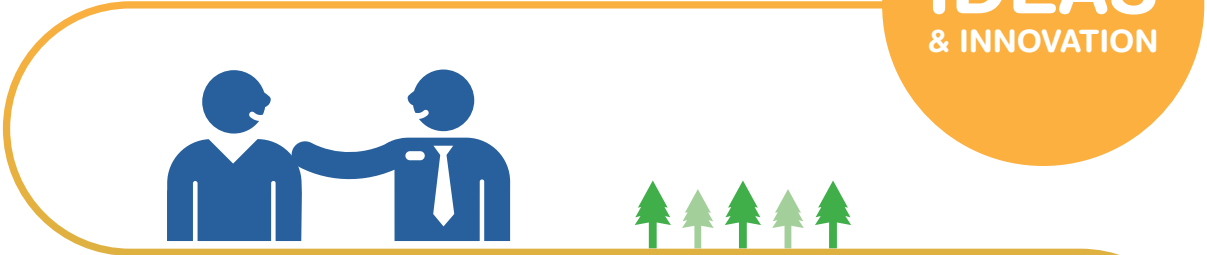


# Shaping the Future of Transport

Stagecoach Group Annual Report and Financial Statements 2012

**IDEAS  
& INNOVATION**

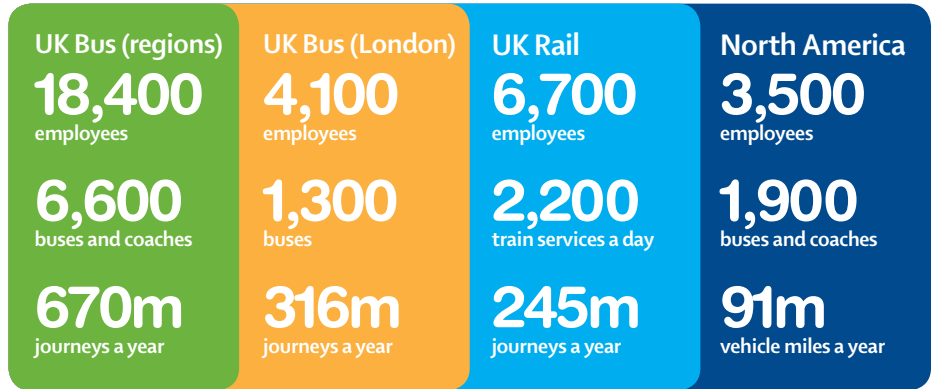


**SUSTAINABLE  
GROWTH**



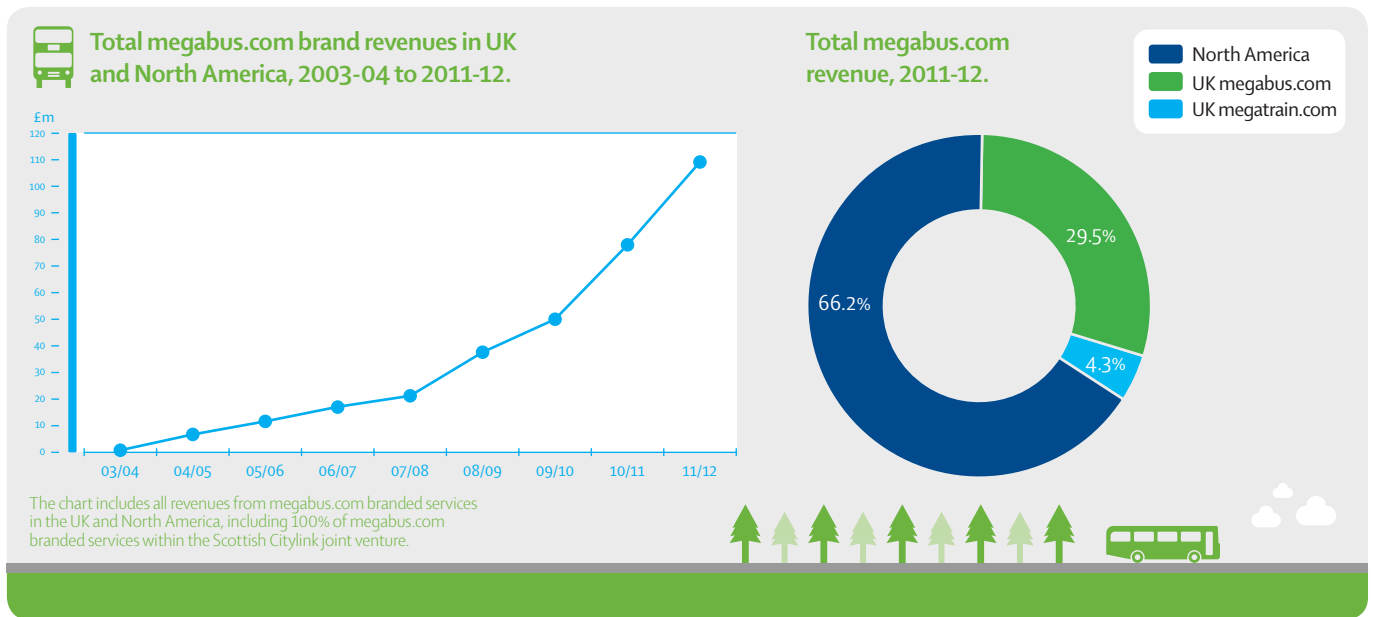
# Stagecoach Group overview

We provide greener, smarter and better value transport for around 3 million customers a day across our bus and rail networks in the UK and North America. The Group employs around 33,000 people and runs nearly 12,000 buses and trains.

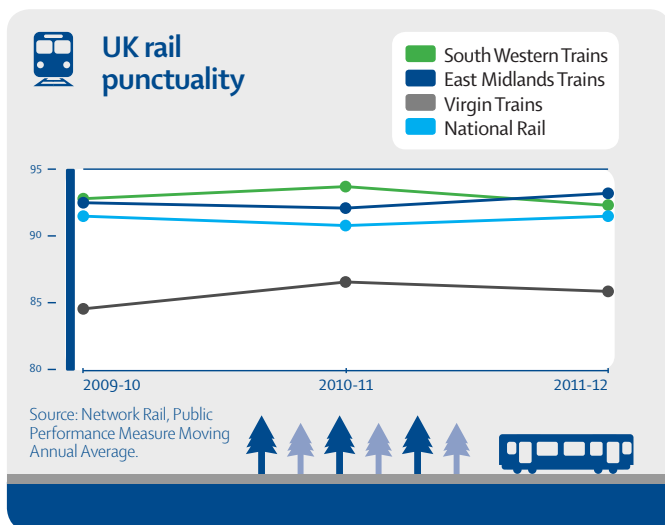


## Budget travel

Note: all figures are approximate.

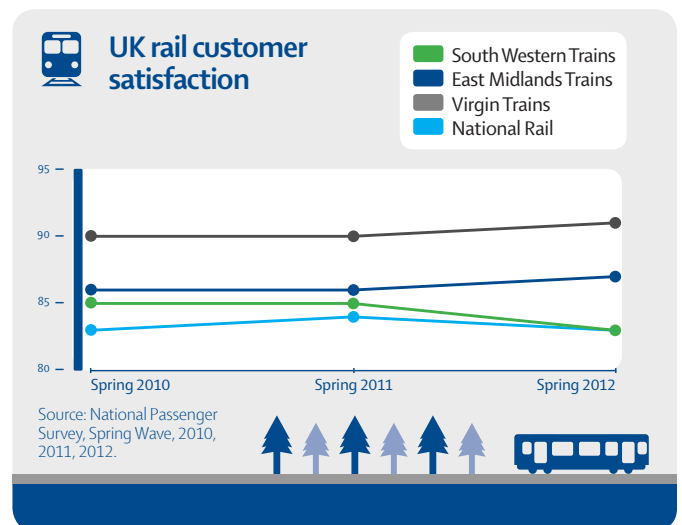


## Operational performance



**Note:** figures used refer to the measure of train punctuality – also known as PPM (public performance measure) – which is commonly used throughout Europe. For long distance operators, such as East Midlands Trains and Virgin Trains, this shows the percentage of trains arriving within 10 minutes of timetabled arrival at final destination. London and South East operators (including South Western Trains), and regional operators show the percentage arriving within five minutes of the timetabled arrival. Data covers the period 1 April 2009 to 31 March 2012. National Rail average is for all franchised train operating companies.

## Customer service



**Note:** data extracted from National Passenger Survey, Spring Wave, 2010, 2011 and 2012. Percentages are for overall satisfaction. The National Passenger Survey (NPS) is conducted twice a year from a representative sample of passenger journeys across the UK. It surveys passengers' overall satisfaction and satisfaction with 30 individual aspects of service for each individual train operating company (TOC). Passenger ratings are totalled for all TOCs across the country to provide a National Rail average.

# Business highlights

## Maximising shareholder returns

- Adjusted earnings per share\* up 6.7% to 25.4 pence (2011: 23.8 pence)
- Full year dividend up almost 10% to 7.8 pence (2011: 7.1 pence)
- c.£340m cash return to shareholders in October 2011

## Leading the way in improving transport for passengers

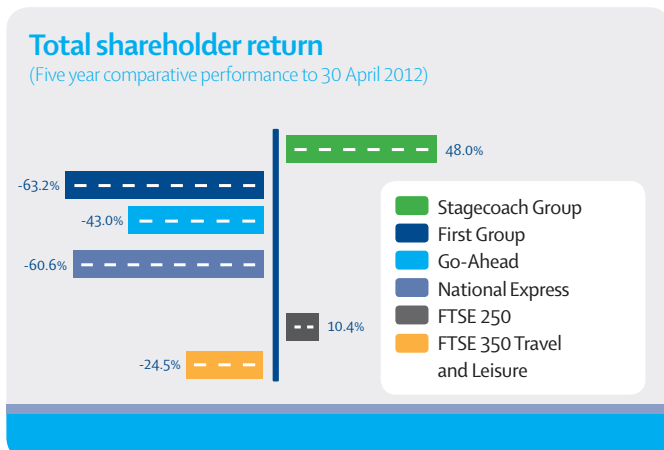
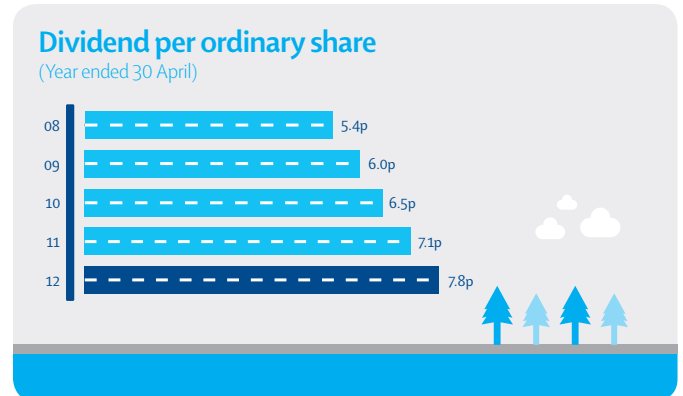
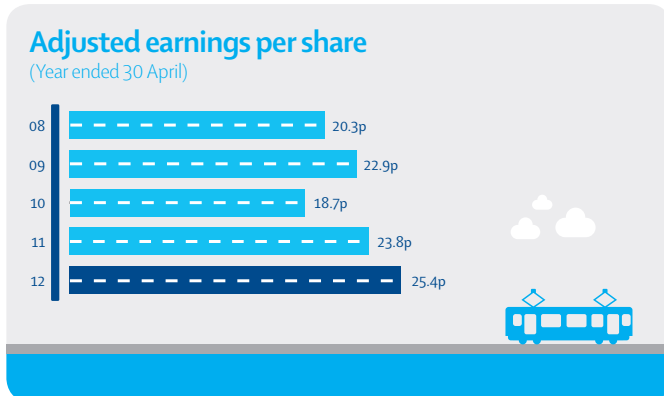
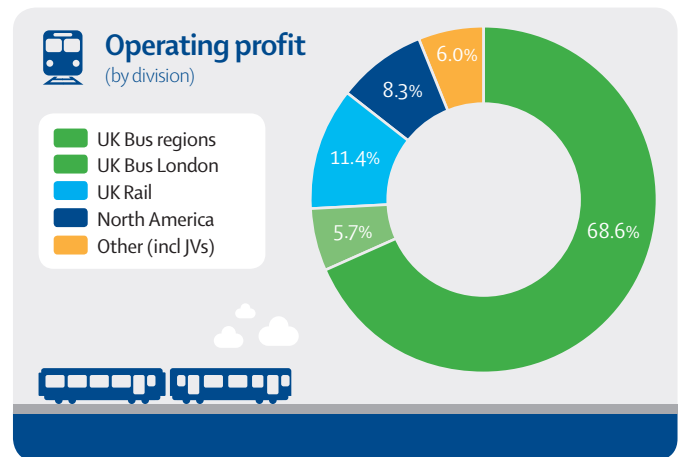
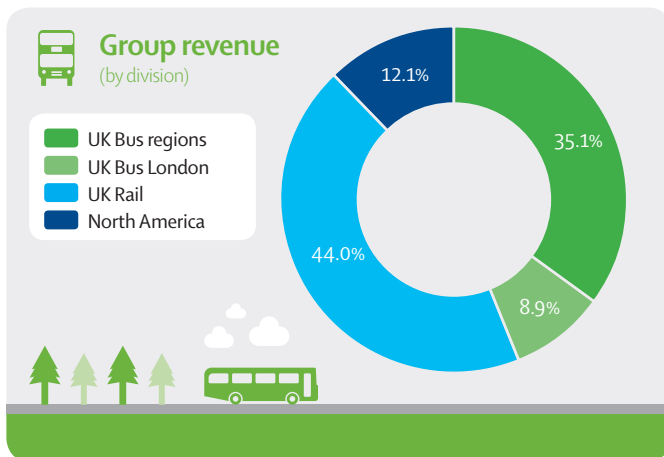
- Growth underpinned by innovation, value for money, investment and operational delivery
- Expansion of megabus.com in North America and Europe
- New Alliance with Network Rail

## Pursuit of new opportunities for growth

- Like-for-like\* revenue up 6.9% across the Group
- Virgin Rail Group's bid for new West Coast rail franchise submitted May 2012
- Shortlisted for two new UK rail franchises
- US\$134m planned acquisition of businesses and assets from Coach America
- Further potential to grow operating profit at acquired London Bus business

\*see definitions in note 35 to the consolidated financial statements

# Financial overview



### Notes

- Group revenue:** Revenue is for the year ended 30 April 2012, excluding joint ventures. See Note 2 to the consolidated financial statements.
- Operating profit:** The chart shows the breakdown of total operating profit for the year ended 30 April 2012, excluding intangible asset expenses and exceptional items. See Note 2 to the consolidated financial statements.
- Adjusted earnings per share:** See Note 9 to the consolidated financial statements.
- Dividend per ordinary share:** See Note 8 to the consolidated financial statements.
- Total shareholder return:** The graph compares the performance of the Stagecoach Group Total Shareholder Return ("TSR") (share value movement plus reinvested dividends) over the 5 years to 30 April 2012 compared with that of First Group, Go-Ahead, National Express, the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index.

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## Financial summary

Year ended 30 April	Results excluding intangible asset expenses and exceptional items*		Reported results	
	2012	2011	2012	2011
Revenue (£m)	<b>2,590.7</b>	2,389.8	<b>2,590.7</b>	2,389.8
Total operating profit (£m)	<b>237.2</b>	240.2	<b>262.9</b>	225.0
Non-operating exceptional items (£m)	-	-	<b>11.6</b>	0.7
Net finance charges (£m)	<b>(34.7)</b>	(34.5)	<b>(34.7)</b>	(34.5)
Profit before taxation – continuing operations (£m)	<b>202.5</b>	205.7	<b>239.8</b>	191.2
Discontinued operations (£m)	-	-	-	18.5
Profit before taxation (£m)	<b>202.5</b>	205.7	<b>239.8</b>	209.7
Earnings per share (pence)	<b>25.4p</b>	23.8p	<b>29.5p</b>	24.6p
Proposed final dividend per share (pence)			<b>5.4p</b>	4.9p
Full year dividend per share (pence)			<b>7.8p</b>	7.1p

\* see definitions in note 35 to the consolidated financial statements

# STAGECOACH GROUP PLC

## INTERVIEW WITH THE CHIEF EXECUTIVE



Stagecoach Group Chief Executive, Sir Brian Souter, discusses the challenges facing the transport sector, what sets Stagecoach apart and why the Group is well placed to deliver on the opportunities for growth in the future.

### **How was 2011-12 for public transport in general and for Stagecoach Group in particular?**

Sir Brian: We've had another strong year right across the whole Group. There's no doubt the general weakness in the economy and the reduction in public sector spending on transport have brought their challenges for our sector, but Stagecoach has been resilient and is continuing to grow strongly. We're seeing commuters and leisure travellers switching from the car to our bus and rail services in the UK and North America. The Group is also well positioned to benefit from opportunities for growth in the year ahead.

### **Why has Stagecoach been able to manage the challenges better than some other businesses?**

Sir Brian: Stagecoach has always been different from other transport groups – and that is one of our strengths. We manage a portfolio of business assets and look at how we can do that to deliver value to our shareholders. It's not about getting bigger for the sake of it. I think we have pursued the right strategy over several years by targeting organic growth. We've developed a successful mix of innovation, value-for-money travel, continued investment in our services and strong operational delivery. Our management teams have used tailored solutions in their specific markets, regardless of their geography. All of these factors have meant we've had a resilient business that has been able to continue to grow through the economic cycle.

### **There's been a lot of focus in the media over the past year about the threat to bus networks in the UK. What is your view on the future for the bus?**

Sir Brian: We have always been focused on having at our core a strong commercial bus business. That has stood us in good stead. You can't expect the level of public sector cuts and cost pressures we are seeing not to impact prices and bus networks. But it's how you respond to that challenge which is important. Stagecoach is the best value major bus operator in the UK and our approach has been to work hard to continue to offer the lowest fares, maintain strong networks and keep on investing in our bus fleet. That is why, in UK Bus, we have consistently delivered organic growth and sector leading profit margins over many years and I'm confident the bus can play a major role in our transport future.

### **What about the London contracted market - how is your turnaround plan progressing?**

Sir Brian: It's going well. Turning around an under performing business is a challenge and one we went into with our eyes open. The real positive is that we have been able to make significant cost savings and changes in working practices, productivity and the culture of the business with the support of our people. We said it would be a three-year programme and we remain comfortable with that forecast. It's encouraging that our new more sustainable tender strategy is now resulting in contract wins and retentions on more acceptable profit margins. We still have a lot of work to do, but we are certainly well on track to meet our objectives.

### **What support do you think the UK transport sector needs from Government?**

Sir Brian: Public transport has a big role to play in regenerating our economy, ensuring people have easy access to employment and helping tackle the twin challenges of congestion and climate change. The best way to protect services and get more people on board is for operators, Government and local transport authorities to work in partnership. That way we can ensure there are the right policies and measures on the ground. If we do that, it can make a real difference to our existing customers, help more switch from the car and maximise the wider social and environmental benefit from buses, coaches, trams and trains to our communities. Above all else we need a regulatory framework that gives to transport operators the freedom to innovate and grow the market for safe, good value, high quality transport.

### **UK rail is under the microscope, with several policy reviews looking at franchising, fares and regulation. Do you still feel it is a sector Stagecoach wants to be involved in?**

Sir Brian: Absolutely. There is a real opportunity to develop a new low cost, high quality model for UK rail if Government gets the balance right. I believe Stagecoach is well placed to benefit from reform. We have a strong record of controlling costs and giving passengers high levels of performance. It's no coincidence we have high levels of customer satisfaction at our rail networks. We have also been able to deliver significant returns for taxpayers and good returns for our shareholders by attracting more people to rail travel. We are currently shortlisted for both the Greater Western and Thameslink rail franchises. Our joint venture, Virgin Rail Group, has just submitted a great bid for the new Intercity West Coast franchise. Several other rail franchises will also be market tested in the next three years. We will be working hard to expand our existing portfolio where we believe this can be achieved on the right risk-reward profile and where we can add value for our shareholders.

## INTERVIEW WITH THE CHIEF EXECUTIVE (continued)

### **Are you worried about the threat from continental European transport groups bidding for UK rail franchises?**

Sir Brian: We operate in a competitive market and continental European transport groups are already involved in running parts of the UK rail network. We will continue to follow the same strategy of bidding for franchises that have the right risk-reward balance and have the potential to add value for shareholders. There is a tendency in some quarters to look to continental Europe in a simplistic way and see it as offering a better railway. The reality is that it is a different railway in some respects, due to the higher levels of public sector funding. When you look at the big picture, the growth achieved in the UK, the efficiency of train companies and the levels of performance and customer satisfaction here stand comparison with that in continental Europe.

### **You recently announced the creation of an Alliance with Network Rail at South West Trains. Why did you do it and what do you hope to achieve?**

Sir Brian: We've been working closely with Network Rail for many years, for example through the integrated control centre at London Waterloo. Network Rail has also been taking steps recently to devolve operational responsibility to regional units. The new Alliance takes that joint working to a new level with a single senior joint management team with responsibility for both trains and track. It's a real opportunity to deliver change that will benefit both passengers and taxpayers and support our objective of growing the railway. We can cut delays for passengers, provide better customer service, deliver more effective management of disruption and improve the efficiency of the railway. This approach can be the new model for future franchises and by leading the way I believe it can give the Group an important competitive advantage.

### **Turning to North America, how is the Group performing in the United States and Canada?**

Sir Brian: North America is the fastest growing division in the Group and we are really excited about the future. Our budget coach brand, megabus.com, has been central to that growth story, but the other services in our North America portfolio are also performing well. What is exciting is that we are getting people in North America, where so much of the infrastructure is centred around the car, on to public transport. megabus.com now covers around 90 locations and we believe there's huge scope to grow that further. That's why we invested this past year in nearly 100 new double-decker coaches for megabus.com in North America. We are continuing to look at various ways to grow our business in the US and Canada.

### **You have also launched new megabus.com routes from the UK to continental Europe. Do you see Stagecoach expanding in Europe?**

Sir Brian: Stagecoach has operated transport services in mainland Europe before and our preference is to operate in deregulated markets. Our new megabus.com services linking London with Paris, Brussels and Amsterdam are an extension to our existing UK network and a good opportunity to test the market in continental Europe. These new international routes have already proved popular with many journeys sold out. We are monitoring closely the moves by several countries in mainland Europe to further deregulate domestic coach services and we are also considering the potential for services running from the UK to other locations in France, Belgium and the Netherlands.

### **Do you have any plans for major acquisitions or to enter new markets?**

Sir Brian: During 2011-12, we returned approximately £340m in cash to our shareholders in addition to the regular dividends. We looked at whether there were any significant opportunities at the time and we decided the best way to use shareholders' money at the time was to return cash. However, we are always open to the right deal at the right price that might create additional value for our shareholders, as our recent announcement of a planned acquisition in North America demonstrates. We are progressing with our turnaround strategy at London bus and we will evaluate opportunities to acquire smaller UK bus businesses that would complement our existing regional operations. We are also excited about the next phase of our growth plan for our budget coach brand, megabus.com, in the UK and North America, as well as testing the market in mainland Europe.

### **What is your message to investors for the year ahead?**

Sir Brian: Stagecoach has delivered sector leading returns to its shareholders over several years. We've had a clear strategy - built around organic growth, selective acquisitions and targeted rail opportunities - and we've delivered on that for the benefit of our customers, taxpayers and our shareholders. Underpinning our success is the strength of the Group's financial position. Across our business, our new ideas and partnerships are helping shape the future of public transport and we are positive about the year ahead. Higher motoring costs, increasing road congestion and the pressure on governments to address climate change are all positive drivers for our sector. With our record of innovation, good value and high quality transport, Stagecoach and its investors can look forward with confidence to the year ahead.

# 1. Chairman's statement



The Group has delivered another strong set of results, achieving growth across its bus and rail businesses in the UK and North America. We have met the challenges in our sector and the wider economy and driven the business forward by developing innovative products and new ideas to make public transport better for our customers. Our focus continues to be on safe, good value, high quality bus and rail travel.

High fuel prices and motoring costs have resulted in commuters, business customers and leisure travellers switching from the car and airlines to our better value bus, coach and rail services. As well as building on our record of strong operational delivery, we are investing in improved customer service. We are using new technology to deliver quicker and smarter service information, making our services easier to use.

At the core of the Group are our regional bus operations in the UK where we have achieved consistent organic growth over several years. Our devolved management teams understand their local commercial markets and have achieved good financial returns. We have maintained our leading position as the UK's best value major bus operator, despite cost increases and reduced Government spending on public transport. In London, our turnaround plan for the business we acquired in late 2010 is progressing well and we have won new contracts at more acceptable levels of profitability.

