

Greener travel

Better value

Smarter choices



Annual Report
and Accounts 2009

**The better
way to travel**

Highlights

- Strong financial results against challenging economic environment
 - Earnings per share[†] up 12.8% to 22.9p
 - Full year dividend up 11.1% at 6.0p
- Flexible business model in UK Bus and North America
- Consistent growth at UK Bus - like-for-like* revenue up 8.9%
- Further UK Bus operating margin* enhancement, up to 15.1% from 14.8%
- North American operating margin, excluding megabus.com, maintained at over 10%
- Action to secure long-term business at UK Rail - c. £50m of annualised cost savings
- UK Rail like-for-like revenue up 6.2%
- Contractual issues at South Western Trains franchise referred to arbitration
- Plans in place at Virgin Rail Group to drive growth from 30% increase in services
- Significant committed undrawn bank facilities

Financial summary

Year ended 30 April	Results excluding intangible asset expenses and exceptional items		Reported results	
	2009	2008	2009	2008
Revenue (£m)	2,103.3	1,763.6	2,103.3	1,763.6
Total operating profit (£m)	227.8	205.3	202.4	192.3
Disposal losses (£m)	–	–	–	(1.4)
Impairment charge on properties (£m)	–	–	(2.4)	–
Resolution of certain liabilities re acquisitions and disposals (£m)	–	–	2.2	–
Net finance charges (£m)	(31.4)	(30.9)	(31.4)	(23.6)
Profit before taxation (£m)	196.4	174.4	170.8	167.3
Earnings per share (pence)	22.9p	20.3p	18.7p	34.6p
Proposed final dividend (pence)	4.2p	4.05p	4.2p	4.05p
Full year dividend (pence)	6.0p	5.4p	6.0p	5.4p

[†]excluding intangible asset expenses and exceptional items (refer to definition of exceptional items contained in note 38 to the consolidated financial statements).

* See definitions in note 38 to the consolidated financial statements.

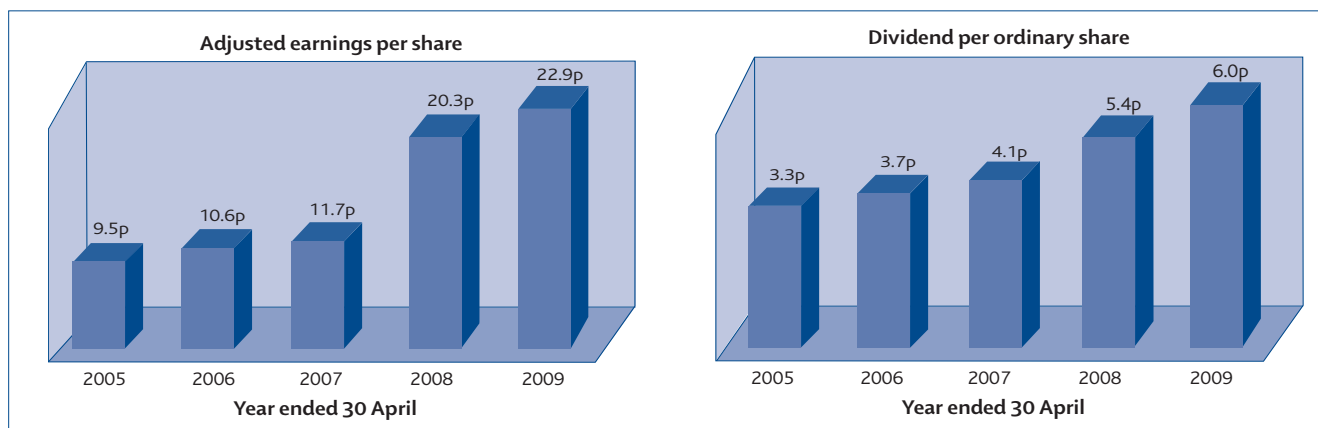
Commenting on the results, Stagecoach Chief Executive, Brian Souter said:

"We have delivered strong revenue and profit growth from our greener, smarter bus and rail services despite the challenging economic environment.

Our bus operations are performing well, with our focus on delivering good value, high quality services. We have made targeted complementary acquisitions that support our successful organic growth strategy and we have a flexible and successful business model.

While our rail operations are more sensitive to the macroeconomic cycle, we have acted quickly to protect our businesses. We have delivered a major cost reduction programme at our rail franchises and are implementing measures to protect passenger revenue and attract new customers to the rail network.

There is no doubt the transport sector faces a challenging year ahead, but I believe Stagecoach is well placed to withstand the economic headwinds. We have a record of being able to respond quickly to the changing business environment. I am confident we can develop new ideas for future growth, maintain high quality public transport services to our customers and deliver long-term value to our shareholders."



Adjusted earnings per share is earnings per share before intangible asset expenses and exceptional items.

The Group seeks to grow the dividend per ordinary share as earnings grow.

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1. Chairman's statement



I am pleased to report that Stagecoach Group has achieved a strong performance in the year, with further growth in our revenue, operating profit and dividend.

The Group's diverse portfolio of businesses, robust bus operations and relatively low net debt have meant we have been well placed to withstand the economic slowdown.

Nevertheless, we are not immune to the current economic environment, which has resulted in slower rates of revenue and passenger volume growth, particularly in the second half of the year.

Our bus operations have continued to perform well and we have achieved further like-for-like revenue growth. We have also made some small bolt-on acquisitions to complement our existing operations.

In UK Rail, we have achieved further improvements in train punctuality as we continue to deliver on our commitments to passengers and the Government at our South Western and East Midlands rail franchises. Like all rail operators, our business is sensitive to changes in the macroeconomy and the negative trends in the UK economy have affected passenger demand. We have taken action to reduce costs, achieve sensible efficiencies and maximise revenue. These steps have helped to protect our underlying business and ensure we are in a strong position to capitalise on opportunities when the economy improves.

Group revenue for the year ended 30 April 2009 was up 19.3% at £2,103.3m (2008: £1,763.6m). Operating profit before intangible asset expenses and exceptional items was 11.0% higher at £227.8m (2008: £205.3m). Earnings per share before intangible asset expenses and exceptional items were up 12.8% at 22.9p (2008: 20.3p).

We are proposing a final dividend of 4.2p per share (2008: 4.05p), giving a total dividend for the year of 6.0p (2008: 5.4p). The proposed final dividend is payable to shareholders on the register at 28 August 2009 and will be paid on 30 September 2009.

Trading to date in the current financial year to 30 April 2010 is in line with our expectations. We will continue to monitor macroeconomic developments closely, particularly their impact on our UK Rail Division, and take action to protect our business for the future.

I am aware that our own employees have been affected by the challenging economic environment and I would like to thank them for their continued professionalism and support.

A handwritten signature in black ink, which appears to read 'Robert Speirs'. The signature is fluid and cursive.

Robert Speirs
Chairman

24 June 2009

2. Chief Executive's review



We have had another strong year, reflecting the high quality of our bus and rail operations, and our focus on delivering excellent service and value for money to our customers. These qualities are more important than ever in the current economic slowdown.

One of our strengths is the ability to respond quickly to the changing operating environment. Since the turn of the year, the transport sector as a whole has faced challenging trading conditions. However, we identified the implications for our business early and moved fast to manage the issues effectively.

I also believe that the current economic slowdown presents opportunities for dynamic companies like Stagecoach that are driven by innovation. Issues around congestion and climate change are becoming more immediate and public transport is central to a low carbon economy.

Stagecoach is continuing to invest for long-term growth and we have achieved further increases in like-for-like revenue across the business. Pricing is central to consumer decisions in the current environment and we have further expanded our budget products over the past year, with more megabus.com destinations in North America and a new budget coach-rail service in the UK.

We have increased our focus on online marketing and sales channels to reflect the changing purchasing habits of our passengers. Our new Stagecoach web portal, www.stagecoach.com, will allow us to market our greener, smarter bus and rail services more effectively.

In our UK Bus Division, we have a successful formula of simple, comprehensive bus networks offering good value, greener, smarter travel. Passenger volumes have grown further, even in the current weak economy, and we believe our bus operations will continue to perform well.

In North America, we have maintained our operating margin (excluding megabus.com), despite the weak economy. Our scheduled and inter-city services are performing well, while our budget coach service megabus.com is growing ahead of our expectations and leading this expanding market. While the downturn has affected some of our leisure services, we have taken action to deliver efficiencies and match supply with demand, including the introduction of a new sightseeing joint venture in New York.

Much of the focus in the UK transport sector since the turn of the year has been on the impact of the weak economy on demand for rail travel. There is no doubt that falling employment, particularly in and around London, has affected a number of rail operators, including Stagecoach.

However, we have quickly implemented a responsible cost reduction and restructuring plan that will deliver around £50m in annualised savings at our UK Rail Division. Despite the uncertain environment, we have achieved rising levels of operational performance and I would like to thank our people for their commitment at what has been a difficult time for many personally.

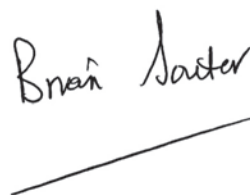
We have delivered strongly on our franchise commitments to Government, helping to significantly reduce the cost to taxpayers of running the railways. Our passengers at South Western Trains and East Midlands Trains are benefiting from the investment we have made in our stations and our services. We put forward a deliverable bid for the new South Central rail franchise, which reflected our view of the economic outlook. We were disappointed not to win the franchise but will continue to evaluate opportunities to bid for new rail franchises.

As previously reported, we are in dispute with the Department for Transport ("DfT") regarding revenue support matters under the South Western rail franchise contract. We have taken legal action to ensure the contractual commitments made by the DfT regarding the timing and scope of revenue support are met. We have legal advice in support of our case and we remain confident we are in a strong position. We will continue to deliver on our commitments to passengers and the Government.

Virgin Rail Group is now operating the full significant step-up in rail services following the West Coast mainline upgrade project. Improvement works are continuing and Virgin Rail Group is working closely with Network Rail to minimise the immediate inconvenience on our customers and ensure they benefit from long-term reliability on one of the UK's crucial rail arteries.

I have no doubt that 2009/10 will present some challenges. However, I also believe we are better placed than most to come through the recession. We have a strong set of brands, the right good value products for the current environment, and a track record of innovation to exploit the opportunities ahead.

Stagecoach has a robust and flexible business model and we will continue to focus on high operational and trading performance. We have a strong business for the long-term and I am confident we will continue to deliver for our customers and our shareholders.



Brian Souter
Chief Executive

24 June 2009

3. Operating and Financial Review

3.1 Introduction

The Directors are pleased to present their report on the Group for the year ended 30 April 2009.

This section 3 contains the Operating and Financial Review, which includes the information that the Group is required to produce to meet the need for a business review in accordance with section 417 of the Companies Act 2006. The Operating and Financial Review also provides significant information over and above the statutory minimum. Biographies of each director are contained in section 4 of this Annual Report and the remainder of the Directors' report is set out in section 5.

The Operating and Financial Review that follows is intended largely to reflect the recommendations of the Accounting Standards Board's 2006 reporting statement of best practice on the Operating and Financial Review.

3.2 Cautionary statement

The Operating and Financial Review has been prepared for the shareholders of the Company, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. This Operating and Financial Review 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 Operating and Financial Review will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

3.3 Description of the business

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, United States and Canada. The Group employs around 30,000 people, and operates bus, coach, train and tram services. The Group has three main divisions – UK Bus, UK Rail and North America.

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" or "the Group".

3.3.1 UK Bus

Our UK Bus Division connects communities in more than 100 towns and cities across the UK on 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 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 reliability and punctuality.

Our UK Bus Division operates a fleet of around 7,000 buses across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director, reporting directly to the head of the UK Bus division.

Stagecoach operates express coach services linking major towns within its regional operating company areas. The Group also runs the market-leading budget inter-city coach service, megabus.com.

Our local and express bus services on average carry around 2 million passengers each weekday. Stagecoach's bus and coach services in the UK are operated on a commercial basis in a largely deregulated market. We also operate tendered services, including schools contracts, on behalf of local authorities. Around 25% of the UK Bus Division's revenue is earned from concessionary fare schemes, whereby the Group is reimbursed by local authorities for carrying people aged over 60 and people with special needs free of charge.

3.3.2 North America

Stagecoach, principally through its Coach USA and Coach Canada brands, provides transport services in North America. Our businesses include commuter/transit services, inter-city services, tour and charter, sightseeing and school bus operations.

The United States business is headed by a Chief Operating Officer. Stagecoach (excluding its joint ventures) operates approximately 2,300 vehicles in the United States where our operations are mainly in the states of New York, New Jersey, Pennsylvania, West Virginia, Ohio, Indiana, Illinois and Wisconsin. Our services operate in major cities such as New York City, Newark, Pittsburgh, Chicago and Milwaukee.

In Canada, we own two operating companies, which together operate around 500 vehicles in the Provinces of Quebec and Ontario. The Canadian business is also headed by a Chief Operating Officer.

3.3.3 UK Rail

Stagecoach Group has major rail operations in the UK. The UK train 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 DfT 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.

Our principal wholly owned rail businesses are South Western Trains and East Midlands Trains. South Western Trains incorporates the South West Trains and Island Line networks. South West Trains runs around 1,600 train services a day in south west England out of London Waterloo railway station, while Island Line operates on the Isle of Wight. The South Western franchise is expected to run until February 2017. From 11 November 2007, we have operated the East Midlands Trains franchise. The franchise 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 franchise will run until 31 March 2015 assuming the Group meets agreed performance targets. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. In May 2007, we signed a contract with Greater Manchester Passenger Transport Executive ("GMPTÉ") to operate and maintain the Manchester Metrolink tram network and commenced operations under the 10-year contract in July 2007.

South Western Trains, East Midlands Trains and the tram operations each have a managing director, who report to the Group's Executive Directors.

3.3.4 Joint Ventures

3.3.4.1 Virgin Rail Group

Stagecoach Group has a 49% shareholding in Virgin Rail Group, which operates the West Coast Trains rail franchise and operated the CrossCountry Trains rail franchise up until its non-default termination in November 2007. The West Coast Trains rail franchise runs until March 2012. The other shareholder in Virgin Rail Group is the Virgin Group of Companies.

Stagecoach's Group Finance Director is Joint Chairman of Virgin Rail Group. Virgin Rail Group has a Chief Executive, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.

3.3.4.2 Scottish Citylink Coaches Limited

In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro, to operate megabus.com and Scottish Citylink coach services. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading provider of express coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.

3.3.4.3 New York Splash Tours

In North America, Stagecoach has a joint venture, New York Splash Tours LLC, with Port Imperial Duck Charters LLC. Splash Tours began operating sightseeing tours in May 2007 using amphibious vehicles. The vehicles operate in the Hudson River and on land in the city of New York. Splash Tours complements the Group's New York sightseeing tours joint venture, Twin America.

3.3.4.4 Twin America

In North America, Stagecoach began operating a joint venture, Twin America LLC, with CitySights NY on 31 March 2009. The joint venture operates

sightseeing services in New York under both the Gray Line and CitySights brands. The Group holds 60% of the economic rights and 50% of the voting rights in the joint venture. Twin America LLC is headed by a Chief Executive and overseen by a joint Board.

3.4 Resources and relationships

3.4.1 Resources

Stagecoach Group has a range of resources that underpin its business and support its strategy. These assist in giving the Group a competitive advantage in the markets in which it operates. We continue to invest in the areas listed below to maintain our position among the market leaders in the public transportation sector.

3.4.1.1 Employees

Stagecoach Group's most important resource is its employees. We seek 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 also encourage our people to give something back to their local community and many are regularly involved in fundraising, payroll giving and in-kind support to a wide range of good causes. Further information about our commitment to corporate social responsibility is set out on pages 16 to 19.

3.4.1.2 Market research

An important element of the Group's success in growing its customer base lies in a track record of product innovation and new ideas on developing effective public transport systems. The Group has an ongoing programme of market research. We have a dedicated telemarketing unit in the UK that communicates with current customers and non-users to build a detailed profile of what attracts people to use our services.

3.4.1.3 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 Government and other 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.

3.4.1.4 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 as efficiently as possible 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.

3.4.1.5 Licences

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

3.4.2 Relationships

Stagecoach Group works closely with a range of bodies in each of the markets where we provide public transport services. Our stakeholders include:

- Our People – 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.
- Investors and 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 are a constituent of the FTSE4Good index, which sets standards and tracks the performance of the leading socially responsible companies around the globe.
- Customers – millions of people use our services every day. We conduct extensive customer research to monitor our performance and to determine how we can improve the delivery and accessibility of our services.
- Customer Interest Groups – our businesses have a regular and ongoing dialogue with bus and rail user groups. This includes presentations from managers on detailed aspects of our service as well as consultation and information sharing on particular issues.
- Government – our managers have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider

objectives. In the UK, we work closely with the DfT, the Scottish Executive, Transport Scotland, the Welsh Assembly, and Transport for London ("TfL").

- Transport Authorities – we work closely 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.
- Government Advisory Bodies and Lobbying Groups – we also 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.
- 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 Association of Train Operating Companies and the American Bus Association.

- Suppliers – we rely on a range of suppliers to provide goods and services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers.

We have contractual relationships with a number of parties which are essential to the business of the Group, including:

- The operation of our rail franchises depends upon a number of contractual relationships, the most critical of which include: contracts with the DfT governing the terms of the franchises; 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.
- All of our businesses have various contractual relationships including purchase contracts with fuel suppliers, vehicle suppliers, IT companies and spare part suppliers.
- We have contracts with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis.
- We have contractual arrangements with banks and other finance providers for the provision of funds and financial products to the Group.

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.

3.5 Group business objectives and long-term strategy

3.5.1 Business objectives and long-term strategy

The key elements of Stagecoach Group's business strategy to deliver long-term shareholder value are:

- To deliver organic growth across all of the Group's operations;
- 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 Group's Rail business by bidding for selected rail franchises and to seek to secure new franchises where the risk/return trade-off is acceptable.

A fundamental objective underlying this strategy is the continued provision of safe and reliable services to passengers.

Stagecoach Group has demonstrated particular strength in managing bus and coach businesses that operate scheduled services in a relatively deregulated environment. The Group's focus is on operations with critical mass in their own local markets. In rail, Stagecoach's skill centres on organic revenue and passenger volume growth, the management of significant change projects, the delivery of improved operational performance, and driving up customer satisfaction.

Our overall business strategy is supported by a financial strategy whereby we seek to maintain a long-term efficient capital structure.

3.5.2 Key Performance Indicators

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level. The most important of these KPIs at a Group level focus on five key areas:

- Safety
- Profitability
- Organic growth
- Service delivery
- Staff retention

KPIs are also shown below for the Group's largest joint venture, Virgin Rail Group.

Operating and Financial Review

3.5.2.1 Safety

In addition to providing reliable services, we seek to ensure the safety of our passengers, staff and others. Health and safety matters are discussed on pages 17 and 18 of this Annual Report. Safety is monitored in various ways, including through a range of KPIs. Disposed businesses are excluded from the safety KPIs.

Five of the more important safety KPIs are reported below:

	Target	Year ended 30 April 2009	Year ended 30 April 2008	Year ended 30 April 2007
UK Bus – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	see below	see below	see below
US – number of blameworthy accidents per 1 million miles travelled		see below	see below	see below
South West Trains – workforce lost time injuries per 1,000 staff		1.7	1.9	2.1
East Midlands Trains – workforce lost time injuries per 1,000 staff		2.6	2.1	N/A
Virgin Rail Group – West Coast Trains – workforce lost time injuries per 1,000 staff		1.6	1.5	2.2

Following recent acquisitions in UK Bus and the US and ongoing development of our safety reporting systems, work is underway to standardise and further enhance the reporting of safety indicators. The updated consolidated data for UK Bus and the US is not yet available.

3.5.2.2 Profitability

The Group seeks to increase long-term value to its shareholders. While the Group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. For the Group as a whole, the key measure of short-term financial performance 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 30 April		
		2009 pence	2008 pence	2007 pence
Adjusted EPS	To increase in excess of inflation	22.9p	20.3p	11.7p

3.5.2.3 Organic growth

A key element underpinning the Group’s strategy is to deliver organic growth in revenue. The following measures of organic growth are monitored in respect of the Group’s three divisions:

- UK Bus – 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.
- North America – growth in constant currency revenue from continuing operations (excluding closed units) 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, not all of the revenue in North America is 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.

All of these growth KPIs involve a degree of estimation in respect of passenger volumes and are normalised to exclude businesses that have not been held by the Group for the whole of both periods.

The organic growth KPIs were as follows:

	Target	Year ended 30 April 2009 Growth %	Year ended 30 April 2008 Growth %	Year ended 30 April 2007 Growth %
UK Bus passenger journeys		3.2%	3.6%	6.6%
UK Rail passenger miles	Positive growth each year	2.2%	5.7%	8.9%
– South West Trains		1.6%	2.9%	N/A
– East Midlands Trains		(1.5)%	8.3%	11.1%
– Virgin Rail Group – West Coast Trains		7.2%	4.6%	9.1%
North America revenue				

The growth in passenger miles shown above for East Midlands Trains in the year ended 30 April 2008 represents the growth for the period from 11 November 2007 (when the Group began operating East Midlands Trains) to 30 April 2008 when compared to the equivalent businesses under their previous ownership for the corresponding prior year period. During the year, Virgin Rail Group experienced numerous Network Rail possessions, over-runs and days of poor performance and this is reflected in the decline in passenger miles shown above. Virgin Rail Group is pressing for major improvements in Network Rail's performance contract to ensure there is a more effective way of maintaining service.

3.5.2.4 Service delivery

We aim to provide a reliable service to support our organic growth strategy. Our measures of service delivery include:

- UK Bus – reliability measured as the percentage of planned miles to be operated that were operated, adjusted to exclude the discontinued London operations.
- Rail – punctuality measured on the basis of the DfT'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.

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.

The service delivery KPIs were as follows:

	Target	Year ended 30 April		
		2009 %	2008 %	2007 %
UK Bus reliability	>99.0%	99.5%	99.4%	99.4%
UK Rail punctuality				
– South West Trains	>90.0%	93.3%	92.2%	90.1%
– East Midlands Trains	>85.0%	89.3%	87.2%	N/A
– Virgin Rail Group – West Coast Trains	>85.0%	79.7%	85.9%	85.8%

We are disappointed but not surprised by the deterioration in West Coast Trains' punctuality, which is caused by the significant disruption to its train services from Network Rail engineering work and ongoing issues with Network Rail operational performance. Virgin Rail Group is pressing for major improvements in Network Rail's performance contract to ensure there is a more effective way of maintaining service.

3.5.2.5 Staff retention

As noted on page 16, the strength of our business is built on the quality of our employees. We monitor staff turnover which is measured as the number of employees who left the Group (other than through business disposals) during the period as a proportion of the total average employees during the period. Staff turnover for the last three years in our continuing businesses was as follows:

	Target	Year ended 30 April		
		2009 %	2008 %	2007 %
UK Bus staff turnover		18.3%	24.0%	23.3%
UK Rail staff turnover	To decrease each year	11.3%	10.7%	9.6%
– South West Trains		8.3%	5.8%	N/A
– East Midlands Trains		5.3%	5.5%	5.7%
– Virgin Rail Group – West Coast Trains		20.2%	21.7%	21.2%
North America staff turnover				

The increases in staff turnover at South West Trains and East Midlands Trains are driven by redundancies in relation to cost reduction plans.

Operating and Financial Review

3.6 Overview of financial results

Stagecoach Group has achieved continued strong financial and operational performance for the year ended 30 April 2009.

Revenue by division is summarised below:

REVENUE	2009	2008		2009	2008	
	£m		Functional currency	Functional currency (m)		Growth %
Continuing Group operations						
UK Bus	830.8	743.9	£	830.8	743.9	11.7%
North America – excluding megabus.com	276.4	236.3	US\$	463.7	474.3	(2.2)%
North America – megabus.com	21.3	5.6	US\$	35.8	11.3	216.8%
UK Rail	977.7	777.8	£	977.7	777.8	25.7%
Intra-Group revenue	(2.9)	Nil	£	(2.9)	Nil	–
Total Group revenue	2,103.3	1,763.6				

Operating profit by division is summarised below:

OPERATING PROFIT	2009		2008			2009	2008
	£m	% margin	£m	% margin	Functional currency	Functional currency (m)	
Continuing Group operations							
UK Bus	125.6	15.1%	109.9	14.8%	£	125.6	109.9
North America – excluding megabus.com	28.0	10.1%	23.9	10.1%	US\$	47.0	48.0
North America – megabus.com	(2.8)	(13.1)%	(2.9)	(51.8)%	US\$	(4.7)	(5.8)
UK Rail	55.7	5.7%	59.1	7.6%	£	55.7	59.1
Group overheads	(11.5)		(13.0)				
Restructuring costs	(2.5)		(4.3)				
Total operating profit from continuing Group operations	192.5		172.7				
Joint ventures – share of profit/(loss) after taxation							
Virgin Rail Group	34.0		32.2				
Citylink	1.0		0.8				
New York Splash Tours	(0.6)		(0.4)				
Twin America	0.9		Nil				
Total operating profit before intangible asset expenses and exceptional items	227.8		205.3				
Intangible asset expenses	(13.4)		(13.0)				
Exceptional items	(12.0)		Nil				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	202.4		192.3				

3.7 Divisional Performance

3.7.1 UK Bus

Revenue from our UK Bus operations increased by 11.7% to £830.8m (2008: £743.9m). Like-for-like* revenue growth was 8.9%. Operating profit* was £125.6m (2008: £109.9m). Operating margin was 15.1% compared to 14.8% in 2008. The improvement in operating margin reflects the continued strong revenue growth and a rigorous focus on cost control.

Passenger volume growth

We have achieved further revenue and organic passenger volume growth at our UK Bus Division. Consumer demand for good value travel has increased in the current economic environment and we are continuing to see modal shift from the car. We have now had a full year of the new England-wide concessionary fares scheme, which has resulted in additional journeys.

Estimated like-for-like passenger volumes in the year to 30 April 2009 were 3.2% higher than the equivalent prior year period. The growth includes the effect of the concessionary fares scheme.

Acquisitions

We have made a number of small acquisitions in the past 12 months and these will enhance our footprint of bus services across the UK.

During the period, we completed the acquisition of Highland Country Buses and Orkney Coaches, which employ around 400 people and runs a fleet of around 200 vehicles in the Scottish Highlands, Orkney and Skye. We have acquired two bus operations in Eastbourne – Eastbourne Buses, the former council-owned business, which has 150 employees and a fleet of nearly 70 vehicles, and the small operator, Cavendish Motor Services. In addition, we bought Preston Bus in the North West of England, which has around 300 employees and a fleet of around 120 vehicles. The combined annual revenue of these businesses is approximately £30.9m.

The Office of Fair Trading has referred the acquisitions in Eastbourne and Preston to the Competition Commission, and we expect its decision within the next few months.

Pricing strategy

Price continues to be a key driver of consumer travel behaviour, along with convenience of services, reliability and sustainability. Our strategy of offering affordable multi-journey tickets and budget products is continuing to drive organic growth. Our research has demonstrated that commuting by bus is up to 80% cheaper than using the car and we have expanded our range of discounted online tickets to encourage further modal shift. In addition to our megabus.com and megatrain.com budget coach and rail products, we launched in March 2009 a new integrated coach-rail service, megabusplus.com. With headline fares from £1, plus 50p booking fee, it links a number of locations in Yorkshire and Lincolnshire with London using coaches and high speed trains via an interchange at East Midlands Parkway Station. While it is early in the development of the product, we have been pleased with the performance of megabusplus.com to date.

Fleet investment

We are continuing to invest significantly in our UK Bus fleet and have already taken delivery of the first vehicles from a £71m programme of orders for 430 new buses and coaches with the latest green engine technology. Our investment programme includes 20 new state-of-the-art vehicles to operate in Cambridgeshire on the longest and greenest guided busway in the world. The 20 vehicles will run on 100% biofuel produced from recycled food waste when the busway opens in autumn 2009. We also have on order 26 new high specification double deck coaches to renew the highly successful Oxford Tube fleet.

Local Transport Act

Stagecoach has made a constructive contribution to the consultation process for the Local Transport Bill, which received Royal Assent on 26 November 2008 and is now an Act of Parliament. Close partnership working between operators and local authorities remains an important element of the new measures. We remain committed to investing in our services to make bus travel an even more attractive option and believe the bus can be at the heart of Government initiatives to tackle climate change.

3.7.2 North America

Our North American operations have performed well despite a tough economic environment. Revenue from our North America operations, excluding megabus.com, for the year was down 2.2% at US\$463.7m (2008: US\$474.3m) as a result of the transfer on 31 March 2009 of our New York sightseeing operations to the Twin America joint venture (see below) and also the adverse affect of movement in the US dollar:Canadian dollar exchange rate. Equivalent like-for-like revenue was up by 2.0%. Operating profit, excluding megabus.com, was US\$47.0m (2008: US\$48.0m). This maintains the operating margin at 10.1%. Converted to sterling, revenue for the year was £276.4m (2008: £236.3m) and operating profit for the year was £28.0m (2008: £23.9m).

In March 2009, the Group created a new joint venture, Twin America LLC, to operate the sightseeing services of our Gray Line New York business and the business of CitySights NY. The Group and CitySights NY have contributed vehicles, licenses and certain other assets to the joint venture. The Group holds 50% of the voting rights and 60% of the economic rights in the joint venture. It has created a partnership of two powerful brands that will be the leading provider of sightseeing services in New York. The joint venture will allow us to deliver a more coordinated service to our customers, who will have access to a high-quality, good value range of sightseeing products.

We have been encouraged with the performance of our budget inter-city coach service, megabus.com, which has captured a demand for value products and services in the current environment where household costs have increased dramatically. megabus.com has expanded to new locations and we now serve more than 30 cities and towns in the Midwest and Northeast United States, and Canada.

North American megabus.com operations reported revenue of US\$35.8m (2008: US\$11.3m) for the year and an operating loss of US\$4.7m (2008: US\$5.8m). This equates to sterling revenue of £21.3m (2008: £5.6m) and an operating loss of £2.8m (2008: £2.9m). The original megabus.com network, in the US Midwest, delivered a good operating profit for the year, demonstrating the profit potential of the brand. The younger North East network was loss making but is progressing well.

3.7.3 UK Rail

Revenue from our UK Rail subsidiaries for the year ended 30 April 2009 was up by 25.7% to £977.7m (2008: £777.8m) including the full-year effect of East Midland Trains that we began operating in November 2007. On a like-for-like basis revenue increased by 6.2%. Operating profit was £55.7m (2008: £59.1m). The operating margin has fallen from 7.6% to 5.7% as a result of slowing revenue growth, changes in the mix of rail businesses and the benefit in the prior year operating margin from the early introduction of revenue protection and other initiatives at South Western Trains.

Rail bid costs of £6.5m (2008: £3.7m) were expensed during the year in arriving at the UK Rail operating profit of £55.7m (2008: £59.1m).

Rail businesses in the UK are facing a challenging operating environment as reduced economic growth and falling employment levels have a direct effect on passenger demand. Stagecoach Group has taken action to mitigate the

* See definitions in note 38 to the consolidated financial statements.

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effects at its South Western and East Midlands rail franchises, including a package of measures to reduce annualised costs by around £50m, achieve sensible efficiencies and maximise revenue.

We continue to believe that rail is an attractive mode of travel as journey times reduce and comparable car and domestic air journeys become more impacted by congestion and other factors. We support the Government's commitment to high-speed rail, which has the potential to deliver significant journey time and environmental benefits. As a result of these factors and the steps we have taken to protect our underlying business, we believe rail will continue to deliver long-term value to our shareholders despite the effects of the current recession.

Stagecoach has achieved further improvements in train punctuality at its franchises and we have continued to deliver on our contractual commitments to passengers and the Government.

3.7.3.1 South Western

Passenger revenue

We are continuing to deliver on our plans for the South Western rail franchise and we have achieved further revenue growth during the period. While the rate of growth has slowed as both Central London employment and leisure travel have been affected by the tough economic environment, we have achieved revenue growth in both our peak and off-peak services.

Gating and ticket vending machine programme

The major programme to install automatic ticket gates at London Waterloo Station has been completed, delivering improved revenue protection. A total of 450 ticket vending machines have also now been installed across the franchise. Recent software improvements mean the machines now offer an extended ticket range.

Smartcard and integrated travel initiatives

South West Trains has launched a passenger pilot of the UK's first national rail smartcard. A number of season ticket holders are taking part in the pilot between Staines and Windsor to help test the ITSO smartcard technology before it is rolled out across the network. Equipment has been installed at stations across the South West Trains network to allow smartcards to be introduced gradually on a route-by-route basis. The DfT is working with TfL on making TfL's Oystercard system compatible with the national ITSO system, to allow London to be included.

We are in discussion with the DfT regarding a settlement payable by the DfT to the Group in respect of delays to certain aspects of the South Western Trains smartcard project. The financial risk in relation to the delayed aspects of the project contractually lies with the DfT. The nature, quantum and timing of any settlement have yet to be finalised but we expect to receive a settlement during the year to 30 April 2010.

Contractual matters

As previously reported, we are in dispute with the DfT regarding aspects of the South Western franchise agreement. These matters relate to the timing of revenue support and the treatment of car parking revenue for the purpose of determining revenue support. We are seeking a resolution to these matters through arbitration under the Rail Industry Dispute Resolution Rules. The sums in question depend on future revenue, which in turn partly depends on future macroeconomic conditions. To the extent that these matters are not satisfactorily resolved, the UK Rail Division is likely to incur a significant operating loss in the year ending 30 April 2011. However, we have taken appropriate legal advice and consider we have a strong position.

3.7.3.2 East Midlands Trains

We have completed the first full year of our East Midlands Trains franchise and have made a strong impact progressing our £90m planned programme of improvements for our customers, and driving up operational performance.

Passenger revenue

Revenue at East Midlands Trains was 10.3% higher than the previous year including the equivalent businesses under their former ownership. We have achieved good growth on London services into St Pancras International Station as passengers benefit from the easy links to Eurostar train services from the UK to continental Europe. Consistent with the trends across the UK rail network, revenue growth in the second half of the year has reduced.

New timetable

In December 2008, East Midlands Trains launched a new improved timetable, bringing some of the most significant improvements to rail services for passengers in nearly a decade. Customers are benefiting from a more regular service across the whole East Midlands network. There are shorter journey times and more seats and services to London from a range of locations, including Sheffield, Nottingham, Market Harborough, Kettering and Wellingborough. We have introduced the first direct service from Lincoln to London, new services linking Derby and Nottingham with Matlock and the Peak District, and both earlier and later trains on routes from London, Nottingham, Sheffield, Derby and Leicester.

Passenger improvements

We have started the £10m refurbishment of the Class 158 trains, which includes new seats, additional seating capacity, installation of CCTV and new toilets. Improvements have also been made to the remainder of the train fleet, including new engines for the High Speed Trains ("HSTs") and altering the seating configuration on the Meridian trains. We have also taken steps to ensure cleaner and fresher train interiors and exteriors.

We have delivered a number of improvements to customer service at stations by introducing new ticket machines, ticket barriers, additional car parking spaces, free WiFi, and a new First Class Lounge at St. Pancras International station. In addition, two new stations have been opened on the East Midlands Trains network - East Midlands Parkway, a £25m scheme providing 850 car parking spaces near junction 24 of the M1 motorway at Ratcliffe-on-Soar; and Corby, a £10m scheme which provides a direct train service between Corby and London.

We have also improved information for passengers with our new personalised online journey planning tool. Customers can access customised timetables, a personalised live departure board, a live countdown timer to the next train from their home station, keep updated on planned engineering works and receive advance notice of ticket release dates.

3.7.3.3 Light Rail

Passenger volumes at Sheffield Supertram are at record levels and we have completed our refurbishment programme on the 25-tram fleet. A major project has started to install fibre optic cable along the entire tramway to deliver improved CCTV, passenger information displays, signalling and management information.

Planning is well underway to prepare for the extensions to the Manchester Metrolink tram network, which will double in size as a result of the new lines and also see the introduction of new ticket machines. Work has already commenced on track renewals on the existing City Centre network, which GMPTe is targeting to be completed by late summer 2009.

3.7.4 Joint Ventures

3.7.4.1 Virgin Rail Group

Our share of Virgin Rail Group's profit after tax for the year was £34.0m (2008: £32.2m). Our share of operating profit was £42.7m (2008: £41.9m), our share of finance income was £2.3m (2008: £4.0m) and our share of taxation charges was £11.0m (2008: £13.7m).

West Coast mainline upgrade

The completion of the £9billion upgrade to the West Coast mainline has delivered more trains and faster journey times on the West Coast franchise.

The new timetable, which was introduced in December 2008, represents the most frequent long-distance inter-city service in Europe.

Train services overall have now increased by 30% on the key mainline that links London with some of Britain's most important cities - Birmingham, Manchester, Liverpool, and Glasgow - as well as important tourist destinations such as North Wales and the Lake District. Routes from Manchester and Birmingham to London Euston have seen train frequencies increased to every 20 minutes, and the journey time to Manchester is now just over two hours.

Revenue and operational performance

The revenue growth and operational performance at Virgin Rail Group has been adversely affected by significant disruption to its train services as a result of work undertaken by Network Rail on the railway infrastructure. However, because Virgin Rail Group is compensated for this disruption, its overall profitability has not been adversely affected. Virgin Rail Group is pressing for major improvements in Network Rail's performance contract to ensure there is a more effective way of maintaining reliable services.

Passenger improvements

Virgin Rail Group is continuing to take market share from domestic airlines and has launched a number of new initiatives for passengers. First Class, off-peak, walk-up, single fares, reduced in price by 30%, are being offered on a trial basis on the Liverpool and Runcorn to London route to make use of spare capacity. The trial will be reviewed later this year and if successful the off-peak First Class ticket could be extended to other routes. Virgin Rail Group has also partnered with Eurostar to offer faster, cheaper journeys to Paris and Brussels from a range of locations in England, Scotland and Wales. The entire fleet of Super Voyager diesel trains operated by Virgin Rail Group has now been refreshed, providing new seating layouts with laptop friendly tables. Virgin Rail Group has also invested in launching WiFi coverage on board all Pendolino trains and improving the mobile phone coverage across the network.

