1	28.8
Net cash flows from operating activities before taxation	253.7	301.9

Net cash from operating activities before tax was £253.7m (2016: £301.9m) and after tax was £232.1m (2016: £278.9m). Net cash outflows from investing activities were £100.7m (2016: £178.9m). Net cash used in financing activities was £203.7m (2016: £114.8m).

The net impact of purchases of property, plant and equipment for the year on net debt was £203.3m (2016: £213.5m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £155.5m (2016: £191.2m) and new hire purchase and finance lease debt of £47.8m (2016: £22.3m). In addition, £46.0m (2016: £26.5m) cash was received from disposals of property, plant and equipment.

The net impact of purchases and disposals of property, plant and equipment on net debt ("net capital expenditure"), split by division, was:

	2017 £m	2016 £m
UK Bus (regional operations)	97.4	118.5
megabus Europe	-	7.0
UK Bus (London)	1.6	2.8
North America	37.4	45.6
UK Rail	20.9	13.1
	157.3	187.0

The movement in net debt, showing train operating companies separately, was:

Year to 29 April 2017	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	46.6	265.5	312.1
Cash effect of exceptional items	–	(3.7)	(3.7)
Loss/(gain) on disposal of property, plant and equipment	0.5	(4.8)	(4.3)
Equity-settled share based payment expense	0.7	1.2	1.9
Working capital movements	(42.1)	(11.6)	(53.7)
Net interest paid	(1.7)	(25.0)	(26.7)
Dividends from joint ventures	–	28.1	28.1
Net cash flows from operating activities before taxation	4.0	249.7	253.7
Inter-company movements	(29.2)	29.2	–
Tax paid	(12.7)	(8.9)	(21.6)
Investing activities	(25.8)	(122.7)	(148.5)
Financing activities	–	(70.2)	(70.2)
Foreign exchange/other	–	(23.5)	(23.5)
Movement in net debt	(63.7)	53.6	(10.1)
Opening net debt	283.1	(682.4)	(399.3)
Closing net debt	219.4	(628.8)	(409.4)

The cash held by the train operating companies at any point in time is affected by the timing of rail industry cash flows, which can be individually substantial. The working capital cash outflow shown above principally arises from funding received for specific projects in prior years (within the overall franchise payments made by our train operating companies), in advance of the related expenditure being made in the year to 29 April 2017.

As explained in section 1.5.5, the current South West Trains franchise is due to expire in August 2017. We anticipate that, at around that time, certain assets and liabilities of the Group will transfer to the operator of the next South West Trains franchise. We currently anticipate that the net impact of the transfer on our consolidated net assets will be immaterial. However, taking account of the net cash that will transfer, we would forecast that the expiry of the current South West Trains franchise will result (all other things being equal) in an increase in our consolidated net debt of approximately £100m in 2017/18. As at 29 April 2017, £68.5m of cash held within South West Trains is included in our consolidated net debt and the credit rating agencies already exclude such cash from their own adjusted leverage figures.

1.6.7 Financial position and liquidity

The Group has maintained investment grade credit ratings and appropriate headroom under its debt facilities.

During the year ended 29 April 2017, we extended the duration of £480m of our committed, bi-lateral core bank facilities by a further year to October 2021.

The Group continues to have an appropriate mix of long-term debt enabling it to plan and invest with some certainty.

The Group's financial position remains strong and is evidenced by:

- The ratio of net debt at 29 April 2017 to pre-exceptional EBITDA for the year ended 29 April 2017 was 1.2 times (2016: 1.1 times).
- Pre-exceptional EBITDA for the year ended 29 April 2017 was 10.3 times (2016: 9.0 times) pre-exceptional net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £333.8m at 29 April 2017 (2016: £281.2m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group has available asset finance lines.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.

1.6.8 Net assets

Net assets at 29 April 2017 were £68.5m (2016: £177.8m).

The decrease is after £67.1m of dividend payments and is principally due to the actuarial losses on defined benefit pension schemes and the Virgin Trains East Coast exceptional items, partially mitigated by the solid financial results for the year ended 29 April 2017 and fair value gains on cash flow hedges.

1.6.9 Retirement benefits

The reported net assets of £68.5m (2016: £177.8m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £232.5m (2016: £96.7m), and associated deferred tax assets of £44.4m (2016: £21.0m).

The Group recognised net pre-tax actuarial losses of £127.6m in the year ended 29 April 2017 (2016: gains of £68.5m) on Group defined benefit pension schemes.

The discount rate used to determine pension scheme liabilities is determined with reference to AA-rated bond yields. As AA-rated bond yields have generally decreased in the year ended 29 April 2017, the forecast future cash flows to settle pension scheme liabilities are now discounted at a lower rate. This is the principal reason for the pre-tax actuarial losses and the increase in the pre-tax retirement benefit liabilities as at 29 April 2017.

1.6.10 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 29 April 2017, the Group's capital comprised:

	2017 £m	2016 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	1,167.3	1,478.6
Cash	313.3	382.3
Gross debt	(722.7)	(781.6)
Net debt (see section 1.6.6)	(409.4)	(399.3)

The Group manages its capital centrally. Its objective in managing capital is to optimise the returns to its shareholders whilst safeguarding the Group's ability to continue as a going concern and as such its ability to continue to generate returns for its shareholders. The Group takes account of the interests of other stakeholders when making decisions on its capital structure.

The capital structure of the Group is kept under regular review and will be adjusted from time to time to take account of changes in the size or structure of the Group, economic developments and other changes in the Group's risk profile. The Group will adjust its capital structure from time to time by any of the following: Issue of new shares, dividends, return of value to shareholders and borrowing/repayment of debt. There are a number of factors that the Group considers in evaluating capital structure. The Directors' principal focus is on maintaining an investment grade credit rating. As well as considering the measures applied by credit rating agencies, the other principal ratios that the Directors consider are (1) Net Debt to EBITDA, (2) EBITDA to Interest and (3) Net Debt to market capitalisation. It is a matter of judgement as to what the optimal levels are for these ratios. Although Net Debt to market capitalisation has risen in the year due to the Company's lower share price, the Directors remain content with the Group's capital structure.

It is the Group's objective to maintain an investment grade credit rating. The Group is currently rated investment grade by three major, independent credit rating agencies. That enhances our ability to access cost-effective funding on a timely basis and enables us to demonstrate financial strength when bidding for UK rail franchises and other contracts. The financial standing of interested parties is considered by government in determining the short list of bidders for a UK rail franchise.

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The Board is continuing with its dividend policy of seeking to grow the rate of dividend per share over time, and has increased the proposed dividend for the year by over 4%. The Group will continue to regularly review its financial strategy and capital structure.

1.6.11 Dividend policy

It is the Group's policy to seek to grow the rate of dividend per ordinary share over time while aiming to maintain the dividend rate at a level which is sustainable. Taking account of the proposed final dividend of 8.1 pence per share, the total dividend per share in respect of the year ended 29 April 2017 is 11.9 pence.

The Group has not set specific targets for dividend growth or dividend cover ratios for the following reasons:

- The Group does not wish such targets to be viewed as a commitment or promise by the Board which, in turn, could act as pressure to pay certain levels of dividend in the future even when at that future point in time, that might not be in the best interests of the Company and its stakeholders.
- The appropriate pay-out ratio may vary based on many factors including the mix of bus versus rail in the Group's portfolio and factors affecting the outlook that are not reflected in the historically reported figures.
- Earnings may be volatile from year-to-year. We would look for dividend rates to be more stable and not to fluctuate as significantly as earnings simply to achieve target cover ratios.

As at 29 April 2017, the Company's distributable reserves totalled £247.7m (2016: £338.0m), which compares to dividends paid in cash in the year ended 29 April 2017 of £67.1m (2016: £62.0m). In addition, we consider that the Company's distributable reserves could be further increased through dividends from subsidiary companies and/or changes in the Group structure. The Group considers there to be a low risk that the level of distributable reserves will be a constraining factor on dividend payments for the foreseeable future.

The Group has significant undrawn, committed bank facilities as explained further in section 1.6.7 of this report. The Group considers there to be a low risk that the level of available liquidity / cash resources will be a constraining factor on dividend payments for the foreseeable future.

As explained in section 1.6.10 above, the Directors are focused on maintaining an investment grade credit rating and as noted in section 1.6.7, the three main credit rating agencies continue to assign investment grade credit ratings to the Group. Where the Group was no longer investment grade rated or there was a significant risk of that, the Board would review the dividend policy.

1.6.12 Treasury policies and objectives

Risk management is carried out by a treasury committee and a central treasury department (together, "Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. The Board provides written principles for overall treasury risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

See note 25 to the consolidated financial statements, for details of

- the Group's exposure to financial risks;
- the Group's treasury risk management;
- the Group's management of interest rate risk;
- the Group's fuel hedging;
- the Group's management of foreign currency risk; and
- the Group's management of credit risk.

1.6.13 Use of non-GAAP measures

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, pre-exceptional EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance. Note 34 to the consolidated financial statements provides further information on these non-GAAP financial measures.

1.7 Current trading and outlook

We have made a satisfactory start to the year ending 28 April 2018 and have not significantly changed our expectation of adjusted earnings per share for the year.

We see positive long-term prospects for public transport. There is a large market opportunity for modal shift from cars to public transport against a backdrop of technological advancements, rising road congestion and increasing environmental awareness. We have a growth strategy built on continued investment, value-for-money travel and high customer satisfaction.

The Group is in good financial shape. Our core debt is committed and in place for over a further four years and we remain investment grade rated.

1.8 Corporate Social Responsibility – statement of non-financial information

Section 1.4.1 of this Annual Report contains a description of the Group's business model. Section 1.4.6 describes key performance indicators, including non-financial performance indicators, relevant to the Group's businesses. Section 1.4.5 includes a description of principal risks and this section 1.8 provides information on how we approach our social responsibilities.

Our business and our people make a significant contribution to society.

On average, more than three million journeys a day are made on our transport services and in enabling those journeys, we:

- Connect people, families and communities
- Help individuals access health, education, employment and leisure
- Support jobs, the skills base and economic growth
- Play our part in tackling climate change

Like most businesses, we want to generate value for our employees and our shareholders, but we want to do that responsibly and in partnership with all our stakeholders. Our responsible approach to business includes taking an appropriate approach to our people and our customers; safety and security; the accessibility and affordability of our transport services; environmental stewardship and performance; good governance; and building community relationships. Our strong customer focus, commitment to sustainability, and sector-leading reputation has been independently recognised by a range of organisations. Right across our global operations, we will continue to work with our stakeholders to become a better employer, a stronger business and a more effective community partner.

We have published separate documents setting out our approach to corporate social responsibility. These documents can be found on our website at the following link:

<http://www.stagecoach.com/sustainability.aspx>.

This section includes just a small number of examples of our work to demonstrate the steps we are taking to meet our responsibilities.

1.8.1 Living our values

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. Stagecoach promotes a culture of openness across all its businesses and our objective is to ensure the highest standards of probity and accountability. The Code, which was further updated during the year, sets out key principles and provides practical examples and guidance to help shape employees' corporate behaviour across all levels of the business. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review. A copy of our Code of Conduct can be found at the following link: <http://www.stagecoach.com/code-of-conduct.pdf>.

In addition, we have a Speaking Up policy, also updated in 2016/17, which is designed to ensure that employees can raise serious concerns without fear of victimisation, discrimination or disadvantage. A copy of the document is available at:

<http://www.stagecoach.com/speakingup.pdf>.

1.8.2 Supporting and recognising our people

Our employees are fundamental to the success of the Group and we encourage diversity across our business. We believe in empowering and engaging with our people, promoting a positive culture where employees are treated with respect and given equal opportunity to develop. This means that we are able to provide a better service to our customers.

We have initiatives in place designed to nurture the next generation of talent to support the business and help our people achieve their potential. We have strong vocational training programmes in our bus and rail businesses and we continue to invest in developing our people.

We are proud that Stagecoach UK Bus won the Large Employer Category at the People 1st Apprenticeship Awards in 2017 for the robustness of our programme, which has been in place for more than a decade. During National Apprenticeship Week in 2017, we launched an initiative to encourage more women to join the bus industry as engineers and we are continuing with our campaign to attract more female bus drivers.

We also have programmes in place to promote the health and well-being of our people. Our annual Stagecoach Champions Awards, which are open to all employees, recognise excellence in the areas of safety, community, health, customer service, environment and innovation. In 2016/17, we have further extended the use of our intranet, The Loop. The Loop provides further opportunities for communication among our people.

Further information is available here:

<http://www.stagecoach.com/sustainability/our-people.aspx>.

1.8.3 Employment policies

We aim to have a motivated team of people that will meet the expectations of our customers, improve our business and be rewarded for their commitment. Equality of opportunity is one of our key values, regardless of disability, gender, sexual orientation, religion, belief, age, nationality, race or ethnic origin. The Group gives full consideration to applications for employment from people with disabilities.

Where existing employees become affected by a disability and where practicable, our Group policy is to provide continuing employment under normal terms and conditions. We also provide training, career development and equal consideration for promotion. The Group is committed to employee participation and we use a variety of methods to inform, consult and involve employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share schemes. We are also committed to a continuing dialogue with trade unions, which represent the majority of the Group's employees, on a wide range of issues. A wide range of communications channels are used to keep our people informed and engaged.

Also in 2016/17, we surveyed our staff across the Group. Using the results of the surveys and working with employee representatives, we are progressing further improvements in how we operate.

1.8.4 Diversity

The Group recognises and values the individuality and diversity that each employee brings to the business. We value diversity in its wider sense and it is our policy to facilitate diversity of age, gender and background across our workforce. We are particularly focused on promoting gender diversity.

The table below shows the gender split at different levels within the organisation, as at 29 April 2017. The Group's workforce is around 82.8% male and that high proportion is common in the ground transportation industry.

Population	Male	Female	Total	%	%
				Male	Female
Board	8	3	11	72.7%	27.3%
Senior management *	98	24	122	80.3%	19.7%
Whole workforce	33,136	6,863	39,999	82.8%	17.2%

*Senior management is defined as those employees who receive awards under the Group's Executive Participation Plan and individuals who are statutory directors of the corporate entities whose financial information is included in the Group's 2017 consolidated financial statements in the Annual Report. This satisfies the definition set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The equivalent figures as at 30 April 2016 were:

Population	Male	Female	Total	%	%
				Male	Female
Board	8	2	10	80.0%	20.0%
Senior management	93	23	116	80.2%	19.8%
Whole workforce	33,488	6,637	40,125	83.5%	16.5%

1.8.5 Promoting safety

Safety is at the heart of our business and our overall approach is given direction through the Group's Strategic Safety Framework. We have a strong focus on employee training, accident reduction, regulatory compliance and security preparedness. Health and safety processes and performance are monitored and reported on across the Group with action taken should there be a need to address issues within our procedures. Our Health, Safety and Environmental Committee, chaired by a non-executive director, considers this area of the business and monitors a range of performance indicators, reporting to the Board on these matters. We expect our suppliers and contractors to have the same commitment as our employees to complying with appropriate health and safety regulations and policies.

Each of our divisions and operating companies has policies which are appropriate to the transport modes they deliver. We are focused on meeting and in many cases exceeding regulatory requirements and performance standards. Detailed policies, risk assessments and safe working procedures are in place covering various aspects of our activities including noise, vibration, display screen equipment and the Working Time Directive. Performance is measured and reviewed at operating company and Group level. This is supported by analysis of audit results and review of civil liabilities claims to address any issues around policies and working procedures. A core part of our approach is encouraging employees to report any concerns.

We work with local communities to encourage a safe environment around our transport networks and use of our services, particularly with young people. We invest in technologies which can make our services safer for customers, our employees and other people. Further information and examples of our initiatives are available at: <http://www.stagecoach.com/sustainability/safety-health.aspx>.

Strategic report

1.8.6 Accessible and affordable travel

We believe that providing accessible and affordable travel is central to encouraging modal shift from the private car to greener, smarter public transport. Stagecoach has regularly been independently assessed as having the lowest bus fares of any major operator in the UK. Recent research by Transport Focus found that bus passengers rated Stagecoach as the best national UK bus operator for value for money.

Stagecoach is the only UK bus operator to operate a long-term nationwide discounted travel scheme for jobseekers and we have a range of discounted ticketing options for young people.

We are committed to improving accessibility of our buses, trains and stations. Our planned investment of £70m in 340 new buses and coaches for 2017/18 will ensure that all of our local bus fleets in the UK are fully accessible. It will mean Stagecoach Group has invested over £1bn in more than 7,000 greener and more accessible buses and coaches since 2006/07. Automatic vehicle location technology is fully deployed across our UK regional bus fleet, providing real time service information to customers via our smartphone app and online. It also provides a technology platform to deliver audio visual next stop information via smartphones, including those which support blind and partially-sighted people. In the UK, Stagecoach is a founder partner in the national Accessible Travel Alliance, an industry-leading group of travel operators working with the Whizz-Kidz charity to improve transport accessibility for young wheelchair users. On our rail networks, we are working with government to introduce easier disabled access at stations.

The Group is also investing in new digital technologies and working with other transport partners to introduce simpler travel through smart, integrated ticketing.

For further information, please go to:

<http://www.stagecoach.com/sustainability/accessibility-affordability.aspx>

1.8.7 Environmental stewardship

Stagecoach Group has a sustainability strategy covering the five years to April 2019. It follows a 30% reduction in Stagecoach Group's carbon intensity since 2007/08 and the achievement of previous targets 12 months ahead of schedule. By April 2019, the Group is aiming to reduce buildings carbon emissions by 7%; cut like-for-like fleet transport carbon emissions by 2%; lower water consumption by 9% and achieve a waste recycling rate of 83%. The Group has already been awarded the Carbon Trust Standard for measuring, managing and reducing its global carbon footprint, becoming the first public transport operator to have its boundaries certified outside of Europe. A copy of the Group's sustainability strategy and further information about our initiatives and performance is available at:

<http://www.stagecoach.com/sustainability.aspx>

Part of the Group's approach to sustainability is the ongoing review of its plans, performance and targets. Policy information and annual performance data is provided on the Group's website. Stagecoach also makes an annual submission to the Carbon Disclosure Project ("CDP"), an organisation focused on carbon disclosure which collates environmental information and works with thousands of companies and investors to tackle climate change.

The data below shows our greenhouse gas emissions for the year ended 29 April 2017 with comparative data for the year ended 30 April 2016.

	2016/17	
Greenhouse Gas Emission Source	tonnes CO ₂ e	Kg CO ₂ e/£ of revenue
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	998,765	0.25
Operation of facilities (refrigerants)	20,467	0.01
Total Scope 1	1,019,232	0.26
Scope 2		
Purchased electricity	345,544	0.09
Statutory total (Scope 1 & 2)*	1,364,776	0.35

	2015/16	
Greenhouse Gas Emission Source	tonnes CO ₂ e	Kg CO ₂ e/£ of revenue
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	1,009,003	0.26
Operation of facilities (refrigerants)	23,586	0.01
Total Scope 1	1,032,589	0.27
Scope 2		
Purchased electricity	394,906	0.10
Statutory total (Scope 1 & 2)*	1,427,495	0.37

* Statutory carbon reporting disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The Group has used the UK Government Environmental Reporting Guidance methodology in reporting its greenhouse gas emissions, together with emissions factors from the DEFRA/DECC Greenhouse Gas Conversion Factors for Company Reporting 2016.

We define our organisational boundary using the financial control approach and use a materiality threshold for the Group of 5% of estimated Greenhouse Gas Emissions. We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. All of these sources fall within businesses that are included in our consolidated financial statements.

Group Metrics	2016/17	2015/16
Revenue (£m)	3,941.2	3,871.1
Total Scope 1 & 2 emissions tonnes (tCO ₂ e)	1,364,776	1,427,495
Intensity ratio		
Scope 1 & 2 emissions per £ of revenue (Kg CO ₂ e/£)	0.35	0.37

1.8.8 Supporting our communities and the economy

Stagecoach Group is a major employer, supporting direct employment for around 40,000 people. Our investment in improving our transport services also supports thousands of other jobs through the supply chain. Further information is available at:

<http://www.stagecoach.com/sustainability/economic-contribution.aspx>

We share our success with local people and communities by investing part of our profits in good causes. During the year ended 29 April 2017, £0.9m (2016: £0.9m) was donated by Stagecoach Group to help a number of charities and to support fundraising events and vital services. Significant additional in-kind support, such as complimentary bus and rail travel, is provided by the Group to good causes. We have a number of initiatives in place to help young people, including mentoring and internship programmes to help students gain a better understanding of the skills and routes to enter work, further and higher education and training. We also have partnerships with veterans groups in the UK and North America. Stagecoach Group has demonstrated its commitment to the UK Armed Forces by signing a corporate covenant to support the country's military community. More information on our community support and programmes is available at:

<http://www.stagecoach.com/sustainability/community.aspx>

1.8.9 Human rights

The Group does not see human rights matters as presenting material issues or risks for the Group and therefore the Group does not have specific, detailed policies in respect of human rights. However, in the Group's code of conduct (see section 1.8.1), the Group recognises the fundamental civil, political, economic and social human rights and freedoms of every individual and strives to reflect this in its business. A respect for human rights is reflected in our wider policies and in how we do business with customers, suppliers, employees and other stakeholders.

1.8.10 Anti-corruption and anti-bribery

The Group has an anti-bribery and anti-corruption framework in place. The Group's attitude to bribery and corruption is set by the Board of Directors and is reflected in the Group's Code of Conduct (see section 1.8.1 of this Annual Report). The Group does not tolerate any form of bribery or inducements for any purpose whether directly or through a third party.

Any known instance of fraud, bribery or attempted bribery that was designed to give an advantage to the Group is reported to the Group's Audit Committee for consideration and appropriate follow up. There were no such matters arising during the year ended 29 April 2017 that were sufficiently significant to report in this Annual Report. The Speaking Up policy provides a channel for the reporting of fraud, bribery or attempted bribery where reporting through other channels is not appropriate.

A Group Compliance Committee is in place to monitor compliance with laws and regulations and to monitor the effectiveness of the anti-corruption framework, policies and procedures. The Group Compliance Committee assesses the nature and extent of the risks relating to bribery and corruption to which the Group is exposed. The Committee considers not only bribery and corruption risks within the Group itself but also within the Group's supply chain. Supplier due diligence is undertaken where considered appropriate to the particular supplier.

The Group's independent internal auditors review the Group's anti-corruption framework at least every three years and report their findings to the Group's Audit Committee.

A list of "Relevant Employees" is maintained, which comprises employees in those groups of staff that are considered to be most likely to have the opportunity to participate in or have knowledge of material corruption. Specific anti-bribery and anti-corruption training is provided to these Relevant Employees, including case studies. These employees are required to certify annually their continuing compliance with the Group's anti-corruption policy.

The Group also has a number of other internal controls in place designed to minimise the risk of anti-bribery and anti-corruption.

1.8.11 Conclusion

Our responsible approach to business is reflected in the policies and examples set out in this section 1.8. We continue to believe that corporate social responsibility and good financial returns go hand in hand, reflecting consideration of all stakeholders.

Approved by the Board of Directors and signed on its behalf by:

Mike Vaux
Company Secretary
28 June 2017

2. Board of Directors

Executive Directors

1	2

Martin Griffiths ⁽¹⁾

Chief Executive

Appointment to the Board: 2000

Age: 51

Committee membership: Health, Safety and Environmental.

Executive responsibilities: Martin Griffiths was appointed Chief Executive from 1 May 2013. Martin Griffiths is responsible for Group health, safety and environmental matters, overall strategy and management of all of the Group's operations.

Skills and previous experience: A Chartered Accountant, Martin Griffiths joined Stagecoach in 1997 as Group Business Development Manager, before being appointed to the Board as Finance Director in April 2000. He has also served as the senior independent non-executive director of Robert Walters plc and as a non-executive director of Troy Income & Growth Trust plc. He was young Scottish Finance Director of the year in 2004.

External appointments: Virgin Rail Group Holdings Limited (Co-Chairman), AG Barr plc (Non-Executive Director), Rail Delivery Group Limited (Non-Executive Director).

Ross Paterson ⁽²⁾

Finance Director

Appointment to the Board: 2013

Age: 45

Committee membership: Pensions Oversight, Digital and Technology.

Executive responsibilities: Ross Paterson is responsible for the Group's overall financial policy, taxation, treasury, corporate finance, City relations, financial reporting, information technology and employee benefits. He supports the Chief Executive in the management of the Group's operations and new business development.

Skills and previous experience: A Chartered Accountant, Ross Paterson joined Stagecoach in 1999. He became Director of Finance & Company Secretary in 2007, with responsibility for treasury, corporate finance, City relations, financial reporting, internal audit and the company secretariat. He succeeded Martin Griffiths as Finance Director in 2013. He is former Deputy Convenor of the Audit and Assurance Committee of the Institute of Chartered Accountants of Scotland.

External appointments: Director and Chairman of Audit Committee, Virgin Rail Group Holdings Limited. Member of the Business Policy Committee of the Institute of Chartered Accountants of Scotland.

Non-Executive Directors

3	4	5	6

Sir Brian Souter ⁽³⁾

Chairman

Appointment to the Board: n/a (co-founder)

Age: 63

Committee membership: Nomination (Chair).

Skills and previous experience: A Chartered Accountant, Sir Brian Souter co-founded Stagecoach. Sir Brian was named UK Master Entrepreneur of the Year at the 2010 Ernst & Young Entrepreneur of the Year Awards and, in 2012, became the first public transport entrepreneur to be inducted into the British Travel and Hospitality Industry Hall of Fame. Sir Brian is the architect of the Group's strategy and philosophy and was the Group's Chief Executive until 1 May 2013. He has extensive knowledge of the ground transportation industry around the world and continues to support Martin Griffiths and the rest of the management team. Sir Brian has responsibility for the running of the Board.

External appointments: Chairman, Souter Investments. President of the Institute of Chartered Accountants of Scotland.

Will Whitehorn ⁽⁴⁾

Deputy Chairman and Senior Independent Non-Executive Director

Appointment to the Board: 2011

Age: 57

Committee membership: Nomination.

Skills and previous experience: Will Whitehorn joined the Virgin Group in 1987 and served as Group Public Relations manager and as Brand Development and Corporate Affairs Director, before being appointed as President of Virgin Galactic from 2007 to 2011. Will is a former non-executive Chairman of Next Fifteen Communications Group plc and of Crowd Reactive Limited. He was a member of the Science & Technology Facilities Council ("STFC") until 2012, chaired its Economic Impact Advisory Board and was a non-executive director of STFC Innovations Limited.

External appointments: Scottish Event Campus Limited (Chairman), GVC Holdings plc (Senior Independent Director) and Purplebricks Group plc (Non-Executive Director). Member of the First Minister of Scotland's 'GlobalScot' Business mentoring network. Vice-President of the Chartered Institute of Logistics and Transport. Scottish Gallery (Aitken Dott Limited) (Chairman).

Gregor Alexander ⁽⁵⁾

Non-Executive Director

Appointment to the Board: 2013

Age: 54

Committee membership: Audit (Chair) and Remuneration.

Skills and previous experience: A Chartered Accountant, Gregor Alexander has significant recent and relevant financial experience. He is the Finance Director of SSE plc, a FTSE 100 company. He has worked in the energy industry since 1990, when he joined Scottish Hydro Electric. He was appointed Finance Director and joined the Board of SSE in 2002, having previously been its Group Treasurer and Tax Manager.

External appointments: Finance Director of SSE plc. Chairman of Scotia Gas Networks, a company 33.3% owned by SSE plc.

James Bilefield ⁽⁶⁾

Non-Executive Director

Appointment to the Board: 2016

Age: 48

Committee membership: Digital and Technology (Chair), Remuneration and Nomination.

Skills and previous experience: James Bilefield has an international track record of successfully leading growing digital businesses. He managed the digital transformation of media group, Condé Nast, across 27 countries, scaled Skype's global operations as part of its founding management team and held senior commercial and management roles at Yahoo!. Formerly CEO of global advertising technology company, OpenX, he also co-founded the local information business, UpMyStreet, following an investment banking career at JP Morgan Chase.

External appointments: McKinsey & Company (Senior Advisor), Advent International (Industry Advisor), UK Government Digital Service (Advisory Board Member), Teach First (Trustee).

Sir Ewan Brown CBE⁽⁷⁾

Non-Executive Director

Appointment to the Board: 1988**Age:** 75**Committee membership:** Pensions Oversight (Chair) and Nomination.**Skills and previous experience:** Sir Ewan Brown served as an executive director of Noble Grossart for 35 years and continues to serve as a non-executive director of Noble Grossart Holdings Ltd. Sir Ewan was Chairman of Lloyds TSB Scotland from 1999 to 2008. He has also served as a non-executive director of Wood Group and Lloyds Banking Group, chairing the Audit Committee and the Group Pension Funds, and as Chairman of Creative Scotland 2009 and Scottish Financial Enterprise.**External appointments:** Noble Grossart Holdings Ltd (Non-Executive Director).**Ann Gloag OBE⁽⁸⁾**

Non-Executive Director

Appointment to the Board: n/a (co-founder)**Age:** 74**Committee membership:** Health, Safety and Environmental.**Skills and previous experience:** Ann Gloag co-founded Stagecoach and served as an executive director until 2000. She has extensive experience in transport operations, health and safety matters, property management and wider business management.**External appointments:** Mercy Ships (International Board Member).**Ray O'Toole⁽⁹⁾**

Non-Executive Director

Appointment to the Board: 1 September 2016**Age:** 61**Committee membership:** Health Safety and Environmental (Chair), Audit and Nomination.**Skills and previous experience:** Ray served as the Chief Operating Officer of National Express Group until May 2010. In November 2013 Ray joined Kier Group, Fleet and Passenger Services as Managing Director. In July 2015 he led a management buy-out team with private equity investor, Endless LLP, to create Essential Fleet Services Limited, a company which provides 3,500 vehicles with contract hire and leasing to the local authority and corporate markets nationally. Ray served as Chief Executive of Essential Fleet Services Limited until February 2017.**External appointments:** Yorkshire Water Services Limited (Non-Executive Director).**Julie Southern⁽¹⁰⁾**

Non-Executive Director

Appointment to the Board: 7 October 2016**Age:** 57**Committee membership:** Remuneration (Chair), Audit**Skills and previous experience:** Julie is a chartered accountant and has considerable experience in senior finance and management roles, including in the transport sector. She served as Chief Financial Officer with Virgin Atlantic from 2000 to 2010 and then as the company's Chief Commercial Officer from 2010 to 2013. Previously Group Finance Director at Porsche Cars Great Britain and former Finance and Operations Director at HJ Chapman & Co.**External appointments:** Rentokil Initial plc (Non-Executive Director), DFS Furniture plc (Non-Executive Director), Cineworld Group plc (Non-Executive Director), NXP Semi-Conductors N.V. (Non-Executive Director)**Karen Thomson⁽¹¹⁾**

Non-Executive Director

Appointment to the Board: 2016**Age:** 55**Committee membership:** Audit, Health, Safety and Environmental, Digital and Technology.**Skills and previous experience:** Karen served as Chief Executive of AOL UK and President of AOL Europe, developing both the telecoms and advertising lines of the business. As a member of the Vodafone UK Board, Karen had responsibility for developing online strategy, customer experience and online sales performance. Karen was a non-executive director of UBM plc from 2006 to 2014 and served on its Audit, Nomination and Remuneration committees.**External appointments:** Outplay Entertainment Limited (Chairman).

3. Directors' report

3.1 Group results and dividends

The results for the year are set out in the consolidated income statement on page 74.

An interim dividend of 3.8p per ordinary share was paid on 8 March 2017. The Directors recommend a final dividend of 8.1p per share, making a total dividend of 11.9p per share in respect of the year ended 29 April 2017. Subject to approval by shareholders, the final dividend will be paid on 4 October 2017 to those shareholders on the register on 1 September 2017.

3.2 Directors and their interests

The names, responsibilities and biographical details of the current members of the Board of Directors appear in section 2 of this Annual Report.

Table A shows the Directors' interests in the Company's shares. The interests of each director shown include those of their "connected persons".

TABLE A	Number of ordinary shares (including those held under SAYE scheme)			
	27 June 2017	29 April 2017	7 July 2016	30 April 2016
Sir Brian Souter	86,900,445	86,900,445	86,900,445	86,900,445
Martin Griffiths	501,038	500,879	499,978	437,907
Ross Paterson	244,006	243,847	242,946	229,065
Gregor Alexander	10,406	10,406	10,406	10,406
James Bilefield	-	-	n/a	n/a
Sir Ewan Brown	See below	See below	See below	See below
Ann Gloag	62,501,721	62,501,721	62,501,721	62,501,721
Ray O'Toole (appointed 1 September 2016)	-	-	n/a	n/a
Julie Southern (appointed 7 October 2016)	-	-	n/a	n/a
Karen Thomson	-	-	-	-
Garry Watts (resigned 31 July 2016)	n/a	n/a	16,000	16,000
Will Whitehorn	72,288	72,288	72,288	72,288

Sir Ewan Brown has an indirect interest in the share capital of the Company through his interest in Noble Grossart Investments Limited. Noble Grossart Investments Limited held 0.6% (3,567,999 shares) of the ordinary shares in the Company at 29 April and 27 June 2017 (2016: 0.6%; 3,567,999 shares). Noble Grossart Investments Limited is a subsidiary of Noble Grossart Holdings Limited, in which Sir Ewan Brown and his connected parties own approximately 18% (2016: 18%) of the ordinary shares.

The Listing Rules of the Financial Conduct Authority (LR 9.8.6 R(1)) require listed companies to disclose in their annual reports the interests of each director. The Directors' interests set out in Table A have been determined on the same basis as in previous years and are intended to comply with the requirements of LR 9.8.6 R(1), which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority. The voting rights of Sir Brian Souter and Ann Gloag determined in accordance with the Disclosure and Transparency Rules as at 29 April 2017 were 86,896,413 ordinary shares (2016: 86,896,413) and 62,501,721 ordinary shares (2016: 62,501,721) respectively, of which 86,896,009 (2016: 86,896,009) are held via HGT Finance B Limited and 62,501,721 (2016: 62,501,721) are held via HGT Finance A Limited.

Details of share based awards held by the Directors are contained in the Directors' remuneration report in section 8 of this Annual Report. No non-executive director had an interest in share based awards at 30 April 2016, 7 July 2016, 29 April 2017 or 27 June 2017.

Martin Griffiths and Ross Paterson are potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held no ordinary shares as at 29 April 2017 (2016: 300,634).

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

3.3 Indemnification of directors and officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its directors and officers. In accordance with the Company's Articles of Association, and to the fullest extent permitted by law, the Company has indemnified each of its directors and other officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group.

3.4 Substantial shareholdings

As at 29 April 2017 and 27 June 2017 (being the latest practical date prior to the date of this report), the Company had been notified of the following major interests in voting rights in the Company (other than certain Directors' shareholdings, details of which are set out in section 3.2 of this report):

	27 June 2017	29 April 2017
Ameriprise Financial, Inc. and its Group	15.0%	14.0%

3.5 Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the consolidated and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the parent company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101, Reduced Disclosure Framework, ("FRS 101"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for the relevant period.

In preparing those financial statements, 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 IFRS as adopted by the European Union, and applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the consolidated and parent company financial statements respectively; and
- prepare the consolidated and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group or as the case may be, the Company, will continue in business.

The Directors also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The approach taken in reaching this conclusion is explained in the Audit Committee report in section 5.4.7 of this Annual Report.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of financial information on the Company's corporate website, www.stagecoach.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in section 2 of this Annual Report, confirms that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and Directors' report contained in sections 1 and 3 of this Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

3.6 Conflicts of interest

Under the Companies Act 2006, a director has a statutory duty to avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the relevant company's interests. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the relevant company's articles of association contain a provision to this effect. The Company's Articles of Association give the Directors authority to approve conflict situations including other directorships held by a director of the Company.

There are safeguards in place that apply when the Directors decide whether to authorise a conflict or potential conflict. Firstly, only the Directors who have no interest in the matter being considered are able to take the relevant decision and secondly, in taking any decision, the Directors must act in a way that they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think that is appropriate.

For the period from 1 May 2016 until the date of this report, the Board considers that the Directors' powers of authorisation of conflicts have operated effectively and those procedures set out above have been properly followed.

3.7 Financial risk management

Information regarding the Group's use of financial instruments, its financial risk management objectives and policies, and its exposure to price, credit, liquidity and cash flow risks can be found in note 25 to the consolidated financial statements.

3.8 Political donations

It is the Group's policy not to make political contributions and accordingly there were no material contributions for political purposes during the year or in the prior year.

3.9 Shareholder and control structure

As at 29 April 2017, there were 576,099,960 ordinary shares (2016: 576,099,960) in issue with a nominal value of 125/228th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against") and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. It is the Group's current policy to hold a poll on each resolution proposed at an annual general meeting. The notice of a general meeting will specify any deadlines for

exercising voting rights in respect of the meeting concerned. As at 29 April 2017, 2,467,204 (2016: 1,885,887) ordinary shares representing 0.4% (2016: 0.3%) of the Company's called-up share capital (excluding treasury shares) were held in treasury and carried no voting rights.

The holders of ordinary shares are entitled to be paid the profits of the Company available for distribution and determined to be distributed pro-rata to the number of ordinary shares held.

There are no restrictions on the transfer of ordinary shares other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- in accordance with the Group's policy and applicable regulations, certain employees of the Group require the approval of the Company to deal in the Company's securities; and
- shares held by employee benefit trusts may only be transferred by those trusts in accordance with the relevant trust deeds.

None of the ordinary shares in issue provide the holders with special control rights.

Section 3.4 of this Directors' report gives details of any shareholders (other than the Directors and their connected persons) that hold major interests in the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 3.2 of this Directors' report. Two directors of the Company, Sir Brian Souter and Ann Gloag, who are siblings, were interested in 26.0% of the ordinary shares in issue as at 29 April 2017, excluding shares held by the Company in treasury (2016: 26.0%). The other directors of the Company held 0.1% of the ordinary shares in issue as at 29 April 2017 (2016: 0.1%).

In addition to the Directors' individual interests in shares, employee benefit trusts hold further shares in the Company from time to time. These trusts held no ordinary shares in issue as at 29 April 2017 (2016: <0.1%). The shares held by the trusts are for the benefit of employees of the Group. The voting rights are exercised by the trustees.

The Group operates a Buy as You Earn scheme, in connection with which the participants' shares are held in trust. The Trustees vote only where directed to do so by participants in the plan.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Directors are elected by ordinary resolution at a general meeting of holders of ordinary shares. The Directors have the power to appoint a director but any person so appointed by the Directors shall hold office only until the next annual general meeting and shall then be eligible for election by ordinary resolution at that meeting.

The Company's Articles of Association may only be amended by special resolution at a general meeting of holders of ordinary shares.

The powers of the Directors to issue or repurchase ordinary shares are set by a resolution at a general meeting of holders of ordinary shares. The current authority for the Company to purchase its own shares is explained in section 3.10 of this Annual Report.

There are a number of agreements that take effect, alter or terminate on a change of control of the Company such as commercial contracts, bank loan agreements and employee share plans. The most significant of these are:

- The Group operates the Virgin Trains East Coast, South West Trains and East Midlands Trains rail franchises. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these four franchises each contain provisions that would enable the Department for Transport to terminate the franchises on a change of control of the franchise.
- Each of the four rail franchises referred to above lease trains. The leases generally contain termination rights for the benefit of the lessor on a change of control of the Group.
- Certain of the Group's bank facilities (including asset finance) contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.
- The Group's arrangements with surety companies for the issue of rail performance bonds and season ticket bonds could terminate following a change of control of the Group.

Directors' report

- The Company's £400m 4.00% Guaranteed Bonds due 2025 contain provisions that would require repayment of the outstanding bonds following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.
- The Company's US\$150m 10-year notes contain provisions that would require the Company to offer to prepay those notes following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.

The impact of a change of control of the Group on remuneration arrangements is determined by the Directors' remuneration policy.

3.10 Authority for company to purchase its own shares

The movements in the Company's issued share capital, shares held in treasury and authorities to purchase its own shares can be summarised as follows:

	Issued share capital	Shares held in treasury	Issued share capital, excluding treasury shares	Authorised for company to purchase its own shares
As at 30 April 2015	576,099,960	1,371,639	574,728,321	57,537,526
Shares purchased into treasury	-	518,065	(518,065)	(518,065)
Transfer of treasury shares	-	(3,817)	3,817	-
Prior to 2015 AGM	576,099,960	1,885,887	574,214,073	57,019,461
Renewal of buy-back authority	-	-	-	453,371
As at 30 April 2016	576,099,960	1,885,887	574,214,073	57,472,832
Shares purchased into treasury	-	1,313,266	(1,313,266)	(1,313,266)
Transfer of treasury shares	-	(731,949)	731,949	-
Prior to 2016 AGM	576,099,960	2,467,204	573,632,756	56,159,566
Renewal of buy-back authority	-	-	-	1,203,709
As at 29 April 2017	576,099,960	2,467,204	573,632,756	57,363,275

At the 2015 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,472,832 of its ordinary shares. Between 30 June 2016 and 7 July 2016, the Company acquired 1,313,266 of its own ordinary shares and held these in treasury. The aggregate amount paid for the repurchased shares was £2.7m. This represented 0.2% of the Company's called up share capital (excluding treasury shares) on 7 July 2016. The shares were purchased to satisfy awards made under the Group's employee share schemes. During the year ended 29 April 2017, the Company transferred 731,949 of the shares held in treasury for nil consideration to employees to satisfy awards made under the Group's 2013 Executive Participation Plan. This represented 0.1% of the Company's called up share capital (excluding treasury shares) on the date of transfer.

At the 2016 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,363,275 of its ordinary shares. Under the existing authority, the Company may therefore repurchase up to a further 57,363,275 ordinary shares. This authority will expire at the conclusion of the 2017 Annual General Meeting unless revoked, varied or renewed prior to this date.

A resolution will be proposed at the next Annual General Meeting that the Company be authorised to repurchase up to 50,000,000 of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2016 Annual General Meeting and will lapse at the conclusion of the 2018 Annual General Meeting.

3.11 Going concern and longer term viability

Assessment process

The Board has developed the Group's strategy to support the long-term success of the Group. We have a portfolio of good quality transport businesses that we see as having a successful, long-term future. We

encourage sensible risk taking but we also seek to manage risks appropriately and respond to the risks that crystallise.

We update our financial forecasts and capital expenditure plans to take account of any changes in risks, opportunities and market conditions. We have recently updated our financial forecasts for the three-year period to 2 May 2020. In considering the "viability statement" that the Board is expected to make under the UK Corporate Governance Code, the Board has formally considered the three-year period to 2 May 2020 but has also less formally considered risks that would threaten the Group's business model, future performance, solvency and/or liquidity beyond 2 May 2020. The first year of the financial forecasts represents the Group's budget for the year ending 28 April 2018, adjusted for any known, material changes since the budget was approved. The period to 2 May 2020 was chosen because the Board considers this to be a reasonable period over which to assess the financial position and performance of the Group. The level of forecasting accuracy reduces significantly beyond three years and forecasts may be affected by factors such as changes in government transport policy and/or major contract wins and losses. We see limited value in producing detailed financial forecasts for the Group as a whole beyond three years.

The key assumptions in the financial forecasts, reflecting our strategy, include the intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. We will seek to maintain and grow the business, including by potentially bidding for selected rail franchises. However, the base financial forecasts do not assume any rail franchise wins over and above our existing contracts and expected extensions. Our key assumptions also include a stable regulatory environment in both the UK and North America. The financial forecasts in respect of Virgin Trains East Coast are consistent with those used in determining the onerous contract provision referred to in section 1.5.5 of this Annual Report.

The Group faces a number of risks and the risks that the Board has currently assessed as being the principal risks are set out in section 1.4.5 of this Annual Report.

The cash generative nature of the Group's operations positions it well to meet its liabilities as they fall due. In light of that, the Board considers solvency risks to be relatively low.

The Group has committed bank facilities in place for the period to October 2021 and currently has significant undrawn headroom under these facilities. It re-financed £400m of bonds in 2015 with the new bonds not due to mature until 2025. It also has US private placement notes that are not due to mature until 2022. Furthermore, the Group has three investment grade credit ratings from independent credit rating agencies and remains comfortably in compliance with bank and private placement financial covenants. In light of all of these factors, the Board considers liquidity risks to be relatively low.

Stress testing of the financial forecasts has been undertaken with reference to a number of severe but plausible scenarios involving our principal risks. The scenario analysis undertaken included reverse stress testing that involved constructing scenarios that would threaten the Group's viability then assessing the likelihood of those scenarios occurring. The stress testing also considered the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the conclusions of the Board's monitoring and review of risk management and internal control systems, as described in sections 4.12 and 4.13, were taken into account. The financial forecasts and the scenario analysis considered profitability, cash flows, financial covenant compliance, rating agency metrics, debt facility headroom, and other key financial ratios. The Group's exposures to external factors such as GDP, population, fuel prices, inflation, consumer confidence, competition and terrorism risks were considered. The results of this stress testing illustrated that the Group was expected to be able to withstand the impact of these scenarios occurring over the three-year period through adjusting its operating plans within the normal course of business.

Of course, it is not possible to guarantee the viability of the Group; any such assessment is subject to a degree of uncertainty that can be expected to increase the longer the time horizon.

Viability statement

Based on its assessment of the Group's prospects and viability above, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 2 May 2020.

Going concern

In conjunction with its assessment of longer term viability, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. The Board has a reasonable expectation that the Group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements.

3.12 Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint Ernst & Young LLP as auditors of the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Audit Committee be authorised to fix the remuneration of the auditors.

3.13 Material included in the Strategic report

The Strategic report in section 1 includes information on the following matters that would otherwise be required to be presented in the Directors' report:

- Employment policies;
- Future developments in the business; and
- Greenhouse Gas Emissions

3.14 Table of cross references required for Listing Rule 9.8.4 of the UK Listing Rules

Listing Rule 9.8.4 of the Financial Conduct Authority's Listing Rules requires us to make certain disclosures. The table below summarises where each of the disclosures can be found in this Annual Report.