North America is the fastest growing division in the Group and we are excited by the next phase of our growth plan for our budget coach brand, megabus.com. While megabus.com is a relatively small part of the Group, it offers good growth potential in North America and we have a clear plan to roll-out our services to new parts of the United States.

In May 2012, we agreed to acquire selected businesses and assets from Coach America, Inc. ("Coach America") and we expect to complete the acquisition shortly. This will allow us to acquire selected businesses and vehicles at attractive prices in markets and regions we know well. These businesses will benefit from both our management expertise and ability to invest for growth. The businesses to be acquired in Texas and California in particular will give us an extended geographic footprint to accelerate our growth strategy for megabus.com.

In UK Rail, our franchises are continuing to deliver good revenue growth, supported by high levels of operational performance and customer satisfaction, and our East Midlands Trains franchise returned to profit in the second half of the year. In partnership with the Department for Transport, we have announced new investment in extra capacity for our biggest commuter network at South West Trains. In addition, South West Trains' new alliance with Network Rail is a major step forward for the industry, offering the prospect of a more efficient railway, a better service for passengers and a better deal for taxpayers. We believe this approach can be a model for the future.

We are pleased to have been selected as a shortlisted bidder for each of Greater Western and Thameslink as part of the latest round of rail refranchising. Our joint venture, Virgin Rail Group, has submitted an innovative and value for money bid for the new Intercity West Coast franchise.

We have invested further in our online retailing capability during the year to support our fast-growing Internet sales. This has included a new website and related systems for our megabus.com brand as we expand to cover new locations in the UK, North America and in mainland Europe.

Revenue for the year to 30 April 2012 was £2,590.7m (2011: £2,389.8m). Operating profit (before intangible asset expenses and exceptional items) was £237.2m (2011: £240.2m). Earnings per share before intangible asset expenses and exceptional items were 6.7% higher at 25.4p (2011: 23.8p).

In line with the Group's strong performance, the Directors have proposed a final dividend of 5.4p per share. This gives a total dividend for the year up almost 10% at 7.8p (2011: 7.1p), in addition to the c.£340m of cash paid to shareholders during the year. The proposed final dividend is payable to shareholders on the register at 31 August 2012 and will be paid on 3 October 2012.

We have strong management teams at Group, divisional and regional operating level. During the year, we put in place a succession plan at our UK Bus division which will ensure a smooth transition of responsibilities ahead of the retirement of the Division's current Managing Director in 2013. We have also made key senior appointments at our South West Trains, East Midlands Trains and Sheffield Supertram rail businesses, which demonstrate the breadth of management talent we have across the Group.

Stagecoach has made a good start to the financial year ending 30 April 2013. Current trading is in line with our expectations and the Group remains in a strong financial position.

This summer, we look forward to playing a key role in the successful delivery of the London 2012 Olympic and Paralympic Games, including providing transport for athletes and the media.

I would like to take this opportunity to thank our employees in the UK and North America who make possible the many customer journeys on our regular buses and trains every day. Looking forward, I am confident the Group will continue to deliver for our customers and shareholders.



Sir George Mathewson  
Chairman

26 June 2012

## 2. Operating and Financial Review

### 2.1 Introduction

The Directors are pleased to present their report on the Group for the year ended 30 April 2012.

This section 2 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 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 3 of this Annual Report and the remainder of the Directors' report is set out in section 4.

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

### 2.2 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.

### 2.3 The Stagecoach Group

#### 2.3.1 Overview of the Stagecoach Group

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, United States and Canada. The Group employs around 33,000 people, and operates bus, coach, train and tram services. The Group has four main divisions – UK Bus (regional operations), UK Bus (London), North America and UK Rail.

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.

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

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

In the remaining parts of this section 2.3, we:

	Section
Summarise the Group's business objectives and long-term strategy	2.3.2
Describe each of the Group's business segments, their regulatory environments, their strategy, the market opportunities, the competitive position and likely future market developments	2.3.3
Summarise how we aim to create value, by providing an overview of the Group's business model	2.3.4
Discuss the key resources and relationships, including contractual relationships, that underpin the Group's business and strategy	2.3.5
Set out the principal risks to the achievement of the Group's objectives and strategy	2.3.6
Describe how we measure and monitor progress against our objectives and strategy, and how we are performing	2.3.7

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

Group strategy
<p>The key elements of Stagecoach Group's business strategy to deliver long-term shareholder value are:</p> <ul style="list-style-type: none"> <li>To deliver organic growth across all of the Group's operations;</li> <li>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;</li> <li>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.</li> </ul>

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

UK Bus (regional operations)	
<b>Description</b>	<p>The UK Bus (regional operations) Division connects communities in more than 100 towns and cities across the UK on bus networks stretching from the Highlands of Scotland to south west England. These include major city bus operations in Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield, Cambridge and Exeter.</p> <p>The UK Bus (regional operations) Division operates a fleet of around 6,600 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director.</p> <p>In addition to local bus services in towns and cities, Stagecoach operates express interurban linking major towns within its regional operating company areas. The Group also runs the budget inter-city coach service, megabus.com.</p> <p>Our local and express bus and coach services carry an average of around 2 million passengers each weekday.</p> <p>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.</p>



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

UK Bus (regional operations) (continued)	
<b>Regulatory environment</b>	<p>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 license may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality.</p> <p>The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. The Division also operates tendered services, including schools contracts, on behalf of local authorities. Around 11% of the UK Bus (regional operations) revenue is receivable from local authorities in respect of such tendered and school services. Around 25% of the UK Bus (regional operations) revenue is earned from concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying the elderly and disabled free of charge.</p>
<b>Strategy</b>	The strategy of the UK Bus (regional operations) is to deliver organic growth in revenue and passenger volumes. This may be supplemented by acquiring businesses where appropriate opportunities arise.
<b>Market opportunity</b>	The Group has around 20% of the UK Bus market excluding London. The UK Department for Transport's 2010 National Travel Survey ("NTS") is a household survey of personal travel in Great Britain. The NTS found that in 2010, there was an average of 960 trips per person per year. Trips by car or van accounted for 78% of distance travelled, bus trips accounted for 5%, rail trips accounted for 9% and walking, cycling and other modes accounted for 8%. There therefore remains significant market opportunity to stimulate modal shift from car to bus.
<b>Macroeconomic factors</b>	The UK Bus (regional operations) have performed well during more challenging macroeconomic conditions. Although revenue is not immune to macroeconomic changes, it is less exposed than in many other types of business. In addition, the Group can adjust the pricing and frequency of the majority of its services and is therefore well placed to respond to any changes in demand for particular services. Around 70% of the costs vary with operating miles.
<b>Competition</b>	The UK Bus (regional operations) face competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are three other groups publically quoted on the London Stock Exchange (FirstGroup, National Express Group, and Go-Ahead Group) and Arriva, which is owned by Deutsche Bahn.
<b>Future market developments</b>	The level of Government support in the UK Bus Industry has come under pressure in recent years with reductions in Bus Services Operators Grant (a rebate of fuel tax) and constraints on the payments made by Government to bus operators for carrying the elderly and disabled free of charge to the passenger. Funding of tendered services by local government has also reduced. The Group is therefore gradually becoming less reliant on Government and a greater proportion of its revenue is coming directly from passengers. There is a positive long-term environment for further growth in demand for UK Bus services created by rising road congestion, rising car operating costs, supportive government policy and public concerns for the environment, which augur well for the future of the Division.

UK Bus (London)	
<b>Description</b>	<p>In October 2010, the Group re-entered the London bus market through the acquisition of the bus business formerly owned by East London Bus Group Limited (in administration), acquiring four companies that together operate the business. We operated a successful and profitable bus business in London for several years and were pleased to re-enter the London bus market at an attractive price.</p> <p>The Group is the third largest operator in the London bus market, with an estimated 15% share of that market. The business operates from 9 depots and has a fleet of around 1,300 buses serving routes in and around east and south-east London.</p>
<b>Regulatory environment</b>	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and taking the cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period with the potential for it to be extended by two years.
<b>Strategy</b>	We undertook a full review of the business prior to and following its acquisition in 2010 and identified a significant opportunity to add value through a turnaround of the under-performing business and through synergies with the rest of Stagecoach. The UK Bus (London) strategy is focused on addressing the structurally high cost base and bidding contracts that earn a realistic return. Our long-term aspirations are for mid to upper single-digit operating margins.
<b>Market opportunity</b>	The Group operates approximately 15% of the bus operating mileage contracted by Transport for London to bus operators. While there is therefore scope to grow market share in London, the Group's primary focus for its London bus operations is to turnaround the business which it acquired in 2010. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
<b>Macroeconomic factors</b>	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because it receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
<b>Competition</b>	UK Bus (London) faces competition to win contracts from Transport for London from other bus operators, the largest of which are FirstGroup, Go-Ahead Group, Arriva, Metroline, RATP and Abellio.
<b>Future market developments</b>	In light of the pressures on Government finances, we do not expect to see Transport for London significantly increase the level of bus operating mileage in the next few years and so any revenue growth will come from inflationary price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. We see some potential for consolidation in the London bus market. Our focus will remain on turning around the acquired business and monitoring opportunities to participate in consolidation amongst London bus operators.

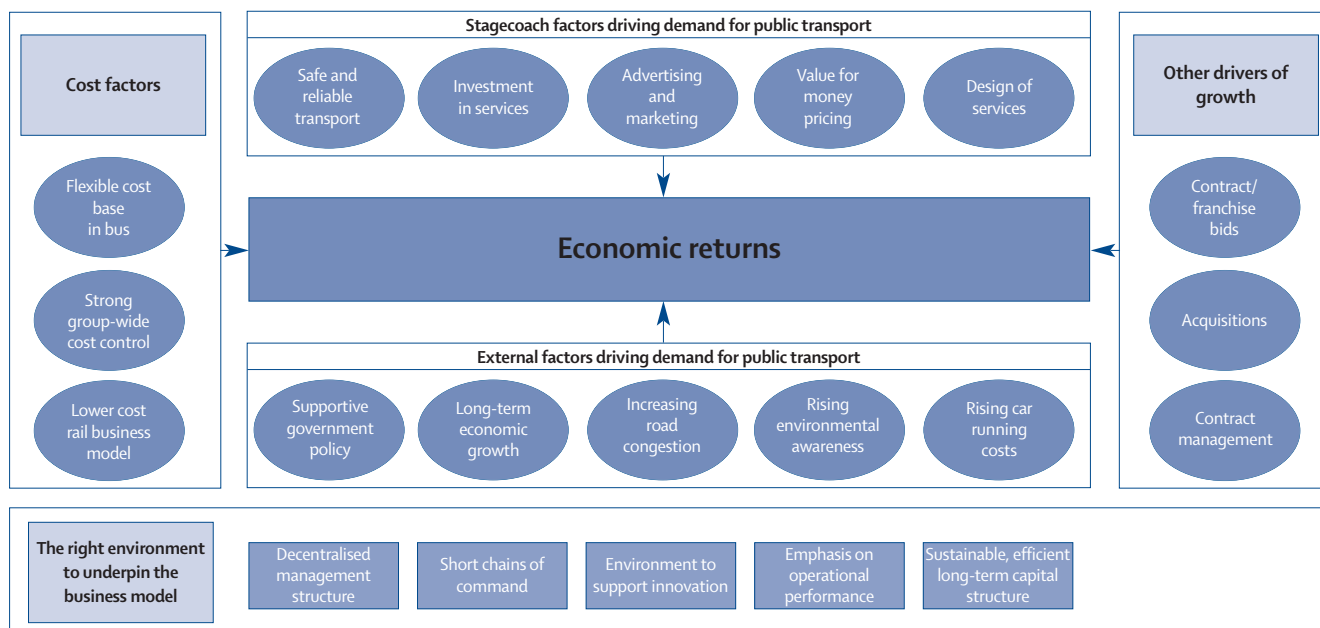
## Operating and Financial Review

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

North America	
<b>Description</b>	<p>The North America Division provides transport services in the United States and Canada. Our businesses include commuter/transit services, inter-city services, tour and charter, sightseeing and to a small extent, school bus operations. Megabus.com, a low cost inter-city coach operator that sells its services principally via the Internet, is the fastest growing part of the North American business. Our main North American school bus interests were disposed of in November 2011.</p> <p>The North America business is headed by a Chief Operating Officer. Stagecoach (excluding its joint ventures) currently operates approximately 1,900 vehicles in the United States and Canada where our operations are mainly in the states of New York, New Jersey, Pennsylvania, West Virginia, Wisconsin, Ohio, Indiana and Illinois and the provinces of Quebec and Ontario. Our services operate in major cities such as New York City, Newark, Pittsburgh, Chicago, Washington DC, Boston and Philadelphia. The acquisition of businesses and assets from Coach America will further extend the Group's business in North America, and further details are provided in section 2.5.3.</p> <p>In addition to its wholly-owned operations in North America, Stagecoach has a joint venture, Twin America LLC, with CitySights NY. The joint venture principally 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 is overseen by a joint Board.</p>
<b>Regulatory environment</b>	The North America business operates on a commercial basis in a largely deregulated market. It also operates some tendered services for local authorities.
<b>Strategy</b>	The strategy of the North America Division is to deliver organic growth in revenue and passenger volumes. This may be supplemented by acquiring businesses where appropriate opportunities arise – for example, in May 2012, we agreed to acquire businesses and assets from Coach America and further details on this are provided in section 2.5.3. A core short to medium-term objective in delivering this strategy is the expansion of the fast growing megabus.com business
<b>Market opportunity</b>	The Group estimates it has less than 3% of the bus and coach market in North America and is growing this through innovative new services such as megabus.com. The 2009 National Household Travel Survey published by the US Department of Transportation found that less than 2% of trips in the US were by public transport. The opportunity to stimulate modal shift from car to bus and coach is substantial and megabus.com has been successful in doing this.
<b>Macroeconomic factors</b>	The North American operations are more exposed to macroeconomic factors than the UK Bus operations as a greater proportion of their revenue is derived from customers using its services for leisure purposes, including its charter, tour and sightseeing services. It nevertheless has similar flexibility to UK Bus over pricing and supply, enabling it to effectively respond to changes in macroeconomic conditions.
<b>Competition</b>	The business faces competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Megabus.com faces competition from the car but also from airlines and train operators. FirstGroup and National Express Group are major operators of coach and bus services in North America, although with the exception of FirstGroup's Greyhound services they do not tend to compete directly with the Group.
<b>Future market developments</b>	The Group has taken a leading role in the development of bus and coach travel in North America through its megabus.com services. The market for inter-city coach travel, such as that provided by megabus.com, is growing rapidly and we expect that to continue and present significant opportunities to the Group.
UK Rail	
<b>Description</b>	<p>Stagecoach Group has major rail operations in the UK.</p> <p>Our principal wholly-owned rail businesses are South West Trains and East Midlands Trains. South West Trains runs around 1,700 train services a day in south west England out of London Waterloo railway station, and operates Island Line services on the Isle of Wight. The South West franchise is 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 East Midlands Trains franchise is expected to run until 31 March 2015. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024.</p> <p>Stagecoach Group has a 49% shareholding in a joint venture, Virgin Rail Group, which operates the West Coast Trains rail franchise. The current West Coast Trains rail franchise runs until December 2012. The other shareholder in Virgin Rail Group is the Virgin Group of Companies.</p> <p>South West Trains, East Midlands Trains and the tram operations each have a managing director, who report to the Group Finance Director. 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.</p>
<b>Regulatory environment</b>	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 Department for Transport ("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.
<b>Strategy</b>	In rail, we seek to deliver organic growth across all of our existing operations and to maintain and grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable.
<b>Market opportunity</b>	The market opportunity in rail arises from the potential to retain existing and/or win new franchises, and also, from the potential to attract increased use of the Group's rail services. With at least seven franchises expected to be tendered within the next three years, there is scope to grow the Group's share of the rail market.
<b>Macroeconomic factors</b>	The Rail operations are exposed to macroeconomic factors with passenger revenue correlated to Gross Domestic Product and employment levels. The exposure is further increased by the relatively fixed cost base of the business which restricts the scope to reduce costs in response to reduced demand. The Group's existing franchises have significant protection against macroeconomic risks due to the receipt of revenue support from Government whereby Government pays the Group a proportion of the shortfall of actual revenue to the revenue expected when the Group bid for the franchise. On bids for new franchises, however, the Group's evaluation of macroeconomic risks is a key component of the bid process.
<b>Competition</b>	<p>The business faces competition for customers not only from other train operators but also from other modes of transport.</p> <p>The main competitors that bid against the Group for UK rail franchises are FirstGroup, National Express Group, Go Ahead Group, Arriva, MTR, Keolis, SNCF and Abellio.</p>
<b>Future market developments</b>	The UK Government is focussed on reducing the costs of the UK Rail industry and the Group is at the forefront of this in its ground breaking Alliance with Network Rail (see section 2.5.4). We expect this to be a continuing theme in the development of UK Rail which the Group is well placed to participate in.

### 2.3.4 How we create value (the business model)

The Group's overall business model is illustrated below.



The business model varies to some extent by division. The business model is intended to deliver the business objectives and long-term strategy explained above in that it is designed to preserve and add value through organic growth, targeted acquisitions and rail franchise wins. The overall model of the Group is based on a relatively decentralised management structure with short chains of command and close monitoring and direction from the centre. Across the Group, there is an emphasis on achieving strong operational performance as an underpin of strong financial performance.

The business model for the Group's UK Bus (regional operations) and North America Divisions is designed to be sufficiently flexible to respond to developments in the markets in which they operate and to changes in demand. The key features of this business model are:

- A decentralised management structure enabling local management to quickly identify and respond to developments in each local market;
- An emphasis on lightly regulated bus operations enabling management to vary prices, operating schedules and timetables in response to developments in each local market without significant hindrance from regulation;
- A flexible cost base whereby operating mileage and operating costs can be flexed in response to changes in demand.

The business model of the UK Bus (London) and UK Rail Divisions is different. The businesses are more highly regulated and their cost base is less flexible so there is greater management focus on agreeing the right contractual arrangements, including appropriate risk-sharing arrangements, and ensuring these are appropriately managed for the duration of each contract.

### 2.3.5 What we need to do what we do (resources and relationships)

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

#### Customers

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

We conduct extensive customer research to monitor our performance and to determine how we can improve the delivery and accessibility of our services. We are passionate about providing good customer service and indeed, the theme of our 2012 Group-wide management conference was customer service.

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.

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.

#### Employees

Human resources are key to the Group's business and the Group's relationship with its employees is therefore fundamental to achieving its objectives. We 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 have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

#### The financial community

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

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

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## 2.3.5 What we need to do what we do (resources and relationships) (continued)

### Government and regulatory bodies

Our managers have ongoing relationships 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. We work with local authorities, including passenger transport executives, regional transport committees and transit authorities, in the delivery and planning of bus and rail services. Many of our businesses have partnership agreements in place to improve the delivery of public transport in their areas. In the UK, we work closely with the DfT, the Scottish Executive, Transport Scotland, the Welsh Assembly, and Transport for London.

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

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

### Suppliers

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

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

### 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.

### 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.

### Licences

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

### Transport and Industry Representation Groups

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

## 2.3.6 The challenges we face (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.

The focus below is on those specific risks and uncertainties that the Directors believe are the most significant to the Group, taking account of the likelihood of occurrence of each risk and the potential effect on the Group.

Description of risk	Management of risk	Developments in year ended 30 April 2012	Section in Annual Report
<b>Catastrophic events</b>			
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 to respond. The Group periodically rehearses its response to a hypothetical major incident.	<ul style="list-style-type: none"> <li>No significant matters to report.</li> </ul>	
<b>Terrorism</b>			
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.	<ul style="list-style-type: none"> <li>No significant matters to report.</li> </ul>	

## 2.3.6 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 30 April 2012	Section in Annual Report
<b>Economy</b>			
<p>The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. In particular, the revenue of the Group's UK rail operations is historically correlated with factors such as UK Gross Domestic Product and Central London Employment. In North America, a greater proportion of the revenue 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.</p>	<p>Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk.</p> <p>In bidding for new rail franchises, the evaluation of macroeconomic risks is a key element of the bid process.</p> <p>Further information on the relevance of macroeconomic factors to each business segment is provided in section 2.3.3.</p>	<ul style="list-style-type: none"> <li>From November 2011, East Midlands Trains became entitled to revenue support from Government hence significantly reducing its exposure to macroeconomic changes. All three of the rail franchises in which the Group has an interest in are now entitled to revenue support from Government.</li> <li>Macroeconomic risks were a key consideration in Virgin Rail Group's bid for the new West Coast rail franchise.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.4</li> <li>2.5.5.1</li> </ul>
<b>Rail cost base</b>			
<p>A substantial element of the cost base in the Group's UK Rail Division is essentially fixed because under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is therefore unable to flex supply in response to short-term changes in demand. In addition, a significant part of the cost base is comprised of payments to the infrastructure provider, Network Rail, and payments under train operating leases which are committed and do not vary with revenue. Accordingly, a significant proportion of any change in revenue (for example, arising as a result of the risks described above in respect of terrorism and the economy) will impact profit from the UK Rail Division.</p>	<p>The Group looks to achieve sensible risk sharing arrangements in its rail franchise agreements and franchise bids are designed to deliver an acceptable risk-reward trade-off. As described above, economic and terrorism risks are closely managed. In addition, the Group remains focussed on controlling costs in the UK Rail Division and in recent years, has achieved considerable controllable cost savings.</p>	<ul style="list-style-type: none"> <li>As described above, the entitlement to revenue support reduces the UK Rail Division's exposure to economic risks.</li> </ul>	
<b>Sustainability of rail profits</b>			
<p>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.</p>	<p>In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>Virgin Rail Group submitted a bid for new West Coast rail franchise.</li> <li>The Group is shortlisted for a further two rail franchises.</li> <li>Further rail franchises expected to be tendered over the next few years.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.5.1</li> <li>2.5.4</li> <li>2.5.4</li> </ul>

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## 2.3.6 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 30 April 2012	Section in Annual Report
<b>Breach of franchise</b>			
<p>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.</p>	<p>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.</p> <p>Compliance with franchise conditions is closely managed and monitored and procedures are in place to minimise the risk of non-compliance.</p> <p>The Group maintains an overview of Virgin Rail Group's business risk management process through representation on its board and audit committee.</p>	<ul style="list-style-type: none"> <li>No significant matters to report.</li> </ul>	
<b>Pension scheme funding</b>			
<p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>Pension scheme changes during the year partly offset an increase in pension scheme liabilities and helped secure the continued provision by the Group of high quality pension arrangements for its employees.</li> <li>Pension scheme liabilities have moved during the year due to market changes.</li> </ul>	<ul style="list-style-type: none"> <li>2.6.2</li> <li>2.6.12</li> </ul>
<b>Insurance and claims environment</b>			
<p>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.</p> <p>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.</p>	<p>The Group has a proactive culture that puts health and safety at the top of its agenda and this helps mitigate the potential for claims arising. Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.</p>	<ul style="list-style-type: none"> <li>Insurance and claims costs on our bus divisions in the UK and North America decreased in the year as a proportion of revenue.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.1 and 2.5.3</li> </ul>

### 2.3.6 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 30 April 2012	Section in Annual Report
<b>Regulatory changes and availability of public funding</b>			
<p>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.</p> <p>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. The new UK Government's stated policy to reduce spending has increased the likelihood of this risk crystallising.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>Decline in UK Bus concessionary, tendered and school revenue.</li> <li>Positive conclusion to Competition Commission inquiry into the local bus market in the UK (excluding London and Northern Ireland) .</li> <li>Continuing regulatory review of Twin America joint venture.</li> <li>Continuing Government review of rail franchising in light of the McNulty report on value for money and publication of the Rail Command Paper.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.1</li> <li>2.5.1</li> <li>2.5.5.2</li> <li>2.5.4</li> </ul>
<b>Management and Board succession</b>			
<p>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.</p>	<p>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 7.4) and the Board. The appropriate level of management deals with recruitment and retention of other staff.</p>	<ul style="list-style-type: none"> <li>No changes to Board during year.</li> <li>Successor to UK Bus Managing Director identified and transition plan in place.</li> <li>New South West Trains Managing Director, East Midlands Trains Managing Director and Sheffield Supertram Managing Director appointed from within the Group.</li> </ul>	<ul style="list-style-type: none"> <li>1</li> <li>1</li> </ul>
<b>Disease</b>			
<p>There have been concerns in recent years 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.</p>	<p>The Group has plans in place to respond to any significant outbreak of disease.</p>	<ul style="list-style-type: none"> <li>No significant matters to report.</li> </ul>	

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## 2.3.6 The challenges we face (principal risks and uncertainties) (continued)

Description of risk	Management of risk	Developments in year ended 30 April 2012	Section in Annual Report
<b>Information technology</b>			
<p>The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group.</p> <p>An increasing proportion of the Group's sales are made via the Internet. There is a risk that the Group's capability to make Internet sales either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue at a time when the Group is investing in megabus.com coach operations in North America, of which Internet sales is a fundamental part. A significant and ongoing megabus.com website failure could severely affect the megabus.com brand and also give a competitor an advantage during the time of the failure.</p>	<p>The Group is continually investing in its information technology systems, people and suppliers to ensure the robustness of its information technology. It is developing new Internet sales platforms and continues to look to ensure that it secures reliable service provision.</p>	<ul style="list-style-type: none"> <li>New website and associated systems developed in-house for megabus.com and other activities resulting in improved resilience and scaleability. New systems launched in May 2012.</li> </ul>	
<b>Treasury risks</b>			
<p>Details of the Group's treasury risks are discussed in note 26 to the consolidated financial statements, and include the risks arising from movements in fuel prices.</p>			

## 2.3.7 How we measure our performance (key performance indicators)

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

- Profitability
- Organic growth
- Safety
- Service delivery

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

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



## 2.3.7 How we measure our performance (key performance indicators) (continued)

### Profitability

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

Adjusted EPS was as follows:

	Target	Year ended 30 April		
		2012 pence	2011 pence	2010 pence
Adjusted EPS	To increase in excess of inflation	<b>25.4p</b>	23.8p	18.7p

### Organic growth

Organic growth KPIs are not reported for businesses acquired or disposed of in the year or the previous year. The following measures of organic growth are monitored in respect of three of the Group's divisions:

- UK Bus (regional operations) – 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 measured as the percentage increase in revenue relative to the equivalent period in the previous year.