3.7.4.2 Scottish Citylink Coaches

Our share of Scottish Citylink's profit after tax for the year was £1.0m (2008: £0.8m).

Scottish Citylink is continuing to achieve growth on its 400 daily services linking over 200 villages, towns and cities across Scotland. Marketing has focused on emphasising the price and guaranteed seat advantage of the coach over many rail services. A new Family Day Ticket, has been launched, offering children accompanied by a fare-paying adult free travel on Saturdays and Sundays. Scottish Citylink has also launched a refreshed website with new Businesslink, Leisurelink and Eventlink sections to help passengers understand fully the benefits of travelling by coach.

3.7.4.3 Twin America

On 18 March 2009, the Group entered into an agreement with Citysights NY to create a joint venture, Twin America LLC, to operate the sightseeing services of the Group's Gray Line New York business and the business of Citysights NY. The Group holds 50% of the voting rights and 60% of the economic rights in the joint venture with Citysights NY holding the remaining voting rights and

economic rights. Twin America commenced trading on 31 March 2009. Our share of Twin America's profit for the one-month period ended 30 April 2009 was in line with our expectations at US\$1.5m (2008: US\$Nil).

3.8 Other financial matters

3.8.1 Depreciation and intangible asset expenses

Earnings before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £299.9m (2008: £271.9m) including the Group's share of its joint ventures' profit after tax. Depreciation for the year was £72.1m (2008: £66.6m). The income statement charge for intangible assets increased from £13.0m to £13.4m, of which £5.1m (2008: £5.1m) related to joint ventures. The year on year increase reflects the acquisitions completed during the year.

3.8.2 Exceptional items

A pre-tax gain of £2.2m has been recognised during the year ended 30 April 2009 in relation to the release of a liability related to previous acquisitions and disposals of businesses.

Exceptional restructuring costs of £12.0m have been recognised during the year in relation to the substantial cost reduction programme and restructuring undertaken at the UK Rail Division.

An impairment charge of £2.4m was recognised in relation to measuring land held for sale at fair value less costs to sell.

3.8.3 Net finance costs

Pre-exceptional net finance costs increased from £30.9m to £31.4m. The ratio of pre-exceptional EBITDA to net finance charges was 9.6 times for the year ended 30 April 2009 (2008: 8.8 times), reflecting increased profit.

3.8.4 Taxation

The tax charge is analysed in Table A below. A one-off exceptional tax charge of £10.6m has been recognised in relation to an increase in the UK deferred tax liability arising on the abolition of Industrial Buildings Allowances ("IBAs"). This exceptional tax charge did not result in any immediate cash outflow.

The tax charge in Table A for the year ended 30 April 2008 includes a tax credit of £1.5m attributable to the restatement of the UK deferred tax liability arising on the reduction in the UK corporation tax rate from 30% to 28%, which applied from April 2008.

3.8.5 Earnings per share

Earnings per share before intangible asset expenses and exceptional items increased by 12.8% to 22.9p, compared to 20.3p in 2008. Basic earnings per share decreased from 34.6p to 18.7p, mainly due to the non-recurrence of the exceptional tax credit in the year ended 30 April 2008.

TABLE A SUMMARY OF TAX ON PROFIT	Year ended 30 April 2009			Year ended 30 April 2008		
	Pre-tax profit £m	Tax £m	Rate %	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	207.8	(44.4)	21.4%	188.1	(42.0)	22.3%
Intangible asset expenses	(13.4)	2.2	16.4%	(13.0)	2.1	16.2%
Exceptional items	(12.2)	(6.5)	n/a	5.9	88.1	n/a
	182.2	(48.7)	26.7%	181.0	48.2	n/a
Reclassify joint venture taxation for reporting purposes	(11.4)	11.4	n/a	(13.7)	13.7	n/a
Reported in income statement	170.8	(37.3)	21.8%	167.3	61.9	n/a

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3.8.6 Fuel Costs

The Group's operations as at 30 April 2009 consume approximately 336m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel.

The proportion of the Group's projected fuel usage that is currently hedged using fuel swaps and/or fuel caps is as follows:

Year ending 30 April	2010	2011	2012
UK Bus	96%	90%	10%
North America	76%	75%	10%
UK Rail	75%	75%	Nil

The Group has no fuel hedges in place for periods beyond 30 April 2012.

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.

If market fuel prices remain at current levels, the Group's like-for-like fuel costs will increase further in the year ending 30 April 2010 but will reduce in the following year because the Group's average hedge prices for the year ending 30 April 2010 are above current market spot prices.

Further information on the Group's exposure to movements in fuel prices is provided in note 29 to the consolidated financial statements on pages 85 and 86.

3.8.7 Cash flows

The strong cash generative nature of the Group is once again highlighted by net cash from operating activities after tax of £277.8 (2008: £325.0m). Net cash outflows from investing activities were £101.6m (2008: £41.9m) and net cash used in financing activities was £168.7m (2008: £534.4m), with the prior year comparative for the latter comprising a return of value to shareholders offset by the associated increase in borrowings to fund this.

3.8.8 Net funds/debt

Net debt (as analysed in note 33 to the consolidated financial statements) increased from £319.7m at 30 April 2008 to £340.1m at 30 April 2009. This includes an increase of £66.5m arising from the effect of foreign exchange movements on the sterling value of US dollar and Canadian dollar denominated debt. Whilst the movement in sterling against the US dollar in particular has increased sterling net debt, it also increases sterling EBITDA and the sterling value of the Group's US assets.

The Group's net debt at 30 April 2009 is further analysed below:

	Fixed rate	Floating rate	Total
	£m	£m	£m
Unrestricted cash	Nil	56.4	56.4
Cash held within train operating companies	Nil	142.3	142.3
Restricted cash	Nil	78.6	78.6
Total cash and cash equivalents	Nil	277.3	277.3
Sterling bank borrowings under bi-lateral facilities*	(150.0)	0.1	(149.9)
US dollar bond (matures November 2009)	(197.7)	Nil	(197.7)
Sterling hire purchase and finance leases	(10.4)	(162.5)	(172.9)
US dollar hire purchase and finance leases	(53.9)	Nil	(53.9)
Canadian dollar hire purchase and finance leases	(3.8)	Nil	(3.8)
Loan notes	Nil	(33.8)	(33.8)
Preference shares	Nil	(5.4)	(5.4)
Net debt	(415.8)	75.7	(340.1)

* The split between fixed rate and floating rate sterling bank borrowings is after taking account of the effect of interest rate derivatives that synthetically convert floating rate debt to fixed rate debt.

Net cash from operating activities before tax for the year ended 30 April 2009 was £281.5m (2008: £267.4m) and can be further analysed as follows:

	2009	2008
	£m	£m
EBITDA of Group companies	252.6	239.3
Loss on disposal of plant & equipment	2.0	0.4
Impairment of available for sale investment	Nil	0.2
Impairment of plant and equipment	0.2	Nil
Equity-settled share based payment expense	3.1	1.7
Working capital movements	43.7	87.4
Net interest paid	(33.0)	(24.2)
Dividends from joint ventures	44.9	31.6
Net cash from operating activities before excess pension contributions	313.5	336.4
Pension contributions in excess of pension costs	(32.0)	(69.0)
Net cash inflow from operating activities before taxation	281.5	267.4

The impact of purchases of property, plant and equipment for the year on net debt was £183.5m (2008: £108.7m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £94.9m (2008: £45.3m) and new hire purchase and finance lease debt of £88.6m (2008: £63.4m). £12.8m (2008: £9.2m) was received from the disposal of property, plant and equipment.

3.8.9 Liquidity

The Group has comfortably complied with all of its banking covenants throughout the financial year. The Group is subject to certain market standard banking covenants which include a limit on the level of net debt compared to EBITDA, and a minimum level of EBITDA to interest, in each case as defined in the relevant agreements.

As a result of its strong financial position, the Group has not been subject to any significant problems arising from the difficulties in the banking and credit markets. Our strong financial position is evidenced by:

- The ratio of net debt at 30 April 2009 to pre-exceptional EBITDA for the year ended 30 April 2009 was 1.1 times (2008: 1.2 times).
- Pre-exceptional EBITDA for the year ended 30 April 2009 was 9.6 times (2008: 8.8 times) net finance charges.
- Undrawn, committed bank facilities analysed below totalled £508.0m at 30 April 2009 (2008: £494.0m) including £17.0m (2008: £45.1m) that is only available for non-cash utilisation. In addition, the Group continues to secure new asset finance.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.
- The Group is cash generative and has the flexibility to vary capital expenditure and other cash outflows where appropriate.

The Group's principal lines of credit have been 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 30 April 2009 are analysed below:

Expiring in	Facility £m	Loans drawn £m	Bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES					
- 2012	675.0	(150.0)	(48.7)	(5.1)	471.2
- 2010	176.7	-	(162.5)	(11.9)	2.3
	851.7	(150.0)	(211.2)	(17.0)	473.5
LOCAL & SHORT-TERM FACILITIES					
- Various	20.0	-	(2.5)	-	17.5
	871.7	(150.0)	(213.7)	(17.0)	491.0

The facilities that expire in 2010 are used to provide performance bonds, season ticket bonds and letters of credit, and we plan to renew or replace these.

The Group's US\$293.1m bonds mature in November 2009 and these can be financed from the Group's existing bank facilities. The Group's main bank facilities are committed through to 2012.

The Group also maintains facilities in relation to asset finance ("Asset Finance Facilities"). Asset Finance Facilities are typically agreed in principle one year in advance and are arranged for the purpose of funding bus vehicle expenditure and for specific UK Rail operating assets. Asset Finance Facilities include finance leases, hire purchase agreements and operating leases. The terms of Asset Finance Facilities are dependent on the underlying assets and typically range between five and ten years.

The Group expects to see margins charged by lenders increase as new facilities are arranged. Indeed, the Group has already seen an increase in the margins payable for new UK asset finance. It also expects to see a reduction in the appetite of individual banks to lend to it as a result of changes in the credit markets and changes in the ownership and strategies of banks. There is a risk that a lack of available finance (for example, for railway rolling stock or for major acquisitions) constrains future expansion of the Group.

Nevertheless, the Group's strong financial position and the committed facilities through to 2012 gives it access to a variety of funding sources as well as providing a reasonably long time frame during which to plan any refinancing. The Group has relationships with various banks and insurers so whilst certain of its banks and insurers have reportedly encountered financial difficulties, the Group should have sufficient access to alternatives. The Group therefore remains confident of maintaining appropriate funding for the long-term, notwithstanding wider credit market issues. The Group is already planning for the refinancing of its bank facilities and all appropriate sources of finance will be considered, including debt capital markets.

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 rail operations maintain cash balances to meet working capital requirements and the franchise agreements restrict the transfer of this cash: unless DfT consent is obtained, cash can only be transferred by loan or dividend to the extent that the relevant train operating company has distributable profits, and the franchise is compliant with the liquidity covenants specified in its franchise agreement.

Although the Group faces an uncertain outlook, particularly in UK Rail, it is confident of maintaining sufficient funding. Even if the Group did not secure a favourable outcome to the arbitration on South Western Trains contractual matters (see section 3.7.3.1) we would still expect to comply with our bank covenants and maintain sufficient debt facilities.

3.8.10 Capital expenditure

Additions to property, plant and equipment for the year were:

	2009	2008
	£m	£m
UK Bus	113.8	75.2
North America	36.7	28.2
UK Rail	37.8	11.7
Other	Nil	0.1
	188.3	115.2

The differences between the amounts shown above and the impact of capital expenditure on net debt arose from movements in fixed asset deposits and creditors, and the inception of new rail franchises.

3.8.11 Acquisitions

The UK Bus Division completed several acquisitions of businesses during the year ended 30 April 2009, as described in section 3.7.1

The North American Division acquired Today and Eastern Travel & Tours during the year, which operates longer distance coach services in the North East of the United States.

The acquisitions completed in the year and their impact on net debt are summarised below:

	Impact on net debt for the year ended 30 April 2009 £m	Estimated annual revenue £m
UK Bus acquisitions made during the period	21.4	30.9
Noth American acquisitions	5.3	7.1
Deferred consideration on prior years' acquisitions	0.7	–
Deferred consideration on current year acquisitions	(1.5)	–
	25.9	38.0

3.8.12 Shares in issue

The weighted average number of ordinary shares during the year used to calculate basic earnings per share was 714.5m (2008: 720.6m). The number of ordinary shares ranking for dividend at 30 April 2009 was 715.0m (2008: 713.1m), with a further 4.5m (2008: 5.0m) of ordinary shares held by employee trusts and not ranking for dividend.

3.8.13 Net liabilities

Net liabilities at 30 April 2009 were £9.6m (2008: net assets of £80.4m) with the decrease primarily reflecting actuarial losses on Group defined benefit pension schemes of £104.1m after tax and net fair value losses on cash flow hedges of £68.5m after tax partly offset by the strong results for the year. The net fair value losses on cash flow hedges arise principally due to the fall in market fuel prices. Whilst the expected future net cash flows on these hedges have worsened from the perspective of the Group, this is offset by a reduction in the expected cost of the associated future fuel purchases.

3.8.14 Retirement benefits

The reported net liabilities of £9.6m (2008: net assets of £80.4m) that are shown on the consolidated balance sheet are after taking account of net retirement benefit liabilities of £80.6m (2008: assets of £33.2m) as analysed in note 28 to the consolidated financial statements.

The values of financial investments have fallen significantly in the year ended 30 April 2009 and whilst the pension schemes to which the Group contributes have been affected, their investments have generally out-performed wider equity returns. The actuarial loss on assets has been in part offset by the effect on the schemes' liabilities of an increase in the discount rate since 30 April 2008. We have reassessed expected life expectancies in the year, resulting in an increase in assumed life expectancies. The Group recognised pre-tax actuarial losses of £144.5m (2008: gains of £4.6m) on Group defined benefit pension schemes in the year ended 30 April 2009, which included losses of £90.0m (2008: £Nil) from the revision of life expectancy assumptions.

3.8.15 Capital

The Group regards its capital as comprising its equity, cash, borrowings and any similar items. As at 30 April 2009, the Group's capital comprised:

	2009	2008
	£m	£m
Market value of ordinary shares in issue	944.3	1,843.8
Cash	277.3	262.2
Borrowings	(617.4)	(581.9)
Net debt (see section 3.8.8)	(340.1)	(319.7)

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 also takes account of the interests of other stakeholders when making decisions on its capital structure.

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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 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.

3.8.16 Treasury policies and objectives

Risk management is carried out by a treasury committee and a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close 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 29 to the consolidated financial statements, for details of:

- 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.

Major financing transactions

During the year, the Group sold vehicles for £20.3m, which it then leased back on finance leases. The Group also entered into various hire purchase and finance lease arrangements for new assets as described in note 33(f) to the consolidated financial statements.

A one-year bank facility that was used to issue a rail season ticket band of around £50m expired on 31 March 2009 and a new arrangement was put in place for the period to 31 March 2010.

3.8.17 Critical accounting policies and estimates

The Group's material accounting policies are set out in note 1 to the consolidated financial statements.

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 our reported financial performance and/or financial position. The discussion below should be read in conjunction with the full statement of accounting policies.

Taxation

The Group's tax charge is based on the pre-tax profit for the year and tax rates in force. 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. Assessment of the likely outcome is based on historical experience, professional advice from external advisors, and the current status of any judgmental issues. However, the final tax cost to the Group may differ from the estimates.

Onerous contracts

The Group has a number of contractual commitments, most significantly in respect of its rail franchises. In certain circumstances, IFRS requires a provision to be recorded for a contract that is "onerous". 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 whether a contract is onerous and the amount of any provision necessitates forecasting future cash flows and applying an appropriate discount rate to determine a net present value. There is uncertainty over the future cash flows from the Group's rail franchises. Estimates of cash flows are consistent with management's plans and forecasts. The estimate of future cash flows and the discount rate involves a significant degree of judgment. 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 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 CGU. Estimates of cash flows are consistent with management's plans and forecasts. The estimation of future cash flows 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.

Insurance

The Group receives claims in respect of traffic incidents and employee incidents. 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 for the estimated cost to the Group (net of insurance recoveries) to settle claims for incidents occurring prior to the balance sheet date. The estimation of the balance sheet insurance provisions 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 eventual settlements on such claims may differ from the amounts provided for at the balance sheet date. This is of greater risk in "younger" operations with a shorter claims history from which to make informed estimates of provisions.

Pensions

The determination of the Group's pension benefit obligation and expense for defined benefit pension plans is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 28 to the consolidated financial statements and include among others, the discount rate, expected long-term rate of return on plan assets, annual rate of increase in future salary levels and mortality rates. A portion of the plan assets is invested in equity securities. Equity markets have experienced volatility, which has affected the value of the pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. 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.

Property, plant and equipment

Property, plant and equipment, other than land, are depreciated on a straight-line basis to write off the cost or valuation less estimated residual value of each asset over their estimated useful lives. Useful lives are estimated based on a number of factors, including the expected usage of the asset, expected deterioration and technological obsolescence. If another depreciation method (for example, reducing balance) was used or different useful lives or residual values were applied, this could have a material effect on the Group's depreciation charge and net profit.

3.9 Current trading and outlook

We have previously explained that the difficult economic environment presents some challenges for the Group, in particular in its rail businesses as a result of declining UK Gross Domestic Product ("GDP") and rising central London unemployment.

We have already implemented a programme of cost cutting appropriate to the circumstances in the UK Rail Division and will continue to seek further efficiencies and to maximise revenue.

Our dispute with the DfT on the terms of the South Western Trains franchise has now been referred to arbitration and we are confident of an outcome favourable to the Group.

Our UK Bus businesses are proving robust and are continuing to perform well through the economic cycle.

Trading for the new financial year ending 30 April 2010 has been in accordance with our expectations. We are in a strong financial position with significant committed, undrawn bank facilities enabling us to withstand the economic headwinds and take opportunities as the cycle improves.

3.10 Principal risks and uncertainties

Like most businesses, there are 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. Details of risk management procedures are given on page 28.

The focus below is on those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's performance.

3.10.1 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 financial impact of a terrorist incident and these plans take account of the Group's experience of managing the North American business during the period of depressed demand following the major terrorist attack on 11 September 2001.

3.10.2 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 GDP and Central London Employment. In North America, a greater proportion of the revenue is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. 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.

3.10.3 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 in sections 3.10.1 and 3.10.2) will impact profit in the UK Rail Division.

3.10.4 Sustainability of rail profits

A significant element of the Group's revenue and profit is generated by UK rail franchises. 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.

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.

3.10.5 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 set aside as security 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 sole 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.

3.10.6 Pension scheme funding

The Group participates in a number of defined benefit pension schemes. There is a risk that 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. Any increase in contributions will reduce the Group's cash flows.

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 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.

3.10.7 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 have a material impact on 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. Further details on the Group's management of health and safety are provided on pages 17 and 18.

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.

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3.10.8 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.

Similarly, many of the Group's businesses benefit from some form of financial support from government including direct financial support, the provision of equipment, government contracts and concessionary fare schemes. There is a risk that the availability of sufficient government financial support changes due to regulatory or other reasons.

In the UK, the study of the UK bus market by the Office of Fair Trading and review of the Bus Services Operators Grant paid to UK bus operators are both examples of regulatory matters affecting our business. Whilst at this stage, we do not expect either of these to have a material impact on the Group's financial performance or financial position, we continue to monitor developments closely. Also in the UK, we will scrutinise any proposals to change UK bus concessionary fare schemes and European Commission proposals on passenger rights particularly where there is a potential financial impact on the Group.

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 industry and national trade bodies along with domestic and international government forums. The Group seeks to maintain good, co-operative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport.

3.10.9 Management and Board succession

The Group values the continued services of its senior employees, including its Directors and management who have operational, marketing, engineering, technical, project management, financial and administrative skills that are important to the operation of the Group's business.

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 8.3) and the Board. The appropriate level of management deals with recruitment and retention of other staff.

3.10.10 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.

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 for responding to such incidents.

3.10.11 Disease

There have been recent concerns about the risk of a swine flu pandemic, which follows previous concerns over bird flu and SARS. 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.

3.10.12 Treasury risks

Details of the Group's treasury risks are discussed in note 29 to the consolidated financial statements, and include the risks arising from movements in fuel prices.

3.11 Corporate social responsibility

Responsible business is what we do every day – from the principles that underpin our business, to the way we engage with our stakeholders. And we are committed to reporting on our performance and striving to keep on improving.

We want to grow our business in a sustainable way, enhancing the communities in which we operate and playing our part in meeting the global challenge of climate change.

Our corporate responsibility strategy focuses on a number of specific key areas:

- Our people and our customers
- Safety and security
- Accessibility and affordability
- Environmental performance
- Building community relationships
- Corporate governance

People and partnership are at the heart of the way we do business. We provide greener, smarter travel for our customers, helping create a more inclusive society and providing attractive travel opportunities for people to live fuller lives and access work, education, healthcare, leisure and shopping.

Greener, smarter working is our drive to improve the way our people work together to deliver our services. It is about motivated and rewarded employees who exceed the expectations of our customers and about low-carbon travel that provides good value, reliability and convenience for customers and can make a real difference to the future of our planet.

Stagecoach operates some of the most recognised and successful transport brands. We stand for market-leading innovation, high quality customer service and sustainable business. We are driven to be the best at what we do, priding ourselves on being a good partner to work with and continuing to share our success with the communities where we work.

It is no coincidence that we were rated the most ethical of the UK's big five public transport groups against a range of social, environmental and ethical criteria in the 2008 Good Companies Guide.

We are getting a lot right, but we are aware we are on a journey. We have more to learn and further improvements to make, and we want to work with our stakeholders to make Stagecoach Group a more responsible, sustainable and successful business. Further examples of our commitment to corporate social responsibility can be found on our website at <http://www.stagecoachgroup.com/scg/media/publications/policydocs/csr2009.pdf>.

3.11.1 Stakeholders

Many stakeholders are involved in the success of our business and we work in partnership with a range of organisations in each of the markets where we provide public transport services. Further information on our stakeholders and how we build relationships with them can be found in section 3.4.2.

3.11.2 Code of Business Conduct

We have a clear set of values that underpin our business and are firmly embedded in our Group's culture. Our Code of Business Conduct confirms our core values and policies in a number of areas: how we deal with our employees, suppliers, customers, competitors, and the wider communities in which we work. These values apply to every director, manager and employee in all our companies across our global operations. A copy of our Code of Business Conduct is available online at: <http://www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf>

3.11.3 Corporate Governance

Stagecoach Group is committed to the principles of good corporate governance. The Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group by ensuring conformance with the Combined Code on Corporate Governance.

The Group's corporate governance arrangements include appropriate management structures, Board and committee composition, commitments on disclosure, performance evaluation, remuneration, shareholder relations, risk management and internal control, the employment of external auditors and the operation and oversight of the Group's pension schemes. Full details of these arrangements are provided in section 6.

3.11.4 Investing in our people

The strength of our business is built on the high quality of our employees. They ensure we can deliver a high standard of service day in, day out – and play a vital role in encouraging more people to use public transport. By investing significant time and resources, we have the right people to deliver for our customers.

Equal opportunities

We respect and value our staff, and we have a strong commitment to equal opportunities and partnership working with trade unions. All employees are treated fairly and valued equally irrespective of disability, race, gender, health, social class, sexual orientation, marital status, nationality, religion or belief, employment status or age. Diversity workshops are carried out to explore issues of ethnic, cultural and gender diversity.

Training

We recognise the need for ongoing training and development, so our people can do their job and develop individually. In our UK Bus Division, we have one of the best vocational training programmes of any bus operator. We continue to focus closely on recruitment and retention of drivers through improved pay, better training and mentoring schemes. At South West Trains, our centralised Recruitment Centre and the state-of-the-art Operations Training Centre deliver benefits to our employees and better service to our customers. We also have in place vocational training, support for managers and employee recognition programmes. South West Trains continues to invest in tailored training for its people in addition to giving employees access to its three 24-hour open learning centres. East Midlands Trains has a dedicated Customer Service Academy, which offers training on disability awareness and conflict resolution, as well as courses for new train drivers. In North America, our centralised driver training school has improved the quality and consistency of training. We have also created a management-in-training programme for middle managers. Our Canadian business has focused closely on harnessing the power of the web to attract new employees and works in partnership with Workopolis, Canada's leading internet recruitment service.

Management development

Our graduate recruitment initiative helps to develop the managers of the future. The two-year programme offers real hands-on involvement in the business, complemented by off-the-job development and classroom-style tuition. It covers training on engineering, finance, marketing and operations, and many graduates have gone on to become senior managers. Stagecoach's Apprenticeship Programme is one of the most comprehensive in the bus industry. It is specifically designed to produce qualified multi-skilled technicians to work on increasingly more technologically advanced vehicles. It also helps produce the engineering managers of the future.

Health and well-being

Stagecoach recognises the importance of looking after the health and well-being of our employees – and being there to help our people when they need it most. We have various care arrangements in place at our individual divisions, which include a 24-hour confidential counselling service, health check fairs and private health insurance.

Recognition

Recognising employees is at the heart of making people feel valued and respected. We have several internal schemes in place to ensure that our people know the importance of their role within our business.

3.11.5 Accessibility and affordability

We are committed to investing in measures to assist people with mobility difficulties, improving integration between our bus and rail services, using smarter technology to make travel simple and making public transport as affordable and attractive as possible.

Buses

Stagecoach invests in hundreds of new accessible buses each year, with low floor access for customers. We are on target to meet UK Government targets for compliance with disability legislation ahead of schedule. Many of the coaches now in operation on our megabus.com and Scottish Citylink services are fully accessible and have a special lift for wheelchair passengers. In the United States, we have launched a programme to retro-fit a number of our existing coaches with accessible lifts, while in Canada we provide accessible coaches on any scheduled service via a 24-hour advance booking system.

Trains

On the South West Trains network, we are involved in a total of 21 major schemes as part of the Access for All programme, to provide an accessible walking route from the main station to all platforms. In addition, South West Trains now has a dedicated wheelchair space on every service, while the upgrade to Class 159 trains will provide improved audio and visual information for

passengers with hearing and sight impairment. East Midlands Trains is investing in improving accessibility at stations across its network. We are working closely with local authorities and Network Rail to introduce ramp access and lifts at a number of existing stations, while the new East Midlands Parkway and Corby stations will be fully accessible. Key stakeholders have also been invited to submit ideas for small-scale schemes to improve accessibility.

Staff training

Access for all is also about staff training and we continue to maintain links with disability groups to ensure both the needs of our passengers and employees are considered. The Group's website, www.stagecoach.com, has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind (RNIB). Our consumer-facing websites are also designed to maximise ease of use by customers with visual impairment. In addition, we have taken further steps to improve the online purchase of tickets for our transport services by launching the UK's first integrated budget coach and rail online booking service. Customers using the market-leading megabus.com and megatrain.com budget travel sites can get both coach and rail options in one easy search, giving them access to more than 500 daily departures to around 50 UK locations.

Affordable travel

To make public transport accessible to all, it has to be affordable. Stagecoach is the market-leader for budget inter-city bus and coach travel, offering coach travel in the UK and US from £1 and \$1 respectively. As well as offering a range of train ticket options to suit customers' varying needs, our budget rail service megatrain.com gives passengers travel for as little as £1 to around 30 locations in the UK on the South West Trains, East Midlands Trains and Virgin Rail Group networks. We have also introduced a new online megarider ticket at each of our regional bus networks which offers discounted 28-day travel.

3.11.6 Health and Safety

The safety and security of our customers and our people is fundamental to our business. Public transport is the safest way to travel and safety is our top priority.

Safety governance

Stagecoach Group and its businesses have a good safety record. However, we constantly keep our safety arrangements under review and are committed to putting in place any improvements required. Health and safety is monitored and reported on across the Group and appropriate action is taken to address any major issues that are identified. The Health, Safety and Environmental Committee Report is set out in section 9.

UK Bus

We work in partnership with the Government and other agencies to improve bus safety and security. While crime and vandalism are relatively low, they can discourage people from travelling on buses. We continue to invest in CCTV technology and all new buses are fitted with security cameras. We also have a number of joint programmes in place with schools and the police to educate the next generation of public transport users. At an operational level, we continue to invest in driver training and undertake route risk assessments to identify potential safety issues. We have almost completed a programme of Safe and Fuel Efficient Driving for all of our UK Bus drivers. We also help fund safety campaigns focused on other road users, including cyclists and drivers of agricultural vehicles.

Rail

Investment in trains is further enhancing the safety of railways. South West Trains' passengers benefit from a safe environment on our state-of-the-art Desiro trains and on our refurbished Class 455 trains, which are fitted with CCTV technology. All the South West Trains rolling stock is also fitted with the Train Protection Warning System. South West Trains has invested in more than 4,000 CCTV cameras at stations and on trains to reassure passengers and employees, and assist the police and courts when pursuing criminal cases. Employees have been issued with a new, revised personal safety handbook. A specific safety management system has also been put in place to control major project work at stations. Since being awarded the East Midlands Trains franchise, we have conducted a full peer group review of safety processes and introduced revised accident reporting and investigation procedures. At Virgin Rail Group, the trains are widely regarded as some of the most robust on the UK rail network.

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Trams

Manchester Metrolink is investing in improved CCTV systems and also has a programme in place to introduce more effective tramstop passenger alarm call points. Recruitment is also underway to double the number of Travel Safe Officers on the Metrolink system to reduce anti-social behaviour. Sheffield Supertram is conducting a review of procedures to manage contractors and is also addressing sight-lines on the network by curbing vegetation.

North America

In North America, we continue to meet and exceed all Federal and State safety regulations. Regular safety audits of our facilities ensure high standards of health and safety are maintained and a dedicated safety team ensures that policies and procedures are followed. We have assisted national bodies to put in place processes to address the impact of potential terrorist attacks on public transport and work with the Federal Government to take part in anti-terrorism workshops for our employees. In Canada, we have a dedicated Occupational Health and Safety Policy Committee which investigates any issue identified by an employee and takes appropriate remedial action.

3.11.7 Community involvement

For nearly 30 years, Stagecoach has been a key part of communities around the world. As well as providing lifeline transport services and significant job opportunities, our Group is an integral part of local communities in the UK and North America.

The relationships we build with the communities we serve are a vital component in improving our corporate reputation and we strive to use our skills and resources to improve the quality of life for these communities.

We hold frequent 'Meet the Manager' sessions across our operations, regularly carry out consultation and seek feedback via customer satisfaction surveys.

Charitable donations

We help local people share in our success by funding the vital work of local, national and international charities. During the year ended 30 April 2009, £0.7m (2008: £0.7m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects

Staff involvement

Stagecoach's support for the community is not just about money. Hundreds of our employees devote their own time every day to local projects that make a real difference in their area. Many make financial donations personally through 'give as you earn' schemes and others give charities the benefit of their expertise during secondments.

Much of the backing we provide is focused on education and providing opportunities for young people. We also work closely with schools and police on local crime prevention initiatives and the education of youngsters about the dangers and consequences of anti-social behaviour.

Staff inclusion

Stagecoach also promotes social inclusion within communities and helps those who are most vulnerable. We have a national agreement with Guide Dogs for the Blind that allows the dog trainers free travel on our buses and trains. Stagecoach has supported a new Samaritans campaign to reduce workplace stress in Scotland by sponsoring pocket-sized 'emotional health cards' encouraging people to speak up on the issue. We have also contributed to several homeless shelters, providing funds for equipment and new dormitories.

We continue to support the UK educational charity businessdynamics, which provides courses designed to build the skills and confidence of young people as they prepare to enter the worlds of work and further education. Stagecoach has also supported a number of arts initiatives.

In North America, our businesses support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services. We have regularly provided transport facilities to assist the annual Tartan Day celebrations in New York, while similar support has been provided to a group of British police officers who make an annual visit to the city to honour the Britons killed in the September 11 terrorist attacks.

Supporting the community. Working with the community. Part of the community. That is embedded in our business philosophy.

3.11.8 Greener travel and sustainable business

Climate change is one of the most serious challenges facing our world. The travel choices we all make every day affect the planet we will entrust to future generations.

Greener, smarter travel on buses and trains is an important part of the solution to the global challenge of climate change but we are also committed to making our own business as sustainable as possible. We are committed to good environmental stewardship through a package of measures and our wide-ranging strategy includes investment in renewable fuels and cleaner engines, state-of-the-art energy efficient facilities, water and waste recycling initiatives and offering businesses green travel incentives for their employees.

We are actively marketing our greener, smarter travel services to our customers and work closely with local authorities and the Government to encourage intelligent car use. Our new Group web portal features a carbon calculator, which shows customers how much energy they can save by using public transport.

Carbon Management Programme (CMP)

Stagecoach Group, in partnership with Inenco - a consultancy specialising in energy management, sustainability and environmental services - launched a three-year Carbon Management Programme (CMP) in December 2008.

The CMP is intended to provide a strategic approach to assessing the impact of climate change and identifies short, medium and long-term risks and commercial opportunities to the business. It will ensure the Group meets its regulatory obligations, reduces its carbon emissions, cuts energy costs and enhances its corporate reputation.

The programme will follow a clear process in developing the business case for action, assessing the opportunities, putting together an implementation plan, and ensuring that delivers results. The key outputs are:

- defined Global Carbon Footprint for Stagecoach Group
- implementation plan for emissions reduction across the Group
- set of agreed tailored carbon reduction targets for each division
- robust, consistent system for measuring and monitoring carbon emissions and performance against the targets across the whole business
- voluntary disclosure of our carbon footprint to the Carbon Disclosure Project, the world's largest corporate greenhouse gas emissions database

The CMP includes the development of a database of Carbon Emission Abatement opportunities, including practical projects, management actions and operational changes.

Information on our environmental measures and performance is available on the Stagecoach Group website at <http://www.stagecoachgroup.com/scg/csr/environment/performance/>, and data for the year ended 30 April 2009 will be added shortly.

Carbon Reduction Commitment (CRC)

Stagecoach Group's UK operations are within the scope of the Government's Carbon Reduction Commitment ("CRC"). The CRC is a mandatory cap and trade scheme in the UK that will apply to large non energy-intensive organisations in the public and private sectors.

We believe there are benefits to be gained through pro-actively managing this area. We are working with Inenco to establish our obligations as part of the CRC, ensure compliance and benefit from effective management of carbon credits. Working in conjunction with the Carbon Management Programme and ongoing initiatives for reductions in site energy, Stagecoach will be well placed to reap the reputational and financial benefits of the CRC.

Renewables and cleaner engines

Stagecoach sources most of its electricity requirement for its UK Bus operations from renewables. Electricity generated from mostly small-scale hydro, as well as on-shore wind and biomass, provides more than 70% of the the UK Bus Division's required supply, with the remainder coming from cleaner, low-carbon sources. The contract with Opus Energy, also involves installing smart meters at 240 UK sites, which will dramatically decrease CO2 emissions.

Stagecoach uses a next-generation fuel additive, Envirox™, to reduce carbon emissions and improve fuel efficiency. The additive has delivered more than a 5% cut in fuel consumption and an associated decrease in vehicle emissions. Stagecoach also currently uses a blend of 5% biodiesel across its 7,000-vehicle UK Bus fleet. UK Bus is resetting its modern engine management systems to reduce engine idling time. In North America, we are the first company in New York to ensure our vehicles can use low sulphur fuel, which significantly reduces emissions. We have also started a programme to install emissions particulate filters on our vehicles. In Canada, we comply with Ontario's 'Drive Clean' programme and have recently introduced 21 new vehicles, equipped with the latest engine technology. All of our locations have converted to ultra-low sulphur diesel. Virgin Rail Group is working in partnership with the Carbon Trust on its five-step carbon management programme which aims to reduce the CO2 emissions produced by Virgin Rail Group's operations and reduce the amount of energy and water used on board its trains, at stations and in offices.

Energy efficiency

Emissions from Stagecoach's workplaces across the UK have been cut dramatically by the introduction of a hi-tech energy management system, which delivers improved heating control. Gas consumption has also been significantly reduced, while CO2 emissions have also been cut by thousands of tonnes a year. Stagecoach invests millions of pounds each year in the training of its driving team and, over the past two years, hundreds of employees have completed a Safe, Skilled and Fuel Efficient Driving programme. In Canada, systems are in place to accurately track and record electricity and water use at our facilities and in North America, we are taking part in a Smart Start energy conservation programme.

Water consumption and conservation

Stagecoach is a significant consumer of water. We operate a large fleet of vehicles and are proud of keeping them clean, attractive and comfortable for our passengers. Cleaning these vehicles involves using large quantities of water and we also use water in our offices, stations, trains and depots for our staff and customers. As a result, managing water consumption has always been an important issue for our business, and we have water management, recycling and conservation schemes in place in many parts of our business in the UK and North America.

Recycling

Across the Group, programmes are in place to recycle paper, cardboard, metal, waste oil, batteries, tyres and water. All UK Bus depots have waste recycling projects in place. All of our Canadian facilities are equipped with a separator unit to filter the water from petroleum products before the water is sent into the water system.

Green travel incentives

Stagecoach has partnered with a number of major employers, colleges, universities and hospitals to support more sustainable travel choices. The green travel plan involves employees signing up to annual bus travel and paying for it direct from their salary. As well as being a more environmentally friendly way to get to work, the scheme allows employees to make considerable savings on their annual travel costs. Stagecoach is also working with the Central Manchester and Manchester Children's Universities Hospitals NHS Trust to offer staff discounted bus ticketing to encourage more use of public transport.

4. Directors' biographies

Details of corporate governance, including the operation of the Board of Directors, are given in section 6 of this Annual Report. A brief biography of each director is given below.



Robert Speirs

Brian Souter

Martin Griffiths

Dr Janet Morgan CBE

Robert Speirs

Position: Non-Executive Chairman

Appointment to the Board: 1995

Age: 72

Committee Membership: Nomination (Chair)

External appointments: Securysis Ltd (Non-Executive Director).