Listing Rule 9.8.4	Required disclosure	Location in Annual Report
(1)	A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any tax relief.	Not applicable
(2)	Any information required by Listing Rule 9.2.18R relating to any unaudited financial information in a class 1 circular or a prospectus; or any profit forecast or profit estimate.	Not applicable
(3)	Listing Rule deleted.	Not applicable
(4)	Details of long-term incentive schemes as required by Listing Rule 9.4.3R, being any arrangement where the only participant is a director of the Company (or an individual whose appointment as a director of the Company is being contemplated) and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual.	Not applicable
(5)	Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.	Section 8.5.9 of this Annual Report explains arrangements under which Sir Brian Souter, Chairman, waived emoluments in prior financial years.
(6)	Details of any agreements by a director to waive future emoluments.	Not applicable
(7)	Details of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders.	Not applicable
(8)	The information required in item (7) above for any unlisted major subsidiary undertaking of the Company.	Not applicable

Listing Rule 9.8.4	Required disclosure	Location in Annual Report
(9)	Details of any share placing where the Company is a subsidiary undertaking of another Company.	Not applicable
(10)	Details of any contract of significance subsisting during the period under review: (a) to which the Company, or one of its subsidiary undertakings, is a party and in which a director of the Company is or was materially interested; and (b) between the Company or one of its subsidiary undertakings, and a controlling shareholder;	Details of related party transactions, including those where a director is materially interested, are provided in note 32 to the consolidated financial statements. The Company has no controlling shareholders.
(11)	Details of any contract for the provision of services to the Company or any of its subsidiary undertakings by a controlling shareholder.	Not applicable
(12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	Note 26 to the consolidated financial statements provides information on employee benefit trusts that have waived and agreed to waive dividends. Shares held in treasury do not qualify for dividends.
(13)	Details of agreements by shareholders to waive future dividends.	Note 26 to the consolidated financial statements provides information on employee benefit trusts that have agreed to waive future dividends.
(14)	A statement made by the Board in respect of matters relating to a controlling shareholder.	Not applicable

By order of the Board

Mike Vaux
Company Secretary

28 June 2017

4. Corporate governance report

4.1 Introduction from Will Whitehorn, Deputy Chairman

The Stagecoach Group is committed to operating with the high standards of corporate governance that are expected of a group with shares traded on the London Stock Exchange. In this introduction to the Group's corporate governance report I look back at the year 2016/17, at the progress that has been made with the governance of the Group and look forward to the governance challenges for the future.

As the Deputy Chairman, it is my responsibility to promote the highest standards of corporate governance throughout the Group and particularly at Board level. This report sets out the governance structure in place for the Group, which I believe is both robust and appropriate for the Group's operations.

The composition of the Board has continued to evolve over the year. Ray O'Toole's appointment to the Board was approved by shareholders at the 2016 Annual General Meeting and he joined the Board on 1 September 2016. Julie Southern joined as an additional non-executive director on 7 October 2016.

Martin Griffiths and Ross Paterson continue in their roles as Chief Executive and Finance Director respectively. As we have adjusted the Board composition over the last two financial years we have appointed new non-executive directors who bring substantial experience in areas identified as important in the future strategy of the Group. The Group's Chairman, Sir Brian Souter, is responsible for the conduct of the Board as a whole.

Our Board structure comprises experienced executive directors managing the business, non-executive directors with the skills and experience both to bring new ideas to the Board and to challenge the executive directors, and our founder and former Chief Executive continuing as non-executive Chairman. This structure allows the Board to develop the strategic direction of the Group to meet future challenges while ensuring the sound management of the Group's current business. I am satisfied that the governance structure allows the views of all of the Directors to be heard and given due weight and that our corporate governance procedures are appropriate for the Group.

The Board focuses on the Group's strategy and seeks to understand the risks to the Group and the markets that it operates in. We aim to achieve appropriate returns for our shareholders, balanced against an appropriate level of risk. We look ahead to where we believe opportunities are going to arise and to anticipate and address the challenges that the business faces. I believe that good governance is central to achieving these aims for the business as a whole and to ensure that our management team is properly challenged to meet the Group's objectives.

In the past year, the Board has continued to discuss franchise opportunities available in the rail sector, submitting a bid (albeit, ultimately unsuccessful) for the new South Western franchise. The Board has continued to review the balance of the Group between its rail and bus businesses. The Board recognises and has discussed in some detail the risks to the business in the changing political landscape and the Group has engaged constructively with a range of stakeholders on the Bus Services Act.

The Board has continued to discuss how new technology can enhance the passenger experience and attract more passengers to our services. The Board has drawn on the experience of the non-executive members of the Board to develop the Group's digital and technology strategies, looking at how new technologies can support our current business model and open up new ways to provide services to the public, and to ensure that the Group is able to play a part in emerging transport solutions. Following the launch of the enhanced stagecoachbus.com website, the UK Bus division launched the Stagecoach Bus App, available through the AppStore and Google Play, providing journey planning and real-time bus information to passengers in a mobile-friendly form, along with a greater range of ways to pay for tickets on line and to carry tickets on mobile devices.

I am confident that the corporate governance structure of the Board provides an appropriate forum to develop and adapt the Group's strategy to address future challenges and opportunities.

Will Whitehorn
Deputy Chairman
28 June 2017

4.2 Corporate governance and compliance with the Code

The Stagecoach Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group. This section 4 of the Annual Report sets out Stagecoach Group's corporate governance arrangements. Taken together with the Directors' report, it includes the disclosures recommended by the Financial Reporting Council ("FRC") UK Corporate Governance Code (the "Code"), and describes how the principles of good corporate governance that are set out in the Code have been applied. In line with the recommendations of the Code and best practice, separate reports are provided from each of the Audit, Nomination, Health, Safety and Environmental and Remuneration Committees.

The Code issued in September 2014 applied to the Company's financial year from 1 May 2016 to 29 April 2017. The Directors believe that throughout the year ended 29 April 2017 the Group complied with all of the provisions of the Code. A copy of the Code is available at: <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>

In the period from Garry Watts leaving the Board on 31 July 2016 to the appointment of Ray O'Toole to the Nomination Committee on 1 October 2016, the Nomination Committee comprised Sir Brian Souter, James Bilefield, Sir Ewan Brown and Will Whitehorn. Code provision B.2.1 recommends that a majority of members of the nomination committee should be independent non-executive directors. The Company considers Sir Ewan Brown to be independent and considers that during this period the composition of the Nomination Committee complied with the Code. However, as noted at section 4.5 of this Annual Report, some investors consider that Sir Ewan Brown may not be considered to be independent. While the Company considers that it fully complied with the provisions of the Code throughout the financial year, if Sir Ewan Brown is considered not to be independent, the composition of the Nomination Committee in the two month period between Garry Watts leaving the Board and Ray O'Toole joining the Nomination Committee did not comply with Code provision B.2.1.

The Group also complies with the corporate governance requirements of the Financial Conduct Authority's Listing Rules, and Disclosure and Transparency Rules.

The Financial Conduct Authority's Disclosure and Transparency Rule 7.2.6 ("DTR 7.2.6") requires the corporate governance statement to contain certain information required by Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). This information relates to significant interests in the securities of the Company, securities carrying special rights with regard to the control of the Company, restrictions on voting rights, rules regarding the appointment and replacement of directors, rules regarding changes to the Company's Articles of Association and the Directors' powers in relation to the issuing or buying back by the Company of its shares. The relevant information can be found in sections 3.4 and 3.9 of this Annual Report.

4.3 Composition of the Board

The composition of the Board is as follows:

	Chairman	Independent Non-Executive Director	Other Director
Sir Brian Souter <i>Chairman</i>	✓		
Gregor Alexander <i>Non-Executive Director</i>		✓	
James Bilefield <i>Non-Executive Director</i>		✓	
Sir Ewan Brown <i>Non-Executive Director</i>		✓	
Ray O'Toole <i>Non-Executive Director</i>		✓	
Julie Southern <i>Non-Executive Director</i>		✓	
Karen Thomson <i>Non-Executive Director</i>		✓	
Will Whitehorn <i>Senior Independent Director & Deputy Chairman</i>		✓	
Ann Gloag <i>Non-Executive Director</i>			✓
Martin Griffiths <i>Chief Executive</i>			✓
Ross Paterson <i>Finance Director</i>			✓

The Board comprises eleven directors, seven of whom are considered to be independent by the Board and six of whom meet the criteria suggested by the Code for determining director independence.

4.4 Division of responsibilities

Sir Brian Souter was the Chief Executive of the Group until 1 May 2013. When Sir Brian became the Chairman of the Group and Martin Griffiths became Chief Executive, the Board created the new role of Deputy Chairman to maintain the strength of its governance arrangements. The split of the Chairman's, Deputy Chairman's and Chief Executive's responsibilities has been agreed in writing and has been approved by the Board. The Deputy Chairman reports to the Chairman and to the Board and has responsibility for ensuring proper corporate governance. The Deputy Chairman's role includes ensuring that the Board's consideration of matters is in the best interests of the Group and unaffected by conflicts of interest. No executives report directly to the Deputy Chairman.

The Chairman is responsible for the running of the Board and for ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Deputy Chairman is responsible for ensuring that the Board determines the Group's strategy and overall commercial objectives with the overall success of the Group in mind and to provide guidance in this regard to the Chairman. The Chief Executive is responsible for proposing and developing that strategy with support and guidance from the Chairman. The Chief Executive is responsible for the running of the Group's business and reports to the Chairman and to the Board directly. All other members of the executive management team report either directly or indirectly to the Chief Executive.

Will Whitehorn, as well as being Deputy Chairman, is the Group's Senior Independent Director and is available to shareholders if they have concerns which contact through the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

4.5 Board independence and balance

The Directors' biographies appear in section 2 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Board delegates the operational management of the Group to the Chief Executive and Finance Director

("Executive Directors"). The Non-Executive Directors bring an independent viewpoint and create an overall balance. The Directors have a complementary range of experience that ensures no one director or viewpoint is dominant in the decision-making process.

The Code recommends that independent non-executive directors should make up at least half of the Board (excluding the Chairman). Throughout the year from 1 May 2016 to 29 April 2017, the Board considers that it complied with this Code requirement. The current position is that seven out of the ten Board members (excluding the Chairman) are considered by the Board to be independent. In determining the independence of non-executive directors, the Board considers a number of factors. In particular the Board satisfies itself on the following questions:

- Does the director provide a robust and effective challenge to executive management?
- Is the director prepared to challenge others' beliefs, assumptions and viewpoints for the overall good of the Group and its shareholders?
- Does the director effectively contribute to constructive debate by the Board and its Committees?
- Is the director willing to defend his or her own beliefs and viewpoints for the overall good of the Group and its shareholders?
- Does the director have a sufficiently sound and detailed knowledge of the Group's business that enables him or her to effectively question strategy and executive management's running of the business?

Sir Ewan Brown, one of the seven independent Non-Executive Directors, has served on the Board since 1988 and is a non-executive director of Noble Grossart, which has from time to time provided advice to the Company. The Company recognises and understands investor concerns over longer-serving non-executive directors but continues to regard Sir Ewan Brown as independent. Sir Ewan Brown's long association with the Group and the sound and detailed knowledge of the Group's business that he has developed enables him to provide a robust and effective challenge to management. The Board believes that Sir Ewan Brown's length of service enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. Seven of the ten members of the Board (excluding the Chairman) are considered by the Board to be independent. If Sir Ewan Brown was not treated as independent, the balance of the Executive and Non-Executive Directors complies with the recommendations of the Code.

In recognition of the factors suggested by the Code for determining independence, Sir Ewan Brown does not serve on the Remuneration Committee or the Audit Committee.

All of the Directors stand for election or re-election at each annual general meeting of the Company.

4.6 Operation of the Board

The Board generally meets six times each year. Additional meetings of the Board are held, or resolutions are circulated in writing, as appropriate, to consider matters where a decision of the Board is required prior to the next scheduled meeting. In addition to the formal meetings of the Board and its Committees, the Directors are in more frequent but less formal contact with each other and with the Group's management on a range of matters.

The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors, led by the Deputy Chairman, meet without the Chairman at least annually.

All the Directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the Company Secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as directors. The Company Secretary, whose appointment and removal is a matter for the Board as a whole, is responsible to the Board for ensuring the Board procedures are complied with.

Each director receives induction training on appointment and subsequently such training, briefings and site visits as are considered necessary to keep abreast of matters affecting their roles as directors. The Chairman reviews the Directors' training and development needs in conjunction with the Company Secretary. Training can encompass health, safety, environmental, social and governance matters.

Corporate governance report

The number of full Board meetings during the year was six. The full Board typically meets at least once a year at an operational location. Regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. The Board met in Chester, New York in April 2017, giving the Board the opportunity to inspect the facilities at the Group's operations in the city and to meet the local management team. The opportunity was taken to allow the new members of the Board to meet the local management teams in a number of operational locations in North East US and for the members of the Health Safety and Environmental Committee to visit the operation control centre for the North America Division in Paramus, New Jersey. During the year, the Health, Safety and Environmental Committee also visited the UK Bus Division's newly developed depot in Exeter and was briefed on the opportunities offered by the new facilities and the environmental initiatives being undertaken at that site and more broadly across the Division.

The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major acquisitions or disposals. The Directors have full and timely access to information with Board papers distributed in advance of meetings. Notable matters that the Board considered during the year ended 29 April 2017 included:

- Rail franchise bids including the submission of a bid for the new South Western rail franchise
- Sale of European retail megabus.com business to FlixBus
- UK Rail industry trading conditions, industrial action affecting the network and challenges at Virgin Trains East Coast.
- Board succession planning and appointment of new non-executive directors
- Changes arising from the Bus Services Act
- Opportunities and challenges arising from new technologies in the transport sector
- Information security controls
- UK Rail franchise bid process and long-term outlook
- Developments in digital technology, including launch of UK Bus app and roll out of contactless payment technologies
- Adjustments to rail and bus service offerings in response to increased car and air competition resulting from sustained low fuel prices
- Appointment of joint broker

The Board keeps the roles and contribution made by each director under review and changes in responsibilities are made where necessary to improve the Board's effectiveness. To provide a more manageable process and better control, certain of the Board's powers have been delegated to committees.

Minutes are taken of each meeting of the Board and its Committees. Where any director has significant concerns that cannot be resolved about the running of the Group or a proposed action, these concerns are recorded in the minutes. It is also the Group's policy that where a director resigns, the director is asked to provide a written statement to the Chairman of any concerns leading to his or her resignation.

4.7 Operational management of the Group

The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in video conferences with non-board senior management.

There are four principal operating divisions:

- UK Bus (London): headed by a managing director
- UK Bus (regional operations): headed by two managing directors
- North America: headed by a chief operating officer
- UK Rail: headed by a managing director

Although the megabus Europe business is reported as a separate segment for financial reporting purposes, it was managed as part of the UK Bus (regional operations) operating division.

Each division comprises a number of autonomous business units, each headed by a chairman or managing director who is responsible for the day-to-day performance of the business unit. Each chairman or managing director is supported by his or her own management teams.

One of the joint ventures in which the Group has an interest, Virgin Rail Group, is managed independently of the Group. It is headed by its own managing director. The Group has two representatives on the Board of Virgin Rail Group. The other trading joint venture in which the Group has an interest, Scottish Citylink Coaches Limited, has a joint board. The Group is responsible for the day-to-day management of that business.

4.8 Performance evaluation

The Board assesses its own performance and the performance of each individual Board member; this assessment is co-ordinated and directed by the Chairman with the support of the Company Secretary. The Board's assessment of the performance of the Chairman is co-ordinated by the Deputy Chairman. As part of the assessment process, the Non-Executive Directors meet without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present. The Chairman obtains feedback from each individual director on the performance of the Board and other Board members. The Deputy Chairman obtains feedback from each individual director on the performance of the Chairman. A questionnaire-based process is undertaken to assess the performance of each of the Board's committees.

The Code recommends board performance evaluation should be externally facilitated at least every three years. The Board appointed Margaret Exley of SCT Consultants to facilitate its evaluation in the year ended 29 April 2017. The evaluation was carried out between January and April 2017, based on interviews, questionnaires, observation and document review. The evaluation found that the Board had been strengthened by introducing four new members. The report particularly noted the additional experience on the Board in the areas of technology, digitalisation, the transport industry and marketing. The evaluation noted a focused, inclusive and open atmosphere to Board meetings with good challenge between executive and non-executive directors. Agendas were found to reflect the important issues and decision making was effective and followed through. The Board has begun to implement the recommendations from the report, including scheduling detailed discussions of business risks and business and talent strategies outside the Board meeting cycle and arranging time for more informal discussions between the Board members. Suggested adjustments to the forward agenda, including giving Board members more opportunity to visit operational locations, will be implemented over the remainder of the 2017/18 financial year. The Board intends to continue to use external facilitation of its performance evaluation no less frequently than every three years.

The Board has considered the results of these assessments and has concluded that overall the Board and its committees continue to operate in an effective and constructive manner.

4.9 Composition of Committees

The current composition of the various Board Committees is summarised below.

Audit Committee

Number of members of Committee: 4

All members are Independent non-executive directors.

Chairman and designated member with recent and relevant financial experience

Gregor Alexander

Other members

Ray O'Toole

Julie Southern

Karen Thomson

Nomination Committee

Number of members of Committee: 5

Chairman

Sir Brian Souter

Other members

James Bilefield

Sir Ewan Brown

Ray O'Toole

Will Whitehorn

Remuneration Committee

Number of members of Committee: 3

All members are independent non-executive directors.

Chairman

Julie Southern

Other members

Gregor Alexander

James Bilefield

Health, Safety and Environmental Committee

Number of members of Committee: 4

Chairman

Ray O'Toole

Other members

Martin Griffiths

Ann Gloag

Karen Thomson

4.10 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by directors during the year ended 29 April 2017:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	6	6	n/a	n/a	n/a	n/a
Martin Griffiths	6	6	n/a	n/a	n/a	n/a
Gregor Alexander	6	6	3	3	3	3
James Bilefield	6	6	n/a	n/a	3	3
Sir Ewan Brown	6	6	n/a	n/a	n/a	n/a
Ann Gloag	6	6	n/a	n/a	n/a	n/a
Ray O'Toole	4	4	2	2	n/a	n/a
Ross Paterson	6	6	n/a	n/a	n/a	n/a
Julie Southern	3	4	2	2	2	2
Karen Thomson	6	6	3	3	n/a	n/a
Garry Watts	1	1	n/a	n/a	1	1
Will Whitehorn	5	6	1	1	n/a	n/a

PARTICIPATION IN MEETINGS	Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	n/a	n/a	1	1	1	1
Martin Griffiths	4	4	n/a	n/a	1	1
Gregor Alexander	n/a	n/a	n/a	n/a	1	1
James Bilefield	n/a	n/a	1	1	1	1
Sir Ewan Brown	n/a	n/a	1	1	1	1
Ann Gloag	2	4	n/a	n/a	1	1
Ray O'Toole	3	3	n/a	n/a	n/a	n/a
Ross Paterson	n/a	n/a	n/a	n/a	1	1
Julie Southern	n/a	n/a	n/a	n/a	n/a	n/a
Karen Thomson	4	4	n/a	n/a	1	1
Garry Watts	n/a	n/a	1	1	n/a	n/a
Will Whitehorn	1	1	1	1	1	1

4.11 Relations with shareholders

The Board endeavours to present a fair, balanced and understandable assessment of the Group's position and prospects in communications with shareholders. The Group has periodic meetings and/or telephone calls with representatives of major institutional shareholders, other fund managers and representatives of the financial media.

The programme of investor relations includes presentations in London of the full-year and interim results and meetings/calls with institutional investors. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are effectively communicated and shareholder objectives are known. Written responses are given to letters or e-mails received from shareholders. The Annual Report is published in hard copy and on the Group's website.

The Board receives regular updates on the views of shareholders through briefings from the Chairman, Deputy Chairman and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants.

All shareholders are welcome to attend and participate at the Annual General Meeting and any other general meetings. The Group aims to ensure that all the Directors are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. All resolutions proposed to the 2016 Annual General Meeting were decided by a poll (as opposed to a show of hands) and details of all votes lodged for and against, or withheld, in respect of each resolution of the 2016 Annual General Meeting were published on the Group's website at:

<http://www.stagecoach.com/investors/shareholder-services/agm.aspx>

The Group intends to undertake a poll on each resolution put to the 2017 Annual General Meeting. All votes cast for or against each resolution, whether by proxy or in person at the meeting, will be aggregated and the results will be reported on the Group's website.

The Company and its registrars have established procedures to ensure that votes cast are properly received and recorded.

4.12 Risk management

The Board recognises the importance of maintaining a sound risk culture throughout the Group such that risks are identified, evaluated and managed appropriately. Further details are provided in the sections that follow about the Board's appetite for risk and the Group's risk management process.

4.12.1 Risk appetite

The Board considers that it is in the interests of the Group's stakeholders for the Group to evaluate and accept risk. Delivering the Group's strategy and objectives necessitates some risk taking.

Corporate governance report

It is the Group's objective that the risk of it not remaining viable for the foreseeable future should be low. Its appetite for risk reflects that overall objective. Consistent with that risk appetite:

- Safety is at the heart of the Group's business as explained in section 1.8.5 of this Annual Report. Health and safety risks are carefully assessed and the Group avoids activities where health and safety risks cannot be managed to an acceptable level.
- It is the Group's intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. Before entering a new country, the Group carefully evaluates the risks of doing so.
- The Group recognises the different risk profiles of each of its businesses and in particular, recognises that profits and cash flows from UK rail businesses are generally less predictable than those from the Group's bus businesses. As a result, the Board considers there to be an acceptable limit to the size of the UK rail business relative to the other businesses of the Group.
- The Group seeks to minimise as far as practical the risk of breaches of laws and regulations and applies a zero tolerance approach to employee breaches of legal and regulatory requirements, its own Code of Conduct (see section 5.4.5 of this Annual Report), its delegated authority levels and its other internal policies including in respect of health and safety, anti-corruption and share dealing.
- It is the Group's objective to maintain an investment grade credit rating as explained in section 1.6.10 of this Annual Report.
- The Board has set a minimum level of undrawn, committed credit lines that the Group should aim to maintain at all times and which should be available for borrowings.
- Stress testing and reverse stress testing are undertaken in respect of major investment proposals, major contract bids including rail franchise bids and generally as part of the Board's assessment of the Group's viability.

The Group's risk appetite and related objectives are reflected in the objectives that the Remuneration Committee sets for the Executive Directors. For example, one of the Chief Executive's current objectives relates to health and safety, while one of the Finance Director's current objectives relates to the Group's investment grade credit ratings and their remuneration is partly linked to the achievement of those objectives.

4.12.2 Risk management process

The Group has an ongoing process for identifying, evaluating and managing the principal risks that it faces. The Board regularly reviews the process.

The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or reduced and, in some cases, transferred to third parties. Internal controls are used to identify and manage risk. The Directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control, and for reviewing its effectiveness. The Group's system cannot provide absolute assurance but is designed to provide the Directors with reasonable assurance that any significant risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

Certain of the Group's businesses are subject to significant risk. Each identified business risk is assessed for its probability of occurrence and its potential severity of occurrence. Where necessary, the Board considers whether it is appropriate to accept certain risks that cannot be fully controlled or mitigated by the Group.

For those businesses that have been part of the Group for the whole of the financial year ended 29 April 2017, the Group's risk management process was embedded throughout the businesses for that year and up to the date of the approval of this report.

The Board has carried out a review of the effectiveness of the Group's risk management and internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit.

Self-assessment of risk conducted by the Directors and senior management is ongoing and has been considered at several levels, with each division maintaining a separate risk profile.

The Group Risk Assurance (or Internal audit) function reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. In conjunction with the tender for the provision of external audit services for the Group that resulted in the appointment of Ernst & Young as the Company's auditors for the financial year ending 29 April 2017, the Audit Committee oversaw a tender for the provision of internal audit services to the Group. As a result of that tender process, the Group appointed PricewaterhouseCoopers to manage the Group Risk Assurance Function in place of Deloitte with effect from September 2016.

A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for maintaining the integrity and improving, where possible, the Group's risk management process in the context of the Group's overall goals.

The Audit Committee reviews Group Risk Assurance plans, as well as external audit plans and any business improvement opportunities that are recommended by the external auditors.

The Group's risk management process does not specifically cover joint ventures, but the Group maintains an overview of joint ventures' business risk management processes through representation on the boards and in the case of Virgin Rail Group, its audit committee. Stagecoach management representatives also meet regularly with representatives of joint ventures to ensure that they follow appropriate risk management procedures.

4.12.3 Principal risks and uncertainties

The Board has undertaken a robust assessment of the principal risks facing the Group, including those risks that would threaten the Group's business model, future performance, solvency and liquidity. In making that assessment, the Board considered the likelihood of each risk materialising in the short-term and the longer term. In assessing the longer term viability of the Group (see sections 3.11 and 5.5 of this Annual Report for further information on the Group's viability), the Board has considered the principal risks.

The principal risks and uncertainties facing the Group are summarised in section 1.4.5 of this Annual Report and that section includes an explanation of how we aim to appropriately manage and mitigate those risks.

4.13 Internal control

The wider process described above and the key procedures noted below, enable the Directors to confirm that they have reviewed the effectiveness of the system of risk management and internal control of the Group during the year. The key procedures, which the Directors have established, are as follows:

- an annual budgeting process with periodic re-forecasting of out-turn, identifying key risks and opportunities. The overall Group annual budget is approved by the Board.
- reporting of financial information to the Board encompassing income statement, cash flow, balance sheet and key performance indicators. Group management monitors the results throughout each financial year.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned periodically by the Group of areas where significant inherent risks have been identified, such as health and safety, treasury management, insurance provisioning, pensions strategy and competition policy.

- a decentralised organisational structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- joint control over the activities of joint ventures through Stagecoach representation on the boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system, which covers the Group's senior management based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis on cash flow management. Bank balances are reviewed on a daily basis and cash flows are compared to budget on a four-weekly basis.
- reporting to the Board and/or its Committees on specific matters including updated key risks, taxation, pensions, insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.
- each operating unit maintains internal controls and procedures appropriate to the business. A written certificate is provided at least annually by the management of each business confirming that they have reviewed the effectiveness of the system of internal control during the year.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.
- an anti-bribery and anti-corruption policy with training and compliance monitoring.

Any control weaknesses that these procedures identify are monitored and addressed in the normal course of business. No control failings or weaknesses that are significant to the Group as a whole have been identified in the year to 29 April 2017.

4.14 Process for preparing consolidated financial statements

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit Committee is also kept apprised of such developments.
- Any recommendations from the auditors, the Financial Reporting Council and others in respect of financial reporting are assessed with a view to continuous improvement in the quality of the Group's financial statements.
- A written certificate is provided annually by the management of each business unit confirming that the internal financial controls have been reviewed and highlighting any departures from the controls system that the Group has determined to be appropriate practice.
- The financial statements of each business unit are subject to review by a local finance manager prior to being submitted to the Group Finance function.
- The financial statements of each business unit are subject to review by the Group Finance function for unusual items, unexplained trends and completeness. Any unexplained items are referred back to local management to explain.

- The Group Finance function compares the financial statements of each business unit to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the Group Finance function.
- The draft consolidated financial statements are reviewed by an individual independent from those individuals who were responsible for preparing the financial statements. The review includes checking internal consistency, consistency with other statements and arithmetical accuracy.
- The Audit Committee and the Board review the draft consolidated financial statements. The Audit Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.
- The financial statements of all material business units are subject to external audit

The Group uses the same firm of auditors to audit all Group companies. The Group auditors review the audit work papers for material joint ventures that are audited by a different firm of auditors.

4.15 Pension schemes

The assets of the Group's pension schemes are held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. There are twelve trustees for the principal UK scheme, three of which are employee representatives nominated by the members on a regional basis and three are pensioner trustees. The chairman of the trustees of the principal UK scheme is a professional trustee who served for eight years as a fund member elected representative on the National Association of Pension Funds' investment council, and is a past Trustee Chairman of the Railways Pension Scheme trustees. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

A Pensions Oversight Committee was in operation throughout the year. This Committee is chaired by a non-executive director, Sir Ewan Brown, and also comprises one executive director and other members of senior management. The Committee operates at a strategic level and its remit covers all matters affecting the Group's pension schemes from the perspective of the Group's shareholders and other stakeholders, and it will consider, develop and propose recommendations to the Board in respect of such issues as may arise. The Committee reviews pension scheme funding, investment strategy, risk management and internal controls surrounding pension matters

By order of the Board

Mike Vaux
Company Secretary
28 June 2017

5. Audit Committee report

5.1 Introduction from Gregor Alexander, Chairman of the Audit Committee

As Chairman of the Audit Committee, I am pleased to present our Audit Committee report for the financial year ended 29 April 2017 in accordance with the UK Corporate Governance Code. The report describes how we have discharged our responsibilities under the Code and monitored the effectiveness of the Group's financial reporting, internal control systems and risk management.

As part of the planned changes to the Board's composition, the membership of the Audit Committee was refreshed during the year. Will Whitehorn ceased to be a member on October 2016 and I would like to thank him for his contribution to the Committee.

I was pleased to welcome two new members to the Audit Committee with the appointment of Ray O'Toole and Julie Southern in October 2016, and the Committee is already benefiting from the significant financial and specific sector insights that they bring.

Gregor Alexander
Chairman of the Audit Committee
28 June 2017

5.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 4.9 of this Annual Report and this section 5.2 explains how we have addressed the audit committee composition requirements of the UK Corporate Governance Code. Gregor Alexander is the current Chairman of the Audit Committee and is a Chartered Accountant. Gregor is the Finance Director of SSE plc, a FTSE 100 company, and is the designated Committee member with recent and relevant financial experience.

The Committee as a whole has an appropriate and experienced blend of audit, financial and commercial expertise, as well as competence relevant to the Group's industry sector. Of particular note, are the insights brought by Ray O'Toole during the year from his experience in other organisations involved in the bus and rail sectors.

5.3 Operation of the Audit Committee

The Audit Committee met three times during the year. The Committee retains discretion as to who from outside the Committee should attend its meetings but generally invites the following to attend:

- The Group Finance Director;
- The Group Financial Controller;
- The Company Secretary, who is Secretary to the Committee;
- Representatives from the external auditors;
- Representatives from the Risk Assurance (internal audit) Function.

In addition, the Group Tax Director and Group Treasurer are expected to present to the Committee at least annually. The Committee may also invite other directors of the Company to attend meetings of the Committee and does so from time to time.

5.4 Activities of the Audit Committee

The Committee receives reports from major business functions including the outsourced Risk Assurance Function (internal audit). It also receives

reports from the external auditors. It considers the scope and results of the audit, the half-year and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at:

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/about/tor-audit-committee-apr-2016.pdf>

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 29 April 2017.

5.4.1 Financial Reporting

The Group's interim and preliminary financial results, as well as its Annual Report, were reviewed and revised by the Audit Committee before recommending their publication to the Board. At each meeting, the Committee discussed with management how they had applied critical accounting policies and judgements to these documents, having considered reports from both the Group's management and the external auditors. The external auditors attended all meetings of the Committee and presented audit plans and findings, amongst other matters.

In March 2017, the Group received a letter from the Financial Reporting Council's Corporate Reporting Review team, which raised a number of queries following its review of the 2016 Annual Report. The Audit Committee assisted management in reviewing and drafting a response to the letter, which included commitments by the Group to provide additional information in the 2017 Annual Report. The Corporate Reporting Review team has closed its enquiry. A number of suggestions for improvements were noted, and these have been taken into account in preparing the 2017 Annual Report.

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 29 April 2017, of which it considered the most significant to be those set out in the table on the following page.

In addition to the significant accounting judgements set out in the table, the Committee also considered other accounting and reporting matters in respect of the year ended 29 April 2017, including the following:

- **Exceptional items** – The Committee considered the appropriateness of the amounts disclosed as exceptional items in the financial statements and the adequacy of the disclosure related to such items. The Committee is satisfied that the Group's approach is appropriate in this area.
- **Rail franchise opportunities** – In light of the range of opportunities facing the Group's UK Rail Division and also the anticipated expiry of the Group's South West Trains franchise in August 2017, the Committee considered whether any actual or anticipated changes in the commercial terms or duration of rail franchises resulted in any changes in accounting estimates. The Committee also considered the accounting for any costs incurred in pursuing rail franchise opportunities. The Committee concluded that the accounting estimates in the consolidated financial statements had been appropriately updated for such franchise changes and that any costs incurred in pursuing rail franchise opportunities had been appropriately accounted for.

The Audit Committee also reviewed the evidence that supported the conclusions that the Group remains a going concern and that the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 2 May 2020, noting it was consistent with the disclosure given in section 3.11 of this Annual Report.

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
Pensions			
The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and mortality rates.	The Committee considered the appropriateness of pension assumptions by receiving reports from management outlining the basis of the assumptions used, comparing these assumptions to those applied by other companies operating in the same sector as the Group as well as by listed companies more generally, considering advice from external actuaries and considering analysis undertaken by the external auditors. The Committee noted that there was a range of acceptable assumptions but concluded that the assumptions applied were appropriate.	The total pensions expense recognised in the consolidated income statement for the year ended 29 April 2017 was £95.2m (2016: £106.7m) and the net retirement benefit liability as at 29 April 2017 was £232.5m (2016: £96.7m). In note 24 to the consolidated financial statements, analysis is provided that shows the sensitivity of pension amounts to changes in key assumptions.	6, 24
Insurance			
The estimation of the insurance provision in respect of traffic accidents and employee incidents is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group.	The Committee discussed with management the key judgements made in determining the insurance provision, challenging the methodology used, and understanding the extent to which estimates are supported by third party actuarial advice and analysis provided by the external auditors. The Committee noted that there was a range of acceptable estimates for the year-end insurance provision and after challenge, concluded that the amount of the insurance provision was at an appropriate point within that range.	The insurance provision in the consolidated balance sheet as at 29 April 2017 was £156.8m (2016: £148.6m).	23
Taxation			
Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities.	The Committee considered the judgements made in respect of tax by reviewing reports from management outlining the basis of the assumptions, challenging the estimates formed and considering the extent to which third party professional advice and/or historical experience informed the judgements. The Committee met with the Group's Tax Director, the Group Tax Manager and a tax specialist from the external auditors in April 2017. The specific tax accounting judgements considered by the Committee included the financing of and transactions with overseas (i.e. non-UK) operations, losses incurred by overseas operations in the ordinary course of business and overseas tax audits. The Committee concluded that appropriate judgements had been made in determining the tax amounts recorded in the financial statements.	The consolidated tax credit for the year ended 29 April 2017 was £0.2m (2016: £5.4m charge). The net consolidated tax liability as at 29 April 2017 was £21.9m (2016: £58.8m). Further information on uncertain tax estimates is provided in section 1.6.4 of this Annual Report.	7
Impairment and onerous contracts			
The Group's critical accounting policies described in note 1 to the consolidated financial statements, include goodwill and impairment; and onerous contracts. A number of the Group's UK businesses have experienced more challenging trading conditions over recent years. The Committee therefore focused on whether any impairment losses and/or onerous contract provisions arose in respect of those businesses.	For those businesses where trading conditions have been more challenging than previously expected, in particular Virgin Trains East Coast, the Committee assessed whether any assets were impaired and whether any contracts had become onerous. The Committee considered the judgements made by management in undertaking impairment and onerous contract reviews and challenged the assumptions on matters such as future cash flows, growth rates, tax rates and discount rates. It also considered the key judgements exercised by management over the expected outcomes of contractual positions on the Virgin Trains East Coast franchise. The Committee agreed with management's judgement that the Virgin Trains East Coast franchise onerous contract provision for £84.1m should be recognised as a pre-tax exceptional charge. Having recognised an onerous contract provision for the franchise, the Committee concurs with management's judgement that certain intangible assets associated with the right to operate the franchise are therefore also impaired, and require a separate exceptional charge of £44.8m to accelerate the amortisation on these assets.	Pre-tax exceptional charges of £84.1m and £44.8m respectively were recognised for the year ended 29 April 2017 to reflect that the current contractual arrangements give rise to an onerous contract at Virgin Trains East Coast, and the related impairment of certain intangible assets associated with the right to operate the franchise.	4, 23

Audit Committee report

5.4.2 External auditors

Following the external tender undertaken in the prior year, Ernst & Young was appointed as the Group's external auditor at the Annual General Meeting in August 2016. Mark Harvey, who was appointed in August 2016, is the current audit engagement partner, and under partner rotation rules, a new lead audit partner will be required in 2022. In accordance with the 2014 Code, the Group will be expected to tender the external audit by 2026.

The external auditors presented a detailed audit plan to the Committee, setting out their analysis of significant audit risks and key judgemental accounting matters, which would inform their planned scope and approach to the current year audit. For the year ended 29 April 2017, the most significant risks identified were in relation to provisioning for insurance claims, taxation, carrying value of goodwill and intangibles, pensions accounting and rail franchise contract compliance, based on the inherent level of management judgement required in these areas. These risks are monitored through the year and the Committee challenged the work done by the auditors to test management's assumptions and estimates.

Private meetings were held with the external auditors at each Committee meeting without the presence of management. The Committee Chairman also holds discussions with the external auditors between Committee meetings.

The Audit Committee is responsible for agreeing the audit engagement letter, agreeing the scope of the audit, appointing the audit partner and making recommendations on the appointment, reappointment and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid and advance approval of any other fees in excess of £50,000 per annum which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

The Committee formally assesses the effectiveness of the external audit process on an annual basis in the context of the wider assurance processes across the Group. As well as undertaking its own assessment of the audit effectiveness, the Committee also considers the views of a number of finance managers from various parts of the Group. The auditor assessment questionnaire is completed on an annual basis and examines three main performance criteria – robustness of the audit process, quality of delivery and quality of people and service. This assessment also includes consideration of the auditors' independence and objectivity, taking into account relevant laws, regulations and professional requirements. The assessment involves considering all relationships between the Group and the auditors, including the nature and quantum of non-audit services. Assurances are obtained from the auditors that they and their staff have no financial, business, employment, family or other personal relationship with the Group that could affect the auditors' independence and objectivity, taking account of relevant ethical standards. The auditors explain to the Audit Committee their policies and processes for maintaining independence and monitoring compliance with relevant requirements.

The Group has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibility) Order 2014 during the year.

The Committee considered the audit fee of £0.9m (2016: £0.9m) for the external auditor appropriate and concluded that an effective audit can be conducted for such a fee.

Having completed the assessment of both the external audit process and the external auditor for the year ended 29 April 2017, a resolution to re-appoint Ernst & Young as the Group's auditor will be put to the forthcoming Annual General Meeting.

5.4.3 Non-Audit services

In May 2014, the European Commission published a directive amending the Statutory Audit Directive and a new Audit Regulation. The new Audit Regulation has the direct effect of law and European Union member states, including the UK, are required to adopt provisions to ensure its effective application. The new Audit Regulation stipulates that a statutory auditor of a public-interest entity, which would include the Company, shall not provide certain non-audit services to that entity, its parent undertaking and/or its subsidiary undertakings within the European Union. The Company's auditors will therefore be prohibited from providing certain non-audit services to the Group that were not previously prohibited. The new requirements shall first apply to the Group in respect of its financial year ending 28 April 2018.

Procedures in respect of other services provided by the auditors are in place to safeguard audit objectivity and independence. The Group's policies on non-audit services are set by the Audit Committee and are currently:

- **General** – The auditors are not permitted to provide any non-audit services that they would be prohibited by law from providing due to either the nature of the services or the level of the fee for the services.
- **Audit related services** – These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to any legal restrictions.
- **Tax consulting** – It is the Group's policy to select the advisor for each specific piece of tax consulting work who has the most appropriate skills and experience for the work required. The Group uses a range of advisors for tax consulting and prior to July 2016, the Group would consider using the auditors for tax consulting where they were best suited to the work being undertaken. It is now the Group's policy not to use the auditors for such work.
- **General consulting** – For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken and subject to any legal restrictions.
- The auditors are only permitted to provide non-audit services to the Group when the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest that could not be effectively safeguarded.

In addition to the audit fee, the external auditor received non-audit related fees of £0.1m (2016: £0.2m), which equate to 7.7% (2016: 19.2%) of the audit fee and further details of which can be found in note 3 to the consolidated financial statements.

The Committee believes that the level and scope of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a good understanding of the Group's operations. Other accounting or consulting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified. The Committee will, however, of course review its policy on non-audit services from time to time, to ensure continued compliance with laws and regulations, including European Union legislation.

5.4.4 Internal auditors

Following the tender undertaken last year, PricewaterhouseCoopers assumed responsibility for managing the outsourced Risk Assurance Function (internal auditors) effective from September 2016. The Committee has received several reports from PricewaterhouseCoopers, detailing the planned schedule of audits as well as tracking key findings and any related material actions to address unsatisfactory results. PricewaterhouseCoopers attended all meetings of the Committee, in addition to meeting privately with the Committee without the presence of management. The Audit Committee reviews the internal audit plan at least annually and considers whether it is aligned to the key risks of the Group. The Committee also has the responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function. There have been no

instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Committee formally assesses the effectiveness of the Risk Assurance Function on an annual basis and seeks to satisfy itself that the quality, expertise and experience of the function is appropriate for the Group. This assessment involves both Audit Committee members and members of the management team completing a questionnaire with the results of that exercise then considered by the Committee. This assessment includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

5.4.5 Code of Conduct and "Speaking Up" Policy

The Audit Committee reviews compliance with the Group's Code of Conduct and use of the Group's "Speaking Up" policy, which provides a mechanism for employees with serious concerns about the conduct of the Group or its employees to report those concerns. The Committee ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. The Committee takes a particular interest in any reports of possible improprieties in financial reporting.

All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were sufficiently material to merit disclosure in the Annual Report. The Committee also received and considered updates on litigation involving the Group.

5.4.6 Other activities

The Committee has considered a range of other matters at its three meetings over the last year and received various reports and presentations as follows:

- A presentation was received from the Group Tax Director and the Group Tax Manager on the Group's tax affairs, significant tax accounting judgements and tax risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- The Committee considered and contributed to a response to a letter received from the Financial Reporting Council's Corporate Reporting Review team on the 2016 Annual Report.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, the Financial Reporting Council UK Corporate Governance Code, legislation affecting the Group more generally and other relevant regulatory developments and guidance.
- The Committee considered reports from the Audit Committee of Virgin Rail Group on matters relevant to that joint venture. The Group's Finance Director is Chairman of the Virgin Rail Group Audit Committee.
- Minutes of the Treasury Committee meetings (comprising members of management) were shared with the Audit Committee.
- The Committee reviewed a summary of the Directors' expense claims.

5.4.7 Fair, Balanced and Understandable

The Audit Committee advised the Board on whether it considers the Annual Report and financial statements, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. The Committee assessed the controls and processes in place in respect of the production of the Annual Report and financial statements as operating effectively during the year, and was able to provide positive assurance to the Board on the fair, balanced and understandable conclusion.

In advising the Board, the Audit Committee noted that:

- The Board considers the key risks facing the Group and the Audit Committee considered how these link to the description of principal risks and uncertainties in the Annual Report;
- The Board considers the strategy of the Group and its short and long-term objectives;
- The Board receives regular updates on the actual financial performance of the Group and significant developments affecting the Group;
- The Board receives summaries of significant media coverage relevant to the Group;

- The Board annually reviews and approves the Group's budget and is updated at least twice a year on an updated forecast of financial performance for the year;
- The Audit Committee receives updates on developments in accounting standards and other relevant laws and regulations;
- The Audit Committee receives updates on key areas such as treasury, taxation and audit;
- The Audit Committee and the Board generally have the opportunity to consider, comment and request changes to the Annual Report prior to publication;
- The preparation of the "front end" of the Annual Report includes the Corporate Communications team, the Company Secretariat, and Group Finance as well as divisional management validating the appropriateness of the material relating to the relevant division. The involvement of these various groups helps ensure the balance, completeness and accuracy of the "front end";
- The Audit Committee receives reports from the external auditors, the internal auditors and management in respect of various matters including the financial statements;
- The external auditors report on whether the "fair, balanced and understandable" statement is materially consistent with their knowledge of the Group acquired in the course of performing their audit.

The Audit Committee's assessment considered whether:

- Appropriate weight had been given to "bad news" as well as "good news" in the Annual Report;
- The description of the business, principal risks and uncertainties, strategy and objectives in the Annual Report was consistent with the Board's understanding;
- The principal risks and uncertainties were consistent with the Group risk register;
- The Annual Report was presented in an "understandable" way.

The Audit Committee also noted the established internal control and risk management systems in relation to the process for preparing consolidated financial statements, including those matters detailed in section 4.14 of this Annual Report.

5.5 Viability statement

The Audit Committee advised the Board on the statement on the Group's viability included in section 3.11 of this Annual Report, which was underpinned by the consideration of the following points:

- The Audit Committee assessed the reasonableness of the assumptions made about the Group's prospects, with reference to the strategy and risk appetite set by the Board;
- The Audit Committee identified which risks, including those described as principal risks and uncertainties in the Annual Report, could potentially impact the Board's assessment of the Group's viability;
- The Audit Committee reviewed the length of the assessment period;
- The Audit Committee examined the stress testing of financial forecasts, the potential effectiveness of mitigating actions, and consideration of the Group's ability to withstand the severe but plausible downside scenarios modelled.

A draft of the viability statement was presented to the Audit Committee and Board in June 2017 for review and finalisation.

5.6 Committee evaluation

The Committee's activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided in section 4.8. Audit Committee members also completed a separate questionnaire on the effectiveness of the Committee and the results of that exercise were considered by the Committee. Overall, the Committee considers that it has continued to operate effectively during the year.