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

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

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.

	Target	Year ended 30 April 2012 Growth %	Year ended 30 April 2011 Growth %	Year ended 30 April 2010 Growth %
UK Bus (regional operations) passenger journeys		<b>1.9%</b>	0.9%	(0.4)%
UK Rail passenger miles	Positive growth each year	<b>4.1%</b>	4.1%	(1.1)%
– South West Trains		<b>3.6%</b>	6.9%	(0.4)%
– East Midlands Trains		<b>4.6%</b>	9.3%	20.4%
– Virgin Rail Group – West Coast Trains		<b>14.0%</b>	8.5%	(3.4)%
North America revenue				

The declines in passenger volumes at UK Bus (regional operations) and UK Rail, and the decline in North America revenue, in the year ended 30 April 2010 shows the impact of the tough economic conditions during that year. At Virgin Rail Group the impact has been offset by the increase in services following a new timetable being introduced in December 2008.

### Safety

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

Five of the more important safety KPI's are reported below:

	Target	Year ended 30 April 2012	Year ended 30 April 2011	Year ended 30 April 2010
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	<b>20.6</b>	21.4	21.9
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		<b>25.0</b>	n/a	n/a
US – number of blameworthy accidents per 1 million miles travelled		<b>5.2</b>	7.3	8.8
South West Trains – workforce lost time injuries per 1,000 staff		<b>1.8</b>	1.8	2.0
East Midlands Trains – workforce lost time injuries per 1,000 staff		<b>1.6</b>	1.5	1.6
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		<b>1.5</b>	2.1	1.9

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## 2.3.7 How we measure our performance (key performance indicators) (continued)

### Service delivery

Our measures of service delivery include:

- UK Bus (regional operations) – reliability measured as the percentage of planned miles to be operated that were operated.
- 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. References to rail punctuality throughout this Annual Report refer to punctuality calculated on this basis.

Due to the nature of the North American business, there is no single measure of service delivery for the North American division as a whole. Service delivery KPIs are not reported for businesses acquired or disposed of in the year.

The service delivery KPIs were as follows:

	Target	Year ended 30 April		
		2012 %	2011 %	2010 %
UK Bus (regional operations) reliability	>99.0%	<b>99.5%</b>	99.1%	99.3%
UK Bus (London) reliability	>99.0%	<b>97.9%</b>	n/a	n/a
UK Rail punctuality				
– South West Trains	>90.0%	<b>92.2%</b>	93.3%	93.0%
– East Midlands Trains	>85.0%	<b>93.7%</b>	92.0%	92.5%
– Virgin Rail Group – West Coast Trains	>85.0%	<b>86.0%</b>	86.3%	85.3%

Service delivery at our UK businesses for the year ended 30 April 2011 was adversely affected by the severe winter weather in November and December 2010.

## 2.4 Overview of financial results

Stagecoach Group has achieved continued strong financial and operational performance for the year ended 30 April 2012.

Revenue by division is summarised below:

REVENUE – YEAR TO 30 APRIL	2012	2011		2012	2011	
	£m		Functional currency	Functional currency (m)		Growth %
<b>Continuing Group operations</b>						
UK Bus (regional operations)	<b>909.7</b>	893.6	£	<b>909.7</b>	893.6	1.8%
UK Bus (London)	<b>230.5</b>	133.6	£	<b>230.5</b>	133.6	72.5%
North America	<b>312.6</b>	295.1	US\$	<b>498.0</b>	461.7	7.9%
UK Rail	<b>1,140.7</b>	1,070.0	£	<b>1,140.7</b>	1,070.0	6.6%
Intra-Group revenue	<b>(2.8)</b>	(2.5)	£	<b>(2.8)</b>	(2.5)	12.0%
<b>Group revenue</b>	<b>2,590.7</b>	2,389.8				

Operating profit by division is summarised below:

OPERATING PROFIT – YEAR TO 30 APRIL	2012		2011			2012	2011
	£m	% margin	£m	% margin	Functional currency	Functional currency (m)	
<b>Continuing Group operations</b>							
UK Bus (regional operations)	<b>162.7</b>	17.9%	153.1	17.1%	£	<b>162.7</b>	153.1
UK Bus (London)	<b>13.5</b>	5.9%	(5.9)	(4.4)%	£	<b>13.5</b>	(5.9)
North America	<b>19.7</b>	6.3%	19.3	6.5%	US\$	<b>31.4</b>	30.2
UK Rail	<b>27.1</b>	2.4%	48.4	4.5%	£	<b>27.1</b>	48.4
Group overheads	<b>(11.1)</b>		(11.3)				
Restructuring costs	<b>(2.3)</b>		(2.9)				
<b>Total operating profit from continuing Group operations</b>	<b>209.6</b>		200.7				
<b>Joint ventures – share of profit after tax</b>							
Virgin Rail Group	<b>15.9</b>		28.4				
Citylink	<b>2.0</b>		1.8				
Twin America	<b>9.7</b>		9.3				
<b>Total operating profit before intangible asset expenses and exceptional items</b>	<b>237.2</b>		240.2				
Intangible asset expenses	<b>(12.3)</b>		(15.2)				
Exceptional items	<b>38.0</b>		–				
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	<b>262.9</b>		225.0				

## 2.5 Divisional Performance

### 2.5.1 UK Bus (regional operations)

#### Financial performance

The financial performance of the UK Bus (regional operations) division for the year ended 30 April 2012 is summarised below:

Year to 30 April	2012 £m	2011 £m	Change
Revenue	<b>909.7</b>	893.6	1.8%
Like-for-like revenue*	<b>908.1</b>	886.7	2.4%
Operating profit*	<b>162.7</b>	153.1	6.3%
Operating margin	<b>17.9%</b>	17.1%	80bp

Like-for-like passenger volume growth for the year was 1.9%. Like-for-like revenue was built up as follows:

Year to 30 April	2012 £m	2011 £m	Change
Commercial on and off bus revenue	<b>541.9</b>	511.7	5.9%
Concessionary revenue	<b>225.3</b>	230.8	(2.4)%
Tendered and school revenue	<b>101.3</b>	101.9	(0.6)%
Contract revenue	<b>34.2</b>	36.4	(6.0)%
Hires and excursions	<b>5.4</b>	5.9	(8.5)%
Like-for-like revenue	<b>908.1</b>	886.7	2.4%

We have delivered further revenue, passenger volume and operating profit growth at our UK Bus (regional operations). While investment by local authorities in contracted and supported services has decreased, we have focused closely on growing our strong commercial bus services. Our focus on commercial revenue, where we have greater flexibility to manage pricing, service patterns and frequencies, is reflected in the like-for-like revenue growth of 5.9% reported for that category, which is a little lower than the growth rate reported for the first half of the financial year because some fare increases were effected later than in the previous year. The decline in concessionary revenue reflects pressure from local authorities to reduce concessionary reimbursement rates in light of budgetary pressures they face, which is also putting pressure on revenue from tendered and school services. Revenue from contracts has declined as a result of major events in the prior year period that did not recur such as providing services for the Ryder Cup golf event in Wales and the Pope's visit to Glasgow.

Total like-for-like revenue growth of 2.4% is below the rate of 2.7% previously reported for the forty eight weeks ended 1 April 2012. The reduction in the rate of growth reflects the effect of significant concessionary scheme settlements recognised in April 2011 that did not recur in April 2012, partly offset by there being one less bank holiday day in April 2012 compared to April 2011.

We are continuing to achieve good financial returns using tailored management solutions to respond to specific markets by managing pricing, service patterns and frequencies. Bus use in Hull, for example, has grown by 60% in less than a decade, while in East Kent passenger numbers have doubled since 2003. Strong partnerships with local transport authorities have been central to that success. This summer, we will be playing a key role in the successful delivery of the London 2012 Olympic and Paralympic Games, including providing transport for athletes and the media.

We are continuing to deliver sector-leading profit margins and good organic passenger volume growth through our value fares strategy, consistent investment in our fleet, the development of innovative products and roll-out of new technology solutions to make travel easier for our customers. In February 2012, we announced a £60m investment in 390 new buses and coaches for the 2012-13 financial year for our regional bus networks in Scotland, England and Wales. We have expanded further our megabus.com

\* See definitions in note 35 to the consolidated financial statements.

budget coach product in the UK, adding more frequent services on key routes and new locations, as well as supporting our joint venture, Scottish Citylink, in trialling a new overnight sleeper coach service. In April 2012, we launched a new network of international routes from the UK to Continental Europe. Our new services linking London with Paris, Brussels and Amsterdam have already proved popular and we are monitoring closely the moves by several countries in Europe to further deregulate domestic coach services.

The improvement in operating margin was built up as follows:

Operating margin – 2010/11	<b>17.1%</b>
Change in:	
Staff costs	<b>0.9%</b>
Fuel costs	<b>(0.3)%</b>
Insurance and claims costs	<b>0.4%</b>
Other	<b>(0.2)%</b>
Operating margin – 2011/12	<b>17.9%</b>

Although wages have generally increased in line with average earnings, staff costs as a whole fell as a percentage of revenue, reflecting a continued focus on cost control and reduced pension costs. Fuel costs increased by £5.2m, reflecting increased unit costs under the Group's fuel hedging programme. Insurance and claims costs have reduced as the value of claims received relative to revenue has been lower than in previous years.

#### Acquisition

The Group has agreed, subject to regulatory approval, to acquire the bus assets of FirstGroup in North Devon and Torrridge for £2.8m. The process to seek regulatory approval is underway. FirstGroup has announced plans to sell further businesses and we shall assess each further opportunity on its own merits.

#### Cost control

We have taken sensible steps to manage cuts in public sector spending, including the reductions in Bus Service Operators' Grant from April 2012, through changes to our fares and bus networks. Our focus continues to be on protecting services, targeting investment in areas where buses are most used by our customers, as well as ensuring our business continues to deliver good returns to our shareholders. These developments have also made our business less dependent on Government spending.

In light of the Government cuts to Bus Service Operators' Grant, reduced Government funding of concessionary and tendered revenue, and increasing fuel costs, our bus fares were increased in April 2012 by an average of 5% but generally continue to offer good value when compared to other operators' fares and the costs of other transport modes. The effect of the April 2012 fare increases on revenue has thus far been in line with our expectations.

#### Regulatory developments

The Competition Commission inquiry into the local bus market in the UK (excluding London and Northern Ireland) has largely given the industry a clean bill of health and expressly ruled out structural change, price controls or increased regulation. In another of its key conclusions, it called on local transport authorities to embrace partnerships with bus operators. This approach has been successful in ensuring more bus priority measures, more investment and higher quality services, encouraging more people to switch from the car to greener bus travel. In England, the Department for Transport is consulting on the Competition Commission recommendations for multi operator ticketing and some changes to service registration regulations. These are positive outcomes and we will continue to support further improvements which will lead to greater bus use and build on the already high levels of customer satisfaction.

#### Outlook

We remain positive on the prospects for the Division as we continue to focus on running good value commercial services where we have flexibility on fares and service patterns. The Division has continued to perform well during weak macroeconomic conditions and a period of downward pressure on Government spending. We are benefitting from modal shift from the car to public transport as motoring costs and fuel prices remain high and this is a key focus for our

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marketing campaigns. These factors have reinforced our confidence in the robustness of the Division. As economic conditions improve, it is well placed to grow further by capitalising on the demand for value travel, rising environmental awareness, and increasing road congestion.

In the year to 30 April 2013, we see the Division being well placed to at least maintain operating profit despite the challenging headwinds facing it.

### 2.5.2 UK Bus (London)

#### Financial performance

The financial performance of the UK Bus (London) division for the year ended 30 April 2012 is summarised below:

Year to 30 April	2012 £m	2011 £m
Revenue	<b>230.5</b>	133.6
Operating profit/(loss)	<b>13.5</b>	(5.9)
Operating margin	<b>5.9%</b>	(4.4)%

On 14 October 2010, the Group completed the acquisition of the bus business formerly owned by East London Bus Group Limited, acquiring four companies that together operate the business.

The annualised revenue from contracts which we currently operate is around £226m. At the time of acquisition, the annualised revenue from contracts being operated was around £241m. The number of contracts being operated has reduced from 93 at the date of acquisition, to 81 at 30 April 2012. The loss of the majority of the contracts no longer being operated was as a result of unsuccessful bids submitted prior to our acquisition of the business.

Our turnaround programme for our London Bus operations is progressing well. We have achieved overhead cost savings through synergies with our other UK operations, and unit labour cost savings through reaching positive negotiated agreements with staff on working practices and productivity.

The majority of new vehicles for our London Bus business have been obtained on operating leases since our 2010 acquisition of the business. Although this results in lower operating profit with financing costs being incorporated in the lease cost that is expensed to operating profit, it enables the lease terms to be matched to the duration of the contracts with Transport for London. This protects the business from residual value risk and means that our other bus businesses are not forced to accept second-hand London vehicles.

Bus workers across London, including those employed by the Group, have voted for industrial action in relation to their demand for bonus payments to recognise what they consider to be an increase in their workload during the 2012 Olympic Games. Strike action took place on 22 June 2012. The Group is contracted by Transport for London to operate bus services in London and the price paid by Transport for London does not contemplate the payment of bonuses for the 2012 Olympic Games. The Group continues to work with Transport for London and the trade unions to seek a resolution to this matter.

#### Outlook

We are encouraged by the continuing signs that our restructured business is more competitive in the tendered market and has now achieved contract wins on realistic profit margins. We are pleased with the progress to date, and are optimistic on the prospects for further profit growth.

### 2.5.3 North America

#### Financial performance

The financial performance of the North America division for the year ended 30 April 2012 is summarised below:

Year to 30 April	2012 US\$m	2011 US\$m	Change %
Revenue	<b>498.0</b>	461.7	7.9%
Like-for-like revenue	<b>478.2</b>	419.3	14.0%
Operating profit	<b>31.4</b>	30.2	4.0%
Operating margin	<b>6.3%</b>	6.5%	(20)bp

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

Year to 30 April	2012 US\$m	2011 US\$m	Change %
Megabus	<b>115.9</b>	75.4	53.7%
Scheduled service and commuter	<b>213.6</b>	194.9	9.6%
Charter	<b>78.6</b>	82.3	(4.5)%
Sightseeing and tour	<b>20.9</b>	19.9	5.0%
Contract	<b>42.2</b>	40.3	4.7%
School bus	<b>7.0</b>	6.5	7.7%
Like-for-like revenue	<b>478.2</b>	419.3	14.0%

North America is the fastest-growing division in the Group and we have increased our operating profit during the year even after taking account of the operating profit foregone on the sale of our Wisconsin school bus operations and start-up losses on the further expansion of megabus.com. Our focus on megabus.com and our scheduled service and commuter business has included redeploying fleet away from charter work to these businesses. This approach is reflected in the change in the mix of revenue. During the year, we disposed of the majority of our North American school bus operations, which represented US\$17.5m of the revenue for the year ended 30 April 2012.

We are excited by the next phase of our growth plan for our budget coach brand, megabus.com, in North America where we are seeing growing demand for our package of value fares and high-quality travel. In December 2011, we announced a £40m investment in 95 vehicles for the megabus.com network in the United States and Canada. During the year, we expanded our services to the South East United States and we now cover around 90 key cities. Moving forward, we have a clear plan to roll-out our services to new parts of the United States and our new Texas network started operating services from 19 June 2012. While we have a relatively high level of investment mileage in this period of expansion, our more established routes are continuing to show excellent operating margins.

The North American division has reported good growth in scheduled service and commuter revenue as these services have benefited from passenger volumes shifting to bus and coach travel from other forms of transport. Sightseeing, tour, contract and school bus revenue has held up well through difficult economic conditions.

The change in operating margin was built up as follows:

Operating margin – 2010/11	<b>6.5%</b>
Change in:	
Fuel costs	<b>(1.2)%</b>
Insurance and claims costs	<b>0.9%</b>
Staff costs	<b>1.6%</b>
Other external charges	<b>(1.5)%</b>
Operating margin – 2011/12	<b>6.3%</b>

Fuel costs increased by US\$9.8m, which is in part related to the increased mileage operated to support growth in megabus services, and also the fuel hedging arrangements mean that the average fuel cost per unit is higher than last year. Insurance and claim costs have decreased as a percentage of revenue from last year as the expense last year included provisions for a small number of significant individual claims. However, the year-on-year saving in insurance and claims costs is less than we reported for the first half of the financial year, reflecting more significant claims provisions recorded for matters arising in the second half of the year. Staff costs fell as a percentage of revenue as we continue to focus on cost control. Other external charges increased as a proportion of revenue mainly as a result of sub-contracted megabus.com services.

#### Acquisition from Coach America

In May 2012, we agreed to acquire selected businesses and assets from Coach America, and we expect to complete the acquisition shortly. We have agreed to acquire:

1. Certain businesses and related assets and liabilities, for a cash consideration of US\$134.2m and;

2. At the option of the Sellers, up to 85 further coaches for a cash consideration of up to US\$25.6m, which would correspondingly reduce other capital expenditure.

Some US\$16.0m of the consideration was paid in May 2012 as a refundable deposit, with the balance being due on or around the completion of the transaction. The consideration payable will be potentially adjusted based on the working capital balances of the businesses to be acquired.

In the year ended 31 December 2011 and applying Stagecoach accounting policies, the businesses to be acquired for US\$134.2m generated estimated revenue of US\$164.4m, EBITDA of US\$24.6m and operating profit of US\$13.3m, after taking account of estimated central overheads relating to the businesses.

The businesses being acquired include contract, line-run, charter and sightseeing operations. The transaction enables Stagecoach to acquire selected businesses at an attractive price and to acquire vehicles as part of its capital expenditure programme.

The businesses to be acquired include operations in Texas and California, which will provide depot infrastructure to enable Stagecoach to expand its megabus.com budget coach network more efficiently, more quickly and under its full control, whilst avoiding the need to pay a sub-contract profit margin in these locations. In addition, Coach America's Atlanta business is the existing sub-contractor of the megabus.com Atlanta hub and that business is amongst those to be acquired.

## Outlook

The North America division continues to see excellent prospects for long-term growth. As we roll-out our megabus.com brand to new locations, we expect the benefits of continuing revenue growth at our established operations and improving profits at some megabus.com hubs as they mature to be offset by start up losses incurred at the newer megabus.com hubs. The planned acquisition of businesses from Coach America will further add to operating profit. Looking further forward, the outlook remains positive with the prospect of improving profit across the newer megabus.com operations and ongoing growth in the other businesses.

## 2.5.4 UK Rail

### Financial performance

The financial performance of the UK Rail division for the year ended 30 April 2012 is summarised below:

Year to 30 April	2012 £m	2011 £m	Change
Revenue	1,140.7	1,070.0	6.6%
Like-for-like revenue (excluding tram)	1,119.1	1,026.9	9.0%
Operating profit	27.1	48.4	(44.0)%
Operating margin	2.4%	4.5%	(210)bp

The UK Rail division made an operating profit of £27.1m in the year to 30 April 2012 (2011: £48.4m). This reduction was principally due to losses incurred at East Midlands Trains in the first half of the year where revenue was below the level forecast when the contract was originally awarded, and the premium payments made to the DfT were agreed. From November 2011, East Midlands Trains has earned revenue support payments from the DfT, which have returned that business to profitability for the second half of the year. South West Trains, which also makes premium payments to the DfT, continues to receive revenue support. We have a strong and profitable rail portfolio and our wholly-owned franchises recognised net premium payments of £283.1m in 2011-12 to the DfT, ensuring taxpayers share in our success in attracting more people to rail travel.

Like-for-like revenue growth of 9.0% is above the rate of 8.8% previously reported for the forty eight weeks ended 1 April 2012. The increase in the rate of growth is principally due to there being one less bank holiday day in April 2012 compared to April 2011.

The decline in operating margin was built up as follows:

Operating margin – 2010/11	4.5%
Change in:	
Amounts paid to / from DfT	(4.9)%
Rolling stock lease and maintenance	0.2%
Network Rail charges	1.3%
Traction energy costs	(0.7)%
Staff costs	1.6%
Other	0.4%
Operating margin – 2011/12	2.4%

The net amount paid to the DfT by our two rail franchises, which includes revenue support payments received, has increased at a faster rate than revenue, as actual revenue growth has not been as high as was expected at the time the franchise contracts were awarded. Rolling stock costs have a large fixed element which is not subject to inflationary increases and therefore decrease as a proportion of revenue as revenue grows. Network Rail charges as a proportion of revenue have decreased as revenue growth has been higher than the inflationary increase in these costs, along with changes in the amount of performance regime income received. Traction energy costs have increased ahead of the rate of revenue growth due mainly to rises in diesel costs. Staff costs have in general seen inflationary increases, along with some savings from more efficient use of staff, which has resulted in staff costs growing at a lower rate than revenue.

The recent strikes by East Midlands Trains drivers have not had an adverse financial impact on the Group, and we can confirm that agreement in principle has now been reached with all of the major trade unions, setting reduced pension contribution rates at East Midlands Trains from July 2012 in accordance with the formal actuarial valuation. No further strike action is expected in relation to this matter.

The Group disposed of its Manchester tram operations, Stagecoach Metrolink Limited, in August 2011, realising a £7.0m gain on disposal, which is separately reported as an exceptional item.

### Operational performance, passenger satisfaction and cost control

Strong revenue growth in our UK Rail division has been underpinned by consistently high levels of punctuality and customer satisfaction. South West Trains was named Passenger Operator of the Year in 2011 and operational performance at our East Midlands Trains and South West Trains franchises remains amongst the highest of the UK train operators. The most recent figures show that the moving annual average for punctuality\* at South West Trains is 91.9% and at East Midlands Trains is 93.5%. Satisfaction amongst our passengers also remains high. The latest National Passenger Survey, carried out during autumn 2011, shows overall satisfaction of 84% at South West Trains and 87% at East Midlands Trains.

We continue to critically review our operational cost base to identify and drive out efficiency savings, while improving the service for our customers. In April 2012, South West Trains and Network Rail announced the formation of an alliance to deliver better and more efficient rail services in the south and south-west of England. It delivers a key element of the Government's Rail Command Paper, issued in March 2012, which called for closer co-operation between operations and infrastructure. A single senior joint management team now has responsibility for both trains and track on the route operating out of London Waterloo in a first for the UK rail industry. It is aiming to cut delays for passengers, provide better customer service, deliver more effective management of disruption, and reduce the costs of the railway through more collaborative working and better decision-making. The new alliance is also

\* Punctuality is measured on the basis of the Department for Transport's Public Performance Measure, 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. Figures quoted are taken from the latest train performance results, which measured punctuality to 26 May 2012.

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expected to benefit rail freight operators who use the Wessex route. It builds on the existing joint working between South West Trains and Network Rail through the Wessex Integrated Control Centre at London Waterloo, as well as recent moves by Network Rail to devolve operational responsibility to regional units. The alliance has been approved by the DfT and the Office of Rail Regulation. It is planned to run until 4 February 2017, the expiry date of the South West Trains franchise agreement.

The Alliance includes an agreed financial baseline for the costs and revenues of its activities, with variances to the financial baseline being shared equally between South West Trains and Network Rail. The agreement also includes a "taxpayer benefit" whereby the DfT takes a share of any financial upside generated by the Alliance in excess of agreed financial thresholds.