Previous experience: Member of the Board since 1995 and Non-Executive Chairman since 2002. Previously a Group Finance Director of the Royal Bank of Scotland plc and Chairman of the Miller Group Limited.

Brian Souter

Position: Chief Executive

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

Age: 55

Committee Membership: None

External appointments: None

Previous experience: A Chartered Accountant, Brian Souter co-founded Stagecoach, Scottish plc of the year 2008. Brian Souter was named Businessman of the year at the Insider Elite Awards 2004.

Martin Griffiths

Position: Finance Director

Appointment to the Board: 2000

Age: 43

Committee Membership: Pension Oversight, Health, Safety & Environmental Committee

External appointments: Virgin Rail Group (Co-Chairman), Robert Walters plc (Non-Executive Director) and Glasgow Income Trust plc (Non-Executive Director).

Previous experience: A Chartered Accountant, Martin Griffiths is a member and former Chairman of the Group of Scottish Finance Directors.

Dr Janet Morgan CBE

Position: Non-Executive Director (Senior Independent)

Appointment to the Board: 2001

Age: 63

Committee Membership: Health, Safety and Environmental (Chair) and Audit and Nomination

External appointments: Nuclear Liabilities Fund (Chairman), Nuclear Liabilities Financing Assurance Board (Chairman), Albion Enterprise VCT plc (Non-Executive Director) and Scottish Oriental Smaller Companies Investment Trust (Non-Executive Director).

Previous experience: Former member of the Central Policy Review Staff of the Cabinet Office.



Iain Duffin OBE

Ann Gloag OBE

Sir George Mathewson

Ewan Brown CBE

Garry Watts MBE

Iain Duffin OBE

Position: Non-Executive Director

Appointment to the Board: 2001

Age: 62

Committee Membership: Remuneration (Chair), Audit and Health, Safety and Environmental

External appointments: Origo Services (Non-Executive Chairman) and Scottish Leather Group (Non-Executive Director).

Previous experience: Executive positions with a number of organisations including Macfarlane Group plc, Lucas Varity plc, ITT Corporation and Hughes Aircraft.

Ann Gloag OBE

Position: Non-Executive Director

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

Age: 66

Committee Membership: Health, Safety and Environmental

External appointments: Mercy Ships (International Board Member).

Previous experience: Ann Gloag co-founded Stagecoach and served as executive director until 2000.

Sir George Mathewson

Position: Non-Executive Director

Appointment to the Board: 2006

Age: 69

Committee Membership: Remuneration and Nomination

External appointments: Old Oak Holdings Limited (Chairman), Wood MacKenzie Ltd (Chairman), Council of Economic Advisers to the Scottish Parliament (Chairman), and The Royal Botanic Garden Edinburgh Board of Trustees (Chairman).

Previous experience: Former Chairman of the Royal Bank of Scotland Group plc, Former Chief Executive of the Scottish Development Agency (now Scottish Enterprise), Former Director of Scottish Investment Trust plc, Former member of the Board of Directors of the Institute of International Finance, Former member of the Financial Reporting Council and Past President of the International Monetary Conference.

Ewan Brown CBE

Position: Non-Executive Director

Appointment to the Board: 1988

Age: 67

Committee Membership: Pension Oversight (Chair) and Nomination

External appointments: Noble Grossart Holdings Ltd (Non-Executive Director), Creative Scotland 2009 Ltd (Chairman), Senior Governor of the University of St Andrews and Deputy Chair of the Edinburgh International Festival.

Previous experience: Executive Director of Noble Grossart until 2003, a former chairman of TIE and Non-Executive Director of the Wood Group, a former Chairman of Lloyds TSB Scotland and Non-Executive Director of Lloyds Banking Group plc

Garry Watts MBE

Position: Non-Executive Director

Appointment to the Board: 2007

Age: 52

Committee Membership: Audit (Chair) and Remuneration

External appointments: SSL International plc (Chief Executive).

Previous experience: A Chartered Accountant, Garry Watts is a former executive director of Celltech plc, finance director of Medeva plc and partner with KPMG.

5. Directors' report

5.1 Principal activity

The Group's principal activity is the provision of public transport services in the UK and North America. A fuller description of the Group's business is provided in section 3.3 of this Annual Report.

5.2 Business review

The Group is required to produce a business review complying with the requirements of the Companies Act 2006. The Group has complied with these minimum requirements as part of the Operating and Financial Review, which also provides significant information over and above the statutory minimum. The Operating and Financial Review, which forms part of the Directors' report, is contained in section 3 of this Annual Report.

5.3 Group results and dividends

The results for the year are set out in the consolidated income statement on page 41.

An interim dividend of 1.8p per ordinary share was paid on 4 March 2009. The Directors recommend a final dividend of 4.2p per ordinary share making a total dividend of 6.0p per ordinary share for the year. Subject to approval by shareholders, the final dividend will be paid on 30 September 2009 to those shareholders on the register at 28 August 2009.

5.4 Directors and their interests

The names, responsibilities and biographical details of the Directors appear on pages 20 and 21. Their participation in full Board meetings and meetings of committees is given in the Corporate governance report on page 28.

Martin Griffiths and Sir George Mathewson retire by rotation at the 2009 Annual General Meeting in accordance with the Articles of Association and being eligible offer themselves for re-election. As explained in the Corporate governance report on page 26, Ewan Brown is considered to be an independent non-executive director by the Board. However, in recognition of

the factors suggested by the Combined Code for determining independence, Ewan Brown offers himself for annual re-election. Other non-executive directors, including the Chairman, who are not treated as independent are also subject to annual re-election. Accordingly, Robert Speirs, Chairman, and Ann Gloag, who is a non-executive director but is not independent, also offer themselves for annual re-election.

The Board reviews the development plans for the Board at least annually as part of its performance evaluation. The assessment involves a consideration of the balance of skills, knowledge and experience of the Directors. The Board also considers whether the Directors have sufficient time to properly discharge their duties, which includes a consideration of any other appointments that each director has. The re-elections of Robert Speirs, Ewan Brown, Ann Gloag, Martin Griffiths and Sir George Mathewson will be proposed at the 2009 Annual General Meeting and are consistent with the results of the Board's assessment. The Board believes that the performance of each of these directors continues to be effective and that they continue to demonstrate commitment to their respective roles. The Board therefore considers it is appropriate that each of these directors be re-elected at the 2009 Annual General Meeting.

The Listing Rules of the Financial Services Authority (LR 9.8.6 R(1)) require listed companies such as Stagecoach to disclose in their Annual Reports the interests of each director. The Directors' interests set out in Tables A and B 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 Services Authority. Accordingly, the interests of Brian Souter and Ann Gloag shown below do not represent their voting rights determined in accordance with the Disclosure and Transparency Rules which as at 30 April 2009, including vested but unexercised options, were 99,066,464 (2008: 76,741,109) and 66,426,031 (2008: 53,029,604) respectively.

TABLE A	Number of ordinary shares	
	30 April and 24 June 2009	30 April and 25 June 2008
Brian Souter	108,221,606	104,721,606
Martin Griffiths	19,350	19,350
Ewan Brown	See below	See below
Iain Duffin	22,359	20,359
Ann Gloag	78,105,900	75,875,900
Sir George Mathewson	35,800	Nil
Janet Morgan	1,323	1,323
Robert Speirs	19,414	9,414
Garry Watts	20,000	20,000

Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 22% (2008: 22%) of the ordinary shares of Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 4,084,999 shares in the Company at 30 April and 24 June 2009 (2008: 4,084,999).

TABLE B	Number of ordinary shares under option and/or Executive Participation Plan units	
	30 April and 24 June 2009	30 April and 25 June 2008
Brian Souter	657,881	548,351
Martin Griffiths	245,633	645,997
Ewan Brown	Nil	Nil
Iain Duffin	Nil	Nil
Ann Gloag	Nil	Nil
Sir George Mathewson	Nil	Nil
Janet Morgan	Nil	Nil
Robert Speirs	Nil	Nil
Garry Watts	Nil	Nil

In addition to their individual interests in shares, Brian Souter and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 4,153,570 (2008: 4,600,165) ordinary shares of 56/57th pence each as at 30 April 2009. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 333,372 (2008: 384,279) ordinary shares of 56/57th pence each as at 30 April 2009. Full details of options and other share based awards held by the Directors at 30 April 2009 are contained in the Directors' remuneration report on pages 35 to 37.

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

5.5 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. In accordance with the Company Articles of Association, and as 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 offices.

5.6 Substantial shareholdings

By 23 June 2009 (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 5.4 of this report):

Standard Life Investments Ltd	5.1%
JPMorgan Chase & Co.	4.7%
Legal & General Group plc	4.0%
Blackrock Inc	4.9%

5.7 Employment policies

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

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share option schemes. There have been several invitations to UK employees to subscribe to the Group's Sharesave ("SAYE") scheme, all of which have met with encouraging levels of response.

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

The Group is committed to developing a culture of openness across all its businesses and ensuring the highest standards of probity and accountability. The Board actively encourages employees with serious concerns about the interests of others or the Group to come forward. The Group has a policy in place called "speaking up" which is designed to ensure processes exist whereby employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

5.8 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 the 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 ("IFRSs") 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). 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 that 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 IFRSs as adopted by the European Union, IFRSs issued by the IASB, and applicable UK Accounting Standards 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 will continue in business.

The Directors are responsible for the maintenance and integrity of the Company's website. 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 4 of the annual report confirm that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report contained in sections 3 to 5 of the annual report includes 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 it faces.

5.9 Conflicts of interest

The Companies Act 2006 requires that from 1 October 2008, 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. At the Group's 2008 AGM, a new article was adopted which gave the Directors authority to approve conflict situations including other directorships held by the Directors.

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 this is appropriate.

From the period since 1 October 2008, being the date that this new provision came into force, 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.

5.10 Suppliers payment policy and practice

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the financial statements of those companies. The Company normally settles trade creditors on 30 to 45 day terms. For the Group as a whole, the trade creditors outstanding at the year end represented 39 days' purchases (2008: 33 days), with the increase principally due to the timing of the rail industry period-ends.

5.11 Land and buildings

In the opinion of the Directors, there is no material difference between the open market value of the Group's interest in land and buildings and its net book value.

5.12 Financial risk management

Information regarding the Group's financial risk management objectives and policies and exposure to price, credit, liquidity and cash flow risks can be found in note 29 to the consolidated financial statements.

5.13 Charitable and political contributions

Group companies made charitable donations of £0.7m (2008: £0.7m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no contributions for political purposes during the year (2008: £Nil).

5.14 Authority for company to purchase its own shares

At the 2008 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 10% of its ordinary shares. During the year, no ordinary shares were repurchased. Under the existing authority, the Company may repurchase up to 71,903,513 ordinary shares. This authority will expire at the conclusion of the 2009 Annual General Meeting unless revoked, varied or renewed prior to this date.

A resolution will be placed at the next Annual General Meeting that the Company be authorised to repurchase its ordinary shares at the Directors' discretion up to a maximum number equal to approximately 9% of the ordinary shares that are outstanding at the time of the Annual General Meeting. If passed, the resolution will lapse at the conclusion of the 2010 Annual General Meeting. If the resolution is approved, the existing authority that was granted at the 2008 Annual General Meeting will lapse.

5.15 Shareholder and control structure

At 30 April 2009, the Company's issued share capital comprised two classes of shares, referred to as "ordinary shares" and "B shares".

As at 30 April 2009, there were 719,478,434 (2008: 718,145,299) ordinary shares in issue with a nominal value of 56/57th 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 of ordinary shares present in person and entitled to vote shall have one vote 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. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned.

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); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Group require the approval of the Company to deal in the Company's securities.

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

As at 30 April 2009, there were 8,527,488 (2008: 12,783,677) B shares in issue with a nominal value of 63 pence each.

The holders of the B shares are entitled to payment of a non-cumulative preferential dividend paid twice yearly in arrears on 31 May and 30 November calculated at a pre-specified annual rate expressed as 70% of LIBOR for six month deposits in pounds sterling on the nominal amount per B Share. The holders of B Shares are entitled to payment of their dividend in priority to any payment of dividend or other distribution to ordinary shareholders and before any profits are carried to reserves. Furthermore, on a return of capital on a winding up, the holders of any unredeemed B Shares are entitled to the amount paid up or treated as paid up on the nominal value of each B Share plus the relevant proportion of any dividend payable on those B Shares before any payment to ordinary shareholders. The holders of the unredeemed B Shares shall not be entitled to any further right of participation in the assets of the Company. The holders of the unredeemed B Shares are not entitled to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting. The holders of any unredeemed B Shares will have the opportunity to redeem their B Shares twice yearly on 31 May and 30 November. The Company may now at any time mandatorily redeem the B Shares at their nominal value.

Section 5.6 of this Directors' report gives details of any shareholders (other than the Directors) 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 5.4 of this Directors' report. Two directors of the Company, Brian Souter and Ann Gloag, who are siblings were interested in 25.9% of the ordinary shares in issue as at 30 April 2009 (2008: 25.1%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2009 (2008: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts held a further 0.6% of the ordinary shares in issue as at 30 April 2009 (2008: 0.7%). The shares held by the trusts are for the benefit of employees of the Group, and the voting rights are exercised by the trustees.

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 appointed 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 appointment 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 an ordinary resolution at a general meeting of holders of ordinary shares. Section 5.14 of this Directors' report sets out the current authority for the Company to purchase its own shares.

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 South Western 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 three 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 three 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.
- The Group's bank facilities contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.

The impact of a change of control of the Group on remuneration arrangements is explained in section 10.19.

5.16 Disapplication of pre-emption rights

The Company seeks approval at least annually from its shareholders for the disapplication of pre-emption rights. The approval sought is generally to disapply pre-emption rights in respect of equity securities up to approximately 5% of those in issue. The following ordinary shares have been issued on a non pre-emptive basis over the last five years:

Year ended 30 April	Shares issued on a non pre-emptive basis	Shares in issue at start of year	Shares issued on a non pre-emptive basis as a percentage of shares in issue
2009	1,333,135	718,145,299	0.2%
2008	10,360,416	1,100,998,707	0.9%
2007	7,398,394	1,093,600,313	0.7%
Total last 3 years	19,091,945		1.8%
2006	24,055,086	1,069,545,227	2.2%
2005	13,505,982	1,335,358,600	1.0%
Total last 5 years	56,653,013		5.0%

The non pre-emptive issues by reason are summarised below:

Year ended 30 April	Issued in connection with employee share schemes	Issued as non-cash consideration to acquire businesses	Total
2009	1,333,135	Nil	1,333,135
2008	10,360,416	Nil	10,360,416
2007	7,398,394	Nil	7,398,394
Total last 3 years	19,091,945	Nil	19,091,945
2006	20,033,016	4,022,070	24,055,086
2005	13,505,982	Nil	13,505,982
Total last 5 years	52,630,943	4,022,070	56,653,013

At 30 April 2009, the Company had 719,478,434 ordinary shares in issue. The cumulative shares issued on a non pre-emptive basis as a percentage of the ordinary shares in issue at 30 April 2009 were:

Year ended 30 April 2009	0.2%
Three years ended 30 April 2009	2.7%
Five years ended 30 April 2009	7.9%

During the year ended 30 April 2008, the ordinary shares of the Company were consolidated with 9 shares issued for every 14 shares previously held and during the year ended 30 April 2005, the ordinary shares of the Company were consolidated with 19 shares issued for every 24 previously held. No adjustments have been made to the shares issued as shown in the table above to take account of the consolidations.

5.17 Post balance sheet events

On 31 May 2009, holders of 2,658,827 redeemable 'B' preference shares elected to have these shares redeemed leaving 5,868,661 redeemable 'B' preference shares in issue.

5.18 Going concern

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

5.19 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 PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Directors be authorised to fix the remuneration of the auditors.

By order of the Board



Ross Paterson
Company Secretary

24 June 2009

6. Corporate governance report

6.1 Introduction

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 in conformity with the Combined Code on Corporate Governance ("the Combined Code").

This section of the report discusses Stagecoach Group's corporate governance arrangements and management structures. It also includes the disclosures recommended by the Combined Code, and describes how the principles of good corporate governance that are set out in the Combined Code have been applied. In line with best practice, separate reports are provided from each of the Audit Committee, Nomination Committee, Health, Safety and Environmental Committee and Remuneration Committee.

6.2 Compliance with the Combined Code

The Financial Reporting Council ("FRC") issued a new edition of the Combined Code in June 2008, which applies to accounting periods beginning on or after 29 June 2008 and is available on the FRC's website at <http://www.frc.org.uk/corporate/combinedcode.cfm>. The new edition of the Code will therefore apply to the Group's financial year ending 30 April 2010. The Directors, however, believe that throughout the year ended 30 April 2009 and up until the date of this report, the Group has complied with all of the recommendations contained in both the new edition and the previous edition of the Combined Code. The Group also complies with the corporate governance requirements of the Financial Services Authority's Listing Rules, and Disclosure and Transparency Rules.

6.3 Composition of the Board

The Combined Code suggests that independent non-executive directors should make up at least half of the Board (excluding the Chairman). The Company's Board comprises nine directors. Excluding the Chairman, the Board considers that there are five independent non-executive directors.

		Independent Chairman	Independent Non-Executive Director	Other Director
Robert Speirs	Chairman	✓		
Ewan Brown	Non-Executive Director		✓	
Iain Duffin	Non-Executive Director		✓	
Sir George Mathewson	Non-Executive Director		✓	
Janet Morgan	Non-Executive Director		✓	
Garry Watts	Non-Executive Director		✓	
Ann Gloag	Non-Executive Director			✓
Brian Souter	Chief Executive			✓
Martin Griffiths	Finance Director			✓

Ewan Brown, one of the five independent non-executive directors, has served on the Board since 1988 and is a non-executive director of Noble Grossart, which is an advisor to the Company. The Company recognises and understands investor concerns over longer-serving non-executive directors but nevertheless continues to regard Ewan Brown as independent. Ewan Brown's long association with the Group enables him to provide a robust and effective challenge to management because of the sound and detailed knowledge of the Group's business that he has developed. The Board believes that Ewan Brown's length of service enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. In recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown stands for annual re-election as a director. In addition, Ewan Brown does not serve on the Remuneration Committee or the Audit Committee.

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?

6.4 Operation of the Board

The Board is generally scheduled to meet six times each year. Additional meetings of the Board are held to consider matters arising between scheduled Board meetings, where a decision of the Board is required prior to the next scheduled meeting.

The Chairman ensures that meetings of the Board and shareholders are properly conducted and is responsible for setting and moving forward the Board's agenda. Leadership of the Board (by the Chairman) is not the same as the leadership required (from the Group Chief Executive) to turn the Board's strategic and policy decisions into actions. The Group Chief Executive has day-to-day responsibility for all business of the Group and carries out the agreed strategy and policies of the Board. The split of the Chairman's and Chief Executive's responsibilities is in writing and has been approved by the Board.

The Directors' biographies appear on pages 20 and 21 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Non-Executive Directors bring an independent viewpoint and create an overall balance.

The Executive and Non-Executive Directors have a complementary range of financial, operational and entrepreneurial experience that ensures no one director or viewpoint is dominant in the decision-making process. The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors, led by the Senior Independent Non-Executive Director, 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.

All the Directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all the Directors are required to stand for re-election by shareholders at least every three years. Non-Executive Directors, including the Chairman, who are not considered by the Board to be independent, or are considered independent but have served on the Board for more than nine years, submit themselves for annual re-election.

Each director receives induction training on appointment and subsequently such training or briefings as are considered necessary to keep abreast of matters affecting their roles as directors. Training can encompass environmental, social and governance matters. The Chairman endeavours to ensure that all the Directors (including any newly appointed directors) attend the Annual General Meeting, providing an opportunity for shareholders to meet the Directors.

The number of full Board meetings during the year was six. The full Board typically meets once a year at an operational location and regular verbal communication is maintained by the Chairman between meetings to ensure all directors are well informed on strategic and operational issues. In October 2008, the Board visited various parts of East Midlands Trains, taking up opportunities to understand more about the Group's newest rail franchise and to meet with employees. Some of the Directors also attended health and safety meetings of operating companies during the year.

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.

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.

6.5 Operational management of the Group

The Board delegates the operational management of the Group to the Group Chief Executive and Group Finance Director ("Executive Directors"). 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 three principal operating divisions (UK Bus: headed by a Managing Director, North America: headed by two Chief Operating Officers and UK Rail: headed by a Chief Executive up until he left the Group on 28 February 2009 and since then headed by the Executive Directors) which each comprise a varying 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/her own management teams.

A Rail Business Development Committee, comprising the Executive Directors and other senior management, oversees the performance and development of the Group's rail business, including bidding on new rail franchises.

A Chief Executive heads the Group's joint venture, Virgin Rail Group. The Group has two representatives on the Board of Virgin Rail Group.

6.6 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 Senior Independent Non-Executive Director co-ordinates the Board's assessment of the performance of the 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 – this involves the completion of a questionnaire and a follow-up discussion. In the same way, the Senior Independent Non-Executive Director obtains feedback from each individual director on the performance of the Chairman. A similar process is undertaken to assess the performance of each of the Board's committees.

The Directors have reviewed the effectiveness of the Board as a whole and its committees. Each director has assessed the effectiveness of the Board and each committee of which he or she is a member.

The assessment of effectiveness included consideration of:

- The effectiveness of the formal Board and committee meetings;

- The nature and extent of the Board's interaction with the management of the Group;
- The timeliness, relevance and accuracy of the information provided to the Board and its committees;
- The allocation of the Board's time between differing priorities including the time spent on strategic considerations relative to other matters; and
- The composition of the Board and its committees.

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.

6.7 Audit Committee

The Audit Committee comprises three independent non-executive directors. It receives reports from major business functions including the Risk Assurance Function. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim 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 Audit Committee carries out the functions required by the Financial Services Authority's Disclosure and Transparency Rules DTR 7.1.3R on corporate governance in relation to audit committees.

The Audit Committee report is set out on page 30.

6.8 Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors. It makes recommendations to the Board for ensuring that the Executive Directors' and senior management remuneration is appropriate to attract, motivate and retain executive directors and senior managers of the quality needed to run the Group's business successfully. The constitution and operation of the Remuneration Committee is detailed in the Directors' remuneration report on pages 32 to 38.

6.9 Nomination Committee

The Nomination Committee comprises four non-executive directors (one of whom is the Chairman of the Company) that the Board considers to be independent. The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments.

The Nomination Committee report is set out on page 31.

6.10 Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director and comprises three other directors. The Committee considers health, safety and environmental issues across the Group and reports regularly to the Board on these matters.

The Health, Safety and Environmental Committee report is set out on page 31.

6.11 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 director during the year ended 30 April 2009:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee		Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Robert Speirs	6	6	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Brian Souter	6	6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	6	6	n/a	n/a	n/a	n/a	3	3	n/a	n/a	1	1
Ewan Brown	5	6	n/a	n/a	n/a	n/a	n/a	n/a	Nil	1	1	1
Iain Duffin	6	6	3	3	4	4	2	3	n/a	n/a	1	1
Ann Gloag	5	6	n/a	n/a	n/a	n/a	1	3	n/a	n/a	1	1
Sir George Mathewson	5	6	n/a	n/a	4	4	n/a	n/a	1	1	1	1
Janet Morgan	6	6	2	3	n/a	n/a	3	3	1	1	1	1
Garry Watts	6	6	3	3	4	4	n/a	n/a	n/a	n/a	1	1

6.12 Relations with shareholders

The Board endeavours to present a balanced and understandable assessment of the Group’s position and prospects in communications with shareholders.

The Board considers communications with shareholders to be extremely important. The Group holds periodic meetings 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 with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are being effectively communicated and shareholder objectives are known. During the year, written responses are given to letters or e-mails received from shareholders and all shareholders can receive annual reports.

The Board receives regular updates on the views of shareholders through briefings from the Chairman and the Executive Directors, reports from the Company’s brokers and reports from the Company’s Financial PR consultants. The Senior Independent Non-Executive Director is available to shareholders where contact through the normal channels is inappropriate, or has failed to resolve concerns.

Private and institutional 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, including the chairmen of the Audit, Remuneration, Nomination and Health, Safety and Environmental Committees 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. Resolutions are proposed annually in respect of the financial statements and the Directors’ remuneration report. At each Annual General Meeting, the Chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution, and the number of votes withheld. Details of the proxy votes are also published on the Group’s website at <http://www.stagecoachgroup.com/scg/ir/shareholder/aggm/>. The Company and its registrars have established procedures to ensure that votes cast are properly received and recorded.

6.13 Risk management

The Group has an ongoing process for identifying, evaluating and managing the significant risks that it faces. The Board regularly reviews the process, and the Board considers that the process accords with the Turnbull Guidance on internal control.

The principal risks and uncertainties facing the Group are discussed on pages 15 and 16.

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. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group’s system is designed to provide the Directors with reasonable assurance that any 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.

The Group’s risk management process was embedded throughout the businesses during the financial year ended 30 April 2009 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 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, which is outsourced to and managed by Deloitte, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. 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.

Virgin Rail Group has its own audit committee and internal audit function. The Group’s risk management process does not specifically cover Virgin Rail Group, but the Group maintains an overview of Virgin Rail Group’s business risk management process through representation on the board and audit committee. Stagecoach management representatives also meet regularly with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures.

6.14 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 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. All budgets are presented to a panel consisting of executive directors and/or senior managers by each business unit's management team, before being 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.
- control over the activities of joint ventures and associated undertakings 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 covers the Group's senior management and is based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis is placed on cash flow management. Bank balances are reviewed on a daily basis and cash flows are compared to budget on a four-weekly basis.
- regular 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.

As might be expected, a number of minor internal control weaknesses were identified by these procedures and will be monitored and addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the maintenance and improvement of our risk management procedures.

6.15 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 is provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit Committee is also kept apprised of such developments.

- 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, consistency with internal accounting records and arithmetical accuracy.
- The Audit Committee and the Board review the draft consolidated financial statements. The Audit Committee receives reports from management and the 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 audit. The Group uses the same firm of auditors to audit all Group companies. The Group auditors review the audit workpapers for material joint ventures and associates that are audited by a different firm of auditors.

6.16 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 of whom five are employee representatives nominated by the members on a regional basis and one is a pensioner trustee. 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. He also sits independently as an elected representative of all railway employers on the board of the Railways Pension Scheme, of which he is the Trustee Chairman of the Railways Pension Scheme trustees. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

The Group's external auditors, PricewaterhouseCoopers LLP ("PwC"), acted as the actuary for The Yorkshire Traction Company Limited Pension Plan up until the scheme was merged into the principal UK Scheme on 6 April 2008. PwC do not act as actuaries or advisors to any of the other principal UK pension schemes.

A Pensions Oversight Committee was in operation throughout the year. This Committee is chaired by a non-executive director 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, internal controls surrounding pension matters and the related administration for all of the employee pension schemes of the Group.

7. Audit Committee report

7.1 Composition of the Audit Committee

The Audit Committee comprises three independent non-executive directors: Garry Watts, Janet Morgan and Iain Duffin. Garry Watts is the current Chairman of the Audit Committee and is a former audit partner, a former Finance Director and a serving Chief Executive of a FTSE 350 company and therefore is competent in both accounting and auditing. The designated Committee member with recent and relevant financial experience is therefore Garry Watts.

7.2 Operation of the Audit Committee

The Audit Committee met three times during the year and has met a further time in June 2009. It receives reports from major business functions including the Risk Assurance Function (internal audit), which is outsourced and managed by Deloitte. 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.stagecoachgroup.com/scg/csr/corpgov/committees/audit.pdf>

7.3 Review of External Auditors

The Audit Committee has responsibility delegated from the Board for making recommendations on the appointment, reappointment, removal 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.

The Committee formally assesses the effectiveness of the external audit process on an annual basis.

Whilst the Group has no set frequency for tendering the external audit, the Group's external audit was last tendered in 2002 and resulted in a change of external auditors. The audit engagement partner last changed in 2006. The Group is not aware of any restrictions that would limit its choice of external auditors.

The Audit Committee, having considered the external auditors' performance during their period in office, recommends re-appointment. The audit fees of £0.7m (2008: £0.7m) for PricewaterhouseCoopers LLP and non-audit related fees of £0.1m (2008: £0.1m) were discussed by the Audit Committee and considered appropriate given the current size of the Group and the level of corporate activity undertaken during the year. 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.

7.4 Policy on the Auditors Providing Non-Audit Services

Procedures in respect of other services provided by the auditors are:

- 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 approval by the Audit Committee.
- 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, including the auditors where they are best suited to the work being undertaken, subject to approval by the Audit Committee.
- 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. The auditors are only permitted to provide general consulting when the Group, 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.

7.5 Review of Risk Assurance Function

The Audit Committee has the responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function (internal auditors). There have been no instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Audit Committee conducts a continuous review of the relationship between the Group and the Risk Assurance Function. This review 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.

The Committee formally assesses the effectiveness of the risk assurance function on an annual basis.

7.6 "Speaking Up" Policy

The Audit Committee reviews the Group's "Speaking Up" policy, which provides a mechanism for employees with serious concerns about the interests of others or the Group to come forward. 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. Any known instances of fraud affecting the Group are reported to the Audit Committee.



Garry Watts
Chairman of the Audit Committee

24 June 2009

8. Nomination Committee report

8.1 Composition of the Nomination Committee

The Nomination Committee comprises four non-executive directors that the Board considers to be independent: Robert Speirs (who acts as Chairman), Ewan Brown, Janet Morgan and Sir George Mathewson. The Committee also includes, by invitation, the other Non-Executive Directors, as necessary.

8.2 Operation of the Nomination Committee

The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments. Based on its assessment, the Committee will prepare a description of the role and the required attributes for each particular appointment. The description will include a job specification, the estimate of the time commitment expected, and the Group's policy on directors having other significant commitments. 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 will identify suitable candidates and make proposals for each appointment, although final appointments are the responsibility of the Board as a whole.

Potential new non-executive directors are chosen based on a shortlist compiled by the Nomination Committee taking account of known candidates and candidates suggested by the Group's advisors. For example, the selection of Garry Watts, the most recent appointment to the Board, was made following a recruitment process that involved the use of external recruitment consultants and the consideration of a number of candidates. Every director met with Garry Watts prior to his formal selection by the Board.

Non-executive directors receive a letter of appointment. For any new appointments, the letter of appointment sets out the expected time commitment.

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.stagecoachgroup.com/scg/csr/corpgov/committees/nom.pdf>

8.3 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 is mindful of the need to ensure appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seeks 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.

Two non-executive directors, Iain Duffin and Janet Morgan, will reach nine years' service as directors of the Company in 2010. It is intended that they will each step down as directors once appropriate successors are in place. The Committee is also mindful of the need to plan the succession of the Chairman. To maintain the balance of the Board, the Group is planning to appoint at least two new non-executive directors in due course. The Committee has commenced the recruitment process, which involves the use of external recruitment consultants.



Robert Speirs
Chairman of the Nomination Committee

24 June 2009

9. Health, Safety and Environmental Committee report

9.1 Composition of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is chaired by an independent Non-Executive Director, Janet Morgan, and comprises one other independent Non-Executive Director, Iain Duffin, one other Non-Executive Director, Ann Gloag and one Executive Director, Martin Griffiths, who joined the Committee in August 2008.

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/health.pdf>

9.2 Operation of the Health, Safety and Environmental Committee

The Committee was established to consider health, safety and environmental issues across the Group and to report regularly 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.

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework.

Managers from each of the Group's key divisions attend meetings of the Committee from time to time providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters. The Committee also receives reports from the Group's

Environmental Strategy Group, which comprises a number of managers and is responsible for overseeing the development and implementation of the Group's environmental strategy.

The Committee visits operational locations to observe health, safety and environmental management in practice. Committee members attend meetings of the Safety Committees of individual business units from time to time, such as the South West Trains' Strategic Safety Group.

The Committee receives reports on trends in health and safety indicators across the Group as well as information on significant accidents involving the Group. Key performance indicators are provided and reviewed in respect of each major operating division. Training 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 non-financial objectives.

Details of the Group's health, safety and environmental policies and activities are contained in sections 3.11.6 and 3.11.8 of this Annual Report.



Janet Morgan
Chairman of the Health, Safety and Environmental Committee

24 June 2009

10. Directors' remuneration report

The Board supports the principles of good corporate governance relating to directors' remuneration and has applied them as described below. Those paragraphs that have been audited have been highlighted as such.

10.1 Composition of the Remuneration Committee

During the year ended 30 April 2009, Iain Duffin chaired the Remuneration Committee and the other members were Sir George Mathewson and Garry Watts. All three members are independent non-executive directors.

The Committee has responsibility for approving the remuneration and terms of employment for the Executive Directors and the Chairman, including pensions rights and any compensation payments. The Remuneration Committee also monitors and makes appropriate recommendations with respect to the remuneration of other senior management.

During the year, the Committee appointed Addleshaw Goddard LLP as its remuneration consultant to provide access to independent research and advice. Addleshaw Goddard provided no other services to the Group. Prior to this and during the year, KPMG LLP had provided remuneration advice to the Committee. KPMG still provides certain other services to the Group such as due diligence, tax advice, actuarial services and pension scheme audits.

Both the constitution and operation of the Remuneration Committee comply with the principles and provisions incorporated in the Combined Code. In preparing the Directors' remuneration report, the Remuneration Committee has followed the provisions of the Combined Code. The terms of reference of the Remuneration Committee are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/remun.pdf>.

10.2 Remuneration of Non-Executive Directors

Other than the Chairman, each non-executive director generally receives the same level of fixed annual fee. The fee for each non-executive director is set

out in Table 2 on page 34. The Board balances the responsibilities of each non-executive director (for example, Chairmanship and/or membership of Committees) such that over the medium-term each non-executive director has a similar level of workload and commitment.

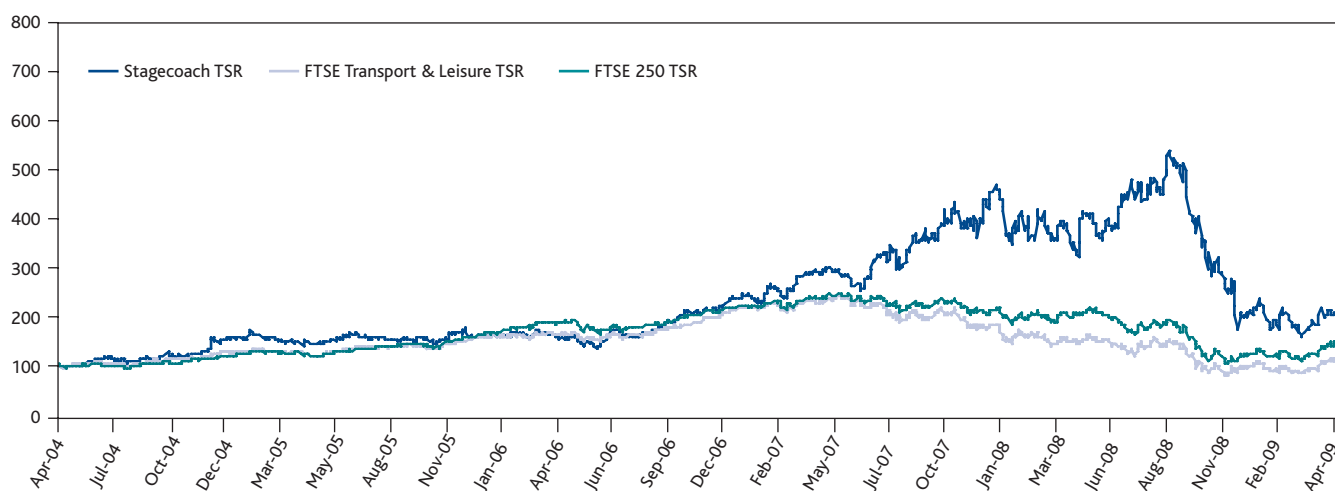
The Board of Directors as a whole, having given due regard to the required time commitment and responsibilities, sets the fees and expenses payable to the non-executive director. Non-executive directors do not hold any share options, nor do they participate in any incentive plans or pension schemes with the exception of Ann Gloag who receives a pension accrued when she was an executive director. The members of the Remuneration Committee have no personal interest in the matters to be decided by the Committee other than as shareholders, have no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Stagecoach Group.

10.3 Performance graph

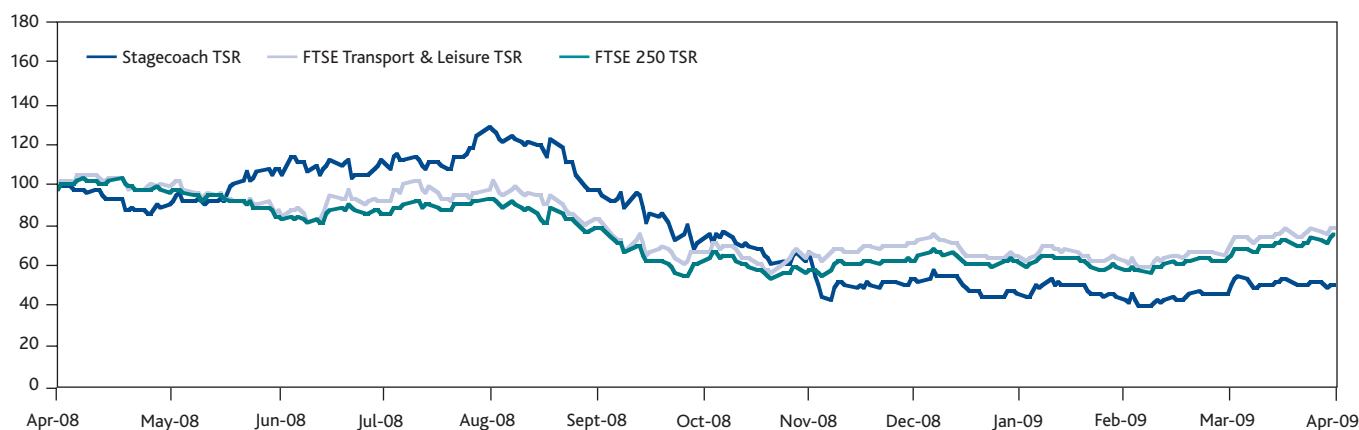
The graph below charts the performance of the Stagecoach Group Total Shareholder Return ("TSR") (share value movement plus reinvested dividends) over the 5 years to 30 April 2009 compared with that of the FTSE Transport and Leisure All-Share Index, and the FTSE 250 Index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2009.