6. Nomination Committee report

6.1 Introduction from Sir Brian Souter, Stagecoach Group Chairman and Chairman of the Nomination Committee

The Nomination Committee has an important place in the governance structure of the Stagecoach Group. An effective board needs to maintain balance over time, taking account of planned and unplanned changes to membership and the changing needs of the business. As Chairman of the Committee, I ensure that we regularly review our Board composition and ensure that the mix of skills available is appropriate. We are aware that talented individuals can come from diverse backgrounds and aim to promote diversity in the recommendations that we make to the Board. I welcome the Report into the Ethnic Diversity of UK Boards published by the Parker Review Committee. The Stagecoach Group aims to identify and break down barriers to candidates from diverse backgrounds throughout the business and ensure that its talent pipeline reflects the diversity of the population.

Over the last year we have continued to adjust the composition of our Board and the Nomination Committee was key to managing this process. As we announced our results last year, we proposed the appointment of Ray O'Toole to the Board. His appointment was confirmed by shareholders at the 2016 Annual General Meeting. During the process to recruit Karen Thomson and James Bilefield, we identified Julie Southern as a candidate who could bring a complementary set of skills to the Board. Julie was appointed by the Board on 7 October 2016. Julie will stand for election by shareholders at the 2017 Annual General Meeting.

We have reviewed the performance and length of service of our executive and non-executive directors and are pleased to be able to recommend all of the Directors for election or re-election (as appropriate) at the 2017 Annual General Meeting.

Sir Brian Souter
Chairman of the Nomination Committee
28 June 2017

6.2 Composition of the Nomination Committee

The composition of the Nomination Committee is summarised in section 4.9. The Committee also invites other non-executive directors to attend its meetings from time to time.

6.3 Operation of the Nomination Committee

The Nomination Committee keeps under review the overall structure, size and composition of the Board, and is responsible for evaluating the balance of skills, knowledge and experience of the Board and its committees. Where appropriate, the Committee will suggest adjustments to achieve that balance. For a proposed appointment, the Committee will prepare a description of the role and the attributes required of the candidates, which will include a job specification and the estimate of the time commitment expected. In making any appointment, the Group's policy on directors having other significant commitments will be taken into account and potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their other commitments as they arise. The Committee identifies and evaluates suitable candidates and makes proposals for each appointment, although final appointments are the responsibility of the Board as a whole. The appointments process takes account of the benefits of diversity of the Board, including gender diversity, and in identifying suitable candidates the Committee considers candidates from a range of backgrounds.

When seeking to appoint a new non-executive director, the Nomination Committee compiles a shortlist of potential new non-executive directors by taking account of known candidates and candidates suggested by the Group's advisors.

The search for candidates for non-executive directors during the last two years was undertaken on the basis of search specifications that set out the key experience, skills and attributes that had been identified by the Company. The Nomination Committee identified Julie Southern as a potential candidate for appointment to the Board during the process, described more fully in the 2016 report from this committee, that led to the appointments of James Bilefield and Karen Thomson. We continued our discussions over the summer and were able to announce Julie's appointment to the Board in October 2016.

Non-executive directors receive a letter of appointment. For any new appointments, the expected time commitment is agreed with the director and included in the letter of appointment.

No director of the Company is currently a chairman of a FTSE 100 company.

The terms of reference of the Nomination Committee are available on the Group's website at:

<http://www.stagecoach.com/Terms-of-reference-of-the-Nomination-Committee.pdf>

6.4 Board diversity

The Company believes strongly that its Board benefits from being comprised of talented people with a range of perspectives and from differing backgrounds. The terms of reference of the Committee reflect this in the criteria for identifying suitable candidates for nomination to the Board.

The Company was co-founded by Ann Gloag and throughout its life as a listed company it has had at least one woman on its Board and for almost all of the time since May 2001, at least two. Following the appointment of Julie Southern to the Board, there are currently eleven directors of the Company, of whom three are women. Women constitute 27% of the full Board and 38% of the Non-Executive Directors (excluding the Chairman).

The Board aspires to maintain at least 25% female representation on the Board in future. In addition to board diversity, the Company believes in promoting diversity at all levels of the organisation, further detail of which is provided in section 1.8.4 of the Strategic report.

6.5 Succession planning arrangements

The Board and the Nomination Committee recognise the importance of succession planning to ensure that the Group continues to prosper in the longer term. The Group operates a decentralised organisational structure with clearly defined limits of responsibility and authority, and oversight from head office. This structure provides the opportunity for managers to develop in some of the Group's smaller business units before progressing to wider and more responsible roles. The Group has a history of developing good managers who have progressed to take on senior positions within the Group. The Group operates a graduate recruitment programme, and some of the graduates recruited have gone on to become managing directors of individual business units, both in the UK and North America.

The Nomination Committee aims to ensure that appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seek to identify new directors and senior managers to ensure succession of directors is conducted in a managed way, without significant disruption to the ongoing business of the Group. The Committee believes that it is important to develop and promote existing talent from within the organisation.

The Chief Executive has established a talent group involving human resources, training and other professionals from within the Group. The talent group is taking a lead role to further enhance the recruitment, retention and development of talented employees throughout the Group.

The Group's Directors bring a broad range of skills to the Board, including general management skills. In its succession planning, the Committee considers the need to maintain and enhance this wide range of skills with particular emphasis on the following:

- **Health and safety** – As is explained in section 1.8.5, safety is at the heart of our business. The Group has a separate Health, Safety and Environmental Committee and the Nomination Committee considers it appropriate that the Non-Executive Directors collectively have an understanding of health and safety matters. A number of the Directors bring skills in these areas.
- **Transport sector** – The Committee considers it beneficial for the Non-Executive Directors to collectively have experience of transport businesses to bring a sector-specific perspective on matters such as health and safety, transport operations, sector regulation and accounting. Ray O'Toole brings considerable experience of bus, rail and the broader transport sector to the Board. Julie Southern has considerable financial and commercial experience gained within the transport sector. Will Whitehorn brings significant aviation and rail experience and Ann Gloag, as a co-founder of the Group, has significant public transport expertise.
- **Financial** – The Committee considers it essential that the Non-Executive Directors collectively have recent and relevant financial experience, in order for the Audit Committee to function effectively but also to bring broader financial insights to the Board. As Chairman of the Audit Committee and as a serving FTSE 100 finance director, Gregor Alexander brings substantial recent and relevant financial expertise. Sir Brian Souter, Sir Ewan Brown and Julie Southern are qualified accountants, while James Bilefield has investment banking experience, bringing further financial insight to the Board.
- **Digital and technology** – In recent years, the Committee has identified the increasing importance of digital and technological opportunities and risks to the Group's strategy. It identified a possible skills gap in this respect and considered that it would be desirable to enhance the collective experience of the Non-Executive Directors in those respects. The appointments of James Bilefield and Karen Thomson to the Board have enhanced the Board's skills in these areas.
- **Listed company** – The Committee believes it is beneficial for the Non-Executive Directors to have collective experience of other publically listed companies to contribute in the areas of corporate governance, management of potential conflicts, investor relations and regulatory compliance. Each of Gregor Alexander, Sir Ewan Brown, Ray O'Toole, Julie Southern, Karen Thomson, and Will Whitehorn serve or have served on the boards of other publically listed companies.
- **Regulatory** – The Group operates in regulated markets and the risk of regulatory change is a principal risk. The Committee therefore values the Non-Executive Directors' insight on regulatory matters. A number of the Directors have significant skills on regulatory matters, including Ray O'Toole (from the transport sector), Will Whitehorn (from the transport sector), Gregor Alexander (from the regulated energy business) and Sir Ewan Brown (from his experience in banking and financial services).

Given the importance of succession planning, the views of all directors are considered and not just the views of the members of the Committee.

7. Health, Safety and Environmental Committee report

7.1 Introduction from Ray O'Toole, Chairman of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee assists the Board to fulfil its responsibilities by recommending Group policy in these areas and monitoring compliance with the Group policy. Helen Mahy stepped down from the Board and as Chairman of this Committee on 29 February 2016, after serving six years on the Board. As Chairman of the Health, Safety and Environmental Committee, Helen promoted a strong culture of safety from the Board into the whole Group. Having served on the Committee since September 2013, our Deputy Chairman, Will Whitehorn, took over the chair from Helen Mahy in February 2016 and handed over to me when I joined the Group in September 2016. I extend my thanks to both Helen and Will for their contributions to the Committee. As the new Chairman of the Committee, I am determined to ensure that the Committee challenges the Group management team to further strengthen its safety management processes over time.

I intend to continue involving a range of contributors from the Group's businesses in the business of the Committee and ensure that the Committee actively engages with those businesses to help the Group to evolve its health, safety and environmental strategy. Members of the Committee are encouraged to be visible to the Group's managers and staff by engaging with operating divisions through regular site visits. Managers are invited to attend meetings of the Committee and are encouraged to bring more junior members of their management teams to engage with the Committee. By bringing contributors together at its meetings, the Committee aims to share knowledge between the Group's businesses and to challenge its business managers and safety advisers to promote sustained improvement over time.

The safety and security of our customers, our people and others is fundamental to our business. Public transport is the safest way to travel and health and safety is at the top of our agenda.

Ray O'Toole
Chairman of the Health, Safety and Environmental Committee
28 June 2017

7.2 Composition of the Health, Safety and Environmental Committee

The membership of the Health, Safety and Environmental Committee is summarised in section 4.9.

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at:

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/about/HSE-terms-of-ref-Nov-2011.pdf>

7.3 Operation of the Health, Safety and Environmental Committee

The Committee considers health, safety and environmental risks, mitigations and issues across the Group and reports to the Board on these matters. The Committee also approves the Group's overall strategic safety framework. It has access to internal safety executives and also external consultants, where required.

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. Senior managers from each of the Group's key divisions attend meetings of the Committee, providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters. As incidents occur, the Committee, aided by the safety management teams, is able to analyse those incidents and learn lessons to further improve the Group's safety processes.

The Committee and its members visit operational locations to observe health, safety and environmental management in practice. The Committee met at the Group's new Exeter bus depot in November 2016. The new facility provides greatly improved maintenance and training facilities as well as incorporating new technologies to reduce the environmental impact of its operations. The Committee's April 2017 meeting was held in the North America Division's headquarters in Paramus, New Jersey, where Committee members were given the opportunity to view the Division's fleet monitoring technology in action and were able to visit operations at the New York Port Authority. As part of their induction, the North America management team provided the new members of the Board with the opportunity to visit a number of operational locations in the North East United States and to use the Group's megabus.com services during their stay in the United States.

The Committee allocates time in its agendas to receive detailed briefings on areas of specific interest or concern to it. During the year, presentations were received on a range of topics, including suicide prevention initiatives on the railways, the North America Division's safety culture, UK Bus carbon reduction environmental targets and updating of the Group's sustainability strategy targets, an update on the UK Bus Division's use of the Green Road telematics system and enhancements to the UK Bus Division's proactive maintenance procedures.

The Committee receives reports on trends in health and safety indicators across the Group as well as information on significant incidents involving the Group. Key performance indicators are provided and reviewed in respect of each major operating division. Training, where relevant, is provided to the Committee on health, safety and environmental matters. The Committee liaises with the Remuneration Committee in determining any health and safety objectives to form part of the Executive Directors' personal objectives.

Members of the Committee review entries for the annual Stagecoach Champions Awards, which reward employees for excellence in the areas of safety, environment, community, health, customer service and innovation.

8. Directors' remuneration report

In this section of the Annual Report there are three separate sections dealing with the Directors' remuneration report as follows:

- the annual statement from the Remuneration Committee Chairman;
- the remuneration policy; and
- the annual report on remuneration (Implementation).

8.1 A statement to shareholders from the Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 29 April 2017. I joined the Stagecoach Board in October 2016 and assumed the chairmanship of the Remuneration Committee at that time. I would like to thank my predecessor, Garry Watts, for his chairmanship of the Committee. I am pleased that Gregor Alexander and James Bilefield remain members of the Committee, bringing their own insights but also continuity to the Committee as a balance to my fresh perspective. The Committee's main focus this year has been the review of the Directors' remuneration policy and it provided a good opportunity to look at the policy with a fresh pair of eyes, taking into account the feedback that we have had from shareholders and investor representative bodies. We hope that our new policy will be well supported.

Remuneration policy

Included within this report is our proposed revised Directors' remuneration policy (the "Policy"). The current Directors' remuneration policy was approved by shareholders in 2014 and, under the applicable legislation, we are now required to again seek shareholders' approval for a remuneration policy. The Policy will be presented to shareholders for approval at our next Annual General Meeting ("AGM") on 25 August 2017.

Our remuneration policies are designed with the long-term success of the Company in mind. We believe our remuneration arrangements should provide a clear alignment between the long-term interests of our shareholders and the corporate strategy to be implemented by the executive management. We also consider it is important that the components of remuneration are easily understood and that overall remuneration is not excessive. Feedback received from our major shareholders has indicated that they have appreciated the straight forward and clear components of remuneration set out in the 2014 policy and the Committee wishes to ensure the new policy retains that clarity. We have consulted with investor representative bodies and our major shareholders in the development of the revised policy, and have also given consideration to the corporate governance policies and best practice guidelines of investor representative bodies.

The principles applied in our approach to executive pay have remained unchanged. The Committee has taken the opportunity over the last year to undertake a review of our remuneration arrangements with the aim of ensuring that pay reinforces the Company's strategy, whilst continuing to motivate and retain executive talent.

The main changes in policy that are proposed are as follows:

- The amount of the annual bonuses payable to the Executive Directors is partly determined with reference to certain measures of the Group's financial performance. Under the current remuneration policy, all of the potential bonus amount relating to a particular financial measure is payable if the target is achieved while none of the potential bonus is payable if the target is not achieved. We are proposing to replace this "cliff edge" or "all or nothing" approach with a performance range whereby the amount of the bonus payable in respect of a particular financial target is determined based on the financial performance achieved relative to the target set.
- To ensure that the Committee has sufficient flexibility to set challenging financial targets for annual bonuses under the proposed new arrangements described above, we are proposing that the Committee will have the discretion to set the amount of the potential bonus that can be earned in respect of financial performance at between 70% and 120% of the annual basic salary of the relevant Executive Director. Under the current policy, the potential bonus that can be earned in respect of financial performance is fixed at 70% of annual basic salary. The overall annual bonus potential for an executive director would be determined by the Committee around the start of the each year, taking account of the financial and non-financial objectives and it is proposed to be between 100% and 150% of basic salary.

- We propose to continue with two performance criteria for the Long Term Incentive Plan ("LTIP"). Under the current policy, the criteria are based on measures of Total Shareholder Return ("TSR") and Earnings Per Share ("EPS"). Under the new policy, we propose that the criteria will be based on measures of TSR and profitability, giving the Committee more discretion to set a measure of EPS or any other appropriate measure of profitability in respect of any new LTIP award.

- We propose to introduce claw-back provisions in respect of performance related pay.

Activities of the Remuneration Committee

The main tasks and decisions of the Committee during the year ended 29 April 2017 were:

- Drafted the proposed new remuneration policy and consulted with major shareholders on the policy.
- Reviewed the performance and approved the Executive Directors' bonuses for the year ended 30 April 2016.
- Set annual performance targets for the Executive Directors' bonuses for the year ended 29 April 2017.
- Reviewed performance of the 2013 awards under the LTIP, in June and December 2016.
- Reviewed and approved targets for LTIP awards made in the year ended 29 April 2017.
- Reviewed and approved the vesting of Deferred Shares under the 2013 EPP award in June 2016.
- Decided on levels of pay and benefit increases in the annual salary review for the Executive Directors and made recommendations to the Board in respect of the remuneration of the Chairman and Deputy Chairman.
- Reviewed the remuneration for senior non-Board managers.

Remuneration for 2016/17

As explained earlier in the Annual Report, we achieved our recent expectation of adjusted earnings per share for the year ended 29 April 2017. Although the continuing trading challenges faced by our businesses are reflected in the financial results for the year, we continue to manage the business with its long-term success in mind. That approach is reflected in the further investment that was made in the business during the year. As a Committee, we try to maintain remuneration arrangements that balance meeting short-term financial objectives with supporting the Group's long-term success. Certain of the non-financial, personal objectives that we set for the Executive Directors have the long-term in mind and can be achieved (or not) irrespective of whether short-term financial targets are achieved.

Consolidated profit before interest and taxation ("PBIT") from Group companies and consolidated adjusted earnings per share ("EPS") fell short of the demanding targets that we set for the year, reflecting the continuing trading challenges. The target for consolidated net debt, however, was met. Accordingly, of the 70% of basic salary that the Executive Directors could have earned as an annual bonus based on financial performance, 23.3% of basic salary is payable for the year, being one-third of the potential opportunity.

The Committee determined that Martin Griffiths achieved four out of the five personal, non-financial objectives that we set for him for the year. That entitles him to a bonus amount of 24% of basic salary from a potential 30%. The Committee determined that Ross Paterson achieved three of the four personal, non-financial objectives that we set for him for the year. That entitles him to a bonus amount of 22.5% of basic salary from a potential 30%.

The Committee remains focused on ensuring that there is a clear linkage between pay and performance and that there is a strong alignment of interests of managers, shareholders and other major stakeholders through an appropriate mixture of pay, incentives and the use of shareholding guidelines for the Executive Directors.

We are grateful for the work undertaken by the Group and our remuneration advisers and for the support we have received from our major shareholders and investor representative bodies. We continue to value shareholders' views on our remuneration arrangements and I can be contacted via the Company Secretary should any shareholder wish to meet with me.

At the Group's Annual General Meeting on 25 August 2017, shareholders will be invited to approve:

Directors' remuneration report

- (i) the Directors' remuneration policy in a binding vote; and
- (ii) this statement and the Annual Report on Remuneration together in an advisory vote.

It is my hope that all of our shareholders, whether they are large institutional shareholders or individual shareholders, will find value in this report.

Julie Southern
Chairman of the Remuneration Committee
28 June 2017

8.2 Compliance statement

This Directors' remuneration report covers the year from 1 May 2016 to 29 April 2017 and provides details of the Remuneration Committee's role and the remuneration policy we apply in decisions on executive remuneration.

This report has been prepared in accordance with the Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the 2013 Regulations"). In accordance with Sections 439 and 439A of the Companies Act 2006, an advisory ordinary resolution to approve the statement by the Chairman of the Remuneration Committee and the Annual Report on Remuneration and a binding ordinary resolution to approve the Directors' remuneration policy will be proposed at the 2017 Annual General Meeting.

Remuneration payments and payments for loss of office can only be made to directors if they are consistent with the approved Directors' remuneration policy or otherwise approved by ordinary resolution of the shareholders.

Those sections in the remuneration report that have been audited have been highlighted as such. The other sections of the remuneration report are not subject to audit.

8.3 Remuneration Committee

The Committee's principal function is to determine Stagecoach Group's policy on executive remuneration and to approve specific remuneration packages and service contracts for the Group's Executive Directors and such senior members of the executive management as it is asked by the Board to consider. The Committee also has responsibility for making recommendations to the Board in respect of the remuneration of the Chairman and Deputy Chairman.

The terms of reference of the Committee are available on our website at: <http://www.stagecoach.com/Terms-of-reference-of-the-Remuneration-Committee.pdf>

8.4 Directors' remuneration policy

This section of the report sets out Stagecoach Group's proposed revised Directors' remuneration policy (the "Policy"). The Policy is subject to a binding shareholder vote at the Company's AGM on 25 August 2017, and subject to approval, will apply from that date. The current remuneration policy approved on 29 August 2014, can be found in the 2014 Annual Report, available on the Company's website at:

<http://www.stagecoach.com/Remunerationpolicy29August-2014.pdf>
and will continue to apply until a new policy is approved.

8.4.2 Remuneration policy table for the Executive Directors

This section of our report sets out in tabular form key components of the remuneration package for the Executive Directors.

8.4.2.1 Fixed elements of pay

BASIC SALARY	
Purpose and link to strategy objectives To attract, retain and motivate executives ensuring basic salaries are competitive in the market.	Maximum value Basic salary increases are applied in line with the outcome of the annual review. An executive director's annual basic salary may not exceed £850,000. The Committee would only set a salary which exceeded the top quartile of salaries applicable in FTSE 250 companies in unforeseen and exceptional circumstances.
Operation Basic salaries are generally reviewed as at 1 May each year but the Remuneration Committee also has discretion to adjust them at other times of the year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. The Committee also considers the published salary data for FTSE 250 companies and other companies in the public transport industry. Account is also taken of pay conditions throughout the Group.	Performance metrics Basic salary levels are predicated on continued good performance by the director. Salary levels set effective from 1 May 2017 are set out in section 8.5.13.1.1 of the Annual Report on Remuneration.

The proposed, revised Policy is broadly consistent with our existing policy. Key areas of difference between the revised and existing policies are as follows:

- the introduction of claw-back provisions;
- the replacement of cliff edge targets by sliding scale targets for the financial measures in the annual bonus and providing the Remuneration Committee with flexibility to increase the maximum potential bonus potential to 150% of basic salary; and
- continue to use two performance criteria for the Long Term Incentive Plan, and continuing with total shareholder return but instead of using EPS, the Remuneration Committee may use EPS or any other appropriate measure of profitability, as determined prior to the grant of any new award.

The details of the proposed changes are reflected in the annual statement and the policy table.

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

The Committee believes that remuneration packages for the Executive Directors should contain meaningful and effective performance-related elements, and that the performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders.

The Remuneration Committee is able to consider all relevant factors when setting the Executive Directors' remuneration, including environmental, social and governance matters. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short-term and long-term targets. Performance targets include financial measures as well as non-financial targets, such as environmental and safety objectives. The incentive arrangements for the Executive Directors are structured so as not to unduly increase environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

The Remuneration Committee regularly reviews the existing remuneration of the Executive Directors, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry. Proposals for the forthcoming year are then discussed in the light of the prospects for the Group as a whole. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Group. The approach is consistent with that applied for the workforce in that we look to pay competitively with reference to the market rate for a job. With regard to pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations.

We also consult our major shareholders in developing remuneration policy.

8.4.2.1 Fixed elements of pay (continued)

PENSIONS AND LIFE ASSURANCE ARRANGEMENTS	
Purpose and link to strategy objectives To provide relevant life assurance and pension benefits that are competitive in the market. Operation <i>Pension arrangements for executive directors are designed to provide pension benefits on retirement of up to two thirds of final pensionable pay and may be met through a combination of defined benefit pension arrangements, money purchase or cash allowances.</i> Her Majesty's Revenue and Customs ("HMRC") and pension scheme rules provide that defined benefit pension benefits may not be drawn before age 55. Freedom and Choice regulations introduced by the United Kingdom Government in 2015 have impacted the flexibility for pension scheme members in transferring benefits out of pension schemes. Consistent with arrangements for other members of the relevant pension schemes, accrued defined benefits pensions may be transferred out to the beneficiary in accordance with the transfer arrangements established by the trustees, or in the case of the company funded arrangements, at the amount accrued in the consolidated financial statements in respect of such benefits at the point of transfer.	Maximum value Final salary elements are related to basic salary and length of service, and any payment to a money-purchase arrangement or an employer cash allowance would be limited to a third of basic salary. Performance metrics Pensions and life assurance arrangements are predicated on continued good performance by the director.

BENEFITS IN KIND AND OTHER ALLOWANCES	
Purpose and link to strategy objectives Designed to be competitive in the market. Operation Benefits in kind and other allowances can include: • Health-care benefits, life assurance cover, company car allowance, and telephone and communications costs. • Opportunities to join the Buy As You Earn ("BAYE") scheme. • Relocation assistance upon appointment if/when applicable. Business related travel and subsistence costs will be met or reimbursed including directors' partners attending corporate events or management conferences. Where the Committee considers it appropriate other benefits may be provided, including on recruitment or relocation.	Maximum value Benefits vary by role, and are reviewed periodically to ensure they are reasonable relative to market. There is no maximum value of a core benefit package as this is dependent on the cost to the employing company and the individual's circumstances. Participation in the BAYE scheme is subject to HMRC limits. Performance metrics Benefits in kind and other allowances are predicated on continued good performance by the director.

8.4.2.2 Variable pay

PERFORMANCE-RELATED ANNUAL CASH BONUSES	
Purpose and link to strategy objectives Aims to focus the Executive Directors on achieving demanding annual targets relating to Group performance. Operation Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual bonus for each executive director for the year just ended. This is based on each director's performance in achieving the set objectives, and affordability for the Group. In accordance with the rules of the Executive Participation Plan ("EPP"), at least 50% of any actual bonus will be deferred as shares. Claw-back and malus provisions will apply to the cash and deferred elements of the annual bonus as described in section 8.4.3 below.	Maximum value The potential annual bonus that can be earned by an executive director in respect of any financial year may never exceed 150% of basic salary. The maximum annual bonus would be set each year within a range of 100% to 150% of basic salary, of which no more than 50% of any actual bonus award in the year will be settled in cash. Performance metrics The performance conditions for the annual bonus awards are subject to a combination of financial objectives and individual business related objectives. Around the start of each financial year, the Committee will determine one or more financial measures that will apply for bonus purposes for that year. The Committee will also determine the maximum potential bonus amount (expressed as a percentage of basic salary) that an executive director will have the ability to earn in respect of each financial measure. The aggregate maximum potential bonus amount across all financial objectives will be between 70% and 120% of basic salary. For each financial measure, the Committee will determine the performance levels that will trigger "Threshold", "Target" and "Maximum" payout. The Threshold amount for a given financial measure will be triggered on the minimum performance that needs to be achieved to earn any bonus in respect of that measure. The Maximum amount is the maximum potential bonus in respect of that measure. The Target amount will be the arithmetic average of the Threshold and Maximum amounts. For each financial measure: • The maximum potential bonus amount, payable only on the achievement of Maximum performance is the amount set by the Committee subject to the overall aggregate limits explained above; • The bonus amount payable on the achievement of Threshold performance will be 50% of the maximum potential bonus amount where the aggregate maximum potential bonus amount across all financial objectives is 70% of basic salary.

Directors' remuneration report

8.4.2.2 Variable pay (continued)

PERFORMANCE-RELATED ANNUAL CASH BONUSES (continued)

- The bonus amount payable on the achievement of Threshold performance will be 25% of the maximum potential bonus amount where the aggregate maximum potential bonus amount across all financial objectives is 120% of basic salary.
- The bonus amount payable on the achievement of Threshold performance will be between 25% and 50% of the maximum potential bonus amount, determined on a straight-line basis, where the aggregate maximum potential bonus amount across all financial objectives is greater than 70% but less than 120% of basic salary.
- The bonus amount payable on the achievement of performance between the Threshold and the Maximum will be between (a) the bonus amount payable on Threshold performance and (b) the maximum potential bonus, determined on a straight-line basis proportionate to the extent actual performance exceeds Threshold performance.

The tables below provide examples of how the above policy may be implemented.

Example 1: Bonus potential of 70% of basic pay for financial performance:

Financial objectives	Maximum			
Potential payout as a percentage of:	Potential	Threshold	Target	Maximum
Maximum award level		50.0%	75.0%	100.0%
Basic pay	70.0%	35.0%	52.5%	70.0%

Example 2: Bonus potential of 120% of basic pay for financial performance:

Financial objectives	Maximum			
Potential payout as a percentage of:	Potential	Threshold	Target	Maximum
Maximum award level		25.0%	62.5%	100.0%
Basic pay	120.0%	30.0%	75.0%	120.0%

The aggregate maximum potential bonus amount for achievement of the individual business related objectives will be between 30% and 45% of basic pay.

A number of objectives are set for the individual business related objectives. To the extent that a particular objective is satisfied then there would be a payout in respect of that objective. If the objective is not satisfied then there is no payout in respect of that objective. The minimum level of performance required to be met for payout for each of the discrete objectives is that specified in the objectives.

In assessing the level of bonuses that will be paid, including individual business related objectives, the Committee has the discretion to reduce the level of any pay-outs after taking into account the financial performance and standing of the Group and the overall individual performance of the relevant director. So, even where one or more of the specified objectives have been achieved, the Committee has the discretion to pay no or a reduced bonus.

Further details of the performance measures used for the 2017 bonus are set out in the Annual Report on Remuneration in section 8.5.3.

EXECUTIVE PARTICIPATION PLAN ("EPP")

Purpose and link to strategy objectives

Aims to align the interests of managers and shareholders by awarding interests in shares out of the annual bonus award.

It is also designed to provide an incentive for managers to remain with the Group.

Operation

Participants are awarded Deferred Shares (with a minimum 3 year vesting period), which can be issued as either a conditional award or a nil-cost option, with an initial market value approximately equal to the amount of the actual cash bonus forgone.

Unvested awards are subject to malus (details are in section 8.4.3 below).

Maximum value

At least 50% of any actual bonus earned in the year will be deferred as shares under the EPP. By agreement with the Remuneration Committee, more than 50% may be deferred.

Additional shares are allocated in respect of dividends payable during the relevant period.

The actual value of the awards at vesting will reflect the face value of the Deferred Shares at the time of award but also subsequent movements in the Company's share price and dividends paid by the Company.

Performance metrics

The EPP is an effective retention programme in that participants would lose their entitlement to the Deferred Shares if, save for "good leaver" provisions, they left of their own volition during the three-year deferral period. It also increases participants' effective equity interests in the Group and so better aligns their interests with shareholders.

There are no specific performance conditions attaching to the release of Deferred Shares because the annual bonus under which the Deferred Shares are earned is already subject to performance conditions.

8.4.2.2 Variable pay (continued)

LONG TERM INCENTIVE PLAN ("LTIP")	
Purpose and link to strategy objectives Aims to align the interests of shareholders and management in growing the return to shareholders and the value of the business over the long-term. Operation Participants are awarded Incentive Units, which have a nominal value equal to one of the Group's ordinary shares. Incentive Units can be in the form of a conditional award, a cash award or a nil-cost option. Awards are subject to malus, and all awards granted after 25 August 2017 are subject to both malus and claw-back (details are in section 8.4.3 below). The Committee may adjust and amend awards only in accordance with the rules of the LTIP. Subject to performance conditions, Incentive Units vest around three years after the date of award. Maximum value The maximum award granted in relation to any financial year for an individual is limited to Incentive Units with an aggregate face value at the time of award, not exceeding 150% of basic salary. The actual value of the awards at vesting will reflect the face value of the Incentive Units at the time of award but also subsequent movements in the Company's share price, dividends paid by the Company and actual performance relative to the performance metrics.	Performance metrics Awards granted prior to 25 August 2017 will be subject to the terms of the 2014 remuneration policy that was in effect up to that date. Awards granted from 25 August 2017 would be subject to the following arrangements. Awards remain subject to two performance conditions, with one half of annual awards being made based on relative total shareholder return ("TSR"), and the other half based on challenging profit targets set by the Committee for a three-year period. TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured relative to an appropriate comparator group of FTSE 250 companies or other peer grouping of companies in the public transport industry. In setting targets for the profit based performance condition the Committee may take into account a range of factors such as: • internal and external factors affecting the Group, • the long-term expectations for each of the operating divisions, and • analysts' consensus expectations for the operating divisions and the Group as a whole. For the Incentive Units awarded that are subject to the TSR condition, vesting will be as follows: • If the TSR does not exceed the median of the comparator group, then none of the relevant Incentive Units awarded will vest and they will lapse; • If the TSR exceeds the median of the comparator group (which is the "threshold" performance level), then one-quarter (25%) of the available Incentive Units will vest and the remainder will lapse; • If the TSR is in the top quartile of the comparator group, then all of the available Incentive Units will vest; • If the TSR is higher than the median but less than the top quartile of the comparator group, then the proportion of the Incentive Units that will vest would be between 25% and 100% of the available Incentive Units adjusted on a straight-line basis depending on the actual ranking against the comparator group. For the Incentive Units awarded that are subject to the profit condition, vesting will be as follows: • If the profit achievement is below the target for threshold vesting set by the Remuneration Committee, then none of the relevant available Incentive Units will vest and they will all lapse; • If the profit achievement equals the target for threshold vesting set by the Remuneration Committee (which is the "threshold" performance level), then one-quarter (25%) of the available Incentive Units will vest and the remainder will lapse; • If the profit achievement equals or exceeds the target for maximum vesting set by the Remuneration Committee then all of the available Incentive Units will vest; • If the profit achievement is higher than the threshold vesting target but less than the maximum vesting target, then the proportion of the Incentive Units that will vest would be between 25% and 100% of the available Incentive Units adjusted on a straight-line basis depending on the profit achieved. The performance conditions are tested over a three year period, being the three years commencing on or around the 1 May or 1 November immediately preceding the date of the relevant award.

The Committee is satisfied that the proposed remuneration policy is in the best interests of shareholders and does not promote excessive risk taking. As part of the Directors' remuneration policy, the Committee reserves the right to make minor amendments to the policies set out for regulatory, exchange control, administrative or tax purposes.

Directors' remuneration report

8.4.3 Malus and claw-back

For the purposes of this remuneration policy, "Malus" refers to the withholding, cancellation or reduction of amounts of remuneration otherwise payable to a director.

Malus may apply to unvested awards where stated in the policy table shown above. Under the malus provisions, the Remuneration Committee can reduce (to nil if appropriate) awards that have not yet vested. The circumstances in which the malus provisions may apply are set out below:

- If a participant has deliberately misled the management of the Group, the market or the Company's shareholders regarding the financial performance of any Group Company or the participant's business unit;
- If a participant's actions or inactions have caused either the Group, any Group Company or the participant's business unit reputational damage;
- If a participant's actions or inactions amount to serious misconduct or conduct which causes significant financial loss for the Group, any Group Company or the participant's business unit;
- If a participant's actions or inactions have caused a serious failure of risk management by the Group, any Group Company or the participant's business unit; or
- Other similar circumstances, where the Committee determines that the malus provisions should apply.

Claw-back arrangements may apply to awards granted after 25 August 2017 where stated in the policy table shown above. Under claw-back arrangements, the Remuneration Committee may require a participant to repay the following elements of variable pay:

- the cash part of the annual bonus will be subject to potential claw-back for a period of two years following payment;
- the cash received or the cash equivalent value on vesting of shares received under the LTIP will be subject to claw-back arrangements for a period of two years from the vesting of an LTIP award.

The circumstances in which the Remuneration Committee may claw-back awards are set out below:

- If a participant's actions or inactions amount to serious misconduct which causes
 - significant financial loss for the Group; or
 - a material restatement of the previously published financial statements for the Group (other than in respect of a change in accounting policy); or
- Where and to the extent that there has been an error in the calculation of any payout under an award.

No other element of remuneration is subject to malus or claw-back.

8.4.4 Payments from outstanding awards

The Executive Directors remain eligible to receive payment under any contractual arrangement agreed under the 2014 remuneration policy or entitlements established prior to the approval and implementation of the 2014 policy, including the vesting of awards granted prior to the revised remuneration policy taking effect on 25 August 2017.

8.4.5 Performance targets

8.4.5.1 Annual bonus targets

The maximum annual bonus potential would be set by the Committee around the start of each financial year and be within the range of 100% and 150% of basic pay, out of which between 70% and 120% of basic pay would be subject to financial performance measures, and between 30% and 45% of basic pay would be subject to a number of individual business related objectives.

The individual business related objectives used under the Annual Bonus Plan include achievement of personal and strategic goals. Personal performance measures and targets are proposed by the Chairman for the Chief Executive and by the Chief Executive for other Executive Directors. The Committee discusses and sets the targets for executive directors and their review is linked to an annual appraisal process. The Committee is of the view that the performance targets for the personal element are commercially sensitive as they relate to internal management projects, strategic objectives and personal goals and it is not intended that these will be disclosed in advance. The Committee's intention is that a summary of these objectives will be disclosed when they are no longer considered commercially sensitive.

Targets for the Annual Bonus Plan are set with due regard to internal and external forecasts. Performance targets are set to be stretching but achievable and take into account the economic environment in a given year.

The Committee retains the discretion to amend the number, weightings and components of the financial and non-financial elements of the bonus from year to year and for each executive as appropriate, subject to the overall limits described above.

8.4.5.2 LTIP performance targets

LTIP awards will be split with one half based on TSR performance against an appropriate comparator group of FTSE 250 companies or other companies in the public transport industry, and the other half based on performance against a profit measure for the Group or key operating divisions. For the TSR based awards, the TSR must exceed the median of the comparator group before a payout is available. The amount of Incentive Units released will range from 25% to 100% of each award depending on the actual ranking. A top quartile ranking is required to achieve 100% release of units. Demanding targets for the profit measure for the three year performance period will be set for the other half of the awards based on a range of relevant market factors and expectations for the Group or relevant operating divisions as at the date of award.

The maximum level of awards granted for an individual in any financial year is limited to Incentive Units with an aggregate face value at the time of award not exceeding 150% of basic salary.

8.4.6 Pension benefits

Under the legacy terms of their service agreements, the Executive Directors are entitled to accrue benefits under defined benefit pension arrangements or, if preferred, to receive a cash allowance in lieu of contributions to pension arrangements. Pension arrangements are intended to provide pension benefits on retirement up to two thirds of final pensionable pay. The normal retirement age for executive directors is 60. In accordance with HMRC rules, accrued defined benefits may not be drawn before age 55. Benefits may only be drawn subject to any necessary employer or trustee consent and in accordance with the relevant scheme rules. Life assurance of four times basic annual salary is provided under the arrangements for pension benefits.

8.4.7 Remuneration policy table for the Non-Executive Directors

The table below sets out key components of the remuneration for the Non-Executive Directors.

BASIC SALARY/FEEES	
Purpose and link to strategy objectives To attract and retain non-executive directors with an appropriate degree of skills, experience, independence and knowledge of the Company and its business. To attract and retain a Chairman and Deputy Chairman to provide effective leadership for the Board. Operation Fee levels for non-executive directors are generally reviewed by the Board annually with any adjustments effective 1 May in the year following review although there is discretion to adjust them at other times of the year. Account is taken of individual responsibilities, involvement in Board committees and fees for similar roles in comparable companies. Remuneration comprises an annual fee for acting as a non-executive director. Remuneration for the Chairman comprises an annual fee for acting as Chairman. Non-executive directors do not participate in pensions or incentive benefits, or receive other remuneration in addition to their fees. Business	related expenses and travel and accommodation expenses will be met or reimbursed including for partners at corporate events or management conferences. Home telephone and communications costs may be met or reimbursed. Maximum value Any fee increases are applied in line with the outcome of the annual review. Non-Executive Directors' fees are subject to an aggregate maximum cap which is stated in the Company's Articles of Association. Subject to shareholder approval at the 2017 AGM, that cap will be increased from £800,000 to £1,200,000 and may subsequently be further adjusted by an ordinary resolution of the Company. That cap, as adjusted from time to time, is the only limit in place that acts as setting a maximum value for fees payable to non-executive directors. Performance metrics Continued good performance.

8.4.8 Approach to the remuneration of newly appointed directors

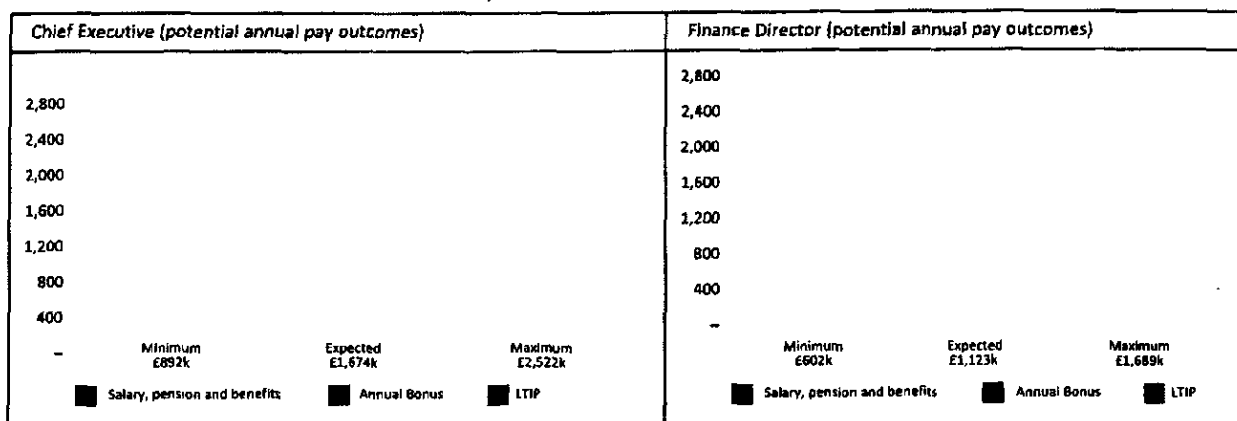
The Group's approach to remuneration for newly appointed directors is generally the same as that for existing directors. As a matter of practicality, it is recognised that it may be necessary to pay within the market top quartile salaries in order to attract candidates of the quality the business needs. Equally, a new recruit may be appointed on a lower than market rate salary with phased increases to bring it to the market level. New executive directors will be invited to participate in incentive plans on the same basis as existing executive directors. Where appropriate, the Company will offer to pay reasonable relocation and expatriate expenses for new executive directors in line with the Company's policies described above. It is not generally the Company's policy to offer "golden hellos" or sign-on payments, but where the Remuneration Committee considers it is necessary to do so in order to recruit a particular individual, it may offer compensation for amounts of variable remuneration under previous employment being forfeited. Any such compensation for variable remuneration forfeited would be subject to a maximum of the value of the unvested awards taking account of the time to vesting, delivery vehicle (e.g. cash, shares, or share options), any performance conditions attached to the awards and the likelihood of the conditions being met. The Remuneration Committee reserves the discretion to put in place a plan under Listing Rule 9.4.2R without seeking shareholders' approval in order to facilitate such an arrangement. The maximum compensation for variable remuneration forfeited (as set out above) will be applied even where Listing Rule 9.4.2R would permit higher amounts to be paid.

Where the Company is considering the promotion of a senior manager to the Board, the Remuneration Committee may, at its discretion, agree that any commitments (including in respect of loss of office payments) made before promotion will continue to be honoured whether or not otherwise consistent with the policy prevailing at the time the commitment is fulfilled.

In recruiting a new non-executive director, the Remuneration Committee will apply the policy as set out in the table in section 8.4.7.

8.4.9 Pay for performance: scenario analysis

A key element of the Company's remuneration policy is to provide a significant part of potential reward through performance based incentive plans. The graphs below provide estimates of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: "Minimum", "Expected", and "Maximum".



Potential reward opportunities illustrated above are based on the proposed new remuneration policy, applied to the basic salary in force at 1 May 2017. For the annual bonus, the amounts illustrated are based on those potentially receivable in respect of performance for 2017/18 on the basis of a maximum bonus potential of 100% of basic pay, and that any actual bonus award would be satisfied 50% in cash and 50% in Deferred Shares under the EPP valued using the share price at the date of grant. It should be noted that the LTP awards granted in a year do not normally vest until the third anniversary of the date of grant. In illustrating potential reward opportunities the following assumptions are made:

Directors' remuneration report

	Annual Bonus	LTIP	Pension
Minimum	No annual bonus payable	No vesting – nil payment	33% of basic salary
Expected	67.5% of the maximum annual bonus payable	35% vesting of maximum award	33% of basic salary
Maximum	100% of maximum annual bonus	100% vesting of maximum award	33% of basic salary

For the purposes of the charts above it is assumed that 70% of the annual bonus plan would be based on financial objectives and 30% over a range of individual business related objectives. While each individual business related objective will be separately assessed, for the purpose of the two charts above, the assumption is that the expected level of performance is for one-half of the objectives to be satisfied, and that all are satisfied for maximum achievement. Pension amounts are included at 33% of basic salary which is equivalent to the money purchase or cash allowance alternative available under the Policy. This differs from how pension amounts shown in Table 1 in section 8.5.3 are calculated, which is in accordance with the provisions of paragraph 13 of the 2013 Regulations.

It should be noted that the value of EPP and LTIP awards can increase due to increases in the Company's share price and/or payments of dividends by the Company, and accordingly, there is no absolute maximum value of such awards.

8.4.10 Employment conditions across the Group

The Committee is kept regularly updated on pay and conditions across the Group, although when setting the Directors' remuneration policy, the wider employee group is not formally consulted. In determining the adjustments to the Executive Directors and Group executive salaries, the Committee considers the increases to pay levels across the broader employee population.

8.4.11 Details of directors' service contracts

The Executive Directors are employed under contracts of employment. It is the Group's policy that Executive Directors should have 12-month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants.

The principal terms of the Executive Directors' service contracts (which have no fixed term) effective during the year were as follows:

Executive Directors' service contracts

Name of director	Date of contract	Notice period
Martin Griffiths	22 February 2013	12 months
Ross Paterson	11 February 2013	12 months

The contracts for the Chairman and Deputy Chairman (effective of 1 April 2016) provide for six and three months' notice periods respectively. Other non-executive directors are appointed by a letter, which provide for one month's notice. The letters of appointment do not contain any contractual entitlement to a termination payment and a non-executive director can be removed in accordance with the Company's Articles of Association.

All notice periods apply to both the director and the Company.

8.4.12 Loss of office payment policy

It is the Group's policy to provide for 12 months' notice for termination of employment for executive directors, to be given by either party, and to make severance payments on termination in line with any pre-established contractual arrangements.

Service contracts provide that an executive director shall give and shall receive 12 months' notice on termination and contain standard garden leave provisions which the Group can enforce in order to protect the Group's interests during a period of notice. An executive director would continue to be paid his basic salary and contractual benefits during any period of garden leave in the usual way save that he will not be entitled to receive awards under the EPP or the LTIP (or similar). Any bonus in respect of any period of garden leave would be at the discretion of the Remuneration Committee considering the specific circumstances but would not exceed the annual maximum bonus that may be paid in accordance with the Policy set out in section 8.4.2. This bonus potential on loss of office is the effect of legacy contractual positions and will not be incorporated into contracts for new appointments. In any event, the Remuneration Committee can decide that no such bonus will be payable if and to the extent it reasonably considers that the payment of a bonus could be perceived as a reward for failure.

There are no arrangements that require the enhancement or acceleration of pension benefits on termination or early retirement.