### Investment

We are continuing to invest in services for passengers, delivering additional capacity on our trains and improving our stations. A total of 108 extra carriages are to be introduced on South West Trains, one of the busiest commuter networks in Europe, between May 2013 and December 2014. Under the agreement with the DfT, thousands of extra seats will be provided for commuters during peak times. As part of the capacity enhancements, Platform 20 at the former Waterloo International Terminal will be brought back into use and South West Trains is working with the Government and other agencies to re-open the platform earlier than the previously planned timescale of December 2013. Proposals are also being developed by the DfT, Network Rail and South West Trains to provide a long-term solution to congestion at London Waterloo. South West Trains is currently investing over £100m in a range of improvements for passengers, including better station facilities, additional car parking spaces, fleet refurbishment and provision of better customer information. At East Midlands Trains, passengers are benefitting from investment of around £70m on improving every single train in the fleet, delivering better station facilities, creating more car parking spaces, providing 200 extra secure cycle spaces and installing new ticket machines.

### Rail franchises

The Government is continuing its review of rail franchising in light of the McNulty report on value for money in the rail industry and publication of the Rail Command Paper. The evolving franchise model in the rail industry incorporates longer franchises, some additional flexibility in service levels, a more customer-focused measure of quality, changes to risk share in a move to a GDP-based sharing mechanism and profit share and more responsibility for stations being transferred to train operators. Stagecoach has a combination of commercial and operational expertise which means the Group is well placed to benefit from franchise reform. We have an experienced business development team, which has been refreshed with senior operational expertise. The Group has a record of major project delivery, good cost control, generating passenger growth and increased revenue from smart timetabling, and delivering consistently high levels of performance and passenger satisfaction. We are currently shortlisted for both of the franchises we recently applied for, Greater Western and Thameslink. The DfT programme for the medium-term will see at least 7 franchises market tested within the next 3 years and we will seek to add to our existing portfolio where we believe there is the right risk-reward profile and we can add value for our shareholders.

### Outlook

The profit of our existing rail franchises is now less sensitive to macroeconomic conditions given the availability of revenue support. Revenue growth remains good and although our bidding costs will increase in 2012-13 as we invest in new franchise opportunities and premia payments to the DfT will rise, we see potential for increased profit from the UK Rail Division with a full year of revenue support at East Midlands Trains.

## 2.5.5 Joint Ventures

### 2.5.5.1 Virgin Rail Group

#### Financial performance

The financial performance of the Group's Virgin Rail joint venture for the year ended 30 April 2012 is summarised below:

Year to 30 April 49% share	2012 £m	2011 £m	Change
Revenue	<b>429.5</b>	392.7	9.4%
Like-for-like revenue	<b>425.2</b>	392.0	8.5%
Operating profit	<b>21.5</b>	39.5	(45.6)%
Net finance income	<b>0.3</b>	0.2	50.0%
Taxation	<b>(5.9)</b>	(11.3)	(47.8)%
Profit after tax	<b>15.9</b>	28.4	(44.0)%
Operating margin	<b>5.0%</b>	10.1%	(510)bpp

Virgin Rail Group ("VRG") has continued to grow its business and leisure base on the West Coast franchise. Annual passenger journeys have risen from around 14 million to over 30 million in just 7 years, following significant investment in new trains and improved infrastructure, with VRG train services winning significant market share from domestic airlines. The VRG operating margin is lower than last year mainly because the increase in the net amounts paid by VRG to the DfT was proportionately higher than the growth in passenger revenue.

Like-for-like revenue growth of 8.5% is above the rate of 7.9% previously reported for the forty eight weeks ended 1 April 2012. The increase in the rate of growth is principally due to there being one less bank holiday day in April 2012 compared to April 2011, with revenue around the time of the Royal Wedding in April 2011 being notably lower than usual.

Performance has improved in recent months, with a moving annual average of 85.4% punctuality to 26 May 2012. However, it remains below what VRG believes is acceptable for its customers and VRG continues to press Network Rail for changes that will deliver better, more consistent infrastructure performance on the West Coast mainline to improve train punctuality for customers.

VRG has agreed an eight month extension to the franchise, which has been extended to 8 December 2012. As well as providing continuity of service over the period of the London 2012 Olympics, VRG will manage the introduction of more than 100 new Pendolino train carriages during the extension period.

We expect the Group's share of VRG's profit after tax for the extension period from 1 April 2012 to 8 December 2012 to be below £10.0m. This expected return reflects the relatively low revenue risk in the extension period and the strategic importance to VRG of it remaining the franchise incumbent. VRG received contractual revenue support payments from the DfT for the year to 31 March 2012 under the West Coast franchise. The DfT's target revenue for the franchise extension is challenging and VRG expects to be in revenue support for the extension period as a whole.

In May 2012, VRG submitted its bid for the new West Coast rail franchise, which will start on 9 December 2012 and run until 31 March 2026, with an option to be extended by up to 20 months. VRG's innovative bid is centred on improving services for passengers, building on its strong record of passenger volume growth, leveraging the investment made in train services and infrastructure, and providing a significant premium to taxpayers.

### Outlook

VRG expects to remain profitable through to the end of the now extended West Coast franchise in December 2012. As indicated, it has submitted a strong bid for the new West Coast franchise, and will evaluate opportunities to bid for other major inter-city rail franchises as they come up for re-tender.

## 2.5.5.2 Twin America

### Financial performance

The financial performance of the Group's Twin America joint venture for the year ended 30 April 2012 is summarised below:

Year to 30 April 60% share	US\$m	2012 US\$m	2011 Change
Revenue	<b>80.6</b>	67.7	19.1%
Operating profit	<b>16.2</b>	15.2	6.6%
Taxation	<b>(0.8)</b>	(0.6)	33.3%
Profit after tax	<b>15.4</b>	14.6	5.5%
Operating margin	<b>20.1%</b>	22.5%	(240)bp

The tax treatment of our share of profit is such that the joint venture's own profit is partially taxed but an additional tax charge falls on the joint venture partners and the effect of that on the Group is included within "taxation" in the consolidated income statement.

We are pleased by the strong financial performance of our Twin America joint venture in the year ended 30 April 2012. The main New York sightseeing operation has continued to deliver a high operating margin. Overall profit growth was partly constrained by losses at a now terminated venture in Los Angeles and legal costs associated with the regulatory matters explained below. In June 2011, Twin America commenced sightseeing boat tours on the River Hudson around Manhattan, where demand has been encouraging and these operations have generated operating profit over the past quarter. The outlook for Twin America remains positive.

Twin America was notified by the United States Surface Transportation Board ("STB") in February 2011 that its application for formal approval of the joint venture had not been approved. The STB confirmed that the joint venture, as currently structured, did require its approval and therefore, having decided not to approve the joint venture, the STB gave Twin America the option of separating the business, assets and management of the joint venture. Alternatively, the joint venture could terminate or divest its interstate services, which account for around 1% of the joint venture's revenues. The interstate services are now no longer part of the joint venture and this removed the transaction from STB jurisdiction and placed it within the authority of the New York State Attorney General and the United States Department of Justice. The New York Attorney General and the Department of Justice are now undertaking reviews of the transaction and Twin America is co-operating with them. Twin America believes customers have benefitted from good quality, high value, and better co-ordinated services, while the joint venture has achieved cost savings and other synergies. We and Twin America will continue to assist all regulatory authorities and will present any further evidence as appropriate to help inform any future decision.

## 2.6 Other financial matters

### 2.6.1 Depreciation and intangible asset expenses

Earnings from continuing operations before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £343.9m (2011: £342.7m). Pre-exceptional EBITDA can be reconciled to the condensed financial statements as follows:

Year to 30 April	2012 £m	2011 £m
Total operating profit before intangible asset expenses and exceptional items	<b>237.2</b>	240.2
Depreciation	<b>99.9</b>	90.3
Add back joint venture finance income & tax	<b>6.8</b>	12.2
Pre-exceptional EBITDA	<b>343.9</b>	342.7

The income statement charge for intangible assets decreased from £15.2m to £12.3m as certain intangible assets became fully amortised and the rate charged

on Virgin Rail Group goodwill was reduced so as to spread the remaining carrying value of goodwill over the now extended remaining period of its West Coast rail franchise. Of the charge, £3.2m (2011: £5.1m) related to joint ventures.

### 2.6.2 Business disposals and other exceptional items

The following exceptional items were recognised in the year ended 30 April 2012:

- A pre-tax gain of £7.0m on the sale of the Group's Manchester tram operations, which has been updated since the results for the six months ended 31 October 2011, was reported following finalisation of the disposal accounting, and a pre-tax loss of £0.1m in relation to adjustments to amounts receivable from previous disposals.
- A pre-tax gain of £10.8m (US\$17.2m) on the November 2011 sale of the Group's Wisconsin school bus operations. The proceeds for the sale were £31.5m (US\$50.2m, after taking account of additional proceeds of US\$3.2m received as part of an adjustment for working capital balances), transaction costs were £0.5m (US\$0.8m) and the carrying value of the net assets disposed was £20.2m (US\$32.2m). Although the business had performed well, Stagecoach's share of the US school bus market was relatively small and the sale enabled Stagecoach to focus its management and capital on less regulated North American operations, including the fast growing megabus.com business.
- A pre-tax gain of £38.0m arising from a reduction in the Group's retirement benefit obligations following pension scheme changes to secure the continued provision by the Group of high quality pension arrangements for its employees. The principal change giving rise to the exceptional gain was a reduction in the maximum rate by which pensionable pay may increase.
- A pre-tax loss of £5.6m (US\$9.0m) related to the continued re-focussing of the Group's North American business. The loss arises from the closure of certain business units and the expected withdrawal from certain contracts and other operations. The largest components of the exceptional loss are a £4.6m (US\$7.3m) impairment of goodwill and a £0.7m (US\$1.1m) provision for an onerous property lease.
- Expenses of £0.5m were incurred in the year in relation to the planned acquisition of businesses from Coach America.

The net effect of exceptional items was a pre-tax profit of £49.6m (2011: £0.7m, including a gain of £18.5m reported as profit from discontinued operations). A tax charge of £13.5m (2011: £1.3m) arose in respect of exceptional items resulting in a net after-tax gain from exceptional items of £26.2m (2011: £17.9m).

### 2.6.3 Net finance costs

Net finance costs for the year ended 30 April 2012 were £34.7m (2011: £34.5m) and can be further analysed as follows:

Year to 30 April	2012 £m	2011 £m
Finance costs		
Interest payable and other facility costs on bank loans, overdrafts and trade finance	<b>5.6</b>	5.7
Hire purchase and finance lease interest payable	<b>6.2</b>	6.8
Interest payable on bonds	<b>23.7</b>	23.5
Unwinding of discount on provisions	<b>2.7</b>	3.9
	<b>38.2</b>	39.9
Finance income		
Interest receivable on cash	<b>(2.0)</b>	(2.2)
Effect of interest rate swaps	<b>(1.5)</b>	(3.2)
	<b>(3.5)</b>	(5.4)
	<b>34.7</b>	34.5

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### 2.6.4 Taxation

The effective tax rate for the year ended 30 April 2012, excluding exceptional items, was 22.9% (2011: 21.9%). The effective rate is lower than the standard rate of UK corporation tax for the year of 25.8% due primarily to the utilisation of previously unrecognised tax losses and the impact of the reduction in the rate at which deferred tax is calculated (following the reduction in the corporation tax rate from 26% to 24%). The tax charge for continuing operations can be analysed as follows:

Year to 30 April 2012	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	209.6	(47.5)	22.7%
Intangible asset expenses	(12.3)	2.4	19.5%
	197.3	(45.1)	22.9%
Exceptional items	49.6	(13.5)	27.2%
	246.9	(58.6)	23.7%
Reclassify joint venture taxation for reporting purposes	(7.1)	7.1	
Reported in income statement	239.8	(51.5)	21.5%

### 2.6.5 Fuel Costs

The Group's operations as at 30 April 2012 consume approximately 363.7m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending 30 April	2013	2014	2015	2016
Total Group	80%	54%	5%	1%

The Group has no fuel hedges in place for periods beyond 30 April 2016.

### 2.6.6 Cash flows

Net cash from operating activities before tax for the year ended 30 April 2012 was £279.2m (2011: £252.2m) and can be further analysed as follows:

Year to 30 April	2012 £m	2011 £m
EBITDA of Group companies before exceptional items	309.5	291.0
Loss on disposal of plant and equipment	0.6	0.9
Equity-settled share based payment expense	3.0	4.7
Working capital movements	(0.2)	(22.7)
Net interest paid	(30.8)	(30.1)
Dividends from joint ventures	25.8	28.8
Net cash from operating activities before excess pension contributions	307.9	272.6
Pension contributions in excess of pension costs	(28.7)	(20.4)
Net cash flows from operating activities before taxation	279.2	252.2

The net working capital outflow for the year ended 30 April 2012 of £0.2m (2011: £22.7m) was better than previously expected, principally due to active management of working capital balances to maximise cash conversion.

Net cash from operating activities before tax was £279.2m (2011: £252.2m) and after tax was £257.5m (2011: £231.8m). Net cash outflows from investing activities were £75.6m (2011: £198.2m), which included in the prior year £57.0m in relation to acquisitions and net cash used in financing activities was £299.4m (2011: £49.7m), which includes the part of the return of cash (see below) to shareholders that was funded from excess cash.

The net impact of purchases of property, plant and equipment for the year on net debt was £211.4m (2011: £164.4m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £176.1m (2011: £156.3m) and new hire purchase and finance lease debt of £35.3m (2011: £8.1m). In addition, £65.4m (2011: £14.7m) cash was received from disposals of property, plant and equipment.

### 2.6.7 Return of cash

A return of cash to shareholders of approximately £340m was completed in October 2011. This equated to 47p per ordinary share. The return of cash was approved by shareholders at a general meeting on 7 October 2011. Note 27 to the consolidated financial statements includes further information on the return of cash.

### 2.6.8 Net debt

Net debt (as analysed in note 30 to the consolidated financial statements) increased from £280.9m at 30 April 2011 to £523.8m at 30 April 2012, primarily due to the return of cash to shareholders. The Group's net debt at 30 April 2012 is further analysed below:

	Fixed rate £m	Floating rate £m	Total £m
Unrestricted cash	–	52.0	52.0
Cash held within train operating companies	–	169.2	169.2
Restricted cash	–	19.8	19.8
<b>Total cash and cash equivalents</b>	<b>–</b>	<b>241.0</b>	<b>241.0</b>
Sterling bond	(398.3)	–	(398.3)
Sterling hire purchase and finance leases	(7.4)	(126.6)	(134.0)
US dollar hire purchase and finance leases	(56.2)	–	(56.2)
Loan notes	–	(20.9)	(20.9)
Bank loans	–	(155.4)	(155.4)
<b>Net debt</b>	<b>(461.9)</b>	<b>(61.9)</b>	<b>(523.8)</b>

### 2.6.9 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.

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

- The ratio of net debt at 30 April 2012 to pre-exceptional EBITDA for the year ended 30 April 2012 was 1.5 times (2011: 0.8 times).
- Pre-exceptional EBITDA for the year ended 30 April 2012 was 10.0 times (2011: 10.0 times) net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £265.3m at 30 April 2012 (2011: £423.6m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group continues to have available asset finance lines.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.

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 main bank facilities are committed through to 2016.

The Group issued a £400m 5.75% bond in December 2009, which matures in December 2016. 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 are used for 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.

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.

The Group plans to initially finance the acquisition of businesses and assets from Coach America from its undrawn, committed bank facilities but has plans to restore facility headroom through the issue of new debt to part finance the acquisition.

### 2.6.10 Capital expenditure

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

Year to 30 April	2012 £m	2011 £m
UK Bus (regional operations)	89.9	85.1
UK Bus (London)	32.3	17.1
North America	50.0	31.4
UK Rail	42.4	34.2
Other	0.1	–
	<b>214.7</b>	<b>167.8</b>

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.

### 2.6.11 Net liabilities

Net liabilities at 30 April 2012 were £573m (2011: net assets £246.2m) with the decrease primarily reflecting the return of cash to shareholders in October 2011, actuarial losses on Group defined benefit pension schemes of £72.8m after tax and after-tax movements on Group cash flow hedges of £29.2m, partly offset by strong results for the year.

### 2.6.12 Retirement benefits

The reported net liabilities of £573m (2011: net assets £246.2m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £124.1m (2011: £97.1m), and associated deferred tax assets of £29.8m (2011: £25.2m).

The Group recognised pre-tax actuarial losses of £93.7m in the year ended 30 April 2012 (2011: pre-tax actuarial gains £76.5m) on Group defined benefit schemes.

### 2.6.13 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 30 April 2012, the Group's capital comprised:

As at 30 April	2012 £m	2011 £m
Market value of ordinary shares in issue	1,428.7	1,778.0
Cash	241.0	358.3
Gross debt	(764.8)	(639.2)
Net debt (see section 2.6.8)	<b>(523.8)</b>	<b>(280.9)</b>

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. 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.

### 2.6.14 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 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 26 to the consolidated financial statements, for details of

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

#### Major financing transactions

During the year, the Group entered into various hire purchase and finance lease arrangements for new assets as described in note 30(d) to the consolidated financial statements.

The following new financing arrangements were put in place during the year ended 30 April 2012 and subsequently:

- In June 2012, a new c.£37m three-year rail bonding arrangement was agreed to replace a bank facility that was due to expire in February 2013.
- In February 2012, two new one-year rail bonding arrangements of c.£72m and c.£8m were entered into to replace two arrangements that were due to expire in March 2012.
- The Group sold vehicles to banks during the year ended 30 April 2012 for c.£33m and in May and June 2012 for c.£11m and leased them back on operating lease.

### 2.6.15 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 the Group's reported financial performance and/or financial position. The discussion below should be read in conjunction with the full statement of accounting policies.

# Operating and Financial Review

## 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.

## Acquired customer contracts and onerous contracts

The Group has a number of contractual commitments most significantly in respect of its rail franchises and its London bus business. In certain circumstances, IFRS requires a provision to be recorded for a contract that is "onerous" or when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. Determining the amount of any contract provision necessitates forecasting future cash flows and applying an appropriate discount rate to determine a net present value. There is uncertainty over future cash flows. 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 include 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.

## Rail contractual positions

The UK Rail industry is subject to a complex matrix of contractual relationships. The Group's train operating companies are party to contractual relationships with, amongst others, the DfT, Network Rail and rolling stock lessors. The nature of these contracts is such that there can be uncertainty and/or disagreement as to amounts receivable or payable by the Group in accordance with the contracts. The Group makes estimates of the amounts receivable or payable taking account of the available, relevant information. Actual outcomes can differ from the estimates made by the Group and there can be no absolute assurance that the assumptions made by the Group will hold true.

## 2.7 Current trading and outlook

The Group has made a good start to its financial year ending 30 April 2013 and is trading in line with our expectations. Further investment in growth is planned over the next year, notably in expanding megabus.com to new locations, bidding for new rail franchise opportunities and in capital expenditure on new vehicles and other assets.

The Group is well positioned to withstand any further deterioration in macroeconomic conditions with its solid financing arrangements, its robust bus operations and its current rail franchises benefiting from the protection of Government revenue support. As well as these strong defensive attributes, the Group has a range of opportunities to drive growth and add further value including the acquisition from Coach America, the further expansion of its successful megabus.com services, the continued turnaround of the acquired London Bus operations, pursuing rail franchise opportunities for which it is shortlisted, developing the Alliance between South West Trains and Network Rail and furthering its longstanding successful strategy to deliver organic passenger volume and revenue growth, particularly in its regional UK Bus operations. These opportunities combined with the positive long-term environment for public transport created by rising road congestion, rising car operating costs, supportive government policy and public concerns for the environment augur well for the future of the Group.

## 2.8 Corporate social responsibility

Responsible business remains central to what we do every day – from the principles that underpin our business, to the way we support our employees and the steps we take to engage with our stakeholders.

The Group has published separate documents outlining its sustainability strategy and its approach to corporate social responsibility. These documents and additional information and case studies are provided on our website at <http://www.stagecoach.com/about/acting-responsibly/overview.aspx> and <http://www.stagecoach.com/greener-smarter-travel.aspx>. As a result, this section includes examples of our initiatives to illustrate our approach to these issues.

We are a key part of communities in the UK and North America, providing lifeline transport services and significant job opportunities. People and partnership are central to the success of our approach. Our focus is on growing our business sustainably, enhancing the communities in which we operate, delivering value to our shareholders and helping to meet the global challenge of climate change.

Stagecoach Group is consistently rated highly against the other major UK transport groups in comparative studies examining social, environmental and ethical policies and performance. For the third time in four years, the Group

headed the transport sector in the Britain's Most Admired Companies awards. Stagecoach, was overall considered the 11th most admired company in 2011 out of nearly 240 businesses assessed across 25 sectors. It was placed in the top six for the quality of its management and was first in the transport sector in eight out of the nine criteria, including corporate and environmental responsibility.

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

Many stakeholders are involved in the success of our business and information on how we build relationships with them can be found on our website at <http://www.stagecoach.com/about/acting-responsibly/stakeholders.aspx>

During the past year, we have undertaken further initiatives to improve and make a difference in many of these areas. The information below provides just a few highlights of our commitment in action.

### 2.8.1 Code of Business Conduct

Stagecoach Group has a set of core values and policies in a number of areas. These values apply to every director and employee in all our companies across our global operations. The Board of Directors remains committed to ensuring the correct processes, controls, governance and culture exist to support the maintenance of these values and behaviours.

In November 2011, the Group launched a new Code of Conduct setting out these key principles and providing practical examples and advice to act as a guide to employees' corporate behaviour. The Code of Conduct includes information on Stagecoach's anti-corruption policy and programme, which is supported by its Board of Directors and overseen by the Company Secretary. The Board of Directors does not tolerate bribery or corruption and the risk of bribery and corruption is periodically assessed. The new Code of Conduct has been supported by a communications programme to raise awareness among employees of the importance of living up to the Company's values, as well as a programme of specific training for key executives. A copy of the new code is available on our website at:

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/pdf/stagecoach-code-of-conduct-2011.pdf>

### 2.8.2 Supporting and recognising our people

More than 3,000 employees in our UK Bus division have benefitted from our Healthy Heart Bus voluntary heart health screening programme – the first of its kind in the UK – which has been delivered in partnership with the UK's largest independent hospital provider, BMI Healthcare. A bus refurbished as a mobile cardio-screening unit toured our bus depots, providing free heart health check-ups for thousands of staff. Employees received individual advice on ways to improve their heart health and access further medical tests through their GP if required. Work is also underway on a research project to analyse the results of the initiative.

During the year, South West Trains was awarded the prestigious Investors in People mark for its work to develop employees and improve performance through effective management. It is the third time since 2005 that it has achieved the national standard for good business practice in the UK, providing independent recognition of its people-focused approach. The assessment, which included interviews with around 190 people, covered learning and development; reward and recognition; leadership and management; and involvement and empowerment.

We also believe it is important to recognise the excellent work our employees do across our operations in the UK and North America. Our Stagecoach Champions recognition scheme rewards excellence in the areas of safety, environment, community, health, customer service and innovation.

### 2.8.3 Promoting safety

A commitment to the highest standards of health and safety is at the heart of our business. Public transport remains the safest way to travel and we have a good safety record. We have a proactive culture across the Group that ensures health and safety is our top priority. Across our bus and rail operations in the UK and North America, we continue to focus on employee training, accident reduction, regulatory compliance, and security preparedness. Health and safety is monitored and reported on across Stagecoach Group and immediate action is taken to address issues in our business processes. Our Health, Safety and Environmental Committee, chaired by a non-executive director, considers these issues and monitors a range of relevant performance indicators. It reports to the Board on these matters. Our employees are provided with appropriate health and safety training and encouraged to report any concerns. We expect our suppliers and contractors to have a similar commitment to complying with appropriate regulations in this area.

In the UK, we have in place an engineering maintenance regime which is stricter than legal requirements and this is bolstered by a rolling programme of operational and engineering audits at our depots.

We have a comprehensive occupation health programme at our UK Bus division, carrying out over 4,300 assessments each year, and all managers receive training on stress awareness and managing stress. We are focused on meeting regulations around noise, vibration, display screen equipment and Working Time Directive regulations. Performance is reviewed at operating company level, in addition to audits and review of civil liability claims to help address policy and working procedures. Programmes are in place to monitor driver weight and assist them with dietary advice and gym membership schemes. Since March 2012, all UK Bus employees have been provided with free eye tests through a partnership with Tesco Opticians. We have also started the roll-out of a cycle purchase scheme and roadshows are being held at depots in each operating company.