The FTSE All-Share Index was included in the chart in previous years but has been removed this year as it is considered that other comparators present better benchmarks either in terms of the nature of the activities or the size of the Group. The FTSE 250 Index has been selected for this comparison because it is the index used by the Company for the performance criterion for the 2005 LTIP Scheme, and the FTSE Transport 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 5 Year TSR Comparative Performance to 30 April 2009



Stagecoach 1 Year TSR Comparative Performance to 30 April 2009



10.4 Remuneration Policy

The Remuneration Policy was approved by our shareholders at the 2008 Annual General Meeting. The Remuneration Committee follows the Combined Code in designing performance-related remuneration schemes.

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 Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance-related elements and that these 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 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 can include traditional financial indicators and personal targets such as successful investment, innovation, staff development, customer satisfaction, regulatory requirements and achievement of health, safety and environmental targets. 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. A separate Health, Safety and Environmental Committee report is included in section 9 of this annual report.

The Remuneration Committee regularly reviews the existing remuneration of the Executive Directors, in consultation with the Chief Executive, 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. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Group. With regard to pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations.

10.5 Intended balance of remuneration package

The total remuneration for each Executive Director includes meaningful elements of performance-related pay.

Notwithstanding this, it is intended that the balance of the overall remuneration package of the Executive Directors is broadly structured as shown in Figure 1, with the proportions shown being based on the expected value of awards. For example, where the Remuneration Committee has made awards of Incentive Units under the Long Term Incentive Plan to the Executive Directors equivalent to say one times basic salary, the expected value of the Incentive Units at the time of award to a director is less than one times basic salary because of the challenging performance conditions that apply. Likewise, while Executive Directors can earn a cash-settled annual bonus of up to 50% of basic salary, the maximum award is only earned to the extent that the challenging performance objectives are met.

Figure 1: Balance of Executive Directors' expected remuneration package

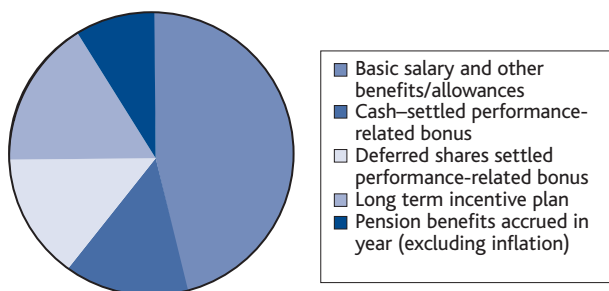
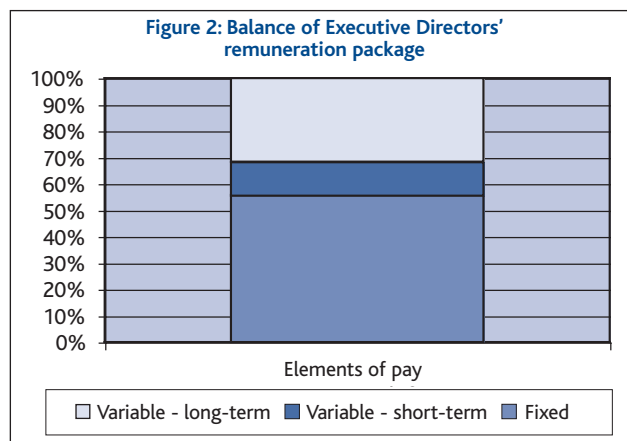


Figure 2 provides a further analysis of the intended balance of Executive Directors' pay between fixed elements (for example, basic salary and pension benefits), variable short-term elements (for example, annual cash bonuses) and variable long-term elements (for example, awards under share based incentive schemes).

Shareholders are invited to specifically approve all new long-term remuneration plans (whether equity-settled or cash-settled plans) and any significant changes to existing plans, except where changes are otherwise permitted by the Listing Rules. The current arrangements were approved by shareholders at the 2005 Annual General Meeting and the Committee considers that they remain appropriate.



The Remuneration Committee believes that remuneration packages should reward the efforts of all staff since a motivated workforce is a key element of Group performance. The Committee recognises that the Executive Directors bear the greatest responsibility for delivering corporate strategy that underpins long-term sustainable performance. While the Remuneration Committee's report focuses on the incentive schemes for Executive Directors and senior executives, there are also a number of other performance-related bonus schemes of more general application within Group companies not discussed in this report, in addition to the approved SAYE scheme accessible to all UK employees.

10.6 Remuneration of Executive Directors and other executives (audited)

The remuneration of the Executive Directors and other executives may comprise a number of elements from the following:

- Basic salary;
- Performance-related annual cash bonuses;
- Executive Participation Plan ("EPP");
- Benefits in kind and other allowances;
- Pension arrangements;
- Share options (nil awards made since 2004); and
- Long Term Incentive Plan ("LTIP").

The participation of the two executive directors in the above arrangements during the year ended 30 April 2009 is summarised in Table 1 on page 34. The Executive Directors have not received executive share options in the year ended 30 April 2009 (2008: None).

Each executive director's remuneration package is tailored to the individual to ensure an appropriate balance of reward for responsibilities, motivation, retention and share participation, whilst ensuring the overall packages are appropriate to recruit and retain high quality executives capable of achieving the Group's objectives.

Directors' remuneration for the year ended 30 April 2009 is shown in Table 2 and Table 3 on page 34, along with information on share options and LTIP awards in sections 10.12 and 10.14 respectively.

Directors' remuneration report

TABLE 1 – DIRECTORS' PARTICIPATION	Basic Salary/Annual bonus	EPP	Benefits in kind	Pension	Share Options	LTIP
Brian Souter	YES	YES	YES	YES	NO*	YES
Martin Griffiths	YES	YES	YES	YES	NO*	YES

*The Executive Directors have not received awards of executive share options following the approval of the EPP and LTIP at the 2005 AGM.

TABLE 2 – DIRECTORS' REMUNERATION (amounts in £000)	Salary/fees **		Performance related bonus (cash)		Performance related bonus - deferred shares (EPP)		Benefits in kind		Non-pensionable allowances†		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Executive directors												
Brian Souter	553	532	Nil	253	525	253	17	17	Nil	Nil	1,095	1,055
Martin Griffiths	374	360	Nil	180	374	180	19	19	86	82	853	821
Non-executive directors												
Ewan Brown	44	42	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	44	42
Ann Gloag	44	42	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	44	42
Robert Speirs	150	130	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	150	130
Janet Morgan	44	42	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	44	42
Iain Duffin	44	42	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	44	42
Sir George Mathewson	44	42	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	44	42
Garry Watts – (appointed 1 July 2007)	44	35	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	44	35
Total	1,341	1,267	Nil	433	899	433	36	36	86	82	2,362	2,251
Consultancy fee paid to former directors:												
Graham Eccles*	Nil	80	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	80

† Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits. The non-pensionable allowance for Martin Griffiths above of £86,000 (2008: £82,000) is stated gross of notional pension contributions under the salary sacrifice arrangements, which is in practice deducted from the allowance that is made to him (so he actually received £74,691 (2008: £72,000)).

* Following his retirement as a director on 30 April 2006, Graham Eccles received an annual fee of £80,000 for consultancy for the two-year period to 30 April 2008.

** The salary for Brian Souter above of £553,000 (2008: £532,000) is stated gross of notional pension contributions that are deducted as part of participating in the pension salary sacrifice arrangement. His notional pension contributions during the year were £47,987 (2008: £3,987). These contributions are shown within the increase in transfer value less pension contributions in Table 3. The Stagecoach Group Pension Scheme introduced a salary sacrifice arrangement during April 2008.

TABLE 3 – DIRECTORS' PENSION BENEFITS (amounts in £000)	Additional accrued benefits in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less Directors' contributions		Transfer value of pension	
	Excluding inflation	Including inflation	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008+
Executive directors												
Brian Souter*	42	87	332	308	664	601	146	173	98		5,647	5,501
Martin Griffiths*	11	19	42	37	126	112	24	24	14		403	379

* Brian Souter and Martin Griffiths participated in pension salary sacrifice arrangements during the year. The Directors' contributions set against the increase in transfer value in the table above include salary sacrificed by the directors and paid directly to the pension scheme by the employer.

+ The transfer value of pension for 2008 has been updated to reflect market conditions at 30 April 2009.

Martin Griffiths was subject to the statutory pensionable earnings cap that existed until 5 April 2006 and since then the Company has continued to impose a notional pensionable earnings cap. The Company makes cash contributions to Martin Griffiths for the part of his salary that exceeds the notional earnings cap. Only basic salary is pensionable. The additional cash contribution equates to one-third of the excess above the notional earnings cap. Brian Souter joined the pension scheme prior to the application of the statutory pensionable earnings cap and was therefore not subject to such cap and is therefore not subject to the notional earnings cap.

Directors who are members of the Stagecoach Group Pension Scheme have the option to pay additional voluntary contributions ("AVCs"). Neither the contributions nor the resulting benefits of any AVCs are included in the tables above.

Each of the elements of remuneration is discussed further below.

10.7 Basic salary

The salary of each Executive Director is reviewed at 1 May each year. Account is taken of individual achievements, together with any changes in responsibilities that may have occurred and, as stated above, the salaries for similar roles in comparable companies. The pay review performed as of 1 May 2008 awarded each executive director an increase in basic salary of 4% for the year ended 30 April 2009.

Recognising the challenging macroeconomic environment impacting all businesses and the need for strong cost controls that this will bring, the Committee has determined that there should be no increase to basic salaries of the Executive Directors and other senior executives from 1 May 2009 for the year ending 30 April 2010.

The Committee has also determined that there shall be no annual cash bonus awards paid to the Executive Directors or other senior executives in respect of the year ended 30 April 2009, requiring instead that the annual bonus awards are to be made in the form of shares in the Company deferred for a further three years under the EPP, and so re-emphasising the Executive Directors' long-term approach and commitment to the business (refer to sections 10.8 and 10.9 for details).

10.8 Performance-related annual cash bonuses

At 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 cash bonus for each Executive Director for the year just ended. This is based on the Director's performance in achieving the objectives agreed. These comprise both financial and non-financial objectives. For each Executive Director, the financial objectives for the year ended 30 April 2009 were to better the

Group's financial targets with respect to measures of earnings before interest and taxation, earnings per share, and net debt. The non-financial objectives are specific to each Executive Director and cover matters such as safety targets, environmental targets, successful investment, innovation, staff development, customer satisfaction, successful business acquisitions/disposals and regulatory requirements.

For the year ended 30 April 2009, Brian Souter and Martin Griffiths each had a maximum potential bonus of up to 100% of basic salary, 70% for meeting demanding financial objectives and 30% for meeting personal non-financial objectives. While the rules of the EPP require that at least 50% of any bonus award be subject to a compulsory deferral into shares of the Company, in respect of bonus awards for the year ended 30 April 2009, the Committee has determined that for the Executive Directors and selected senior executives no cash element of bonus will be paid and that 100% of any bonus awards will be made as deferred shares under the EPP, being subject to a deferral of 3 years (see Section 10.9).

In making its judgement of performance for the last financial year, the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, and relative total return to shareholders over the year, as well as other strategic developments and operating improvements. Bonuses awarded to the Executive Directors in respect of the year ended 30 April 2009 are shown in Table 4 below.

TABLE 4 – DIRECTORS' BONUSES	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Shares	Cash	Shares
Director				
Brian Souter	0	95%	50%	50%
Martin Griffiths	0	100%	50%	50%

10.9 Executive Participation Plan

The 2005 Executive Participation Plan ("EPP") was approved at the 2005 Annual General Meeting. The first awards under the EPP were made in June 2006 in respect of the financial year ended 30 April 2006.

The intention of the EPP is to further align the interests of managers with shareholders by ensuring managers have a greater direct interest in the performance of the Group's shares purchased out of an element of their bonus awards. The EPP is such that the executives can benefit from both capital growth (i.e. increases in share price) and dividend yield. The EPP is also designed to provide an incentive for managers to remain with the Group and forms a core part of the Group's succession and management development plans.

Awards under the EPP can be to the Executive Directors and other managers. Participants are required to sacrifice part of their actual annual bonus award and are awarded deferred shares with an initial market value approximately equal to the amount of the actual cash bonus foregone.

Absolute and full entitlement to the shares is deferred for three years.

There are no specific performance conditions attaching to the release of deferred shares because the annual bonus is already subject to performance conditions and there are no awards of matching shares in respect of annual bonuses - the EPP requires executives to invest an element of their annual bonus (normally a minimum of 50% of any annual bonus award) in the Company's shares. The EPP is an effective retention programme in that participants would lose their entitlement to the deferred shares if they left of their own volition during the three-year deferral period.

Where an individual receives an award under the EPP, he or she does generally not also receive an award of executive share options in the same financial year. Awards made to the Executive Directors under the EPP, are shown in Table 5.

10.10 Benefits in kind and other allowances

The benefits in kind shown in Table 2 on page 34 for the year ended 30 April 2009 comprise:

- Brian Souter received £17,200 (2008: £17,000) of cash allowance in lieu of company car and £251 (2008: £236) in re-imbursement of home telephone expenses.
- Martin Griffiths received £18,000 (2008: £18,000) of cash allowance in lieu of company car, £850 (2008: £656) of healthcare benefits and £636 (2008: £706) in re-imbursement of home telephone expenses.

10.11 Pension arrangements

Under the terms of their service agreements Executive Directors are entitled to become members of one of the Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension schemes. For pensions purposes, the Executive Directors have a normal retirement age of 60. The Stagecoach Group pension schemes are designed to provide a pension for Executive Directors equivalent to up to two-thirds of final pensionable salary completed up to normal retirement age.

Following the new pensions regime introduced in the UK by the Pensions Act 2004, the Group introduced a notional pensionable earnings cap to replace the previous statutory pensionable earnings cap in the Group's main pension scheme. Further to this, during the year ended 30 April 2007, the Group also introduced an annual cap of 3.5% on pensionable salary growth under the scheme and this cap also applies to the notional pensionable earnings cap.

Pension benefits accruing to Martin Griffiths under the Stagecoach Group defined benefit scheme are limited both by the notional pensionable earnings cap and by the 3.5% cap on pensionable salary growth as explained above. The Company makes cash contributions to Martin Griffiths for the part of his basic salary that exceeds the notional cap. Life assurance of four times basic annual salary is provided under the scheme.

10.12 Share options (audited)

Executive Share Options

The Executive Directors are generally not expected to receive further awards of executive share options following the approval of the EPP and LTIP by shareholders at the 2005 AGM. However, the Executive Directors held executive share options that were previously awarded.

The interests of Executive Directors in executive share options to subscribe for ordinary shares of the Company, together with movements during the year, are shown in Table 6. All of the share options were granted for nil consideration. The exercise price of the share options in Table 6 reflects the mid-market price immediately preceding the time of the award: the Group's policy is not to offer executive share options at a discount to the mid-market price. The mid-market price of the underlying ordinary shares at 30 April 2009 was £1.3125 per share (30 April 2008: £2.5675 per share). The Company's ordinary shares traded in the range £1.0375 to £3.275 (year ended 30 April 2008: £1.65 to £2.95) during the year.

As noted in Table 6, Brian Souter continues to hold one tranche of share options and these may be exercised at any time before their expiry date of 10 December 2011.

TABLE 5 – EPP AWARDS Grant Date	As at 1 May 2008 (deferred shares)	Awards granted in year (deferred shares)	Dividends in year (deferred shares)	As at 30 April 2009 (deferred shares)	Vesting Date	Expected total value of award at time of grant	Closing share price on date of grant
Brian Souter							
30 June 2006	187,163	Nil	6,092	193,255	30 June 2009	£204,466	£1.1525
28 June 2007	144,103	Nil	4,690	148,793	28 June 2010	£256,829	£1.8075
26 June 2008	Nil	95,636	3,112	98,748	26 June 2011	£252,527	£2.6825
	331,266	95,636	13,894	440,796			
Martin Griffiths							
30 June 2006	94,144	Nil	3,064	97,208	30 June 2009	£102,849	£1.1525
28 June 2007	71,963	Nil	2,342	74,305	28 June 2010	£128,258	£1.8075
26 June 2008	Nil	68,168	2,219	70,387	26 June 2011	£179,998	£2.6825
	166,107	68,168	7,625	241,900			

Directors' remuneration report

The outstanding executive share options shown in Table 6 were issued under The Stagecoach Unapproved Executive Share Option Scheme ("the Scheme"). No awards have been granted under the Scheme since 2004 and the following narrative is provided for reference to the remaining historic options. The Scheme was established in September 1997, when it was approved by shareholders at the Annual General Meeting. The Scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. This Scheme was also used to reward senior executives throughout the Group at the Committee's discretion.

In December 2004 the Board and the Remuneration Committee agreed to remove from the Scheme the ability to award "Super Options". Therefore, executive share options awarded on or after 4 December 2004 are "Ordinary Options" which are exercisable between three and seven years after the date of award. The maximum level of executive share options that can be issued to a given individual in any financial year is two times the individual's basic salary, calculated by comparing the basic salary to the total number of shares covered by the options multiplied by the exercise price. The Board and the Remuneration Committee also agreed to remove from the Scheme, the facility for the performance condition to be re-tested. Re-testing is prohibited for all executive share options awarded on or after 4 December 2004. Accordingly, the exercise of executive share options awarded on or after 4 December 2004 is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum cumulatively - the base year is the latest financial year ended prior to the award of the option and the performance condition may not be re-tested. For ordinary options awarded after June 2001 but prior to 4 December 2004, exercise of the options was subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum, or earnings per share outperforming inflation over four consecutive financial years by 4% per annum, or earnings per share outperforming inflation over five consecutive financial years by 5% per annum. Inflation for this purpose is measured as the change in the UK Retail Prices Index ("RPI").

SAYE Share Options

In August 2008, all eligible UK employees were invited to participate in a new SAYE tranche with a three-year duration starting in September 2008. The expiry date of any individual SAYE option can be extended to be up to six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the exercise date shown in Table 7. In addition to the share options shown in Table 6, one director held options issued under this SAYE scheme. Further details on this are shown in Table 7 below.

10.13 Satisfaction of share awards

Under the rules of the Company's share schemes, and consistent with guidance issued by the Association of British Insurers ("ABI"), there are limits on the number of share options and other awards that can be granted that may be satisfied by the issue of new shares. Following the consolidation of ordinary shares related to the returns of value in 2004 and 2007, which effectively halved the number of ordinary shares in issue, the number of executive share options that had been granted in the previous 10 years exceeded 5% of the issued number of ordinary shares. Also, the running total of share capital allocated to all share options including all-employee SAYE options in the previous 10 years was effectively doubled through the consolidation process to 10.2%, and so exceeded the 10% guideline for the issued ordinary shares. It was not possible, therefore, to satisfy any new grants of share options or EPP awards with newly issued shares since to do so would have exceeded both the 5% and 10% limits under the share schemes rules. Accordingly, the Board and the Remuneration Committee determined that all future grants of executive share options and EPP awards will be satisfied with existing shares until such time as there is sufficient headroom available under the original limits for the issue of new shares.

However, and in order to support the issuance of shares for all-employee schemes, such as the SAYE, shareholder approval to change the limit to 12.8% was obtained at the 2008 AGM on 29 August 2008 so that 5% of the new 12.8% limit may be allocated for issuing new shares to satisfy all-employee share schemes, such as the SAYE.

In the 10 years prior to 30 April 2009, the Company had granted share options (not lapsed) over executive and SAYE share schemes as follows :

	Executive Options	SAYE Options	Total
Share options to be satisfied from new issue shares	55,749,244	26,088,825	81,838,069
Expressed as a percentage of the issued share capital as at 30 April 2009	7.8%	3.6%	11.4%

The Group's Employee Share Ownership Trusts are used to acquire and finance shares to meet contingent obligations under share based incentive schemes that are not expected to be satisfied through the issue of new shares. At 30 April 2009, these trusts held 4,486,942 (2008: 4,984,444) 56/57th ordinary shares in the Company, representing 0.6% (2008: 0.7%) of the total issued ordinary shares. The Company follows the ABI guideline that the shares held by Employee Share Ownership Trusts should not exceed 5% of the total shares in issue. The Employee Share Ownership Trusts have waived the right to receive dividends on the shares held by them.

TABLE 6 – EXECUTIVE SHARE OPTIONS	As at 1 May 2008	Exercised in year	As at 30 April 2009	Exercise price per share £	Date from which exercisable	Date by which must be exercised	Date exercised and sold	Average selling price per share £
Brian Souter								
10 December 2004	217,085	Nil	217,085	1.1150	10 Dec 2007	10 Dec 2011	–	–
Martin Griffiths								
26 June 2003	254,132	(254,132)	Nil	0.6050	26 Jun 2006	–	8 July 2008	2.9786
12 December 2003	126,935	(126,935)	Nil	0.8075	12 Dec 2006	–	2 July 2008	2.8100
10 December 2004	98,822	(98,822)	Nil	1.1150	10 Dec 2007	–	26 June 2008	2.7013
	479,889	(479,889)	Nil					

*The aggregate gains (before transaction costs and taxes) on all options exercised by Executive Directors during the period was £1,014,156 (2008: £6,782,264).

TABLE 7 – SAYE OPTIONS	At 1 May 2008 No. of ordinary shares	Options Granted over No. or ordinary shares	At 30 April 2009 Option over No. or ordinary shares	Exercise price £	Date from which exercisable	Expiry date
Martin Griffiths	Nil	3,733	3,733	2.51775	1 Oct 2011	31 March 2012

Further information on share options and other share based payments is detailed in note 31 to the consolidated financial statements on pages 94 and 95.

10.14 Long Term Incentive Plan

To be used for Executive Directors and a small number of senior executives, the 2005 Long Term Incentive Plan ("LTIP") was approved at the 2005 AGM. The LTIP introduces stringent performance criteria related to total shareholder return ("TSR") over a three-year assessment period. TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured against a comparator group, which is the list of FTSE 250 companies. The first awards under the LTIP were made in August 2005, and details of these and any subsequent awards made to the Directors since then are shown in Table 8 below.

Under the LTIP, executives are awarded Incentive Units at the discretion of the Remuneration Committee with each Incentive Unit having a nominal value equal to one of the Company's ordinary shares. The maximum awards granted in relation to any financial year for an individual is limited to Incentive Units with an aggregate nominal value not exceeding 1.5 times the individual's basic salary.

For all LTIP awards granted up to 30 April 2009, vesting of the LTIP units is subject to two quantitative TSR-based performance criteria and also to a qualitative underpin. The qualitative underpin was that LTIP units will only vest if the Remuneration Committee is satisfied with the underlying financial performance of the Group.

The Company intends to settle all such awards in cash but would support the settlement in shares via an employee share ownership trust where executives wish to increase their holdings in the Company's shares.

The two TSR conditions are:

- Firstly, no awards vest unless the total shareholder return of the Group over the three-year testing period is positive.
- Secondly, the element of the awards that vest is based on how the Group's total shareholder return compares to a comparator group, being the list of FTSE 250 companies.

The individual would also need to remain with the Company for three years from the date of an award in order to receive full entitlement to the LTIP units. The number of LTIP units that would be released after the three years is calculated as follows:

- If TSR is negative no LTIP units are released;
- If TSR is positive but is less than the median TSR of the comparator group, no LTIP units are released;
- If TSR exceeds the median of the comparator group, 33% of the LTIP units are released;
- If TSR is in the top quartile of the comparator group, 100% of the LTIP units are released;

- If TSR is higher than the median but less than the top quartile, the proportion of LTIP units to be released would be between 33% and 100% depending on the exact ranking against the comparator group.

Accordingly, the awards are closely tied to the performance of the Group and to the rewards to shareholders as a whole. An independent third party will calculate the TSR measures for the purposes of determining the extent to which the performance condition is satisfied.

There is no re-testing of LTIP performance conditions and if participants choose to leave the Group the awards would lapse.

10.15 Review of share based incentive schemes

The principal share based incentive schemes for the Executive Directors and other executives are the EPP and the LTIP, which are described earlier in this Directors' remuneration report. The EPP and the LTIP schemes were adopted by shareholders at the Annual General Meeting of the Company held in August 2005 following a review by the Remuneration Committee of the Group's share based payments and other incentive arrangements.

The Remuneration Committee believes that the operation of the Group's share based incentive schemes, the potential award levels under the schemes, the nature of the performance conditions and timing of vesting remain appropriate in light of the Group's circumstances and future prospects.

10.16 Shareholding targets

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of Executive Directors, they are each expected to accumulate shares in the Company with a value of at least 100% of basic salary. These targets were first introduced in 2005 and Executive Directors were allowed five years to accumulate the appropriate level of shares.

The Executive Directors have significant effective interests in the Company's ordinary shares ensuring alignment of Executive Directors' and Shareholders' objectives. The effective interests of Executive Directors as at 30 April 2009 in shares and share-settled incentives were:

TABLE 9	Brian Souter	Martin Griffiths
Ordinary shares	108,221,606	19,350
Shares held under share options	217,085	3,733
Deferred Shares under Executive Participation Plan	440,796	241,900
	<u>108,879,487</u>	<u>264,983</u>

TABLE 8 LTIP	As at 1 May 2008 (incentive units)	Awards granted in year (incentive units)	Dividends in year (incentive units)	Vested during year (incentive units)	Price per incentive unit received on vesting £	As at 30 April 2009 (incentive units)	Vesting Date*	Total value of award at time of grant £	Share price on date of grant £
Brian Souter									
26 Aug 2005	485,416	Nil	Nil	(485,416)	3.27375	Nil	1 Sept 2008 *	190,789	1.1075
29 June 2006	474,325	Nil	17,653	Nil	n/a	491,978	29 June 2009	198,706	1.1325
28 June 2007	299,384	Nil	11,143	Nil	n/a	310,527	28 June 2010	205,626	1.8075
30 June 2008	Nil	197,466	7,348	Nil	n/a	204,814	30 June 2011	213,856	2.8000
	<u>1,259,125</u>	<u>197,466</u>	<u>36,144</u>	<u>(485,416)</u>		<u>1,007,319</u>			
Martin Griffiths									
26 Aug 2005	235,552	Nil	Nil	(235,552)	3.27375	Nil	1 Sept 2008 *	92,583	1.1075
29 June 2006	236,875	Nil	8,815	Nil	n/a	245,690	29 June 2009	99,233	1.1325
28 June 2007	202,729	Nil	7,545	Nil	n/a	210,274	28 June 2010	139,240	1.8075
30 June 2008	Nil	133,714	4,976	Nil	n/a	138,690	30 June 2011	144,812	2.8000
	<u>675,156</u>	<u>133,714</u>	<u>21,336</u>	<u>(235,552)</u>		<u>594,654</u>			

* The vesting date is generally the third anniversary of the award date, although the Committee has reserved the right to postpone the vesting date if it considers that vesting may or could potentially contravene any securities or transaction rules. In regard to the awards granted on 26 August 2005, the Committee postponed vesting of those awards until the first business day after the shareholders' 2008 Annual General Meeting which was held on Friday 29 August 2008.

Directors' remuneration report

The LTIP awards granted to Executive Directors on 26 August 2005 vested and were settled wholly in cash during the year to 1 September 2008 at a price of £3.27375 per incentive unit. The Group delivered a TSR of 149.2% for the 3-year performance period and achieved a TSR ranking of 20 out of the FTSE 250 comparative group and under the rules of the LTIP this provided that 100% of the incentive units vested.

For LTIP awards granted after 1 May 2009, the Committee has amended the performance conditions so as to reduce the payout available for median performance against the comparator group, and to increase the performance target from top quartile to top decile at which maximum payout levels may occur based on granting Incentive Units with an aggregate nominal value of 1.5 times basic salary. In addition, the use of a positive TSR would be replaced with the requirement for the Committee to have the authority to reduce any awards if it is not satisfied that the TSR performance is consistent with the underlying financial performance of the Group.

For LTIP awards granted after 1 May 2009, it is proposed therefore that the number of LTIP units that would be released after the three years is calculated as follows:

- If TSR exceeds the median of the comparator group, then only one-sixth (16.67%) of the LTIP units awarded will be realised;
- For 100% of the LTIP units awarded to be released then the TSR must be in the top decile of the comparator group;
- If TSR is higher than the median but less than the top decile then the proportion of LTIP units to be released would be between 16.67% and 100% of the units awarded depending on the actual ranking against the comparator group.

10.17 Directors' service agreements

The details of the Executive Directors' service contracts are summarised in the table below:

Name of director	Date of contract	Notice period
Brian Souter	2 April 1993 (amended 26 January 1996)	12 months
Martin Griffiths	8 August 2000 (amended 29 November 2001 and 10 April 2003)	12 months

It is the Company'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 that will be rigorously applied.

Non-executive directors are appointed by a letter, which makes no specific provision for notice periods. The letters of appointment do not contain any contractual entitlement to a termination payment and the directors can be removed in accordance with the Company's articles of association. Non-executive directors are subject to election and re-election by shareholders as described on pages 26 and 27.

10.18 Early termination

If the Company terminates an executive director's contract, the costs for which the Company is liable will vary depending on length of service. The costs will include a termination payment of up to one times annual salary and the value of one year's additional retirement benefits. There are no arrangements to otherwise enhance or accelerate pension benefits on termination or early retirement.

10.19 Change of control

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

- Executive directors are 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;

- With respect to Executive Share Options, options can be exercised within six months of the change of control. For options currently outstanding, the extent to which the performance condition is applied shall be determined by the Remuneration Committee;
- Under the EPP, shares deferred 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 TSR performance condition.

10.20 Outside appointments

Executive directors are able to accept substantive external appointments, provided that approval is given by the Board. The fees from such appointments are retained by the director, recognising the level of personal commitment and expertise required for non-executive roles. Details of remuneration earned where an Executive Director serves as a non-executive director elsewhere are disclosed in note 36 to the consolidated financial statements.

10.21 Transactions in which Directors have had a material interest (audited)

10.21.1 Noble Grossart Limited

Ewan Brown (a non-executive director of Stagecoach) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year amounted to £20,000 (2008: £20,000). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2009 4,084,999 (2008: 4,084,999) ordinary shares in the Company, representing 0.6% (2008: 0.6%) of the ordinary shares in issue.

10.21.2 Alexander Dennis Limited

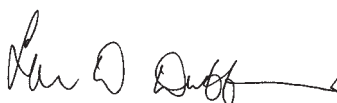
Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a non-executive director of Stagecoach) collectively hold 37.9% (30 April 2008: 37.9%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see 10.21.1 above) controls a further 28.4% (30 April 2008: 28.4%) of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or 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 30 April 2009, the Group purchased £61.1m (2008: £34.8m) of vehicles from Alexander Dennis Limited and £2.8m (2008: £3.2m) of spare parts and other services.

10.22 Remuneration policy approval

An ordinary resolution to receive and approve this Directors' remuneration report will be proposed at the 2009 Annual General Meeting.

On behalf of the Board



Iain Duff
Chairman of the Remuneration Committee

24 June 2009

11. 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 or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- The Chairman's statement, Chief Executive's review, Directors' report and Operating and Financial Review 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 24 June 2009 on behalf of the Board by:



Brian Souter
Chief Executive



Martin A Griffiths
Finance Director

Independent auditors' report to the members of Stagecoach Group plc

We have audited the consolidated financial statements of Stagecoach Group plc for the year ended 30 April 2009 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of recognised income and expense, the Consolidated cash flow statement, the Consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements set out on page 23, the Directors are responsible for the preparation of the consolidated statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated 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, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the 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 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

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 April 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 25, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

Other matter

We have reported separately on page 101 on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.



Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

24 June 2009

Consolidated income statement

For the year ended 30 April 2009

	Notes	2009			2008		
		Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
CONTINUING OPERATIONS							
Revenue	2	2,103.3	Nil	2,103.3	1,763.6	Nil	1,763.6
Operating costs	3	(1,933.0)	(20.3)	(1,953.3)	(1,734.5)	(7.9)	(1,742.4)
Other operating income	5	22.2	Nil	22.2	143.6	Nil	143.6
Operating profit of Group companies	2	192.5	(20.3)	172.2	172.7	(7.9)	164.8
Share of profit of joint ventures after finance income and taxation	2	35.3	(5.1)	30.2	32.6	(5.1)	27.5
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	2	227.8	(25.4)	202.4	205.3	(13.0)	192.3
Gain on sale of properties	4	Nil	Nil	Nil	Nil	0.3	0.3
Impairment charge on properties	4	Nil	(2.4)	(2.4)	Nil	Nil	Nil
Gain/(loss) on disposed and closed operations and resolution of certain liabilities re acquisitions and disposals	4	Nil	2.2	2.2	Nil	(1.7)	(1.7)
Profit before interest and taxation		227.8	(25.6)	202.2	205.3	(14.4)	190.9
Finance costs	6	(38.9)	Nil	(38.9)	(45.2)	Nil	(45.2)
Finance income	6	7.5	Nil	7.5	14.3	7.3	21.6
Profit before taxation		196.4	(25.6)	170.8	174.4	(7.1)	167.3
Taxation	8	(33.0)	(4.3)	(37.3)	(28.3)	90.2	61.9
Profit for the year from continuing operations		163.4	(29.9)	133.5	146.1	83.1	229.2
DISCONTINUED OPERATIONS							
Profit for the year from discontinued operations	18	Nil	Nil	Nil	Nil	19.9	19.9
TOTAL OPERATIONS							
Profit after taxation for the year attributable to equity shareholders of the parent		163.4	(29.9)	133.5	146.1	103.0	249.1
Earnings per share from continuing and discontinued operations							
– Adjusted basic/Basic	10	22.9p		18.7p	20.3p		34.6p
– Adjusted diluted/Diluted	10	22.7p		18.5p	19.8p		33.8p
Earnings per share from continuing operations							
– Adjusted basic/Basic	10	22.9p		18.7p	20.3p		31.8p
– Adjusted diluted/Diluted	10	22.7p		18.5p	19.8p		31.1p
Dividends per ordinary share							
– Interim paid	9			1.80p			1.35p
– Final proposed	9			4.20p			4.05p

The accompanying notes form an integral part of this consolidated income statement.

An interim dividend of £12.9m was paid during the year ended 30 April 2009 (2008: £9.5m).

A final dividend of £30.0m has been proposed for approval in respect of the year ended 30 April 2009 (2008: £28.9m).

Consolidated balance sheet

As at 30 April 2009

		2009	2008
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill	11	99.9	95.5
Other intangible assets	12	24.5	24.7
Property, plant and equipment	13	785.7	652.4
Interests in joint ventures	14	68.7	33.9
Available for sale and other investments	16	1.5	1.8
Derivative instruments at fair value	29(j)	0.5	11.0
Retirement benefit assets	28	Nil	51.6
Deferred tax asset	26	5.3	6.9
Other receivables	21	6.8	2.9
		992.9	880.7
Current assets			
Inventories	20	22.0	21.3
Trade and other receivables	21	212.4	185.0
Derivative instruments at fair value	29(j)	3.1	33.4
Foreign tax recoverable		Nil	0.1
Cash and cash equivalents	22	277.3	262.2
Asset classified as held for sale	23	2.4	Nil
		517.2	502.0
Total assets		1,510.1	1,382.7
LIABILITIES			
Current liabilities			
Trade and other payables	24	530.2	467.2
Current tax liabilities		15.0	10.1
Foreign tax liabilities		0.8	Nil
Borrowings	25	279.5	79.4
Derivative instruments at fair value	29(j)	68.2	1.4
Provisions	27	56.7	47.2
		950.4	605.3
Non-current liabilities			
Other payables	24	24.2	25.0
Borrowings	25	347.4	514.7
Derivative instruments at fair value	29(j)	14.4	2.3
Deferred tax liabilities	26	19.5	64.6
Provisions	27	83.2	72.0
Retirement benefit obligations	28	80.6	18.4
		569.3	697.0
Total liabilities		1,519.7	1,302.3
Net (liabilities)/assets		(9.6)	80.4
EQUITY			
Ordinary share capital	30	7.1	7.0
Share premium account	32	9.5	8.0
Retained earnings	32	(374.9)	(363.6)
Capital redemption reserve	32	413.5	410.8
Own shares	32	(13.9)	(12.6)
Translation reserve	32	1.1	5.7
Available for sale reserve	32	0.2	0.6
Cash flow hedging reserve	32	(52.2)	24.5
Total equity		(9.6)	80.4

These financial statements have been approved for issue by the Board of Directors on 24 June 2009.



Brian Souter
Chief Executive



Martin A Griffiths
Finance Director

The accompanying notes form an integral part of this consolidated balance sheet.

Consolidated statement of recognised income and expense

For the year ended 30 April 2009

		2009	2008
	Notes	£m	£m
Income and expense recognised directly in equity			
Foreign exchange differences on translation of foreign operations (net of hedging)		(4.6)	2.7
Actuarial (losses)/gains on Group defined benefit pension schemes	28	(144.5)	4.6
Share of actuarial gains/(losses) on joint ventures' defined benefit pension schemes		2.9	(2.1)
Net fair value (losses)/gains on cash flow hedges	29(j)	(97.4)	54.6
Net fair value (losses)/gains on available for sale investments	16	(0.4)	0.6
		(244.0)	60.4
Transfers to the income statement			
Cash flow hedges reclassified and reported in profit for the year	29(j)	(11.2)	(13.8)
Tax on items taken directly to or transferred from equity			
Tax on foreign exchange differences on translation of foreign operations (net of hedging)		(0.9)	(1.6)
Tax effect of actuarial losses/(gains) on Group defined benefit pension schemes		40.4	(0.1)
Tax effect of share of actuarial (gains)/losses on joint ventures' defined benefit pension schemes		(0.8)	0.6
Tax effect of share based payments		(0.5)	2.7
Tax effect of cash flow hedges		31.9	(11.7)
Tax adjustment re change in UK corporation tax rate		Nil	1.3
	8	70.1	(8.8)
Net (expense)/income not recognised in income statement		(185.1)	37.8
Profit for the year attributable to equity shareholders of the parent		133.5	249.1
Total recognised income and expense for the year attributable to equity shareholders of the parent		(51.6)	286.9

The accompanying notes form an integral part of the consolidated statement of recognised income and expense.