In the case of gross misconduct by an executive director, a provision is included in the executive's contract for immediate dismissal with no compensation payable. In other cases where an executive director's employment is terminated with immediate effect, the Committee's policy would be that any compensating payments would not exceed any amounts due under the contractual arrangements as summarised above.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, retirement with the agreement of the Group, or his employing company ceasing to be a member of the Group or other such event as the Remuneration Committee determines, then LTIP awards will be pro-rated for time and will vest based on performance over the performance period as determined by the rules of the LTIP. For all other leavers, outstanding LTIP awards will lapse at the end of the director's period of employment.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, or his employing company ceasing to be a member of the Group, then awards of EPP Deferred Shares will vest at the date of leaving for the benefit of the director. If an executive director retires with the agreement of the Company, retirement is not a vesting event for the EPP and so the awards will vest on their original vesting date. For all other leavers, outstanding EPP awards will lapse at the end of the director's period of employment.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, retirement, or his employing company ceasing to be a member of the Group, then shares held under any BAYE awards will vest in accordance with the HMRC approved rules of the BAYE Scheme. For all other leavers, outstanding BAYE matching share awards will lapse.

Payments for loss of office may only be made to directors or former directors if such payments are consistent with the approved remuneration policy or are otherwise approved by an ordinary resolution of the members of the Company.

8.4.13 Change of control

The following apply where there is a change in control of the Group:

- Each executive director is entitled to normal termination benefits as outlined above, except where the director is offered and has refused employment on terms and conditions that were no less favourable to those in place prior to the change of control, in which case the director will have no claim against the Group in respect of termination of employment;
- Under the EPP, Deferred Shares would automatically vest on a change of control;
- Under the LTIP, Incentive Units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the applicable performance conditions; and
- Under the BAYE, awards will vest in full or, alternatively, the acquiring company may offer to roll-over the awards into awards over shares in the acquiring company.

8.4.14 Consideration of shareholder views

The Committee considers shareholder feedback received in relation to the Annual General Meeting each year at its first meeting following the Annual General Meeting. This feedback, as well as any additional feedback received during other meetings with shareholders and representative bodies, is then considered when reviewing remuneration policy. When any material changes are proposed by the Group to the remuneration policy, the Committee will consult major shareholders.

8.4.15 External appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other unconnected companies and to retain any related remuneration, as this will broaden and enrich the business skills of a director so long as the time commitments do not have any detrimental impact on the ability of the director to fulfil his duties. Any such directorships must be formally approved by the Board.

8.5 Annual Remuneration Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 29 April 2017.

8.5.1 Committee members

The Remuneration Committee is currently composed of three independent non-executive directors. The Committee met three times during the year. The Group Director of Tax and Employee Benefits attended as Secretary to the Committee. The Chief Executive attended meetings to provide information on performance and strategy. A representative from the Committee's independent external remuneration advisor attended at least part of every Remuneration Committee meeting during the year. The Finance Director attended part of one meeting to present a view on the short and long-term outlook for the Group's financial performance. Attendance at meetings by individual members is detailed in section 4.10. No director was involved in decisions as to their own remuneration.

- Garry Watts (as Chairman to 31 July 2016)
- Julie Southern (as Chairman from 7 October 2016)
- Gregor Alexander
- James Bilefield

There was no business to be considered by the Committee in the two months between Garry Watts stepping down as Committee Chairman on 31 July 2016 and Julie Southern succeeding him on 7 October 2016.

The remuneration of executive directors was not considered by any other Committee or group of directors during the year.

8.5.2 Advisers

Addleshaw Goddard LLP provided remuneration consultancy until 31 October 2016. From 18 November 2016, Osborne Clarke LLP provided such consultancy. They each acted as the Committee's independent remuneration consultant, providing access to independent research and advice. The Group has no other connection to either Addleshaw Goddard LLP or Osborne Clarke LLP. Addleshaw Goddard LLP received £3,000 (2016: £8,417) in respect of work it carried out in the year ended 29 April 2017 and Osborne Clarke LLP received £10,211 (2016: £Nil). The fees payable were determined with reference to time spent and applicable hourly rates. We do not consider the level of fees paid or the nature of the work performed would prejudice the objectivity or independence of the remuneration consultants.

Directors' remuneration report

8.5.3 Remuneration of the Executive Directors and Non-Executive Directors (audited)

The remuneration of the Executive Directors and Non-Executive Directors may comprise a number of elements, as described in the Directors' remuneration policy.

Directors' remuneration and the single figure total for the year ended 29 April 2017 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

TABLE 1 – DIRECTORS' REMUNERATION (amounts in £000)		Basic Salary/Fees		Benefits in kind		Short Term Incentives (performance related bonus)		Long Term Incentives vested (LTIP)		Pension related benefits		Total	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Executive directors													
Martin Griffiths		639	627	25	25	302	334	–	–	347	330	1,313	1,316
Ross Paterson		426	418	23	23	195	223	–	–	167	192	811	856
Non-executive directors													
Gregor Alexander		60	59	–	–	–	–	–	–	–	–	60	59
James Bliffield (appointed 1 February 2016)		58	13	–	–	–	–	–	–	–	–	58	13
Sir Ewan Brown		53	53	–	–	–	–	–	–	–	–	53	53
Ann Gloag		55	54	–	–	–	–	–	–	–	–	55	54
Helen Mahy (resigned 29 February 2016)		–	49	–	–	–	–	–	–	–	–	–	49
Ray O'Toole (appointed 1 September 2016)		40	–	–	–	–	–	–	–	–	–	40	–
Sir Brian Souter		213	209	–	–	–	–	–	–	–	–	213	209
Julie Southern (appointed 7 October 2016)		34	–	–	–	–	–	–	–	–	–	34	–
Karen Thomson (appointed 31 March 2016)		58	5	–	–	–	–	–	–	–	–	58	5
Garry Watts (resigned 31 July 2016)		33	131	–	–	–	–	–	–	–	–	33	131
Phil White (resigned 31 March 2016)		–	54	–	–	–	–	–	–	–	–	–	54
Will Whitehorn		150	62	–	–	–	–	–	–	–	–	150	62
Total		1,819	1,734	48	48	497	557	–	–	514	522	2,878	2,861

Notes to Table 1:

i. Basic Salary/fees

The basic salary/fees in Table 1 correspond to the amounts payable in respect of the financial year ended April. Salary is paid monthly. Both Executive Directors participated in pension salary sacrifice arrangements during the year and the basic salary amounts are shown gross before any salary sacrifice arrangements.

ii. Benefits in kind and other allowances

The benefits in kind shown in Table 1 are made up as follows:

TABLE 2 – BENEFITS IN KIND AND OTHER ALLOWANCES		Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE contributions		Total	
		2017 £	2016 £	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £
Martin Griffiths		22,000	22,000	964	1,061	1,906	1,800	202	185	25,072	25,046
Ross Paterson		22,000	22,000	964	1,061	–	–	202	185	23,166	23,246
Sir Brian Souter		–	–	–	–	337	286	–	–	337	286

During the year, both Executive Directors participated in the Buy As You Earn ("BAYE") Plan. We believe that the BAYE plan aligns the interests of employees and shareholders by allowing all UK employees of the Group to purchase shares out of salary. It is designed to aid staff motivation and retention. The maximum employee purchase is governed by HMRC limits and is currently £1,800 per annum. The Group provides two matching shares for every share purchased on the first £10 of each employee's monthly investment. The amounts shown in Table 2 are the values of such matching shares allocated to directors as at the dates of allocation. Additional shares are allocated in respect of dividends payable during the relevant period. Details of the shares held under the BAYE plan are shown in Table 11.

iii. Performance related bonus

Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Committee determines the annual bonus for each executive director for the year just ended. This is based on the director's performance in achieving the set objectives. The objectives comprise both financial objectives for the Group and individual business related objectives for each director. For each executive director, the Group financial objectives for the year ended 29 April 2017 were to meet financial targets with respect to measures of profit before interest and taxation, earnings per share, and net debt.

For the year ended 29 April 2017, Martin Griffiths and Ross Paterson each had a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of financial objectives and 30% for meeting individual business related objectives. Details of the financial objectives applicable for 2016/17 are shown below:

TABLE 3 – DIRECTORS' OBJECTIVES	Target	Achieved	Potential Bonus (% of basic salary)	Bonus Awarded (% of basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	£198.8m	£168.7m	23.4%	–
Consolidated adjusted earnings per share ("EPS")	27.3p	24.7p	23.3%	–
Consolidated net debt ("Net Debt")	£478.1m	£430.3m	23.3%	23.3%
Element of bonus related to Group financial objectives			70.0%	23.3%

The PBIT and EPS measures shown above are determined in accordance with International Financial Reporting Standards but adjusted to exclude intangible asset expenses, exceptional items, and rail franchise bid costs. The PBIT measure also excludes any share of profit or loss from joint ventures. The Net Debt measure shown above is determined in accordance with the definition of net debt given in note 34 to the consolidated financial statements excluding any unbudgeted over or under spend on rail franchise bid costs. The actual values achieved in respect of each of the three measures are adjusted to exclude the impact of any acquisitions and disposals of businesses that were not included in determining the target values.

For the year ended 29 April 2017, the Chief Executive had personal objectives relating to:

- Leadership on health and safety performance across all business units;
- Contractual and financial risk reduction from rail franchising activities;
- Strategic review of European Inter-city coach operations;
- Strategic review of UK Bus in line with regulatory developments; and
- Development of the Group digital strategy.

For the year ended 29 April 2017, the Finance Director had personal objectives relating to:

- Maintaining an investment grade credit rating;
- Enhancing reporting and analytics within UK Bus;
- Delivering a local transport app; and
- Contractual and financial risk reduction from rail franchising activities.

The Committee intends to provide information on the Executive Directors' personal objectives for the year ending 28 April 2018 when it considers such disclosure to be no longer commercially sensitive.

In making its judgement of performance for the last financial year, the Remuneration Committee had particular regard to the Group's financial results as presented elsewhere in the Annual Report, relative total return to shareholders over the year, the Group's operational performance and other strategic developments. Performance related bonuses awarded to the Executive Directors in respect of the year ended 29 April 2017 are shown below:

TABLE 4 – DIRECTORS' BONUSES AWARDED	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Deferred Shares under EPP	Cash	Deferred Shares under EPP
Martin Griffiths	23.7%	23.7%	50%	50%
Ross Paterson	22.9%	22.9%	50%	50%

iv. LTIP

No amount is shown in Table 1 in respect of the LTIP vestings for the year ended 29 April 2017, as the December 2013 award achieved a ranking of 190 out of the 230 companies in the comparator group throughout the performance period, so did not pay out. Similarly, no amount is included for the June 2014 awards as it is considered unlikely they will pay out.

TABLE 5 – LTIP AWARDS treated as vested for inclusion in Table 1		As at 30 April 2016 (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	As at 29 April 2017 (Incentive Units)	Amounts included in Table 1 including dividend amounts £	Vesting Date
Grant date							
Martin Griffiths							
12 Dec 13		129,559	4,876	(134,435)	–	–	12 Dec 16
26 Jun 14		128,913	7,357	–	136,270	–	28 Jun 17
						–	
Ross Paterson							
12 Dec 13		86,371	3,250	(89,621)	–	–	12 Dec 16
26 Jun 14		85,942	4,904	–	90,846	–	28 Jun 17
						–	

LTIP awards vested in June 2016

In the 2016 Annual Report a nil value was included in respect of the June 2013 LTIP awards, and it is confirmed that this was in accordance with the actual vesting as no payment was made on vesting in June 2016.

Directors' remuneration report

v. Pension related benefits

The pension amounts shown in Table 1 are nominally calculated in accordance with the provisions of the 2013 Regulations and so represents 20 times the increase (excluding inflation) in the accrued annual pension entitlement plus the increase (excluding inflation) in the accrued cash lump sum entitlement, less contributions paid by the director.

vi. External Appointments

Martin Griffiths is a non-executive director of AG Barr plc, and was permitted to retain the £56,289 fees received from this position in the year ended 29 April 2017 (2016: £55,395).

8.5.4 Pensions (audited)

Under the legacy terms of their service agreements, the Executive Directors accrued benefits under defined benefit pension arrangements. Historic benefits previously accrued under an HMRC approved pension scheme and included in the Table 6 below were revalued only for inflation. The directors accrued benefits in the year ended 29 April 2017 under Group funded pension arrangements. Other than adjustments for inflation, no further benefits accrued under the HMRC approved Group defined benefit pension scheme during the year. Pension benefits are targeted with a normal retirement age of 60. In accordance with HMRC rules, accrued defined benefits may not be drawn before age 55.

Table 6 below provides the information required by Schedule 8 of the Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and gives details of benefits accruing during the year under the Group's pension arrangements.

TABLE 6 – DIRECTORS' PENSION BENEFITS	Normal Retirement date	Contributions paid by the director for the year ended 29 April 2017 £000	Accrued cash entitlement at 30 April 2016 £000	Accrued annual pension entitlement at 30 April 2016 £000	Accrued cash entitlement at 29 April 2017 £000	Accrued annual pension entitlement at 29 April 2017 £000
Martin Griffiths	31 March 2026	56	168	132	169	153
Ross Paterson	29 July 2031	38	137	76	138	87

The totals above include pension benefits accrued for service prior to appointment as a director of the Company. Directors' contributions to pension schemes as shown in Table 6 above are made by way of salary sacrifice arrangements.

No non-executive directors accrued benefits in the year under money purchase schemes or defined benefits schemes in connection with their roles with the Group.

8.5.5 EPP and LTIP awards during the financial year (audited)

Tables 7 and 9 set out the awards to the Executive Directors under the Company's share schemes during the year ended 29 April 2017.

TABLE 7 – LTIP AWARDS IN YEAR	Type of Interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Incentive Units)	Face value at time of grant £	Vesting Date	Performance period (approximate)
Martin Griffiths							
30 Jun 16	Incentive Units	2.2650	75% of basic salary	211,655	479,398	30 Jun 19	1 May 2016 - 30 April 2019
8 Dec 16	Incentive Units	2.1100	75% of basic salary	227,203	479,398	8 Dec 19	1 Nov 2016 - 31 Oct 2019
Ross Paterson							
30 Jun 16	Incentive Units	2.2650	75% of basic salary	141,125	319,648	30 Jun 19	1 May 2016 - 30 April 2019
8 Dec 16	Incentive Units	2.1100	75% of basic salary	151,492	319,648	8 Dec 19	1 Nov 2016 - 31 Oct 2019

Each Incentive Unit shown in Table 7 has a notional face value equal to one of the Company's ordinary shares and was granted as a cash-settled award. The closing price on the preceding dealing day was used to determine the number of Incentive Units.

The face values shown above ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. The actual number of Incentive Units (if any) which vest will depend on the performance conditions being achieved. Both awards are subject to two performance conditions. One half of the award is based on TSR, where the TSR over the performance period must exceed the median of the comparator group, which is the list of FTSE 250 companies over the period. The amount of units awarded which are released will range from 25% to 100% depending on the actual ranking achieved. A top quartile ranking is required to achieve a 100% release of units. No units will vest for below-threshold performance. The other half of each award is based on targets set for a measure of EPS over a three-year period. The threshold and upper performance targets for each award over the three year performance period are as follows:

TABLE 8 – EPS Performance Criteria		
Award date	Threshold	Maximum
30 Jun 16	31.9p	35.2p
8 Dec 16	28.9p	31.9p

25% of the Incentive Units would vest for a threshold level of performance and 100% for maximum performance. A sliding scale of vesting on a straight-line basis would be applied between these lower and upper vesting levels.

TABLE 9 –EPP AWARDS IN YEAR							
Award date	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Deferred Shares)	Maximum and expected total value of award at time of grant £	Vesting Date	Performance period
Martin Griffiths							
30 Jun 16	Deferred Shares	2.2650	50% of annual bonus	73,737	167,014	30 Jun 19	n/a
Ross Paterson							
30 Jun 16	Deferred Shares	2.2650	50% of annual bonus	49,158	111,343	30 Jun 19	n/a

Each Deferred Share shown in Table 9 has a notional face value equal to one of the Company's ordinary shares. The maximum and total expected values ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. There are no specific performance conditions attaching to the release of these Deferred Shares because the annual bonus is already subject to performance conditions.

8.5.6 Payments to past directors (audited)

There have been no payments (2016: £Nil) in excess of the de minimis threshold to former directors during the year ended 29 April 2017 in respect of their former roles as directors. The Company has set a de minimis threshold of £10,000 under which it would not report such payments.

8.5.7 Payments for loss of office (audited)

There have been no payments for loss of office to directors during the year ended 29 April 2017 (2016: £Nil).

8.5.8 Statement of directors' shareholdings and share interests (audited)

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of the Executive Directors, they are each expected to accumulate an effective interest in shares in the Group with a value of at least 200% of basic salary. A target of 100% was first introduced in 2005 and was amended to 200% in June 2014 following feedback from shareholders. The Executive Directors are allowed five years from the date of appointment to accumulate the appropriate level of shares. Where there have been relevant increases in basic salary or significant fluctuations in the share price of the Company, the Committee may allow a further period of three years for directors to adjust their holdings within the shareholding guideline. For these purposes, EPP Deferred Shares will be counted on a post-tax basis only and all interests in shares will be counted at current value as at the relevant measurement date. LTIP Incentive Units are not included in this measurement. As at 29 April 2017, Martin Griffiths had an interest in shares equivalent to 197% (2016: 226%) of his basic salary and Ross Paterson had an interest in shares equivalent to 154% (2016: 179%) of his basic salary. Both directors have at various points in the previous two years comfortably met the guideline and the Committee also noted that both directors increased their interest in the number of shares held outright during the period. There was no divestment in the period by either director and they are below the target because of the fall in the Company's share price. As such the Committee remains satisfied that both directors retained significant interests in the shares of the Company. Consistent with the Committee's policy explained above it is satisfied that a director should have a period of three years to adjust his holding in shares to achieve the shareholding guideline.

Directors' remuneration report

The effective interests of the Directors (including those of connected persons) as at 29 April 2017 were:

TABLE 10 – DIRECTORS' INTERESTS IN SHARES OF THE GROUP AS AT 29 APRIL 2017	Interests as at 29 April 2017				Scheme interests vested during year ended 29 April 2017	
	Shares held outright	LTIP incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)	BAYE Shares (not subject to performance conditions)	LTIP incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)
Executive directors						
Martin Griffiths	497,103	1,012,535	219,517	3,776	–	79,163
Ross Paterson	240,071	675,062	146,346	3,776	–	25,857
Non-executive directors						
Gregor Alexander	10,406	–	–	–	–	–
James Bilefield	–	–	–	–	–	–
Sir Ewan Brown	<i>see note below</i>	–	–	–	–	–
Ann Gloag	62,501,721	–	–	–	–	–
Ray O'Toole	–	–	–	–	–	–
Sir Brian Souter	86,900,445	–	–	–	–	–
Julie Southern	–	–	–	–	–	–
Karen Thomson	–	–	–	–	–	–
Will Whitehorn	72,288	–	–	–	–	–
Sir Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 18% (2016: 18%) of the ordinary shares of Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 3,567,999 ordinary shares in the Company at 29 April 2017 (2016: 3,567,999).						

Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 11 below.

TABLE 11 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES	As at 30 April 2016	Granted in year	Dividends in year	Lapsed during year	Vested during year	As at 29 April 2017	Vesting Date
Long Term Investment Plan							
Martin Griffiths	155,320	–	–	(155,320)	–	–	29 Jun 16
	129,559	–	4,876	(134,435)	–	–	12 Dec 16
	128,913	–	7,357	–	–	136,270	28 Jun 17
	126,902	–	7,243	–	–	134,145	11 Dec 17
	116,605	–	6,655	–	–	123,260	25 Jun 18
	156,204	–	7,460	–	–	163,664	10 Dec 18
	–	211,655	12,081	–	–	223,736	30 Jun 19
	–	227,203	4,257	–	–	231,460	08 Dec 19
	813,503	438,858	49,929	(289,755)	–	1,012,535	
Ross Paterson	103,546	–	–	(103,546)	–	–	29 Jun 16
	86,371	–	3,250	(89,621)	–	–	12 Dec 16
	85,942	–	4,904	–	–	90,846	28 Jun 17
	84,601	–	4,828	–	–	89,429	11 Dec 17
	77,735	–	4,436	–	–	82,171	25 Jun 18
	104,135	–	4,972	–	–	109,107	10 Dec 18
	–	141,125	8,054	–	–	149,179	30 Jun 19
	–	151,492	2,838	–	–	154,330	08 Dec 19
	542,330	292,617	33,282	(193,167)	–	675,062	
Executive Participation Plan							
Martin Griffiths	79,163	–	–	–	(79,163)	–	29 Jun 16
	84,362	–	4,817	–	–	89,179	28 Jun 17
	49,562	–	2,829	–	–	52,391	25 Jun 18
	–	73,737	4,210	–	–	77,947	30 Jun 19
	213,087	73,737	11,856	–	(79,163)	219,517	
Ross Paterson	25,857	–	–	–	(25,857)	–	29 Jun 16
	56,243	–	3,211	–	–	59,454	26 Jun 17
	33,041	–	1,886	–	–	34,927	25 Jun 18
	–	49,158	2,807	–	–	51,965	30 Jun 19
	115,141	49,158	7,904	–	(25,857)	146,346	
Buy as you Earn Scheme							
Martin Griffiths	2,667	926	183	–	–	3,776	n/a
Ross Paterson	2,667	926	183	–	–	3,776	n/a

8.5.9 Performance graph

The graph below charts the performance of the total shareholder return ("TSR") (share value movement plus reinvested dividends) from the Company's ordinary shares over the eight years to April 2017 compared with that of the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index. The FTSE 250 Index has been selected for this comparison because it is the index currently used by the Company for the TSR based performance criterion for the LTIP Scheme, while the FTSE Travel and Leisure All-Share Index is shown as the Company and a number of its peers make up a significant element of that index.

Stagecoach 8-Year TSR Comparative Performance to April 2017:

— Stagecoach TSR FTSE 350 Travel & Leisure TSR — FTSE 250 TSR

For comparative purposes, the pay for the role of Chief Executive over time is shown in Table 12 below.

TABLE 12 – PAY FOR THE ROLE OF CHIEF EXECUTIVE Year ended April:	Sir Brian Souter				Martin Griffiths			
	2010	2011	2012	2013	2014	2015	2016	2017
Bonus (percentage of maximum)*	35%	46%	47%	64%	100%	65%	53%	47%
LTIP vesting rates against maximum opportunity	100%	0%	n/a	61%	56%	10%	0%	0%
Single figure of total remuneration (£000)	2,491	1,269	1,227	3,443	2,212	1,451	1,316	1,313

* Sir Brian Souter waived entitlement to part of his cash bonus, with the amounts waived being used to support funding of medical screening in the UK Bus Divisions. Therefore the bonus percentages shown in Table 12 above reflect the amounts awarded to Sir Brian net of the waivers. For information, the full bonus percentage entitlements based on performance and before the waivers are shown in Table 13 below.

TABLE 13 – BONUS AWARDED TO CHIEF EXECUTIVE (before waivers) Year ended April:	Sir Brian Souter			
	2010	2011	2012	2013
Bonus (percentage of maximum)	80%	90%	90%	90%

The total remuneration figure is calculated on the same basis as the single total figure of remuneration for directors shown in Table 1 in section 8.5.3.

8.5.10 Percentage change in Chief Executive Remuneration (audited)

The change in the Chief Executive's remuneration from 2015/16 to 2016/17 in comparison to a comparator group of employees is shown in Table 14 below.

TABLE 14 – PERCENTAGE CHANGE IN REMUNERATION FOR THE ROLE OF CHIEF EXECUTIVE	Percentage change of Chief Executive	Percentage change per capita of employees in the comparator group throughout both years
Salary	2.0%	4.5%
Benefits	0.1%	6.2%
Bonus	(9.5)%	7.9%

The comparator group used comprises over 300 employees including the corporate head office employees, the management teams of each of the Group's divisions and their administrative support staff. This comparator group was used because the Committee believes it provides a sufficiently large and relative comparator group to give a reasonable understanding of underlying increases, based on similar annual bonus performance measures utilised by Group management and support functions. The Group seeks to ensure that the basis for pay increases for Group management support functions are generally consistent with the pay rises at UK Bus and Rail operations.

8.5.11 Relative importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 29 April 2017 and the year ended 30 April 2016. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

TABLE 15 – SPEND ON PAY RELATIVE TO DIVIDENDS AND STAFF COSTS	2017 £m	2016 £m	Percentage change
Profit distributed by way of dividend to shareholders	67.1	62.0	8.2%
Overall spend on pay for employees	1,436.8	1,382.3	3.9%

Directors' remuneration report

8.5.12 Shareholder voting at general meetings

The following table shows the results of the vote on the 2016 remuneration report at the 2016 Annual General Meeting, along with the last vote on the policy from the 2014 Annual General Meeting.

TABLE 16 – SHAREHOLDER VOTE	Directors' 2016 Remuneration Report		Directors' 2014 Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For*	428,184,515	98.03%	442,971,273	95.53%
Against	8,586,918	1.97%	20,747,438	4.47%
Total votes cast (excluding withheld votes)	436,771,433	100%	463,718,711	100%
Votes withheld*	146,129		1,370,407	
Total votes cast (including withheld votes)	436,917,562		465,089,118	

*the number of votes "for" the resolution includes those cast at the Chairman's discretion.

*A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

8.5.13 Implementation of remuneration policy in the financial year ending 28 April 2018

In the year ending 28 April 2018, the Executive Directors' and Non-Executive Directors' remuneration policies will be implemented as follows.

8.5.13.1 Implementation of executive directors' remuneration policy

8.5.13.1.1 Fixed elements – basic salary

The Committee made the following 2017/18 basic salary decisions, which are in line with the current and proposed Directors' remuneration policy.

TABLE 17 – INCREASES IN BASIC SALARY	2017/18 salary £	2016/17 salary £	Percentage change
Martin Griffiths	652,000	639,200	2.0%
Ross Paterson	434,700	426,200	2.0%

Salaries are effective from 1 May each year. The Committee has considered the broader employee context in determining salaries.

8.5.13.1.2 Other elements

The implementation of policy in relation to other elements of remuneration is in line with the proposed Directors' remuneration policy. The maximum potential bonus award for the year to 28 April 2018 is retained at 100% of basic salary and the nominal value of LTIP awards will be retained at 150% of basic salary.

Short-term incentives – Annual Bonus

The implementation of policy in relation to annual bonus is in line with the proposed Directors' remuneration policy. Targets are approved by the Remuneration Committee around the beginning of the year. Each executive director has a maximum potential bonus of up to 100% of basic salary for 2017/18, with 70% allocated over a range of demanding key financial objectives and 30% for meeting individual business related objectives. The Committee has determined that the element of the potential bonus related to financial objectives for 2017/18 will be allocated as follows:

TABLE 18 – POTENTIAL 2017/18 BONUS PAYOUTS FOR FINANCIAL OBJECTIVES	Threshold performance (% of basic salary)	Target performance (% of basic salary)	Maximum Bonus (% of basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	11.7%	17.5%	23.4%
Consolidated adjusted earnings per share ("EPS")	11.7%	17.5%	23.3%
Consolidated net debt ("Net Debt")	11.6%	17.5%	23.3%
Element of bonus related to Group financial objectives	35.0%	52.5%	70.0%

In the event that the Policy is not approved, then the maximum bonus amounts shown in Table 18 will be payable, in accordance with the 2014 policy, for achieving target performance and no bonus will be payable for any particular financial objective for which the target performance is not met.

The three measures listed in Table 18 will be defined consistently with 2016/17 (see note iii to Table 1), and the Net Debt achievement for the year will be adjusted to ignore the impact of unbudgeted transactions with shareholders (such as additional dividends or other distributions) and for the impact of the currency translation effect on opening and closing debt balances.

The Committee is of the view that the values of the performance targets for the financial measures under the annual bonus scheme are commercially sensitive and that it would be detrimental to the interests of the Company to disclose these before the end of the financial year. The targets and achievements in respect of the year ending 28 April 2018 will be disclosed in the 2018 Annual Report. The Committee is of the view that the performance targets for the individual business related objectives are commercially sensitive as they relate to internal management projects, strategic objectives and personal goals and it is not intended that these will be disclosed in advance. The Committee's intention is that a summary of these objectives will be disclosed when they are no longer considered commercially sensitive. 50% of any actual bonus earned in the year would ordinarily be deferred as shares under the EPP.

Long-term incentives – LTIP awards

LTIP awards vest after three years subject to performance conditions. A summary of the intended awards during the year ending 28 April 2018 and the nature of the performance conditions are provided in Table 19 below.

TABLE 19 – INTENDED LTIP AWARDS					
	Award Type	Performance metric	Face value of award at maximum vesting (% of 2017/18 salary)	Percentage of award vesting for threshold achievement	Length of Performance period
Martin Griffiths	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	Profitability targets	75%	25%	3 years
Ross Paterson	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	Profitability targets	75%	25%	3 years

In all cases, LTIP awards will only vest subject to the achievement of the performance conditions and if the Committee determines that the underlying performance of the Company is sufficient to justify the vesting of awards.

Awards are generally made twice a year following the announcement of the annual results in June, and in December following the issue of the results for the half-year. For 2017/18, however, the first tranche of LTIP awards will be made following and subject to the outcome of the shareholders vote on the Policy at the AGM on 25 August 2017. The maximum level of awards granted for an individual in relation to any financial year is limited to Incentive Units with an aggregate face value at the time of award not exceeding 150% of basic salary.

The 2017/18 awards will be split one half based on TSR performance against a comparator group of the FTSE 250 companies, and the other half based on a measure of profitability. For the TSR based awards, the TSR must exceed the median of the comparator group and the amount of Incentive Units awarded which are released will range from 25% to 100% of the available Incentive Units depending on the actual ranking. A top quartile ranking is required to achieve 100% release of units. Demanding profitability targets will be set for the other half of the awards based on relevant market factors and expectations for the Group as at the date of award and a sliding scale of vesting on a straight-line basis would be applied between these lower and upper vesting levels.

8.5.13.2 Implementation of non-executive directors' remuneration policy

Annual fees for 2017/18

The implementation of policy in relation to the Non-Executive Directors is in line with the current and proposed remuneration policy. Each non-executive director's fee is set by the Board taking account of the views of each director, the specific responsibilities of each director and the fees for equivalent roles in similar companies. The fees per annum for the Non-Executive Directors for 2016/17 and the amount set for 2017/18 are set out in Table 20 below.

TABLE 20 – NON-EXECUTIVE DIRECTOR FEES	2017/18 fees £	2016/17 fees £
Chairman	217,400	213,100
Deputy chairman	153,000	150,000
Other non-executive directors (range)	52,500-60,900	52,500-59,700

9. Responsibility statement

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and
- The Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on 28 June 2017 on behalf of the Board by:

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764)

Our opinion on the financial statements

In our opinion:

- Stagecoach Group plc's Consolidated financial statements (the "consolidated financial statements") and separate financial statements of the parent (the "Company financial statements") give a true and fair view of the state of the Group's and Parent Company's affairs as at 29 April 2017 and of the Group's profit for the year then ended;
 - the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
 - the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
 - the consolidated and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.
-

What we have audited

Stagecoach Group plc's financial statements comprise:

Consolidated income statement	Company balance sheet
Consolidated statement of comprehensive income	Company statement of changes in equity
Consolidated balance sheet (statement of financial position)	Related notes 1 to 16 to the Company financial statements
Consolidated statement of changes in equity	
Consolidated statement of cash flows	
Related notes 1 to 34 to the consolidated financial statements.	

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Overview of our audit approach

Risks of material misstatement	• Impairment and onerous contracts • Adequacy of provision for insurance claims • Accounting for pension liabilities • Carrying value of goodwill and intangibles • Liability for uncertain tax positions
Audit scope	• We performed an audit of the complete financial information of eight components and audit procedures on specific balances for a further 14 components • The components where we performed full or specific audit procedures accounted for 74% of adjusted profit before tax and 99% of Revenue
Materiality	• Overall Group materiality of £7.0m which represents approximately 5% of adjusted profit before tax ("PBT")

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the consolidated financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment and onerous contracts We specifically focused on the update to the onerous contract assessment on Virgin Trains East Coast as a result of the profitability being less than that forecast by the Group at the time of its bid for the franchise. The significant risk relates to the adequacy of the level of provision given the significant judgement involved in assessing the financial impact of management's assumptions around the application of contractual terms and future performance. Refer to the Audit Committee Report (Section 5.4.1) and notes 2 and 23 of the consolidated financial statements.	In connection with Virgin Trains East Coast, with the involvement of our rail specialists, we: Understood and challenged the methodology applied by management to assess whether the contract is onerous, discussing with senior rail personnel. Read the underlying franchise agreement to understand relevant terms and conditions. Challenged the underlying model assumptions by sensitising the model, the most significant of which were future revenue growth assumptions and the application of contract terms, and changes from prior year. We tested management's calculation of the onerous contract provision to ensure its measurement is in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". We reviewed correspondence with the UK Department for Transport to understand the current status of contractual negotiations. We considered the impact of the onerous contract on the recoverability of Virgin Trains East Coast assets. We assessed whether the classification of the impact of the onerous contract as an exceptional item was in accordance with the Group's policy. We assessed the adequacy of disclosure within the financial statements.	We have concluded that the Virgin Trains East Coast onerous contract provision (representing management's best estimate) of £84.1m is materially correct, that management's judgements in relation to underlying assumptions are appropriate and that related disclosures are appropriate. We concluded that the recognition of a £44.8m impairment of intangible assets associated with the right to operate the franchise was appropriate. We concur with the classification of both of the above items as exceptional items. We are satisfied with the adequacy of disclosure within the financial statements.
Adequacy of provision for insurance claims The Group makes provision for amounts payable on individual claims. The majority of these claims relate to UK Bus and North America. As at 29 April 2017 the Group had recognised insurance provisions amounting to £156.8m (2016: £148.6m). The significant risk relates to the appropriateness of the level of provision given the significant judgement involved. Refer to the Audit Committee Report (Section 5.4.1) and note 23 of the consolidated financial statements.	We gained an understanding of the key controls and processes in place to assess claims and related provisions. We challenged management over the accuracy of provision level by reference to recent settlement experience on comparable claims. We assessed the reasonableness of the methodology and assumptions contained within the independent actuarial estimate in respect of UK Bus and North America through involvement of our actuarial specialists. In doing so we compared against standard actuarial approaches to ensure the methodology was appropriate. We have evaluated the competence, capabilities and objectivity of management's specialists. We reviewed and assessed the appropriateness of management's risk adjustments to arrive at the recorded provision. We assessed the adequacy of disclosure within the financial statements.	We have concluded that the insurance provision is materially correct. We are satisfied with the adequacy of disclosure within the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for pension liabilities The Group makes provision for the net pension liabilities of its defined benefit pension schemes. As at 29 April 2017 the Group had recognised a net pension deficit of £232.5m (2016: £96.7m). The significant risk relates to the potential misstatement of the pension liability due to the significant judgements being exercised by management in determining the appropriate underlying actuarial assumptions. Relatively small movements in the assumptions applied can result in a material impact to the financial statements and may be influenced by the outcome of the Brexit negotiations. Refer to the Audit Committee Report (Section 5.4.1) and notes 1 and 24 of the consolidated financial statements.	We gained an understanding of the key controls and processes in place to assess the appropriateness of actuarial assumptions. We tested input payroll data used to calculate the pension liabilities. We considered the reasonableness and consistency of the methodology used to calculate the pension liabilities through involvement of our actuarial specialists. We challenged key actuarial assumptions with the assistance of our actuarial specialists to determine whether they were within an acceptable range using a number of differing IFRS compliant valuation methodologies. We have evaluated the competence, capabilities and objectivity of management's specialists. We assessed the adequacy of disclosures within the financial statements.	We have concluded that the pension liability is materially correct and that management's judgements in relation to underlying actuarial assumptions are appropriate. We are satisfied with the adequacy of disclosure within the financial statements.
Carrying value of goodwill and intangibles The Group carries out an annual impairment review in connection with the carrying value of its goodwill. As at 29 April 2017 the Group carried goodwill amounting to £148.2m (2016: £136.9m) and other intangible assets amounting to £45.0m (2016: £88.7m). The significant risk arises because of the significance of the goodwill to the financial statements and the level of management judgement required in estimating future cash flows and the appropriate growth and discount rates. We specifically focused on North America where trading at the megabus.com inter-city coach services remained challenging due to heightened car and air competition as a result of the effects of sustained lower fuel prices. In addition, the Group carries out impairment reviews of other intangible assets when indicators of impairment are identified. Refer to the Audit Committee Report (Section 5.4.1) and notes 1 and 10 of the consolidated financial statements.	We gained an understanding of the key controls and processes in place over management's impairment testing. We assessed the appropriateness of the Cash Generating Units (CGUs) identified by management to be tested for impairment. We assessed the reasonableness of the methodology used to calculate value in use through involvement of our valuation specialists. We corroborated key assumptions being future cash flows, growth and discount rates and challenged their reasonableness using our valuation specialists. We considered the reasonableness of management's sensitivity analysis showing the impact of a reasonably possible change in impairment assumptions. We performed procedures to identify any additional indicators of impairment for other intangibles by assessing whether the relevant assets continue to be used by the entity. We assessed the adequacy of disclosures within the financial statements.	We have concluded that the goodwill and intangible assets balances are materially correct. We are satisfied with the adequacy of disclosure within the financial statements.
Liability for uncertain tax positions The Group recognises a liability for corporate taxes due on the taxable profits generated in the year. The Group has recognised a liability in respect of uncertain tax positions. As at 29 April 2017 the Group had recognised overall net tax liabilities of £21.9m (2016: £58.8m). The significant risk relates to the adequacy of the level of provision given the significant judgement involved. Refer to the Audit Committee Report (Section 5.4.1) and note 7 of the consolidated financial statements.	We gained an understanding of the Group's process for determining liabilities for tax and calculating the tax charge for the overall Group, including the tax proof. We involved our tax specialists, including in US specialists for US specific matters, in all areas of the tax audit to assist with the evaluation and challenge of the assumptions and estimates in relation to the level of liability recognised for significant tax risks. We agreed underlying tax balances to supporting documentation, including correspondence with tax authorities. We have also challenged the appropriateness of management's assumptions with regard to the recoverability of deferred tax assets. We assessed the adequacy of disclosures within the financial statements.	We have concluded that management's judgements in relation to the recognition of liabilities for uncertain tax positions were appropriate. We are satisfied with the adequacy of disclosure within the financial statements.

The risks identified above are substantially the same as those identified last year.

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 51 reporting components of the Group, excluding the parent entity, we selected 22 components covering entities within the UK Rail, UK Bus (regional operations), UK Bus (London) and North America business areas, which represent the principal business units within the Group.

Of the 22 components selected, we performed an audit of the complete financial information of 8 components ("full scope components") which were selected based on their size or risk characteristics and comprised three rail operating companies, three UK Bus (regional operations) components, North America and the Virgin Rail Group joint venture. For the remaining 14 components ("specific scope components"), comprising 12 UK Bus (regional operations) components and two UK Bus (London) components, we performed audit procedures on specific accounts within each component that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures were:

	Components	Percentage of PBT	Percentage of Revenue
Full Scope	8	83	78
Specific Scope	14	66	21
	<u>22</u>	<u>149</u>	<u>99</u>
Parent and consolidation adjustments		(75)	—
Overall coverage		<u>74</u>	<u>99</u>

The audit work on all in scope reporting units, with the exception of Virgin Rail Group, was performed directly by the Group engagement team. We also communicated with a firm outside of the EY network of firms with respect to the audit of the complete financial information of the Virgin Rail Group joint venture. The Group engagement team held meetings and calls with the Virgin Rail Group auditors to clarify and discuss their audit approach, materiality and our reporting requirements. In addition, we had meetings and calls with them as their audit work progressed so that we could effectively supervise, direct and understand the findings from their work.

Of the remaining 29 components, none are individually greater than 5% of the Group's adjusted profit before tax. For these components, we performed other procedures, including analytical review, intercompany eliminations and obtaining audit evidence to respond to any potential risks of material misstatement to the consolidated financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures. We determined materiality for the Group to be £7.0 million, which is approximately 5% of adjusted profit before tax of £141.9 million being reported profit before tax of £17.9 million adjusted to exclude net exceptional losses of £124.0 million (as disclosed in note 4 to the consolidated financial statements). We believe that adjusted profit before tax provides us with a consistent measure of underlying year on year performance as it excludes the impact of non-recurring items.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £5.3 million. We have set performance materiality at this percentage following our assessment that there is an effective control environment and low expectation of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The range of performance materiality allocated to components was £1.1m to £2.5m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- based on the work undertaken in the course of the audit:
 - the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
 - the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements;
- based on the work undertaken in the course of the audit the information given in the Corporate governance report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency rules sourcebook made by the Financial Conduct Authority:
 - is consistent with the financial statements; and
 - has been prepared in accordance with applicable legal requirement;
- based on the work undertaken during the course of the audit, rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (with respect to the Company's corporate governance code and practices about its administrative, management and supervisory bodies and their committees) have been complied with if applicable.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic report, Directors' report or in the Corporate governance report. We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit. • a Corporate Governance Statement has not been prepared by the Company.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the Directors' statement in relation to going concern and longer-term viability, set out in section 3.11, and • the part of the Corporate governance report relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: - the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; - the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; - the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and - the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.
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Signed on 28 June 2017 for and on behalf of Ernst & Young LLP, Statutory Auditor, Glasgow, by:

Mark Harvey
Senior statutory auditor

11. Consolidated Financial Statements

Consolidated income statement

For the year ended 29 April 2017

		2017			2016		
		Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year
	Notes	£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS							
Revenue	2(a)	3,941.2	-	3,941.2	3,871.1	-	3,871.1
Operating costs and other operating income	3	(3,774.6)	(145.5)	(3,920.1)	(3,667.1)	(21.8)	(3,688.9)
Operating profit of Group companies	2(b)	166.6	(145.5)	21.1	204.0	(21.8)	182.2
Share of profit/(loss) of joint ventures after finance costs, finance income and taxation	2(c)	26.2	-	26.2	24.8	(35.9)	(11.1)
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	2(b)	192.8	(145.5)	47.3	228.8	(57.7)	171.1
Non-operating exceptional items	4	-	4.7	4.7	-	(2.0)	(2.0)
Profit before interest and taxation		192.8	(140.8)	52.0	228.8	(59.7)	169.1
Finance costs	5	(35.6)	-	(35.6)	(43.1)	(23.3)	(66.4)
Finance income	5	1.5	-	1.5	1.7	-	1.7
Profit before taxation		158.7	(140.8)	17.9	187.4	(83.0)	104.4
Taxation	7	(20.7)	20.9	0.2	(26.8)	21.4	(5.4)
Profit for the year from continuing operations and profit after taxation for the year		138.0	(119.9)	18.1	160.6	(61.6)	99.0
Attributable to:							
Equity holders of the parent		139.7	(107.9)	31.8	158.8	(60.9)	97.9
Non-controlling interests		(1.7)	(12.0)	(13.7)	1.8	(0.7)	1.1
		138.0	(119.9)	18.1	160.6	(61.6)	99.0
Earnings per share (all of which relates to continuing operations)							
Adjusted basic/Basic	9	24.4p		5.5p	27.7p		17.1p
Adjusted diluted/Diluted	9	24.3p		5.5p	27.6p		17.0p

The accompanying notes form an integral part of this consolidated income statement.

Consolidated statement of comprehensive income

For the year ended 29 April 2017

	2017	2016
	£m	£m
Profit for the year	18.1	99.0
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value gains/(losses) on cash flow hedges	17.6	(84.2)
– Reclassified and reported in profit for the year	21.0	67.8
– Share of other comprehensive income/(expense) on joint ventures' cash flow hedges	3.3	(0.3)
– Tax effect of cash flow hedges	(7.3)	2.9
– Tax effect of share of other comprehensive (income)/expense on joint ventures' cash flow hedges	(0.6)	–
Foreign exchange differences on translation of foreign operations (net of hedging)		
– Foreign exchange differences arising in year	13.5	3.1
– Reclassified and reported in profit for the year	(4.6)	–
Total items that may be reclassified to profit or loss	42.9	(10.7)
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on Group defined benefit pension schemes	(127.6)	68.5
Tax effect of actuarial losses/(gains) on Group defined benefit pension schemes	22.7	(16.0)
Share of actuarial gains on joint ventures' defined benefit pension schemes, net of tax	2.5	4.0
Total items that will not be reclassified to profit or loss	(102.4)	56.5
Other comprehensive (expense)/income for the year	(59.5)	45.8
Total comprehensive (expense)/income for the year	(41.4)	144.8
Attributable to:		
Equity holders of the parent	(29.9)	143.9
Non-controlling interests	(11.5)	0.9
	(41.4)	144.8

Consolidated balance sheet (statement of financial position)

As at 29 April 2017

		2017	2016
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill	10	148.2	136.9
Other intangible assets	11	45.0	88.7
Property, plant and equipment	12	1,190.3	1,165.2
Interests in joint ventures	13	25.7	22.4
Derivative instruments at fair value	25(g)	7.0	5.6
Deferred tax asset	22	14.4	–
Retirement benefit assets	24	45.6	24.8
Other receivables	18	4.9	5.6
		1,481.1	1,449.2
Current assets			
Inventories	17	25.2	27.5
Trade and other receivables	18	449.0	382.2
Derivative instruments at fair value	25(g)	7.3	1.0
Foreign tax recoverable		0.3	–
Cash and cash equivalents	19	313.3	382.3
		795.1	793.0
Total assets	2(d)	2,276.2	2,242.2
LIABILITIES			
Current liabilities			
Trade and other payables	20	848.0	825.2
Current tax liabilities		36.6	33.2
Borrowings	21	40.5	53.6
Derivative instruments at fair value	25(g)	16.6	41.3
Provisions	23	118.6	54.9
		1,060.3	1,008.2
Non-current liabilities			
Other payables	20	35.8	45.5
Borrowings	21	693.0	738.2
Derivative instruments at fair value	25(g)	6.9	19.5
Deferred tax liabilities	22	–	25.6
Provisions	23	133.6	105.9
Retirement benefit obligations	24	278.1	121.5
		1,147.4	1,056.2
Total liabilities	2(d)	2,207.7	2,064.4
Net assets	2(d)	68.5	177.8
EQUITY			
Ordinary share capital	26	3.2	3.2
Share premium account	28	8.4	8.4
Retained earnings	28	(320.4)	(185.1)
Capital redemption reserve	28	422.8	422.8
Own shares	28	(37.0)	(34.3)
Translation reserve	28	10.2	1.3
Cash flow hedging reserve	28	(9.0)	(40.3)
Total equity attributable to the parent		78.2	176.0
Non-controlling interests		(9.7)	1.8
Total equity		68.5	177.8

These financial statements have been approved for issue by the Board of Directors on 28 June 2017. The accompanying notes form an integral part of this consolidated balance sheet.