In North America, we have a regular safety programme focusing on key issues each month, including pedestrian awareness, lane changing, speed, driver fatigue and sleep management. We have introduced a new computer-based testing system for candidates for driving positions in North America to help determine whether or not a candidate is suited to be a bus driver. Candidates must first pass through the screening programme before being eligible for our training school. Our safety executives in the United States have assisted with a number of federal policy reviews covering bus industry regulation. This work has covered areas such as driver hours of service, electronic on board recorders and compliance enforcement.

In UK Rail, we are continuing to work with industry partners and the Samaritans on measures to reduce the level of suicides on the network. South West Trains staff have worked with Portsmouth Football Club to launch a local community project called 'Off the Rails'. Our Rail Community Officers, guards and drivers teams have worked with the club to educate young people about the dangers of the railway and build respect for staff. The Portsmouth area is considered a high risk location for youth suicide on the railways. More than 1,600 pupils have benefitted from the project.

### 2.8.4 Affordable travel

We believe promoting affordable travel is a key part of driving modal shift from the private car to greener, smarter public transport. Stagecoach has again been confirmed as Britain's best value major bus operator. Independent research by transport specialists, TAS, found weekly bus travel with Stagecoach was on average 17.5% cheaper than other bus operators. The difference could save passengers an average of nearly £150 a year. TAS analysed nearly 1,100 fares across different regions, area types and operators for its National Fares Survey 2011. The research covered Stagecoach, First, Go Ahead, Veolia Transdev, National Express, Arriva, independent operators and municipal bus companies. The previous TAS National Fares Survey, published in 2009, also found Stagecoach was the best value major bus operator.

During the year ended 30 April 2012, Stagecoach has extended the footprint of its budget travel service, megabus.com. It now covers around 60 locations

## Operating and Financial Review

in the UK and around 90 in the United States and Canada, with new routes launched from the UK to France, Belgium and the Netherlands. Passengers can also use our discount rail service, megatrain.com, to travel for as little as £1 (plus booking fee) to around 30 locations in the UK on the South West Trains, East Midlands Trains and Virgin Trains networks. We also operate megabusplus.com, an innovative budget coach and rail service.

We are using new technology to help our customers access the best value travel. In the UK, we are rolling out StagecoachSmart, a new way of buying and using online tickets, which offers the best value travel on our bus services, with added security and convenience. On rail, East Midlands Trains offers an award-winning online Best Fare Finder, which provides a quick and easy way for passengers to access the cheapest available fare for around 450 different UK train journeys.

### 2.8.5 Sustainable business

The Group's five-year sustainability strategy, launched in April 2010, remains on track to achieve our goals. We are investing £11m in a range of measures to focus on our core environmental impacts, with specific targets around fleet and buildings emissions. This followed a 12-month analysis of our businesses and the development of a database of improvement opportunities. We are also undertaking activities to reduce carbon emissions from business travel, improve recycling and reduce water consumption. The Group is targeting an overall reduction of 8% in buildings CO<sub>2</sub>e (carbon dioxide equivalent) emissions and a cut of 3% in fleet CO<sub>2</sub>e emissions by April 2014. It follows significant reductions already achieved in previous years. As well as ensuring we meet our regulatory obligations, we believe our initiatives can help improve efficiency, cut costs and contribute to the growth of our business. Improvements are being delivered on the ground by a network of green teams across our operating companies. As well as improving energy efficiency and reducing our own carbon footprint, our public transport services can play a key role in reducing overall emissions from the transport sector and helping address the global challenge of climate change.

We held our fourth annual Green Week in May 2012 to drive forward awareness of environmental issues in the UK and North America among employees and customers. As well as demonstrating the measures we are taking across the Group, Green Week highlighted the environmental and financial benefits of using public transport. Green roadshows, events, competitions and demonstrations were held at a number of the Group's bus and rail operations and free eco kits were distributed to thousands of customers. Stagecoach green teams got involved in a range of local environmental projects. Employees were also given the chance to put forward their own green suggestions, while proceeds from fund-raising initiatives were donated to environmental charities.

Stagecoach Group continues to take steps to ensure compliance with its obligations under the Carbon Reduction Commitment Energy Efficiency Scheme. Stagecoach Group submitted its first annual report and annual carbon footprint report documentation, covering data for 2010-11, in July 2011. The Department for Energy and Climate Change ("DECC") published a performance league table ("PLT") based on 2010-11 data in November 2011. The Group achieved a position of 299 out of 2301 participants, which places Stagecoach in the top 14% of those included in the scheme.

During the year, the Group was re-certified under the Carbon Trust Standard for all of its UK operations. The Carbon Trust Standard provides a rigorous independent assessment of the carbon performance of businesses and public sector organisations. Third-party assessors carry out a detailed evaluation to ensure companies are measuring, managing and making real year-on-year reductions in carbon emissions. Stagecoach Group reduced carbon emissions relative to the turnover of its UK businesses by 5.6% in the two years to 30 April 2011 as a result of a package of measures designed to make Stagecoach Group more sustainable. This reduction followed a 5.7% carbon efficiency improvement in the three years to 30 April 2009.

The Group initiatives during the year to reduce the impact of its businesses on the environment have included:

- continuing the UK roll-out of a multi-million-pound investment in a hi-tech eco-driving system, which is expected to reduce fuel consumption at the

Group's bus division by 4%. The scheme also offers employees the chance to earn "green points" that are converted into financial benefits from a potential £900,000 annual bonus pot.

- maintaining our position as the UK bus industry's leading investor in new hybrid electric buses, which deliver a 30% reduction in carbon emissions compared to standard vehicles. The Group has ordered more than 200 hybrid electric buses for its operations across the UK.
- increasing the number of vehicles running on biofuel, as well as testing other sustainable recycled biofuels.
- installing a new 'intelligent' lighting system, which uses movement sensors to determine the amount of light required, at a number of bus depots and railway stations across the UK.
- improving energy management systems at offices and depots to reduce carbon emissions from buildings.
- completing a £2.2m investment at South West Trains in a major regenerative braking project to save energy on more than 200 trains.
- using an innovative fuel additive on East Midlands Trains, which has demonstrated a 4.4% improvement in fuel economy.
- introducing an innovative energy-saving engine standby system to reduce carbon emissions from idling trains.
- a focus on engine idling at our bus operations in the United States, as well as installing new energy efficient hand-driers in facility toilets and switching to paperless paychecks.
- introducing energy saving lighting and schemes to recycle oil filters and aerosol cans at our Canadian operations.

The Group is working with industry partners and the UK Government on climate change issues, including contributing to the development of policies on adapting infrastructure to mitigate the impacts of climate change. Stagecoach is also seeking more pro-bus and coach policies through the Greener Journeys campaign ([www.greenerjourneys.com](http://www.greenerjourneys.com)) and highlighting the need to tackle energy security risks through its work as part of the UK Industry taskforce on Peak Oil and Energy Security.

We continue to report annually through our website on our carbon footprint and our progress in reaching our carbon reduction targets. Updates on our performance are posted annually on our website at the following link: <http://www.stagecoach.com/about/tracking-our-progress/tracking-our-progress/kpis.aspx>. In addition, we disclose details of our strategy and performance through the Carbon Disclosure Project ("CDP"), the world's largest corporate greenhouse gas emissions database. In the Carbon Disclosure Project's FTSE350 Report 2011, Stagecoach Group achieved the highest ranking of the listed UK public transport groups for both carbon disclosure and carbon performance.

Stagecoach has received further independent recognition in the past year for its environmental initiatives. In April, Stagecoach was joint winner of the Sustainability Award at the 2012 Scotland plc Awards. It was praised for the measures it has taken to reduce its carbon footprint, promote sustainability among employees, and to encourage greater use of public transport through joint-working with other transport partners. Stagecoach, along with Alexander Dennis Ltd., won the Green Award at the 2011 Route One Operator Excellence Awards for the pioneering introduction of hybrid-electric buses. The Group also won the Environment Award at the 2011 UK Bus Awards and was also highly commended in the Company of the Year category at the inaugural BusinessGreen Leaders Awards in July 2011.

### 2.8.6 Supporting community projects

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 2012, £0.5m (2011: £0.6m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects. The Group has provided financial support for the road safety charity, Brake, as well as the Railway Children, which works for runaway and abandoned children who live in or around the world's railway stations. Our funding is also helping support the work of the National Rail Chaplaincy Service, whose welfare

support is available to all current and retired rail staff members, their families and the travelling public. During the year, we have made significant donations to a number of organisations, including London's Air Ambulance, which provides pre-hospital medical care to victims of serious injury, at the scene of the incident. During the year, Stagecoach announced a new three-year partnership with businessdynamics, part of the Enterprise Education Trust, to help change young people's perception of business, and build their skills and confidence. We are also a significant supporter of the Eden Project in Cornwall, England. As well as a gardens tourist attraction with family events throughout the year, the educational charity runs social and environmental projects locally and internationally.

Stagecoach has provided backing for dozens of smaller initiatives, as well as offering match funding to complement many fund-raising activities by our employees for national campaigns or local good causes. The Group has also provided significant in-kind support by donating free transport and assisting with employee secondments to charitable projects.

### **2.8.7 Corporate Governance**

Stagecoach Group is committed to the principles of good corporate governance, as described in section 5.

### **2.8.8 Further information**

- Full details of our corporate social responsibility strategy and further case studies can be found on the Stagecoach Group website at <http://www.stagecoachgroup.com/scg/media/publications/policydocs/csr-strategy.pdf>
- A copy of the Group's sustainability strategy is available online at <http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/media/publication-policy-documents/sustainability-strategy-v2>
- Annual updates on our environmental measures and performance are available at <http://www.stagecoach.com/about/tracking-our-progress/>

## 3. Board of Directors



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Brief biographical details of the Stagecoach Group Board of Directors are provided below. Information on corporate governance, including the operation of the Board of Directors, is given in section 5 of this Annual Report.

## Executive Directors

### 3.1 Sir Brian Souter

**Position:** Chief Executive

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

**Age:** 58

**Committee Membership:** None.

**External appointments:** Chairman, Souter Investments.

**Previous experience:** A Chartered Accountant, Sir Brian co-founded Stagecoach, Scottish company of the year 2012. Sir Brian was named UK Master Entrepreneur of the Year at the 2010 Ernst & Young Entrepreneur of the Year Awards and, in 2012, became the first public transport entrepreneur to be inducted into the British Travel Industry Hall of Fame.

**Executive responsibilities:** Sir Brian is the architect of the Group's strategy and philosophy. He has extensive knowledge of the ground transportation industry around the world and is responsible for managing all of the Group's operations.

### 3.2 Martin Griffiths

**Position:** Finance Director

**Appointment to the Board:** 2000

**Age:** 46

**Committee Membership:** Pension Oversight and Health, Safety and Environmental.

**External appointments:** Virgin Rail Group (Co-Chairman), Robert Walters plc (Senior Independent Non-Executive Director), AG Barr plc (Non-Executive Director).

**Previous experience:** A Chartered Accountant, Martin Griffiths is a member and former Chairman of the Group of Scottish Finance Directors and former Director of Troy Income & Growth Trust plc, Trainline Holdings Limited, Road King Infrastructure (HK) Limited and Citybus (HK) Limited. He was young Scottish Finance Director of the year in 2004.

**Executive responsibilities:** Martin Griffiths is responsible for the Group's overall financial policy, taxation, treasury, employee benefits and pensions management. He supports the Chief Executive in all aspects of the management of the Group's operation and new business development.

## Non-Executive Directors

### 3.3 Sir George Mathewson

**Position:** Non-Executive Chairman

**Appointment to the Board:** 2006

**Age:** 72

**Committee Membership:** Nomination.

**External Appointments:** Cheviot Asset Management (Chairman), Shawbrook Bank (Chairman), Arrow Global Limited (Chairman), DBRS Inc (Board member).

**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. Former Chairman of Wood Mackenzie Limited. Former Chairman of Council of Economic Advisers. Past President of the International Monetary Conference.

### 3.4 Ewan Brown CBE

**Position:** Non-Executive Director

**Appointment to the Board:** 1988

**Age:** 70

**Committee Membership:** Pension Oversight (Chair) and Nomination.

**External appointments:** Noble Grossart Holdings Ltd (Non-Executive Director), Royal Society of Edinburgh (Treasurer), Senior Governor of St Andrew University Deputy Chair of the Edinburgh International Festival.

**Previous experience:** Executive Director of Noble Grossart until 2003, a former Chairman of Lloyds TSB Scotland, Non-Executive Director of Wood Group and Lloyds Banking Group, Chairman of Creative Scotland 2009 Ltd.

### 3.5 Ann Gloag OBE

**Position:** Non-Executive Director

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

**Age:** 69

**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.

### 3.6 Garry Watts MBE

**Position:** Non-Executive Director (Senior Independent)

**Appointment to the Board:** 2007

**Age:** 55

**Committee Membership:** Audit (Chair), Remuneration and Nomination.

**External appointments:** Spire Healthcare Limited (Executive Chariman), GADA Group Limited (Chairman), BTG Limited (Chairman), Coca-Cola Enterprises, Inc (Non-Executive Director).

**Previous experience:** A Chartered Accountant, Garry Watts is a former Chief Executive of SSL International plc, Non-Executive Director of Medicines and Healthcare Products Regulatory Agency and Protherics plc and Executive Director of Celltech plc. Former Finance Director of Medeva plc and partner with KPMG.

### 3.7 Helen Mahy

**Position:** Non-Executive Director

**Appointment to the Board:** 2010

**Age:** 51

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

**External appointments:** National Grid plc (Group Company Secretary and General Counsel, member of Executive Committee), advisory Board member of Opportunity Now.

**Previous experience:** Former Non-Executive Director of Aga Rangemaster Group plc and Group General Counsel and Company Secretary of Babcock International Group PLC.

### 3.8 Phil White CBE

**Position:** Non-Executive Director

**Appointment to the Board:** 2010

**Age:** 62

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

**External appointments:** Lookers plc (Non-Executive Chairman), Kier Group plc (Non-Executive Chairman), Unite Group plc (Non-Executive Chairman), Electricity North West Limited (Non-Executive Chairman).

**Previous experience:** A Chartered Accountant, Phil White served as Chief Executive of National Express Group plc from 1997 to 2006.

### 3.9 Will Whitehorn

**Position:** Non-Executive Director

**Appointment to the Board:** 2011

**Age:** 52

**Committee Membership:** Remuneration, Nomination.

**External Appointments:** Speed Communications (Chairman), Scottish Exhibition Centre Limited (Non-Executive Director), ILN Group Limited (Non-Executive Director). Member of the First Minister of Scotland's 'GlobalScot' Business mentoring network and member of Writtle Holdings Limited Advisory Board. Member of the Science Technology Facilities Council ('STFC') and Chair of the Economic Impact Advisory Board of STFC and Non-Executive Director of STFC Innovations Limited.

**Previous Experience:** Former President of Virgin Galactic and Brand Development and Corporate Affairs Director at Virgin Group. Former Non-Executive Chairman of Next Fifteen Communications Group plc.

## 4. Directors' report

### 4.1 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 2.3 of this Annual Report.

### 4.2 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 2 of this Annual Report.

### 4.3 Group results and dividends

The results for the year are set out in the consolidated income statement on page 50.

An interim dividend of 2.4p per ordinary share was paid on 7 March 2012. The Directors recommend a final dividend of 5.4p per share, making a total dividend of 7.8p per share in respect of the year ended 30 April 2012. Subject to approval by shareholders, the final dividend will be paid on 3 October 2012 to those shareholders on the register on 31 August 2012.

### 4.4 Directors and their interests

The names, responsibilities and biographical details of the current members of the Board of Directors appear on pages 26 and 27. No changes to the Board took place during the year. The participation in full Board meetings and meetings of committees for all directors who served during the year is provided on page 34. Table A shows the current directors' interests in the Company's shares.

As recommended by the Financial Reporting Council's UK Corporate Governance Code, all members of the Board stood for election or re-election at the 2011 Annual General Meeting and will stand for election or re-election at every future Annual General Meeting, including the Annual General Meeting to be held in 2012.

The Board reviews its development plans 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 Board believes that the performance of each director 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 the Directors be re-elected at the 2012 Annual General Meeting.

TABLE A	Number of ordinary shares (including those held under BAYE scheme)	
	30 April and 26 June 2012*	30 April and 29 June 2011
Sir Brian Souter	<b>86,900,445</b>	108,625,564
Martin Griffiths	<b>197,210</b>	202,337
Ewan Brown	<b>See below</b>	See below
Ann Gloag	<b>62,553,721</b>	78,192,161
Sir George Mathewson	<b>28,640</b>	35,800
Helen Mahy	<b>4,732</b>	5,749
Garry Watts	<b>16,000</b>	20,000
Phil White	<b>4,070</b>	5,088
Will Whitehorn	<b>72,288</b>	90,361

\*The figures for 30 April and 26 June 2012 are for holdings of the "New Ordinary Shares" of 125/228p each created as part of the return of cash effected in October 2011 (the "Return of Cash"). The figures for 30 April and 29 June 2011 are for holdings of "Existing Ordinary Shares" of 56/57p each in issue before the Return of Cash. Four of the New Ordinary Shares were issued for every five Existing Ordinary shares held before the Return of Cash.

Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 22% (2011: 22%) of the

ordinary shares of Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 3,267,999 ordinary shares in the Company at 30 April and 26 June 2012 (2011: 4,084,999).

The Listing Rules of the Financial Services Authority (LR 9.8.6 R(1)) require listed companies to disclose in their Annual Reports the interests of each director. The Directors' interests set out in Table A have been determined on the same basis as in previous years and are intended to comply with the requirements of LR 9.8.6 R(1), which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure and Transparency Rules of the Financial Services Authority. Accordingly, the interests of Sir Brian Souter and Ann Gloag shown above do not represent their voting rights determined in accordance with the Disclosure and Transparency Rules which as at 30 April 2012 were 79,864,522 ordinary shares (2011: 99,757,689) and 53,181,832 ordinary shares (2011: 66,477,292) respectively.

Full details of options and other share based awards held by the Directors at 30 April 2012 are contained in the Directors' remuneration report on pages 41 to 47. No Non-Executive Director had an interest in share options or the Executive Participation Plan at 30 April 2011, 29 June 2011, 30 April 2012 and 26 June 2012.

In addition to their individual interests in shares, Sir Brian Souter and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 2,295,204 ordinary shares (2011: 1,854,213) as at 30 April 2012. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 300,634 ordinary shares (2011: 333,372) as at 30 April 2012.

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

### 4.5 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 and officers. In accordance with the Company's 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 positions with the Group. In May 2010, the indemnities were extended to the fullest extent permitted by law.

### 4.6 Substantial shareholdings

As at 30 April 2012 and 26 June 2012 (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 4.4 of this report):

	30 April 2012	26 June 2012
Standard Life Investments Ltd	<b>6.0%</b>	6.0%
Kames Capital	<b>5.0%</b>	5.0%
Ameriprise Financial, Inc. and its group	<b>5.0%</b>	5.0%
Blackrock Inc	<b>4.9%</b>	4.9%
JP Morgan Chase & Co	<b>4.7%</b>	4.7%
Legal & General Group	<b>4.0%</b>	<3.0%

### 4.7 Employment policies

The Group employs around 33,000 people.

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 disability, gender, sexual orientation, religion, belief, age, nationality, 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 schemes.

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.

## 4.8 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, 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 or as the case may be, the Company, will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of financial information on the Company's corporate website, [www.stagecoachgroup.com](http://www.stagecoachgroup.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in section 3 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 2 to 4 of this 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.

## 4.9 Conflicts of interest

Under the Companies Act 2006, a director has a statutory duty to avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the relevant company's interests. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the relevant company's articles of association contain a provision to this effect. The Company's articles of association give the Directors authority to approve conflict situations including other directorships held by 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 from 1 May 2011 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.

## 4.10 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 32 days' purchases (2011: 36 days).

## 4.11 Financial risk management

Information regarding the Group's use of financial instruments, financial risk management objectives and policies and exposure to price, credit, liquidity and cash flow risks can be found in note 26 to the consolidated financial statements.

## 4.12 Charitable and political contributions

The Group made charitable donations of £0.5m (2011: £0.6m) 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 (2011: £Nil).

## 4.13 Authority for company to purchase its own shares

At the 2011 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 72,012,495 of its ordinary shares. This authority was replaced by a resolution passed at the general meeting held on 7 October 2011 to approve the Return of Cash with authority to repurchase up to 57,609,996 ordinary shares. During the year, no ordinary shares were repurchased. Under the existing authority, the Company may therefore repurchase up to 57,609,996 ordinary shares. This authority will expire at the conclusion of the 2012 Annual General Meeting unless revoked, varied or renewed prior to this date.

A resolution will be proposed at the next Annual General Meeting that the Company be authorised to repurchase up to approximately 10% of its ordinary

## Directors' report

shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the Return of Cash general meeting and will lapse at the conclusion of the 2013 Annual General Meeting.

### 4.14 Shareholder and control structure

As at 30 April 2012, there were 576,099,960 ordinary shares (2011: 720,124,950) in issue with a nominal value of 125/228th pence (2011: 56/57th pence) each. As part of the Return of Cash, the Company's share capital was re-organised so that shareholders received 4 ordinary shares for every 5 ordinary shares held by them on 7 October 2011. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against") and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. 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);
- 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; and
- shares held by employee benefit trusts may only be transferred by those trusts in accordance with the relevant trust deeds.

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

Section 4.6 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 4.4 of this Directors' report. Two directors of the Company, Sir Brian Souter and Ann Gloag, who are siblings were interested in 25.9% of the ordinary shares in issue as at 30 April 2012 (2011: 25.9%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2012 (2011: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts held a further 0.5% of the ordinary shares in issue as at 30 April 2012 (2011: 0.3%). The shares held by the trusts are for the benefit of employees of the Group. The voting rights are exercised by the trustees.

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

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

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

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

The powers of the Directors to issue or repurchase ordinary shares are set by a resolution at a general meeting of holders of ordinary shares. Section 4.13 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 (including asset finance) contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.
- The Group's arrangements with surety companies for the issue of rail performance bonds and season ticket bonds would terminate following a change of control of the Group.
- The Company's £400m 5.750% Guaranteed Bonds due 2016 contain provisions that would require repayment of the outstanding bonds following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.

The impact of a change of control of the Group on remuneration arrangements is explained in section 9.19.

## 4.15 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 the issue of equity securities for cash 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 in connection with employee share schemes	Shares in issue at start of year	Shares issued on a non pre-emptive basis as a percentage of shares in issue
2012	–	720,124,950	–
2011	58,764	720,066,186	<0.1%
2010	587,752	719,478,434	0.1%
Total last 3 years	646,516		0.1%
2008	1,333,135	718,145,299	0.2%
2007	10,360,416	1,100,998,707	0.9%
Total last 5 years	12,340,067		1.2%

The cumulative shares issued on a non pre-emptive basis as a percentage of the ordinary shares in issue at 30 April 2012 were:

Year ended 30 April 2012	Nil
Three years ended 30 April 2012	0.1%
Five years ended 30 April 2012	2.1%

During the year ended 30 April 2012, the ordinary shares were consolidated with 4 ordinary shares issued for every 5 ordinary shares previously held. 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. No adjustments have been made to the shares issued as shown in the table above to take account of these consolidations.

## 4.16 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. As part of the assessment of going concern, executive management provided a paper to the Audit Committee covering matters such as financial projections, sensitivity analysis, available debt facilities, credit ratings, financial risk management and bank covenants. The Board's assessment of going concern takes account of its view of the principal business risks facing the Group. Section 2.6.9 of this Annual Report comments on liquidity, a key element of the Directors' assessment of going concern.

## 4.17 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

26 June 2012

# 5. Corporate governance report

## 5.1 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. This section of the report sets out Stagecoach Group’s corporate governance arrangements. It also includes the disclosures recommended by the Financial Reporting Council (“FRC”) UK Corporate Governance Code (the “Code”), and describes how the principles of good corporate governance that are set out in the Code have been applied. In line with best practice, separate reports are provided from each of the Audit Committee, Nomination Committee, Health, Safety and Environmental Committee and Remuneration Committee.

The Stagecoach Board is committed to maintaining a corporate governance structure appropriate to the Group and its strategy. Good corporate governance remains central to delivering the Group’s objectives. As explained later in this report, we have again reviewed the effectiveness of the Board and its Committees and we consider the corporate governance structure to remain appropriate for the Group.

## 5.2 Compliance with the Code

The FRC issued the current edition of the Code in June 2010, which applies to accounting periods beginning on or after 29 June 2010 and is available on the FRC’s website at <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx>. The Directors believe that throughout the year ended 30 April 2012 the Group complied with all of the recommendations of the Code. The Group also complies with the corporate governance requirements of the Financial Services Authority’s Listing Rules, and Disclosure and Transparency Rules.