Consolidated cash flow statement

For the year ended 30 April 2009

		2009	2008
	Notes	£m	£m
Cash flows from operating activities			
Cash generated by operations	33	269.6	260.0
Interest paid		(41.7)	(45.6)
Interest received		8.7	21.4
Dividends received from joint ventures		44.9	31.6
Net cash flows from operating activities before tax		281.5	267.4
Tax (paid)/received		(3.7)	57.6
Net cash from operating activities after tax		277.8	325.0
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	17	(19.0)	(7.3)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	18	0.3	3.6
Cash outflow in respect of inception of rail franchise		Nil	(0.5)
Purchase of property, plant and equipment		(94.9)	(45.3)
Disposal of property, plant and equipment	33	12.8	9.2
Purchase of intangible assets		(0.4)	(1.0)
Purchase of other investments		Nil	(0.3)
Movement in loans to joint ventures		(0.4)	(0.3)
Net cash outflow from investing activities		(101.6)	(41.9)
Cash flows from financing activities			
Issue of ordinary shares for cash		1.4	7.7
VAT recovered on professional fees previously applied to share premium		0.2	Nil
Return of value to shareholders			
– Redemption and purchase of 'B' shares and 'C' shares		(2.7)	(397.0)
– Dividends paid on 'C' shares		Nil	(284.6)
– Costs associated with the return of value		Nil	(3.3)
Investment in own ordinary shares by employee share ownership trusts		(2.8)	(8.4)
Sale of own ordinary shares by employee share ownership trusts		1.5	3.1
Repayments of hire purchase and lease finance		(47.5)	(33.1)
Proceeds of sale and leaseback transaction		20.3	Nil
Movement in other borrowings		(96.5)	212.8
Dividends paid on ordinary shares		(41.8)	(30.0)
Sale of tokens		4.5	4.4
Redemption of tokens		(5.3)	(6.0)
Net cash used in financing activities		(168.7)	(534.4)
Net increase/(decrease) in cash and cash equivalents		7.5	(251.3)
Cash and cash equivalents at the beginning of year		261.6	512.5
Exchange rate effects		8.2	0.4
Cash and cash equivalents at the end of year	22	277.3	261.6
Cash and cash equivalents at the end of year comprises:			
Cash and cash equivalents included within current assets		277.3	262.2
Bank overdrafts included within borrowings		Nil	(0.6)
		277.3	261.6

Cash and cash equivalents for the purposes of the consolidated cash flow statement comprise cash at bank and in hand, overdrafts and other short-term highly liquid investments with maturities at the balance sheet date of three months or less.

The accompanying notes form an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Available for sale reserve	Cash flow hedging reserve	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 30 April 2007 and 1 May 2007		7.0	179.4	91.8	243.0	(7.3)	3.0	—	(4.6)	512.3
Profit for the year		—	—	249.1	—	—	—	—	—	249.1
Foreign exchange differences on translation of foreign operations (net of hedging)		—	—	—	—	—	2.7	—	—	2.7
Actuarial gains on Group defined benefit pension schemes		—	—	4.6	—	—	—	—	—	4.6
Share of actuarial losses on joint ventures' defined benefit pension schemes		—	—	(2.1)	—	—	—	—	—	(2.1)
Net fair value gains on cash flow hedges		—	—	—	—	—	—	—	54.6	54.6
Net fair value gains on available for sale investments		—	—	—	—	—	—	0.6	—	0.6
Cash flow hedges reclassified and reported in profit for the year		—	—	—	—	—	—	—	(13.8)	(13.8)
Tax on items taken directly to equity (for split see Consolidated statement of recognised income and expense on page 43)		—	—	2.9	—	—	—	—	(11.7)	(8.8)
Own ordinary shares purchased		—	—	—	—	(8.4)	—	—	—	(8.4)
Own ordinary shares sold		—	—	—	—	3.1	—	—	—	3.1
Return of value to shareholders		—	(175.8)	(674.4)	160.6	—	—	—	—	(689.6)
Expenses associated with return of value		—	(3.3)	—	—	—	—	—	—	(3.3)
Preference shares redeemed		—	—	(7.2)	7.2	—	—	—	—	—
Arising on new ordinary share issues		—	7.7	—	—	—	—	—	—	7.7
Credit in relation to equity-settled share based payments		—	—	1.7	—	—	—	—	—	1.7
Dividends paid on ordinary shares		—	—	(30.0)	—	—	—	—	—	(30.0)
	9									
Balance at 30 April 2008 and 1 May 2008		7.0	8.0	(363.6)	410.8	(12.6)	5.7	0.6	24.5	80.4
Profit for the year		—	—	133.5	—	—	—	—	—	133.5
Foreign exchange differences on translation of foreign operations (net of hedging)		—	—	—	—	—	(4.6)	—	—	(4.6)
Actuarial losses on Group defined benefit pension schemes		—	—	(144.5)	—	—	—	—	—	(144.5)
Share of actuarial gains on joint ventures' defined benefit pension schemes		—	—	2.9	—	—	—	—	—	2.9
Net fair value losses on cash flow hedges		—	—	—	—	—	—	—	(97.4)	(97.4)
Net fair value losses on available for sale investments		—	—	—	—	—	—	(0.4)	—	(0.4)
Cash flow hedges reclassified and reported in profit for the year		—	—	—	—	—	—	—	(11.2)	(11.2)
Tax on items taken directly to equity (for split see Consolidated statement of recognised income and expense on page 43)		—	—	—	—	—	—	—	—	—
Own ordinary shares purchased		—	—	38.2	—	—	—	—	31.9	70.1
Own ordinary shares sold		—	—	—	—	(2.8)	—	—	—	(2.8)
Preference shares redeemed		—	—	—	2.7	1.5	—	—	—	1.5
Arising on new ordinary share issues		—	1.3	(2.7)	—	—	—	—	—	—
VAT recovered on professional fees previously applied to share premium account		0.1	0.2	—	—	—	—	—	—	1.4
Credit in relation to equity-settled share based payments		—	—	3.1	—	—	—	—	—	3.1
Dividends paid on ordinary shares		—	—	(41.8)	—	—	—	—	—	(41.8)
	9									
Balance at 30 April 2009		7.1	9.5	(374.9)	413.5	(13.9)	1.1	0.2	(52.2)	(9.6)

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

These 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 as adopted by the European Union (and therefore comply with Article 4 of the EU IAS Regulation), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 and 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in pounds sterling, the presentational currency of the Group, and the functional currency of the Company and all values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

• New standards adopted during the year

The Group has early adopted IFRS 8 'Operating Segments' which is compulsory for accounting periods commencing after 1 January 2009. The impact of adopting IFRS 8 was only one of disclosure.

The Group has adopted for the first time IFRIC 14 'IAS19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The adoption of IFRIC 14 has had no material effect on the financial statements.

• 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:

<i>International Accounting Standards and Interpretations</i>	<i>Effective date</i>
Improvements to IFRSs 2009	1 January 2009
IFRS 1 First-time Adoption of International Financial Reporting Standards (revised November 2008)	1 January 2009
IFRS 2 Share-based Payment - Amendment re vesting conditions and cancellations	1 January 2009
IFRS 3 Business Combinations (revised January 2008)	1 July 2009
IFRS 7 Disclosure about Financial Instruments - Amendments	1 January 2009
IAS 1 Presentation of financial statements (revised December 2008)	1 January 2009
IAS 23 Borrowing Costs (revised March 2007)	1 January 2009
IAS 27 Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 32 Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation	1 January 2009
IAS 39 Financial Instruments: Recognition and measurement - Amendment for embedded derivatives	1 July 2008
IAS 39 Financial Instruments: Recognition and measurement - Amendment in relation to reclassification of financial assets	1 July 2008
IAS 39 Financial Instruments: Recognition and measurement - Amendment for eligible hedged items	1 July 2009
IFRIC 9 Embedded Derivatives - Amendments	1 July 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 15 Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17 Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18 Transfers of Assets from Customers	1 July 2009

The Directors are currently reviewing the requirements of the above standards and interpretations to determine whether they will have a material impact on the Group's financial statements in the period of initial application.

• Comparatives

Where appropriate, comparative figures for the previous year have been adjusted to conform to changes in presentation. These changes have no impact on the consolidated income statement or on consolidated net liabilities/assets.

• Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings, joint ventures and associates made up to 30 April in each year.

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.

• Subsidiaries, associates and joint ventures

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits from their activities, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another 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. The purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of subsidiaries. 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 plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill.

Intercompany transactions, balances, income and expenses are eliminated on consolidation.

Note 1 IFRS accounting policies (continued)

• Subsidiaries, associates and joint ventures (continued)

(ii) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting.

Joint ventures are enterprises that the Group has the power to jointly govern the enterprises' financial and operating policies with other investors based on contractual agreement.

Associates are enterprises, other than joint ventures, that are not controlled by the Group over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence.

Under the equity method of accounting, the Group's consolidated income statement includes the Group's share of profits less losses of joint ventures and associates, while the share of net assets of joint ventures and associates is included in the Group's consolidated balance sheet. Where the Group's share of losses in a joint venture or associate exceeds its interest in that enterprise, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in each business. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's investment in joint ventures and associates includes goodwill on acquisition.

The Group applies its own accounting policies and estimates when accounting for its share of joint ventures and associates, making appropriate adjustments where necessary, having due regard to all relevant factors.

• 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.

For this purpose, exceptional items are items which individually, or if of a similar type, in aggregate, need to be disclosed, by virtue of their nature, size or incidence in order to allow proper understanding of the underlying performance of the Group.

• Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Although these estimates and assumptions are based on management's best knowledge, actual results may ultimately differ from those estimates and assumptions used.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement of tax assets and liabilities, the measurement of onerous contract provisions, the measurement of retirement benefit obligations, the measurement and impairment of goodwill and the measurement of insurance provisions. The measurement of tax assets and liabilities requires an assessment to be made of the potential tax consequence of certain items that will only be resolved when agreed by the relevant tax authorities. The measurement of onerous contract provisions requires estimates of future cash flows relating to the relevant contracts and the selection of a suitable discount rate. The measurement of retirement benefit obligations requires the estimation of life expectancies, future changes in salaries, inflation, the expected return on scheme assets and the selection of a suitable discount rate (see note 28). The Group determines whether goodwill arising on business combinations is impaired on an annual basis and this requires the estimation of value in use of the cash generating units to which the goodwill is allocated. This requires estimation of future cash flows and the selection of a suitable discount rate (see note 11). The estimation of the insurance provisions 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.

Those accounting policies that the Directors believe require the greatest exercise of judgement are described on page 14 and 15.

• Revenue

Revenue represents gross revenue earned from public transport services and excludes payments received on account. Amounts receivable for tendered services and concessionary fare schemes are included as part of revenue. Where appropriate, amounts are shown net of rebates and VAT. Revenues incidental to the Group's principal activity (including advertising income and maintenance income) are reported as miscellaneous revenue (see note 5).

Rail revenue includes amounts attributable to the train operating companies, based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry) in respect of passenger receipts. Franchise agreement receipts or payments from or to the Department for Transport ("DfT") are treated as other operating income (see note 5).

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided. Cash received for the sale of season tickets and travelcards is deferred within liabilities and recognised in the income statement over the period covered by the relevant ticket.

Income from advertising and other activities is recognised as the income is earned.

Finance income is recognised using the effective interest method as interest accrues.

Under the contractual terms of its franchise agreements to operate rail services, the Group has revenue sharing arrangements with the DfT. As a result of these arrangements, the Group may be liable to make payments to the DfT or receive amounts from the DfT based on calculations that involve comparison of actual revenue with the target revenue 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 (if any) are classified within other operating costs and revenue share amounts receivable (if any) are classified within other operating income.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Performance incentive payments

Performance incentive payments made to Network Rail by the Group in respect of train service delivery are recognised in the same period that the performance relates to and are shown as other operating costs.

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

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.

Revenue grants receivable in respect of the operation of rail franchises in the UK are credited to the income statement in the period in which the related expenditure is recognised in the income statement or where they do not relate to any specific expenditure, in the period in respect of which the grant is receivable. These rail franchise grants are classified within other operating income.

• Share based payments

The Group issues equity-settled and cash-settled share based payments to certain employees.

The Group has applied the optional exemption contained within IFRS 1, which allows it to apply IFRS 2 only to equity instruments granted after 7 November 2002 that have not vested before the date of transition to IFRS, being 1 May 2004.

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 estimated by use of the Black-Scholes pricing model.

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, 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.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date. Changes in the carrying amount of the liability are recognised in the income statement for the period.

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).

• Operating profit

Operating profit is stated after charging restructuring costs and after the share of after-tax results of associates and joint ventures but before finance income, finance costs, non-operating exceptional items, taxation and profit from discontinued operations.

• 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, associates 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.

• Dividends

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.

• Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker which for this purpose has been identified as the Board of Directors.

Note 1 IFRS accounting policies (continued)

• 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 overseas 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 overseas 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 investment in a foreign entity is provided on page 53.

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, the amount of any exchange differences relating to the subsidiary that has been deferred in the translation reserve is recognised in the income statement within the reported gain or loss on disposal. The Group took the IFRS 1 exemption which allows accumulated exchange differences at the date of transition to IFRS, being 1 May 2004, to be set to zero for all foreign subsidiaries.

PRINCIPAL RATES OF EXCHANGE	2009	2008
US Dollar:		
Year end rate	1.4818	1.9806
Average rate	1.6780	2.0072
Canadian Dollar:		
Year end rate	1.7605	1.9947
Average rate	1.8955	2.0525

• 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 arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

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 will remain eliminated against reserves.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of 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 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 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), financial assets 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, which 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.

In assessing value in use, the estimated future 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.

• 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 the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably.

Amortisation is calculated on the straight-line method 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. Intangible assets relating to rail franchises of a finite duration are amortised over the life of the franchise.

Customer contracts	over the life of the contract (1 to 6 years for current contracts)
Right to operate rail franchises	over the life of the franchise (10 years from February 2007 to February 2017 for South Western franchise and 7 years and 4 months from November 2007 to March 2015 for East Midlands Trains franchise)
Non-compete contracts	between 2 and 5 years for current contracts
Software costs	2 to 5 years

Marketing costs incurred during the start-up phase of a new activity are charged to the income statement as incurred.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• 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.

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
Public Service Vehicles ("PSVs") and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Heritable and freehold land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed 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.

Interest is not capitalised in the carrying value of property, plant and equipment.

• Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

• 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.

• 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 asset and are charged to the income statement over the life of the franchise.

• 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. Lease payments are apportioned between the finance charges, and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges 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 charged on a straight-line basis over the lease term.

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.

• Tokens

Tokens issued by National Transport Tokens Limited, a subsidiary of the Group, to facilitate public passenger travel in the United Kingdom are credited to a token redemption provision to the extent they are expected to be redeemed by customers. Redemptions are offset against this provision and associated handling commission paid to third parties is included in operating costs. Funds from the sale of tokens required for token redemption are included as a financing activity in the consolidated cash flow statement.

The estimate of the balance sheet provision for token redemption is remeasured at each balance sheet date and is based on the value of tokens issued by the Group but not yet redeemed or cancelled at the balance sheet date. Allowance is made for the estimated proportion of tokens in issue that will never be redeemed. This allowance is estimated with reference to historic redemption rates. At 30 April 2009, it has been estimated that 97% (30 April 2008: 97%) of tokens in issue will be redeemed.

• Environmental provisions

Provisions for environmental costs are recognised when the Group has a legal or constructive obligation to undertake environmental clean-ups or other work in respect of environmental matters and the associated costs can be reasonably estimated.

The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligations.

Note 1 IFRS accounting policies (continued)

• Provision for onerous contracts

A provision for onerous contracts is recognised when it is probable that the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

• 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 as described in note 28.

The Group accounts for pensions and similar benefits in accordance with IAS 19 "Employee Benefits". 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, the recognised net asset is limited to no greater than the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan 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 operating and financing costs of defined benefit plans are included within operating profit and are disclosed separately in the notes to the financial statements; service costs are spread systematically over the working lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense. Mortality rates are considered when retirement benefit obligations are calculated.

Past service costs and adjustments are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period), in which case the past service costs are amortised using a straight-line method over the vesting period. Past service pension adjustments which impact on the income statement for the year are disclosed within exceptional items, where material to the financial statements.

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 within profit or loss from discontinued operations.

A full actuarial valuation is undertaken triennially for each scheme with the deficit being 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 within the statement of recognised income and expense in the year in which they arise.

The liability or asset recognised for the relevant sections of RPS 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.

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'.

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, trade receivables, other receivables, loans, other investments 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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Financial instruments (continued)

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 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 within 'Other external charges'. 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 costs, the reversal is recognised in profit or loss.

Held-to-maturity investments: Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method. Held-to-maturity gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process. Investments intended to be held for an undefined period cannot be included in this classification.

Available for sale financial assets: Available for sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the above categories. These are included in non-current assets unless the Group intends to dispose of them within 12 months of the balance sheet date. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the asset is derecognised or until the asset is determined to be impaired, at which time the cumulative gain or loss reported in equity is included in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and is recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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, other payables, 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 effective 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. Otherwise assets are carried at cost.

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, including intra-group transactions; 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 re-measured 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.

For hedged items carried at amortised cost, the hedge adjustment is amortised through the income statement such that it is fully amortised by maturity.

Note 1 IFRS accounting policies (continued)

• Financial instruments (continued)

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 recognised income and expense, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of recognised income and expense 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.

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 recognised income and expense 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 recognised income and expense 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 recognised income and expense, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of recognised income and expense are transferred to the income statement when the foreign entity is sold.

Non-derivative financial liabilities can be designated as hedges of a net investment in a foreign entity and are subject to the same requirements as derivative hedges of a net investment in a foreign entity.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments, less bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

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; any difference between 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 settlement for at least 12 months after the balance sheet date.

Trade and other payables

Trade payables are not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

Preferred shares

Preferred shares, which are redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, are classified as liabilities. The dividend on these preferred shares is recognised in the income statement as an interest expense.

Share capital

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.

The accounting policy in relation to preferred shares is included in the accounting policy for financial instruments above.

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 three continuing operating segments, being UK Bus, North America and UK Rail. 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 three operating segments as follows:

<i>Segment name</i>	<i>Service operated</i>	<i>Country of operation</i>
UK Bus	Coach and bus operations	United Kingdom
North America	Coach and bus operations	USA and Canada
UK Rail	Rail operations	United Kingdom

The Group has interests in four joint ventures: Virgin Rail Group that operates in UK Rail, Citylink that operates in UK Bus and New York Splash Tours LLC and Twin America LLC that both operate in North America. 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 is the same in all cases. 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.

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(a) Revenue (continued)

	2009	2008
	£m	£m
Continuing operations		
UK Bus	830.8	743.9
North America	297.7	241.9
Total bus continuing operations	1,128.5	985.8
UK Rail	977.7	777.8
Total Group revenue	2,106.2	1,763.6
Intra-Group revenue	(2.9)	Nil
Reported Group revenue	2,103.3	1,763.6

(b) Operating profit

	2009			2008		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Continuing operations						
UK Bus	125.6	Nil	125.6	109.9	Nil	109.9
North America	25.2	Nil	25.2	21.0	Nil	21.0
Total bus continuing operations	150.8	Nil	150.8	130.9	Nil	130.9
UK Rail	55.7	Nil	55.7	59.1	Nil	59.1
Total continuing operations	206.5	Nil	206.5	190.0	Nil	190.0
Group overheads	(11.5)	Nil	(11.5)	(13.0)	Nil	(13.0)
Intangible asset expenses	Nil	(8.3)	(8.3)	Nil	(7.9)	(7.9)
Restructuring costs	(2.5)	(12.0)	(14.5)	(4.3)	Nil	(4.3)
Total operating profit of continuing Group companies	192.5	(20.3)	172.2	172.7	(7.9)	164.8
Share of joint ventures' profit after finance income and taxation	35.3	(5.1)	30.2	32.6	(5.1)	27.5
Total operating profit:						
Group operating profit and share of joint ventures' profit after taxation	227.8	(25.4)	202.4	205.3	(13.0)	192.3

Note 2 Segmental information (continued)

(c) Joint ventures

	2009			2008		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Continuing						
Virgin Rail Group (UK Rail)						
Operating profit	42.7	Nil	42.7	41.9	Nil	41.9
Finance income (net)	2.3	Nil	2.3	4.0	Nil	4.0
Taxation	(11.0)	Nil	(11.0)	(13.7)	Nil	(13.7)
	34.0	Nil	34.0	32.2	Nil	32.2
Goodwill charged on investment in continuing joint ventures	Nil	(5.1)	(5.1)	Nil	(5.1)	(5.1)
	34.0	(5.1)	28.9	32.2	(5.1)	27.1
Citylink (UK Bus)						
Operating profit	1.4	Nil	1.4	1.1	Nil	1.1
Taxation	(0.4)	Nil	(0.4)	(0.3)	Nil	(0.3)
	1.0	Nil	1.0	0.8	Nil	0.8
New York Splash Tours LLC (North America)						
Operating profit	(0.6)	Nil	(0.6)	(0.7)	Nil	(0.7)
Taxation	Nil	Nil	Nil	0.3	Nil	0.3
	(0.6)	Nil	(0.6)	(0.4)	Nil	(0.4)
Twin America LLC (North America)						
Operating profit	0.9	Nil	0.9	Nil	Nil	Nil
Taxation	Nil	Nil	Nil	Nil	Nil	Nil
	0.9	Nil	0.9	Nil	Nil	Nil
Share of profit of joint ventures after finance income and taxation	35.3	(5.1)	30.2	32.6	(5.1)	27.5

(d) Gross assets and liabilities

	2009			2008		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus	630.7	(167.7)	463.0	634.8	(116.1)	518.7
North America	278.2	(106.2)	172.0	245.1	(72.7)	172.4
UK Rail	234.9	(432.4)	(197.5)	188.0	(311.7)	(123.7)
	1,143.8	(706.3)	437.5	1,067.9	(500.5)	567.4
Central functions	15.0	(151.2)	(136.2)	11.7	(133.0)	(121.3)
Joint ventures	68.7	Nil	68.7	33.9	Nil	33.9
Borrowings and cash	277.3	(626.9)	(349.6)	262.2	(594.1)	(331.9)
Taxation	5.3	(35.3)	(30.0)	7.0	(74.7)	(67.7)
Total	1,510.1	(1,519.7)	(9.6)	1,382.7	(1,302.3)	80.4

Central assets and liabilities include the token provision, interest payable and receivable and other net assets of the holding company.

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, 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 shown below is on an accruals basis, not on a cash basis, and includes expenditure on property, plant and equipment through business combinations.

	2009	2008
	£m	£m
UK Bus	126.9	80.3
North America	38.2	28.2
UK Rail	37.8	16.0
	202.9	124.5

Capital expenditure, excluding business combinations is analysed in section 3.8.10 of the Operating and Financial Review.

(f) Capital expenditure on intangible assets

The capital expenditure on intangible assets (including goodwill) shown below includes acquisitions through business combinations.

	2009	2008
	£m	£m
UK Bus	13.5	5.8
North America	3.9	Nil
UK Rail	0.4	7.8
	17.8	13.6

(g) Earnings before interest, tax, depreciation and amortisation ("EBITDA")

The results of each segment are further analysed below:

	Year ended 30 April 2009								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation expense £m	Operating profit pre intangibles and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus	176.0	Nil	176.0	(50.4)	125.6	(5.2)	Nil	(1.6)	118.8
North America	44.7	Nil	44.7	(19.5)	25.2	(0.7)	Nil	Nil	24.5
UK Rail – subsidiaries	57.8	Nil	57.8	(2.1)	55.7	(2.4)	Nil	(12.9)	40.4
UK Rail – joint venture (Virgin Rail Group)	42.7	(8.7)	34.0	Nil	34.0	(5.1)	Nil	Nil	28.9
UK Bus – joint venture (Citylink)	1.4	(0.4)	1.0	Nil	1.0	Nil	Nil	Nil	1.0
North America – joint ventures (Splash Tours and Twin America)	0.3	Nil	0.3	Nil	0.3	Nil	Nil	Nil	0.3
Group overheads	(11.4)	Nil	(11.4)	(0.1)	(11.5)	Nil	Nil	Nil	(11.5)
Restructuring costs	(2.5)	Nil	(2.5)	Nil	(2.5)	Nil	(12.0)	14.5	Nil
	309.0	(9.1)	299.9	(72.1)	227.8	(13.4)	(12.0)	Nil	202.4

	Year ended 30 April 2008								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation expense £m	Operating profit pre intangibles and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus	157.5	Nil	157.5	(47.6)	109.9	(5.8)	Nil	(0.5)	103.6
North America	37.9	Nil	37.9	(16.9)	21.0	(0.3)	Nil	(0.2)	20.5
UK Rail – subsidiaries	61.2	Nil	61.2	(2.1)	59.1	(1.8)	Nil	(3.6)	53.7
UK Rail – joint venture (Virgin Rail Group)	41.9	(9.7)	32.2	Nil	32.2	(5.1)	Nil	Nil	27.1
UK Bus – joint venture (Citylink)	1.1	(0.3)	0.8	Nil	0.8	Nil	Nil	Nil	0.8
North America – joint venture (Splash Tours)	(0.7)	0.3	(0.4)	Nil	(0.4)	Nil	Nil	Nil	(0.4)
Group overheads	(13.0)	Nil	(13.0)	Nil	(13.0)	Nil	Nil	Nil	(13.0)
Restructuring costs	(4.3)	Nil	(4.3)	Nil	(4.3)	Nil	Nil	4.3	Nil
	281.6	(9.7)	271.9	(66.6)	205.3	(13.0)	Nil	Nil	192.3

Note 3 Operating costs

	2009	2008
	£m	£m
Materials and consumables	257.4	197.1
Staff costs excluding past service pension adjustment (note 7)	818.9	723.1
Past service pension adjustment	Nil	(0.1)
Depreciation on property, plant and equipment		
– owned assets	51.1	50.1
– leased assets under hire purchase agreements and finance leases	21.0	16.5
Loss on disposal of plant and equipment	2.0	0.4
Impairment of plant and equipment	0.2	Nil
Repairs and maintenance expenditure on property, plant and equipment	20.3	16.2
Amortisation of intangible assets		
– customer contracts	3.0	5.0
– non-compete contracts	2.8	1.1
– rail franchises	2.3	1.7
– software costs	0.2	0.1
Network Rail charges	238.1	282.9
Operating lease rentals payable		
– plant and equipment	141.7	120.7
– property	7.2	8.1
Other external charges	372.6	315.0
Impairment of investments	Nil	0.2
Restructuring costs		
– exceptional	12.0	Nil
– non-exceptional	2.5	4.3
Total operating costs	1,953.3	1,742.4

Amounts payable to PricewaterhouseCoopers LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2009	2008
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's financial statements	20.0	20.0
Fees payable to the Company's auditors for the audit of Company's subsidiaries pursuant to legislation	675.0	665.0
Total audit fees	695.0	685.0
Assurance services pursuant to legislation	Nil	18.0
Other assurance services	85.3	Nil
Tax advisory services	109.7	109.1
Provision of training and related materials	0.8	9.8
Non-audit fees	195.8	136.9
Total fees payable by the Group to its auditors	890.8	821.9

A description of the work of the Audit Committee is set out in the Audit Committee Report on page 30, 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

Where applicable, the Group intends to continue to highlight amounts before intangible asset expenses and exceptional items as well as clearly reporting the results in accordance with IFRS. Exceptional items are items which individually, or if of a similar type, in aggregate, need to be disclosed, by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying performance of the Group.

Information on exceptional items is provided in section 3.8.2 of the Operating and Financial Review.

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the year ended 30 April 2009 can be further analysed as follows:

	2009		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
Operating costs			
Intangible asset expenses	Nil	(8.3)	(8.3)
Restructuring costs	(12.0)	Nil	(12.0)
	(12.0)	(8.3)	(20.3)
Share of profit of joint ventures			
Goodwill charged on investment in joint ventures	Nil	(5.1)	(5.1)
Impairment charge on properties	(2.4)	Nil	(2.4)
Resolution of certain liabilities re acquisitions and disposals	2.2	Nil	2.2
Intangible asset expenses and exceptional items	(12.2)	(13.4)	(25.6)
Tax effect of intangible asset expenses and exceptional items	4.1	2.2	6.3
Deferred tax charge re abolition of the Industrial Buildings Allowances	(10.6)	Nil	(10.6)
Intangible asset expenses and exceptional items after taxation	(18.7)	(11.2)	(29.9)

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the prior year comparatives can be further analysed as follows:

	2008		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
Operating costs			
Intangible asset expenses	Nil	(7.9)	(7.9)
Share of profit of joint ventures			
Goodwill charged on investment in joint ventures	Nil	(5.1)	(5.1)
Gain on sale of properties	0.3	Nil	0.3
Loss on disposed and closed operations	(1.7)	Nil	(1.7)
Finance income	7.3	Nil	7.3
Profit for the period from discontinued operations	19.9	Nil	19.9
Intangible asset expenses and exceptional items	25.8	(13.0)	12.8
Tax effect of intangible asset expenses and exceptional items	(1.2)	2.1	0.9
Exceptional tax credit	87.8	Nil	87.8
Tax rate change	1.5	Nil	1.5
Intangible asset expenses and exceptional items after taxation	113.9	(10.9)	103.0

The "goodwill charged on investment on joint ventures" is an annual charge for goodwill in relation to our investment in Virgin Rail Group. This annual charge equals the goodwill amortisation that would have been recognised for Virgin Rail Group under UK GAAP results. In our IFRS results we continue to recognise an annual charge for goodwill in relation to Virgin Rail Group. Virgin Rail Group's only significant business is the operation of the West Coast Trains rail franchise, which has a finite duration. Goodwill recognised in relation to the acquisition/winning of a new franchise has a finite life due to the fact that a franchise ends on a particular date. We therefore have to reduce the goodwill in relation to Virgin Rail Group with an annual charge to reflect the fact that we should have no goodwill left at the end of Virgin Rail Group's rail franchise. Under IFRS, on winning any new franchises, any consideration paid in excess of the relevant fair value of other indentifiable assets, liabilities and contingent liabilities acquired will represent a separate intangible asset, which would be amortised over the life of the franchise. Whilst IFRS generally prohibits the amortisation of goodwill, the treatment adopted is a result of an anomaly on the first-time adoption of IFRS that would not arise if IFRS were applied to new acquisitions of businesses.

Note 5 Other operating income

	2009	2008
	£m	£m
Miscellaneous revenue	88.6	65.4
Rail franchise support	31.5	78.2
Rail franchise premia	(97.9)	Nil
	22.2	143.6

Miscellaneous revenue comprises revenue incidental to the Group's principal activities. It includes commissions receivable, advertising income, maintenance income, railway station access income, railway depot access income, fuel sales and property income.

Rail franchise support is the amount of financial support receivable from the Department for Transport ("DfT") in respect of the operation of UK passenger rail franchises. Rail franchise premia is the amount of financial premia payable to the DfT in respect of the operation of UK passenger rail franchises.

Note 6 Finance costs and income

	2009	2008
	£m	£m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes and overdrafts	9.8	21.6
Hire purchase and finance lease interest payable	7.8	7.5
Interest payable on bonds	15.1	12.2
'B' share dividends	0.2	0.6
Unwinding of discount on provisions	3.6	3.3
Interest payable on interest rate swaps qualifying as cashflow hedges	2.4	Nil
	38.9	45.2
Finance income		
Interest receivable	(7.5)	(14.0)
Interest receivable on interest rate swaps qualifying as cash flow hedges	Nil	(0.3)
	(7.5)	(14.3)
Net finance costs before exceptional items	31.4	30.9
Exceptional item		
Interest receivable on tax repayments	Nil	(7.3)
Net finance costs	31.4	23.6

No interest (2008: £Nil) was capitalised during the year.

Notes to the consolidated financial statements

Note 7 Staff costs

	2009	2008
	£m	£m
Staff costs		
Wages and salaries	724.8	653.0
Social security costs	60.5	54.7
Pension costs – defined contribution schemes	2.2	1.2
Pension costs – defined benefit schemes		
– current service cost	42.0	33.1
– curtailments	(1.0)	(0.3)
– interest cost	78.2	66.4
– expected return on assets	(92.7)	(91.7)
Share based payment costs (excluding social security costs)		
– Equity-settled	3.1	1.7
– Cash-settled	1.8	5.0
Staff costs, excluding past service pension adjustment	818.9	723.1
Past service pension adjustment (note 28)	Nil	(0.1)
	818.9	723.0

	2009	2008
	£m	£m
Summary of directors' remuneration		
Aggregate emoluments	2.4	2.3
Gains made by directors on exercise of share options	1.0	6.8
	3.4	9.1

Key management personnel are considered to be the Directors and further information on their remuneration, share options, incentive schemes and pensions is contained within the Directors' remuneration report.

The average monthly number of persons employed by the Group during the year (including executive directors) was as follows:

	2009	2008
	number	number
UK operations	23,625	22,465
UK administration and supervisory	3,069	2,521
Overseas	4,085	4,562
	30,779	29,548

The average monthly number of persons employed by the Group during the year split by segment was as follows:

	2009	2008
	number	number
UK Bus	19,300	18,304
North America	4,085	4,562
UK Rail	7,249	6,542
Central	145	140
	30,779	29,548

Note 8 Taxation

(a) Analysis of charge in the year

	2009			2008		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Current tax:						
UK corporation tax at 28% (2008: 29.84%)	19.9	(4.1)	15.8	1.2	2.5	3.7
Prior year (over)/under provision for corporation tax	(0.5)	Nil	(0.5)	1.4	(78.0)	(76.6)
Foreign tax (current year)	0.8	Nil	0.8	1.5	Nil	1.5
Total current tax	20.2	(4.1)	16.1	4.1	(75.5)	(71.4)
Deferred tax:						
Origination and reversal of temporary differences	13.4	(2.2)	11.2	25.4	(4.8)	20.6
Exceptional charge re abolition of IBAs	Nil	10.6	10.6	Nil	Nil	Nil
Adjustments in respect of prior years	(0.6)	Nil	(0.6)	(1.2)	(9.9)	(11.1)
Total deferred tax	12.8	8.4	21.2	24.2	(14.7)	9.5
Total tax on profit	33.0	4.3	37.3	28.3	(90.2)	(61.9)

(b) Factors affecting tax charge for the year

	2009	2008
	£m	£m
Profit before taxation	170.8	167.3
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 28% (2008: 29.84%)	47.8	49.9
Effects of:		
Intangible asset allowances/deductions	1.5	1.7
Non-deductible expenditure	1.3	0.7
Utilisation of tax losses not previously recognised as deferred tax assets	(14.7)	(15.7)
Foreign taxes differences	1.7	1.6
Adjustments to tax charge in respect of prior years	(1.1)	(87.7)
Tax effect of share of results of joint ventures	(9.8)	(9.8)
Abolition of Industrial Buildings Allowances in the UK	10.6	Nil
Impact of reduction in UK tax rate on prior years' deferred tax	Nil	(1.5)
Impact of reduction in UK tax rate on current year's deferred tax	Nil	(1.1)
Total taxation (note 8a)	37.3	(61.9)

(c) Factors that may affect future tax charges

There are no temporary differences associated with investments in overseas subsidiaries for which deferred tax liabilities have not been recognised. Gross deductible temporary differences of £125.4m (2008: £196.1m) have not been recognised due to restrictions in the availability of their use.

Temporary differences in respect of the revaluation of land and buildings (see Note 13) and in respect of rolled over capital gains are fully offset by temporary differences in respect of capital losses.

(d) Tax on items charged to equity

	2009	2008
	£m	£m
Tax on foreign exchange differences on translation of foreign operations	0.9	1.6
Tax effect of actuarial (losses)/gains on Group defined benefit pensions schemes	(40.4)	0.1
Tax effect of share of actuarial gains/(losses) on joint ventures' defined benefit pension schemes	0.8	(0.6)
Tax effect of share based payments	0.5	(2.7)
Tax effect of cash flow hedges	(31.9)	11.7
Tax effect of reduction in corporation tax rate from 30% to 28%	Nil	(1.3)
Total tax on items charged to equity	(70.1)	8.8

Notes to the consolidated financial statements

Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below. Dividends payable in respect of 'B' Shares of £0.2m (2008: £0.6m) are included as an expense in finance costs and shown separately in note 6.

	2009	2008	2009	2008
	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	4.05	2.90	28.9	20.5
Interim dividend in respect of the current year	1.8	1.35	12.9	9.5
Amounts recognised as distributions to equity holders in the year	5.85	4.25	41.8	30.0
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	4.2	4.05	30.0	28.9

The proposed final dividend in respect of the year ended 30 April 2009 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements. If approved, the final dividend will be payable on 30 September 2009 to shareholders on the register at close of business on 28 August 2009.

The dividends proposed or declared and the actual dividends recognised as distributions can differ slightly due to the number of shares at the balance sheet date being different to the number outstanding at the record date.

Note 10 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 by employee share ownership trusts that do not rank for dividend.

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 share options and long-term incentive plans. In respect of share options, a calculation was done to determine the number of ordinary shares that could have been acquired at fair value (determined based on the average annual market share price of the Company's ordinary shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration and no adjustment is made to earnings (numerator).