Martin A Griffiths
Chief Executive



Ross Paterson
Finance Director

Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity attributable to the parent	Non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 30 April 2015		3.2	8.4	(279.6)	422.8	(32.1)	(1.8)	(26.8)	94.1	0.9	95.0
Profit for the year		-	-	97.9	-	-	-	-	97.9	1.1	99.0
Other comprehensive income/(expense) net of tax		-	-	56.4	-	-	3.1	(13.5)	46.0	(0.2)	45.8
Total comprehensive income/(expense)		-	-	154.3	-	-	3.1	(13.5)	143.9	0.9	144.8
Own ordinary shares purchased		-	-	-	-	(2.2)	-	-	(2.2)	-	(2.2)
Credit in relation to equity-settled share based payments		-	-	2.2	-	-	-	-	2.2	-	2.2
Dividends paid on ordinary shares	8	-	-	(62.0)	-	-	-	-	(62.0)	-	(62.0)
Balance at 30 April 2016		3.2	8.4	(185.1)	422.8	(34.3)	1.3	(40.3)	176.0	1.8	177.8
Profit for the year		-	-	31.8	-	-	-	-	31.8	(13.7)	18.1
Other comprehensive (expense)/income net of tax		-	-	(101.9)	-	-	8.9	31.3	(61.7)	2.2	(59.5)
Total comprehensive (expense)/income		-	-	(70.1)	-	-	8.9	31.3	(29.9)	(11.5)	(41.4)
Own ordinary shares purchased		-	-	-	-	(2.7)	-	-	(2.7)	-	(2.7)
Credit in relation to equity-settled share based payments		-	-	1.9	-	-	-	-	1.9	-	1.9
Dividends paid on ordinary shares	8	-	-	(67.1)	-	-	-	-	(67.1)	-	(67.1)
Balance at 29 April 2017		3.2	8.4	(320.4)	422.8	(37.0)	10.2	(9.0)	78.2	(9.7)	68.5

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated statement of cash flows

For the year ended 29 April 2017

		2017	2016
	Notes	£m	£m
Cash flows from operating activities			
Cash generated by operations	29	252.3	303.7
Interest paid		(26.9)	(32.3)
Interest received		0.2	1.7
Dividends received from joint ventures		28.1	28.8
Net cash flows from operating activities before tax		253.7	301.9
Tax paid		(21.6)	(23.0)
Net cash from operating activities after tax		232.1	278.9
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		-	(0.5)
Disposal of business	15	19.6	-
Purchase of property, plant and equipment		(155.5)	(191.2)
Disposal of property, plant and equipment		46.0	26.5
Purchase of intangible assets		(17.8)	(19.6)
Movements in loans to joint ventures		-	5.9
Disposal of investment in joint ventures	15	7.0	-
Net cash outflow from investing activities		(100.7)	(178.9)
Cash flows from financing activities			
Purchase of treasury shares		(2.7)	(2.2)
Repayments of hire purchase and lease finance		(58.1)	(35.4)
Redemption of 5.75% sterling bond – principal		-	(400.0)
Redemption of 5.75% sterling bond – exceptional items		-	(23.3)
Issue of new 4.00% sterling bond		-	393.5
Drawdown of other borrowings		182.9	270.0
Repayment of other borrowings		(258.3)	(255.2)
Dividends paid on ordinary shares	8	(67.1)	(62.0)
Sale of tokens		0.1	0.3
Redemption of tokens		(0.5)	(0.5)
Net cash used in financing activities		(203.7)	(114.8)
Net decrease in cash and cash equivalents		(72.3)	(14.8)
Cash and cash equivalents at the beginning of year		382.3	395.6
Exchange rate effects		3.3	1.5
Cash and cash equivalents at the end of year	19	313.3	382.3

Cash and cash equivalents for the purposes of the consolidated statement of cash flows comprise cash at bank and in hand, overdrafts and other short-term highly liquid investments with maturities at the balance sheet date of twelve months or less.

The accompanying notes form an integral part of this consolidated statement of cash flows.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

These consolidated financial statements are presented in respect of the group of companies headed by Stagecoach Group plc. Stagecoach Group plc is a public limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is 100764 and its registered address is 10 Dunkeld Road, Perth, Perthshire, PH1 5TW.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

• Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union (and therefore comply with Article 4 of the European Union IAS Regulation), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by (i) the revaluation of available for sale financial assets and (ii) financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

As intimated in our 2016 Annual Report, the Group now reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 1 May 2016 to 29 April 2017.

• New accounting standards adopted during the year

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 May 2016:

- Amendments to IFRS 5, Annual improvements project
- Amendments to IFRS 7, Annual improvements project
- Amendments to IFRS 10, 12 and IAS 28, Investment Entities: Applying the consolidation exception
- Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 and IAS 41, Amendment to bring bearer plants into the scope
- Amendments to IAS 19, Annual improvements project

None of these have materially impacted the consolidated financial statements of the Group.

• New standards and interpretations not applied

The International Accounting Standards Board ("IASB") and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

International Accounting Standards and Interpretations		Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture*	Deferred indefinitely
Amendments to IFRS 2	Clarification of classification and measurement of share based payment transactions*	1 January 2018
Amendments to IFRS 4 and IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9*	1 January 2018
IFRS 9	Financial instruments: Hedge accounting	1 January 2018
IFRS 15	Revenue from contracts with customers*	1 January 2018
IFRS 16	Leases*	1 January 2019
IFRS 17	Insurance contracts*	1 January 2021
Annual Improvements to IFRSs 2014-2016 Cycle *		1 January 2018
Amendments to IAS 7	Amendments as a result of the Disclosure Initiative*	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses*	1 January 2017
IAS 40	Amendments to clarify transfers of property to, or from, investment property*	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration*	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments*	1 January 2019

*Not yet adopted for use in the European Union.

The Directors expect the application of IFRS 16 to have a material effect on the consolidated financial statements. In particular, the accounting for the Group's substantial rolling stock operating lease commitments will be affected by the application of the new standard. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and depreciation of lease assets separately from interest. On adopting IFRS 16, the Group expects to recognise substantial new assets and new liabilities in respect of those leases currently classified as operating leases.

The Directors do not expect IFRS 15 to have a material impact on the consolidated financial statements. In both our rail and bus divisions our contracted customers are easily recognised, performance obligations are clear and transaction prices are even over the period to which they relate and are time apportioned. However, our detailed assessment of IFRS 15 is ongoing.

The Directors have reviewed the requirements of the remaining standards and interpretations listed above and they are not expected to have a material impact on the Group's financial statements in the period of initial application.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Critical accounting judgements and key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union requires directors to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Group's reported financial performance and/or financial position.

The discussion below should be read in conjunction with the full statement of accounting policies.

The Audit Committee summarises, in its report, the significant financial reporting and accounting judgements that it specifically considered in respect of the year ended 29 April 2017 - see section of 5.4.1 of this Annual Report. As might be expected, there is considerable overlap between the significant judgements considered by the Audit Committee in respect of the year and the critical accounting judgements and estimations summarised below.

Pensions

The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense. Note 24(f) provides information on the sensitivity of pension benefit obligations to changes in assumptions.

Onerous contracts

The Group has a number of contractual commitments most significantly in respect of its rail franchises and its London bus business. In certain circumstances, IFRS requires a provision to be recorded for a contract that is "onerous" or when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. Determining the amount of any contract provision necessitates forecasting future financial performance and applying an appropriate discount rate to determine a net present value. There is uncertainty over future profit/loss and cash flows. Forecasts for this purpose are consistent with management's plans and forecasts. The forecasts and the estimation of the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Goodwill and impairment

In certain circumstances, IFRS requires property, plant, equipment and intangible assets to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant asset or cash generating unit ("CGU") or net realisable value, if higher. The discount rate applied in determining the present value of future cash flows is based on the Group's estimated weighted average cost of capital with appropriate adjustments made to reflect the specific risks associated with the asset or CGU. Forecasts of cash flows for this purpose are consistent with management's plans and forecasts. The forecast of future cash flows and the estimation of the discount rate involve a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

• Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings and joint ventures made up to a period broadly one year in length that ends on the Saturday nearest to 30 April.

The consolidated income statement includes the results of businesses purchased from the effective date of acquisition and excludes the results of disposed operations and businesses sold from the effective date of disposal.

Non-controlling interests represents the portion of earnings and equity attributable to third party shareholders of a subsidiary of the Group.

• Subsidiaries and joint ventures

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where a business is acquired, the purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of the subsidiaries and other businesses. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Costs attributable to the acquisition are expensed to the consolidated income statement.

The non-controlling interest in respect of Virgin Trains East Coast is shown in the consolidated balance sheet at 10% of the carrying value of the related assets and liabilities, and was initially recognised at 10% of the acquisition-date fair values of the assets acquired and liabilities assumed.

Intercompany transactions, balances, income and expenses are eliminated on consolidation.

(ii) Joint ventures

Joint ventures are entities over which the Group has joint control with other investors.

Investments in joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group's reported interest in joint ventures includes goodwill on acquisition.

The Group applies its own accounting policies and estimates when accounting for its share of joint ventures making appropriate adjustments where necessary, having due regard to all relevant factors.

Note 1 IFRS accounting policies (continued)

• Presentation of income statement and exceptional items

Where applicable, income statement information has been presented in a columnar format, which separately highlights intangible asset expenses and exceptional items. This is intended to enable users of the financial statements to determine more readily the impact of intangible asset expenses and exceptional items on the results of the Group, improve comparability of the Group's results with those of peer companies and respond to analysts who have requested reporting on that basis.

Exceptional items are defined in note 34.

• Revenue

The Group has a number of revenue streams, as set out as part of the description of the Group's business model in section 1.4.1 of the Strategic report contained in this Annual Report.

Revenue presented in the income statement represents gross revenue and excludes payments received on account. Revenue is recognised at the fair value of the consideration received or receivable. Where appropriate, amounts are shown net of discounts, rebates, VAT and other sales taxes.

Revenue that is receivable from individuals or groups of individuals to travel on our transport services is accounted for with the objective that the revenue is recognised in the income statement in the period in which the related travel occurs. This can involve some estimation – for example, revenue from the sale of season tickets and travelcards, that entitle individuals to use certain of our services during a specified period of time, is deferred within liabilities and recognised in the income statement over the period covered. The recognition of season ticket and travelcard income is generally recorded on a straight-line basis over the applicable period.

In UK Rail, travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Furthermore, certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, our UK Rail revenue includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited ("RSP"). RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage. Similar revenue allocations apply to rail services in the Transport for London area and in respect of multi-operator ticket schemes in which some of our UK bus and tram businesses participate. Procedures exist to allow operators to challenge the appropriateness of revenue allocation – where the revenue allocated to the Group is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which we are made aware of it. Where an adjustment results in additional revenue being attributed to the Group, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that the economic benefits will flow to the Group.

Amounts that are receivable from government bodies in respect of travel by individuals on our transport services is also recognised in the income statement in the period in which the related travel occurs. Such amounts are included in revenue because they represent payments for transport services provided. This can involve some estimation – for example, revenue receivable in respect of UK concessionary travel schemes can involve some negotiation with relevant public authorities on the amount of revenue due and/or be subject to adjustment based on the levels of concessionary travel across a number of operators. Revenue is recognised based on the Group's best estimates of the amounts receivable in respect of travel prior to the balance sheet date.

Revenue receivable from government bodies and others as payment to us for operating transport services under contract is recognised in the income statement in the period that the contracted services relate to. In general, the revenue in respect of any particular period can be clearly determined from the contract. Where there is a contingent element to contract revenue (for example, where additional amounts are payable or receivable based on the punctuality of transport services and/or other operational measures), revenue is recognised based on the applicable operational measures when the amount of revenue can be reliably estimated and it is highly probable that the economic benefits will flow to the Group.

Franchise payments payable to or receivable from the UK Department for Transport under rail franchise agreements are recognised as operating costs or other operating income in the income statement. Further details on the recognition of such amounts are included below under the section headed "Government grants".

Under the contractual terms of its franchise agreements to operate rail services, the Group has revenue sharing arrangements with the Department for Transport. As a result of these arrangements, the Group may be liable to make payments to the Department for Transport or receive amounts from the Department for Transport. The arrangements vary by franchise. The amounts at South West Trains are based on calculations that involve comparison of actual revenue with the target revenue specified in the relevant franchise agreement. The amounts at West Coast Trains (operated by the Group's Virgin Rail Group joint venture), East Midlands Trains and Virgin Trains East Coast are based on calculations that involve comparing published UK national Gross Domestic Product ("GDP") with the GDP comparator specified in the relevant franchise agreement. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable or receivable (if any) are treated as operating costs or other operating income.

Other subsidies we receive from government bodies to financially support the operation of transport services they consider to be socially desirable is included in revenue and recognised in the income statement in the period that the subsidy relates to. This includes tender revenue receivable to financially support certain bus services the Group operates in the UK.

Revenue that is incidental to the Group's principal activity of providing transport services is reported as miscellaneous income. Such income is recognised as the income is earned and may include income from:

- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling advertising space on vehicles and premises we operate;
- access income for others to use railway stations and depots that we operate;
- selling fuel to other transport operators;
- property rental;
- Network Rail in respect of UK railway operating performance regimes – see "performance incentive regimes" section below.

The Group's regional UK Bus operations receive Bus Service Operators' Grant ("BSOG") which is essentially a rebate of fuel tax. BSOG is recognised within operating costs as part of the net fuel costs of the Group.

Finance income is recognised under the effective interest method as interest accrues.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Performance incentive payments

Performance incentive payments received from or made to Network Rail by the Group in respect of rail operational performance are recognised in the same period that the performance relates to and are treated as operating costs or other operating income.

• Government grants

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets. Amounts are held as deferred grant income within trade and other payables.

Revenue grants receivable (and franchise premia amounts payable) in respect of the operation of rail franchises in the UK are recognised in the income statement in the period in which the related revenue or expenditure is recognised in the income statement or where they do not relate to any specific revenue or expenditure, in the period in respect of which the amount is receivable or payable. These premia payments and rail franchise grants are classified within operating costs and other operating income.

• Share based payments

The Group issues equity-settled and cash-settled share based payments to certain employees.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled by the Group or the holder, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period.

Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently expects to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it currently expects to settle all such awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price. The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date. Awards under the Executive Participation Plan are accounted for as equity-settled transactions (see above).

Employment taxes

Liabilities are recognised for employment taxes (principally, employers' national insurance liabilities) payable by the Group on share based payments. The liability for employment taxes is calculated at the balance sheet date with reference to the fair value of the related share based payments at that date. In the case of cash-settled share based payments, the fair value is the pre-tax amount recorded in the balance sheet. Movements in the liabilities for employment taxes on share based payments are charged or credited to the income statement.

• Operating profit

Consolidated operating profit is stated inclusive of restructuring costs and the share of after-tax results of joint ventures but before finance income, finance costs, non-operating exceptional items and taxation.

• Taxation

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 1 IFRS accounting policies (continued)

• Taxation (continued)

Where a change in accounting policy requires adjustment of prior year amounts, the taxation effects of the change of accounting policy are treated as part of the prior year adjustment. Where a change in accounting policy in a subsidiary's own financial statements (for example, on a transition from UK Generally Accepted Accounting Policies to International Financial Reporting Standards) materially affects the tax amounts recognised in the consolidated financial statements, the change is treated as a prior year adjustment and is not included as a component of the current period's tax expense.

• Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of operating segments, which for this purpose has been identified as the Board of Directors.

• Foreign currency translation

The financial statements of foreign operations are maintained in the functional currencies in which the entities transact business. The trading results of foreign operations are translated into sterling using average rates of exchange. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling using rates of exchange at the relevant balance sheet date. Exchange differences arising on the translation of the opening net assets and results of foreign operations, together with exchange differences arising on net foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in foreign operations, are recognised as a separate component of equity being the translation reserve. Further information on the Group's accounting policy on hedges of net investments in a foreign entity is provided on page 87.

Foreign currency monetary assets and liabilities are translated into the respective functional currencies of the Group entities at the rates of exchange ruling at the balance sheet date. Foreign currency transactions arising during the year are translated into the respective functional currencies of Group entities at the rate of exchange ruling on the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

On disposal of a foreign subsidiary or an interest in a joint venture or associate, the amount of any exchange differences relating to the relevant entity that has been deferred in the translation reserve is recognised in the income statement within the reported gain or loss on disposal.

The principal rates of exchange applied to the consolidated financial statements were:

	2017	2016
US Dollar:		
Year end rate	1.2937	1.4649
Average rate	1.2937	1.5031
Canadian Dollar:		
Year end rate	1.7689	1.8349
Average rate	1.7036	1.9756

• Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of such net assets. The fair value of intangible assets (other than goodwill) and acquired customer contract provisions on the acquisition of a business are amortised to the income statement.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Prior to 1 May 2004, goodwill was amortised over its estimated useful life; such amortisation ceased on 30 April 2004 but goodwill amortisation expensed prior to 1 May 2004 was not reversed. Goodwill that arose prior to 1 May 2004 is measured at the amount recognised under the Group's previous accounting framework, UK GAAP.

Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to equity in accordance with the UK accounting standards then in force. Under IFRS 1 and IFRS 3, such goodwill remains eliminated against equity.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any impairment of goodwill is recognised immediately in the income statement.

Where goodwill (other than that already written off directly to equity) forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the disposed operation when determining the overall gain or loss on disposal.

• Impairment of non-current assets

Property, plant and equipment, intangible assets (excluding goodwill) and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal at each reporting date.

In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised immediately in the income statement.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Intangible assets

Intangible assets acquired separately from a business combination are initially capitalised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset. Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if (i) the asset is separable or arises from contractual or legal rights and (ii) its fair value can be measured reliably, and are subsequently measured at fair value less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated to write-off the cost or fair value at acquisition (as the case may be) of each asset over their estimated useful lives shown below, and is recorded in operating costs in the income statement. Amortisation of intangible assets relating to customer contracts and lease contracts is amortised based on the pattern of the consumption of economic benefits obtained from the relevant contract. Amortisation on other intangible assets is calculated on the straight-line method. Intangible assets relating to rail franchises of a finite duration are amortised over the expected life of the franchise.

Operating leases on favourable terms	over the life of the lease (up to 4 years for current contracts)
Customer contracts	over the life of the contract (1 to 5 years for current contracts)
Right to operate rail franchises	over the expected life of the franchise (10 years from February 2007 to February 2017 for South West Trains franchise, 2 years and 5 months from October 2015 to March 2018 for East Midlands Trains franchise and previously 8 years and 1 month from March 2015 to March 2023 for Virgin Trains East Coast franchise until fully impaired as at 29 April 2017)
Software costs	2 to 7 years

Where the life of a contract or rail franchise is shortened or extended, the useful economic lives of any related intangible assets are reviewed, the intangible assets are reviewed for impairment and the remaining carrying value of each asset is amortised over its revised, remaining economic life. New contracts and franchises are not treated as extensions of existing arrangements even when they cover the same business operations as expiring contracts and franchises.

Marketing costs incurred during the start-up phase of a new activity are charged to the income statement as incurred.

• Property, plant and equipment

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition and is subsequently measured at fair value on acquisition less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives as follows:

Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	period of lease
IT and other equipment, furniture and fittings	3 to 10 years
Passenger Service Vehicles ("PSVs") and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Freehold land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and, where applicable, adjustments are made on a prospective basis.

An item of property, plant or equipment is derecognised upon disposal. An item on which no future economic benefits are expected to arise from the continued use of the asset is impaired if it is continued to be used by the Group. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

• Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out ("FIFO") or average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

• Contract provisions

A provision is recognised in the consolidated balance sheet for any contract that is "onerous" or when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under that contract. Determining the amount of any contract provision necessitates forecasting future financial performance and applying an appropriate discount rate to determine a net present value.

The recognition of a contract provision (other than a provision arising from a business combination) is charged to the consolidated income statement. Losses that subsequently arise on that contract are treated as a utilisation of the provision to the extent they have been provided for.

The amount of any contract provision (or potential contract provision) is re-assessed at each balance sheet date. Any increase or decrease required to the amount of the provision is charged or credited to the consolidated income statement.

• Pre-contract costs

The costs associated with securing new rail franchises are expensed as incurred, except when at the time the costs are incurred it is probable that a contract will be awarded, in which case they are recognised as an intangible asset and are charged to the income statement over the life of the franchise. In general, costs incurred in bidding for a UK rail franchise prior to the signing of a franchise agreement are expensed because until an agreement is signed, the Directors do not consider a franchise award to be probable. Costs incurred after an agreement is signed, but before the franchise period commences, are generally capitalised as intangible assets.

Note 1 IFRS accounting policies (continued)

• Hire purchase and lease obligations

Assets acquired under hire purchase and finance lease arrangements, where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Fixed lease payments are apportioned between the finance costs and the reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income and are reported within finance costs in the consolidated income statement.

Assets capitalised under finance leases and other similar contracts are depreciated over the shorter of the lease terms and their useful economic lives.

Assets capitalised under hire purchase contracts are depreciated over their useful economic lives.

Rentals under operating leases are generally charged on a straight-line basis over the lease term. However, contingent rentals, principally being rental adjustments related to inflation indices, are accounted for in the period they are incurred.

The principal restriction on assets held under finance lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

• Restructuring provisions

Provisions for restructuring are recognised when the Group has a present legal or constructive obligation as a result of past events and a reliable estimate of associated costs can be made.

• Insurance

The Group receives claims in respect of traffic incidents and employee claims. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies.

Provision is made on a discounted basis for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date. The estimate of the balance sheet insurance provisions is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group. The provision is set after taking account of advice from third party actuaries.

• Retirement benefit obligations

The Group contributes to a number of pension schemes.

In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, any recognised net asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. An economic benefit is available to the Group if it is realisable during the life of the scheme or on settlement of the scheme liabilities.

The service costs of defined benefit schemes are spread systematically over the working lives of employees and included within operating profit. Scheme administration expenses are also included within operating profit. Net interest expense or income is calculated by applying the discount rate to the net defined benefit asset or liability and included within net finance costs. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Actuarial gains and losses include the difference between the actual return on assets (net of investment administration costs and taxes, such as amounts levied by the UK Pension Protection Fund) and the discount rates applied to the assets. Mortality rates are considered when retirement benefit obligations are calculated.

Past service costs and adjustments are recognised in Income at the earlier of (a) the date on which a scheme amendment occurs and (b) the date on which related restructuring costs or termination benefits are recognised.

Curtailments arise where the Group makes a material reduction in the number of employees covered by a pension scheme or amends a defined benefit pension scheme's terms such that a material element of future service by current employees will qualify for no or significantly reduced benefits.

Settlements arise when the Group enters into a transaction that eliminates all or part of the Group's obligations for benefits provided under a defined benefit pension scheme. The gain or loss arising on a settlement or curtailment comprises the resulting change in the net pension asset or liability, and such gain or loss is recognised in the income statement when the settlement or curtailment occurs. Where the gain or loss is related to a disposal of a business, it is included within the reported gain or loss on disposal of that business.

A full actuarial valuation is undertaken triennially for each scheme and updated annually using independent actuaries following the projected unit credit method. The present value of the scheme obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related obligations. Experience adjustments and changes in assumptions which affect actuarial gains and losses are reflected in the actuarial gain or loss for the year.

The liability or asset recognised for the relevant sections of the Railways Pension Scheme represents only that part of the net deficit (or surplus) of each section that the employer expects to fund (or recover) over the life of the franchise to which the section relates. Where the award of a new rail franchise to the Group results in it assuming a net pension liability, a corresponding intangible asset is recognised, reflecting a cost in obtaining the right to operate the franchise. When a pension asset is assumed, a corresponding deferred income balance is recognised. The intangible asset or deferred income balance is amortised to the income statement on a straight-line basis over the expected life of the related franchise.

For defined contribution schemes, the Group pays contributions to separately administered pension schemes. Once the contributions have been paid, the Group has no further payment obligations. The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

• Financial instruments

The disclosure of the accounting policies that follow for financial instruments are those that apply under IFRS 7 'Financial Instruments: Disclosures', IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and measurement'.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Financial instruments (continued)

Financial assets

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments or as available for sale. They include cash and cash equivalents, accrued income, trade receivables, other receivables and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss: Financial assets classified as held for trading and other assets designated as such on inception are classified as financial assets at fair value through profit or loss where the assets meet the criteria for such classification. Financial assets are classified as held for trading if they are acquired for sale in the short-term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets in this category are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either at fair value through profit or loss or available for sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Where the time value of money is material, receivables are discounted to the present value at the point they are first recognised and are subsequently amortised to the invoice amount by the payment due date. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered in evaluating whether a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables, accruals, loans from joint ventures, loans from non-controlling interests, borrowings and derivative financial instruments. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss: Financial liabilities classified as held for trading and derivative liabilities that are not designated as hedging instruments are classified as financial liabilities at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.

Other: All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

Fair values

The fair value of quoted investments is determined by reference to appropriate market prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using pricing models and discounted cash flow analysis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability;
- Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Hedges of net investment in a foreign entity.

Net gains or losses arising from changes in the fair value of all other derivatives, which are classified as held for trading, are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments from an accounting perspective.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges: For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both the derivative and the hedged item are taken to the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges: For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For cash flow hedges of forecast fuel purchases, the transfer is to operating costs within the income statement.

Note 1 IFRS accounting policies (continued)

• **Financial instruments (continued)**

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recorded in the statement of comprehensive income remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement immediately.

Hedges of net investment in a foreign entity: For hedges of the net investment in a foreign entity, the effective portion of the gain or loss on the hedging instrument is recorded in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the foreign entity is sold.

Non-derivative financial liabilities, such as foreign currency borrowings, can be designated as hedges of a net investment in a foreign entity and are subject to the same accounting requirements as derivative hedges of a net investment in a foreign entity.

Cash and cash equivalents

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities at the balance sheet date of twelve months or less.

Interest bearing loans and borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method subject to any adjustments in respect of fair value hedges. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer or rollover settlement for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are generally not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

• **Share capital and dividends**

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company, its subsidiaries or employee share ownership trusts sponsored by the Company purchase ordinary shares in the Company, the consideration paid, including any attributable incremental external costs net of income taxes, is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

Dividends on ordinary shares are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders, or in the case of interim dividends, in the period in which they are paid.

Notes to the consolidated financial statements

Note 2 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group is managed, and reports internally, on a basis consistent with its five operating segments, being UK Bus (regional operations), megabus Europe, UK Bus (London), North America and UK Rail. During the year ended 29 April 2017, the Group exited the operations of its megabus Europe Division. The Group's IFRS accounting policies are applied consistently, where appropriate, to each segment.

The segmental information provided in this note is on the basis of the five operating segments as follows:

Segment name	Service operated	Country of operation
UK Bus (regional operations)	Coach and bus operations	United Kingdom
megabus Europe	Coach operations	United Kingdom and mainland Europe
UK Bus (London)	Bus operations	United Kingdom
North America	Coach and bus operations	United States and Canada
UK Rail	Rail operations	United Kingdom

The Group has interests in two material joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus (regional operations). During the year ended 29 April 2017, the Group sold its interest in the Twin America joint venture. The results of these joint ventures are shown separately in notes 2(c) and 2(g).

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (i.e. United Kingdom, mainland Europe or North America) is the same in all cases except in respect of an immaterial amount of revenue for services previously operated by megabus Europe between the UK and mainland Europe. As the Group sells bus and rail services to individuals, it has few customers that are individually "major". Its major customers are typically public bodies that subsidise or procure transport services – such customers include local authorities, transport authorities and the UK Department for Transport.

Revenue split by segment was as follows:

	2017	2016
	£m	£m
Continuing operations		
UK Bus (regional operations)	1,015.7	1,032.8
megabus Europe	20.2	18.4
UK Bus (London)	263.4	267.1
North America	488.8	430.9
Total bus continuing operations	1,788.1	1,749.2
UK Rail	2,160.7	2,129.1
Total Group revenue	3,948.8	3,878.3
Intra-Group revenue – UK Bus (regional operations)	(7.6)	(7.2)
Reported Group revenue	3,941.2	3,871.1

(b) Operating profit

Operating profit split by segment was as follows:

	2017			2016		
	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Continuing operations						
UK Bus (regional operations)	121.1	3.9	125.0	137.3	–	137.3
megabus Europe	(4.3)	–	(4.3)	(24.1)	–	(24.1)
UK Bus (London)	18.4	–	18.4	20.2	–	20.2
North America	19.3	–	19.3	18.9	–	18.9
Total bus continuing operations	154.5	3.9	158.4	152.3	–	152.3
UK Rail	31.0	(128.9)	(97.9)	66.7	(6.0)	60.7
Total continuing operations	185.5	(125.0)	60.5	219.0	(6.0)	213.0
Group overheads	(14.1)	–	(14.1)	(11.9)	–	(11.9)
Intangible asset expenses	–	(16.8)	(16.8)	–	(15.8)	(15.8)
Restructuring costs	(4.8)	(3.7)	(8.5)	(3.1)	–	(3.1)
Total operating profit of continuing Group companies	166.6	(145.5)	21.1	204.0	(21.8)	182.2
Share of joint ventures' profit/(loss) after finance costs, finance income and taxation	26.2	–	26.2	24.8	(35.9)	(11.1)
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	192.8	(145.5)	47.3	228.8	(57.7)	171.1

Note 2 Segmental Information (continued)

(c) Joint ventures

The share of profit/(loss) from joint ventures was further split as follows:

	2017			2016		
	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Continuing						
Virgin Rail Group (UK Rail)						
Operating profit	31.5	–	31.5	32.6	–	32.6
Finance income (net)	0.5	–	0.5	0.7	–	0.7
Taxation	(7.2)	–	(7.2)	(9.1)	–	(9.1)
	24.8	–	24.8	24.2	–	24.2
Citylink (UK Bus, regional operations)						
Operating profit	1.8	–	1.8	1.8	–	1.8
Taxation	(0.4)	–	(0.4)	(0.4)	–	(0.4)
	1.4	–	1.4	1.4	–	1.4
Twin America LLC (North America)						
Operating loss	–	–	–	(0.6)	–	(0.6)
Impairment loss	–	–	–	–	(35.9)	(35.9)
Finance costs (net)	–	–	–	(0.2)	–	(0.2)
	–	–	–	(0.8)	(35.9)	(36.7)
Share of profit/(loss) of joint ventures after finance costs, finance income and taxation	26.2	–	26.2	24.8	(35.9)	(11.1)

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Non-current assets		2017			2016		
	2017	2016	Gross assets	Gross liabilities	Net assets/(liabilities)	Gross assets	Gross liabilities	Net assets/(liabilities)
	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	881.5	844.1	952.5	(358.3)	594.2	909.2	(283.2)	626.0
megabus Europe	5.1	23.2	7.1	(10.1)	(3.0)	24.2	(5.6)	18.6
UK Bus (London)	60.9	65.1	69.1	(176.7)	(107.6)	74.3	(103.6)	(29.3)
North America	387.4	354.0	429.5	(144.7)	284.8	391.8	(132.4)	259.4
UK Rail	104.9	138.3	426.2	(704.3)	(278.1)	413.0	(635.8)	(222.8)
	1,439.8	1,424.7	1,884.4	(1,394.1)	490.3	1,812.5	(1,160.6)	651.9
Central functions	1.2	2.1	38.1	(43.5)	(5.4)	25.0	(53.2)	(28.2)
Joint ventures	25.7	22.4	25.7	–	25.7	22.4	–	22.4
Borrowings and cash	–	–	313.3	(733.5)	(420.2)	382.3	(791.8)	(409.5)
Taxation	14.4	–	14.7	(36.6)	(21.9)	–	(58.8)	(58.8)
Total	1,481.1	1,449.2	2,276.2	(2,207.7)	68.5	2,242.2	(2,064.4)	177.8

Central assets and liabilities include the token provision, interest payable and receivable and other net assets of the holding company and other head office companies.

Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intra-Group balances, cash, borrowings, taxation, interest payable, interest receivable and the token provision.

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(e) Capital expenditure on property, plant and equipment

The capital expenditure on property, plant and equipment is shown below and is on an accruals basis, not on a cash basis.

	2017	2016
	£m	£m
UK Bus (regional operations)	113.6	123.8
megabus Europe	-	7.3
UK Bus (London)	1.5	2.5
North America	40.7	52.8
UK Rail	43.7	33.2
	199.5	219.6

(f) Capital expenditure on intangible assets

The capital expenditure on intangible assets (including goodwill) is shown below.

	2017	2016
	£m	£m
UK Bus (regional operations)	12.6	14.2
North America	0.2	-
UK Rail	5.0	5.4
	17.8	19.6

(g) Earnings before interest, tax, depreciation and amortisation ("EBITDA")

The results of each segment are further analysed below:

	Year ended 29 April 2017								
	EBITDA pre-exceptional items	Joint venture interest and tax	EBITDA including joint venture interest and tax	Depreciation expense	Operating profit pre intangibles and exceptional items	Intangible asset expenses	Exceptional items	Allocation of restructuring costs	Operating profit
	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	197.6	-	197.6	(76.5)	121.1	(4.3)	3.9	(0.7)	120.0
megabus Europe	(2.5)	-	(2.5)	(1.8)	(4.3)	-	-	-	(4.3)
UK Bus (London)	24.1	-	24.1	(5.7)	18.4	-	-	-	18.4
North America	63.0	-	63.0	(43.7)	19.3	(1.5)	(3.7)	-	14.1
UK Rail - subsidiaries	48.7	-	48.7	(17.7)	31.0	(11.0)	(128.9)	(4.1)	(113.0)
UK Rail - joint venture (Virgin Rail Group)	31.5	(6.7)	24.8	-	24.8	-	-	-	24.8
UK Bus - joint venture (Citylink)	1.8	(0.4)	1.4	-	1.4	-	-	-	1.4
Group overheads	(14.0)	-	(14.0)	(0.1)	(14.1)	-	-	-	(14.1)
Restructuring costs	(4.8)	-	(4.8)	-	(4.8)	-	-	4.8	-
	345.4	(7.1)	338.3	(145.5)	192.8	(16.8)	(128.7)	-	47.3

	Year ended 30 April 2016								
	EBITDA pre-exceptional items	Joint venture interest and tax	EBITDA including joint venture interest and tax	Depreciation expense	Operating profit pre intangibles and exceptional items	Intangible asset expenses	Exceptional items	Allocation of restructuring costs	Operating profit
	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	208.5	-	208.5	(71.2)	137.3	(2.6)	-	(0.9)	133.8
megabus Europe	(20.4)	-	(20.4)	(3.7)	(24.1)	-	-	-	(24.1)
UK Bus (London)	26.1	-	26.1	(5.9)	20.2	(0.3)	-	(0.1)	19.8
North America	56.2	-	56.2	(37.3)	18.9	(1.8)	-	(0.6)	16.5
UK Rail - subsidiaries	80.6	-	80.6	(13.9)	66.7	(11.1)	(6.0)	(1.5)	48.1
UK Rail - joint venture (Virgin Rail Group)	32.6	(8.4)	24.2	-	24.2	-	-	-	24.2
UK Bus - joint venture (Citylink)	1.8	(0.4)	1.4	-	1.4	-	-	-	1.4
North America - joint venture (Twin America)	(0.6)	(0.2)	(0.8)	-	(0.8)	-	(35.9)	-	(36.7)
Group overheads	(11.7)	-	(11.7)	(0.2)	(11.9)	-	-	-	(11.9)
Restructuring costs	(3.1)	-	(3.1)	-	(3.1)	-	-	3.1	-
	370.0	(9.0)	361.0	(132.2)	228.8	(15.8)	(41.9)	-	171.1

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2017	2016
	£m	£m
Miscellaneous revenue (see explanation below)	259.4	183.3
Rail franchise premia (see explanation below)	(958.0)	(935.7)
Rail revenue support (see explanation below)	264.6	274.0
Materials and consumables	(396.4)	(416.4)
Staff costs (note 6)	(1,436.8)	(1,382.3)
Depreciation on property, plant and equipment (note 12)	(145.5)	(132.2)
Gain/(loss) on disposal of property, plant and equipment	11.4	(0.5)
Repairs and maintenance expenditure on property, plant and equipment	(35.3)	(27.2)
Amortisation of intangible assets (note 11)	(16.8)	(15.8)
Network Rail charges, including electricity for traction	(291.4)	(234.1)
Operating lease rentals payable	(300.6)	(292.2)
Other external charges	(818.2)	(700.7)
Impairment	(48.0)	(6.0)
Restructuring costs	(8.5)	(3.1)
Total operating costs and other operating income	(3,920.1)	(3,688.9)

Miscellaneous revenue comprises other operating income incidental to the Group's principal activities. It includes amounts receivable from Network Rail under performance regimes, commissions receivable, advertising income, maintenance income, railway station access income, railway depot access income, fuel sales and property income.

Under the Schedules 4 and 8 possessions and performance regimes, amounts may be payable or receivable by the Group's UK Rail Division to/from Network Rail. Schedule 4 compensates train operators for the impact of planned service disruption and Schedule 8 compensates rail industry participants for the impact of unplanned service disruption. The amounts payable or receivable reflect our own operational performance as well as Network Rail's and other train operators'. The amounts are intended to cover the wider effects of disruption on our and others' revenue and costs, such as those associated with the impact on customer demand for train services and the costs of managing disruption. Any compensation received from Network Rail is not therefore intended to correspond to the refunds that might be payable to train passengers. £121.3m (2016: £78.3m) is included in respect of these possessions and performance regimes in the overall miscellaneous revenue of £259.4m (2016: £183.3m) shown above.

Rail franchise premia is the amount of financial premia and profit share payable to the UK's Department for Transport in respect of the operation of UK passenger rail franchises.

Rail revenue support is the amount of financial support receivable from the UK's Department for Transport in certain circumstances where a train operating company's revenue is below target or where defined macroeconomic indices are below target.

During the year ended 29 April 2017, Ernst & Young LLP replaced PricewaterhouseCoopers LLP as the Group's auditors. Accordingly, the figures for auditor's remuneration below relate to Ernst & Young LLP for 2017 and PricewaterhouseCoopers LLP for 2016.

	2017	2016
	£000	£000
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	400.0	400.0
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	475.0	510.0
Total audit fees	875.0	910.0
Taxation advisory services	–	20.0
Taxation compliance services	–	28.0
Other non-audit services	–	23.5
Other assurance services	67.5	103.6
Non-audit fees	67.5	175.1
Total fees payable by the Group to its auditors	942.5	1,085.1

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US\$Nil (2016: US\$180,000) in relation to the audit of the Group's former joint venture, Twin America LLC.

A description of the work of the Audit Committee is set out in the Audit Committee Report in section 5 of this Annual Report, and includes an explanation of how auditor independence is safeguarded when non-audit services are provided by the auditors.

Notes to the consolidated financial statements

Note 4 Exceptional items and intangible asset expenses

The Group highlights amounts before intangible asset expenses and exceptional items as well as clearly reporting the results in accordance with IFRS. Exceptional items are defined in note 34.

Information on exceptional items is provided in section 1.6.2 of the Strategic report.

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the year ended 29 April 2017 and for the prior year comparatives can be further analysed as follows:

	2017			2016		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m	£m	£m	£m
Operating costs and other operating income						
Gain on disposal of property at UK Bus (regional operations)	7.1	-	7.1	-	-	-
Impairment of assets at UK Bus (regional operations)	(3.2)	-	(3.2)	-	-	-
North America restructuring	(3.7)	-	(3.7)	-	-	-
Impairment of assets at Sheffield Supertram	-	-	-	(6.0)	-	(6.0)
Impairment of Virgin Trains East Coast intangible asset	(44.8)	-	(44.8)	-	-	-
Onerous contract provision of Virgin Trains East Coast	(84.1)	-	(84.1)	-	-	-
Intangible asset expenses	-	(16.8)	(16.8)	-	(15.8)	(15.8)
	(128.7)	(16.8)	(145.5)	(6.0)	(15.8)	(21.8)
Share of profit/(loss) of joint ventures						
Impairment of interest in Twin America	-	-	-	(35.9)	-	(35.9)
Non-operating exceptional items						
Provision for commitment to Twin America	-	-	-	(2.0)	-	(2.0)
megabus Europe disposal	(6.9)	-	(6.9)	-	-	-
Twin America disposal	11.6	-	11.6	-	-	-
Non-operating exceptional items	4.7	-	4.7	(2.0)	-	(2.0)
Finance costs						
Premium on early redemption of bonds	-	-	-	(21.3)	-	(21.3)
Cancellation of ineffective interest rate swaps	-	-	-	(2.0)	-	(2.0)
Finance costs	-	-	-	(23.3)	-	(23.3)
Intangible asset expenses and exceptional items	(124.0)	(16.8)	(140.8)	(67.2)	(15.8)	(83.0)
Tax effect of intangible asset expenses and exceptional items	18.8	2.1	20.9	19.4	2.0	21.4
Intangible asset expenses and exceptional items after taxation	(105.2)	(14.7)	(119.9)	(47.8)	(13.8)	(61.6)

The impairment of Virgin Trains East Coast intangible asset is considered to be both an exceptional item and an intangible asset expense. It is presented as an exceptional item in the table above.

The impact of the above exceptional items on pre-tax cash flows was as follows:

	2017	2016
	£m	£m
Disposal of property at UK Bus (regional operations)	7.7	-
North America restructuring	(3.7)	-
megabus Europe disposal	19.6	-
Twin America disposal	7.0	-
Premium on early redemption of bonds	-	(21.3)
Cancellation of ineffective interest rate swaps	-	(2.0)
	30.6	(23.3)

In addition to the above, the Group paid £1.4m in the year ended 30 April 2016 in respect of Twin America litigation, in respect of which exceptional charges were recorded in previous years. Also in the year ended 30 April 2016, its share of payments made by Twin America in respect of the litigation was £1.1m.

Note 5 Finance costs and income

Net finance costs and items of income, expense, gains and losses in respect of financial instruments (excluding commodity hedges, trade and other payables, and trade and other receivables) have been recognised in the income statement as follows:

	2017	2016
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable on cash	1.2	1.4
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	0.3	0.3
Finance income	1.5	1.7
Interest expense on financial liabilities not at fair value through profit and loss		
– Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	(4.7)	(5.9)
– Interest payable on hire purchase and finance leases	(1.7)	(2.1)
– Interest payable and other finance costs on bonds	(22.0)	(25.9)
Other finance costs		
– Unwinding of discounts on provisions	(3.5)	(3.9)
– Interest charge on defined benefit pension schemes	(3.7)	(5.3)
– Exceptional finance costs (note 4)	–	(23.3)
Finance costs	(35.6)	(66.4)
Net finance costs	(34.1)	(64.7)

Note 6 Staff costs

Total staff costs were as follows:

	2017	2016
	£m	£m
Staff costs		
Wages and salaries	1,225.4	1,177.2
Social security costs	117.1	100.9
Pension costs, excluding interest on net liability (note 24)	91.5	101.4
Share based payment costs (excluding social security costs)		
– Equity-settled	1.9	2.2
– Cash-settled	0.9	0.6
	1,436.8	1,382.3

The total amount shown for staff costs above includes an amount of £0.2m (2016: £Nil) in respect of share based payment costs for the Directors.

Key management personnel are considered to be the Directors and full information on their remuneration, waivers of remuneration, share based payments, incentive schemes and pensions is contained within the Directors' remuneration report in section 8 of this Annual Report.

The average monthly number of persons employed by the Group during the year (including executive directors) was as follows:

	2017	2016
	number	number
UK operations	31,270	31,296
UK administration and supervisory	3,852	3,862
North America	4,444	4,669
Mainland Europe	157	376
	39,723	40,203

The average monthly number of persons employed by the Group during the year, split by segment, was as follows:

	2017	2016
	number	number
UK Bus (regional operations)	20,212	20,513
megabus Europe	157	376
UK Bus (London)	4,165	4,189
North America	4,444	4,669
UK Rail	10,638	10,342
Central	107	114
	39,723	40,203

Notes to the consolidated financial statements

Note 7 Taxation

(a) Analysis of charge in the year

	2017			2016		
	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Current tax:						
UK corporation tax at 19.9% (2016: 20.0%)	33.5	(2.7)	30.8	21.8	(1.3)	20.5
Prior year over provision for corporation tax	(7.5)	-	(7.5)	(2.2)	-	(2.2)
Foreign tax (current year)	1.1	-	1.1	0.8	-	0.8
Foreign tax (prior year)	-	-	-	(0.1)	-	(0.1)
Total current tax	27.1	(2.7)	24.4	20.3	(1.3)	19.0
Deferred tax:						
Origination and reversal of temporary differences	(4.1)	(18.2)	(22.3)	14.3	(20.1)	(5.8)
Change in tax rates	(3.3)	-	(3.3)	(5.0)	-	(5.0)
Adjustments in respect of prior years	1.0	-	1.0	(2.8)	-	(2.8)
Total deferred tax (note 22)	(6.4)	(18.2)	(24.6)	6.5	(20.1)	(13.6)
Total tax on profit	20.7	(20.9)	(0.2)	26.8	(21.4)	5.4

(b) Factors affecting tax charge for the year

	2017	2016
	£m	£m
Profit before taxation	17.9	104.4
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 19.9% (2016: 20.0%)	3.6	20.9
Effects of:		
Non-deductible intangible asset amortisation	1.4	1.5
Impact of initial recognition exemption on property, plant and equipment	0.8	0.8
Impact of initial recognition exemption on defined benefit pension schemes	0.8	0.1
Non-taxable exceptional gain – Twin America disposal	(2.3)	-
Non-deductible exceptional loss – impairment of intangible asset	8.3	-
Non-deductible/non-taxable exceptional gains/losses – other	(0.9)	0.8
Non-deductible element of share based payment expense	0.3	0.4
Other non-deductible expenditure	1.2	0.5
Other non-taxable income	(0.9)	(0.2)
Effect of higher tax rates applying to non-UK profit/(loss)	1.7	(4.2)
Tax effect of share of results of joint ventures	(5.2)	(5.0)
Adjustments to tax charge in respect of prior years:		
– utilisation of unrecognised losses	(5.5)	(5.8)
– other UK prior year adjustments	0.6	0.7
– other US prior year adjustments	(1.6)	-
Changes in UK corporation tax rate		
– impact on opening deferred tax (from 18% to 17%), including any prior year adjustments	(3.3)	(5.1)
– impact on current year (difference between 20% and 17%)	0.8	-
Total taxation (note 7a)	(0.2)	5.4

Note 7 Taxation (continued)**(c) Factors that may affect future tax charges**

There are no temporary differences associated with investments in foreign subsidiaries for which deferred tax liabilities have not been recognised.