## 5.3 Composition of the Board

The composition of the Board, which has not changed since 1 May 2011, is as follows:

	Independent Chairman	Independent Non-Executive Director	Other Director
Sir George Mathewson <i>Chairman</i>	✓		
Ewan Brown <i>Non-Executive Director</i>		✓	
Helen Mahy <i>Non-Executive Director</i>		✓	
Garry Watts <i>Senior Independent Non-Executive Director</i>		✓	
Phil White <i>Non-Executive Director</i>		✓	
Will Whitehorn <i>Non-Executive Director</i>		✓	
Ann Gloag <i>Non-Executive Director</i>			✓
Sir Brian Souter <i>Chief Executive</i>			✓
Martin Griffiths <i>Finance Director</i>			✓

The Code suggests that independent non-executive directors should make up at least half of the Board (excluding the Chairman). Throughout the period from 1 May 2011 to 30 April 2012, the Board considers that it complied with this Code requirement. The current position is shown in the above table.

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?

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, when taken in the context of the Board as a whole, enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. Five of the eight members of the Board, excluding the Chairman, are considered by the Board to be independent. Even if Ewan Brown is not treated as independent, the composition of the Board complies with the recommendations of the Code.

In recognition of the factors suggested by the Code for determining independence, Ewan Brown does not serve on the Remuneration Committee or the Audit Committee. Following the introduction of the Code, all directors stood for election or re-election at the 2011 Annual General Meeting and will do so again at future Annual General Meetings.

## 5.4 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. In addition to the formal meetings of the Board and its Committees, the Directors are in more frequent but less formal contact with each other and with the Group’s management on a range of matters.

The Chairman 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 26 and 27 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 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.

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

attend the Annual General Meeting, providing an opportunity for shareholders to meet the Directors and to address questions to them.

The number of full Board meetings during the year was seven. The full Board typically meets once a year at an operational location and regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. In May 2011, the Board visited the Group's North American operations. Some of the Directors also attended health and safety meetings of operating companies during the year. The Health, Safety and Environmental Committee visits operating locations around the Group to gain greater understanding of the how the Group addresses health, safety and environmental matters.

The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major acquisitions or disposals. The Directors have full and timely access to information with Board papers distributed in advance of meetings. Notable matters that the Board considered during the year ended 30 April 2012 included:

- Approval of the return of cash to shareholders made in October 2011
- Consideration of invitations to tender for rail franchises
- Disposal of the Group's school bus operations in Wisconsin
- Disposal of Stagecoach Metrolink Limited
- Expansion of the Group's Megabus operations in North America
- Virgin Rail Group's bid for the new West Coast rail franchise
- The Alliance between Network Rail and South West Trains
- The planned acquisition of businesses and assets from Coach America.
- Group-wide strategy and succession planning

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.

## 5.5 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 a Chief Operating Officer and UK Rail: headed by the Group Finance Director,) 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.

Two of the joint ventures in which the Group has an interest, Virgin Rail Group and Twin America LLC, are managed independently of the Group. Each is headed by its own Chief Executive. The Group has two representatives on the Board of Virgin Rail Group and three representatives on the Board of Twin America LLC. The other trading joint venture in which the Group has an interest, Scottish Citylink Coaches Limited, has a joint board. The Group is responsible for the day-to-day management of that business.

## 5.6 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. From the effective date of the Code, the Group plans to use external facilitation of its performance evaluation no less frequently than every third year.

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.

# Corporate governance report

## 5.7 Composition of Committees

The composition of the various Board Committees is summarised below:

### Audit Committee

Number of members of Committee: 3

All members are independent Non-Executive Directors.

#### Chairman and designated member with recent and relevant financial experience

Garry Watts

#### Other members

Helen Mahy

Phil White

### Nomination Committee

Number of members of Committee: 4

All members are independent Non-Executive Directors

except Sir George Mathewson who is

Chairman of the Company

#### Chairman

Sir George Mathewson

#### Other members

Ewan Brown

Garry Watts

Will Whitehorn

### Remuneration Committee

Number of members of Committee: 3

All members are independent Non-Executive Directors.

#### Chairman

Phil White

#### Other members

Garry Watts

Will Whitehorn

### Health, Safety and Environmental Committee

Number of members of Committee: 4

#### Chairman

Helen Mahy

#### Other members

Martin Griffiths

Ann Gloag

Phil White

## 5.8 Reports from the Committees

Reports from each of the Committees of the Board are set out on pages 37 to 47 of this Annual Report.

## 5.9 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 2012:

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
Sir George Mathewson	7	7	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Sir Brian Souter	7	7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	7	7	n/a	n/a	n/a	n/a	4	4	n/a	n/a	1	1
Ewan Brown	7	7	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Ann Gloag	7	7	n/a	n/a	n/a	n/a	4	4	n/a	n/a	1	1
Helen Mahy	7	7	3	3	n/a	n/a	4	4	n/a	n/a	1	1
Garry Watts	6	7	3	3	3	3	n/a	n/a	1	1	1	1
Phil White	7	7	3	3	3	3	4	4	n/a	n/a	1	1
Will Whitehorn	7	7	n/a	n/a	3	3	n/a	n/a	1	1	1	1

## 5.10 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 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. Written responses are given to letters or e-mails received from shareholders. The annual report is published in hard copy and on the Group's website.

The Board receives regular updates on the views of shareholders through briefings from the Chairman 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.

All shareholders are welcome to attend and participate at the Annual General Meeting and any other general meetings. The Group aims to ensure that all the Directors are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. Resolutions are taken on a show of hands and details of all proxy votes lodged for and against, or withheld, in respect of each resolution are given to the meeting. Details of the proxy votes are also published on the Group's website at <http://www.stagecoachgroup.com/scg/ir/shareholder/agm/>. The Company and its registrars have established procedures to ensure that votes cast are properly received and recorded.

## 5.11 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.

The principal risks and uncertainties facing the Group are summarised in section 2.3.6.

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

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

The Group's risk management process was embedded throughout the businesses for the whole of the financial year ended 30 April 2012 and up to the date of the approval of this report. The Board has carried out a review of the effectiveness of the Group's risk management and internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate

responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit.

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

The Group Risk Assurance (or internal audit) function, which is outsourced to and managed by Deloitte LLP, 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.

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

## 5.12 Internal control

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

- an annual budgeting process with periodic re-forecasting of out-turn, identifying key risks and opportunities. 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 through Stagecoach representation on the boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system, which covers the Group's senior management based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis on cash flow management. Bank balances are reviewed on a daily basis and cash flows are compared to budget on a four-weekly basis.
- reporting to the Board and/or its Committees on specific matters including updated key risks, taxation, pensions, insurance, treasury management, foreign exchange, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.

## Corporate governance report

- each operating unit maintains internal controls and procedures appropriate to the business. A written certificate is provided at least annually by the management of each business confirming that they have reviewed the effectiveness of the system of internal control during the year.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.
- an anti-bribery and anti-corruption policy with training and compliance monitoring.

Any control weaknesses that these procedures identify are monitored and addressed in the normal course of business. None of the weaknesses identified in the year to 30 April 2012 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.

### 5.13 Process for preparing consolidated financial statements

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

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit Committee is also kept apprised of such developments.
- 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 external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.
- The financial statements of all material business units are subject to external audit.

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

### 5.14 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 ten trustees for the principal UK scheme of whom three are employee representatives nominated by the members on a regional basis and two are pensioner trustees. The chairman of the trustees of the principal UK scheme is a professional trustee who served for eight years as a fund member elected representative on the National Association of Pension Funds' investment council. 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.

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

By order of the Board



Ross Paterson  
Company Secretary  
26 June 2012



## 6. Audit Committee report

### 6.1 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 5.7. Garry Watts is the current Chairman of the Audit Committee and is a Chartered Accountant, a former audit partner, a former Finance Director and Chief Executive of FTSE 350 companies and is also a member of the audit committee of a large quoted (NYSE listed) company. He is competent in both accounting and auditing matters. The designated Committee member with recent and relevant financial experience is therefore Garry Watts. Phil White is a former Finance Director and former Chief Executive of a FTSE 350 company and is also a Chartered Accountant. Helen Mahy is a Barrister, an Associate of the Chartered Insurance Institute and is a current Company Secretary and General Counsel of a FTSE 100 company.

### 6.2 Operation of the Audit Committee

The Audit Committee met three times during the year and has also met a further time in June 2012. The Committee retains discretion as to who from outside the Committee should attend its meetings but generally invites the following to attend:

- The Group Finance Director;
- The Director of Finance & Company Secretary;
- The Deputy Company Secretary, who is Secretary to the Committee;
- Representatives from the external auditors;
- Representatives from the Risk Assurance Function.

In addition, the Group Tax Director is expected to present to the Committee at least annually.

Other directors, including the Chairman of the Company, are also welcome to attend meetings of the Committee and do so from time to time.

The Committee 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.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/about/audit-committee-tor-feb-2011.pdf>

### 6.3 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. This assessment includes consideration of the auditors' independence and objectivity, taking into consideration relevant laws, regulations and professional requirements. The assessment involves considering all relationships between the Group and the auditors, including

the nature and quantum of non-audit services. Assurances are obtained from the auditors that they and their staff have no financial, business, employment, family or other personal relationship with the Group that could affect the auditor's independence and objectivity, taking account of relevant Ethical Standards. The auditors explain to the Audit Committee their policies and processes for maintaining independence and monitoring compliance with relevant requirements.

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 2011. 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 £0.8m (2011: £0.8m) for PricewaterhouseCoopers LLP and non-audit related fees of £0.2m (2011: less than £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.

### 6.4 Policy on the Auditors Providing Non-Audit Services

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

- 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.
- 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.
- 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 that could not be effectively mitigated.

### 6.5 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.

### 6.6 Code of Conduct and “Speaking Up” Policy

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

### 6.7 Focus over the last year

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

- The Committee has received several updates from Deloitte, which manages the outsourced Risk Assurance function. Deloitte attended all meetings of the Committee. In addition, the Group has certain specialist assurance functions and this year, the Committee received a presentation from the UK Bus engineering audit function that provides assurance over engineering risks and processes in the UK Bus Division.
- A presentation was received from the Group Tax Director on the Group’s tax affairs, significant tax accounting judgements and tax risks. Similarly, the Group Treasury team presented on the Group’s treasury affairs and management of treasury risks.
- At each meeting, the Committee considered the principal judgemental accounting issues affecting the Group based on reports from both the Group’s management and the external auditors. The external auditors attended all meetings of the Committee and presented on its audit plans and findings, amongst other matters.
- The Committee has considered and made changes to the Group’s announcements of its interim and preliminary financial results, as well as its Annual Report. The Committee also reviewed the evidence that supported the conclusion that the Group remained a going concern.
- All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were sufficiently material to merit disclosure in the Annual Report. The Committee also received and considered updates on litigation involving the Group, although again there were no such matters that were sufficiently material to merit separate disclosure in the Annual Report.
- As part of the Committee’s ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, guidance for audit committees, legislation affecting the Group more generally and other relevant regulatory developments and guidance.

- The Committee considered reports from the Audit Committee of Virgin Rail Group on matters relevant to that joint venture.
- As described in section 6.6, the Group’s Code of Conduct and Speaking Up Policy were reviewed by the Committee.
- Minutes of the Treasury Committee meetings (comprising members of management) were shared with the Audit Committee.
- The Committee reviewed a summary of the Directors’ expense claims.

Overall, the Committee considers that it has continued to operate effectively during the year.



Garry Watts  
Chairman of the Audit Committee

26 June 2012

## 7. Nomination Committee report

### 7.1 Composition of the Nomination Committee

The membership of the Nomination Committee is summarised in section 5.7. The Committee also includes, by invitation, the other Non-Executive Directors, as necessary.

### 7.2 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. The appointments process takes account of the benefits of diversity of the Board, including gender diversity and in identifying suitable candidates the Committee will consider candidates from a range of backgrounds.

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 the directors appointed to the Board over the last two years were made following a recruitment process that involved the use of external recruitment consultants and the consideration of a number of candidates.

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.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/about/nom.pdf>

### 7.3 Board diversity

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

The Committee notes that the Davies Review recommended that Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards by 2013 and 2015. The Company was co-founded by Ann Gloag and throughout its life as a listed company it has had at least one woman on its Board and for all of the last ten years, at least two.

There are currently nine directors of the Company. Accordingly, women represent 22% of the Board, a percentage which Stagecoach aspires to at least maintain in the future. This aspiration forms part of the criteria for the selection of suitable candidates for the Board by the Committee.

In addition to board diversity, the Company believes in promoting diversity at all levels of the organisation. Gender data has been collated across the Group's business for the workforce as a whole and at senior management level, which is currently defined as those who receive awards under the Group's 2005 Executive Participation Plan. The latest data showed the following:

Population	% male	% female
Board	77.8%	22.2%
Senior management	88.2%	11.8%
Whole workforce	84.4%	15.6%

### 7.4 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.

The Committee recognises that as co-founder of the Company, the Chief Executive has had a long and integral association with the Company. This close association of Chief Executive and Company brings different challenges in planning for the succession of the Chief Executive. Whilst the Committee recognises that the Chief Executive remains committed to his role for the foreseeable future, it nevertheless reviews the succession plans for the Chief Executive and other executive management. Given the importance of succession planning, the views of all directors are considered and not just the views of the members of the Committee.



Sir George Mathewson  
Chairman of the Nomination Committee

26 June 2012

## 8. Health, Safety and Environmental Committee report

### 8.1 Composition of the Health, Safety and Environmental Committee

The membership of the Health, Safety and Environmental Committee is summarised in section 5.7.

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

<http://www.stagecoach.com/about/managing-the-business/governance/-/media/Files/S/Stagecoach-Group/Attachments/about/health-07.pdf>

### 8.2 Operation of the Health, Safety and Environmental Committee

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

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. Managers from each of the Group's key divisions attend meetings of the Committee, providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters. 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 and its members visit operational locations to observe health, safety and environmental management in practice. During the year, the members of the Committee visited the Group's North America and UK Bus operations, and were able to discuss health, safety and environmental issues and initiatives with the employees in these businesses. The Committee Chairman also spent time with the South West Trains and Sheffield Supertram employees to gain further understanding of health, safety and environmental processes in those businesses. Committee members attend meetings of the Safety Committees of individual business units from time to time.

The Committee allocates time in its agendas to receive detailed briefings on areas of concern to it and on initiatives being taken by the Group to improve its health, safety and environmental processes. During the year, presentations were received on a range of topics, including level crossing safety, the introduction of the GreenRoad 360 eco-driving system and measures to address employee health in each of the UK Bus, Rail and North America businesses.

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

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



Helen Mahy  
Chairman of the Health, Safety and Environmental Committee

26 June 2012

## 9. 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.

### 9.1 Composition of the Remuneration Committee

The membership of the Remuneration Committee is summarised in section 5.7.

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

The Committee retained Addleshaw Goddard LLP as its remuneration consultant to provide access to independent research and advice. Addleshaw Goddard also received £25,069 for other services provided to the Group in connection with the design and implementation of all-employee share incentive arrangements during the period. It has no other connection to the Group.

Both the constitution and operation of the Remuneration Committee comply with the principles and provisions incorporated in the Code. In preparing the Directors' remuneration report, the Remuneration Committee has followed the provisions of the Code. The terms of reference of the Remuneration Committee are available on the Group's website at: <http://www.stagecoach.com/remun-committee-tor-2011.pdf>

### 9.2 Remuneration of Non-Executive Directors

Other than the Chairman, each non-executive director receives the same level of fixed annual fee. The fee for each non-executive director is set out in Table 1 on page 43. 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 should have 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 directors. 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.

### 9.3 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 2012 compared with that of the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index. The FTSE 250 Index has been selected for this comparison because it is the index used by the Company for the performance criterion for the 2005 LTIP Scheme, while the FTSE Travel and Leisure All-Share Index is shown as the Company and a number of its peers make up a significant element of that index.

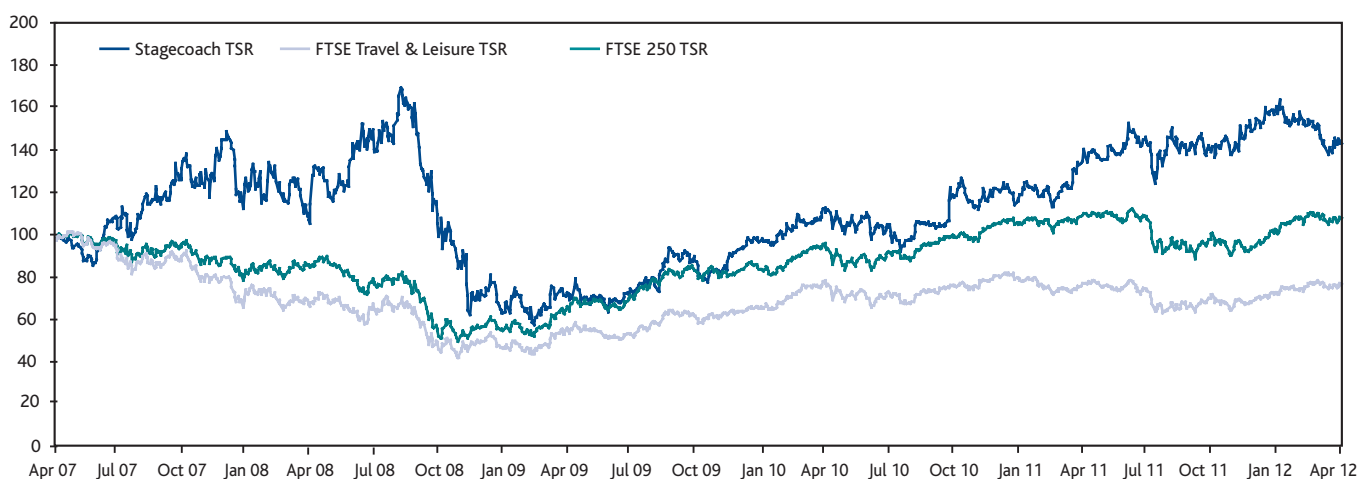
### 9.4 Remuneration Policy

The Remuneration Policy was approved by our shareholders at the 2011 Annual General Meeting. The Remuneration Committee follows the 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 packages for Executive Directors 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 financial measures as well as personal non-financial targets, such as safety 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.

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

### Stagecoach 5-Year TSR Comparative Performance to 30 April 2012



## Directors' remuneration report

pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations.

### 9.5 Intended balance of remuneration package

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 150% of basic salary, the expected value of the Incentive Units at the time of award to a director is less than 150% of 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**

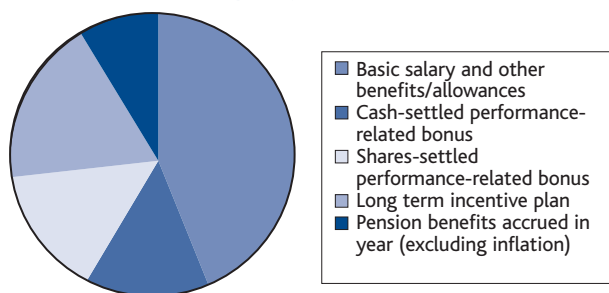
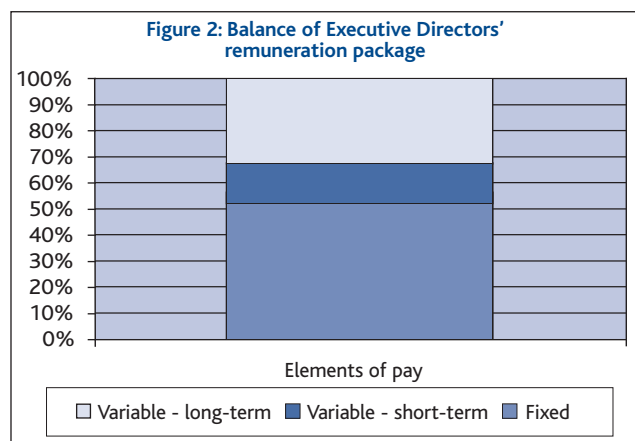


Figure 2 provides a further analysis of the intended balance of Executive Directors' pay between fixed elements (for example, basic salary and pension benefits), variable short-term elements (for example, annual cash bonuses) and variable long-term elements (for example, awards under share based incentive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

Shareholders are invited specifically to 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 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 BAYE scheme accessible to all UK employees as described in section 9.12.

### 9.6 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;
- Deferred Shares under the Executive Participation Plan ("EPP");
- Benefits in kind and other allowances;
- Pension arrangements; and
- The Long Term Incentive Plan ("LTIP").

Directors' remuneration for the year ended 30 April 2012 is shown in Table 1 and Table 2 on page 43, along with information on share options and LTIP awards in sections 9.12 and 9.14 respectively.

Each of the elements of remuneration is discussed further below.

### 9.7 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 Remuneration Committee also takes account of pay conditions throughout the Group. In recognition of the restraint on settlements across the Group, the pay review performed as of 1 May 2011 determined that there should be a 3% increase to basic salaries of the Executive Directors and other senior executives.

### 9.8 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 bonus for each Executive Director for the year just ended. This is based on the Director's performance in achieving the set objectives. As explained above, these comprise both financial objectives for the Group and personal objectives for each director. For each Executive Director, the Group financial objectives for the year ended 30 April 2012 were to better the Group's financial targets with respect to measures of earnings before interest and taxation, earnings per share, and net debt.

For the year ended 30 April 2012, Sir 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 objectives. In accordance with the rules of the EPP, 50% of any actual bonus will be deferred as shares under the EPP.

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. Performance related bonuses awarded to the Executive Directors in respect of the year ended 30 April 2012 are shown in Table 3.

### 9.9 Executive Participation Plan

The 2005 Executive Participation Plan ("EPP") was approved at the 2005 Annual General Meeting.

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.

TABLE 1 – DIRECTORS’ REMUNERATION (amounts in £000)	Salary/fees		Performance related bonus (cash)**		Performance related bonus - deferred shares (EPP)**		Benefits in kind		Non-pensionable allowances†		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>Executive directors</b>												
Sir Brian Souter	581	564	136	129	136	129	23	22	–	–	876	844
Martin Griffiths	394	382	187	172	187	172	23	23	91	87	882	836
<b>Non-executive directors</b>												
Ewan Brown	48	47	–	–	–	–	–	–	–	–	48	47
Iain Duffin (resigned 30 June 2010)	–	8	–	–	–	–	–	–	–	–	–	8
Ann Gloag	48	47	–	–	–	–	–	–	–	–	48	47
Helen Mahy	48	47	–	–	–	–	–	–	–	–	48	47
Sir George Mathewson	165	84	–	–	–	–	–	–	–	–	165	84
Janet Morgan (resigned 30 June 2010)	–	8	–	–	–	–	–	–	–	–	–	8
Robert Speirs (resigned 31 December 2010)	–	207	–	–	–	–	–	–	–	–	–	207
Garry Watts	48	47	–	–	–	–	–	–	–	–	48	47
Phil White (appointed 1 June 2010)	48	43	–	–	–	–	–	–	–	–	48	43
Will Whitehorn (appointed 1 May 2011)	48	–	–	–	–	–	–	–	–	–	48	–
<b>Total</b>	<b>1,428</b>	<b>1,484</b>	<b>323</b>	<b>301</b>	<b>323</b>	<b>301</b>	<b>46</b>	<b>45</b>	<b>91</b>	<b>87</b>	<b>2,211</b>	<b>2,218</b>

† Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits. The non-pensionable allowance for Martin Griffiths above of £91,354 (2011: £87,080) 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 £81,073 (2011: £78,107).

\*\* Sir Brian Souter waived elements of his remuneration, with the amounts waived being used to support funding medical screening for the employees of the UK Bus division. The amounts shown in Table 1 for Sir Brian Souter therefore reflect reductions of £250,000 for both 2011 and 2012 apportioned equally from the cash and deferred shares bonus. The salary for Sir Brian Souter above of £581,000 (2011: £564,000) 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 £51,257 (2011: £49,605). These contributions are shown within the increase in transfer value less pension contributions in Table 2.

TABLE 2 – 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	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011+
<b>Executive directors</b>												
Sir Brian Souter*	7	7	7	–	–	–	103	–	81	–	103	–
Martin Griffiths**	2	12	53	50	158	149	14	28	3	–	500	486

The directors participated in pension salary sacrifice arrangements during the year. The Directors’ contributions are set against the increase in transfer value in the table above and include salary sacrificed by the directors and contributed to the pension schemes

+ The transfer value of pension for 2011 has been updated to reflect market conditions at 30 April 2012.

\* Because of restrictions applying to the HMRC approved pension scheme, Sir Brian Souter ceased to accrue further benefits under the approved defined benefit pension scheme, and started to draw his benefits from the approved scheme on a discounted basis in November 2011. The transfer value of benefits put into payment on the date he drew benefits was £6,120,000 (2011 updated to reflect market conditions at date of drawing benefits: £6,219,000). The movement in benefits shown in this Table 2 above for Sir Brian Souter therefore relate only to alternative company funded pension arrangements which accrued during the year.