On 14 May 2007, the Company issued 277,777,735 redeemable 'B' shares of 63 pence each and 823,220,972 irredeemable 'C' shares of 63 pence each at the rate of 1 'B' or 'C' share for every 14 ordinary shares held. The issue of the 'B' and 'C' shares was followed by a share capital consolidation whereby shareholders received 9 new ordinary shares for every 14 existing ordinary shares held. In determining the consolidated earnings per share, no adjustment has been made to the number of ordinary shares outstanding before the event where the issue of 'B' and 'C' shares was combined with the share capital consolidation. The weighted average number of ordinary shares outstanding for the year ended 30 April 2008 has been adjusted for the reduction in the number of ordinary shares from the date on which the issue of 'B' and 'C' shares and share consolidation took place. This treatment is consistent with paragraph 29 of International Accounting Standard 33, "Earnings per share".

	2009	2008
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	714.5	720.6
Dilutive ordinary shares		
– Executive Share Option Scheme	1.3	3.8
– Employee SAYE Scheme	0.1	6.0
– Long Term Incentive Plan	2.4	4.4
– Executive Participation Plan	2.8	2.0
Diluted weighted average number of ordinary shares	721.1	736.8

	2009	2008
	£m	£m
Profit after taxation (for basic EPS calculation)	133.5	249.1
Intangible asset expenses (see note 4)	13.4	13.0
Exceptional items before tax (see note 4)	12.2	(25.8)
Tax effect of intangible asset expenses and exceptional items (see note 4)	4.3	(90.2)
Profit for adjusted EPS calculation	163.4	146.1

Note 10 Earnings per share (continued)

	2009	2008
	Earnings per share	Earnings per share
	pence	pence
Basic	18.7	34.6
Adjusted basic	22.9	20.3
Diluted	18.5	33.8
Adjusted diluted	22.7	19.8

Earnings per share before intangible asset expenses and exceptional items is calculated after adding back intangible asset expenses and exceptional items after taking account of taxation, as shown on the consolidated income statement on page 41. This has been presented to allow shareholders to gain a further understanding of the underlying performance. The basic and diluted earnings per share can be further analysed as follows:

	2009			2008		
	Earnings £m	Weighted average number of shares Million	Earnings per share Pence	Earnings £m	Weighted average number of shares Million	Earnings per share Pence
Basic						
– Continuing operations	133.5	714.5	18.7	229.2	720.6	31.8
– Discontinued operations	Nil	714.5	Nil	19.9	720.6	2.8
	133.5	714.5	18.7	249.1	720.6	34.6
Adjusted basic						
– Continuing operations	163.4	714.5	22.9	146.1	720.6	20.3
– Discontinued operations	Nil	714.5	Nil	Nil	720.6	Nil
	163.4	714.5	22.9	146.1	720.6	20.3
Diluted						
– Continuing operations	133.5	721.1	18.5	229.2	736.8	31.1
– Discontinued operations	Nil	721.1	Nil	19.9	736.8	2.7
	133.5	721.1	18.5	249.1	736.8	33.8
Adjusted diluted						
– Continuing operations	163.4	721.1	22.7	146.1	736.8	19.8
– Discontinued operations	Nil	721.1	Nil	Nil	736.8	Nil
	163.4	721.1	22.7	146.1	736.8	19.8

There have been no ordinary share transactions between the balance sheet date and the date of approval of this report that would have significantly changed the number of ordinary shares outstanding at 30 April 2009.

Note 11 Goodwill

	2009	2008
	£m	£m
Cost		
At beginning of year	95.5	92.8
Acquired through business combinations	10.3	1.9
Transferred to interest in joint venture (note 14)	(26.9)	Nil
Foreign exchange movements	21.0	0.8
At end of year	99.9	95.5
Accumulated impairment losses		
At beginning and end of year	Nil	Nil
Net book value at beginning of year	95.5	92.8
Net book value at end of year	99.9	95.5

In accordance with IAS 36, 'Impairment of Assets', the Group tests the following assets for impairment annually:

- Goodwill acquired in a business combination;
- Intangible assets other than goodwill with indefinite useful lives, although there are no such assets at the balance sheet date;
- Intangible assets not yet available for use, although there are no such assets at the balance sheet date; and
- Other assets where there is any indication that the relevant asset may be impaired.

Notes to the consolidated financial statements

Note 11 Goodwill (continued)

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to two individual cash generating units on the basis of the Group's operations. Each cash generating unit is an operational division. The UK Bus cash generating unit operates coach and bus operations in the United Kingdom. The North America Bus cash generating unit operates coach and bus operations in the US and Canada. No goodwill has been allocated to the Group's rail operations.

The cash generating units are as follows:

	UK Bus		North America Bus	
	2009	2008	2009	2008
	£m	£m	£m	£m
Carrying amount of goodwill	33.1	22.8	66.8	72.7
Carrying value of intangible assets with indefinite useful lives	Nil	Nil	Nil	Nil
Basis on which recoverable amount has been determined	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
Pre-tax discount rate applied to cash flow projections	11.8%	10.7%	14.8%	9.0%
Growth rate used to extrapolate cash flows beyond period of management plan	2.1%	2.2%	2.5%	2.7%
Difference between above growth rate and long-term average growth rate for market in which unit operates	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. The assumptions used are considered to be consistent with the historical performance of each cash generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

The current economic challenges and uncertainties have resulted in less visibility of future cash flows and therefore created greater uncertainty in the cash flow forecasts that underpin the calculations of value in use.

The principal risks and uncertainties are set out in section 3.10 of the Operating and Financial Review. The Group's UK rail operations are considered by management to be at greater risk from changes in the economic environment for the reasons explained in section 3.10.2 and section 3.10.3. The revenue of the UK rail operations is historically correlated with factors such as UK Gross Domestic Product and Central London Employment whilst the cost base of the UK Rail operations is largely fixed. The cash flows of the UK rail operations are therefore more sensitive to changes in economic assumptions than those of the UK Bus and North American Bus operations. No goodwill is attributable to UK Rail but these factors have been considered in evaluating whether the Group's rail franchise agreements represent onerous contracts (see note 34(iii)).

The cost base of the UK Bus and North American Bus 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. Therefore whilst more conservative growth assumptions have been applied for the short to medium term, management believes that the cash flows for these CGUs can still be predicted with reasonable certainty notwithstanding the current economic conditions. Risks to the cash flow forecasts remain, however, and are described in section 3.10.

The discount rates applied have increased since 30 April 2008 reflecting higher market prices for risk. 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 30 April 2009 at 8.5% based on:

- The market capitalisation and net debt of the Group as at 30 April 2009 as an indication of the split between debt and equity;
- A risk-free rate of 3.9%;
- A levered beta for the Group of 1.1;
- A marginal pre-tax cost of debt of 6.9%.

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.

The Directors believe that in the case of each of the cash generating units shown above, any reasonably possible change in the key assumptions on which the recoverable amount of the unit is based would not cause its carrying amount to exceed its recoverable amount.

Note 12 Other intangible assets

Year ended 30 April 2009

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	15.8	10.8	19.7	0.9	47.2
Additions	Nil	Nil	Nil	0.4	0.4
Acquired through business combinations	2.3	4.8	Nil	Nil	7.1
Disposals	Nil	Nil	Nil	(0.5)	(0.5)
Foreign exchange movements	Nil	1.7	Nil	Nil	1.7
At end of year	18.1	17.3	19.7	0.8	55.9
Accumulated amortisation					
At beginning of year	(12.6)	(7.2)	(2.1)	(0.6)	(22.5)
Amortisation	(3.0)	(2.8)	(2.3)	(0.2)	(8.3)
Disposals	Nil	Nil	Nil	0.5	0.5
Foreign exchange movements	Nil	(1.1)	Nil	Nil	(1.1)
At end of year	(15.6)	(11.1)	(4.4)	(0.3)	(31.4)
Net book value at beginning of year	3.2	3.6	17.6	0.3	24.7
Net book value at end of year	2.5	6.2	15.3	0.5	24.5

Intangible assets include customer contracts purchased as part of the Group's business combinations, non-compete contracts, the right to operate UK Rail franchises and software costs.

The amortisation of each of the above intangible assets is included within the operating costs line of the income statement.

Intangible assets arising during the year (including any acquired through business combinations and the inception of rail franchises) and the amortisation periods are as follows:

	Amortisation period years	Intangible additions £m
Subsidiaries – UK Bus additions	2	3.2
Subsidiaries – North America additions	5	3.9
Subsidiaries – UK Rail additions	6-7	0.4
		7.5

Year ended 30 April 2008

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	14.7	8.0	20.1	0.8	43.6
Acquired on inception of rail franchise	Nil	Nil	7.7	0.1	7.8
Acquired through business combinations	1.1	2.8	Nil	Nil	3.9
Disposals	Nil	Nil	(8.1)	Nil	(8.1)
At end of year	15.8	10.8	19.7	0.9	47.2
Accumulated amortisation					
At beginning of year	(7.6)	(6.1)	(8.5)	(0.5)	(22.7)
Amortisation	(5.0)	(1.1)	(1.7)	(0.1)	(7.9)
Disposals	Nil	Nil	8.1	Nil	8.1
At end of year	(12.6)	(7.2)	(2.1)	(0.6)	(22.5)
Net book value at beginning of year	7.1	1.9	11.6	0.3	20.9
Net book value at end of year	3.2	3.6	17.6	0.3	24.7

Notes to the consolidated financial statements

Note 13 Property, plant and equipment

Year ended 30 April 2009

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	193.4	844.1	129.5	1,167.0
Additions	36.3	122.4	29.6	188.3
Acquired through business combinations	2.5	11.7	0.4	14.6
Disposals	(7.9)	(59.5)	(4.9)	(72.3)
Transferred to joint venture	(0.8)	(19.4)	(1.0)	(21.2)
Foreign exchange movements	8.1	69.2	0.2	77.5
Transferred to assets held for sale (note 23)	(4.8)	Nil	Nil	(4.8)
Reclassifications	(0.3)	(0.1)	0.4	Nil
At end of year	226.5	968.4	154.2	1,349.1
Depreciation				
At beginning of year	(15.0)	(402.8)	(96.8)	(514.6)
Charge for year	(5.0)	(61.1)	(6.0)	(72.1)
Impairment charge in the year	(2.4)	Nil	(0.2)	(2.6)
Disposals	1.0	49.0	4.2	54.2
Transferred to joint venture	0.3	6.6	0.8	7.7
Foreign exchange movements	(2.6)	(36.2)	0.4	(38.4)
Transferred to assets held for sale (note 23)	2.4	Nil	Nil	2.4
Reclassifications	Nil	0.1	(0.1)	Nil
At end of year	(21.3)	(444.4)	(97.7)	(563.4)
Net book value at beginning of year	178.4	441.3	32.7	652.4
Net book value at end of year	205.2	524.0	56.5	785.7
Included in the above net book value at end of year are:				
Assets on hire purchase	Nil	206.5	Nil	206.5
Leased PSV assets	Nil	85.6	Nil	85.6
Short leasehold land and buildings	25.4	Nil	Nil	25.4
Long leasehold land and buildings	24.3	Nil	Nil	24.3

Heritable and freehold land amounting to £93.8m (2008: £90.3m) has not been depreciated.

Depreciation of £21.0m (2008: £16.5m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

Included in the net book value of property, plant and equipment is £24.7m (2008: £6.5m) in respect of assets under construction that the Group expects to be sold to Network Rail following the completion of each asset's construction.

Land amounting to £2.4m (2008: £Nil) has been transferred to assets held for sale.

IAS 16, "Property, plant and equipment", requires the initial measurement of property, plant and equipment at cost less accumulated depreciation. The exemption in IFRS 1 allows entities to use a value that is not depreciated cost as deemed cost on transition to IFRS. One of the options is to use fair value of the item at the date of transition to IFRS and allocate this as deemed cost. Certain of our UK Bus division's land and buildings were valued at the date of transition to IFRS being 1 May 2004, on the basis of existing use value by independent qualified valuers. This resulted in an increase of £53.9m to the carrying value of those land and buildings at 1 May 2004. Had the book value of the land and buildings not been increased in this way, the net book value at 30 April 2009 would have been less by £33.5m (2008: £33.2m).

Year ended 30 April 2008

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	176.8	795.3	122.2	1,094.3
Additions	17.5	87.7	10.0	115.2
Acquired through business combinations	0.4	4.4	0.3	5.1
Acquired on inception of rail franchise	Nil	Nil	4.2	4.2
Disposals	(0.9)	(46.3)	(7.4)	(54.6)
Sale/closure of subsidiary undertakings and other businesses	(0.9)	(4.2)	(0.1)	(5.2)
Foreign exchange movements	0.5	7.3	0.2	8.0
Reclassifications	Nil	(0.1)	0.1	Nil
At end of year	193.4	844.1	129.5	1,167.0
Depreciation				
At beginning of year	(11.3)	(386.2)	(97.6)	(495.1)
Charge for year	(3.9)	(56.6)	(6.1)	(66.6)
Disposals	0.3	39.5	7.1	46.9
Sale/closure of subsidiary undertakings and other businesses	0.2	3.5	0.1	3.8
Foreign exchange movements	(0.3)	(3.1)	(0.2)	(3.6)
Reclassifications	Nil	0.1	(0.1)	Nil
At end of year	(15.0)	(402.8)	(96.8)	(514.6)
Net book value at beginning of year	165.5	409.1	24.6	599.2
Net book value at end of year	178.4	441.3	32.7	652.4
Included in the above net book value at end of year are:				
Assets on hire purchase	Nil	111.5	Nil	111.5
Leased PSV assets	Nil	45.0	Nil	45.0
Short leasehold land and buildings	11.2	Nil	Nil	11.2
Long leasehold land and buildings	23.1	Nil	Nil	23.1

Note 14 Interests in joint ventures

The principal joint ventures are:

	Country of incorporation	Number of shares in issue at 30 April 2009	Nominal value of share capital in issue at 30 April 2009	% interest held
Virgin Rail Group Holdings Limited	United Kingdom	34,780	£3,478	49%
Scottish Citylink Limited	United Kingdom	1,643,312	£1,643,312	35%
New York Splash Tours LLC	USA	n/a	n/a	50%
Twin America LLC	USA	n/a	n/a	60%

The Group has four joint ventures: Virgin Rail Group Holdings Limited, Scottish Citylink Limited ("Citylink"), New York Splash Tours LLC and Twin America LLC.

Virgin Rail Group Holdings Limited is the holding company of Virgin Rail Group Limited, which in turn is the holding company of West Coast Trains Limited.

The Virgin Rail Group Holdings shareholders' agreement provides for joint decision making on key matters and equal representation on the Board. As a consequence, the investment has been accounted for as a joint venture.

Stagecoach acquired 35% of the share capital of Citylink on 12 September 2005 in return for transferring certain rights to the Motorvator and megabus.com operations in Scotland. The Citylink shareholder agreement provides for joint and unanimous decision making on all key matters and therefore the investment has been accounted for as a joint venture.

In North America, Stagecoach has two joint ventures, New York Splash Tours LLC, with Port Imperial Duck Charters LLC and Twin America LLC, with CitySights NY. New York Splash Tours LLC currently has no share capital but is governed by a joint venture agreement. The Group's share of loss for the year is disclosed in the income statement within share of profit and loss of joint ventures.

Stagecoach began operating Twin America LLC, a joint venture with CitySights NY, on 31 March 2009. In return for transferring certain assets to the joint venture, the Group holds 60% of the economic rights and 50% of the voting rights. Twin America LLC has no share capital and is governed by a joint venture agreement.

The Directors undertook an impairment review as at 30 April 2009 of the carrying value of the Group's joint venture interests and concluded that there had been no impairment loss.

	Virgin Rail Group	Citylink	Twin America LLC	Total 2009	Total 2008
	£m	£m	£m	£m	£m
Cost					
At beginning of year	68.1	3.8	Nil	71.9	72.0
Transferred from subsidiaries	Nil	Nil	41.5	41.5	Nil
Share of recognised profit	34.0	1.0	0.9	35.9	33.0
Share of actuarial gains/(losses) on defined benefit pension schemes, net of tax	2.1	Nil	Nil	2.1	(1.5)
Dividends received in cash	(43.9)	(1.0)	Nil	(44.9)	(31.6)
Dividend received in respect of loan settlement	Nil	(0.3)	Nil	(0.3)	Nil
Foreign exchange movements	Nil	Nil	5.6	5.6	Nil
At end of year	60.3	3.5	48.0	111.8	71.9
Amounts written off					
At beginning of year	(38.0)	Nil	Nil	(38.0)	(32.9)
Goodwill charged during year	(5.1)	Nil	Nil	(5.1)	(5.1)
At end of year	(43.1)	Nil	Nil	(43.1)	(38.0)
Net book value at beginning of year	30.1	3.8	Nil	33.9	39.1
Net book value at end of year	17.2	3.5	48.0	68.7	33.9

In addition to the above interest in joint ventures, a loan receivable from New York Splash Tours LLC of £2.7m (2008: £1.8m) is reflected in note 21. New York Splash Tours LLC has net liabilities as at 30 April 2009 of £3.0m (2008: £0.4m). The Group has not recognised its share of the net liabilities but has assessed the loan receivable for impairment and a provision for impairment of £1.4m (2008: £0.2m) has been held against the receivable.

Notes to the consolidated financial statements

Note 14 Interests in joint ventures (continued)

The Group's share of the net assets of its joint ventures is analysed below:

	Virgin Rail Group	Citylink	Twin America LLC	Total 2009	Total 2008
	£m	£m	£m	£m	£m
Non-current assets	6.0	0.2	15.6	21.8	6.1
Current assets	88.2	3.3	3.2	94.7	105.3
Current liabilities	(91.4)	(2.6)	(1.2)	(95.2)	(99.6)
Share of net assets	2.8	0.9	17.6	21.3	11.8
Goodwill	14.4	2.6	30.4	47.4	22.1
	17.2	3.5	48.0	68.7	33.9

The Group's share of post-tax results from joint ventures is analysed below:

	Virgin Rail Group	Citylink	New York Splash Tours LLC	Twin America LLC	Total 2009	Total 2008
	£m	£m	£m	£m	£m	£m
Revenue	322.3	9.1	0.5	5.2	337.1	403.1
Expenses	(279.6)	(7.7)	(1.1)	(4.3)	(292.7)	(360.8)
Operating profit/(loss)	42.7	1.4	(0.6)	0.9	44.4	42.3
Finance income (net)	2.3	Nil	Nil	Nil	2.3	4.0
Taxation	(11.0)	(0.4)	Nil	Nil	(11.4)	(13.7)
Share of joint ventures' profit/(loss) after taxation	34.0	1.0	(0.6)	0.9	35.3	32.6

A net actuarial gain after taxation of £2.1m (2008: loss of £1.5m) was recognised in addition to the above in relation to Virgin Rail Group's defined benefit pension schemes.

Note 15 Interest in associate

	2009	2008
	£m	£m
Cost and net book value		
At beginning and end of year	Nil	Nil

During the year ended 30 April 2007, the Group's principal associated undertaking ceased trading and an application was made in February 2009 to strike off the undertaking. The Group now carries its interest in the associated undertaking at £Nil.

The principal associate is:

	Country of incorporation	Number of shares in issue at 30 April 2009	Nominal value of share capital in issue at 30 April 2009	% interest held
Prepayment Cards Limited	United Kingdom	340,000	£340,000	23.5%

The Group's share of the net assets of its associate is £Nil (2008: £Nil).

The Group's share of post-tax results from its associate is £Nil (2008: £Nil).

The finance costs and taxation of the associate were less than £0.1m for the comparative year presented.

Note 16 Available for sale and other investments

	2009	2008
	£m	£m
Cost / valuation		
At beginning of year	3.6	2.7
Additions	Nil	0.3
Net fair value (losses)/gains	(0.4)	0.6
Foreign exchange movements	0.1	Nil
At end of year	3.3	3.6
Amounts written off		
At beginning of year	(1.8)	(1.6)
Impairment charge for year	Nil	(0.2)
At end of year	(1.8)	(1.8)
Net book value at beginning of year	1.8	1.1
Net book value at end of year	1.5	1.8

Movements in the available for sale reserve are shown in the consolidated statement of recognised income and expense. An impairment charge of £Nil (2008: £0.2m) was reflected within operating costs in the consolidated income statement for the year ended 30 April 2009, (see note 3).

Note 17 Acquisitions

During the year a number of small acquisitions of businesses have been concluded for a total consideration of £19.1m in cash. In each case, the Group acquired 100% of any voting rights. Due to the integration of the acquired businesses with the Group's existing businesses, it is impracticable to separately identify the revenue and operating profit contributed by the acquisitions but they are not considered material to the Group. Revenue and operating profit of the acquired businesses from 1 May 2008 to the date of acquisition is not material to the Group.

	2009	2008
	£m	£m
Fair value to Group		
Intangible fixed assets (excluding goodwill)	7.1	3.9
Property, plant and equipment	14.6	5.1
Other net liabilities	(12.9)	(0.4)
Net assets	8.8	8.6
Goodwill	10.3	1.9
Consideration	19.1	10.5
Costs of acquisitions in year	0.3	Nil
Less: deferred consideration outstanding	(1.5)	(0.9)
Add: deferred consideration paid in respect of businesses acquired in prior years	0.7	Nil
Less: net cash and cash equivalents acquired (including overdrafts)	0.4	(2.3)
Net cash outflow	19.0	7.3

The goodwill arising on the acquisitions is attributable to the value of the workforce, transport timetables, rosters, other business information and other potential economic benefits expected to be derived from the acquired businesses.

Notes to the consolidated financial statements

Note 17 Acquisitions (continued)

Further details of the acquisitions made during the year ended 30 April 2009 are provided below. As no individual acquisition was material to the Group, the information is not provided separately for each acquiree.

	Initial book value	Restatement to fair value	Fair value to the Group
	£m	£m	£m
Intangible fixed assets (excluding goodwill)	0.2	6.9	7.1
Property, plant and equipment	17.2	(2.6)	14.6
Inventories	0.5	(0.3)	0.2
Trade and other receivables	2.6	(0.2)	2.4
Trade and other payables	(6.8)	(0.6)	(7.4)
Bank overdrafts	(0.4)	Nil	(0.4)
Hire purchase liabilities	(6.4)	Nil	(6.4)
Other borrowings	(0.4)	Nil	(0.4)
Deferred tax liabilities	(1.1)	0.2	(0.9)
Net assets acquired	5.4	3.4	8.8
Goodwill arising on acquisition	Nil	10.3	10.3
Total consideration (to be settled in cash)	5.4	13.7	19.1

Note 18 Disposals

Exceptional gains of £Nil (2008: £19.9m) for the year ended 30 April 2009 have been included in the consolidated income statement as the results of discontinued operations. These gains arose from the release of liabilities that were previously recorded for amounts potentially owing which are now no longer payable in respect of disposed businesses.

In respect of the businesses disposed of, the consideration, net assets disposed and profit on disposal for the year ended 30 April 2009, were as follows:

	2009 Total	2008 Total
	£m	£m
Net assets disposed and liabilities for future costs associated with the disposals	Nil	(18.7)
Profit on disposal	Nil	23.2
Net consideration	Nil	4.5
Deferred consideration	Nil	(1.7)
Net consideration received in year	Nil	2.8
Net cash inflow: deferred consideration in respect of businesses disposed of in prior years	0.3	0.8
	0.3	3.6

Note 19 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2009 were:

Company	Country of registration or incorporation	Principal activity
Stagecoach Transport Holdings plc	Scotland	Holding company
SCOTO Limited	England	Holding company
SCUSI Limited	England	Holding company
Stagecoach Bus Holdings Limited	Scotland	Holding company
The Integrated Transport Company Limited	Scotland	Holding company
Stagecoach (South) Ltd	England	Bus and coach operator
Stagecoach (North West) Ltd	England	Bus and coach operator
East Midland Motor Services Ltd	England	Bus and coach operator
Stagecoach Scotland Ltd	Scotland	Bus and coach operator
East Kent Road Car Company Ltd	England	Bus and coach operator
Stagecoach West Ltd	England	Bus and coach operator
Busways Travel Services Ltd	England	Bus and coach operator
Cleveland Transit Ltd	England	Bus and coach operator
Cambus Ltd	England	Bus and coach operator
Greater Manchester Buses South Ltd	England	Bus and coach operator
Highland Country Buses Ltd	Scotland	Bus and coach operator
Orkney Coaches Ltd	Scotland	Bus and coach operator
Preston Bus Ltd	England	Bus and coach operator
Eastbourne Buses Ltd	England	Bus and coach operator
The Yorkshire Traction Group Ltd	England	Bus and coach operator
Stagecoach Services Limited	England	Provision of accounting and payroll services
National Transport Tokens Ltd (99.9%)	England	Transport tokens
PSV Claims Bureau Ltd	England	Claims handling
Stagecoach South Western Trains Ltd	England	Train operating company
East Midlands Trains Limited	England	Train operating company
Trentway-Wager Inc	Canada	Bus and coach operator

All companies operate in the countries shown above and, except for Stagecoach Transport Holdings plc, are indirectly held. The Group considers any subsidiary that has revenue greater than £25.0m per annum, profit before interest and taxation greater than £2.5m per annum, gross assets greater than £25.0m or gross liabilities greater than £25.0m to be a principal subsidiary. These thresholds exclude any intercompany amounts and investments in subsidiaries.

A full list of the Company's subsidiary undertakings will be annexed to the next annual return of the Company.

Note 20 Inventories

	2009	2008
	£m	£m
Parts and consumables	22.0	21.3

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 stock were as follows:

	2009	2008
	£m	£m
At beginning of year	2.1	2.0
Charged to income	0.2	1.0
Amount released to income, not used	Nil	(0.1)
Amount utilised	(0.7)	(0.8)
Foreign exchange movements	0.2	Nil
At end of year	1.8	2.1

There was no material write down of inventories during the current or prior year.

The Group is party to consignment stock arrangements and as at 30 April 2009, physically held consignment stock of a value amounting to £0.8m (2008: £0.9m) in addition to the amounts disclosed above.

Notes to the consolidated financial statements

Note 21 Trade and other receivables

	2009	2008
	£m	£m
Non-current:		
Loan to joint venture	2.7	1.8
Less: provision for impairment	(1.4)	(0.2)
	1.3	1.6
Prepayments and accrued income	5.2	1.0
Other receivables	0.3	0.3
	6.8	2.9
Current:		
Trade receivables	132.0	115.2
Less: provision for impairment	(4.3)	(2.6)
Trade receivables – net	127.7	112.6
Other receivables	4.6	5.5
Prepayments and accrued income	61.4	46.4
VAT and other government receivables	18.7	20.5
	212.4	185.0

A loan of US\$4.0m (2008: US\$3.6m) to New York Splash Tours LLC is outstanding at 30 April 2009. The loan is interest bearing at 7% per annum and is repayable by instalments. The loan outstanding as at 30 April 2009, translated at year end rates was £2.7m (2008: £1.8m) and is included in non-current trade and other receivables.

The movement in the provision for impairment of trade receivables was as follows:

	2009	2008
	£m	£m
At beginning of year	(2.6)	(3.7)
Impairment losses in year charged to income	(1.6)	(0.5)
Reversal of impairment losses credited to income	0.2	0.8
Amounts utilised	Nil	0.8
Foreign exchange movements	(0.3)	Nil
At end of year	(4.3)	(2.6)

Further information on credit risk is provided in note 29.

Note 22 Cash and cash equivalents

	2009	2008
	£m	£m
Cash at bank and in hand	277.3	262.2

At 30 April 2009, the effective interest rate on cash at bank and in hand was 0.7% (2008: 5.3%). The amounts shown above include £10.0m on six month deposit maturing by July 2009, £40.0m on three month deposits maturing by June 2009 and £3.0m on two month deposit maturing by May 2009 (2008: £60.0m on two month deposits maturing by June 2008). The remaining amounts are accessible to the Group within one day (2008: one day).

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

	2009	2008
	£m	£m
Cash and bank balances	277.3	262.2
Bank overdrafts (note 25)	Nil	(0.6)
	277.3	261.6

Note 23 Asset classified as held for sale

	2009	2008
	£m	£m
Property, plant and equipment	2.4	Nil

Land owned by the Group has been classified as held for sale. The land is measured at fair value less costs to sell. The land was acquired to support the planned expansion of a Group business. The expansion is no longer planned and the Group is actively seeking to sell the surplus land.

Note 24 Trade and other payables

	2009	2008
	£m	£m
Current		
Trade payables	149.0	137.0
Accruals and deferred income	355.8	307.1
Cash-settled share based payment liability	2.2	3.6
Deferred grant income	1.8	1.9
PAYE and NIC payable	20.5	16.3
VAT and other government payables	0.9	1.3
	530.2	467.2
Non-current		
Accruals and deferred income	18.1	13.7
Deferred grant income	3.7	2.7
Cash-settled share based payment liability	0.7	2.9
PAYE and NIC payable	0.1	0.5
VAT and other government payables	0.4	Nil
Other payables	1.2	5.2
	24.2	25.0

Note 25 Borrowings

	2009	2008
	£m	£m
Current		
Bank overdrafts	Nil	0.6
US dollar 8.625% Notes	207.2	Nil
Loan notes	33.8	36.0
Hire purchase and lease obligations	33.1	34.7
Redeemable 'B' preference shares	5.4	8.1
	279.5	79.4
Non-current		
US dollar 8.625% Notes	Nil	180.4
Bank loans	149.9	214.7
Hire purchase and lease obligations	197.5	119.6
	347.4	514.7
Total borrowings	626.9	594.1

Notes to the consolidated financial statements

Note 25 Borrowings (continued)

The minimum lease payments under hire purchase and lease obligations fall due as follows:

	2009	2008
	£m	£m
Not later than one year	45.1	41.9
Later than one year but not more than five years	155.3	89.6
More than five years	74.3	49.1
	274.7	180.6
Future finance charges on hire purchase and finance leases	(44.1)	(26.3)
Carrying value of hire purchase and finance lease liabilities	230.6	154.3

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.

(a) US Dollar 8.625% Notes

On 9 November 1999, the Group issued US\$500m of 8.625% Notes due in 2009. Interest on the Notes is payable six monthly in arrears. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 15 November 2009.

The cumulative par value of Notes repurchased was US\$206.9m at 30 April 2009 (2008: US\$165.9m).

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2009 was £207.2m (2008: £180.4m), after taking account of the Notes purchased by the Group, the discount on issue, issue costs, accrued interest and the gain on close out of various interest rate swaps previously used to manage the interest rate profile of the Notes.

(b) Repayment profile

Borrowings are repayable as follows:

	2009	2008
	£m	£m
On demand or within 1 year		
Bank overdraft	Nil	0.6
Loan notes	33.8	36.0
Hire purchase and lease obligations	33.1	34.7
Redeemable 'B' preference shares	5.4	8.1
US Dollar 8.625% Notes	207.2	Nil
	279.5	79.4
Within 1-2 years		
US Dollar 8.625% Notes	Nil	180.4
Hire purchase and lease obligations	32.7	19.2
	32.7	199.6
Within 2-5 years		
Bank loans	149.9	214.7
Hire purchase and lease obligations	92.7	52.8
	242.6	267.5
Over 5 years: hire purchase and lease obligations	72.1	47.6
Total borrowings	626.9	594.1
Less current maturities	(279.5)	(79.4)
Non-current portion of borrowings	347.4	514.7

Interest terms on UK bank loans are at annual rates between 0.25% and 0.65% over bank base rate or equivalent LIBOR rates. Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 2.00% over bank base rate or equivalent. Interest terms on overseas borrowings are at annual rates of 0.5% above applicable local market borrowing rates. Interest on loan notes are at three months LIBOR or fixed interest. Loan notes amounting to £33.8m (2008: £36.0m) 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.

UK bank loans, overdrafts and US\$ Notes are unsecured.

Note 26 Deferred tax

The Group movement in deferred tax during the year was as follows:

	Deferred tax liabilities	Deferred tax asset	Net
	£m	£m	£m
Beginning of year	(64.6)	6.9	(57.7)
Charge to income statement	(17.5)	(3.7)	(21.2)
Acquisition of subsidiary undertakings and other businesses	(0.9)	Nil	(0.9)
Charge to equity	63.5	Nil	63.5
Foreign exchange movements	Nil	2.1	2.1
End of year	(19.5)	5.3	(14.2)

The deferred tax liabilities after more than one year are £19.5m (2008: £64.6m). The deferred tax asset due after more than one year is £Nil (2008: £1.9m). The deferred tax asset of £5.3m (2008: £6.9m) has been recognised in respect of tax losses. Based on tax workings scheduling the reversal of the asset, it is expected to be utilised over the next one year (2008: two years).

Deferred taxation is calculated as follows:

	2009	2008
	£m	£m
Accelerated capital allowances	(103.6)	(79.7)
Pension temporary differences	22.9	(9.1)
Short-term temporary differences	66.5	31.1
	(14.2)	(57.7)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	2009	2008
	£m	£m
Accelerated capital allowances	(9.8)	(3.6)
Pension temporary differences	(8.2)	(21.6)
Short-term temporary differences	(3.2)	15.7
	(21.2)	(9.5)

A major component of the movement in short-term temporary differences relates to deferred tax attributable to the movement in the cash flow hedging reserve.

Note 27 Provisions

	2009	2008
	£m	£m
Token redemption provision	16.4	17.9
Insurance provisions	110.0	98.0
Environmental provisions	4.1	3.1
Redundancy provisions	9.2	Nil
Provisions for onerous contracts	0.2	0.2
	139.9	119.2

The token redemption provision relates to tokens issued to third parties to be redeemed as payment for transportation services. Tokens are typically redeemed within three years of issue.

The insurance provisions relate to insurance reserves on incurred accidents up to 30 April 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 tanks 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 fully utilised over the next three years.

The redundancy provisions relate to planned redundancies in the UK Rail Division.

Provisions for onerous contracts relate to contracts that have been acquired through business combinations that have been identified as loss making.

The Group movement during the year was as follows:

	Token redemption provision	Insurance provisions	Environmental provisions	Redundancy provision	Provisions for onerous contracts	Total
	£m	£m	£m	£m	£m	£m
Beginning of year	17.9	98.0	3.1	Nil	0.2	119.2
Provided during year (after discounting)	Nil	41.2	1.1	12.0	Nil	54.3
Unwinding of discount	Nil	3.6	Nil	Nil	Nil	3.6
Utilised in the year	Nil	(44.2)	(0.8)	(2.8)	Nil	(47.8)
Arising on business combinations	Nil	0.5	Nil	Nil	Nil	0.5
Arising on sale of tokens during year	3.8	Nil	Nil	Nil	Nil	3.8
Redemption of tokens	(5.3)	Nil	Nil	Nil	Nil	(5.3)
Foreign exchange movements	Nil	10.9	0.7	Nil	Nil	11.6
End of year	16.4	110.0	4.1	9.2	0.2	139.9
30 April 2009:						
Current	4.5	40.6	2.2	9.2	0.2	56.7
Non-current	11.9	69.4	1.9	Nil	Nil	83.2
	16.4	110.0	4.1	9.2	0.2	139.9
30 April 2008:						
Current	11.6	33.9	1.5	Nil	0.2	47.2
Non-current	6.3	64.1	1.6	Nil	Nil	72.0
	17.9	98.0	3.1	Nil	0.2	119.2

Notes to the consolidated financial statements

Note 28 Retirement benefits

The Group contributes to a number of pension schemes. The principal defined benefit occupational schemes are as follows:

- The Stagecoach Group Pension Scheme ("SGPS");
- The South West Trains section of the Railways Pension Scheme ("RPS");
- The Island Line section of the Railways Pension Scheme ("RPS");
- The East Midlands Trains section of the Railways Pension Scheme ("RPS"); and
- A number of UK Local Government Pension Schemes ("LGPS").

During the year ended 30 April 2008, both the Yorkshire Traction Company Limited Pension Plan ("YTC") and the Strathtay Scottish Omnibuses Limited Pension and Life Assurance Scheme ("SSO") were merged with SGPS. All assets and liabilities of YTC and SSO were transferred into SGPS.

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of sections of the scheme following expiry of the related franchises. Therefore, the liability (or asset) recognised for the relevant sections of RPS only represents that part of the net deficit (or surplus) of each section that the employer is obliged to fund (or expected to recover) over the life of the franchise to which the section relates.

In addition, the Group contributes to a number of defined contribution ("DC") schemes, covering UK and non-UK employees.

The amounts recognised in the balance sheet were as follows:

	Funded plans				Unfunded plans	Total
	SGPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities	411.1	310.9	136.1	0.2	Nil	858.3
Bonds	110.7	68.9	50.0	0.5	Nil	230.1
Cash	53.3	0.6	18.3	0.3	Nil	72.5
Property	4.1	77.2	16.2	Nil	Nil	97.5
Fair value of plan assets	579.2	457.6	220.6	1.0	Nil	1,258.4
Present value of obligations	(590.8)	(485.8)	(254.5)	(3.5)	(4.4)	(1,339.0)
Liabilities recognised in the balance sheet	(11.6)	(28.2)	(33.9)	(2.5)	(4.4)	(80.6)

Year ended 30 April 2008

	Funded plans				Unfunded plans	Total
	SGPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities	382.5	455.9	154.5	0.6	Nil	993.5
Bonds	122.5	64.2	53.5	0.7	Nil	240.9
Cash	71.8	1.6	21.6	0.3	Nil	95.3
Property	36.8	88.7	19.4	Nil	Nil	144.9
Fair value of plan assets	613.6	610.4	249.0	1.6	Nil	1,474.6
Present value of obligations	(586.3)	(590.9)	(247.9)	(2.6)	(4.4)	(1,432.1)
Restriction on surplus to be recognised	Nil	Nil	(9.3)	Nil	Nil	(9.3)
Net (liabilities)/assets recognised in the balance sheet	27.3	19.5	(8.2)	(1.0)	(4.4)	33.2
Assets recognised in the balance sheet	27.3	19.5	4.8	Nil	Nil	51.6
Liabilities recognised in the balance sheet	Nil	Nil	(13.0)	(1.0)	(4.4)	(18.4)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2009	2008
	%	%
Equities	68.2	67.4
Bonds	18.3	16.3
Cash	5.8	6.5
Property	7.7	9.8
	100.0	100.0

Note 28 Retirement benefits (continued)

The amounts recognised in the income statement were as follows:

Year ended 30 April 2009	Funded plans				Unfunded and DC plans	Total
	SGPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Defined benefit schemes:						
Current service cost	20.5	19.1	2.4	Nil	Nil	42.0
Curtailments	Nil	(1.0)	Nil	Nil	Nil	(1.0)
Interest cost	38.6	23.2	16.3	0.1	Nil	78.2
Expected return on plan assets	(44.9)	(29.5)	(18.2)	(0.1)	Nil	(92.7)
Total defined benefit costs	14.2	11.8	0.5	Nil	Nil	26.5
Defined contribution costs	Nil	Nil	Nil	Nil	2.2	2.2
Total included in staff costs	14.2	11.8	0.5	Nil	2.2	28.7

The actual return on plan assets for the year ended 30 April 2009 was £(241.5)m.