Gross deductible temporary differences of £10.0m (2016: £23.2m) have not been recognised due to restrictions in the availability of their use.

Temporary differences in respect of the revaluation of land and buildings and in respect of rolled over capital gains are fully offset by temporary differences in respect of capital losses.

The deferred tax balances have been calculated with reference to the enacted UK corporation tax rates of 20% to 31 March 2017, 19% from 1 April 2017 and 17% from 1 April 2020 (2016: as 2017 except for 18% from 1 April 2020).

(d) Tax on items taken directly or transferred from equity

The components of tax on items taken directly to or transferred from equity are shown in the consolidated statement of comprehensive income on page 75 and the consolidated statement of changes in equity on page 77.

To the extent that the deferred tax balances relate to the pension deficit, any rate change impact has been recognised in the consolidated statement of comprehensive income.

Note 8 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2017	2016	2017	2016
	pence per share	pence per share	£m	£m
Amounts recognised as distributions in the year				
Dividends on ordinary shares				
Final dividend in respect of the previous year	7.9	7.3	45.3	41.9
Interim dividend in respect of the current year	3.8	3.5	21.8	20.1
Amounts recognised as distributions to equity holders in the year	11.7	10.8	67.1	62.0
Dividends proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares				
Final dividend in respect of the current year	8.1	7.9	46.5	45.3

Note 9 Earnings per share

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held in treasury and by employee share ownership trusts.

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to executive share plans and long-term incentive plans.

	2017	2016
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	573.6	573.8
Dilutive ordinary shares		
– Executive Participation Plan	2.3	2.0
Diluted weighted average number of ordinary shares	575.9	575.8

	2017	2016
	£m	£m
Net profit attributable to equity holders of the parent (for basic EPS calculation)	31.8	97.9
Intangible asset expenses before tax (see note 4)	16.8	15.8
Exceptional items before tax (see note 4)	124.0	67.2
Tax effect of intangible asset expenses and exceptional items (see note 4)	(20.9)	(21.4)
Non-controlling interest in intangible asset expenses	(0.8)	(0.7)
Non-controlling interest in exceptional items	(11.2)	--
Profit for adjusted EPS calculation	139.7	158.8

Earnings per share before intangible asset expenses and exceptional items ("adjusted EPS") is calculated by adding back intangible asset expenses and exceptional items (after taking account of taxation and the non-controlling interest), as shown on the consolidated income statement. This has been presented to allow shareholders to gain a further understanding of the underlying performance.

Notes to the consolidated financial statements

Note 10 Goodwill

The movements in goodwill were as follows:

	2017	2016
	£m	£m
Cost and net book value		
At beginning of year	136.9	132.9
Foreign exchange movements	11.3	4.0
At end of year	148.2	136.9

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to three individual cash generating units ("CGUs") on the basis of the Group's operations. Each cash generating unit is an operational division. The UK Bus (regional operations) and UK Bus (London) cash generating units operate coach and bus operations in the United Kingdom. The North America cash generating unit operates coach and bus operations in the US and Canada. No goodwill has been allocated to the Group's megabus Europe and UK rail operations.

The cash generating units are as follows:

	UK Bus (regional operations)		UK Bus (London)		North America	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	47.5	47.5	3.6	3.6	97.1	85.8
Basis on which recoverable amount has been determined	Value in use	Value in use	Value in use	Value in use	Value in use	Value in use
Period covered by approved management plans used in value in use calculation	5 years	5 years	5 years	5 years	5 years	5 years
Pre-tax discount rate applied to cash flow projections	8.6%	8.6%	8.6%	8.6%	10.1%	11.3%
Growth rate used to extrapolate cash flows beyond period of management plan	2.1%	2.3%	2.1%	2.3%	3.7%	4.3%
Difference between above growth rate and long-term average growth rate for market in which unit operates	Nil	Nil	Nil	Nil	Nil	Nil

The calculation of value in use for each cash generating unit shown above is most sensitive to the assumptions on discount rates and growth rates and in the case of UK Bus (London), the number of new contracts won and the commercial terms of such contracts. The assumptions used are considered to be consistent with past experience and external sources of information and to be realistically achievable in light of economic and industry measures and forecasts.

The principal risks and uncertainties facing the Group are set out in section 1.4.5 of the Strategic report.

The cost base of the UK Bus (regional operations) and North American operations can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. Risks to the cash flow forecasts remain, however, and are described in section 1.4.5. The cost base of UK Bus (London) is less flexible because the business is contractually committed to operate the majority of its services.

The discount rates have been determined with reference to the estimated post-tax Weighted Average Cost of Capital ("WACC") of the Group. The WACC has been estimated as at 29 April 2017 at 6.9% (2016: 6.9%) based on:

- The market capitalisation and net debt of the Group as at 29 April 2017 as an indication of the split between debt and equity;
- A risk-free rate of 1.1% (2016: 1.7%);
- A levered beta for the Group of 1.0 (2016: 0.8);
- A marginal pre-tax cost of debt of 3.9% (2016: 3.9%).

The pre-tax discount rate for each CGU has been determined by adjusting the Group's WACC for the risk profile and effects of tax on each of the relevant CGUs.

As at 29 April 2017, the value in use of the North America Division exceeds its carrying amount by £113.9m. Our sensitivity analysis indicates that this headroom would be eliminated if the assumed long-term growth rate fell by more than 255 basis points, or if the discount rate were to increase by 170 basis points.

The Directors believe that there is no impairment to any of the CGUs.

Note 11 Other intangible assets

The movements in other intangible assets, none of which were internally generated and all of which are assumed to have finite useful lives, were as follows:

Year ended 29 April 2017

	Customer contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m
Cost				
At beginning of year	20.4	73.1	49.4	142.9
Additions	–	–	17.8	17.8
Disposals	–	–	(0.5)	(0.5)
Foreign exchange movements	2.2	–	0.7	2.9
At end of year	22.6	73.1	67.4	163.1
Accumulated amortisation				
At beginning of year	(19.6)	(20.0)	(14.6)	(54.2)
Amortisation charged to income statement	(0.8)	(8.3)	(7.7)	(16.8)
Impairment charged to income statement	–	(44.8)	–	(44.8)
Disposals	–	–	0.5	0.5
Foreign exchange movements	(2.2)	–	(0.6)	(2.8)
At end of year	(22.6)	(73.1)	(22.4)	(118.1)
Net book value at beginning of year	0.8	53.1	34.8	88.7
Net book value at end of year	–	–	45.0	45.0

Year ended 30 April 2016

	Operating leases	Customer contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	1.1	21.9	80.6	29.8	133.4
Additions	–	0.1	0.2	19.3	19.6
Disposals	(1.1)	(2.6)	(7.7)	–	(11.4)
Foreign exchange movements	–	1.0	–	0.3	1.3
At end of year	–	20.4	73.1	49.4	142.9
Accumulated amortisation					
At beginning of year	(1.1)	(19.8)	(18.9)	(8.9)	(48.7)
Amortisation charged to income statement	–	(1.5)	(8.8)	(5.5)	(15.8)
Disposals	1.1	2.6	7.7	–	11.4
Foreign exchange movements	–	(0.9)	–	(0.2)	(1.1)
At end of year	–	(19.6)	(20.0)	(14.6)	(54.2)
Net book value at beginning of year	–	2.1	61.7	20.9	84.7
Net book value at end of year	–	0.8	53.1	34.8	88.7

Intangible assets include customer contracts and operating leases on favourable terms to market purchased as part of business combinations, the right to operate UK Rail franchises and software costs.

Notes to the consolidated financial statements

Note 12 Property, plant and equipment

The movements in property, plant and equipment were as follows:

Year ended 29 April 2017

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	341.2	1,463.8	244.4	2,049.4
Additions	20.5	127.7	51.3	199.5
Disposals	(9.9)	(89.7)	(33.4)	(133.0)
Reclassifications	–	(0.2)	0.2	–
Foreign exchange movements	6.7	55.0	0.6	62.3
At end of year	358.5	1,556.6	263.1	2,178.2
Depreciation				
At beginning of year	(77.1)	(638.7)	(168.4)	(884.2)
Depreciation charged to income statement	(9.8)	(112.8)	(22.9)	(145.5)
Impairment charged to income statement	–	(3.2)	–	(3.2)
Disposals	4.4	62.8	6.3	73.5
Reclassifications	–	0.2	(0.2)	–
Foreign exchange movements	(2.3)	(26.0)	(0.2)	(28.5)
At end of year	(84.8)	(717.7)	(185.4)	(987.9)
Net book value at beginning of year	264.1	825.1	76.0	1,165.2
Net book value at end of year	273.7	838.9	77.7	1,190.3
Included in the above net book value at end of year are:				
Assets on hire purchase	–	62.1	–	62.1
Assets on finance leases	–	88.8	–	88.8
Long leasehold land and buildings	46.6	–	–	46.6

Included in the net book value of property, plant and equipment is £13.4m (2016: £8.9m) in respect of assets under construction that the Group expects to be sold to Network Rail and other third parties following the completion of each asset's construction.

Year ended 30 April 2016

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	327.0	1,364.1	222.0	1,913.1
Additions	18.6	153.0	48.0	219.6
Disposals	(4.2)	(72.3)	(28.4)	(104.9)
Reclassifications	(2.6)	–	2.6	–
Foreign exchange movements	2.4	19.0	0.2	21.6
At end of year	341.2	1,463.8	244.4	2,049.4
Depreciation				
At beginning of year	(70.4)	(587.5)	(157.3)	(815.2)
Depreciation charged to income statement	(9.3)	(103.9)	(19.0)	(132.2)
Disposals	2.3	61.8	9.0	73.1
Reclassifications	1.1	–	(1.1)	–
Foreign exchange movements	(0.8)	(9.1)	–	(9.9)
At end of year	(77.1)	(638.7)	(168.4)	(884.2)
Net book value at beginning of year	256.6	776.6	64.7	1,097.9
Net book value at end of year	264.1	825.1	76.0	1,165.2
Included in the above net book value at end of year are:				
Assets on hire purchase	–	78.2	–	78.2
Assets on finance leases	–	43.3	–	43.3
Long leasehold land and buildings	51.4	–	–	51.4

Note 13 Interests in joint ventures

During the year ended 29 April 2017, the Group had three significant joint ventures as summarised below. The Group's interest in the Twin America joint venture was disposed of during the year. Each joint venture is structured as a distinct legal entity and the Group accounts for its interests in all three joint ventures using the equity method of accounting. There are no quoted market prices for any of the Group's investments in joint ventures.

(a) Virgin Rail Group Holdings Limited

The Group holds 49% of the equity and voting rights in Virgin Rail Group Holdings Limited ("Virgin Rail Group"). The principal business of the group headed by Virgin Rail Group is the operation of inter-city train services under the West Coast rail franchise. Virgin Rail Group is incorporated in the UK.

The Group considers that it has joint control of Virgin Rail Group even though it controls less than half of the voting rights in Virgin Rail Group. That joint control results from contractual arrangements between the shareholders of Virgin Rail Group that require the agreement of both shareholders to make decisions on key matters.

Virgin Rail Group's principal subsidiary is West Coast Trains Limited. Under the terms of its rail franchise agreement, West Coast Trains Limited may only pay dividends and/or repay loans from other related companies to the extent it remains compliant with certain financial ratios specified in the franchise agreement. This could restrict West Coast Trains Limited from making distributions or repaying loans that would be otherwise permitted by company law. West Coast Trains Limited is also prohibited from loaning money to related companies without the prior consent of the UK Department for Transport. Such restrictions on distributions and loans generally apply to all entities operating train services under UK rail franchise agreements.

In addition, under arrangements pursuant to which a performance bond has been issued by an insurance company in connection with the West Coast rail franchise, Virgin Rail Group is required to maintain consolidated net assets (applying its own accounting policies) of no less than £22.5m (2016: £22.5m). This could restrict Virgin Rail Group's ability to make distributions to the Stagecoach Group.

Subject to the shareholders' consideration of how much cash to retain in the business for working capital requirements and subject to retaining sufficient cash to meet any obligations under rail franchise agreements, the distributable profits of Virgin Rail Group are to be distributed in full to its shareholders. Both shareholders in Virgin Rail Group would need to agree to any changes to or deviations from that dividend policy.

(b) Twin America LLC

Until 15 February 2017, the Group held 60% of the economic interests and 50% of the voting rights in Twin America LLC ("Twin America"). The principal business of the group headed by Twin America is the operation of sightseeing coach tours in and around the city of New York in the United States. Twin America is incorporated in the United States.

Contractual arrangements were in place in respect of Twin America which required the agreement of both members to decisions on key matters. In light of that, the fact voting rights were split 50:50 between the two joint venture members and despite the fact that the Chief Executive of Twin America is a representative of the other member, the Group considered that it had joint control of Twin America.

(c) Scottish Citylink Coaches Limited

The Group holds 35% of the equity and voting rights in Scottish Citylink Coaches Limited ("Citylink"). The principal business of Citylink is the operation of inter-city coach services to, from and within Scotland. It is incorporated in the UK.

The Group considers that it has joint control of Citylink even although it controls less than half of the voting rights in Citylink but is responsible for the day-to-day management of the business. That joint control results from contractual arrangements between the shareholders of Citylink that require the agreement of both shareholders to make decisions on key matters.

The profit after tax of Citylink is distributed in full to its shareholders subject to retaining sufficient cash to meet the liquidity requirements of the business and subject to there being no outstanding amounts payable by Citylink in respect of loans from its shareholders and accrued interest on such loans. Both shareholders in Citylink need to agree to any changes to or deviations from that dividend policy.

Notes to the consolidated financial statements

Note 13 Interests in joint ventures (continued)

(d) Movements in carrying values

The movements in the carrying values were as follows:

	Virgin Rail Group	Citylink	Twin America LLC	Total 2017	Total 2016
	£m	£m	£m	£m	£m
Net book value					
At beginning of year	17.9	4.5	–	22.4	57.8
Share of recognised profit/(loss)	24.8	1.4	–	26.2	(11.1)
Share of actuarial gains on defined benefit pension schemes, net of tax	2.5	–	–	2.5	4.0
Share of other comprehensive income/(expense) on cash flow hedges, net of tax	2.7	–	–	2.7	(0.3)
Dividends received in cash	(28.1)	–	–	(28.1)	(28.8)
Foreign exchange movements	–	–	–	–	0.8
At end of year	19.8	5.9	–	25.7	22.4

A loan payable to Citylink of £1.7m (2016: £1.7m) is reflected in note 20.

(e) Summarised financial information of joint ventures

The summarised financial information shown below is in accordance with IFRS and the Group's accounting policies. Where a joint venture's own accounts are prepared other than in accordance with IFRS and the Group's accounting policies, appropriate adjustments have been made to determine the figures shown below. Adjustments have also been made, as appropriate, to reflect fair value adjustments made at the time of acquisition. Except where stated, the amounts shown are in respect of 100% of each joint venture and not just the Group's share of the joint venture.

Each of the Group's joint ventures has a statutory financial year-end that differs from that of the Group's, which is the Saturday nearest to 30 April. In applying the equity method of accounting to its interests in joint ventures, the Group refers to the edition of each joint venture's management accounts that has a balance sheet date closest to the Group's balance sheet date. In some cases, the balance sheet date differs from the Group's by a few days but the impact of that on the Group's consolidated financial statements is not material. Further information on the relevant dates in respect of joint ventures is below:

Joint venture	Latest statutory financial year-end closest to 29 April 2017	Balance sheet date of management accounts
Virgin Rail Group	31 March 2017	29 April 2017
Citylink	31 December 2016	30 April 2017

(f) Summarised financial information of joint ventures

The consolidated balance sheets of each of the Group's joint ventures are summarised below:

As at 29 April 2017

	Virgin Rail Group	Citylink	Total 2017
	£m	£m	£m
Non-current assets	–	0.1	
Cash and cash equivalents	80.5	6.8	
Other current assets	99.9	8.4	
Current liabilities	(139.7)	(5.9)	
Net assets	40.7	9.4	
Non-controlling interests	(0.2)	–	
Shareholders' funds	40.5	9.4	
Group share	49%	35%	
Group share of net assets	19.8	3.3	23.1
Goodwill	–	2.6	2.6
Group interest in joint ventures	19.8	5.9	25.7

Note 13 Interests in joint ventures (continued)

(f) Summarised financial information of joint ventures (continued)

As at 30 April 2016

	Virgin Rail Group	Citylink	Twin America	Total 2016
	£m	£m	£m	£m
Non-current assets	21.2	0.1	6.4	
Cash and cash equivalents	98.4	1.4	5.9	
Other current assets	84.3	9.0	6.6	
Non-current liabilities	(10.1)	–	(10.3)	
Current liabilities	(157.1)	(5.2)	(8.6)	
Net assets	36.7	5.3	–	
Non-controlling interests	(0.2)	–	–	
Shareholders' funds	36.5	5.3	–	
Group share	49%	35%	60%	
Group share of net assets	17.9	1.9	–	19.8
Goodwill	–	2.6	–	2.6
Group interest in joint ventures	17.9	4.5	–	22.4

The assets and liabilities shown above include the following financial assets and financial liabilities (excluding cash, cash equivalents, trade receivables, other receivables, trade payables and other payables):

	2017	2016
	£m	£m
Virgin Rail Group		
Non-current assets – derivative instruments at fair value	–	0.4
Current assets – derivative instruments at fair value	1.3	–
Current liabilities – derivative instruments at fair value	–	(4.5)
Citylink		
Current assets – loan to Stagecoach Group	1.7	1.7
Twin America		
Current liabilities – bank borrowings	–	(6.5)

The financial performance of each of the Group's joint ventures is summarised below:

Year ended 29 April 2017

	Virgin Rail Group	Citylink	Twin America
	£m	£m	£m
Revenue	1,136.3	39.0	50.1
Other operating expenses	(1,072.0)	(33.8)	(50.1)
Operating profit	64.3	5.2	–
Finance income	1.0	–	–
Taxation	(14.7)	(1.1)	–
Profit after tax	50.6	4.1	–
Other comprehensive income	10.7	–	–
Total comprehensive income	61.3	4.1	–

Notes to the consolidated financial statements

Note 13 Interests in joint ventures (continued)

(f) Summarised financial information of joint ventures (continued)

Year ended 30 April 2016

	Virgin Rail Group	Citylink	Twin America
	£m	£m	£m
Revenue	1,072.1	41.2	77.4
Depreciation & amortisation	–	–	(3.2)
Other operating expenses	(1,005.5)	(36.0)	(75.2)
Operating profit/(loss)	66.6	5.2	(1.0)
Finance income	1.4	–	–
Finance costs	–	–	(0.3)
Taxation	(18.6)	(1.1)	–
Profit after tax	49.4	4.1	(1.3)
Other comprehensive income	7.6	–	–
Total comprehensive income	57.0	4.1	(1.3)

In addition to the above amounts, the Group has recognised exceptional costs in the year ended 30 April 2016 in respect of Twin America (see note 4).

Note 14 Business combinations

The Group completed no material business combinations during the years ended 29 April 2017 and 30 April 2016. Details of business combinations completed in previous years are provided in the Annual Reports for the years concerned.

Note 15 Disposal of businesses and joint ventures

(a) Sale of the retailing part of megabus Europe

On 1 July 2016, the Group completed the sale of the retailing part of the megabus Europe business to FlixBus. The consideration was satisfied by the issue of a loan note which was subsequently settled by FlixBus on 30 December 2016.

As part of the sale of the retailing part of megabus Europe, the Group also agreed to transfer a number of vehicles to FlixBus, or a nominee of FlixBus. After taking account of costs and losses related to the sale, we have reported a pre-tax exceptional loss on the disposal of the business of £6.9m.

(b) Sale of shareholding in Twin America

In February 2017, the Group agreed to sell its shareholding in Twin America LLC to its co-venturer City Sights, for cash consideration of £7.0m. An exceptional gain on disposal of £11.6m was reported, including £4.6m of cumulative foreign exchange difference.

(c) Details of disposals

The following table summarises the disposals described above with carrying amounts of assets and liabilities at the respective dates of sale.

	2017		
	megabus Europe	Twin America	Total
	£m	£m	£m
Net assets disposed	19.3	–	19.3
Liabilities for future costs associated with the disposals	7.2	–	7.2
Foreign exchange differences recycled on disposal	–	(4.6)	(4.6)
(Loss)/profit on disposal	(6.9)	11.6	4.7
Net cash inflow	19.6	7.0	26.6

All reported gains and losses on disposal were recognised in the income statement.

Details of acquisitions and disposals completed in earlier periods are given in the Group's annual reports for the relevant periods.

Note 16 Subsidiary and related undertakings

Asset purchase and non-controlling interests

The UK Department for Transport awarded the Virgin Trains East Coast rail franchise to the Group during the year ended 30 April 2015. In connection with that award, a subsidiary company, Inter City Railways Limited, purchased all of the equity in East Coast Main Line Company Limited, the train operating company that now operates inter-city train services in the UK under the Virgin Trains East Coast rail franchise. East Coast Main Line Company Limited held certain assets and liabilities at the date of purchase. However, it did not constitute a business and so the purchase was accounted for by the Group as an asset purchase rather than as a business combination. The purchase price was allocated to the assets acquired and liabilities assumed by the Group based on their fair values. The excess of the purchase price over the fair value of the net liabilities assumed was recognised as an intangible asset, being the cost of the right to operate the franchise.

Inter City Railways Limited is the one subsidiary in which a third party has a material non-controlling interest. The Group holds 90% of the equity and voting rights in Inter City Railways Limited. Both Inter City Railways Limited and East Coast Main Line Company Limited are incorporated in the UK. The Virgin Group of companies holds the other 10% of the equity and voting rights of Inter City Railways Limited and may also receive a royalty fee from East Coast Main Line Company Limited that varies depending on the revenue and profit of that company. The Group has contractual arrangements with the Virgin Group in respect of the business. However, the Group may appoint a majority of the directors of Inter City Railways Limited and appoint the executive management of East Coast Main Line Company Limited. Also, the Group is responsible for the day-to-day management of the business, the Managing Director of the business reports directly to the Managing Director of the Group's UK Rail Division, and so the Group has the power to direct the activities of the entity. The Group therefore accounts for Inter City Railways Limited and East Coast Main Line Company Limited as subsidiaries.

The loss for the year ended 29 April 2017 allocated to the non-controlling interest is shown on the consolidated income statement. The accumulated non-controlling interest as at 29 April 2017 is shown on the consolidated balance sheet and the movement in that interest in the year (including any dividends paid to non-controlling interests) is shown in the consolidated statement of movements in equity.

At least 75% of the distributable profit of Inter City Railways Limited should be distributed to its shareholders within four months of each financial year-end subject to retaining sufficient cash to meet any obligations under rail franchise agreements. Both shareholders in Inter City Railways Limited need to agree to any changes to or deviations from that dividend policy.

Under the terms of its rail franchise agreement, East Coast Main Line Company Limited may only pay dividends and/or repay loans from other Group companies to the extent it remains compliant with certain financial ratios specified in the franchise agreement. This could restrict it from making distributions or repaying loans that would be otherwise permitted by company law. East Coast Main Line Company Limited is also prohibited from loaning money to other Group companies without the prior consent of the UK Department for Transport. Such restrictions on dividends and loans generally apply to all entities operating train services under UK rail franchise agreements, including two of Stagecoach Group's other subsidiaries, Stagecoach South Western Trains Limited and East Midlands Trains Limited.

The Group may be required to loan further amounts to East Coast Main Line Company Limited pursuant to the committed loan facilities shown in note 30(iii).

The consolidated balance sheet of Inter City Railways Limited as at 29 April 2017 and its financial performance for the year ended 29 April 2017 are summarised below. The amounts shown below are determined in accordance with the Group's accounting policies before inter-company eliminations.

	2017	2016
	£m	£m
Non-current assets	35.8	78.6
Current assets	183.3	193.6
Current liabilities	(163.5)	(175.4)
Non-current liabilities	(152.7)	(78.4)
Net (liabilities)/assets	(97.1)	18.4
Revenue	749.7	730.4
Expenses	(767.3)	(704.9)
Operating (loss)/profit	(17.6)	25.5
Management recharge	(0.2)	(0.2)
Intangible asset expenses	(9.4)	(9.2)
Impairment of intangible fixed assets	(44.8)	-
Provision for onerous contract	(84.1)	-
Restructuring costs	(3.3)	(0.8)
Finance costs (net)	(1.3)	(1.0)
Taxation	22.8	(2.7)
(Loss)/profit after tax	(137.9)	11.6
Other comprehensive income/(expense)	22.4	(2.4)
Total comprehensive (expense)/income	(115.5)	9.2

Notes to the consolidated financial statements

Note 17 Inventories

Inventories were as follows:

	2017	2016
	£m	£m
Parts and consumables	25.2	27.5

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. Changes in the provision for slow moving and obsolete inventories were as follows:

	2017	2016
	£m	£m
At beginning of year	(3.9)	(3.8)
Charged to income statement	(0.3)	(0.3)
Amount utilised	0.5	0.2
At end of year	(3.7)	(3.9)

Note 18 Trade and other receivables

Trade and other receivables were as follows:

	2017	2016
	£m	£m
Non-current:		
Prepayments	4.7	5.4
Other receivables	0.2	0.2
	4.9	5.6
Current:		
Trade receivables	256.9	237.1
Less: provision for impairment	(2.5)	(2.5)
Trade receivables – net	254.4	234.6
Other receivables	39.4	30.8
Prepayments	55.2	44.2
Accrued income	54.0	38.5
VAT and other government receivables	46.0	34.1
	449.0	382.2

The movements in the provision for impairment of current trade receivables were as follows:

	2017	2016
	£m	£m
At beginning of year	(2.5)	(2.8)
Impairment losses in year charged to income statement	(0.7)	(0.7)
Reversal of impairment losses credited to income statement	0.2	0.3
Amounts utilised	0.5	0.7
At end of year	(2.5)	(2.5)

Further information on credit risk is provided in note 25.

Note 19 Cash and cash equivalents

	2017	2016
	£m	£m
Cash at bank and in hand	313.3	382.3

The cash amounts shown above include £17.0m on 12 month deposit maturing by December 2017, £35.0m on 6 month deposit maturing by May 2017, £5.0m on 5 month deposit maturing by July 2017, £20.0m on 5 month deposit maturing by August 2017, £10.0m on 3 month deposit maturing by May 2017, and £15.0m on 2 month deposit maturing by May 2017. (2016: £15.0m on 12 month deposit maturing by March 2017, £50.0m on 6 month deposit maturing by October 2016, £35.0m on 6 month deposit maturing by September 2016, £10.0m on 6 month deposit maturing by August 2016, £27.0m on 3 month deposit maturing by June 2016, £10.0m on 3 month deposit maturing by May 2016 and £10.0m on 2 month deposit maturing by June 2016). The remaining amounts are accessible to the Group within one day (2016: one day). The deposits with an original maturity in excess of 3 months are held within train operating companies. They relate to cash balances that are not available to be loaned or distributed to other members of the Group (see note 30 (iii)) but are not expected to be required by the train operating companies during the deposit period. The deposits can be accessed prior to the end of the deposit period without incurring material break costs.

The Group has a bank offset arrangement whereby the Company and several of its subsidiaries each have bank accounts with the same bank, which are subject to rights of offset. The cash at bank and in hand of £313.3m (2016: £382.3m) above included the net balance on these offset accounts of £28.9m (2016: £43.2m), which comprised £179.8m (2016: £152.8m) of positive bank balances less £150.9m (2016: £109.6m) of bank overdrafts.

Note 20 Trade and other payables

Trade and other payables were as follows:

	2017	2016
	£m	£m
Current		
Trade payables	270.0	270.3
Accruals	436.7	381.8
Deferred income	96.6	114.4
Cash-settled share based payment liability	0.2	0.6
Deferred grant income	4.7	20.6
Loan from joint venture	1.7	1.7
Loan from non-controlling interest	5.8	5.3
PAYE and NIC payable	31.9	30.4
VAT and other government payables	0.4	0.1
	848.0	825.2
Non-current		
Accruals	—	6.0
Deferred grant income	20.2	18.7
Cash-settled share based payment liability	0.3	0.5
PAYE and NIC payable	0.2	0.3
Deferred income	15.1	20.0
	35.8	45.5

Notes to the consolidated financial statements

Note 21 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:

	2017	2016
	£m	£m
On demand or within 1 year		
Loan notes	18.6	19.3
Hire purchase and lease obligations	21.9	34.3
	40.5	53.6
Within 1-2 years		
Hire purchase and lease obligations	15.2	18.8
Within 2-5 years		
Bank loans	121.8	189.6
Hire purchase and lease obligations	34.9	23.7
	156.7	213.3
Over 5 years		
Sterling 4.00% Notes	405.2	403.8
US Dollar 4.36% Notes	115.9	102.3
	521.1	506.1
Total borrowings	733.5	791.8
Less current maturities	(40.5)	(53.6)
Non-current portion of borrowings	693.0	738.2

Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 1.50% (2016: 0.40% and 1.90%) over bank base rate or equivalent LIBOR rates, subject to certain minimum rates. Interest terms on overseas lease obligations are at fixed rates, which at 29 April 2017 averaged 1.8% per annum (2016: 2.0%). Interest terms on bank loans are at LIBOR plus margins ranging from 0.40% to 1.10% (2016: 0.40% to 1.10%). Interest on loan notes are at three months LIBOR. Loan notes amounting to £18.6m (2016: £19.3m) are backed by guarantees provided under Group banking facilities.

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemptions.

Bank loans, Sterling Notes and US Dollar Notes are unsecured.

The minimum lease payments under hire purchase and lease obligations fall due as follows:

	2017	2016
	£m	£m
Not later than one year	22.9	35.7
Later than one year but not more than five years	51.5	43.7
	74.4	79.4
Future finance costs on hire purchase and finance leases	(2.4)	(2.6)
Carrying value of hire purchase and finance lease liabilities	72.0	76.8

For variable-rate hire purchase arrangements, the future finance costs included in the above table are based on the interest rates applying at the balance sheet date.

The Group in its ordinary course of business enters into hire purchase and finance lease agreements to fund or refinance the purchase of vehicles. All of the hire purchase and lease obligations shown above are in respect of vehicles. The lease agreements are typically for periods of 5 to 10 years and do not have contingent rent or escalation clauses.

The agreements have industry standard terms and do not contain any restrictions on dividends, additional debt or further leasing.

(b) Sterling 4.00% Notes

On 29 September 2015, the Group issued £400m of 4.00% Notes. Interest is paid annually in arrears and the Notes are due to be redeemed at their principal amount on 29 September 2025.

The Notes were issued at 98.979% of their principal amount. The consolidated carrying value of the Notes at 29 April 2017 was £405.2m (2016: £403.8m) after taking account of accrued interest, the discount on issue, issue costs and the effect of fair value hedges.

(c) US Dollar 4.36% Notes

On 18 October 2012, the Group issued US\$150m of 4.36% Notes as a private placement. Interest on the Notes is paid semi-annually in arrears and all remaining Notes are due to be redeemed at their principal amount on 18 October 2022. The consolidated carrying value of the Notes at 29 April 2017 was £115.9m (2016: £102.3m) after taking account of accrued interest, issue costs and the effect of fair value hedges.

Note 22 Deferred tax

The Group movement in deferred tax during the year was as follows:

	2017	2016
	£m	£m
Due after more than one year:		
At beginning of year	(25.6)	(25.1)
Credited to income statement	24.6	13.6
Credit/(charged) to equity	15.4	(13.3)
Foreign exchange movements	-	(0.8)
At end of year	14.4	(25.6)

Deferred taxation is calculated as follows:

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	-	(105.5)	(105.5)	-	(99.3)	(99.3)
Pension temporary difference	44.4	-	44.4	21.0	-	21.0
Short-term temporary differences:						
- Employee remuneration and share based payments	2.8	-	2.8	2.7	-	2.7
- Accrued expenses deductible when paid	49.5	-	49.5	31.7	-	31.7
- Fuel derivatives	-	(3.1)	(3.1)	-	(11.2)	(11.2)
- Cash flow hedge reserve	1.8	-	1.8	9.4	-	9.4
- Profit recognition temporary differences	-	(0.1)	(0.1)	0.9	-	0.9
- Deferred interest expense	2.2	-	2.2	4.9	-	4.9
- US losses	19.5	-	19.5	10.6	-	10.6
- Other timing differences	2.9	-	2.9	4.4	(0.7)	3.7
	123.1	(108.7)	14.4	85.6	(111.2)	(25.6)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	2017	2016
	£m	£m
Accelerated capital allowances	(5.4)	20.1
Pension temporary differences	0.7	1.7
Short-term temporary differences	29.3	(8.2)
	24.6	13.6

Notes to the consolidated financial statements

Note 23 Provisions

The movements in provisions were as follows:

	Token redemption provision	Insurance provisions	Environmental provisions	Redundancy provision	Onerous contracts	Total
	£m	£m	£m	£m	£m	£m
Beginning of year	3.3	148.6	4.1	0.2	4.6	160.8
Provided during year (after discounting)	–	51.3	0.3	0.4	85.0	137.0
Unused amounts credited to income statement	(0.1)	–	–	–	–	(0.1)
Unwinding of discount	–	3.5	–	–	–	3.5
Utilised in the year	–	(53.6)	(1.1)	(0.2)	(1.6)	(56.5)
Arising on sale of tokens during year	0.1	–	–	–	–	0.1
Redemption of tokens	(0.5)	–	–	–	–	(0.5)
Foreign exchange movements	–	7.0	0.3	–	0.6	7.9
End of year	2.8	156.8	3.6	0.4	88.6	252.2
29 April 2017:						
Current	0.6	49.4	1.5	0.4	66.7	118.6
Non-current	2.2	107.4	2.1	–	21.9	133.6
	2.8	156.8	3.6	0.4	88.6	252.2
30 April 2016:						
Current	0.7	49.5	1.2	0.2	3.3	54.9
Non-current	2.6	99.1	2.9	–	1.3	105.9
	3.3	148.6	4.1	0.2	4.6	160.8

The token redemption provision relates to tokens issued to third parties to be redeemed as payment for transportation services. Tokens are typically redeemed within five years of issue.

The insurance provisions relate to insurance reserves on incurred accidents up to the year-end in each year where claims have not been settled. These are based on actuarial reviews and prior claims history. Claims are typically settled within five years of origination.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required, and is expected to be utilised over the next five years.

The redundancy provision relates to planned redundancies and is expected to be utilised within one year.

Provisions for onerous contracts relate to contracts where the costs of fulfilling the contract outweigh the economic benefits to be received, which includes contracts that have been acquired through business combinations that have been identified as being on unfavourable terms at the relevant acquisition date. The onerous contract provision in respect of Virgin Trains East Coast has been calculated based on updated financial forecasts for the franchise. The forecasts are based on a number of assumptions, most significantly in respect of revenue growth. There can be no certainty that the actual outcome will be consistent with those currently forecast, however based on our sensitivity analysis, we consider it unlikely that the actual costs will be more than £10m higher or lower than the provision recorded. The provisions are expected to be fully utilised within three years.

Note 24 Retirement benefits

(a) Description of retirement benefit arrangements

United Kingdom funded schemes

The Group participates in a number of funded defined benefit schemes in the UK as follows:

	Date as at which last scheme valuation was prepared
• The Stagecoach Group Pension Scheme ("SPS");	30 April 2014
• The South West Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The Island Line section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Midlands Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Coast Main Line section of the Railways Pension Scheme ("RPS"); and	31 December 2013
• A number of UK Local Government Pension Schemes ("LGPS").	31 March 2016

The Stagecoach Group Pension Scheme is comprised of two sections, the main section and a separate East London and Selkent section. The main section closed to future accrual in April 2017.

The Stagecoach Group Pension Scheme and the Local Government Pension Schemes are closed to new members from the Group. The East London and Selkent section is closed to new entrants but is open to future accrual for the existing remaining members. All relevant sections of the Railways Pension Schemes are open to new members.

For the defined benefit schemes, benefits are related to length of service and pensionable salary. Pensionable salary for the Stagecoach Group Pension Scheme is subject to capped increases. The weighted average duration as at 29 April 2017 of the expected benefit payments across all UK defined benefit schemes is estimated at 20.0 years (2016: 20.0 years).

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of the relevant sections of the scheme following expiry of the related franchises. In addition, under the terms of RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of RPS. The employees' share of the deficit (or surplus) is reflected as an adjustment to RPS liabilities (or assets). Therefore the liability (or asset) recognised for the relevant sections of RPS reflects only that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The adjusting entry referred to as the "franchise adjustment" represents that proportion of the deficit (or surplus) that is expected to exist at the end of the franchise and which the Group would not be obliged to fund (or entitled to recover).

The Group is a participating employer in a number of UK Local Government Pension Schemes, and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents 1.2% (2016: 1.1%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 7.6% (2016: 8.9%) of the gross present value of pension obligations as at 29 April 2017 shown in the consolidated balance sheet. The Group liaises with the administering authorities to seek to set contributions at appropriate levels to fund the benefits and deficit recovery payments over a reasonable period of time. There is no right for the Group to receive any surplus in the schemes, although there is an obligation on the Group to fully fund the benefits. To reflect this, the Group would only recognise existing surpluses relating to these schemes, to the extent that these surpluses could be recouped through the reduction of future contributions. The contributions schedules for the LGPS include deficit contributions and the present value of these contributions are reflected in the net deficit shown on the balance sheet for the Group's participation in the LGPS.

The Group also operates a number of defined contribution schemes covering UK employees, for which the Group has no further payment obligation once the contributions are paid other than lump-sum death in service benefits that are provided for certain UK employees.

North America funded schemes

The Group participates in two small funded defined benefit schemes in North America, both of which are closed to new members. The Group also operates defined contribution schemes which are open to eligible North American employees, for which the Group has no further payment obligation once the contributions are paid.

Unfunded schemes

The Group provides benefits under an unapproved employer-financed retirement benefit scheme ("EFRBS") in the UK and a non qualifying defined contribution scheme ("NQDC") in the US. In each case, the liabilities of these schemes are unfunded, as no contributions are made to any scheme, but the Group has set aside assets to meet its obligations under the schemes. In the case of the EFRBS, the scheme may hold a guarantee over the assets which the Group has set aside. The Group considers that the assets set aside are in substance pensions assets and so the amounts of those assets are included within the net pension amounts reported in the consolidated balance sheet. The carrying value of those assets as at 29 April 2017 was £6.5m (2016: £4.7m).

Other unfunded benefits are provided to a small number of former employees with the net liabilities included within the unfunded balance reported in the tables that follow.

Notes to the consolidated financial statements

Note 24 Retirement benefits (continued)

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 29 April 2017 and 30 April 2016 are shown below:

	2017	2016
Discount rate	2.8%	3.7%
Retail Prices inflation assumption	3.4%	3.0%
Consumer Prices inflation assumption	2.1%	1.7%
Rate of increase in pensionable salaries		
SPS	0.5%*	2.0%
Others	2.6%	2.2%
Rate of increase of pensions in payment		
SPS	3.3%	2.9%
Others	2.1%	1.7%
Post-retirement mortality (life expectancies in years)		
Current pensioners at 65 – male	20.5	19.4
Current pensioners at 65 – female	22.7	23.7
Future pensioners at 65 aged 45 now – male	21.9	21.5
Future pensioners at 65 aged 45 now – female	24.3	25.6

* Future accrual is limited to participation in the East London and Selkent section of SPS, where annual increases in pensionable salaries are capped at 0.5%.

The assumptions shown above are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not be borne out in practice. The discount rate assumption is not determined using a cash-weighted method and is based on market yields on high quality corporate bonds at the year end, adjusted to reflect the duration of the schemes' liabilities.

The post-retirement mortality assumptions have been chosen with regard to the latest available published tables adjusted to reflect the experience of the Group and its sector and allow for expected increases in longevity.

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £45.6m (2016: £24.8m) and retirement benefit obligations of £278.1m (2016: £121.5m), resulting in the net liability of £232.5m (2016: £96.7m) analysed below.

The amounts recognised in the balance sheet were as follows:

As at 29 April 2017	Funded schemes				Unfunded schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Equities	840.0	823.5	231.3	4.5	–	1,899.3
Private equity	51.3	234.5	23.8	–	–	309.6
Infrastructure	–	54.0	–	–	–	54.0
Bonds	331.6	165.3	51.6	2.0	–	550.5
Cash	50.9	214.9	15.0	1.1	–	281.9
Property	124.0	162.0	27.0	–	–	313.0
Fair value of scheme assets	1,397.8	1,654.2	348.7	7.6	–	3,408.3
Present value of obligations	(1,649.6)	(2,267.1)	(325.1)	(11.6)	(4.3)	(4,257.7)
– adjustment for members' share of RPS deficit (40%)	–	245.1	–	–	–	245.1
– franchise adjustment	–	412.9	–	–	–	412.9
(Deficit)/surplus in the scheme	(251.8)	45.1	23.6	(4.0)	(4.3)	(191.4)
Asset celling	–	–	(41.1)	–	–	(41.1)
Pension (liability)/asset before tax	(251.8)	45.1	(17.5)	(4.0)	(4.3)	(232.5)

Note 24 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet (continued)

As at 30 April 2016

	Funded schemes				Unfunded schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Equities	786.8	708.0	221.2	4.1	–	1,720.1
Private equity	48.7	193.6	–	–	–	242.3
Infrastructure	–	54.3	–	–	–	54.3
Bonds	255.3	142.1	49.3	0.7	–	447.4
Cash	48.8	176.6	42.1	0.9	–	268.4
Property	116.7	139.3	20.2	–	–	276.2
Fair value of scheme assets	1,256.3	1,413.9	332.8	5.7	–	3,008.7
Present value of obligations	(1,366.5)	(1,691.7)	(299.2)	(8.5)	(3.8)	(3,369.7)
~ adjustment for members' share of RPS deficit (40%)	–	111.1	–	–	–	111.1
~ franchise adjustment	–	191.1	–	–	–	191.1
(Deficit)/surplus in the scheme	(110.2)	24.4	33.6	(2.8)	(3.8)	(58.8)
Asset ceiling	–	–	(37.9)	–	–	(37.9)
Pension (liability)/asset before tax	(110.2)	24.4	(4.3)	(2.8)	(3.8)	(96.7)

At 29 April 2017, 80% (2016: 81%) of scheme assets were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The LGPS assets are not sectionalised and so assets are effectively co-mingled with other participating employers. Therefore, the Company's asset value is a notional value based on a share of fund calculation which is undertaken by the LGPS's Fund Actuary.

The vast majority of assets held by the LGPS arrangements are invested in pooled funds with a quoted market price. We have therefore allocated our holdings between the various asset categories in proportion to that of the overall LGPS funds in which we participate.

(d) Funding arrangements and schemes

The schemes' investment approach, which aims to meet their liabilities as they fall due, is to invest the majority of the schemes' assets in a mix of equities and other return-seeking assets in order to strike a balance between:

- maximising the returns on the schemes' assets, and
- minimising the risks associated with lower than expected returns on the schemes' assets.

Trustees are required to regularly review investment strategy in light of the term and nature of the schemes' liabilities.

The regulatory framework in the UK requires the Trustees of the Stagecoach Group Pension Scheme and the Group to agree upon the assumptions underlying the funding target, and then to agree upon the contributions necessary to fund the benefits, including any deficit recovery amounts, over a reasonable period of time. A Pensions Oversight Committee has been established comprising the Finance Director, a Non-Executive Director and other senior executives, to oversee the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to fund deficits. The defined benefit pension schemes typically expose the Group to actuarial funding risks such as investment risk, interest rate risk, and longevity/life expectancy risk.

There are particular funding risks with the Local Government Pension Schemes to which the Group contributes. The Group has limited ability to influence the funding strategy of these schemes. Furthermore, the contributions that the Group is required to make to the schemes are determined by the schemes, which tend to take a cautious approach in setting contribution rates for non-government employers. This can result in the Group being required to make higher levels of contributions than it believes is necessary or desirable. Known future contribution levels are taken account of in determining the reported deficit or surplus in each scheme in these consolidated financial statements.

As explained in section 1.6.10 of this Annual Report, the Directors are focused on maintaining an investment grade credit rating and as noted in section 1.6.7, the three main credit rating agencies continue to assign investment grade credit ratings to the Group. Each of the credit rating agencies include pension amounts as "debt" in assessing the Group's credit worthiness and consider pensions funding risks as part of their wider risk assessment.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The actuarial valuation for the East London and Seikent Pension Scheme was completed in 2015, and showed that as at 5 April 2013, the scheme was 100% funded on the Trustees' technical provisions basis. The 5 April 2013 valuation was the final valuation for the scheme prior to its merger with the Stagecoach Group Pension Scheme. Actuarial valuations were completed for the Local Government Pension Schemes, showing that the schemes were underfunded on the technical provisions basis as at 31 March 2016 with deficit contributions payable. The actuarial valuation for the Stagecoach Group Pension Scheme showed that as at 30 April 2014, the scheme was 111% funded on the Trustees' technical provisions basis. The Group forecasts to contribute £42.1m (forecast at 30 April 2016 for year ended 29 April 2017: £69.6m) to its defined benefit schemes in the financial year ending 28 April 2018.