\*\* Martin Griffiths also ceased accruing further benefits under the HMRC approved defined benefit scheme on 31 March 2012 due to restrictions applying to approved schemes.

TABLE 3 – DIRECTORS’ BONUSES	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Shares	Cash	Shares
Sir Brian Souter	23.5%	23.5%	50%	50%
Martin Griffiths	47.5%	47.5%	50%	50%

\*As noted in Table 1, Sir Brian Souter waived entitlement to cash and deferred shares bonus during the year. Save for the waiver, he would have been entitled to a bonus of 90% of basic salary divided equally between cash and deferred shares.

Awards under the EPP can be made 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.

Awards made to the Executive Directors under the EPP are shown in Table 4.

## 9.10 Benefits in kind and other allowances

The benefits in kind shown in Table 1 for the year ended 30 April 2012 are made up as follows:

- Sir Brian Souter received £22,000 (2011: £21,600) of cash allowance in lieu of company car and £516 (2011: £256) in re-imbusement of home telephone expenses.
- Martin Griffiths received £22,000 (2011: £21,670) of cash allowance in lieu of company car, £727 (2011: £995) of healthcare benefits and £508 (2011: £530) in re-imbusement of home telephone expenses.

# Directors' remuneration report

## 9.11 Pension arrangements

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

Martin Griffiths was subject to the statutory pensionable earnings cap that existed until 5 April 2006 for benefits accruing under the HMRC approved pension scheme. Since then the Company has continued to impose a notional pensionable earnings cap under the approved scheme. During the period the Company paid a cash contribution to Martin Griffiths for the part of his salary that exceeded the notional earnings cap under the HMRC approved pension scheme. Only basic salary is pensionable. The cash allowance equated to one-third of the excess above the notional earnings cap. Sir 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 was 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.

## 9.12 Share options and the BAYE Scheme (audited)

### SAYE Share Options

In August 2008, all eligible UK employees were invited to participate in a new SAYE scheme with a three-year duration starting in September 2008. One director held options issued under this SAYE scheme during the year. Further details on this are shown in Table 5 below.

### Buy As You Earn (BAYE) Scheme

The introduction of an HMRC approved Share Incentive Plan was approved at the 2011 Annual General Meeting. The scheme operates under the title "Buy As You Earn" and was made available to all UK employees of the Group in September 2011. The scheme enables qualifying UK employees (including Executive Directors) to purchase Partnership shares from their gross income (before income tax and National Insurance deductions). The Company provides two matching shares for every share purchased on the first £10 of each employee's monthly investment. The shares are held in trust and if they remain in the trust for five years from the date of purchase, no income tax or National Insurance will be payable. Dividend shares accumulate while the employee participates in the plan. The matching shares will be forfeited if the corresponding partnership shares are removed from the trust within three years from the date of award. One director holds shares acquired under the BAYE scheme and details are shown in Table 6 below.

## 9.13 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. Each of the consolidations of ordinary shares related to the returns of value in 2004, 2007, and 2011 materially reduced the number of ordinary shares in issue, such that 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 increased through the consolidation processes to 12.5% and so exceeded the 10% guideline for the issued ordinary shares. It was not possible, therefore, to satisfy any new grants of share awards or 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 future grants of executive share options and EPP awards will be satisfied with existing shares until such time as there is

TABLE 4 – EPP AWARDS	As at 1 May 2011 (deferred shares)	Awards granted in year (deferred shares)	Dividends in year (deferred shares)	Vested in year (deferred shares)	As at 30 April 2012 (deferred shares)	Vesting Date	Expected total value of award at time of grant	Closing share price on date of grant
<b>Sir Brian Souter</b>								
26 June 2008	106,049	–	–	(106,049)	–	26 June 2011	252,527	2.6825
10 Dec 2009	348,229	–	10,130	–	358,359	10 Dec. 2012	525,259	1.6060
28 June 2010	50,074	–	1,455	–	51,529	28 June 2013	96,222	1.9020
30 June 2011	–	50,499	1,468	–	51,967	30 June 2014	128,797	2.5530
	504,352	50,499	13,053	(106,049)	461,855			
<b>Martin Griffiths</b>								
26 June 2008	75,591	–	–	(75,591)	–	26 June 2011	179,998	2.6825
10 Dec 2009	248,214	–	7,220	–	255,434	10 Dec. 2012	374,400	1.6060
28 June 2010	97,481	–	2,835	–	100,316	28 June 2013	187,000	1.9020
30 June 2011	–	67,398	1,960	–	69,358	30 June 2014	171,898	2.5530
	421,286	67,398	12,015	(75,591)	425,108			

TABLE 5 – SAYE OPTIONS	At 1 May 2011	Cancelled in year	At 30 April 2012	Exercise price £	Date from which exercisable	Expiry date
Martin Griffiths	3,733	(3,733)	–	2.51775	1 Oct 2011	31 March 2012

TABLE 6 – BAYE AWARDS	Financial Year of Initial Grant	Partnership shares accumulated in year (Number of shares)	Matching shares accumulated in year (Number of shares)	Dividend shares accumulated in year (Number of shares)	BAYE awards held in Trust at 30 April 2012
Martin Griffiths	2011/12	234	30	1	265



sufficient headroom available under the original limits for the issue of new shares.

However, and in order to support the issuance of shares for the all-employee BAYE scheme from October 2011, Shareholder approval to change the limit to 12.8% was obtained at a general meeting on 7 October 2011 so that 5% of the new 12.8% limit may be allocated for issuing new shares to meet awards under the new BAYE Scheme.

In the 10 years prior to 30 April 2012, the Company had granted share options (not lapsed) over executive and SAYE share schemes as follows:

TABLE 7	Executive Options	SAYE Options	Total
Share options to be satisfied from new issue shares	43,174,133	22,422,739	65,596,872
Expressed as a percentage of the issued share capital as at 30 April 2012	7.5%	3.9%	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 2012, these trusts held 2,595,838 (2011: 2,187,585) ordinary shares in the Company, representing 0.4% (2011: 0.3%) 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.

## 9.14 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 Annual General Meeting. 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. Details of LTIP awards made to the Directors are shown in Table 8.

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 value at the time of award, not exceeding 1.5 times the individual's basic salary (with for this purpose, the value of one Incentive Unit equaling the market value of one ordinary share).

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 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.

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 two quantitative conditions for LTIP awards granted up to 30 April 2009 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.

For LTIP awards granted up to April 2009, 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.

For LTIP awards granted from 1 May 2009 the performance conditions are set so as to provide a lower payout 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 has been 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 from 1 May 2009 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 released;
- 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.

An independent third party will calculate the TSR measures for the purposes of determining the extent to which the performance condition is satisfied. Other than on retirement, if participants choose to leave the Group, the awards would lapse.

## 9.15 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.

To facilitate participation by its employees in the shares of the Company shareholder approval was obtained at the Annual General Meeting on 26 August 2011 for an Unapproved Share Option Plan ("USOP") to replace the existing executive share option plan that expired on 25 June 2011. The USOP is available for use with all employees of the Group other than the Directors of the Company. The rules of the USOP contain provisions consistent with relevant ABI guidelines such that the use of new ordinary shares will be limited to ten per cent of the issued share capital of the Company from time to time, taking into account ordinary shares issued or to be issued over the previous ten year period under any other employees' share plans adopted by the Company. Furthermore, no employee may during a financial year receive in aggregate awards under the USOP and awards under the Company's 2005 Long Term Incentive Plan over shares worth more than one and a half times his or her total remuneration in that the period. No awards have been granted under the USOP.

## Directors' remuneration report

TABLE 8 – LTIP	As at 30 April 2011 (incentive units)	Awards granted in year (incentive units)	Dividends in year (incentive units)	Lapsed during year (incentive units)	As at 30 April 2012 (incentive units)	Vesting Date	Expected total value of award at time of grant £	Closing Share price on date of grant £
<b>Sir Brian Souter</b>								
30 June 2008	218,599	–	–	(218,599)	–	30 June 2011	213,856	2.8000
10 Dec 2009	539,984	–	15,817	–	555,801	10 Dec 2012	238,382	1.6060
28 June 2010	224,569	–	6,577	–	231,146	28 June 2013	115,275	1.9030
9 Dec 2010	205,607	–	6,022	–	211,629	9 Dec 2013	121,863	2.0785
30 June 2011	–	170,681	4,999	–	175,680	30 June 2014	125,263	2.5530
8 Dec 2011	–	168,145	1,510	–	169,655	8 Dec 2014	125,251	2.5890
	<u>1,188,759</u>	<u>338,826</u>	<u>34,925</u>	<u>(218,599)</u>	<u>1,343,911</u>			
<b>Martin Griffiths</b>								
30 June 2008	148,024	–	–	(148,024)	–	30 June 2011	144,812	2.8000
10 Dec 2009	365,650	–	10,711	–	376,361	10 Dec 2012	161,421	1.6060
28 June 2010	152,101	–	4,455	–	156,556	28 June 2013	78,076	1.9030
9 Dec 2010	139,259	–	4,079	–	143,338	9 Dec 2013	82,539	2.0785
30 June 2011	–	115,746	3,390	–	119,136	30 June 2014	84,946	2.5530
8 Dec 2011	–	114,026	1,024	–	115,050	8 Dec 2014	84,938	2.5890
	<u>805,034</u>	<u>229,772</u>	<u>23,659</u>	<u>(148,024)</u>	<u>910,441</u>			

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.

### 9.16 Shareholding targets

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of the Executive Directors, they are each expected to accumulate 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 the Executive Directors' and Shareholders' objectives. The effective interests of the Executive Directors as at 30 April 2012 were:

TABLE 9 – EFFECTIVE INTERESTS	Sir Brian Souter	Martin Griffiths
Ordinary shares (excluding BAYE)	86,900,445	196,945
Shares acquired under the BAYE scheme and held in trust	–	265
Deferred Shares under Executive Participation Plan	461,855	425,108
	<u>87,362,300</u>	<u>622,318</u>

### 9.17 Directors' service agreements

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

TABLE 10 – EXECUTIVE DIRECTORS' SERVICE CONTRACTS		
Name of director	Date of contract	Notice period
Sir 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.

### 9.18 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 otherwise to enhance or accelerate pension benefits on termination or early retirement.

### 9.19 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;
- 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.
- Under the BAYE, shares would be settled either as a cash benefit or by replacement shares depending on the nature of the consideration giving rise to the change of control.

### 9.20 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 33 to the consolidated financial statements.

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

### 9.21.1 Noble Grossart Limited

Ewan Brown (Non-Executive Director) is a former executive director and current non-executive director of Noble Grossart Limited that has previously provided advisory services to the Group. At 30 April 2012, Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held 3,267,999 (2011: 4,084,999) ordinary shares in the Company, representing 0.6% (2011: 0.6%) of the Company's issued ordinary share capital.

### 9.21.2 Alexander Dennis Limited

Sir Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 46.8% (2011: 37.9%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited controls a further 35.1% (2011: 28.4%) of the shares and voting rights of Alexander Dennis Limited. None of Sir 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 2012, the Group purchased £85.6m (2011: £87.1m) of vehicles from Alexander Dennis Limited and £8.6m (2011: £5.7m) of spare parts and other services. As at 30 April 2012, the Group had £0.4m (2011: £1.3m) payable to Alexander Dennis Limited, along with outstanding orders of £8.8m (2011: £63.5m).

### 9.21.3 Argent Energy Group Limited

Sir Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 39.3% (2011: 39.3%) of the shares and voting rights in Argent Energy Group Limited. Neither Sir Brian Souter nor Ann Gloag is a director of Argent Energy Group Limited nor do they have any involvement in the management of Argent Energy Group Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Argent Energy Group Limited.

For the year ended 30 April 2012, the Group purchased £7.3m (2011: £2.0m) of biofuel from Argent Energy Group. As at 30 April 2012, the Group had £0.3m (2011: £0.2m) payable to Argent Energy Group, along with outstanding orders of £0.1m (2011: £0.2m).

## 9.22 Remuneration policy approval

An ordinary resolution to receive and approve this Directors' remuneration report will be proposed at the 2012 Annual General Meeting.

On behalf of the Board



Phil White  
Chairman of the Remuneration Committee

26 June 2012

## 10. Responsibility statement

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and
- The Chairman's statement and the Directors' report (incorporating the 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 26 June 2012 on behalf of the Board by:



Sir Brian Souter  
Chief Executive



Martin A Griffiths  
Finance Director

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

We have audited the group financial statements of Stagecoach Group plc for the year ended 30 April 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows 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 29, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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 Chapter 3 of Part 16 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2012 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 matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the information given in the Corporate governance report set out on pages 32 to 36 with respect to internal control and risk management systems is consistent with the 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; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 31, in relation to going concern;
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

## Other matter

We have reported separately on page 107 on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2012 and on the information in the Directors' remuneration report that is described as having been audited.



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

26 June 2012

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated income statement

For the year ended 30 April 2012

	Notes	2012			2011		
		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
<b>CONTINUING OPERATIONS</b>							
Revenue	2	<b>2,590.7</b>	–	<b>2,590.7</b>	2,389.8	–	2,389.8
Operating costs and other operating income	3	<b>(2,381.1)</b>	<b>28.9</b>	<b>(2,352.2)</b>	(2,189.1)	(10.1)	(2,199.2)
<b>Operating profit of Group companies</b>	2	<b>209.6</b>	<b>28.9</b>	<b>238.5</b>	200.7	(10.1)	190.6
Share of profit of joint ventures after finance income and taxation	2	<b>27.6</b>	<b>(3.2)</b>	<b>24.4</b>	39.5	(5.1)	34.4
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	2	<b>237.2</b>	<b>25.7</b>	<b>262.9</b>	240.2	(15.2)	225.0
Non-operating exceptional items	4	–	<b>11.6</b>	<b>11.6</b>	–	0.7	0.7
<b>Profit before interest and taxation</b>		<b>237.2</b>	<b>37.3</b>	<b>274.5</b>	240.2	(14.5)	225.7
Finance costs	5	<b>(38.2)</b>	–	<b>(38.2)</b>	(39.9)	–	(39.9)
Finance income	5	<b>3.5</b>	–	<b>3.5</b>	5.4	–	5.4
<b>Profit before taxation</b>		<b>202.5</b>	<b>37.3</b>	<b>239.8</b>	205.7	(14.5)	191.2
Taxation	7	<b>(40.4)</b>	<b>(11.1)</b>	<b>(51.5)</b>	(35.1)	1.8	(33.3)
<b>Profit for the year from continuing operations</b>		<b>162.1</b>	<b>26.2</b>	<b>188.3</b>	170.6	(12.7)	157.9
<b>DISCONTINUED OPERATIONS</b>							
<b>Profit for the year from discontinued operations</b>	4	–	–	–	–	18.5	18.5
<b>TOTAL OPERATIONS</b>							
<b>Profit after taxation for the year attributable to equity shareholders of the parent</b>		<b>162.1</b>	<b>26.2</b>	<b>188.3</b>	170.6	5.8	176.4
<b>Earnings per share from continuing and discontinued operations</b>							
– Adjusted basic/Basic	9	<b>25.4p</b>		<b>29.5p</b>	23.8p		24.6p
– Adjusted diluted/Diluted	9	<b>25.0p</b>		<b>29.1p</b>	23.5p		24.3p
<b>Earnings per share from continuing operations</b>							
– Adjusted basic/Basic	9	<b>25.4p</b>		<b>29.5p</b>	23.8p		22.0p
– Adjusted diluted/Diluted	9	<b>25.0p</b>		<b>29.1p</b>	23.5p		21.7p

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

# Consolidated statement of comprehensive income

For the year ended 30 April 2012

		2012	2011
	Notes	£m	£m
<b>Profit for the year attributable to equity shareholders of the parent</b>		<b>188.3</b>	176.4
<b>Other comprehensive (expense)/income</b>			
Foreign exchange differences on translation of foreign operations (net of hedging)		<b>0.4</b>	(5.4)
Actuarial (losses)/gains on Group defined benefit pension schemes	25	<b>(93.7)</b>	76.5
Share of actuarial losses on joint ventures' defined benefit pension schemes		<b>(0.4)</b>	(0.7)
Share of other comprehensive expense on joint ventures' cash flow hedges		<b>(1.5)</b>	(0.1)
Net fair value (losses)/gains on cash flow hedges	26(g)	<b>(6.8)</b>	52.6
		<b>(102.0)</b>	122.9
<b>Reclassifications to the income statement of items previously recognised in other comprehensive income</b>			
Cash flow hedges reclassified and reported in profit for the year	26(g)	<b>(33.2)</b>	(21.8)
<b>Tax on items taken directly to or transferred from equity</b>			
Tax on foreign exchange differences on translation of foreign operations (net of hedging)		<b>0.6</b>	(0.4)
Tax effect of actuarial losses/(gains) on Group defined benefit pension schemes		<b>20.7</b>	(24.0)
Tax effect of share of actuarial losses on joint ventures' defined benefit pension schemes		<b>0.1</b>	0.2
Tax effect of share of other comprehensive expense on joint ventures' cash flow hedges		<b>0.5</b>	–
Tax effect of cash flow hedges	26(g)	<b>10.8</b>	(7.4)
		<b>32.7</b>	(31.6)
<b>Total comprehensive income for the year attributable to equity shareholders of the parent</b>		<b>85.8</b>	245.9


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

# Consolidated balance sheet (statement of financial position)

As at 30 April 2012

		2012	2011
	Notes	£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10	91.4	95.3
Other intangible assets	11	17.5	24.2
Property, plant and equipment	12	961.6	924.3
Interests in joint ventures	13	56.6	58.1
Available for sale and other investments	14	2.3	2.1
Derivative instruments at fair value	26(g)	1.6	20.7
Retirement benefit asset	25	17.0	23.7
Other receivables	19	16.4	19.4
		<b>1,164.4</b>	<b>1,167.8</b>
<b>Current assets</b>			
Inventories	18	22.2	26.6
Trade and other receivables	19	221.2	221.5
Derivative instruments at fair value	26(g)	20.8	50.8
Foreign tax recoverable		0.4	1.4
Cash and cash equivalents	20	241.0	358.3
		<b>505.6</b>	<b>658.6</b>
<b>Total assets</b>		<b>1,670.0</b>	<b>1,826.4</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	21	543.4	529.6
Current tax liabilities		23.6	20.4
Borrowings	22	55.9	62.5
Derivative instruments at fair value	26(g)	0.6	0.1
Provisions	24	57.2	56.9
		<b>680.7</b>	<b>669.5</b>
<b>Non-current liabilities</b>			
Other payables	21	22.2	24.3
Borrowings	22	721.0	592.1
Derivative instruments at fair value	26(g)	0.4	0.1
Deferred tax liabilities	23	40.0	46.8
Provisions	24	121.9	126.6
Retirement benefit obligations	25	141.1	120.8
		<b>1,046.6</b>	<b>910.7</b>
<b>Total liabilities</b>		<b>1,727.3</b>	<b>1,580.2</b>
<b>Net (liabilities)/assets</b>		<b>(57.3)</b>	<b>246.2</b>
<b>EQUITY</b>			
Ordinary share capital	27	3.2	7.1
Share premium account	29	8.4	9.8
Retained earnings	29	(489.7)	(217.4)
Capital redemption reserve	29	422.8	416.3
Own shares	29	(18.2)	(14.6)
Translation reserve	29	2.1	1.7
Cash flow hedging reserve	29	14.1	43.3
<b>Total equity</b>		<b>(57.3)</b>	<b>246.2</b>

These financial statements have been approved for issue by the Board of Directors on 26 June 2012. The accompanying notes form an integral part of this consolidated balance sheet.



Sir Brian Souter  
Chief Executive



Martin A Griffiths  
Finance Director



# Consolidated statement of changes in equity

	Notes							
	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 30 April 2010 and 1 May 2010</b>	7.1	9.8	(433.5)	415.6	(13.3)	7.1	19.9	12.7
Profit for the year	-	-	176.4	-	-	-	-	176.4
Other comprehensive income/(expense), net of tax	-	-	51.5	-	-	(5.4)	23.4	69.5
<b>Total comprehensive income/(expense)</b>	-	-	<b>227.9</b>	-	-	<b>(5.4)</b>	<b>23.4</b>	<b>245.9</b>
Own ordinary shares purchased	-	-	-	-	(1.8)	-	-	(1.8)
Own ordinary shares sold	-	-	-	-	0.5	-	-	0.5
Preference shares redeemed	-	-	(0.7)	0.7	-	-	-	-
Credit in relation to equity-settled share based payments	-	-	4.7	-	-	-	-	4.7
Dividends paid on ordinary shares	-	-	(15.8)	-	-	-	-	(15.8)
	8							
<b>Balance at 30 April 2011 and 1 May 2011</b>	7.1	9.8	(217.4)	416.3	(14.6)	1.7	43.3	246.2
Profit for the year	-	-	188.3	-	-	-	-	188.3
Other comprehensive income/(expense), net of tax	-	-	(73.7)	-	-	0.4	(29.2)	(102.5)
<b>Total comprehensive income/(expense)</b>	-	-	<b>114.6</b>	-	-	<b>0.4</b>	<b>(29.2)</b>	<b>85.8</b>
Own ordinary shares purchased	-	-	-	-	(5.7)	-	-	(5.7)
Own ordinary shares sold	-	-	-	-	2.1	-	-	2.1
Preference shares redeemed	-	-	(2.6)	2.6	-	-	-	-
Credit in relation to equity-settled share based payments	-	-	3.0	-	-	-	-	3.0
Tax credit in relation to equity-settled share based payments	-	-	0.2	-	-	-	-	0.2
Return of cash to shareholders	(3.9)	(1.4)	(338.5)	3.9	-	-	-	(339.9)
Dividends paid on ordinary shares	-	-	(49.0)	-	-	-	-	(49.0)
	8							
<b>Balance at 30 April 2012</b>	3.2	8.4	(489.7)	422.8	(18.2)	2.1	14.1	(57.3)

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

# Consolidated statement of cash flows

For the year ended 30 April 2012

		2012	2011
	Notes	£m	£m
<b>Cash flows from operating activities</b>			
Cash generated by operations	30	284.2	253.5
Interest paid		(34.4)	(35.6)
Interest received		3.6	5.5
Dividends received from joint ventures		25.8	28.8
<b>Net cash flows from operating activities before tax</b>		<b>279.2</b>	<b>252.2</b>
Tax paid		(21.7)	(20.4)
<b>Net cash from operating activities after tax</b>		<b>257.5</b>	<b>231.8</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	15	(2.3)	(57.0)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	16	40.3	1.2
Purchase of property, plant and equipment		(176.1)	(156.3)
Disposal of property, plant and equipment		65.4	14.7
Purchase of intangible assets		(2.6)	(0.4)
Purchase of other investments		(0.3)	(0.4)
<b>Net cash outflow from investing activities</b>		<b>(75.6)</b>	<b>(198.2)</b>
<b>Cash flows from financing activities</b>			
Redemption of 'B' shares		(2.6)	(0.7)
Purchase of and dividends paid on 'D' shares ('Return of Cash')		(338.5)	–
Costs of Return of Cash		(1.6)	–
Investment in own ordinary shares by employee share ownership trusts		(5.7)	(1.8)
Sale of own ordinary shares by employee share ownership trusts		2.1	0.5
Repayments of hire purchase and lease finance		(66.6)	(24.1)
Movement in other borrowings		164.1	(5.1)
Dividends paid on ordinary shares	8	(49.0)	(15.8)
Sale of tokens		1.3	1.4
Redemption of tokens		(2.9)	(4.1)
<b>Net cash used in financing activities</b>		<b>(299.4)</b>	<b>(49.7)</b>
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of year		358.3	375.7
Exchange rate effects		0.2	(1.3)
<b>Cash and cash equivalents at the end of year</b>	20	<b>241.0</b>	<b>358.3</b>

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

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

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies

These consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### • Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union (and therefore comply with Article 4 of the EU IAS Regulation), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

### • New accounting standards adopted during the year

The Group has applied the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 for the first time for the financial year ended 30 April 2012. The regulations have been applied earlier than required. The only effect on the financial statements is on the disclosure of amounts payable to the auditors set out in note 3 to the consolidated financial statements.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 May 2011, but do not have any significant effect on the consolidated financial statements of the Group.