The past service adjustments arising in the year ended 30 April 2008 (shown in the table below) principally related to (i) the introduction of a cap on the level of future increases in pensionable pay in respect of certain members of the Stagecoach Group Pension Scheme and (ii) the recognition of unfunded liabilities in respect of past service by members of a Local Government Pension Scheme, following clarification of the Group's obligations in respect of the past service.

Year ended 30 April 2008	Funded plans						Unfunded and DC plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
Defined benefit schemes:								
Current service cost	10.9	17.7	2.8	1.2	0.4	0.1	Nil	33.1
Past service adjustments	(3.1)	Nil	Nil	Nil	Nil	Nil	3.0	(0.1)
Curtailments	Nil	(0.3)	Nil	Nil	Nil	Nil	Nil	(0.3)
Interest cost	32.1	16.9	13.9	2.7	0.5	0.1	0.2	66.4
Expected return on plan assets	(44.7)	(24.5)	(19.2)	(2.7)	(0.5)	(0.1)	Nil	(91.7)
Total defined benefit (credit)/costs	(4.8)	9.8	(2.5)	1.2	0.4	0.1	3.2	7.4
Defined contribution costs	Nil	Nil	Nil	Nil	Nil	Nil	1.2	1.2
Total included in staff costs	(4.8)	9.8	(2.5)	1.2	0.4	0.1	4.4	8.6

The actual return on plan assets for the year ended 30 April 2008 was £(50.0)m.

Notes to the consolidated financial statements

Note 28 Retirement benefits (continued)

The movements in the net (asset)/liability recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2009 were as follows:

Year ended 30 April 2009	Funded plans				Unfunded plans	Total
	SGPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
At beginning of year – (asset)/liability	(27.3)	(19.5)	8.2	1.0	4.4	(33.2)
Acquisitions	Nil	Nil	0.9	Nil	Nil	0.9
Total expense	14.2	11.8	0.5	Nil	Nil	26.5
Actuarial losses	55.7	58.1	29.3	1.1	0.3	144.5
Employers' contributions and settlements	(31.0)	(22.2)	(5.0)	Nil	(0.3)	(58.5)
Foreign exchange movements	Nil	Nil	Nil	0.4	Nil	0.4
At end of year – liability	11.6	28.2	33.9	2.5	4.4	80.6

The movements in the net (asset)/liability recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2008 were as follows:

Year ended 30 April 2008	Funded plans						Unfunded plans	Total
	SGPS	RPS	LGPS	YTC	SSO	Other		
	£m	£m	£m	£m	£m	£m		
At beginning of year – liability/(asset)	27.3	(4.8)	(1.8)	8.3	2.9	0.8	3.5	36.2
Rail franchise changes	Nil	4.2	Nil	Nil	Nil	Nil	Nil	4.2
Merger of scheme	11.5	Nil	Nil	(7.7)	(3.8)	Nil	Nil	Nil
Total (income)/expense	(4.8)	9.8	(2.5)	1.2	0.4	0.1	3.2	7.4
Actuarial (gains)/losses	(13.0)	(7.5)	16.9	0.1	0.9	0.1	(2.1)	(4.6)
One-off employers' contributions	(30.0)	(3.3)	Nil	Nil	Nil	Nil	Nil	(33.3)
Other employers' contributions and settlements	(18.3)	(17.9)	(4.4)	(1.9)	(0.4)	Nil	(0.2)	(43.1)
At end of year – (asset)/liability	(27.3)	(19.5)	8.2	Nil	Nil	1.0	4.4	(33.2)

The movements in the total present value of the defined benefit obligations were as follows:

	2009	2008
	£m	£m
At beginning of year	1,432.1	1,325.0
Current service cost	42.0	33.1
Past service adjustments	Nil	(0.1)
Interest cost	78.2	66.4
Members' contributions paid	15.2	23.6
Actuarial gains	(180.4)	(154.2)
Benefits paid	(58.3)	(50.9)
Curtailments	(1.0)	(0.3)
Settlements	(1.6)	Nil
Rail franchise changes	Nil	189.5
Foreign exchange movements	0.8	Nil
Acquisitions	12.0	Nil
At end of year	1,339.0	1,432.1

Movements in the total fair value of scheme assets were as follows:

	2009	2008
	£m	£m
At beginning of year	1,474.6	1,290.2
Expected return on scheme assets	92.7	91.7
Actuarial losses	(334.2)	(141.7)
One-off employers' contributions	Nil	33.3
Other employers' contributions and settlements	56.9	43.1
Members' contributions paid	15.2	23.6
Benefits paid	(58.3)	(50.9)
Rail franchise changes	Nil	185.3
Foreign exchange movements	0.4	Nil
Acquisitions	11.1	Nil
At end of year – total fair value of assets	1,258.4	1,474.6
Adjustment for unrecoverable surplus	Nil	(9.3)
Value of assets recognised	1,258.4	1,465.3

Note 28 Retirement benefits (continued)

The amounts recognised in the statement of recognised income and expense were as follows:

	2009	2008
	£m	£m
Actual return less expected return on pension scheme assets	(334.2)	(141.7)
Experience adjustment, arising on scheme liabilities	59.7	(28.6)
Adjustment for unrecognised surplus	9.3	(7.9)
Changes in assumptions underlying the present value of the liabilities	82.0	182.8
Franchise adjustment	38.7	Nil
Total actuarial (loss)/gain recognised	(144.5)	4.6

The history of experience adjustments is as follows:

	2009	2008	2007	2006	2005
Experience adjustments on scheme liabilities:					
Experience adjustments (£m)	59.7	(28.6)	(18.1)	(92.7)	(6.8)
Scheme liabilities (£m)	(1,339.0)	(1,432.1)	(1,325.0)	(1,461.6)	(1,114.2)
Percentage of scheme liabilities (%)	(4.5)%	2.0%	1.4%	6.3%	0.6%
Experience adjustments on scheme assets:					
Experience adjustments (£m)	(334.2)	(141.7)	55.2	196.9	10.5
Scheme assets (£m)	1,258.4	1,474.6	1,290.2	1,239.4	893.3
Percentage of scheme assets (%)	(26.6)%	(9.6)%	4.3%	15.9%	1.2%

The cumulative amount of actuarial gains and losses on Group defined benefit schemes recognised in the statement of recognised income and expense since 1 May 2004 is a £97.5m loss (2008: £47.0m gain).

The estimated amounts of contributions expected to be paid by the Group to the schemes during the financial year ending 30 April 2010 is £59.4m (estimated at 30 April 2008 for year ended 30 April 2009: £58.7m).

The principal actuarial assumptions used were as follows:

	2009	2008
Rate of increase in salaries – SGPS	3.4%	3.4%
Rate of increase in salaries – other defined benefit schemes	4.0%	4.9%
Rate of increase of pensions in payment		
– SGPS	3.0%	3.4%
– other defined benefit schemes	2.4%-2.9%	2.4%-3.4%
Discount rate	6.9%	6.6%
Inflation	3.0%	3.4%
Expected long-term rates of return as at 30 April were:		
Equities*	8.3%	8.3%
Bonds	5.3%	5.3%
Cash	4.6%	5.0%
Property	7.5%	7.5%

* includes private equity

The expected return on plan assets is based on expectations at the beginning of the period for returns over the entire life of the benefit obligation. The expected returns are set in conjunction with external advisors and take account of market factors, fund managers' views and targets for future returns and where appropriate, historical returns.

The life expectancy assumptions used for each scheme are periodically reviewed. The weighted average life expectancies assumed as at 30 April 2009 were:

	2009	2008
	years	years
Current pensioners aged 65 – male	19.3	16.9
Current pensioners aged 65 – female	23.7	20.8
Future pensioners at age 65 (aged 45 now) – male	21.7	18.7
Future pensioners at age 65 (aged 45 now) – female	25.8	22.5

Notes to the consolidated financial statements

Note 29 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, associates and joint ventures accounted for in accordance with International Accounting Standard 27 ("IAS 27"), *Consolidated and Separate Financial Statements*, International Accounting Standard 28 ("IAS 28"), *Investments in Associates*, and International Accounting Standard 31 ("IAS 31"), *Interests in Joint Ventures*.
- Retirement benefit assets and obligations.
- Contracts for contingent consideration in a business combination.
- 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, provisions and deferred grant income) are not financial liabilities or financial assets. Accordingly, provisions, deferred grant 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:

	Other balance sheet notes	2009	2008	2009	2008
		Carrying value	Carrying value	Fair value	Fair value
		£m	£m	£m	£m
Financial assets					
Financial assets at fair value through profit or loss		Nil	Nil	Nil	Nil
Held-to-maturity investments		Nil	Nil	Nil	Nil
Loans and receivables					
– Non-current assets					
– Other receivables	21	0.3	0.3	0.3	0.3
– Loan to joint venture	21	1.3	1.6	1.3	1.6
– Current assets					
– Trade receivables, net of impairment	21	127.7	112.6	127.7	112.6
– Other receivables	21	4.6	5.5	4.6	5.5
– Cash and cash equivalents	22	277.3	262.2	277.3	262.2
Available-for-sale financial assets					
– Non-current assets					
– Available for sale and other investments	16	1.5	1.8	1.5	1.8
Total financial assets		412.7	384.0	412.7	384.0
Financial liabilities					
Financial liabilities at fair value through profit or loss		Nil	Nil	Nil	Nil
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Accruals and deferred income		(18.1)	(13.7)	(18.1)	(13.7)
– Other payables	24	(1.2)	(5.2)	(1.2)	(5.2)
– Borrowings	25	(347.4)	(514.7)	(347.5)	(514.8)
– Current liabilities					
– Trade payables	24	(149.0)	(137.0)	(149.0)	(137.0)
– Accruals and deferred income	24	(355.8)	(307.1)	(355.8)	(307.1)
– Borrowings	25	(279.5)	(79.4)	(278.0)	(79.2)
Total financial liabilities		(1,151.0)	(1,057.1)	(1,149.6)	(1,057.0)
Net financial liabilities		(738.3)	(673.1)	(736.9)	(673.0)

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 29(j).

The fair values of financial assets and financial liabilities shown above are determined as follows:

- The carrying value of loans to joint ventures, 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.
- Market prices are used, where available, to determine the fair value of available for sale financial assets. Market prices are available for available for sale financial assets with a carrying value of £0.2m (2008: £0.6m). For example, for available for sale investments in the shares of a company quoted on a recognised stock exchange, the fair value of the asset is determined with reference to the quoted "bid" price as at the balance sheet date. £1.3m (2008: £1.2m) of available for sale financial assets for which market prices are not available are measured at cost because their fair value cannot be measured reliably – the fair value of these assets is shown in the above table as being equal to their carrying value.
- The carrying value of trade payables, other payables and accruals and deferred income 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.

Note 29 Financial instruments (continued)

(b) Carrying values of financial assets and financial liabilities (continued)

- The fair value of fixed-rate US\$ notes is determined with reference to the market value of the notes.
- The carrying value of fixed rate hire purchase and finance lease liabilities 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.
- At 30 April 2008, the Group also had certain finance lease obligations where the interest rate was at a significant discount to market rates. The fair value of the discounted-rate finance lease obligations that were outstanding at 30 April 2008 was determined by discounting future forecast cash flows at an estimate of the market interest rate for the debt at 30 April 2008, being 6.3%.
- 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, except in respect of bank loans where unamortised arrangements fees of £0.1m (2008: £0.3m) are excluded from the fair 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 US\$ bonds, would be affected by changes in market interest rates. We estimate that a 100 basis points reduction in market interest rates, would increase the fair value of the US\$ notes liability by around £1.0m (2008: £2.4m).

(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 30 April 2009. 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 3.8.15 of the Operating and Financial Review on page 13 of this Annual Report.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments 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 close 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, while optimising the return on risk.

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.

Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument (including overseas 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 overseas investments in Canada and the USA. To minimise balance sheet translation exposure, the Group hedges the sterling carrying value of overseas 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 recognised income and expense.

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 overseas investment individually and to adopt a strategy based on current and forecast political and economic climates. 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 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.

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

The Group's consolidated balance sheet exposures to foreign currency translation risk were as follows:

	2009	2008
	£m	£m
US dollars		
- Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	202.1	134.7
- Cash	25.7	15.0
- Borrowings	(259.5)	(185.9)
Canadian dollars		
- Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	38.8	37.7
- Cash	1.1	0.2
- Borrowings	(3.8)	(4.6)
Net exposure	4.4	(2.9)

The amounts shown above are the carrying values of all 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 commodity derivatives that are cash flow hedges are excluded.

The sensitivity of the Group's consolidated balance sheet to translation exposures is illustrated below:

	2009	2008
US dollar		
US dollar balance sheet foreign exchange rate	1.4818	1.9806
Impact of 10% depreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.3336	1.7825
- Decrease in consolidated equity (£m)	(3.5)	(4.0)
Impact of 10% appreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.6300	2.1787
- Increase in consolidated equity (£m)	2.9	3.3
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	1.7605	1.9947
Impact of 10% depreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.5845	1.7952
- Increase in consolidated equity (£m)	4.0	3.7
Impact of 10% appreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.9366	2.1942
- Decrease in consolidated equity (£m)	(3.3)	(3.0)

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 any pair of currencies other than the pair stated do not change as a result of the change in the exchange rate between the pair stated.

The Group's consolidated income statement exposures to foreign currency translation risk were as follows:

	2009	2008
	£m	£m
US dollars		
- US\$ element of North American operating profit	20.6	19.6
- Intangible asset expenses	(0.7)	(0.3)
- Redundancy / restructuring costs	Nil	(0.2)
- Share of profit/(loss) of joint ventures	0.3	(0.4)
- Loss on disposed operations and sale of investments	Nil	(5.0)
- Net finance costs	(18.7)	(16.5)
- Net tax charge	(2.3)	(0.2)
Canadian dollars		
- C\$ element of North American operating profit	5.0	2.0
- Net finance costs	(0.2)	(0.2)
- Net tax charge	(1.7)	(0.6)
Net exposure	2.3	(1.8)

Note 29 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

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:

	2009	2008
	£m	£m
US\$ element of North American operating profit shown above	20.6	19.6
C\$ element of North American operating profit shown above	5.0	2.0
Share based payment charges denominated in sterling	(0.4)	(0.6)
Operating profit shown in segmental information	25.2	21.0

The sensitivity of the Group's consolidated income statement to translational exposures is illustrated below:

	2009	2008
US dollar		
US dollar average foreign exchange rate	1.6780	2.0072
Impact of 10% depreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.5102	1.8065
- Decrease in consolidated profit after taxation (£m)	(0.1)	(0.3)
Impact of 10% appreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.8458	2.2079
- Increase in consolidated profit after taxation (£m)	0.1	0.3
Canadian dollar		
Canadian dollar average foreign exchange rate	1.8955	2.0525
Impact of 10% depreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.7060	1.8473
- Increase in consolidated profit after taxation (£m)	0.3	0.1
Impact of 10% appreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	2.0851	2.2578
- Decrease in consolidated profit after taxation (£m)	(0.3)	(0.1)

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 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 any pair of currencies other than the pair stated do not change as a result of the change in the exchange rate between the pair stated.

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 foreign currency 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 30 April 2009 there were no material net transactional foreign currency exposures (2008: £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 85.

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 minimise 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.

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

At 30 April 2009, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	201.6	160.4	362.0	5.7%	3.5
US Dollar	Nil	261.1	261.1	6.2%	1.6
Canadian Dollar	Nil	3.8	3.8	5.1%	2.9
Gross borrowings	201.6	425.3	626.9	6.0%	2.3

At 30 April 2008, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	237.2	161.4	398.6	5.7%	4.5
US Dollar	Nil	190.9	190.9	6.0%	1.8
Canadian Dollar	0.6	4.0	4.6	5.1%	3.9
Gross borrowings	237.8	356.3	594.1	5.8%	3.1

All of the above figures take into account the effect of current interest rate derivatives and also the close out of interest rate swaps previously used to manage the interest rate profile of borrowings.

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 25(b).

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £277.3m (2008: £262.2m). Financial assets on which fixed interest is receivable total £2.7m (2008: £2.1m) before impairment and comprise a loan to a joint venture in 2009 and 2008, and US\$ denominated loan notes receivable in 2008 only. The net financial assets on which fixed interest is receivable have a weighted average interest rate of 7.0% (2008: 7.0%) and an average maturity of 2.0 years (2008: 2.6 years).

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit, loss or the carrying value of financial instruments that are not cash flow hedges.

The impact of a change of 100 basis points on all relevant floating interest rates on annualised interest payable on balances outstanding at the balance sheet date was:

	2009	2008
	£m	£m
Interest rates 100 basis points higher		
- Decrease in net finance charges	0.8	0.3
- Increase in net tax charge	(0.3)	(0.1)
- Increase in profit after taxation	0.5	0.2
Interest rates 100 basis points lower		
- Increase in net finance charges	(0.8)	(0.3)
- Decrease in net tax charge	0.3	0.1
- Decrease in profit after taxation	(0.5)	(0.2)

The above sensitivity analysis is based on the following methods and assumptions:

- All relevant floating interest rates (including Bank of England base rate and LIBOR) change by 100 basis points.
- The change is calculated by working out an annualised interest charge on the amounts outstanding at the balance sheet date and comparing this to the same charge re-calculated for a change of 100 basis points in the interest rate. While this provides some indication of the impact on future profit and cash flows from changes in interest rates, it does not necessarily indicate the extent to which the profit for the years ended 30 April 2009 and 30 April 2008 would have differed had the interest rates applying during those years been different.
- The impact of changes in interest rates on items that are not financial instruments (for example, provisions and pension assets/obligations) is excluded.

Note 29 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

Price risk

The Group is exposed to equity security price risk because of an investment held by the Group and classified on the consolidated balance sheet as available for sale. The Group's equity investment is publicly traded and is included in the AIM UK equity index. At 30 April 2009 the investment was carried at £0.2m (2008: £0.6m). Any reasonable movement, therefore, on the equity share price would not have a material impact on the Group's financial position.

The Group is also exposed to commodity price risk. The Group's operations as at 30 April 2009 consume approximately 336m 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 objective in managing commodity price risk is to minimise adverse movements in its profit and cash flow as a result of movements in fuel prices. 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. Ultra low sulphur diesel used in the UK Bus division is hedged by derivatives priced from the same type of fuel. Gasoil used in the UK Rail division is hedged by derivatives priced from the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps that have been determined to be effective hedges of the diesel fuel used with a strong correlation in price movements between the heating oil and diesel products. The fuel derivatives hedge the underlying commodity price risk (denominated in US\$) and in the case of the UK Bus 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 two divisions being pounds sterling. The fuel derivatives can include swaps, collars and caps.

At 30 April 2009 and 30 April 2008, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months was:

	2009	2008
	£m	£m
Costs subject to fuel swaps, caps and collars:		
- UK Bus	(86.9)	(60.1)
- UK Rail	(15.1)	(14.5)
- North America	(32.4)	(17.6)
	(134.4)	(92.2)
Costs not subject to fuel swaps, caps and collars:		
- UK Bus	(2.1)	(5.0)
- UK Rail	(3.9)	(7.5)
- North America	(4.3)	(7.7)
	(10.3)	(20.2)
Total	(144.7)	(112.4)

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:

	2009	2008
	£m	£m
Costs subject to fuel swaps, caps and collars:		
- UK Bus	Nil	Nil
- UK Rail	Nil	Nil
- North America	Nil	Nil
	Nil	Nil
Costs not subject to fuel swaps, caps and collars:		
- UK Bus	(0.2)	(0.5)
- UK Rail	(0.4)	(0.7)
- North America	(0.4)	(0.8)
	(1.0)	(2.0)
Decrease in projected profit before taxation	(1.0)	(2.0)

Notes to the consolidated financial statements

Note 29 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:

	2009	2008
	£m	£m
Costs subject to fuel swaps, caps and collars:		
– UK Bus	Nil	Nil
– UK Rail	Nil	Nil
– North America	Nil	Nil
	Nil	Nil
Costs not subject to fuel swaps, caps and collars:		
– UK Bus	0.2	0.5
– UK Rail	0.4	0.7
– North America	0.4	0.8
	1.0	2.0
Increase in projected profit before taxation	1.0	2.0

(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.

In the case of equity investments classified as available for sale assets, a significant or prolonged reduction in the fair value of the assets is considered as an indicator that the securities might be impaired.

The movement in the provision for impairment of trade and other receivables is shown in note 21.

An impairment loss of £Nil was recognised in the year ended 30 April 2009 (2008: £0.2m) in respect of available for sale and other investments.

The table below shows the maximum exposure to credit risk for the Group at the balance sheet date:

	Gross	Impairment	Net exposure	Gross	Impairment	Net exposure
	2009	2009	2009	2008	2008	2008
	£m	£m	£m	£m	£m	£m
Available for sale financial assets and other investments	3.3	(1.8)	1.5	3.6	(1.8)	1.8
Financial assets at fair value through profit or loss	Nil	Nil	Nil	Nil	Nil	Nil
Trade receivables	132.0	(4.3)	127.7	115.2	(2.6)	112.6
Loans and other receivables (excludes taxes receivable, prepayments and accrued income)	7.6	(1.4)	6.2	7.6	(0.2)	7.4
Cash and cash equivalents – pledged as collateral	78.6	Nil	78.6	66.6	Nil	66.6
Cash and cash equivalents - other	198.7	Nil	198.7	195.6	Nil	195.6
Excluding derivative financial instruments	420.2	(7.5)	412.7	388.6	(4.6)	384.0
Derivatives used for hedging	3.6	Nil	3.6	44.4	Nil	44.4
Total exposure to credit risk	423.8	(7.5)	416.3	433.0	(4.6)	428.4

In addition to the "on balance sheet" exposure to credit risk shown above, the Group has operating leases with third parties that are subject to back-to-back operating leases between the Group and East London Bus Group Limited, which acquired the Group's London bus operations in 2006. The Group is exposed to the risk that East London Bus Group Limited is unable to meet its obligations under the operating leases although the Group would have access to the underlying assets in those circumstances. At 30 April 2009, the future contractual cash flows payable by East London Bus Group Limited under the relevant leases was £4.3m (2008: £9.2m), of which £1.6m (2008: £4.8m) is due within one year, £0.9m (2008: £1.6m) is due between one and two years, £1.8m (2008: £2.8m) is due between two and five years.

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 Department for Transport, other government bodies and financial institutions with short-term credit ratings of A1 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

Note 29 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:

	2009	2008
	£m	£m
United Kingdom	368.9	400.6
North America	47.4	27.8
	416.3	428.4

The Group's financial assets by currency are analysed below:

	2009	2008
	£m	£m
Sterling	367.2	386.6
US dollars	44.9	38.0
Canadian dollars	4.2	3.8
	416.3	428.4

All of the above financial assets' carrying amounts are representative of their maximum credit exposure.

The following financial assets were past due, but not impaired at the balance sheet date:

	2009	2008
	£m	£m
Amounts 1 to 90 days overdue	12.8	18.3
Amounts 91 to 180 days overdue	0.1	0.9
Amounts 181 to 365 days overdue	1.9	2.2
Amounts more than 365 days overdue	0.1	Nil
	14.9	21.4

The Group does not hold any collateral in respect of its credit risk exposures set out above (2008: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2009 (2008: £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 30 April 2009, the Group's committed credit facilities were £1,233.4m (2008: £1,136.1m), £594.3m (2008: £546.0m) of which were utilised, including utilisation for the issuance of bank guarantees, bonds and letters of credit.

The Group had the following undrawn committed banking and asset finance facilities:

	2009	2008
	£m	£m
Expiring within one year	162.2	142.9
Expiring in more than one year but not more than two years	0.6	22.2
Expiring beyond two years	476.3	425.0
	639.1	590.1

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 an investment grade rating which should allow it access at short notice to additional bank and capital markets debt funding.

The Group's principal lines of credit have been 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 30 April 2009 are analysed below:

Expiring in	Facility £m	Loans drawn £m	Bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES					
- 2012	675.0	(150.0)	(48.7)	(5.1)	471.2
- 2010	176.7	Nil	(162.5)	(11.9)	2.3
	851.7	(150.0)	(211.2)	(17.0)	473.5
LOCAL & SHORT-TERM FACILITIES					
- Various	20.0	Nil	(2.5)	Nil	17.5
	871.7	(150.0)	(213.7)	(17.0)	491.0

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(iii) Liquidity risk (continued)

The facilities that expire in 2010 are used to provide performance bonds, season ticket bonds and letters of credit, and we plan to renew or replace these.

The Group's US\$293.1m bonds mature in November 2009 and these can be financed from the Group's existing bank facilities. The Group's main bank facilities are committed through to 2012.

The Group also maintains facilities in relation to asset finance ("Asset Finance Facilities"). Asset Finance Facilities are typically agreed in principle one year in advance and are arranged for the purpose of funding bus vehicle expenditure and for specific UK Rail operating assets. Asset Finance Facilities include finance leases, hire purchase agreements and operating leases. The terms of Asset Finance Facilities are dependent on the underlying assets and typically range between five and ten years.

The following are the contractual maturities of financial liabilities, including interest payments. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 30 April 2009	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Unsecured bank loans	(149.9)	(150.0)	Nil	Nil	(150.0)	Nil
Unsecured bond issues	(207.2)	(214.8)	(214.8)	Nil	Nil	Nil
Redeemable preference shares	(5.4)	(5.4)	(5.4)	Nil	Nil	Nil
Finance lease liabilities	(57.7)	(66.2)	(9.3)	(9.2)	(36.7)	(11.0)
Hire purchase liabilities	(172.9)	(208.5)	(35.8)	(33.5)	(75.9)	(63.3)
Loan notes payable	(33.8)	(33.8)	(33.8)	Nil	Nil	Nil
Trade and other payables	(524.1)	(524.1)	(504.8)	(19.3)	Nil	Nil
	(1,151.0)	(1,202.8)	(803.9)	(62.0)	(262.6)	(74.3)
Derivative financial liabilities:						
Derivatives used for hedging	(82.6)	(90.5)	(66.1)	(21.4)	(3.0)	Nil
	(1,233.6)	(1,293.3)	(870.0)	(83.4)	(265.6)	(74.3)

As at 30 April 2008	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Unsecured bank loans	(214.7)	(215.0)	Nil	Nil	(215.0)	Nil
Unsecured bond issues	(180.4)	(191.2)	(14.6)	(176.6)	Nil	Nil
Redeemable preference shares	(8.1)	(8.1)	(8.1)	Nil	Nil	Nil
Finance lease liabilities	(30.1)	(33.1)	(17.9)	(2.1)	(7.8)	(5.3)
Hire purchase liabilities	(124.2)	(147.5)	(24.0)	(22.9)	(56.8)	(43.8)
Loan notes payable	(36.0)	(36.0)	(36.0)	Nil	Nil	Nil
Trade and other payables	(463.0)	(463.0)	(444.1)	(18.7)	Nil	(0.2)
Bank overdraft	(0.6)	(0.6)	(0.6)	Nil	Nil	Nil
	(1,057.1)	(1,094.5)	(545.3)	(220.3)	(279.6)	(49.3)
Derivative financial liabilities:						
Derivatives used for hedging	(3.7)	0.6	0.2	0.2	0.2	Nil
	(1,060.8)	(1,093.9)	(545.1)	(220.1)	(279.4)	(49.3)

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 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 cash flows in respect of interest up to and including the next rollover date are shown.

Note 29 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) Reclassification of financial assets

There have been no reclassifications of financial assets between (1) those measured at cost or amortised cost and (2) those measured at fair value during the year ended 30 April 2009 (2008: None).

(f) Collateral

£33.6m of cash as at 30 April 2008 that was not previously identified as cash collateral has been reclassified as cash collateral following further analysis of the relevant agreements. This cash collateralises letters of credit in respect of the Group's North American insurance provisions.

Included within the cash and cash equivalents balance of £277.3m as at 30 April 2009 (2008: £262.2m) are £78.6m (2008: £66.6m) of cash balances that have been pledged as collateral for liabilities as follows:

- £44.9m (2008: £33.6m) has been pledged by the Group as collateral for letters of credit issued by the Bank of Scotland as collateral for the Group's North American insurance provisions.
- £31.4m (2008: £32.2m) has been pledged by the Group as collateral for £31.4m (2008: £32.2m) 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.
- £1.7m (2008: £0.8m) has been pledged by the Group as collateral for liabilities to the vendors of certain businesses that the Group acquired in North America.
- £0.6m (2008: £Nil) 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 30 April 2009 and 30 April 2008.

(g) Compound financial instruments

The Group did not hold any compound financial instruments as at 30 April 2009 (2008: £Nil).

(h) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2009 and 30 April 2008 and no loans payable are in default as at 30 April 2009 (2008: £Nil). The Group was in compliance with all bank loan covenants as at 30 April 2009 and as at 30 April 2008.

(i) Income, expense, gains and losses

The following items of income, expense, gains and losses in respect of financial instruments have been recognised in the financial statements.

	2009	2008
	£m	£m
Financial assets at fair value through profit or loss	Nil	Nil
Interest income and expense		
Interest income for financial assets and financial liabilities that are not at fair value through profit or loss	7.5	21.6
Interest expense for financial assets and financial liabilities that are not at fair value through profit or loss	(35.3)	(41.9)
Available for sale financial assets		
(Losses)/gains recognised directly in equity	(0.4)	0.6
Impairment loss recognised in consolidated income statement	Nil	(0.2)
	(28.2)	(19.9)

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

(i) Income, expense, gains and losses (continued)

The net finance costs reported in the consolidated income statement includes amounts that arise on non-financial liabilities and excludes amounts recognised directly in equity and impairment losses on investments. The net loss presented on page 89 can be reconciled to the net finance costs reported in the consolidated income statement as follows:

		2009	2008
	Note	£m	£m
Reconciliation to net finance costs:			
Net loss presented above		(28.2)	(19.9)
Unwinding of discount on provisions		(3.6)	(3.3)
Exclude losses/(gains) recognised directly in equity		0.4	(0.6)
Exclude impairment loss classified within other operating costs in consolidated income statement		Nil	0.2
Net finance costs reported in consolidated income statement	6	(31.4)	(23.6)

(j) Hedge accounting

A summary of the Group's hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– None	– Not applicable
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps, collars, caps and floors)
	– Interest rate risks	– Derivatives (interest rate swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings
		– Derivatives (foreign currency forward contracts)

In addition to the risks hedged by the Group, the Group is also monitoring the following matters and may consider hedging in the future:

- The Group is exposed to movements in the price of electricity, particularly through its UK Rail division. The structure of electricity purchasing in the UK Rail industry limits the Group's ability to independently hedge against movements in electricity prices but the Group continues to monitor this risk. An element of anticipated electricity usage is purchased by the UK rail industry in advance at fixed prices so there is some degree of visibility of future electricity costs.
- The Group expects to be subject to the Carbon Reduction Commitment ("CRC") from 2010. The Group will evaluate opportunities to hedge its exposure to carbon credit prices under the CRC although the impact on the Group is anticipated to be minimal.

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2009	2008
	£m	£m
Non-current assets		
Fuel derivatives	0.5	11.0
Current assets		
Fuel derivatives	Nil	33.4
Foreign currency derivatives	3.1	Nil
	3.1	33.4
Current liabilities		
Interest rate swaps	(13.1)	(0.7)
Fuel derivatives	(55.1)	(0.7)
	(68.2)	(1.4)
Non-current liabilities		
Interest rate swaps	(7.9)	(2.3)
Fuel derivatives	(6.5)	Nil
	(14.4)	(2.3)
Total net carrying value		
Interest rate swaps	(21.0)	(3.0)
Fuel derivatives	(61.1)	43.7
Foreign currency derivatives	3.1	Nil
	(79.0)	40.7

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

Note 29 Financial instruments (continued)

(j) Hedge accounting (continued)

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 30 April 2009 (2008: None) which were separately accounted for.

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 majority of the Group's fuel derivatives as at 30 April 2009 cover periods up to 30 April 2010, with the latest period covered by a commodity price risk cash flow hedge being 30 April 2011. The cash flows are expected to occur and affect profit or loss in the same periods.

The movements in the fair value of fuel derivatives in the year were as follows:

	2009	2008
	£m	£m
Fuel derivatives		
Fair value at start of year	43.7	(4.6)
Changes in fair value during year taken to cash flow hedging reserve	(77.5)	57.4
Cash received during the year	(27.3)	(9.1)
Fair value at end of year	(61.1)	43.7

The fair value of the fuel derivatives split by maturity was as follows:

	Assets	Liabilities
	£m	£m
As at 30 April 2009		
Within one year	Nil	(55.1)
1 to 2 years	0.5	(6.5)
	0.5	(61.6)
As at 30 April 2008		
Within one year	33.4	(0.7)
1 to 2 years	5.6	Nil
2 to 3 years	5.4	Nil
	44.4	(0.7)

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	Million of litres
As at 30 April 2009		
Sterling denominated – UK Bus	(34.1)	211.9
Sterling denominated – UK Rail	(10.0)	95.0
US dollar denominated – North America	(17.0)	62.8
	(61.1)	369.7
As at 30 April 2008		
Sterling denominated – UK Bus	19.6	179.0
Sterling denominated – UK Rail	18.0	142.5
US dollar denominated – North America	6.1	56.7
	43.7	378.2

Cash flow hedges - interest

As noted previously, the Group uses a number of interest rate derivatives to hedge its exposure to floating interest rates. The Group's interest rate cash flow hedges cover periods up to 2 July 2012. The cash flows are expected to occur and affect profit or loss in the same periods.

The movements in the fair value of interest rate derivatives used as hedging instruments in the year were as follows:

	2009	2008
	£m	£m
Interest rate derivatives		
Fair value at start of year	(3.0)	Nil
Changes in fair value during year taken to cash flow hedging reserve	(19.9)	(2.8)
Cash paid/(received) during the year	1.9	(0.2)
Fair value at end of year	(21.0)	(3.0)

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

(j) Hedge accounting (continued)

Cash flow hedges - interest (continued)

The fair value of the interest rate derivatives split by maturity was as follows:

	Liabilities
	£m
As at 30 April 2009	
Within one year	(13.1)
1 to 2 years	(4.4)
2 to 3 years	(2.7)
3 to 4 years	(0.8)
	(21.0)
As at 30 April 2008	
Within one year	(0.7)
1 to 2 years	(0.9)
2 to 3 years	(0.6)
3 to 4 years	(0.7)
4 to 5 years	(0.1)
	(3.0)

All of the interest rate derivatives are sterling denominated and are managed and held centrally.

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Interest rate derivatives	Fuel derivatives	Total
	£m	£m	£m
Cash flow hedging reserve at 1 May 2007	Nil	(4.6)	(4.6)
Changes in fair value during the year taken to cash flow hedging reserve	(2.8)	57.4	54.6
Cash flow hedges reclassified and reported in profit for year	(0.2)	(13.6)	(13.8)
Tax effect of cash flow hedges	0.9	(12.6)	(11.7)
Cash flow hedging reserve at 30 April 2008	(2.1)	26.6	24.5
Changes in fair value during the year taken to cash flow hedging reserve	(19.9)	(77.5)	(97.4)
Cash flow hedges reclassified and reported in profit for year	2.4	(13.6)	(11.2)
Tax effect of cash flow hedges	4.8	27.1	31.9
Cash flow hedging reserve at 30 April 2009	(14.8)	(37.4)	(52.2)
Cash flow hedging reserve before tax	(20.5)	(51.9)	(72.4)
Tax	5.7	14.5	20.2
Cash flow hedging reserve after tax	(14.8)	(37.4)	(52.2)

There have been no instances during the year ending 30 April 2009 (2008: 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 overseas net investments

At 30 April 2009, the US\$293.1m (2008: US\$334.1m) of US\$ notes was designated as a hedge of overseas net investments.

During the year ended 30 April 2009, the Group took out a foreign currency derivative contract as part of its hedge of overseas net investments. This hedge matures on 16 November 2009.

The movements in the fair value of the foreign currency derivative contract used as a hedging instrument in the year were as follows:

	2009	2008
	£m	£m
Foreign currency derivative		
Fair value at start of year	Nil	Nil
Changes in fair value during the year	3.1	Nil
Fair value at end of year	3.1	Nil

Note 29 Financial instruments (continued)

(j) Hedge accounting (continued)

Hedge of overseas net investments (continued)

The fair value of the foreign currency derivative split by maturity was as follows:

	Assets
	£m
As at 30 April 2009	
Within one year	3.1
As at 30 April 2008	
Within one year	Nil

Note 30 Share capital

	2009	2008
	£m	£m
Authorised ordinary share capital		
936,428,571 (2008: 936,428,571) ordinary shares of 56/57 pence each	9.2	9.2

	2009		2008	
	No. of shares	£m	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 56/57 pence each (1 May 2008: 12/19 pence)				
At beginning of year	718,145,299	7.0	1,100,998,707	7.0
Share capital consolidation (9 for 14 shares)	Nil	Nil	(393,213,824)	Nil
Allotted to employees and former employees under share option schemes	1,333,135	0.1	10,360,416	Nil
At end of year	719,478,434	7.1	718,145,299	7.0

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue.