(e) Changes in net retirement benefit obligations

The change in net liabilities recognised in the balance sheet in respect of defined benefit schemes is comprised as follows:

Year ended 29 April 2017

	Funded schemes				Unfunded schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(110.2)	24.4	(4.3)	(2.8)	(3.8)	(96.7)
Expense charged to consolidated income statement	(22.5)	(48.6)	(1.1)	(1.7)	(0.1)	(74.0)
Recognised in the consolidated statement of comprehensive income	(135.3)	28.8	(19.9)	(0.5)	(0.7)	(127.6)
Employers' contributions and settlements	16.2	40.5	7.8	1.0	0.3	65.8
At end of year – (liability)/asset	(251.8)	45.1	(17.5)	(4.0)	(4.3)	(232.5)

Notes to the consolidated financial statements

Note 24 Retirement benefits (continued)

(e) Changes in net retirement benefit obligations (continued)

Year ended 30 April 2016

	Funded schemes				Unfunded schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(171.7)	24.4	(6.6)	(2.6)	(4.0)	(160.5)
Rail franchise changes	–	5.3	–	–	–	5.3
Expense charged to consolidated income statement	(27.1)	(57.1)	(1.2)	(1.0)	(0.1)	(86.5)
Recognised in the consolidated statement of comprehensive income	70.3	1.6	(3.5)	0.1	–	68.5
Employers' contributions and settlements	18.3	50.2	7.0	0.7	0.3	76.5
At end of year – (liability)/asset	(110.2)	24.4	(4.3)	(2.8)	(3.8)	(96.7)

(f) Sensitivity of retirement benefit obligations to changes in assumptions

The measurement of the defined benefit obligations is particularly sensitive to changes in key assumptions as described below:

- The discount rate has been selected following actuarial advice and taking into account the duration of the liabilities. A 10 basis points increase in the discount rate would result in a £28.3m decrease in the net pension liabilities as at 29 April 2017 (2016: £18.7m). A 10 basis points decrease in the discount rate would result in a £28.9m increase in the net pension liabilities as at 29 April 2017 (2016: £18.9m).
- The inflation assumption adopted is consistent with the discount rate used. It is used to set the assumptions for pension increases, pensionable salary increases and deferred revaluations. A 10 basis points increase in the inflation rate would result in a £22.2m increase in the net pension liabilities as at 29 April 2017 (2016: £11.6m). A 10 basis points decrease in the inflation rate would result in a £21.9m decrease in the net pension liabilities as at 29 April 2017 (2016: £11.5m).
- A 10 basis point increase in the rate of increase in pensionable salaries would result in a £1.8m increase in the net pension liabilities as at 29 April 2017 (2016: £1.7m). A 10 basis point decrease in the rate of increase in pensionable salaries would result in a £1.8m decrease in the net pension liabilities as at 29 April 2017 (2016: £1.7m).
- A 10 basis point increase in the rate of increase of pensions in payment would result in a £12.0m increase in the net pension liabilities as at 29 April 2017 (2016: £8.2m). A 10 basis point decrease in the rate of increase of pensions in payment would result in a £12.0m decrease in the net pension liabilities as at 29 April 2017 (2016: £8.2m).
- The longevity assumptions adopted are a best estimate of the mortality of scheme members both during and after employment, and are based on the most recent mortality data available from actuarial valuations. If life expectancy of the relevant individuals was to increase by one year, this would result in an increase of £56.5m in the net pension liabilities as at 29 April 2017 (2016: £42.4m). If life expectancy of the relevant individuals was to decrease by one year, this would result in a decrease of £56.3m in the net pension liabilities as at 29 April 2017 (2016: £43.9m).

These sensitivities have been calculated to show the movement in the net liability in isolation, and assuming no other changes in market conditions at the balance sheet date. In practice, a change in discount rate is unlikely to occur without any movement in the value of the invested assets held by the schemes.

(g) Pension amounts recognised in income statement

The amounts recognised in the consolidated income statement are analysed as follows:

	Funded schemes				Unfunded and DC Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 29 April 2017						
Current service cost	(17.9)	(48.9)	(0.8)	(1.4)	–	(69.0)
Administration expenses	(0.8)	(0.5)	–	–	–	(1.3)
Defined contribution costs	–	–	–	–	(21.2)	(21.2)
Included in operating profit	(18.7)	(49.4)	(0.8)	(1.4)	(21.2)	(91.5)
Net interest (expense)/income	(3.8)	(6.3)	1.1	(0.3)	(0.1)	(9.4)
Interest expense on asset ceiling	–	–	(1.4)	–	–	(1.4)
Unwinding of franchise adjustment	–	7.1	–	–	–	7.1
	(22.5)	(48.6)	(1.1)	(1.7)	(21.3)	(95.2)

	Funded schemes				Unfunded and DC Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 30 April 2016						
Current service cost	(20.4)	(57.3)	(1.1)	(0.9)	–	(79.7)
Administration costs	(0.9)	(0.6)	–	–	–	(1.5)
Defined contribution costs	–	–	–	–	(20.2)	(20.2)
Included in operating profit	(21.3)	(57.9)	(1.1)	(0.9)	(20.2)	(101.4)
Net interest (expense)/income	(5.8)	(10.0)	1.0	(0.1)	(0.1)	(15.0)
Interest expense on asset ceiling	–	–	(1.1)	–	–	(1.1)
Unwinding of franchise adjustment	–	10.8	–	–	–	10.8
	(27.1)	(57.1)	(1.2)	(1.0)	(20.3)	(106.7)

Current service costs and administration costs are recognised in operating costs and net interest on net pension liability, interest on asset ceiling and unwinding of franchise adjustment are recognised in net finance costs.

Note 24 Retirement benefits (continued)

(h) Pension amounts recognised in statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income are analysed as follows:

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
Year ended 29 April 2017	£m	£m	£m	£m	£m	£m
Actual return on scheme assets higher than the discount rate	147.0	219.3	12.3	0.5	–	379.1
Changes in financial assumptions	(303.0)	(535.3)	(65.6)	(1.7)	(0.7)	(906.3)
Changes in demographic assumptions	20.3	26.4	2.1	0.1	–	48.9
Experience on benefit obligations	0.4	103.7	33.1	0.6	–	137.8
Changes in asset ceiling (net of interest)	–	–	(1.8)	–	–	(1.8)
Change in franchise adjustment	–	214.7	–	–	–	214.7
	(135.3)	28.8	(19.9)	(0.5)	(0.7)	(127.6)

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
Year ended 30 April 2016	£m	£m	£m	£m	£m	£m
Actual return on scheme assets (lower)/higher than the discount rate	(13.2)	42.7	(10.8)	(0.2)	–	18.5
Changes in financial assumptions	37.3	241.7	13.8	0.1	–	292.9
Changes in demographic assumptions	24.4	–	0.9	–	–	25.3
Experience on benefit obligations	21.8	(136.6)	(0.3)	0.2	–	(114.9)
Changes in asset ceiling (net of interest)	–	–	(7.1)	–	–	(7.1)
Change in franchise adjustment	–	(146.2)	–	–	–	(146.2)
	70.3	1.6	(3.5)	0.1	–	68.5

(i) Benefit obligations

Changes in the present value of the defined benefit obligations (net of franchise adjustments and members' share of RPS deficit) are analysed as follows.

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
Year ended 29 April 2017	£m	£m	£m	£m	£m	£m
At beginning of year	1,366.5	1,389.5	299.2	8.5	3.8	3,067.5
Current service cost	17.9	48.9	0.8	1.4	–	69.0
Interest on benefit obligations	49.5	37.6	11.0	0.5	0.1	98.7
Unwinding of franchise adjustment	–	(7.1)	–	–	–	(7.1)
Benefits paid	(67.4)	(55.7)	(16.6)	–	(0.3)	(140.0)
Contributions by employees	0.8	5.4	0.3	–	–	6.5
Actuarial losses/(gains) due to:						
– Changes in demographic assumptions	(20.3)	(26.4)	(2.1)	(0.1)	–	(48.9)
– Changes in financial assumptions	303.0	535.3	65.6	1.7	0.7	906.3
– Experience on benefit obligations	(0.4)	(103.7)	(33.1)	(0.6)	–	(137.8)
– Change in franchise adjustment	–	(214.7)	–	–	–	(214.7)
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,649.6	1,609.1	325.1	11.6	4.3	3,599.7

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
Year ended 30 April 2016	£m	£m	£m	£m	£m	£m
At beginning of year	1,431.2	1,314.2	314.7	8.8	4.0	3,072.9
Roll franchise changes	–	(5.3)	–	–	–	(5.3)
Current service cost	20.4	57.3	1.1	0.9	–	79.7
Interest on benefit obligations	51.7	40.0	11.4	0.4	0.1	103.6
Unwinding of franchise adjustment	–	(10.8)	–	–	–	(10.8)
Benefits paid	(54.1)	(53.9)	(13.9)	(1.7)	(0.3)	(123.9)
Contributions by employees	0.8	6.9	0.3	0.2	–	8.2
Actuarial losses/(gains) due to:						
– Changes in demographic assumptions	(24.4)	–	(0.9)	–	–	(25.3)
– Changes in financial assumptions	(37.3)	(241.7)	(13.8)	(0.1)	–	(292.9)
– Experience on benefit obligations	(21.8)	136.6	0.3	(0.2)	–	114.9
– Change in franchise adjustment	–	146.2	–	–	–	146.2
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,366.5	1,389.5	299.2	8.5	3.8	3,067.5

Notes to the consolidated financial statements

Note 24 Retirement benefits (continued)

(j) Scheme assets

The movement in the fair value of scheme assets was as follows:

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 29 April 2017						
At beginning of year	1,256.3	1,413.9	332.8	5.7	–	3,008.7
Administration costs	(0.8)	(0.5)	–	–	–	(1.3)
Interest income	45.7	31.3	12.1	0.2	–	89.3
Employer contributions	16.2	40.5	7.8	1.0	0.3	65.8
Contributions by employees	0.8	5.4	0.3	–	–	6.5
Benefits paid	(67.4)	(55.7)	(16.6)	–	(0.3)	(140.0)
Remeasurements						
– Return on assets excluding amounts included in net interest	147.0	219.3	12.3	0.5	–	379.1
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,397.8	1,654.2	348.7	7.6	–	3,408.3
	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 30 April 2016						
At beginning of year	1,259.5	1,338.6	337.8	6.2	–	2,942.1
Administration costs	(0.9)	(0.6)	–	–	–	(1.5)
Interest income	45.9	30.0	12.4	0.3	–	88.6
Employer contributions	18.3	50.2	7.0	0.7	0.3	76.5
Contributions by employees	0.8	6.9	0.3	0.2	–	8.2
Benefits paid	(54.1)	(53.9)	(13.9)	(1.7)	(0.3)	(123.9)
Remeasurements						
– Return on assets excluding amounts included in net interest	(13.2)	42.7	(10.8)	(0.2)	–	18.5
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,256.3	1,413.9	332.8	5.7	–	3,008.7

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2017	2016
	£m	£m
At beginning of year	(37.9)	(29.7)
Interest expense	(1.4)	(1.1)
Remeasurements	(1.8)	(7.1)
At end of year	(41.1)	(37.9)

(l) Franchise adjustment

The movement in the franchise adjustment is shown below:

	2017	2016
	£m	£m
At beginning of year	191.1	297.4
Rail franchise changes	–	29.1
Amounts recognised in income statement:		
– Unwinding of franchise adjustment	7.1	10.8
Remeasurements:		
– Change in franchise adjustment	214.7	(146.2)
At end of year	412.9	191.1

Note 25 Financial instruments

(a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries and joint ventures accounted for in accordance with International Financial Reporting Standard 10 ("IFRS 10"), *Consolidated Financial Statements* and International Financial Reporting Standard 11 ("IFRS 11"), *Joint Arrangements*.
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments, prepayments, provisions and deferred income) are not financial liabilities or financial assets. Accordingly, prepayments, provisions, deferred income and amounts payable or receivable in respect of corporation tax, sales tax (including UK Value Added Tax), payroll tax and other taxes are excluded from the disclosures provided in this note.

(b) Carrying values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities on the consolidated balance sheet and their respective fair values were:

		2017	2016	2017	2016
		Carrying value	Carrying value	Fair value	Fair value
Note		£m	£m	£m	£m
Financial assets					
Loans and receivables					
- Non-current assets					
- Other receivables	18	0.2	0.2	0.2	0.2
- Current assets					
- Accrued income	18	54.0	38.5	54.0	38.5
- Trade receivables, net of impairment	18	254.4	234.6	254.4	234.6
- Other receivables	18	39.4	30.8	39.4	30.8
- Cash and cash equivalents	19	313.3	382.3	313.3	382.3
Total financial assets		661.3	686.4	661.3	686.4
Financial liabilities					
Financial liabilities measured at amortised cost					
- Non-current liabilities					
- Accruals	20	-	(6.0)	-	(6.0)
- Borrowings	21	(693.0)	(738.2)	(737.0)	(755.6)
- Current liabilities					
- Trade payables	20	(270.0)	(270.3)	(270.0)	(270.3)
- Accruals	20	(436.7)	(381.8)	(436.7)	(381.8)
- Loan from joint venture	20	(1.7)	(1.7)	(1.7)	(1.7)
- Loan from non-controlling interest	20	(5.8)	(5.3)	(5.8)	(5.3)
- Borrowings	21	(40.5)	(53.6)	(40.5)	(53.6)
Total financial liabilities		(1,447.7)	(1,456.9)	(1,491.7)	(1,474.3)
Net financial liabilities		(786.4)	(770.5)	(830.4)	(787.9)

Derivatives that are designated as effective hedging instruments are not shown in the above table. Information on the carrying value of such derivatives is provided in note 25(g).

The fair values of financial assets and financial liabilities shown above are determined as follows:

- The carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, other payables, accruals, loan from non-controlling interest and loan from joint venture is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.
- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate hire purchase and finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. Excluding the element hedged in a fair value hedge, we estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed-rate notes liability by around £26.1m (2016: £37.7m).

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

(b) Carrying values of financial assets and financial liabilities (continued)

Fair value estimation

Financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 29 April 2017.

	Note	Level 2 & Total £m
Assets		
Derivatives used for hedging	25(g)	14.3
Liabilities		
Derivatives used for hedging	25(g)	(23.5)

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2016.

	Note	Level 2 & Total £m
Assets		
Derivatives used for hedging	25(g)	6.6
Liabilities		
Derivatives used for hedging	25(g)	(60.8)

The following table presents the Group's financial instruments that are not measured at fair value but for which the fair value disclosed in the table on the previous page differs from book value:

	Carrying value Level 1 & Total		Fair value Level 1 & Total	
	2017	2016	2017	2016
	£m	£m	£m	£m
Borrowings: fixed-rate notes	(405.2)	(403.8)	(449.2)	(421.2)

(c) Nature and extent of risks arising from financial instruments

The Group's use of financial instruments exposes it to a variety of financial risks, principally:

- Market risk – including currency risk, interest rate risk and price risk;
- Credit risk; and
- Liquidity risk.

This note (c) presents qualitative information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk: there have been no significant changes to these matters during the year ended 29 April 2017. This note (c) also provides summary quantitative data about the Group's exposure to each risk. In addition, information on the Group's management of capital is provided in section 1.6.10 of the Strategic report which forms part of these financial statements.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments from time to time to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

A Group Treasury Committee and central treasury department ("Group Treasury") oversee financial risk management in the context of policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. Group Treasury is responsible for the execution of derivative financial instruments to manage financial risks. Certain financial risk management activities (for example, the management of credit risk arising from trade and other receivables) are devolved to the management of individual business units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and commodity prices will affect the Group's financial performance and/or financial position. The objective of the Group's management of market risk is to manage and control market risk exposures within acceptable parameters.

The Group enters into derivative financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally the Group seeks to apply hedge accounting in order to reduce volatility in the consolidated income statement.

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument (including foreign net investments) will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency translation risk principally as a result of net investments in foreign operations and borrowings denominated in foreign currencies.

The Group has material foreign investments in Canada and the USA. To reduce balance sheet translation exposure, the Group partially hedges the sterling carrying value of foreign operations through borrowings denominated in their functional currency or, where appropriate, through the use of derivative financial instruments. Gains and losses arising from hedging instruments that provide a hedge against foreign net investments are recognised in the statement of comprehensive income. Bank loans drawn in US Dollars and a US\$150.0m bond issued in October 2012 have been accounted for as a hedge of the Group's foreign net investments.

The Group's objective in managing and measuring foreign currency translation risk associated with net investments in foreign operations and borrowings denominated in foreign currencies is to maintain an appropriate cost of borrowing and retain some potential for benefiting from currency movements whilst partially hedging against adverse currency movements. It is the Group's policy to examine each foreign investment individually and to adopt an appropriate hedging strategy. The Group measures foreign currency translation risk by identifying the carrying value of assets and liabilities denominated in the relevant foreign currency and quantifying the impact on equity of changes in the relevant foreign currency rate.

The Group's consolidated income statement is principally exposed to movements in foreign exchange rates in the following ways:

- The translation of the revenues and costs of the Group's North American operations; and
- The translation of interest payable on US dollar denominated debt.

The Group's consolidated balance sheet exposures to foreign currency translation risk (excluding immaterial exposure to Euros) were as follows:

	2017	2016
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	243.3	244.6
– Cash	22.9	25.9
– Borrowings	(224.3)	(198.7)
Canadian dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	23.0	23.6
– Cash	2.1	2.1
Net exposure	67.0	97.5

The amounts shown above are the carrying values of all US and Canadian dollar items in the consolidated balance sheet that would have differed at the balance sheet date had a different foreign currency exchange rate been applied, except that derivatives that are cash flow hedges are excluded.

The sensitivity of the amounts shown above in the Group's consolidated balance sheet to US and Canadian dollar translation exposures is illustrated below:

	2017	2016
US dollar		
US dollar balance sheet foreign exchange rate	1.2937	1.4649
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.1643	1.3184
– Increase in consolidated equity (£m)	4.7	8.0
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.4231	1.6114
– Decrease in consolidated equity (£m)	(3.8)	(6.5)
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	1.7689	1.8349
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.5920	1.6514
– Increase in consolidated equity (£m)	2.8	2.9
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.9458	2.0184
– Decrease in consolidated equity (£m)	(2.3)	(2.3)

The above sensitivity analysis is based on the following assumptions:

- Only those foreign currency assets and liabilities that are directly affected by changes in foreign exchange rates are included in the calculation.
- The above calculations assume that the exchange rates between sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

The Group's consolidated income statement exposures to foreign currency translation risk (excluding immaterial exposure to Euros) were as follows:

	2017	2016
	£m	£m
US dollars		
– US\$ element of North American operating profit	14.9	14.0
– Intangible asset expenses	(1.5)	(1.8)
– Redundancy/restructuring costs	–	(0.6)
– Share of loss of joint ventures (excluding exceptional items)	–	(0.8)
– Exceptional items	7.9	(37.9)
– Net finance costs	(9.3)	(9.0)
– Net tax credit	3.6	12.3
Canadian dollars		
– C\$ element of North American operating profit	4.5	4.3
– Net tax charge	(1.5)	(1.0)
Net exposure	18.6	(20.5)

The operating profit figures shown in the above table reconcile to the operating profit for North America shown in the segmental information in note 2(b) as follows:

	2017	2016
	£m	£m
US\$ element of North American operating profit shown above	14.9	14.0
C\$ element of North American operating profit shown above	4.5	4.3
Share based payment adjustment denominated in sterling	(0.1)	0.6
Operating profit shown in segmental information	19.3	18.9

The sensitivity of the Group's consolidated income statement to US and Canadian dollar translation exposures is illustrated below:

	2017	2016
US dollar		
US dollar average foreign exchange rate	1.2937	1.5031
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.1643	1.3528
– Increase/(decrease) in consolidated profit after taxation (£m)	1.7	(2.6)
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.4231	1.6534
– (Decrease)/increase in consolidated profit after taxation (£m)	(1.4)	2.2
Canadian dollar		
Canadian dollar average foreign exchange rate	1.7036	1.9756
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.5332	1.7780
– Increase in consolidated profit after taxation (£m)	0.3	0.4
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.8740	2.1732
– Decrease in consolidated profit after taxation (£m)	(0.3)	(0.3)

The above sensitivity analysis is based on the following assumptions:

- Only those income statement items directly affected by changes in foreign exchange rates are included in the calculation. For example, changes in the sterling value of commodity prices that indirectly occur due to changes in foreign exchange rates are not included in the sensitivity calculation.
- The above calculations assume that the exchange rates between sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Note 25 Financial Instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

Foreign currency transactional risk

Foreign currency transactional risk is the risk that future cash flows (such as from sales and purchases of goods and services) will fluctuate because of changes in foreign exchange rates.

The Group is exposed to limited foreign currency transactional risk due to the low value of transactions entered into by subsidiaries in currencies other than their functional currency. Group Treasury carries out forward buying of currencies where appropriate.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 29 April 2017 there were no material net transactional foreign currency exposures (2016: £Nil).

The Group's exposure to commodity price risk includes a foreign currency element due to the impact of foreign exchange rate movements on the sterling cost of fuel for the Group's UK operations. The effect of foreign exchange rate movements on sterling-denominated fuel prices is managed through the use of fuel derivative financial instruments denominated in the functional currency in which the fuel is purchased. Further information on fuel hedging is given under the heading "Price risk" on page 120.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk principally through its borrowings and interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates), cash and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to reduce the risk of changes in interest rates significantly affecting future cash flows and/or profit. To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative financial instruments are also used where appropriate to generate the desired interest rate profile.

The Group measures interest rate risk by quantifying the relative proportions of each of gross debt and net debt that are effectively subject to fixed interest rates and considers the duration for which the relevant interest rates are fixed.

At 29 April 2017, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
Currency	£m	£m	£m	%	Years
Sterling	209.1	305.9	515.0	4.0	8.4
US Dollar	61.8	162.5	224.3	3.6	4.8
Gross interest bearing financial liabilities	270.9	468.4	739.3	3.9	7.2

At 30 April 2016, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
Currency	£m	£m	£m	%	Years
Sterling	192.5	405.9	598.4	4.0%	9.4
US Dollar	156.9	41.8	198.7	2.0%	2.7
Gross interest bearing financial liabilities	349.4	447.7	797.1	3.8%	8.8

The above figures take into account the effect of US\$150m of interest rate derivatives which swapped the US\$150m Notes maturing October 2022 from fixed to floating rate debt for a period of four years to December 2016, and £100m of interest rate derivatives which swap £100m of the £400m Notes maturing September 2025 from fixed to floating rate debt for a period of two years to December 2018.

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to six months based on market rates.

The maturity profile of the Group's borrowings is shown in note 21(a).

The Group's financial assets on which floating interest is receivable include cash deposits and cash in hand of £313.3m (2016: £382.3m). As at 29 April 2017, the Group had no other financial assets on which fixed interest is receivable (2016: £Nil).

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

The net impact of a change of 100 basis points on all relevant floating interest rates on annualised interest payable on cash and borrowings balances outstanding at the balance sheet date was not material.

Price risk

The Group is exposed to commodity price risk. The Group's operations as at 29 April 2017 consume approximately 411m litres of diesel fuel per annum. As a result, the Group's future profit and cash flows are exposed to movements in the underlying price of fuel.

The Group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The Group has a policy of managing the volatility in its fuel costs by maintaining an ongoing fuel-hedging programme whereby derivatives are used to fix or cap the variable unit cost of a percentage of anticipated fuel consumption. The Group's exposure to commodity price risk is measured by quantifying the element of projected future fuel costs, after taking account of derivatives in place, which varies due to movements in fuel prices. Group Treasury is responsible for the processes for measuring and managing commodity price risk.

The Group's overall fuel costs include the impact of delivery margins, fuel taxes and fuel tax rebates. These elements of fuel costs are not managed as part of Group Treasury's commodity price risk management and are managed directly by business unit management.

The Group uses a number of fuel derivatives to hedge against movements in the price of the different types of fuel used in each of its divisions. The fuel derivatives hedge the underlying commodity price risk (denominated in US\$) and in the case of the UK Bus (regional operations) Division, the UK Bus (London) Division and the UK Rail Division, they also hedge the currency risk due to the commodity being priced in US\$ and the functional currency of the divisions being pounds sterling.

At 29 April 2017 and 30 April 2016, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2017	2016
	£m	£m
Costs subject to fuel swaps:		
– UK Bus (regional operations)	(64.0)	(66.5)
– UK Bus (London)	(9.1)	(7.1)
– UK Rail	(14.2)	(26.3)
– North America	(17.9)	(26.0)
	(105.2)	(125.9)
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	(0.3)	(1.1)
– megabus Europe	–	(1.3)
– UK Bus (London)	(2.5)	(4.5)
– UK Rail	(10.6)	(1.7)
– North America	(9.8)	(4.6)
	(23.2)	(13.2)
Total	(128.4)	(139.1)

The figures in the above table are after taking account of derivatives and applying the fuel prices and foreign exchange rates as at the balance sheet date.

If all of the relevant fuel prices were 10% higher at the balance sheet date, the amounts in the above table would change by the following:

	2017	2016
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	–	(0.1)
– megabus Europe	–	(0.1)
– UK Bus (London)	(0.3)	(0.4)
– UK Rail	(1.0)	(0.2)
– North America	(1.0)	(0.5)
Decrease in projected profit before taxation	(2.3)	(1.3)

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

If all of the relevant fuel prices were 10% lower at the balance sheet date, the amounts would change by the following:

	2017	2016
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	–	0.1
– megabus Europe	–	0.1
– UK Bus (London)	0.3	0.4
– UK Rail	1.0	0.2
– North America	1.0	0.5
Increase in projected profit before taxation	2.3	1.3

The revenue receivable under certain of the contracts that the Group has with customers is subject to adjustment for changes to certain fuel prices. This further reduces the unhedged exposure to fuel prices shown above.

Demand for the Group's services can also be affected by movements in fuel prices due to the impact on the cost of competing transport services, including private cars.

The Group is also exposed to changes in electricity prices, principally in its UK Rail Division where electricity is consumed to power some of the trains operated. The Group has some protection to price changes via rail industry arrangements to fix the price on a proportion of anticipated future electricity consumption.

The Group's joint venture, Virgin Rail Group, is also exposed to changes in fuel and electricity prices and applies commodity price risk management strategies similar to those applied by the Group and explained above.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and business unit management, and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. It is the Group's policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low.

In determining whether a financial asset is impaired, the Group takes account of:

- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns;
- In the case of receivables, the latest available information on the counterparty's creditworthiness such as available financial statements, credit ratings etc.

The movement in the provision for impairment of trade and other receivables is shown in note 18.

The table below shows the financial assets exposed to credit risk at the balance sheet date:

	Gross	Impairment	Net exposure	Gross	Impairment	Net exposure
	2017	2017	2017	2016	2016	2016
	£m	£m	£m	£m	£m	£m
Trade receivables	256.9	(2.5)	254.4	237.1	(2.5)	234.6
Loans, other receivables and accrued income	93.6	–	93.6	69.5	–	69.5
Cash and cash equivalents – pledged as collateral	18.6	–	18.6	18.6	–	18.6
Cash and cash equivalents – other	294.7	–	294.7	363.7	–	363.7
Excluding derivative financial instruments	663.8	(2.5)	661.3	688.9	(2.5)	686.4
Derivatives used for hedging	14.3	–	14.3	6.6	–	6.6
Total exposure to credit risk	678.1	(2.5)	675.6	695.5	(2.5)	693.0

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK's Department for Transport, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(ii) Credit risk (continued)

The Group's total net exposure to credit risk by geographic region is analysed below:

	2017	2016
	£m	£m
United Kingdom & Europe	628.8	644.6
North America	46.8	48.4
	675.6	693.0

The Group's financial assets by currency are analysed below:

	2017	2016
	£m	£m
Sterling & Euros	621.7	643.7
US dollars	51.2	46.5
Canadian dollars	2.7	2.8
	675.6	693.0

The amount of financial assets denominated in Euros included in the figures above is immaterial.

The following financial assets were past due, but not impaired at the balance sheet date:

	2017	2016
	£m	£m
Amounts 1 to 90 days overdue	10.0	4.7
Amounts 91 to 180 days overdue	1.2	0.8
Amounts 181 to 365 days overdue	1.3	0.8
Amounts more than 365 days overdue	0.8	2.0
	13.3	8.3

The Group does not hold any collateral in respect of its credit risk exposures set out above (2016: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2016 (2016: £Nil).

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's objective in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

As at 29 April 2017, the Group's credit facilities were £1,130.5m (2016: £1,146.6m), £648.3m (2016: £686.5m) of which were utilised, including utilisation for the issuance of bank guarantees, performance/season ticket bonds and letters of credit.

The Group had the following undrawn committed banking and uncommitted asset finance facilities:

	2017	2016
	£m	£m
Expiring within one year	160.3	189.9
Expiring beyond two years	321.9	270.2
	482.2	460.1

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding.

The Group has bank lines of credit arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit.

The Group's committed bank facilities as at 29 April 2017 are analysed below:

Expiring in	Facility £m	Loans drawn £m	Performance bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES					
– 2021	480.0	(121.8)	(44.8)	–	313.4
– 2020	135.0	–	(126.5)	(2.5)	6.0
– 2018	141.1	–	(122.1)	(19.0)	–
– 2017	89.4	–	(80.2)	(9.2)	–
	845.5	(121.8)	(373.6)	(30.7)	319.4
LOCAL & SHORT-TERM FACILITIES					
– Various	28.1	–	(13.7)	–	14.4
	873.6	(121.8)	(387.3)	(30.7)	333.8

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(iii) Liquidity risk (continued)

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, including interest payments.

As at 29 April 2017	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
Non derivative financial liabilities:						
Unsecured bond issues	(521.1)	(688.0)	(21.1)	(21.1)	(63.3)	(582.5)
Finance lease liabilities	(46.5)	(48.3)	(11.7)	(10.4)	(26.2)	–
Hire purchase liabilities	(25.5)	(26.1)	(11.2)	(5.5)	(9.4)	–
Loan notes payable	(18.6)	(18.6)	(18.6)	–	–	–
Trade and other payables	(714.2)	(714.2)	(714.2)	–	–	–
Bank loans	(121.8)	(121.9)	(0.1)	–	(121.8)	–
	(1,447.7)	(1,617.1)	(776.9)	(37.0)	(220.7)	(582.5)
Derivative financial liabilities:						
Derivatives used for hedging	(23.5)	(23.5)	(16.6)	(3.0)	(3.9)	–
	(1,471.2)	(1,640.6)	(793.5)	(40.0)	(224.6)	(582.5)

As at 30 April 2016	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
Non derivative financial liabilities:						
Unsecured bond issues	(506.1)	(691.5)	(20.5)	(20.5)	(61.4)	(589.1)
Finance lease liabilities	(41.8)	(43.5)	(18.5)	(7.4)	(17.6)	–
Hire purchase liabilities	(35.0)	(35.9)	(17.2)	(12.0)	(6.7)	–
Loan notes payable	(19.3)	(19.3)	(19.3)	–	–	–
Trade and other payables	(665.1)	(665.1)	(659.1)	(6.0)	–	–
Bank loans	(189.6)	(189.8)	(0.2)	–	(189.6)	–
	(1,456.9)	(1,645.1)	(734.8)	(45.9)	(275.3)	(589.1)
Derivative financial liabilities:						
Derivatives used for hedging	(60.8)	(60.8)	(41.3)	(18.5)	(1.0)	–
	(1,517.7)	(1,705.9)	(776.1)	(64.4)	(276.3)	(589.1)

The “contractual cash flows” shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the value of the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted interest cash flows in respect of interest up to and including the next rollover date are shown and the principal is shown as repayable at the expiry date of the relevant facility.

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

(d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

(e) Collateral and restricted cash

Included within the cash and cash equivalents balance of £313.3m as at 29 April 2017 (2016: £382.3m) are £18.6m (2016: £18.6m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.2m (2016: £18.2m) has been pledged by the Group as collateral for £18.2m (2016: £18.2m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit at Bank of Scotland. Bank of Scotland has guaranteed the Group's obligations to the holders of the loan notes and to the extent that the Group fails to satisfy its obligations under the loan notes, Bank of Scotland shall use the cash collateral to satisfy such obligations.
- £0.4m (2016: £0.4m) is held in an escrow account in North America in relation to insurance claims.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 29 April 2017 and 30 April 2016.

In addition, cash includes train operating company cash of £219.4m (2016: £283.1m) of which £68.5m (2016: £103.1m) relates to South West Trains and £28.3m (2016: £18.1m) is cash held by Virgin Trains East Coast that may only be used for innovation projects approved by the UK Department for Transport. Under the terms of the franchise agreements, other than with the Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach any franchise liquidity ratios.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 29 April 2017 and 30 April 2016 and no loans payable were in default as at 29 April 2017 and 30 April 2016. The Group was in compliance with all bank loan covenants as at 29 April 2017 and as at 30 April 2016.

(g) Hedge accounting

A summary of the Group's current hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2017	2016
	£m	£m
Non-current assets		
Interest rate derivatives	2.0	1.8
Fuel derivatives	5.0	3.8
	7.0	5.6
Current assets		
Interest rate derivatives	1.2	–
Fuel derivatives	6.1	1.0
	7.3	1.0
Current liabilities		
Interest rate derivatives	(0.7)	(1.1)
Fuel derivatives	(15.9)	(40.2)
	(16.6)	(41.3)
Non-current liabilities		
Fuel derivatives	(6.9)	(19.5)
Total		
Interest rate derivatives	2.5	0.7
Fuel derivatives	(11.7)	(54.9)
	(9.2)	(54.2)

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

Embedded derivatives

In accordance with IAS 39, Financial Instruments: Recognition and measurement, all significant contracts to which the Group is a party have been reviewed for embedded derivatives. There were no embedded derivatives as at 29 April 2017 (2016: None) which were separately accounted for.

Note 25 Financial Instruments (continued)

(g) Hedge accounting (continued)

Cash flow hedges - fuel

As noted previously, the Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions.

The movements in the fair value of fuel derivatives in the year were as follows:

	2017	2016
	£m	£m
Fuel derivatives		
Fair value at start of year	(54.9)	(37.2)
Changes in fair value during year taken to cash flow hedging reserve	17.6	(82.8)
Cash paid during the year	25.6	85.1
Fair value at end of year	(11.7)	(54.9)

The fair value of the fuel derivatives split by maturity was as follows:

	Assets	Liabilities
	£m	£m
As at 29 April 2017		
Within one year	6.1	(15.9)
1 to 2 years	5.0	(3.0)
2 to 3 years	–	(3.8)
More than 3 years	–	(0.1)
	11.1	(22.8)

As at 30 April 2016

Within one year	1.0	(40.2)
1 to 2 years	2.9	(18.5)
2 to 3 years	0.9	(0.8)
More than 3 years	–	(0.2)
	4.8	(59.7)

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value	Notional quantity of fuel covered by derivatives
	£m	Millions of litres
As at 29 April 2017		
Sterling denominated – UK Bus (regional operations)	(6.6)	624.2
Sterling denominated – UK Bus (London)	(1.2)	81.2
Sterling denominated – UK Rail	(1.1)	164.0
US dollar denominated – North America	(2.8)	125.4
	(11.7)	994.8
As at 30 April 2016		
Sterling denominated – UK Bus (regional operations)	(34.1)	634.1
Sterling denominated – UK Bus (London)	(4.5)	63.4
Sterling denominated – UK Rail	(5.6)	183.1
US dollar denominated – North America	(10.7)	152.4
	(54.9)	1,033.0

Fair value and cash flow hedges - interest

The Group uses a number of interest rate derivatives to hedge its exposure to movements in interest rates. In connection with the issue of the Group's US\$150m Bonds in October 2012, the Group entered into a number of interest rate fair value hedges. In addition, during the year ended 30 April 2015, the Group entered into a number of interest rate derivatives as cash flow hedges of the Group's exposure to floating interest rates to December 2016. In September 2015, following the issue of the Group's £400m sterling notes, these sterling-denominated interest rate derivatives were subsequently cancelled. The Group entered into new interest rate derivatives as fair value hedges of the Group's exposure to fixed interest rates from December 2016 on expiry of the existing US dollar-denominated fair value hedges.

	Cash flow hedges		Fair value hedges	
	2017	2016	2017	2016
	£m	£m	£m	£m
Interest rate derivatives				
Fair value at start of year	–	(0.6)	0.7	(0.1)
Changes in fair value reflected in carrying value of hedged item	–	–	0.6	0.8
Changes in fair value during the year taken to cash flow hedging reserve	–	(1.4)	–	–
Interest income on fair value hedges	–	–	0.3	0.3
Cash paid/(received) during the year	–	2.0	0.9	(0.3)
Fair value at end of year	–	–	2.5	0.7

Notes to the consolidated financial statements

Note 25 Financial Instruments (continued)

(g) Hedge accounting (continued)

Fair value and cash flow hedges - interest (continued)

The fair value of the interest rate derivatives split by maturity as at 29 April 2017 was as follows:

	Assets	Liabilities
	£m	£m
As at 29 April 2017		
Within one year	1.2	(0.7)
1 to 2 years	2.0	—
	3.2	(0.7)

The fair value of the interest rate derivatives split by maturity as at 30 April 2016 was as follows:

	Assets	Liabilities
	£m	£m
As at 30 April 2016		
Within one year	—	(1.1)
1 to 2 years	0.5	—
2 to 3 years	1.3	—
	1.8	(1.1)

All of the interest rate derivatives were managed and held centrally.

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Interest derivatives	Fuel derivatives	Total
	£m	£m	£m
Cash flow hedging reserve at 30 April 2015	(0.5)	(26.3)	(26.8)
Changes in fair value during the year taken to cash flow hedging reserve	(1.4)	(82.8)	(84.2)
Cash flow hedges reclassified and reported in profit for year	2.0	65.8	67.8
Tax effect of cash flow hedges	(0.1)	3.0	2.9
Cash flow hedging reserve at 30 April 2016	—	(40.3)	(40.3)
Changes in fair value during the year taken to cash flow hedging reserve	—	17.6	17.6
Cash flow hedges reclassified and reported in profit for year	—	21.0	21.0
Tax effect of cash flow hedges	—	(7.3)	(7.3)
Cash flow hedging reserve at 29 April 2017	—	(9.0)	(9.0)
Cash flow hedging reserve before tax	—	(11.2)	(11.2)
Tax to be credited to income statement in future periods	—	2.2	2.2
Cash flow hedging reserve after tax	—	(9.0)	(9.0)

During the year ended 30 April 2015, the Group entered into interest rate derivatives as cash flow hedges. These derivatives were intended to hedge against the variability of forecast future floating-rate interest payments on debt from December 2016. In September 2015, the Group issued £400m of new fixed-rate bonds to re-finance the previous £400m of fixed-rate bonds that were due to mature in December 2016. Following that issue of new bonds, the forecast floating-rate interest payments were no longer expected to occur because fixed-rate debt had been issued rather than the previously anticipated floating-rate debt. The derivatives were cancelled following the new bond issue.

There have been no other instances during the year ended 29 April 2017 (2016: None) from a Group perspective where a forecast transaction for which hedge accounting had previously been used was no longer expected to occur.

Hedge of foreign net investments

The Group's hedging of foreign net investments during the year ended 29 April 2017 is explained on page 87.

The movements in the fair value of the US\$150m 4.36% notes and US\$ bank loans used as hedging instruments in the year were as follows:

	2017	2016
	£m	£m
US\$ 4.36% notes		
Fair value at start of year	102.4	97.6
Changes in fair value during the year	13.5	4.8
Fair value at end of year	115.9	102.4
US\$ bank loans		
Fair value at start of year	54.6	52.1
Changes in fair value during the year	7.2	2.5
Fair value at end of year	61.8	54.6

The fair values of the non-derivative hedging instruments shown above only take account of fair value movements arising from movements in foreign exchange rates.

Note 26 Share capital

The allotted, called-up and fully paid ordinary share capital was:

	2017		2016	
	No. of shares	£m	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 125/228 pence each				
At beginning and end of year	576,099,960	3.2	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 2,467,204 (2016: 1,885,887) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 29 April 2017, the QUEST held no (2016: 300,634) ordinary shares in the Company and the EBT held no (2016: none) ordinary shares in the Company. The trusts have waived dividends on the shares they hold and therefore received no dividends during the year ended 29 April 2017 (2016: £Nil). The trust deed for the EBT obliges the trustee to waive the right to any dividend on the shares unless and until they are vested in an individual. The trustee is confirmed not to be liable for any lost income as a result of that waiver. The QUEST deed requires the trustee to waive any dividends payable on the shares and the QUEST confirms that waiver within the deed. This can be reversed by a direction from the Company to the trustee but is otherwise ongoing.

Note 27 Share based payments

The Group operates a Buy as You Earn Scheme ("BAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report in section 8 of this Annual Report gives further details of each of these arrangements.

As disclosed in note 6, share based payment charges of £2.8m (2016: £2.8m) have been recognised in the income statement during the year in relation to the above schemes.

The following assumptions were applied in accounting for awards under the LTIP scheme:

Grant date	June 2013	December 2013	June 2014	December 2014	June 2015	December 2015	June 2016	December 2016
Share price at time of grant/award (£)	3.1595	3.7200	3.8000	3.7920	4.1700	3.0470	2.2650	2.1100
Vesting period (years)	3	3	3	3	3	3	3	3
Option/award life (years)	3	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3	3
Expected dividends expressed as an average annual dividend yield	2.94%	2.50%	2.70%	2.71%	2.72%	3.72%	5.44%	5.84%
Fair value per Incentive Unit at grant date (£)	0.90	1.06	2.60*	2.59*	2.85*	2.08*	1.55*	1.44*
Option pricing model	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

*Ignoring non-market vesting conditions.

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to performance conditions. LTIP awards are not share options and are valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market-based performance criteria are reflected in the fair value of the LTIP awards.

Notes to the consolidated financial statements

Note 27 Share based payments (continued)

Long Term Incentive Plan

Under the LTIP, executives are awarded Incentive Units with a value equal to one of the Company's ordinary shares but subject to the same performance conditions disclosed in the Directors' remuneration report. The movements in the LTIP Incentive Units during the year to 29 April 2017 were as follows:

Award date	Outstanding at start of year (Incentive Units)	Awards granted in year (Incentive Units)	Lapsed in year (Incentive Units)	Dividends in year (Incentive Units)	Outstanding at end of year (Incentive Units)	Fair value per LTIP unit at grant £	Fair value per LTIP unit at 29 April 2017 £	TSR ranking at 29 April 2017**	Vesting date
27 June 2013	869,920	-	(869,920)	-	-	0.8987	-	-	29 June 2016
12 Dec 2013	722,837	-	(750,034)	27,197	-	1.0574	-	-	12 Dec 2016
26 June 2014	776,088	-	(87,104)	44,279	733,263	2.5999*	1.1671*	204	28 June 2017
11 Dec 2014	766,471	-	(85,747)	43,728	724,452	2.5945*	1.1417*	217	11 Dec 2017
25 June 2015	745,474	-	(78,803)	42,534	709,205	2.8531*	1.1434*	216	25 Jun 2018
10 Dec 2015	1,074,206	-	(104,635)	51,284	1,020,855	2.0847*	1.1166*	233	10 Dec 2018
30 June 2016	-	1,565,751	(215,198)	88,001	1,438,554	1.5497*	1.1283*	225	30 Jun 2019
8 Dec 2016	-	1,718,354	(222,629)	30,790	1,526,515	1.4437*	1.2517*	172	8 Dec 2019
	4,954,996	3,284,105	(2,414,070)	327,813	6,152,844				

*Ignoring non-market based vesting conditions.

**TSR ranking is based on the Group's ranking of total shareholder return in the FTSE 250 whereby 1 is top of the comparator group. The TSR ranking is calculated by independent advisors.

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded Deferred Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Deferred Shares were as follows:

Award date	Outstanding at start of year (Deferred Shares)	Awards granted in year (Deferred Shares)	Vested in year (Deferred Shares)	Lapsed in year (Deferred Shares)	Dividends in year (Deferred Shares)	Outstanding at end of year (Deferred Shares)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
27 June 2013	748,792	-	(741,166)	(7,626)	-	-	29 June 2016	2,289,350	3.1600
26 June 2014	679,739	-	-	(87,108)	37,092	629,723	28 June 2017	2,497,467	3.8100
25 June 2015	522,096	-	-	(61,670)	28,328	488,754	25 June 2018	2,165,756	4.1960
10 Dec 2015	26,597	-	-	-	1,516	28,113	10 Dec 2018	79,993	2.9800
30 June 2016	-	1,203,239	-	(122,138)	66,298	1,147,399	30 June 2019	2,725,336	2.3110
	1,977,224	1,203,239	(741,166)	(278,542)	133,234	2,293,989			

Buy As You Earn Scheme

BAYE enables eligible employees to purchase shares ("partnership shares") from their gross income. The Company provides two matching shares for every share bought from the first £10 of each employee's monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no Income Tax and National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 29 April 2017 there were 8,645 (2016: 9,578) participants in the BAYE scheme to which were attributed 7,387,315 (2016: 5,848,847) shares that they purchased, 2,328,648 (2016: 1,831,550) matching shares that the Company contributed and 868,247 shares (2016: 458,081) in respect of notional dividends. These amounts exclude unattributed shares and any shares to be withdrawn because the employee has left the Group or requested a withdrawal.

Note 28 Reserves

A reconciliation of the movements in each reserve is shown in the consolidated statement of changes in equity on page 77.

The balance of the share premium account represents the amounts received in excess of the nominal value of the ordinary shares offset by issue costs, bonus issues of shares and any transfer between reserves.