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 30 April 2009, the QUEST held 333,372 (2008: 384,279) ordinary shares in the Company and the EBT held 4,153,570 (2008: 4,600,165) ordinary shares in the Company. The trusts have waived dividends on the shares they hold.

On 14 May 2007, a share capital consolidation took place that replaced every 14 existing ordinary shares with 9 new ordinary shares. The effect of this share capital consolidation changed the par value of an ordinary share from 12/19 pence to 56/57 pence.

Also, on 14 May 2007 shareholders received 1 'B' share or 1 'C' share for each existing ordinary share held. This was a means of returning cash to shareholders. The 'B' and 'C' shares issued were subsequently dealt with as follows:

- A dividend of 63 pence per 'C' share was paid on 451,806,110 'C' shares, with the dividend paid to holders on 25 May 2007. These 'C' shares were then converted to deferred shares. The deferred shares have been subsequently cancelled.
- Employee share ownership trusts received 6,195,278 'C' shares and waived their entitlement to dividends on such shares. These 'C' shares were then converted to deferred shares. The deferred shares have been subsequently cancelled.
- 253,584,435 'B' shares were redeemed at 63 pence each with the redemption proceeds paid to holders on 5 June 2007.
- 365,219,584 'C' shares were sold to Credit Suisse Securities (Europe) Limited for 63 pence each and the proceeds paid to holders on 5 June 2007. The 'C' shares were subsequently purchased by the Company from Credit Suisse Securities (Europe) Limited at 63 pence each and were cancelled.
- 11,409,623 'B' shares were redeemed at 63 pence each with the redemption proceeds paid to holders on 30 November 2007.
- 2,904,318 'B' shares were redeemed at 63 pence each with the redemption proceeds paid to holders on 31 May 2008.
- 1,351,871 'B' shares were redeemed at 63 pence each with the redemption proceeds paid to holders on 30 November 2008.
- 8,527,488 'B' shares remained in issue at 30 April 2009 and may be redeemed at the option of the holder on 31 May and 30 November each year. These retained 'B' shares are entitled to receive a dividend at the rate of 70% of six month LIBOR, payable six-monthly in arrears on the par value of 63 pence per 'B' share.

The 'B' shares that remain in issue are classified as liabilities and the dividends payable on such shares are classified in the consolidated income statement within finance costs

Notes to the consolidated financial statements

Note 31 Share based payments

The Group operates an Executive Share Option Scheme, a Save as You Earn Scheme ("SAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report on pages 32 to 38 gives further details of each of these arrangements.

As disclosed in note 7, share based payment charges of £4.9m (2008: £6.7m) have been recognised in the income statement during the year in relation to the above schemes.

In accordance with the transitional provisions of IFRS, the requirements of IFRS 2 have not been applied to equity-settled share based payments that: (i) were granted on or before 7 November 2002 or; (ii) were granted after 7 November 2002 but had vested before the date of transition, being 1 May 2004. Therefore the following disclosures relate only to equity-settled share based payments made after 7 November 2002 that had not vested by 1 May 2004, and to all cash-settled share based payments.

Grant date	Executive Share Option Scheme				SAYE	SAYE	LTIP*	LTIP*	LTIP*	LTIP*
	December 2004 ^o	June 2004 ^o	December 2003 [†]	June 2003 [†]	February 2005 ^o	October 2008	August 2005	June 2006	June 2007	June 2008
Share price at grant/award date (£)	1.1150	0.8575	0.8075	0.6050	1.1800	3.2750	1.1075	1.1325	1.8075	2.8000
Exercise price (£)	1.1150	0.8575	0.8075	0.6050	1.0328	2.5178	n/a	n/a	n/a	n/a
Number of employees holding options/units at 30 April 2009	22	13	7	1	Nil	5,815	Nil	8	8	14
Shares under option/notional units at 30 April 2009	505,660	772,727	254,190	106,235	Nil	8,188,024	Nil	1,663,132	1,141,211	1,031,344
Vesting period (years)	3	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	75%	30%	30%	30%	30%	30%	30%
Option/award life (years)	7	7	7	7	3.5	3.5	3	3	3	3
Expected life (years)	4.4	4.4	4.4	4.4	3	3	3	3	3	3
Risk free rate	4.75%	4.64%	4.64%	3.79%	4.56%	4.43%	n/a	n/a	n/a	n/a
Expected dividends expressed as an average annual dividend yield	3.14%	3.38%	3.34%	4.30%	3.05%	1.37%	3.15%	3.15%	3.15%	2.12%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%	**	**	**	**
Fair value per option/notional unit at grant date (£)	0.26	0.20	0.19	0.28	0.30	1.14	0.42	0.44	0.70	1.08
Option pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Simulation	Simulation	Simulation	Simulation

† These options became fully vested during the year to 30 April 2007.

o These options became fully vested during the year to 30 April 2008.

*LTIP awards are based on notional units. One notional 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 therefore some of the above disclosures are not applicable.

**Reflected in fair value.

Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward.

Executive Share Option Scheme

The movements in total executive share options during the year were as follows:

Award date	At 1 May 2008	Exercised	At 30 April 2009	Exercise price £	Date from which exercisable	Expiry date
23 July 2002*	286,091	Nil	286,091	0.3750	23 July 2005	23 July 2009
26 June 2003	360,367	(254,132)	106,235	0.6050	26 June 2006	26 June 2010
12 December 2003	567,622	(313,432)	254,190	0.8075	12 December 2006	12 December 2010
25 June 2004	1,431,282	(658,555)	772,727	0.8575	25 June 2007	25 June 2011
10 December 2004	999,635	(493,975)	505,660	1.1150	10 December 2007	10 December 2011
	3,644,997	(1,720,094)	1,924,903			

* In accordance with the transitional provisions of IFRS, the fair value of these options is not taken into account when determining the share based payment charge as the options were granted before 7 November 2002.

All options were granted for nil consideration. The mid-market price for the ordinary shares at 30 April 2009 was £1.31 (2008: £2.57). The Company's ordinary shares traded in the range of £1.04 to £3.28 (2008: £1.65 to £2.95) during the year to that date.

As share options are exercised continuously throughout the year, the average share price during the year of £2.02 (2008: £2.26) is considered representative of the weighted average share price at the date of exercise.

Note 31 Share based payments (continued)

Save as You Earn Scheme

Two issues from the SAYE scheme were in operation during the year as follows:

Issue	Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
D	11 February 2005	1 April 2005	103.275p	1 April 2008	30 September 2008†
E	1 September 2008	1 October 2008	251.775p	1 October 2011	31 March 2012†

†The expiry date of any individual SAYE option can be extended to be six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the applicable exercisable date shown above.

The changes in the number of participating employees and options over ordinary shares were as follows:

	Issue D		Issue E	
	Number of employees	Ordinary shares under option	Number of employees	Ordinary shares under option
Beginning of year	349	909,097	Nil	Nil
Options awarded	Nil	Nil	6,349	9,124,562
Options exercised	(296)	(816,478)	Nil	Nil
Options lapsed	(53)	(92,619)	(534)	(936,538)
End of year	Nil	Nil	5,815	8,188,024

Long Term Incentive Plan

Under the LTIP, executives are awarded notional units with a value equal to one of the Company's ordinary shares but subject to performance conditions. The movements in the LTIP during the year to 30 April 2009 were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Exercised in year (notional units)	Lapsed in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Fair value per LTIP unit at grant date £	Fair value per LTIP unit at 30 April 2009 £	TSR ranking at 30 April 2009†	Vesting date
26 August 2005	1,611,723	Nil	(1,611,723)	Nil	Nil	Nil	0.4237	Nil	Nil	1 Sept 2008*
29 June 2006	1,807,949	Nil	Nil	(208,966)	64,149	1,663,132	0.4381	1.3163	20	29 June 2009
28 June 2007	1,229,335	Nil	Nil	(131,895)	43,771	1,141,211	0.6991	0.8398	65	28 June 2010
27 June 2008	Nil	1,079,479	Nil	(86,995)	38,860	1,031,344	1.0830	0.3159	163	27 June 2011
	4,649,007	1,079,479	(1,611,723)	(427,856)	146,780	3,835,687				

* The vesting date is generally the third anniversary of the award date, although the Committee has reserved the right to postpone the vesting date if it considers that vesting may or could potentially contravene any securities or transaction rules. In regard to the awards granted on 26 August 2005, the Committee postponed vesting of those awards until the first business day after the shareholders' 2008 Annual General Meeting which was held on Friday 28 August 2008.

† TSR ranking is based on the Group's TSR ranking in the FTSE 250 whereby 1 is top and 250 is bottom 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 notional units during the year were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Exercised in year (notional units)	Lapsed in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
30 June 2006	1,124,236	Nil	(85,221)	(26,911)	39,741	1,051,845	30 June 2009	1,305,511	1.1525
28 June 2007	970,766	Nil	(74,010)	(21,510)	24,147	899,393	28 June 2010	1,775,639	1.8075
26 June 2008	Nil	913,125	(52,964)	Nil	28,803	888,964	26 June 2011	2,411,107	2.6825
	2,095,002	913,125	(212,195)	(48,421)	92,691	2,840,202			

Notes to the consolidated financial statements

Note 32 Reserves

	2009	2008
	£m	£m
Share premium account	9.5	8.0
Retained earnings	(374.9)	(363.6)
Capital redemption reserve	413.5	410.8
Own shares	(13.9)	(12.6)
Translation reserve	1.1	5.7
Available for sale reserve	0.2	0.6
Cash flow hedging reserve	(52.2)	24.5

A reconciliation of the movements in the above reserves is shown in the Consolidated statement of changes in equity on page 45.

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.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Cumulative goodwill of £113.8m (2008: £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.

Details of own shares held are given in note 30. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held 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 available for sale reserve records the changes in fair value on available for sale investments. On disposal, the cumulative changes in fair value are recycled to the income statement.

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. On maturity, the cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 33 Consolidated cash flows

(a) Reconciliation of operating profit to cash generated by operations

	2009	2008
	£m	£m
Operating profit of Group companies	172.2	164.8
Depreciation	72.1	66.6
Loss on disposal of plant and equipment	2.0	0.4
Intangible asset expenses	8.3	7.9
Impairment of plant and equipment	0.2	Nil
Impairment of investments	Nil	0.2
Equity-settled share based payment expense	3.1	1.7
Operating cashflows before working capital movements	257.9	241.6
Increase in inventories	Nil	(6.7)
Increase in receivables	(25.9)	(43.5)
Increase in payables	63.9	129.1
Increase in provisions	5.7	8.5
Differences between employer pension contributions and amounts recognised in the income statement	(32.0)	(69.0)
Cash generated by operations	269.6	260.0

(b) Proceeds from sale of property, plant and equipment

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2009	2008
	£m	£m
Net book values	18.1	7.7
Loss on disposal of plant and equipment	(2.0)	(0.4)
Gain on disposal of properties	Nil	0.3
Value of property, plant and equipment traded in	(3.3)	(3.4)
Movement in receivables and deposits for proceeds from sale of property, plant and equipment	Nil	5.0
Proceeds from sale of property, plant and equipment	12.8	9.2

Note 33 Consolidated cash flows (continued)

(c) Reconciliation of net cash flow to movement in net debt

	2009	2008
	£m	£m
Increase/(decrease) in cash	7.5	(251.3)
Cash flow from movement in borrowings	126.4	501.9
	133.9	250.6
New hire purchase	(88.6)	(63.4)
Bonus issue of preference shares	Nil	(693.6)
Debt of acquired subsidiaries	(6.8)	(1.1)
Foreign exchange movements	(58.3)	(1.7)
Other movements	(0.6)	3.1
Increase in net debt	(20.4)	(506.1)
Opening net (debt)/funds (as defined in note 38)	(319.7)	186.4
Closing net debt (as defined in note 38)	(340.1)	(319.7)

(d) Analysis of net debt

For the purpose of this note, net debt is as defined in note 38. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase/ finance leases £m	Acquisitions £m	Foreign exchange movements £m	(Charged)/ credited to income statement £m	Closing £m
Cash	195.0	(4.5)	Nil	Nil	8.2	Nil	198.7
Cash collateral	66.6	12.0	Nil	Nil	Nil	Nil	78.6
Hire purchase and finance lease obligations	(154.3)	27.2	(88.6)	(6.4)	(8.4)	(0.1)	(230.6)
Bank loans and loan stock	(250.7)	67.5	Nil	(0.4)	Nil	(0.1)	(183.7)
Bonds	(168.2)	29.0	Nil	Nil	(58.1)	(0.4)	(197.7)
Preference shares	(8.1)	2.7	Nil	Nil	Nil	Nil	(5.4)
Net debt	(319.7)	133.9	(88.6)	(6.8)	(58.3)	(0.6)	(340.1)
Accrued interest on bonds and preference shares	(6.7)	17.9	Nil	Nil	(1.9)	(17.2)	(7.9)
Unamortised gain on early settlement of interest rate swaps	(5.5)	Nil	Nil	Nil	Nil	3.9	(1.6)
Net borrowings (IFRS)	(331.9)	151.8	(88.6)	(6.8)	(60.2)	(13.9)	(349.6)

The net total of cash and cash collateral of £277.3m (2008: £261.6m) is classified in the balance sheet as £277.3m (2008: £262.2m) in cash and cash equivalents and £Nil (2008: £0.6m) as bank overdrafts within borrowings.

Cash and cash equivalents includes £53.0m (2008: £60.0m) of amounts deposited which are not accessible by the Group within one day. These deposits are due to mature between 1 May 2009 and 8 July 2009.

(e) Restricted cash

£33.6m of cash as at 30 April 2008 that was not previously identified as cash collateral has been reclassified as cash collateral following further analysis of the relevant agreements. This cash collateralises letters of credit issued in respect of the Group's insurance provisions.

The cash collateral balance as at 30 April 2009 of £78.6m (2008: £66.6m) comprises balances held in respect of insurance provision letters of credit of £44.9m (2008: £33.6m), balances held in trust in respect of loan notes of £31.4m (2008: £32.2m) and North America restricted cash balances of £2.3m (2008: £0.8m). In addition, cash includes train operating company cash of £142.3m (2008: £142.3m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained earnings.

(f) 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 inception of the contracts of £92.2m (2008: £66.2m). After taking account of deposits paid up front and other financing transactions of £20.3m (2008: £Nil), new hire purchase and finance lease liabilities of £108.9m (2008: £63.4m) were recognised.

Notes to the consolidated financial statements

Note 34 Contingencies

Contingent liabilities

(i) At 30 April 2009, the following bonds and guarantees were in place relating to the Group's rail operations:

	2009	2008
	£m	£m
Performance bonds backed by bank facilities		
– Stagecoach South Western Trains	55.7	33.5
– East Midlands Trains	20.2	18.2
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	43.0	37.9
– East Midlands Trains	4.6	4.3
Intercompany loan facilities and guarantees		
– Stagecoach South Western Trains	25.0	25.0
– East Midlands Trains	35.0	35.0

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 new 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 DfT 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 assessed whether a provision for onerous contracts is required in respect of its rail franchises. The Group has discounted the expected future cash flows related to its rail franchises to determine whether it is probable that the benefits to be derived by the Group from the franchises will be lower than the unavoidable costs of meeting its obligations under the franchises. The Group has determined that no provision is necessary. Estimates of cash flows are consistent with management's plans and forecasts, including an assumption supported by legal advice that the contractual disputes in respect of South Western Trains (see section 3.7.3.1 of the Operating and Financial Review on page 10) will be resolved in the Group's favour. The estimation of future cash flows and the discount rate involves a significant degree of judgment. 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 DfT has the right to terminate all of the franchises operated by the Group. Where the Group has defaulted on one franchise, the DfT has cross-default rights that might enable it (but not require it) to terminate all 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 DfT sought to call. As at 30 April 2009, the capital at risk of the Group in this respect was:

	South Western Trains	East Midlands Trains	Total
	£m	£m	£m
Actual liabilities			
Net intra-group amounts payable to train operators	39.4	2.7	42.1
Contingent liabilities			
Season ticket bonds	43.0	4.6	47.6
Performance bonds	55.7	20.2	75.9
Parent company guarantees to suppliers	Nil	10.5	10.5
Undrawn committed loan facilities	25.0	35.0	60.0
Capital at risk as at 30 April 2009	163.1	73.0	236.1
Cash			
Cash in train operating companies	108.4	33.9	142.3
Pro forma impact on net debt	271.5	106.9	378.4

We consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised at 30 April 2009, the Group would have needed to have financed £236.1m and its gross debt would have increased by this amount. In addition, the cash in the train operating companies would be transferred with the franchises and therefore the net debt of the Group would have increased by £378.4m.

There is no recourse to the Group in respect of any liabilities or contingent liabilities of Virgin Rail Group.

- (iv) The Group and the Company are from time to time party to 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 30 April 2009, the accruals in the consolidated financial statements for such claims total £10.1m (2008: £9.8m).

Note 35 Guarantees and other financial commitments

(a) Capital commitments

2009	2008
£m	£m

Capital commitments are as follows:

Contracted for but not provided
For delivery in one year

116.9 95.8

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2009:

As at 30 April 2009	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 2010	8.4	3.9	134.7	4.5	151.5
Year ending 30 April 2011	7.6	3.2	134.7	3.7	149.2
Year ending 30 April 2012	6.2	2.7	134.7	3.2	146.8
Year ending 30 April 2013	5.9	1.4	134.7	1.4	143.4
Year ending 30 April 2014	4.5	1.2	96.0	Nil	101.7
1 May 2014 and thereafter	15.7	0.9	Nil	Nil	16.6

48.3 **13.3** **634.8** **12.8** **709.2**

All operating lease commitments associated with UK Rail franchises are assumed to terminate in line with the expected franchise end. Following further analysis of the relevant commitments, the franchise-end for the purpose of determining the above commitments as at 30 April 2009 is the earlier date of which each franchise could end if the Group failed to meet specified performance targets.

The amounts shown above do not include Network Rail charges, which are shown separately in note 35(c).

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2008:

As at 30 April 2008	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 2009	20.0	1.5	127.8	7.6	156.9
Year ending 30 April 2010	19.7	0.9	127.8	7.4	155.8
Year ending 30 April 2011	19.8	0.6	127.8	6.6	154.8
Year ending 30 April 2012	20.2	0.4	127.8	5.2	153.6
Year ending 30 April 2013	19.8	0.4	127.8	3.3	151.3
1 May 2013 and thereafter	35.8	0.1	502.1	1.8	539.8

135.3 **3.9** **1,141.1** **31.9** **1,312.2**

(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) until the expected end of the franchises. Commitments for payments under these contracts as at 30 April 2009 are as shown below.

2009
£m

Lease payments due in respect of:

Year ending 30 April 2010	145.2
Year ending 30 April 2011	144.4
Year ending 30 April 2012	145.2
Year ending 30 April 2013	166.8
Year ending 30 April 2014	63.2
1 May 2014 and thereafter	0.5

665.3

Notes to the consolidated financial statements

Note 35 Guarantees and other financial commitments (continued)

(c) Network Rail charges (continued)

Commitments for payments under these contracts as at 30 April 2008 were as follows:

	2008
	£m
Lease payments due in respect of:	
Year ending 30 April 2009	194.0
Year ending 30 April 2010	65.5
Year ending 30 April 2011	65.5
Year ending 30 April 2012	65.5
Year ending 30 April 2013	65.5
1 May 2013 and thereafter	70.9
	526.9

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below are based on the latest statutory financial statements of the relevant companies:

	2009	2008
	£m	£m
Annual commitments under non-cancellable operating leases	52.1	47.9
Capital commitments	Nil	Nil
Franchise performance bonds	10.3	14.7
Season ticket bonds	1.8	1.5

The performance bonds at Virgin Rail Group Holdings Limited, a joint venture, require that the consolidated net assets of Virgin Rail Group Holdings Limited are no less than £22.5m (2008: £25.0m). This could restrict Virgin Rail Group Holding's ability to make distributions to the Group.

Note 36 Related party transactions

Details of major related party transactions during the year ended 30 April 2009 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Virgin Rail Group Holdings Limited - Non-Executive Directors

Two of the Group's managers are non-executive directors of Virgin Rail Group Holdings Limited. During the year ended 30 April 2009, the Group earned fees of £60,000 (2008: £45,415) from Virgin Rail Group Holdings Limited in this regard.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group. For the year ended 30 April 2009, East Midlands Trains had purchases totalling £0.6m (2008: £0.3m) and sales totalling £0.8m (2008: £Nil) from/to West Coast Trains Limited. East Midlands Trains has a receivable of £0.4m (2008: £0.1m payable) owed from West Coast Trains Limited as at 30 April 2009.

(iii) Noble Grossart Limited

Ewan Brown (Non-Executive Director) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year ended 30 April 2009 amounted to £20,000 (2008: £20,000). At 30 April 2009, Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held 4,084,999 (2008: 4,084,999) ordinary shares in the Company, representing 0.6% (2008: 0.6%) of the Company's issued ordinary share capital.

(iv) Alexander Dennis Limited

Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 37.9% (30 April 2008: 37.9%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (iii) above) controls a further 28.4% (30 April 2008: 28.4%) of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or 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 30 April 2009, the Group purchased £61.1m (2008: £34.8m) of vehicles from Alexander Dennis Limited and £2.8m (2008: £3.2m) of spare parts and other services.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules.

(v) Pension Schemes

Details of contributions made to pension schemes are contained in note 28 to the consolidated financial statements.

Note 36 Related party transactions (continued)

(vi) Robert Walters plc

Martin Griffiths became a non-executive director of Robert Walters plc in July 2006 and received remuneration of £47,200 (2008: £39,167) in respect of his services for the year ended 30 April 2009. Martin Griffiths holds 12,000 shares in Robert Walters plc which represents 0.01% of the issued share capital. During the year ended 30 April 2009, the Group paid Robert Walters plc £9,360 (2008: £Nil) for recruitment services.

(vii) Glasgow Income Trust plc

Martin Griffiths became a non-executive director of Glasgow Income Trust plc on 8 November 2007 and received £14,000 (2008: £6,689 from 8 November 2007 to 30 April 2008) in respect of his services for the year ended 30 April 2009.

(viii) Loan to New York Splash Tours LLC

A net interest bearing long-term loan of £2.7m (2008: £1.8m) was outstanding from a joint venture, New York Splash Tours LLC, as at 30 April 2009.

Note 37 Post balance sheet events

Holders of 2,658,827 redeemable 'B' preference shares elected to have these shares redeemed on 31 May 2009 leaving 5,868,661 redeemable 'B' preference shares in issue.

Note 38 Definitions

- **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 business and individual operating units that have been part of the Group throughout both periods.
- **Operating profit** for a particular business unit or division within the Group refers to profit before net finance income/charges, taxation, intangible asset expenses, exceptional items and restructuring costs.
- **Operating margin** for a particular business unit or division within the Group means operating profit as a percentage of revenue.
- **Exceptional items** means items which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.
- **Net debt** (or net funds) is the net of cash and borrowings as reported on the consolidated balance sheet, adjusted to exclude any accrued interest and deferred gains on derivatives.

Independent auditors' report to the members of Stagecoach Group plc

We have audited the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2009 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements set out on page 23, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company 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, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the 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 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.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Other matter

We have reported separately on page 40 on the consolidated financial statements of Stagecoach Group plc for the year ended 30 April 2009.



Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

24 June 2009

Company balance sheet

As at 30 April 2009

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

		2009	2008
	Notes	£m	£m
Fixed assets			
Tangible assets	2	0.1	0.1
Investments	3	971.8	968.6
		971.9	968.7
Current assets			
Debtors and prepaid charges – due within one year	4	234.3	162.6
Deferred tax asset	5	0.3	0.3
Derivative financial instruments at fair value – due within one year	7	Nil	20.8
– due after more than one year	7	Nil	5.6
Cash		50.3	73.7
		284.9	263.0
Creditors: Amounts falling due within one year			
Trade and other creditors	6	(496.1)	(401.0)
Redeemable 'B' preference shares		(5.4)	(8.1)
Derivative financial instruments at fair value	7	Nil	(0.4)
		(501.5)	(409.5)
Net current liabilities		(216.6)	(146.5)
Total assets less current liabilities		755.3	822.2
Creditors: Amounts falling due after more than one year			
Other creditors	6	(0.6)	(0.6)
Derivative financial instruments at fair value	7	(0.1)	Nil
Net assets excluding pension liability		754.6	821.6
Pension liability, net of deferred tax	8	(1.8)	(1.9)
Net assets including pension liability		752.8	819.7
Capital and reserves			
Equity share capital	9	7.1	7.0
Share premium account	10	9.5	8.0
Profit and loss account	10	336.6	406.5
Capital redemption reserve	10	413.5	410.8
Own shares	10	(13.9)	(12.6)
Shareholders' funds		752.8	819.7

These financial statements were approved for issue by the Board of Directors on 24 June 2009.

Brian Souter

Brian Souter
Chief Executive

Martin A Griffiths

Martin A Griffiths
Finance Director

The accompanying notes form an integral part of this balance sheet.

Notes to the Company financial statements

Note 1 UK GAAP accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

• Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company is not required to prepare a cash flow statement under Financial Reporting Standard 1 ("FRS 1") (revised).

• Tangible fixed assets

Tangible fixed assets are shown at their original historic cost net of depreciation and any provision for impairment as set out in note 2.

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 fixed asset impairment write-down 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.

• Taxation

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

In accordance with FRS 19, "Deferred Taxation", full provision is made for deferred tax on a non-discounted basis in respect of all timing differences except those arising from the revaluation of fixed assets where there is no binding sale agreement and undistributed profits of overseas subsidiaries.

Deferred tax is calculated at rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent they are more likely than not to be recovered.

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

• 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 profit and loss account.

For the principal rates of exchange used see the Group IFRS accounting policies on page 49.

• Share based payment

The Company issues equity-settled and cash-settled share based payments to certain employees.

The Company has applied the optional exemption contained within FRS 20, which allows it to apply the standard only to equity-settled share based payments granted after 7 November 2002 that have not vested before the date of transition, being 1 May 2004.

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 profit and loss account to the extent that the amount of the expense recorded by each subsidiary company is less than the amount recharged to it by the 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 Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by use of the Black-Scholes pricing model.

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.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

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).

Note 1 UK GAAP accounting policies (continued)

- **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**

The accounting policy of the Company under FRS 25 "Financial instruments: Presentation" and FRS 26 "Financial instruments: Recognition and measurement" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Presentation" and IAS 39 "Financial instruments: Recognition and measurement". Therefore for details of the Company's accounting policy for financial instruments refer to pages 51 to 53.

- **Investment in own shares**

In accordance with UITF Abstract 38, "Accounting for ESOP Trusts", own shares held by the Group's Employee Benefit Trust and Qualifying Employee Share Ownership Trust have been classified as deductions from shareholders' funds.

- **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 interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

- **Pensions**

The Company accounts for pensions and similar benefits under FRS 17 "Retirement Benefits" and measures its obligations due at discounted present value.

Note 2 Tangible fixed assets

	£m
Cost	
At beginning of year	0.6
Additions	0.1
At end of year	0.7
Depreciation	
At beginning of year	(0.5)
Charge in year	(0.1)
At end of year	(0.6)
Net book value at beginning of year	0.1
Net book value at end of year	0.1

Note 3 Investments

	Subsidiary undertakings
	£m
Cost	
At beginning of year	968.6
Additions	3.2
At end of year	971.8
Amounts written off	
At beginning and end of year	Nil
Net book value at beginning of year	968.6
Net book value at end of year	971.8

Notes to the Company financial statements

Note 4 Debtors and prepaid charges

Amounts falling due within one year were:

	2009	2008
	£m	£m
Prepayments and accrued income	1.1	0.4
Other debtors	12.9	14.7
UK corporation tax receivable	0.7	1.0
Amounts owed by group undertakings	219.6	146.5
	234.3	162.6

Note 5 Deferred tax asset

The movement in the deferred tax asset during the year was as follows:

	2009	2008
	£m	£m
At beginning of year	0.3	0.3
Charge to profit and loss account	Nil	Nil
At end of year	0.3	0.3

The deferred tax asset recognised can be analysed as follows:

	2009	2008
	£m	£m
Short-term timing differences	0.3	0.3

Note 6 Creditors

(a) Creditors: Amounts falling due within one year

	2009	2008
	£m	£m
Bank overdrafts	410.9	297.0
Bank loans and loan notes	33.9	36.0
Trade creditors	Nil	0.1
Accruals and deferred income	3.7	4.0
Amounts due to group undertakings	47.6	63.9
	496.1	401.0

Trade creditors are non-interest bearing and are normally settled on 30 to 45 day terms.

(b) Creditors: Amounts falling due after more than one year

	2009	2008
	£m	£m
Accruals and deferred income	0.6	0.6

(c) Borrowings were repayable as follows:

	2009	2008
	£m	£m
On demand or within 1 year		
Bank overdraft	410.9	297.0
Bank loans and loan notes	33.9	36.0
Total borrowings	444.8	333.0

Note 7 Financial instruments

The fair values of derivative financial instruments at 30 April 2009 are set out below:

	2009		2008	
	Fair value assets £m	Fair value liabilities £m	Fair value assets £m	Fair value liabilities £m
Fuel derivatives – external	Nil	(0.1)	26.4	(0.4)

In accordance with FRS 26, “Financial Instruments: Recognition and measurement” the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. None were identified.

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 8 Pension liability, net of deferred tax

	2009	2008
	£m	£m
Unfunded pension liability	2.6	2.7
Deferred tax asset	(0.8)	(0.8)
	1.8	1.9

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above. See note 28 to the consolidated financial statements for more details on retirement benefits.

Note 9 Called up share capital

	2009	2008
	£m	£m
Authorised ordinary share capital 936,428,571 (2008: 936,428,571) ordinary shares of 56/57 pence each	9.2	9.2
Allotted, called-up and fully paid ordinary share capital 719,478,434 (2008: 718,145,299) ordinary shares of 56/57 pence each	7.1	7.0

The Company operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust (“QUEST”) and the Stagecoach Group Employee Benefit Trust 2003 (“EBT”). Shares held by these trusts are treated as a deduction from shareholders’ funds in the financial statements. Other assets and liabilities of the trusts are consolidated in the Company’s financial statements as if they were assets and liabilities of the Company. As at 30 April 2009, the QUEST held 333,372 (2008: 384,279) ordinary shares in the Company and the EBT held 4,153,570 (2008: 4,600,165) ordinary shares in the Company.

Further information on share capital, including in respect of redeemable ‘B’ Shares, is provided in note 30 to the consolidated financial statements.

Notes to the Company financial statements

Note 10 Share capital and reserves

	Equity share capital	Share premium account	Profit and loss account	Capital redemption reserve	Own shares	Total
	£m	£m	£m	£m	£m	£m
At 1 May 2008	7.0	8.0	406.5	410.8	(12.6)	819.7
Loss for the year	Nil	Nil	(28.8)	Nil	Nil	(28.8)
Credit in relation to share based payment	Nil	Nil	3.2	Nil	Nil	3.2
Dividends	Nil	Nil	(41.6)	Nil	Nil	(41.6)
Ordinary shares issued during the year	0.1	1.3	Nil	Nil	Nil	1.4
Own shares sold	Nil	Nil	Nil	Nil	1.5	1.5
VAT recovered on professional fees previously applied to share premium	Nil	0.2	Nil	Nil	Nil	0.2
Own shares purchased	Nil	Nil	Nil	Nil	(2.8)	(2.8)
Preference shares redeemed	Nil	Nil	(2.7)	2.7	Nil	Nil
At 30 April 2009	7.1	9.5	336.6	413.5	(13.9)	752.8

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The loss as disclosed above of £28.8m (2008: profit of £373.7m) is consolidated in the results of the Group.

The profit and loss account reserve is distributable but the other components of shareholders' funds shown above are not distributable.

Note 11 Share based payment

For details of share based payment awards and fair values see note 31 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £3.1m (2008: £1.7m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to the profit and loss account reserve to reflect the fact that the Company has no employees (2008: Nil) and all awards of share options in the Company's shares are to employees of subsidiary companies. The remuneration of the Directors is borne by other group companies. The Company accounts for the cash-settled share based payment charge for the year of £1.8m (2008: £5.0m), by recording a 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 profit and loss account.

Note 12 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £107.3m (2008: £54.1m) 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 £74.0m (2008: £43.2m) 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, bank loans 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 34 (iv) 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:

	2009	2008
	£m	£m
Contracted for but not provided for delivery in one year	79.1	82.1

(c) Operating lease commitments

Annual charges for operating leases are made with expiry dates as follows:

	2009		2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Between one year and five years	Nil	3.4	Nil	3.1
Five years and over	0.3	0.5	0.3	0.5

Note 13 Related party transactions

The Company has taken advantage of the exemption under FRS 8, "Related party disclosures" from having to provide related party disclosures in its own financial statements when those statements are presented with consolidated financial statements of its group. Related party disclosures provided by the Group can be found on page 100.

Shareholder information

Analysis of shareholders as at 30 April 2009

Range of holdings	Number of holders	%	Ordinary shares held	%
1 – 25,000	42,406	98.5	46,099,884	6.4
25,001 – 250,000	400	0.9	33,015,487	4.6
250,001 – 500,000	73	0.2	26,502,458	3.7
500,001 – 3,750,000	137	0.3	181,066,123	25.2
Over 3,750,000	36	0.1	432,794,482	60.1
	43,052	100.0	719,478,434	100.0

Classification of shareholders	Number of holders	%	Ordinary shares held	%
Individuals	41,122	95.5	170,711,097	23.7
Other corporate bodies	86	0.2	21,765,504	3.0
Banks and Nominees	1,711	4.0	499,067,984	69.4
Limited companies	112	0.3	23,395,038	3.3
Investment trusts	14	–	4,343,935	0.6
Pension funds	7	–	194,876	–
	43,052	100.0	719,478,434	100.0

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrars and clearly state the shareholder's name and address. Please write to: Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA. Telephone 0871 664 0443 (calls cost 10p per minute plus network extras) if calling from the UK or 0844 842 9587 if calling from outside the UK. Registrar forms can be obtained on-line at <http://www.stagecoachgroup.com/scg/ir/shareholder/registrar/>

Stagecoach individual savings accounts

The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on 08457 22 55 25.

The Company has also made arrangements with Stocktrade for ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 81 George Street, Edinburgh EH2 3ES. Telephone 0131 240 0448.

Low cost share dealing facility

The Company has set up a low cost execution only share dealing facility with a division of Brewin Dolphin, Stocktrade, exclusive to Stagecoach shareholders. The commission is 0.5% up to £10,000 with 0.2% being charged on the excess thereafter, subject to a £15 minimum.

Shareholders who would like further information should write to Stocktrade, 81 George Street, Edinburgh EH2 3ES. Telephone 0845 601 0995, quoting dealing reference Low Co020. Postal dealing packs are available on request.

Payment of dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The mandates enable the Company to pay dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to shareholders of the BACS system is that the registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder bank or building society account. Shareholders who wish to benefit from this service should request the Company's registrars (address above) to send them a dividend/interest mandate form or alternatively complete the mandate form attached to the next dividend tax voucher they receive.

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 at favourable commission rates. Shareholders who would like further information should telephone the Company's registrars, Capita Registrars, on 0871 664 0443 (calls cost 10p per minute plus network extras) if calling from the UK or 0844 842 9587 if calling from outside the UK.

Five year financial summary – consolidated

	2009	2008	2007**	2006**	2005**
	£m	£m	£m	£m	£m
Results					
Revenue	2,103.3	1,763.6	1,504.6	1,343.9	1,420.5
Operating profit	202.4	192.3	180.9	112.5	132.9
Net finance (costs)/income	(31.4)	(23.6)	0.7	(15.9)	(21.9)
Profit before taxation	170.8	167.3	184.1	91.5	104.9
Tax (charge)/credit	(37.3)	61.9	(43.6)	(20.3)	(25.3)
Profit attributable to equity shareholders of the parent	133.5	249.1	277.3	115.4	86.9
Net (liabilities)/assets					
Non-current assets	992.9	880.7	779.4	893.4	866.7
Current assets	517.2	502.0	669.1	395.3	321.7
Current liabilities (excluding provisions)	(893.7)	(558.1)	(445.1)	(438.2)	(517.4)
Non-current liabilities (excluding provisions)	(486.1)	(625.0)	(382.7)	(529.0)	(462.6)
Provisions	(139.9)	(119.2)	(108.4)	(109.9)	(93.0)
Total equity	(9.6)	80.4	512.3	211.6	115.4
Cash and debt					
Cash at bank and in hand	277.3	262.2	513.3	198.5	140.0
Gross debt***	(617.4)	(581.9)	(326.9)	(334.4)	(354.6)
Net (debt)/funds***	(340.1)	(319.7)	186.4	(135.9)	(214.6)
Cash flow					
Net cash flow from operating activities after tax	277.8	325.0	162.3	175.5	173.6
Ratios					
Adjusted earnings per ordinary share*	22.9p	20.3p	11.7p	10.6p	9.5p
Dividends per ordinary share	6.0p	5.4p	4.1p	3.7p	3.3p
Net cash from operating activities after tax per ordinary share	38.9p	45.1p	14.9p	16.3p	15.0p
Ordinary shares in issue at year end	719.5m	718.1m	1,101.0m	1,093.6m	1,069.5m

*before intangible asset expenses and exceptional items

**discontinued operations as defined under IFRS accounting are excluded from operating profit for 2007 (London bus and New Zealand businesses) 2006 (London bus and New Zealand businesses) and 2005 (New Zealand).

*** excluding any accrued interest and deferred gains on derivatives.

Registered office, advisers and financial calendar

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Edinburgh EH3 8UL

Herbert Smith

Exchange House

Primrose Street

London EC2A 2HS

Financial Calendar

Annual General Meeting

28 August 2009

Payment Date – Ordinary Shares

Final Dividend

30 September 2009

Interim Results

December 2009

Interim Dividend

March 2010

*Calls to this number are 10p per minute from a BT number. Other telephone providers' costs may vary.

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...and even calculate your own carbon footprint.

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