The balance held in the retained earnings reserve is the accumulated retained profits of the Group. Cumulative goodwill of £113.8m (2016: £113.8m) has been written off against reserves in periods prior to 1 May 1998 in accordance with the UK accounting standards then in force and such goodwill will remain eliminated against reserves.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Details of own shares held are given in note 26. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held in treasury and/or by the Group's two Employee Share Ownership Trusts offset by cumulative sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 29 Consolidated cash flows

(a) Reconciliation of operating profit to cash generated by operations

The operating profit of Group companies reconciles to cash generated by operations as follows:

	2017	2016
	£m	£m
Operating profit of Group companies	21.1	182.2
Intangible asset expenses	16.8	15.8
Depreciation	145.5	132.2
Exceptional items	128.7	6.0
EBITDA of Group companies before exceptional items	312.1	336.2
Cash effect of exceptional items	(3.7)	-
(Gain)/loss on disposal of property, plant and equipment	(4.3)	0.5
Equity-settled share based payment expense	1.9	2.2
Operating cashflows before working capital movements	306.0	338.9
Decrease/(increase) in inventories	2.7	(0.5)
Increase in receivables	(59.8)	(11.2)
Increase/(decrease) in payables	1.6	(12.0)
Decrease in provisions	(2.7)	(16.2)
Differences between employer pension contributions and pension expense in operating profit	4.5	4.7
Cash generated by operations	252.3	303.7

(b) Reconciliation of net cash flow to movement in net debt

The decrease in cash and cash equivalents reconciles to the movement in net debt as follows:

	2017	2016
	£m	£m
Decrease in cash and cash equivalents	(72.3)	(14.8)
Cash flow from movement in borrowings	133.5	50.4
	61.2	35.6
New hire purchase and finance leases	(47.8)	(22.3)
Foreign exchange movements	(22.7)	(7.6)
Other movements	(0.8)	(23.7)
Increase in net debt	(10.1)	(18.0)
Opening net debt (as defined in note 34)	(399.3)	(381.3)
Closing net debt (as defined in note 34)	(409.4)	(399.3)

(c) Analysis of net debt

For the purpose of this note, net debt is as defined in note 34. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening	Cashflows	New hire purchase/finance leases	Foreign exchange movements	Other/Charged to Income statement	Closing
	£m	£m	£m	£m	£m	£m
Cash	363.7	(72.3)	-	3.3	-	294.7
Cash collateral (see note 25(e))	18.6	-	-	-	-	18.6
Hire purchase and finance lease obligations	(76.8)	58.1	(47.8)	(5.5)	-	(72.0)
Bank loans and loan notes	(208.9)	75.4	-	(6.9)	-	(140.4)
Bonds	(495.9)	-	-	(13.6)	(0.8)	(510.3)
Net debt	(399.3)	61.2	(47.8)	(22.7)	(0.8)	(409.4)
Accrued interest on bonds	(9.5)	21.3	-	(0.2)	(21.1)	(9.5)
Effect of fair value hedges on carrying value of borrowings	(0.7)	-	-	-	(0.6)	(1.3)
Net borrowings (IFRS)	(409.5)	82.5	(47.8)	(22.9)	(22.5)	(420.2)

The cash amounts shown above include term deposits as explained in note 19 and cash held by train operating companies as explained in notes 25(e) and 30(iii).

(d) Non cash transactions

The principal non cash transactions were the acquisition of property, plant and equipment using new hire purchase and finance leases.

During the year, the Group entered into hire purchase and finance lease arrangements in respect of new assets with a total capital value at the inception of the contracts of £56.6m (2016: £22.3m). After taking account of deposits paid up front and other financing transactions, new hire purchase and finance lease liabilities of £47.8m (2016: £22.3m) were recognised.

Notes to the consolidated financial statements

Note 30 Contingencies

Contingent liabilities

(i) At 29 April 2017, the following bonds and bank guarantees were in place relating to the Group's rail operations:

	2017	2016
	£m	£m
Performance bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	40.3	40.2
– East Midlands Trains	15.0	15.0
– Virgin Trains East Coast	20.0	20.0
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	60.2	60.5
– East Midlands Trains	7.1	6.6
– Virgin Trains East Coast	4.8	4.6
Shareholder loan commitment backed by bank facilities		
– Virgin Trains East Coast	82.5	82.5

These contingent liabilities are not expected to crystallise.

- (ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have, in the normal course of business, entered into a number of long-term supply contracts. The most significant of these relate to track, station and depot access facilities, together with train lease and maintenance arrangements.
- (iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.

The Group has recorded a provision for an onerous contract in respect of its Virgin Trains East Coast franchise.

The Group assessed whether a provision for onerous contracts is required in respect of its other rail franchises. The Group has determined that no provision is necessary. The estimation of future financial performance and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Under certain circumstances following a breach by the Group of one or more of its rail franchise agreements, the Department for Transport has the right to terminate the relevant franchises. Where the Group has defaulted on one franchise, the Department for Transport has cross-default rights in certain circumstances that might enable it (but not require it) to terminate another of the franchises. The financial effect on the Group of a termination of one or more franchises would depend on which, if any, of the Group's contingent liabilities that the Department for Transport sought to call. As at 29 April 2017, the capital at risk of the Group in this respect was:

	Virgin Trains East Coast	South West Trains	East Midlands Trains	Total
	£m	£m	£m	£m
Actual liabilities				
Net intra-group amounts payable to train operators	–	68.2	–	68.2
Contingent liabilities				
Season ticket bonds	4.8	60.2	7.1	72.1
Performance bonds	20.0	40.3	15.0	75.3
Parent company guarantees to suppliers	6.6	–	3.0	9.6
Undrawn committed loan facilities	107.5	20.0	31.8	159.3
Capital at risk as at 29 April 2017	138.9	188.7	56.9	384.5
Cash				
Cash in train operating companies	60.7	68.5	90.2	219.4
Pro forma impact on net debt	199.6	257.2	147.1	603.9

To the extent that any of the above contingent liabilities in respect of Virgin Trains East Coast crystallise the Group is contractually entitled to recover 10% of any such payment from Virgin Holdings Limited. The Group has credit exposure to Virgin Holdings Limited in this regard.

Other than in respect of the undrawn committed loan facility for Virgin Trains East Coast, we consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised and the franchises terminated at 29 April 2017, the Group would have needed to have financed £384.5m (2016: £419.3m) and, subject to any amounts it recovered from Virgin Holdings Limited, its gross debt would have increased by this amount. In addition, some of the cash in the train operating companies would be transferred with the franchises.

There is no recourse to the Group in respect of any liabilities or contingent liabilities of Virgin Rail Group.

Under the terms of the franchise agreements, other than with the UK Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach the financial covenants specified in applicable contracts.

Note 30 Contingencies (continued)**Contingent liabilities (continued)**

- (iv) The US Department of Justice and the New York Attorney General (together, "the Government plaintiffs") initiated litigation against Twin America and its joint venture partners in 2012. The litigation alleged that the formation of the Twin America joint venture in 2009 was anti-competitive. A settlement was agreed with the US Department of Justice and the New York Attorney General's office, and has received court approval.
- Related to the Twin America litigation involving the Group's North America Division, which we have set out in previous reports and which as noted in our annual report for the year ended 30 April 2016 was settled, the Department of Justice investigated the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Group co-operated with the investigation, which is no longer ongoing, and we do not anticipate any further action.
- (v) The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 29 April 2017, the accruals in the consolidated financial statements for such claims total £0.6m (2016: £0.1m) in addition to the amounts recognised specifically in respect of the Twin America litigation noted in (iv) above. In addition, certain of the claims intended to be covered by the insurance provisions (see note 23) are subject to or might become subject to litigation against the Group and/or the Company.

Note 31 Guarantees and other financial commitments**(a) Capital commitments**

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2017	2016
	£m	£m
Contracted for but not provided:		
For delivery within one year	115.2	141.7

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 29 April 2017:

As at 29 April 2017	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 28 April 2018	17.7	19.5	109.8	7.7	154.7
Year ending 27 April 2019	14.2	16.9	122.3	6.0	159.4
Year ending 2 May 2020	12.0	11.3	288.7	4.9	316.9
Year ending 1 May 2021	10.3	7.0	329.3	4.3	350.9
Year ending 30 April 2022	10.0	2.2	329.1	4.0	345.3
1 May 2022 and thereafter	31.1	0.1	309.5	3.6	344.3
	95.3	57.0	1,488.7	30.5	1,671.5

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2016:

As at 30 April 2016	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2017	19.7	17.2	237.0	5.9	279.8
Year ending 30 April 2018	14.3	12.9	112.2	4.9	144.3
Year ending 30 April 2019	11.3	11.0	122.5	3.2	148.0
Year ending 30 April 2020	9.3	6.1	296.5	2.2	314.1
Year ending 30 April 2021	8.8	2.3	329.2	1.8	342.1
1 May 2021 and thereafter	30.4	0.1	638.6	3.2	672.3
	93.8	49.6	1,736.0	21.2	1,900.6

The amounts shown above do not include Network Rail charges, which are shown separately in note 31(c).

Notes to the consolidated financial statements

Note 31 Guarantees and other financial commitments (continued)

(c) Network Rail charges

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). Commitments for payments, until the expected end of the franchises or the end of the current Network Rail regulatory control period, if earlier, under these contracts as at 29 April 2017 are as shown below.

	2017
	£m
Year ending 28 April 2018	47.3
Year ending 27 April 2019	53.7
	101.0

Commitments for payments under these contracts as at 30 April 2016 were as follows:

	2016
	£m
Year ending 30 April 2017	88.2
Year ending 30 April 2018	46.4
Year ending 30 April 2019	51.0
	185.6

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below is based on the latest statutory financial statements of the relevant companies:

	2017	2016
	£m	£m
Annual commitments under non-cancellable operating leases	65.8	71.3
Franchise performance bonds	10.3	10.3
Season ticket bonds	3.0	2.9

Note 32 Related party transactions

Details of major related party transactions during the year ended 29 April 2017 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Virgin Rail Group Holdings Limited

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 29 April 2017, the Group earned fees of £60,000 (2016: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 29 April 2017, the Group had £60,000 (2016: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £Nil (2016: £0.2m) from the group headed by Virgin Rail Group Holdings Limited, principally in respect of work undertaken on rail franchise bids, and had an outstanding receivable of £Nil as at 29 April 2017 (2016: £Nil) in this respect.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see note 32(i)). In the year ended 29 April 2017, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2016: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited were immaterial (2016: £0.3m). The outstanding amounts payable as at 29 April 2017 and 30 April 2016 were immaterial.

During the year ended 29 April 2017, South West Trains Limited (a subsidiary of the Group) sold services of £0.3m (2016: £Nil) to West Coast Trains Limited and as at year-end had £Nil receivable in respect of this (2016: £Nil).

(iii) Alexander Dennis Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (2016: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director) is a director of its holding company) controls a further 33.2% (2016: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 29 April 2017, the Group purchased £75.2m (2016: £75.4m) of vehicles from Alexander Dennis Limited and £9.4m (2016: £9.8m) of spare parts and other services. As at 29 April 2017, the Group had £0.5m (2016: £1.0m) payable to Alexander Dennis Limited, along with outstanding orders of £56.7m (2016: £96.0m).

(iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 24.

Note 32 Related party transactions (continued)**(v) Scottish Citylink Coaches Limited**

A non interest bearing loan of £1.7m (2016: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 29 April 2017. The Group earned £18.2m in the year ended 29 April 2017 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2016: £22.0m). The Group also collected revenue of £19.3m on behalf of Scottish Citylink Coaches Limited in the year ended 29 April 2017 (2016: £18.6m). As at 29 April 2017, the Group had a net £1.6m (2016: £0.5m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) Twin America LLC

In the period from 1 May 2016 to 15 February 2017 (the date the Group disposed of its interest in Twin America LLC), the Group's joint venture, Twin America LLC, sold travel of £2.3m (year ended 30 April 2016: £2.4m) for tour services operated by the Group. The commission received by Twin America from the Group was not material. As at 29 April 2017, the Group had £Nil (30 April 2016: £0.2m) receivable from Twin America LLC in this regard.

(vii) East Coast Main Line Company Limited

The Group owns 90% and Virgin Holdings Limited owns 10% of the ordinary shares in Inter City Railways Limited. East Coast Main Line Company Limited is 100% owned by Inter City Railways Limited and enters into various arm's length transactions with other Group companies. In the year ended 29 April 2017, other Group companies earned £19.2m (2016: £16.3m) from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services. Other Group companies had a net payable to East Coast Main Line Company Limited of £4.5m as at 29 April 2017 (2016: £0.8m), which principally relates to VAT payments.

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £57.5m as at 29 April 2017 (2016: £52.5m) in respect of loans to East Coast Main Line Company Limited. The interest receivable for the year ended 29 April 2017 was £1.8m (2016: £1.2m) and the accrued interest outstanding as at 29 April 2017 was £1.5m (2016: £0.3m). Related to that, the Group had an outstanding payable of £5.8m (2016: £5.3m) in respect of a loan from Virgin Holdings Limited and accrued interest outstanding of £0.1m (2016: £0.1m).

In addition, in the year ended 29 April 2017, East Coast Main Line Company Limited purchased services amounting to £Nil (2016: £2.2m) from Virgin Holdings Limited. The Group had a payable balance of £Nil to Virgin Holdings Limited at 29 April 2017 in this respect (2016: £Nil).

Note 33 Post balance sheet events

Details of the final dividend proposed are given in note 8.

Note 34 Definitions**(a) Alternative performance measures**

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the year ended 29 April 2017 and for comparative amounts shown in this document for prior years.

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing profit attributable to equity holders of the parent, excluding intangible asset expenses and exceptional items, by the basic weighted average number of shares in issue in the period.

For the year ended 29 April 2017 and the comparative prior year, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance pre intangibles and exceptional items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 9 to the consolidated financial statements.

Like-for-like amounts

Like-for-like amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods. Where the number of days differs between the current and prior year periods, the prior year amount is normalised for this when calculating like-for-like amounts.

Like-for-like revenue growth for the year ended 29 April 2017 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each segment is shown in note 2(a) to the financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

Year ended 29 April 2017

		Reported revenue	Exclude effect of businesses acquired	Exclude effect of foreign exchange	Like-for-like revenue
UK Bus (regional operations)	£m	1,015.7	(7.4)	–	1,008.3
megabus Europe	£m	20.2	–	–	20.2
UK Bus (London)	£m	263.4	–	–	263.4
North America	US\$m	632.3	–	0.3	632.6
UK Rail	£m	2,160.7	–	–	2,160.7

Year ended 30 April 2016

		Reported revenue	Exclude effect of businesses acquired	Normalisation for number of days in year	Like-for-like revenue
UK Bus (regional operations)	£m	1,032.8	(3.5)	(5.6)	1,023.7
megabus Europe	£m	18.4	–	–	18.4
UK Bus (London)	£m	267.1	–	(1.5)	265.6
North America	US\$m	647.7	–	(1.5)	646.2
UK Rail	£m	2,129.1	–	(11.1)	2,118.0

Notes to the consolidated financial statements

Note 34 Definitions (continued)

(a) Alternative performance measures (continued)

Operating profit (or loss)

Operating profit (or loss) for a particular business unit or division within the Group refers to profit (or loss) before net finance income/charges, taxation, intangible asset expenses, exceptional items and restructuring costs. The operating profit (or loss) for each segment is directly identifiable from note 2(b) of the financial statements.

Operating margin

Operating margin for a particular business unit or division within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from notes 2(a) and 2(b) of the financial statements. The revenue, operating profit (or loss) and operating margin (being operating profit (or loss) as a percentage of revenue) for each segment are also shown on page 2 of this Annual Report.

Pre-exceptional EBITDA

Pre-exceptional EBITDA is earnings before interest, taxation, depreciation, intangible asset expenses and exceptional items.

A reconciliation of pre-exceptional EBITDA for the year ended 29 April 2017, and the comparative prior year, to the financial statements is shown in section 1.6.1.

EBITDA from Group companies before exceptional items

EBITDA from Group companies before exceptional items is earnings before interest, taxation, depreciation, intangible asset expenses and exceptional items from Group companies (i.e. the parent company and all of its subsidiaries consolidated but excluding share of profit/(loss) from joint ventures). EBITDA from Group companies before exceptional items is directly identifiable from note 29(a) of the financial statements.

Pre-exceptional net finance charges

Pre-exceptional net finance charges are finance costs (excluding exceptional items) less finance income, each as shown on the face of the consolidated income statement.

Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest and the effect of fair value hedges on the carrying value of borrowings.

The components of gross debt are shown in note 29(c) of the financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the balance sheet.

Net debt

Net debt (or net funds) is the net of cash/cash equivalents and gross debt (see above).

The components of net debt are shown in note 29(c) to the financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the balance sheet.

Net capital expenditure

Net capital expenditure is the impact of purchases and sales of property, plant and equipment. Its reconciliation to the consolidated financial statements is explained in section 1.6.6 of this Annual Report.

(b) Other definition

The following other definition is also used in this document:

Exceptional items

Exceptional items means items which individually or, if of a similar type, in aggregate, need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.

12. Separate Financial Statements of the parent company, Stagecoach Group plc

Company balance sheet

As at 29 April 2017

		2017	2016
	Notes	£m	£m
ASSETS:			
Non-current assets			
Intangible assets	2	0.2	0.3
Property, plant and equipment	3	0.1	0.1
Investments	4	1,035.1	1,197.7
Derivative instruments at fair value	8	7.0	4.5
		1,042.4	1,202.6
Current assets			
Other receivables	5	581.8	659.2
Deferred tax asset	7	1.2	0.9
Derivative instruments at fair value	8	4.1	0.7
Cash and cash equivalents		35.5	18.1
		622.6	678.9
Total assets		1,665.0	1,881.5
LIABILITIES:			
Current liabilities			
Trade and other payables	6	(309.3)	(350.3)
Derivative instruments at fair value	8	(16.7)	(38.5)
		(326.0)	(388.8)
Non-current liabilities			
Other payables	6	(642.9)	(695.7)
Derivative instruments at fair value	8	(6.9)	(19.5)
Retirement benefit obligations	9	(7.1)	(5.1)
		(656.9)	(720.3)
Total liabilities		(982.9)	(1,109.1)
Net assets		682.1	772.4
EQUITY:			
Ordinary share capital	10	3.2	3.2
Share premium account	11	8.4	8.4
Retained earnings	11	284.7	372.3
Capital redemption reserve	11	422.8	422.8
Own shares	11	(37.0)	(34.3)
Total equity		682.1	772.4

In accordance with the concession granted under section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Company has not been separately presented in these financial statements. The loss of the Company was £22.4m (2016: £86.0m).

These financial statements were approved for issue by the Board of Directors on 28 June 2017. The accompanying notes form an integral part of this balance sheet.



Martin A Griffiths
Chief Executive



Ross Paterson
Finance Director

Company statement of changes in equity

	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Total equity
	£m	£m	£m	£m	£m	£m
Balance at 30 April 2015	3.2	8.4	518.1	422.8	(32.1)	920.4
Loss for the year and total comprehensive expense	-	-	(86.0)	-	-	(86.0)
Own ordinary shares purchased	-	-	-	-	(2.2)	(2.2)
Credit in relation to equity-settled share based payments	-	-	2.2	-	-	2.2
Dividends paid on ordinary shares	-	-	(62.0)	-	-	(62.0)
Balance at 30 April 2016	3.2	8.4	372.3	422.8	(34.3)	772.4
Loss for the year and total comprehensive expense	-	-	(22.4)	-	-	(22.4)
Own ordinary shares purchased	-	-	-	-	(2.7)	(2.7)
Credit in relation to equity-settled share based payments	-	-	1.9	-	-	1.9
Dividends paid on ordinary shares	-	-	(67.1)	-	-	(67.1)
Balance at 29 April 2017	3.2	8.4	284.7	422.8	(37.0)	682.1

Notes to the Company financial statements

Note 1 Parent company accounting policies

These financial statements are presented in respect of Stagecoach Group plc. Stagecoach Group plc is a public limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is 100764 and its registered address is 10 Dunkeld Road, Perth, Perthshire, PH1 5TW.

The Company financial statements are prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). The Company transitioned from UK Generally Accepted Accounting Practice ("UK GAAP") to FRS101 for the year ended 30 April 2016. The transition from UK GAAP is not considered to have resulted in any material restatements. Full details of the transition are shown in note 15.

• Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes. The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income. The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment'
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f) and 134-136 of IAS 1 'Presentation of financial statements'
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

• Intangible assets

Intangible assets, consisting of software, are shown at their original historic cost net of amortisation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over their estimated useful economic lives, typically between 2 to 5 years.

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

• Property, plant and equipment

Property, plant and equipment are shown at their original historic cost net of depreciation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over their estimated useful lives, as follows:

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any impairment is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

• Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

Where the Company has designated foreign currency borrowings as a fair value hedge against its foreign equity investments, the part of that investment which has been hedged is treated as a monetary asset and retranslated at the spot rate at the balance sheet date.

Exchange differences arising on the translation of foreign currency equity investments and on foreign currency borrowings (including loans from other Group companies), to the extent the borrowings hedge the equity investments, are dealt with in the income statement.

• Taxation

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

• Foreign currencies

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year-end. Any exchange differences so arising are dealt with through the income statement.

For the principal rates of exchange used see the Group accounting policies on page 83.

Notes to the Company financial statements

Note 1 Parent company accounting policies (continued)

• Share based payments

The Company issues equity-settled and cash-settled share based payments to certain employees of its subsidiary companies.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the income statement to the extent that the amount is not recharged to each subsidiary company.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense (or as an increase in investments in subsidiary undertakings) over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense or investment is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Company's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award.

At each balance sheet date, before vesting, the cumulative expense or investment is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period. Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently expects to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it currently expects to settle all such awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price. The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date. Awards under the Executive Participation Plan are accounted for as equity-settled transactions (see above).

• Dividends

Dividends on ordinary shares are recorded in the financial statements in the period in which they are approved by the Company's shareholders, or in the case of interim dividends, in the period in which they are paid.

• Financial Instruments

Financial instruments are accounted for in accordance with IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial Instruments: Recognition and measurement", and IFRS 7 "Financial Instruments: Disclosures" which is the same as the accounting policy for the Group. Therefore, for details of the Company's accounting policy for financial instruments refer to pages 85 to 87.

The Company holds derivative financial instruments that hedge financial risks of the Group as a whole and to which hedge accounting is applied in the consolidated financial statements. However, these instruments are accounted in the Company financial statements at fair value through profit or loss.

• Investment in own shares

Own shares held by the Group's Employee Benefit Trust and Qualifying Employee Share Ownership Trust are treated as deductions from equity in the Company's financial statements. Shares held in treasury by the Company have also been classified as deductions from equity.

• Interest bearing loans and borrowings

Borrowings are recognised initially as the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. The carrying value of borrowings takes account of accrued interest, issue costs and the effect of fair value hedges.

• Retirement benefit obligations

The Company has no employees and is therefore not liable for a share in any of the Group defined benefit schemes that are disclosed in note 24 to the consolidated financial statements. It does have unfunded liabilities in respect of former employees and these are reflected in the balance sheet.

Note 2 Intangible assets

The movements in intangible assets were as follows:

	2017
	£m
Cost	
At beginning and end of year	0.7
Accumulated amortisation	
At beginning of year	(0.4)
Amortisation charged to income statement	(0.1)
At end of year	(0.5)
Net book value at beginning of year	0.3
Net book value at end of year	0.2

Note 3 Property, plant and equipment

The movements in property, plant and equipment were as follows:

	£m
Cost	
At beginning of year	1.8
Additions	0.1
At end of year	1.9
Depreciation	
At beginning of year	(1.7)
Depreciation charged to income statement	(0.1)
At end of year	(1.8)
Net book value at beginning of year	0.1
Net book value at end of year	0.1

Note 4 Investments

The movements in investments were as follows:

	Subsidiary undertakings £m
Cost and net book value	
At beginning of year	1,197.7
Disposals	(185.9)
Additions	1.9
Foreign exchange movements	21.4
At end of year	1,035.1

Note 5 Other receivables

Other receivables were as follows:

	2017 £m	2016 £m
Current:		
Amounts owed by Group undertakings	598.8	563.2
Less: provision for impairment	(59.0)	-
Amounts owed by Group undertakings – net	539.8	563.2
Other receivables	41.9	95.8
Prepayments and accrued income	0.1	0.2
	581.8	659.2

Of amounts owed by Group undertakings £46.3m (2016: £53.7m) accrue no interest and are repayable on demand. The remaining £552.5m (2016: £509.5m) accrue interest at 6 month LIBOR plus margins ranging from 2.5% to 3.5%. These are all repayable on demand.

Note 6 Payables

Trade and other payables were as follows:

	2017 £m	2016 £m
Current:		
Bank overdrafts	56.8	48.2
Loan notes	18.6	19.3
Amounts owed to Group undertakings	214.2	270.1
Accruals and deferred income	13.9	7.4
Loan from non-controlling investor in subsidiary	5.8	5.3
	309.3	350.3
Non-current:		
Sterling 4.00% Notes	405.2	403.8
US Dollar 4.36% Notes	115.9	102.3
Bank loans	121.8	189.6
	642.9	695.7

Of amounts owed to Group undertakings £150.8m (2016: £120.1m) accrue no interest and are repayable on demand. The remaining £63.4m (2016: £150.0m) accrue interest at 6 month LIBOR or bank rate plus a margin of 1.5%. These are all repayable on demand.

Notes to the Company financial statements

Note 6 Payables (continued)

	2017	2016
	£m	£m
Borrowings are repayable as follows:		
On demand or within 1 year		
Bank overdraft	56.8	48.2
Loan notes	18.6	19.3
Repayable after 2 years, but within 5 years		
Bank loans	121.8	189.6
Repayable after 5 years		
US Dollar 4.36% Notes	115.9	102.3
Sterling 4.00% Notes	405.2	403.8
Total borrowings	718.3	763.2

Note 7 Deferred tax

The movement in the deferred tax asset during the year was as follows:

	2017	2016
	£m	£m
At beginning of year	0.9	0.8
Credit to the income statement	0.3	0.1
At end of year	1.2	0.9

Deferred taxation is calculated as follows:

	2017	2016
	£m	£m
Pension temporary differences	1.2	0.9
Short-term timing differences	(0.1)	-
Accelerated capital allowances	0.1	-
At the end of year	1.2	0.9

Note 8 Financial instruments

The fair values of derivative financial instruments are set out below:

	2017	2016
	£m	£m
Non-current assets		
Interest rate derivatives	2.0	1.8
Fuel derivatives	5.0	2.7
	7.0	4.5
Current assets		
Interest rate derivatives	1.2	-
Fuel derivatives	2.9	0.7
	4.1	0.7
Current liabilities		
Interest rate derivatives	(0.7)	(1.1)
Fuel derivatives	(16.0)	(37.4)
	(16.7)	(38.5)
Non-current liabilities		
Fuel derivatives	(6.9)	(19.5)

In accordance with IAS 39, "Financial Instruments: Recognition and measurement", the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. No such embedded derivatives were identified (2016: None).

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 9 Retirement benefit obligations

	2017	2016
	£m	£m
Retirement benefit obligations	7.1	5.1

The Company no longer has any employees but has unfunded retirement benefit liabilities in respect of former employees which are shown above. See note 24 to the consolidated financial statements for more details on retirement benefits.

Note 10 Share capital

Information on share capital is provided in note 26 to the consolidated financial statements.

Note 11 Equity reserves

The loss of £22.4m (2016: loss of £86.0m) shown in the statement of changes in equity is consolidated in the results of the Group. Details of dividends paid, declared and proposed during the year are given in note 8 to the consolidated financial statements.

The retained earnings are distributable but the other components of equity shown in the statement of changes in equity are not distributable.

The remuneration of the Directors is borne by other Group companies and is detailed in section 8 of this Annual Report. The remuneration of the auditors is shown in note 3 to the consolidated financial statements.

Note 12 Share based payments

For details of share based payment awards and fair values see note 27 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £1.9m (2016: £2.2m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to retained earnings to reflect the fact that the Company has no employees (2016: Nil) and all share based payment awards are to employees of subsidiary companies. The Company accounts for the cash-settled share based payment credit for the year of £0.6m (2016: £1.2m credit) by recording an adjustment to the liability for this amount and recording a corresponding entry as a charge through the profit and loss account. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the income statement.

Note 13 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £283.7m (2016: £252.7m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the Company balance sheet.

In addition, the Company has provided guarantees to third parties of £342.4m (2016: £292.1m) in respect of contingent liabilities that are neither included in the consolidated balance sheet nor the Company balance sheet.

The Company is also party to cross-guarantees whereby the bank overdrafts and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the legal liabilities referred to in note 30(v) to the consolidated financial statements.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2017	2016
	£m	£m
Contracted for but not provided:		
For delivery in one year	67.8	99.1

(c) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 29 April 2017:

	Land and buildings	Other	Total
As at 29 April 2017	£m	£m	£m
Lease payments in respect of:			
Year ending 28 April 2018	0.1	0.1	0.2
Year ending 27 April 2019	0.1	0.1	0.2
Year ending 2 May 2020	0.1	0.1	0.2
Year ending 1 May 2021	0.1	–	0.1
Year ending 30 April 2022	0.1	–	0.1
1 May 2022 and thereafter	0.2	–	0.2
	0.7	0.3	1.0

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2016:

	Land and buildings	Other	Total
As at 30 April 2016	£m	£m	£m
Lease payments in respect of:			
Year ending 30 April 2017	0.1	0.1	0.2
Year ending 30 April 2018	0.1	0.1	0.2
Year ending 30 April 2019	0.1	0.1	0.2
Year ending 30 April 2020	0.1	0.1	0.2
Year ending 30 April 2021	0.1	–	0.1
1 May 2021 and thereafter	0.3	–	0.3
	0.8	0.4	1.2

Notes to the Company financial statements

Note 14 Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions entered into between two or more members of a group. Related party disclosures provided by the Group can be found in note 32 to the consolidated financial statements.

Note 15 Transition to FRS 101

For all periods up to the year ended 30 April 2015, the Company prepared its financial statements in accordance with previously issued UK GAAP. For the year ended 30 April 2016, the Company transitioned to FRS 101.

In preparing the financial statements for the year ended 30 April 2016, the Company started from an opening balance sheet as at 1 May 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first time adoption of FRS 101. This note explains the principal adjustments made by the Company in restating its balance sheet as at 1 May 2014 prepared under previously issued UK GAAP and its previously published UK GAAP financial statements for the year ended 30 April 2015.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards".

Restatement required on transition from UK GAAP to FRS 101

Reclassification of software assets

Under previously issued UK GAAP, software development costs were capitalised as tangible assets. Under FRS 101, these costs meet the criteria for capitalisation as intangible assets under IAS 38 "Intangible Assets" and as such have been reclassified from tangible assets to intangible assets in the balance sheet as at 1 May 2014 (£0.6m) and 30 April 2015 (£0.4m).

Note 16 Employees

The Company has no (2016: none) employees. The Company's directors and some other head office personnel are employed by a subsidiary company, Stagecoach Holdings Limited.

13. Subsidiary and related undertakings

The Company owns the following subsidiary and related undertakings. The Company indirectly owns 100% of each undertaking through its holding of the stated class or classes of share or other interest unless otherwise stated.

Company	Country of registration	Class of shares/other interest	Registered office address
3329003 Canada Inc	Canada	A Shares	5550 Monk Blvd, Montreal, QC H4C 3R8
3376249 Canada Inc	Canada	Common shares and Dividend Access shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
349 First Street Urban Renewal Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
4216849 Canada Inc	Canada	Common stock	5550 Monk Blvd, Montreal, QC H4C 3R8
A1 Service Limited	Scotland	Guarantor	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
AA Buses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Aberdare Bus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
All West Coachlines Inc	United States	Common Stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234,
American Coach Lines of Atlanta Inc	United States	Common Stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234,
American New York Tours Corporation	United States non-voting	Common A and Common B	111 Eighth Avenue, 13th Floor, New York, NY 10011
American Tour Connection Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Atlanta Airport Shuttle Inc	United States	Common stock	1201 Peachtree Street, NE, Atlanta, GA 30361
B&B Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Barclay Airport Service Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Barclay Transportation Services Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Bayline Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Bluebird Buses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Busways Travel Services (1986) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Busways Travel Services Limited	England	Ordinary shares and Ordinary-A shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Busways Trustee (No. 1) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Busways Trustee (No. 2) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Butler Motor Transit Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
CAM Leasing LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Cambus Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Cape Transit Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Central Cab Company Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Central Charters & Tours Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Central Jersey Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Century Airline Services Inc	Canada	Common stock	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Cheltenham and Gloucester Omnibus Company Limited	England	Ordinary and Preference shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Cheltenham District Traction Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Chenango Valley Bus Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Chesterfield Transport (1989) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Chesterfield Transport EBT	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU

Company	Country of registration	Class of shares/other interest	Registered office address
Chesterfield Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Chesterfield Transport PST Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Cisko Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Cleveland Transit Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Cleveland Transit Trustee (No. 1) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Clinton Avenue Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Coach Leasing Inc	United States	Common stock	208 South LaSalle Street, Suite 814, Chicago, IL 60604
Coach USA Administration Inc	United States	Common stock	701 S. Carson Ste 200, Carson City NV 89701
Coach USA Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Coach USA Investment Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Coach USA MBT LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Coach USA Tours - Las Vegas Inc	United States	Common stock	701 S. Carson Ste 200, Carson City NV 89701
Colonial Coach Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Commodore Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Bus Lines Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Coach Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Transit Lines Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Transportation Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
County Wide Travel Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Cumberland Motor Services Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Devon General Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Dillon's Bus Service Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Douglas Braund Investments Limited	Canada	Class A, Common and preference shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Dragon Bus LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
E&A Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
East Coast Mainline Company Limited (90%)	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
East Kent Coaches Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
East Kent Road Car Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
East London Bus and Coach Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
East London Bus Group Property Investments Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
East London Bus Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
East Midlands Trains Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
East Midlands Transport Information Service Limited (28%)	England	Ordinary shares	c/o Stagecoach Lincolnshire, PO Box 15, Deacon Road, Lincoln, Lincolnshire, LN2 4JB
Elizabeth Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
ELKO Inc	United States	Common stock	1908 Thomas Ave, Cheyenne, WY 82001-3527
Fife Scottish Omnibuses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Fleet Buzz Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Formia Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Frenchwood Holdings Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU

Company	Country of registration	Class of shares/other interest	Registered office address
Friedman Transportation Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
G&G Travel Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Gad About Tours Inc	United States	Common stock	1300 East Ninth Street, Cleveland, OH 44114
Generic Holding Inc	United States	Common stock	7770 E. Arapahoe Road, Suite 220, Centennial, CO 80112
Gilsam Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
GL Bus Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Glenvale Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Glossopdale Bus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
GM Buses South (EBT) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Go West Travel Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Gray Line Air Shuttle Inc	United States	Class A and Class B stock	820 Bear Tavern Road, West Trenton, NJ 08628
Greater Manchester Buses South Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Greater Manchester Buses West Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Grimsby Cleethorpes Transport Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Halliday-HartleTravel (1988) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
HAML Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Hartlepool Transport (1993) Limited	England	Ordinary B and Preference shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Hartlepool Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Hastings and District Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
High Adventure Tours Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Highland Country Buses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Hudson Transit Corporation	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Hudson Transit Lines Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Independent Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Inter City Railways Limited (90%)	England	A Shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
International Bus Services Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
J&J Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
J&J Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
J&L Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
JW Coaches Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Kaunas Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Keeshin Charter Service Inc	United States	Common stock	208 South LaSalle Street, Suite 814, Chicago, IL 60604
Kerrville Bus Company	United States	Common stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234
KHCT (ESOP) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
KHCT (Holdings) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
KILT of CT Inc	United States	Class A and Class B Common stock	One Corporate Center, Floor 11, Hartford, CT 06103-3220
Mini Coach of Boston Inc	United States	Common stock	155 Federal Street, Suite 700, Boston, MA 02110
KILT of RI Inc (previously Bonanza Bus Lines)	United States	Common stock	10 Weybosset Street, Providence, RI 02903

Company	Country of registration	Class of shares/other interest	Registered office address
Kingston Upon Hull City Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Lakefront Lines Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Landylines Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Leisure Time Tours	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Lenzner Tours Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Lenzner Tours, Ltd	United States	Partnership interest	116 Pine Street, Suite 320, Harrisburg, PA 17101
Lenzner Transit Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Lenzner Transportation Group Inc	United States	Common stock	701 S. Carson Ste 200, Carson City NV 89701
LER Transportation Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Liberty Bell Taxi Company Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Limousine Rental Service Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Lincoln City Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Lincolnshire Road Car Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
M&J Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Massachusetts Bay Transportation Services LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Meadowlands Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Megabus Acquisition LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Northeast LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Philadelphia LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Southeast LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Southwest LLC	United States	LLC Units	450 Veterans Memorial Parkway, Suite 7A, East Providence, RI 02914
Megabus USA LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus West LLC	United States	LLC Units	5601 South 59th Street, Lincoln, NE 68516
Planet Coach BVBA	Belgium	Ordinary shares	Koningsstraat 97, 1000 Brussel
Megabus.com Europe Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Megabus.com GmbH	Germany	Ordinary shares	Otto-Lilienthal Ring 3, 85622, Feldkirchen, Munchen
Megabus.com SAS	France	Ordinary shares	34 Avenue des Champs Elysees, 75008, Paris
Megabus.com SRL	Italy	Ordinary shares	Piazza della Stazione n.2, Comune di Firenze
Megabus.com (UK) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Megacity Limited (35%)	Scotland	Ordinary shares	Buchanan Bus Station, Killermont Street, Glasgow, G2 3NP
Midland Red (South) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Midtown Bus Terminal New York Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Minsol Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Mister Sparkle Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Mountaineer Coach Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
New Delaware Coach Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
New York Splash Tours Inc LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Niagara Scenic Bus Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Nicecon Limited (50%)	Scotland	Ordinary shares	395 King Street, Aberdeen, AB24 5RP

Company	Country of registration	Class of shares/other interest	Registered office address
North Shore Dispatch Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Olympia Trails Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Orange, Newark, Elizabeth Bus Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
P. Phythian and Son Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Pacific Coast Sightseeing Tours and Charters Inc	United States	Common stock	1200 South Pine Island Road, Plantation, FL 33324
Paramus Northeast Mgt Co. LLC	United States	LLC Units	820 Bear Tavern Road, West Trenton, NJ 08628
Parfitts Motor Services Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
PCSTC Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Penn-Mall Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Pennsylvania Transportation Systems Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Perfect Body Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Phantom Cab Company Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Powder River Transportation Services Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Precis (1628) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
PSV Claims Bureau Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
PTI (South East) Limited (20%)	England	Ordinary shares	1 Admiral Way, Duxford International Business park, Sunderland, Tyne and Wear, SR3 3XP
R&W Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
R&W Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Charter Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Enterprises Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Transportation Systems Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Unlimited Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and White Services Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Rhondja Buses Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Rhondja Valley Buses Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Ribble Motor Services Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Road Runner Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Rockland Coaches Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Rockland Transit Corporation	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Route 17 North Realty LLC	United States	LLC Units	820 Bear Tavern Road, West Trenton, NJ 08628
RTI Stagecoach Limited *	England	Ordinary-A shares, Ordinary-B shares and Preference shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Sam Van Galder Inc	United States	A and B Common stock	8020 Excelsior Drive, Suite 200, Madison, WI 53717
Schoolbus Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW

Company	Country of registration	Class of shares/other interest	Registered office address
SCOTO Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
SCOTO US Subsidiary Limited LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Scottish Citylink Coaches Limited (35%)	Scotland	Ordinary shares	Buchanan Bus Station, Killermont Street, Glasgow, G2 3NP
SCUSI Limited	England	Ordinary, A and B shares	Daw Bank, Stockport, Cheshire, SK3 0DU
SCUSI US Subsidiary Limited LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Seven Bus Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
SGP Group Finance Sarl *	Luxembourg	Ordinary shares	6, Rue Henri M Schnadt, 2nd Floor
Sharpton Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
SHM Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Short Line Terminal Agency Inc	United States	Common stock and preferred stock	820 Bear Tavern Road, West Trenton, NJ 08628
Skipburn Limited	Canada	Ordinary shares	791, Webber Avenue, Peterborough, Ontario, K9J 8N3
SL Capital Corporation	United States	Class A voting and Class B non-voting shares	111 Eighth Avenue, 13th Floor, New York, NY 10011
South East London & Kent Bus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
South Orange Avenue Bus Association Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
South Orange Avenue Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
South West Trains Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
South Yorkshire Supertram Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
South Yorkshire Supertram Operating Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Southdown Motor Services Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Sporran AWC Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran FL Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran GBL Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran GCBS Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran GCTC Inc	United States	Common stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234,
Sporran GLS Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran RTI Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran TI Inc	United States	Common stock	701 S. Carson Ste 200, Carson City, NV 89701
Stagecoach (North West) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach (South) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach Bus Holdings Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
TravelHero Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach Devon Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach Glasgow Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Holdings Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach International Services Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach East Midlands Trains Limited	England	Ordinary shares	41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach QUEST Trustee Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW

Company	Country of registration	Class of shares/other interest	Registered office address
Stagecoach Rail Holdings Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Rail North America, LLC	United States	LLC units	1209 Orange Street, Wilmington, DE 19801
Stagecoach Rail Passenger Services LLC	United States	LLC units	1209 Orange Street, Wilmington, DE 19801
Stagecoach Rail Projects Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach Rail Replacement (East) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach Rail Replacement (South) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach Rail Replacement Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach (Scotland) Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Services Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach South West Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach South Eastern Trains Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach South Western Trains Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach Supertram Maintenance Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Stagecoach Technology Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach West Coast Trains Ltd	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach Transport Holdings Limited *	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Suburban Management Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Suburban Trails Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Suburban Transit Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
SuperCAM Limited	England	A and B shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Superior Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Swindon and District Bus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Syracuse and Oswego Coach Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Tanport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Tees Valley Limited	England	Ordinary and A-Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Thames Transit Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
The Barnsley and District Traction Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
The Bus Exchange Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
The Hudson Bus Transportation Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
The Mexborough and Swinton Traction Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
The Valleys Bus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
The Yorkshire Traction Company (Trustee) Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
The Yorkshire Traction Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Trans Maintenance Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Trans-Hudson Express Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Transit Advertising Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Transportation Management Services Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101

Company	Country of registration	Class of shares/other interest	Registered office address
Trentway-Wagar (Properties) Inc	Canada	Class A and class B Common shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Trentway-Wagar Inc	Canada	Common stock and first preference shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Tri State Coach Lines, Inc	United States	Common stock	251 East Ohio Street, Suite 1100, Indianapolis, IN 46204
TRT Transportation Inc	United States	Common stock	208 South LaSalle Street, Suite 814, Chicago, IL 60604
Twenty-Four Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Tyburn Limited	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Tyne and Wear Omnibus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
United Counties Omnibus Company Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Vailsburg Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Van Nortwick Bros Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Virgin Rail Group Holdings Limited (49%)	England	B shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Rail Group Limited (49%)	England	Ordinary and Preference shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Rail Projects Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Trains Sales Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Trains Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Welcome Passenger Transport Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
West Coast Partnership Limited (50%)	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
West Coast Trains Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
West Coast Trains Partnership Limited (50%)	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
West Sussex Buses Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Western Buses Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Whites World Travel Limited	England	Ordinary shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Wisconsin Coach Lines Inc	United States	Common stock	8020 Excelsior Drive, Suite 200, Madison, WI 53717
WJB Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Wohlgemuth Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
XYZ-JP Taxi Inc	United States	Common stock	1200 South Pine Island Road, Plantation, FL 33324
XYZ-PBT Inc	United States	Common stock	1200 South Pine Island Road, Plantation, FL 33324
Yellow Cab Leasing Company of San Diego	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Yellow Cab of San Diego Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Yellow Cab Service Corporation	United States	Common stock	1209 Orange Street, Wilmington, DE 19801

* Companies are directly held by Stagecoach Group plc

All subsidiary undertakings are included in these consolidated financial statements.

14. Shareholder information

Shareholder enquiries

Capita Asset Services
Stagecoach Group Share Register
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales).

Email: StagecoachGroup@capita.co.uk.

Online share administration

You can access your share account online using the Signal Shares share portal service at www.signalshares.com. You will need your investor Code, which is shown on shareholder correspondence, in order to register to use the portal.

Registering your account is quick and easy and you will immediately be able to benefit from the full range of services available on the share portal, including:

- updating your personal details;
- adding a mandate to receive dividends direct to your bank account;
- reinvesting dividends to buy more shares;
- registering proxy votes online; and
- buying and selling shares.

Using the online share portal reduces the need for paperwork and provides 24 hour access.

Share dealing facilities

The Company has set up a range of execution only share dealing services to enable Stagecoach shareholders to buy and sell shares by phone, online or by post. Phone and online dealing services are provided by Capita Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services register for online share administration as above and choose the option to buy and sell shares. Alternatively, go to www.capitadeal.com or call +44 (0)371 664 0364 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday excluding public holidays in England and Wales). Please have your share certificate to hand when you log-in or call.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Shareholders who would like further information should write to Stocktrade, 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR or call +44 (0)131 240 0414, quoting dealing reference 'Stagecoach dlal and deal'. Lines are open 8.00am to 4.30pm, Monday to Friday. Postal dealing packs are available on request.

Other organisations also offer facilities to buy and sell shares.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares. Shareholders can opt to reinvest dividends using the online share administration services referred to above. Shareholders who would like further information should telephone the Company's registrars, Capita Asset Services, on +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@capita.co.uk.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or are offered an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority ("FCA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/ to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
6. REMEMBER: If it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme ("FSCS") if things go wrong.

REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/scams/report-scam. You can find out about the latest investment scams at www.fca.org.uk/consumers/scams/investment-scams. You can also call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on: 0300 123 2040

Corporate information and calendar

Corporate Information

Company Secretary
Mike Vaux

Registered Office
10 Dunkeld Road
Perth PH1 5TW

Telephone +44 (0) 1738 442 111
Facsimile +44 (0) 1738 643 648
Email Info@stagecoachgroup.com

Company Number
SC100764

Calendar

Annual General Meeting
25 August 2017

Final Dividend
4 October 2017

Interim Dividend
March 2018

www.stagecoach.com

Registered Office:

10 Dunkeld Road, Perth PH1 5TW, Scotland

T: 01738 442111 | F: 01738 643648 | E: info@stagecoachgroup.com

Registered In Scotland | Number: 100764