- Amendments resulting from May 2010 Annual Improvements to IFRSs
- IFRS 1 (amended), 'First time adoption of IFRSs – Limited exemption from comparative IFRS 7 disclosures for first-time adopters'
- IAS 24 (revised), 'Related party disclosures'
- IFRIC 14 (amended), 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

### • 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>
IFRS 1 First time adoption of IFRSs (revised 2010)	1 July 2011
IFRS 1 First time adoption of IFRSs (amended 2012)	1 January 2013
IFRS 7 Financial instruments: Disclosures (amended 2010)	1 July 2011
IFRS 7 Financial instruments: Disclosures (amended 2011)	1 January 2013
IFRS 9 Financial instruments: Classification and measurement (revised 2009)	1 January 2015
IFRS 9 Financial instruments: Classification and measurement (revised 2010)	1 January 2015
IFRS 10 Consolidated financial statements	1 January 2013
IFRS 11 Joint arrangements	1 January 2013
IFRS 12 Disclosures of interests in other entities	1 January 2013
IFRS 13 Fair value measurement	1 January 2013
IAS 1 Presentation of financial statements (revised 2011)	1 July 2012
IAS 12 Income taxes (amended 2010)	1 January 2012
IAS 19 Employee benefits (revised 2011)	1 January 2013
IAS 27 Consolidated and separate financial statements (revised 2011)	1 January 2013
IAS 28 Investments in associates and joint ventures (revised 2011)	1 January 2013
IAS 32 Financial instruments: Presentation (amended 2011)	1 January 2014
IFRIC 20 Stripping costs in the production phase of a surface mine	1 January 2013

The Directors have reviewed the requirements of the new standards and interpretations listed above, and with the exception of IAS 19 (revised 2011) 'Employee Benefits', they are not expected to have a material impact on the Group's financial statements in the period of initial application.

In June 2011, the IASB issued an amended version of International Accounting Standard 19 ("IAS 19"), "Employee Benefits". The Group will be required to apply the new version of IAS 19 to its financial statements for the year ending 30 April 2014 and re-state comparative amounts accordingly. The IAS 19 change that will have the most significant effect on the Group's reported profit is that the Group's annual expense for defined benefit pension schemes will be required to include net interest expense or income calculated by applying the discount rate to the net defined benefit asset or liability. This net interest expense or income will replace the finance charge on scheme liabilities and the expected return on scheme assets and is expected to result in a higher annual expense. Had the new IAS 19 been applied to the Group's financial statements for the year ended 30 April 2012, the revenue, consolidated balance sheet and the consolidated statement of cash flows would have been the same as is reported in this announcement and the segmental operating profit and profit from continuing operations would have been affected as follows:

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

	Reported profit	Effect of applying new IAS 19	Pro forma profit including new IAS 19
	£m	£m	£m
<b>Operating Profit</b>			
UK Bus (regional operations)	198.6	(16.1)	182.5
UK Bus (London)	13.5	(4.3)	9.2
North America	19.7	0.2	19.9
Total bus continuing operations	231.8	(20.2)	211.6
UK Rail	27.9	(7.1)	20.8
Total continuing operations	259.7	(27.3)	232.4
Group overheads	(9.8)	(0.5)	(10.3)
Intangible asset expenses	(9.1)	–	(9.1)
Restructuring costs	(2.3)	–	(2.3)
Total operating profit of continuing Group companies	238.5	(27.8)	210.7
Share of joint ventures' profit after finance income and taxation	24.4	(1.8)	22.6
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	262.9	(29.6)	233.3
Non-operating exceptional items	11.6	–	11.6
Profit before interest and taxation	274.5	(29.6)	244.9
Finance charges (net)	(34.7)	(2.9)	(37.6)
Profit on ordinary activities before taxation	239.8	(32.5)	207.3
Taxation	(51.5)	7.9	(43.6)
Profit from continuing operations	188.3	(24.6)	163.7
Adjusted earnings per share (pence)	25.4p	(3.9)p	21.5p

The pro forma profit shown above, reflects:

- The inclusion of the pensions current service cost within the operating profit of each division in the consolidated income statement.
- The inclusion of investment administration costs and taxes, such as amounts levied by the UK Pension Protection Fund, in the actual return on investment, with the difference between the actual return on investment and the discount rate applied to the scheme assets being reflected in other comprehensive income.
- The inclusion of net interest expense on the net defined liability within finance charges (net) in the consolidated income statement.

### • 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 and joint ventures 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 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.

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. The excess of the cost of acquisition over the fair value of acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Costs attributable to the acquisition are expensed to the consolidated income statement.

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

#### (ii) Joint ventures

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

Under the equity method of accounting, the Group's consolidated income statement includes the Group's share of profits less losses of joint ventures, while the share of net assets of joint ventures is included in the Group's consolidated balance sheet. Where the Group's share of losses in a joint venture 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.

The Group's reported interest in joint ventures includes goodwill on acquisition.

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

### • 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.

Exceptional items are defined in note 35.

## Note 1 IFRS accounting policies (continued)

### • Use of estimates

The preparation of financial statements in conformity with IFRSs as adopted by the EU 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 contract provisions, the measurement of retirement benefit amounts, the measurement and impairment of goodwill and other non-current assets, the measurement of insurance provisions and the measurement of receivables and payables in relation to rail contracts. 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 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 amounts 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. 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. 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. The estimation of receivables and payables in relation to rail contracts requires an estimate of the likely outcomes based on interpreting the applicable contracts.

Those accounting policies that the Directors believe require the greatest exercise of judgement are described on pages 21 and 22.

### • 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.

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 operating expenses or other operating income.

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 expense and revenue share amounts receivable (if any) are classified within other operating income.

### • 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.

### • Government grants

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets. Amounts are held as deferred grant income within trade and other payables.

Revenue grants receivable 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.

#### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled by the Group or the holder, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### 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 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 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.

#### • Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of operating segments, which for this purpose has been identified as the Board of Directors.

#### • Foreign currency translation

The financial statements of foreign operations are maintained in the functional currencies in which the entities transact business. The trading results of foreign operations are translated into sterling using average rates of exchange. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling using rates of exchange at the relevant balance sheet date. Exchange differences arising on the translation of the opening net assets and results of foreign operations, together with exchange differences arising on net foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in foreign operations, are recognised as a separate component of equity being the translation reserve. Further information on the Group's accounting policy on hedges of net investments in a foreign entity is provided on page 62.

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 principal rates of exchange applied to the consolidated financial statements were:

	2012	2011
<b>US Dollar:</b>		
Year end rate	<b>1.6239</b>	1.6680
Average rate	<b>1.5931</b>	1.5646
<b>Canadian Dollar:</b>		
Year end rate	<b>1.6043</b>	1.5827
Average rate	<b>1.5860</b>	1.5823

#### • Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of such net assets. The fair value of intangible assets and acquired customer contract provisions on the acquisition of a business are amortised to the income statement in line with the projected cash flows.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Prior to 1 May 2004, goodwill was amortised over its estimated useful life; such amortisation ceased on 30 April 2004 but goodwill amortisation expensed prior to 1 May 2004 was not reversed. Goodwill that arose prior to 1 May 2004 is measured at the amount recognised under the Group's previous accounting framework, UK GAAP.

Goodwill arising on acquisitions in the year ended 30 April 1998 and earlier periods was written off directly to equity in accordance with the UK accounting standards then in force. Under IFRS 1 and IFRS 3, such goodwill remains eliminated against reserves.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is

## Note 1 IFRS accounting policies (continued)

### • Business combinations and goodwill (continued)

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 directly to equity) forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the disposed operation when determining the overall gain or loss on disposal.

### • Impairment of non-current assets

Property, plant and equipment, intangible assets (excluding goodwill) and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, 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. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal at each reporting date. In assessing value in use, the estimated future 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 and are subsequently measured at fair value less accumulated amortisation and accumulated impairment losses.

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 5 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 Trains 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 7 years

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

### • Property, plant and equipment

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition and is subsequently measured at fair value on acquisition less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives as follows:

Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	period of lease
IT and other equipment, furniture and fittings	3 to 10 years
Passenger Service Vehicles ("PSVs") and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Freehold land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and, where applicable, adjustments are made on a prospective basis.

An item of property, plant or equipment is derecognised upon disposal. An item on which no future economic benefits are expected to arise from the continued use of the asset is impaired if it is continued to be used by the Group. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

### • Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out ("FIFO") or average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### • 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.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Hire purchase and lease obligations

Assets acquired under hire purchase and finance lease arrangements, where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Fixed lease payments are apportioned between the finance costs, and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income and are reported within finance costs in the consolidated income statement.

Assets capitalised under finance leases and other similar contracts are depreciated over the shorter of the lease terms and their useful economic lives.

Assets capitalised under hire purchase contracts are depreciated over their useful economic lives.

Rentals under operating leases are 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 statement of cash flows.

The estimate of the balance sheet provision for token redemptions 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 2012, it has been estimated that 97% (30 April 2011: 97%) of tokens in issue will be redeemed.

### • Restructuring provisions

Provisions for restructuring are recognised when the Group has a present legal or constructive obligation as a result of past events and a reliable estimate of associated costs can be made.

### • Insurance

The Group receives claims in respect of traffic incidents and employee claims. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies.

Provision is made on a discounted basis for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date. The estimate of the balance sheet insurance provisions is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group. The provision is set after taking account of advice from third party actuaries.

### • Retirement benefit obligations

The Group contributes to a number of pension schemes.

In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, the recognised net asset is limited to 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 comprehensive income. 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.

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.

A full actuarial valuation is undertaken triennially for each scheme and updated annually using independent actuaries following the projected unit credit method. The present value of the scheme obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related obligations. Experience adjustments and changes in assumptions which affect actuarial gains and losses are reflected in the actuarial gain or loss for the year.

The liability or asset recognised for the relevant sections of the Railways Pension Scheme represents only that part of the net deficit (or surplus) of each section that the employer expects to fund (or recover) over the life of the franchise to which the section relates.

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'.



## Note 1 IFRS accounting policies (continued)

### Financial assets

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments or as available for sale. They include cash and cash equivalents, accrued income, trade receivables, other receivables, 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.

*Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either at fair value through profit or loss or available for sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Where the time value of money is material, receivables are discounted to the present value at the point they are first recognised and are subsequently amortised to the invoice amount by the payment due date. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered in evaluating whether a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement 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 cost, the reversal is recognised in profit or loss.

*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, accruals, 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.

### 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:

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Financial instruments (continued)

*Fair value hedges:* For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both the derivative and the hedged item are taken to the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

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

*Cash flow hedges:* For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For cash flow hedges of forecast fuel purchases, the transfer is to operating costs within the income statement.

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 remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement immediately.

*Hedges of net investment in a foreign entity:* For hedges of the net investment in a foreign entity, the effective portion of the gain or loss on the hedging instrument is recorded in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the foreign entity is sold.

Non-derivative financial liabilities 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 balance sheet and cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities at the balance sheet date of twelve months or less.

### *Interest bearing loans and borrowings*

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method subject to any adjustments in respect of fair value hedges; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer or rollover settlement for at least 12 months after the balance sheet date.

### *Trade and other payables*

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

### *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 within finance costs.

## Share capital and dividends

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company, its subsidiaries or employee share ownership trusts sponsored by the Company purchase ordinary shares in the Company, the consideration paid, including any attributable incremental external costs net of income taxes, is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

Dividends on ordinary shares are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders, or in the case of interim dividends, in the period in which they are paid.

The accounting policy in relation to preferred shares and dividends payable on such 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 four continuing operating segments, being UK Bus (regional operations), UK Bus (London), 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 four operating segments as follows:

<i>Segment name</i>	<i>Service operated</i>	<i>Country of operation</i>
UK Bus (regional operations)	Coach and bus operations	United Kingdom (and immaterial operations in mainland Europe)
UK Bus (London)	Bus operations	United Kingdom
North America	Coach and bus operations	United States and Canada
UK Rail	Rail operations	United Kingdom

The Group has interests in three trading joint ventures: Virgin Rail Group that operates in UK Rail, Citylink that operates in UK Bus (regional operations) and Twin America LLC that operates in North America. The results of these joint ventures are shown separately in notes 2(c) and 2(g).

## Note 2 Segmental information (continued)

### (a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (i.e. United Kingdom or North America) is the same in all cases except in respect of an immaterial amount of revenue for services operated by UK Bus (regional operations) between the UK and mainland Europe. As the Group sells bus and rail services to individuals, it has few customers that are individually "major". Its major customers are typically public bodies that subsidise or procure transport services – such customers include local authorities, transport authorities and the UK Department for Transport.

Revenue split by segment was as follows:

	2012	2011
	£m	£m
<b>Continuing operations</b>		
UK Bus (regional operations)	909.7	893.6
UK Bus (London)	230.5	133.6
North America	312.6	295.1
Total bus continuing operations	1,452.8	1,322.3
UK Rail	1,140.7	1,070.0
<b>Total Group revenue</b>	<b>2,593.5</b>	<b>2,392.3</b>
Intra-Group revenue – UK Bus (regional operations)	(2.8)	(2.5)
<b>Reported Group revenue</b>	<b>2,590.7</b>	<b>2,389.8</b>

### (b) Operating profit

Operating profit split by segment was as follows:

	2012			2011		
	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
<b>Continuing operations</b>						
UK Bus (regional operations)	162.7	35.9	198.6	153.1	–	153.1
UK Bus (London)	13.5	–	13.5	(5.9)	–	(5.9)
North America	19.7	–	19.7	19.3	–	19.3
Total bus continuing operations	195.9	35.9	231.8	166.5	–	166.5
UK Rail	27.1	0.8	27.9	48.4	–	48.4
Total continuing operations	223.0	36.7	259.7	214.9	–	214.9
Group overheads	(11.1)	1.3	(9.8)	(11.3)	–	(11.3)
Intangible asset expenses	–	(9.1)	(9.1)	–	(10.1)	(10.1)
Restructuring costs	(2.3)	–	(2.3)	(2.9)	–	(2.9)
<b>Total operating profit of continuing Group companies</b>	<b>209.6</b>	<b>28.9</b>	<b>238.5</b>	<b>200.7</b>	<b>(10.1)</b>	<b>190.6</b>
Share of joint ventures' profit after finance income and taxation	27.6	(3.2)	24.4	39.5	(5.1)	34.4
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	<b>237.2</b>	<b>25.7</b>	<b>262.9</b>	<b>240.2</b>	<b>(15.2)</b>	<b>225.0</b>

# Notes to the consolidated financial statements

## Note 2 Segmental information (continued)

### (c) Joint ventures

The share of profit from joint ventures was further split as follows:

	2012			2011		
	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
<b>Continuing</b>						
<b>Virgin Rail Group (UK Rail)</b>						
Operating profit	21.5	–	21.5	39.5	–	39.5
Finance income (net)	0.3	–	0.3	0.2	–	0.2
Taxation	(5.9)	–	(5.9)	(11.3)	–	(11.3)
	15.9	–	15.9	28.4	–	28.4
Goodwill charged on investment in continuing joint ventures	–	(3.2)	(3.2)	–	(5.1)	(5.1)
	15.9	(3.2)	12.7	28.4	(5.1)	23.3
<b>Citylink (UK Bus, regional operations)</b>						
Operating profit	2.7	–	2.7	2.5	–	2.5
Taxation	(0.7)	–	(0.7)	(0.7)	–	(0.7)
	2.0	–	2.0	1.8	–	1.8
<b>Twin America LLC (North America)</b>						
Operating profit	10.2	–	10.2	9.7	–	9.7
Taxation	(0.5)	–	(0.5)	(0.4)	–	(0.4)
	9.7	–	9.7	9.3	–	9.3
<b>Share of profit of joint ventures after finance income and taxation</b>	<b>27.6</b>	<b>(3.2)</b>	<b>24.4</b>	<b>39.5</b>	<b>(5.1)</b>	<b>34.4</b>

### (d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	2012			2011		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	740.7	(261.9)	478.8	733.9	(240.0)	493.9
UK Bus (London)	117.3	(84.2)	33.1	146.0	(92.1)	53.9
North America	261.6	(78.4)	183.2	266.9	(76.3)	190.6
UK Rail	232.4	(417.3)	(184.9)	232.5	(411.6)	(179.1)
	1,352.0	(841.8)	510.2	1,379.3	(820.0)	559.3
Central functions	20.0	(45.0)	(25.0)	29.3	(38.4)	(9.1)
Joint ventures	56.6	–	56.6	58.1	–	58.1
Borrowings and cash	241.0	(776.9)	(535.9)	358.3	(654.6)	(296.3)
Taxation	0.4	(63.6)	(63.2)	1.4	(67.2)	(65.8)
<b>Total</b>	<b>1,670.0</b>	<b>(1,727.3)</b>	<b>(57.3)</b>	<b>1,826.4</b>	<b>(1,580.2)</b>	<b>246.2</b>

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

Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intra-Group balances, cash, borrowings, taxation, interest payable, interest receivable and the token provision.

## Note 2 Segmental information (continued)

### (e) Capital expenditure on property, plant and equipment

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

	2012	2011
	£m	£m
UK Bus (regional operations)	90.3	85.1
UK Bus (London)	32.3	99.3
North America	51.2	31.4
UK Rail	42.4	34.2
Central	0.1	–
	<b>216.3</b>	<b>250.0</b>

Capital expenditure, excluding business combinations is analysed in section 2.6.10 of the Operating and Financial Review.

### (f) Capital expenditure on intangible assets

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

	2012	2011
	£m	£m
UK Bus (regional operations)	1.0	0.5
UK Bus (London)	–	21.4
North America	1.6	–
UK Rail	0.7	–
	<b>3.3</b>	<b>21.9</b>

### (g) Earnings before interest, tax, depreciation and amortisation (“EBITDA”)

The results of each segment are further analysed below:

	Year ended 30 April 2012								
	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 (regional operations)	224.6	–	224.6	(61.9)	162.7	(0.5)	35.9	(0.4)	197.7
UK Bus (London)	21.3	–	21.3	(7.8)	13.5	(5.9)	–	(1.5)	6.1
North America	42.2	–	42.2	(22.5)	19.7	–	–	–	19.7
UK Rail – subsidiaries	34.3	–	34.3	(7.2)	27.1	(2.7)	0.8	(0.4)	24.8
UK Rail – joint venture (Virgin Rail Group)	21.5	(5.6)	15.9	–	15.9	(3.2)	–	–	12.7
UK Bus – joint venture (Citylink)	2.7	(0.7)	2.0	–	2.0	–	–	–	2.0
North America – joint venture (Twin America)	10.2	(0.5)	9.7	–	9.7	–	–	–	9.7
Group overheads	(10.6)	–	(10.6)	(0.5)	(11.1)	–	1.3	–	(9.8)
Restructuring costs	(2.3)	–	(2.3)	–	(2.3)	–	–	2.3	–
	<b>343.9</b>	<b>(6.8)</b>	<b>337.1</b>	<b>(99.9)</b>	<b>237.2</b>	<b>(12.3)</b>	<b>38.0</b>	<b>–</b>	<b>262.9</b>

	Year ended 30 April 2011								
	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 (regional operations)	213.9	–	213.9	(60.8)	153.1	(1.2)	–	(0.3)	151.6
UK Bus (London)	(3.2)	–	(3.2)	(2.7)	(5.9)	(6.3)	–	(0.3)	(12.5)
North America	40.4	–	40.4	(21.1)	19.3	(0.1)	–	(0.7)	18.5
UK Rail – subsidiaries	54.0	–	54.0	(5.6)	48.4	(2.5)	–	(1.3)	44.6
UK Rail – joint venture (Virgin Rail Group)	39.5	(11.1)	28.4	–	28.4	(5.1)	–	–	23.3
UK Bus – joint venture (Citylink)	2.5	(0.7)	1.8	–	1.8	–	–	–	1.8
North America – joint venture (Twin America)	9.7	(0.4)	9.3	–	9.3	–	–	–	9.3
Group overheads	(11.2)	–	(11.2)	(0.1)	(11.3)	–	–	(0.3)	(11.6)
Restructuring costs	(2.9)	–	(2.9)	–	(2.9)	–	–	2.9	–
	<b>342.7</b>	<b>(12.2)</b>	<b>330.5</b>	<b>(90.3)</b>	<b>240.2</b>	<b>(15.2)</b>	<b>–</b>	<b>–</b>	<b>225.0</b>

# Notes to the consolidated financial statements

## Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2012	2011
	£m	£m
Miscellaneous revenue	104.7	94.3
Rail franchise premia	(407.5)	(284.8)
Rail revenue support	124.4	68.1
Materials and consumables	(326.2)	(289.7)
Staff costs (note 6)	(953.8)	(941.9)
Depreciation on property, plant and equipment (note 12)	(99.9)	(90.3)
Loss on disposal of plant and equipment	(0.6)	(0.9)
Repairs and maintenance expenditure on property, plant and equipment	(31.4)	(31.4)
Amortisation of intangible assets (note 11)	(9.1)	(10.1)
Network Rail charges, including electricity for traction	(225.4)	(225.3)
Operating lease rentals payable		
– plant and equipment	(153.4)	(136.0)
– property	(9.9)	(8.5)
Other external charges	(361.8)	(339.8)
Restructuring costs	(2.3)	(2.9)
<b>Total operating costs and other operating income</b>	<b>(2,352.2)</b>	<b>(2,199.2)</b>

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

Rail revenue support is the amount of additional financial support receivable from the DfT in certain circumstances where a train operating company's revenue is below target.

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:

	2012	2011
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's financial statements and consolidated financial statements	30.0	25.0
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	800.0	794.9
<b>Total audit fees</b>	<b>830.0</b>	<b>819.9</b>
Taxation compliance services	61.1	–
Other taxation advisory services	144.1	–
Other assurance services	26.8	28.4
Other non-audit services	0.9	2.9
<b>Non-audit fees</b>	<b>232.9</b>	<b>31.3</b>
<b>Total fees payable by the Group to its auditors</b>	<b>1,062.9</b>	<b>851.2</b>

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US\$130,000 (2011: US\$120,000) in relation to the audit of our joint venture, Twin America LLC.

A description of the work of the Audit Committee is set out in the Audit Committee Report on pages 37 and 38, and includes an explanation of how auditor independence is safeguarded when non-audit services are provided by the auditors.

#### Note 4 Exceptional items and intangible asset expenses

The Group highlights amounts before intangible asset expenses and exceptional items as well as clearly reporting the results in accordance with IFRS. Exceptional items are defined in note 35.

Information on exceptional items is provided in section 2.6.2 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 2012 and for the prior year comparatives can be further analysed as follows:

	2012			2011		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m	£m	£m	£m
<b>Operating costs</b>						
Curtailment gain – pension scheme	38.0	–	38.0	–	–	–
Intangible asset expenses	–	(9.1)	(9.1)	–	(10.1)	(10.1)
<b>Operating costs</b>	<b>38.0</b>	<b>(9.1)</b>	<b>28.9</b>	<b>–</b>	<b>(10.1)</b>	<b>(10.1)</b>
<b>Share of profit of joint ventures</b>						
Goodwill charged on investment in joint ventures	–	(3.2)	(3.2)	–	(5.1)	(5.1)
<b>Non-operating exceptional items – continuing operations</b>						
Loss on sale of properties	–	–	–	(0.1)	–	(0.1)
Revision to the estimated insurance provision relating to pre-acquisition liabilities	–	–	–	4.6	–	4.6
Expenses incurred in relation to acquisitions	(0.5)	–	(0.5)	(0.6)	–	(0.6)
Gains/(loss) on disposal of operations (note 16)	17.7	–	17.7	(3.2)	–	(3.2)
Loss on closure or restructuring of operations	(5.6)	–	(5.6)	–	–	–
<b>Non-operating exceptional items – continuing operations</b>	<b>11.6</b>	<b>–</b>	<b>11.6</b>	<b>0.7</b>	<b>–</b>	<b>0.7</b>
<b>Intangible asset expenses and exceptional items – continuing operations</b>	<b>49.6</b>	<b>(12.3)</b>	<b>37.3</b>	<b>0.7</b>	<b>(15.2)</b>	<b>(14.5)</b>
Tax effect of intangible asset expenses and exceptional items	(13.5)	2.4	(11.1)	(1.3)	3.1	1.8
<b>Intangible asset expenses and exceptional items after taxation – continuing operations</b>	<b>36.1</b>	<b>(9.9)</b>	<b>26.2</b>	<b>(0.6)</b>	<b>(12.1)</b>	<b>(12.7)</b>
<b>Resolution of certain liabilities re disposals – discontinued operations</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>18.5</b>	<b>–</b>	<b>18.5</b>

The "goodwill charged on investment in joint ventures" is an annual charge for goodwill in relation to our investment in Virgin Rail Group. On adoption of IFRS, the Group took the exemption offered under IFRS 1 not to restate prior period business combinations. Accordingly, the goodwill arising under UK GAAP on the acquisition of the 49% stake in Virgin Rail Group was carried over to IFRS. However, Virgin Rail Group's only significant business is the operation of the West Coast Trains rail franchise, which has a finite duration as the 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 the current West Coast Trains rail 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 Finance costs and income

Net finance costs and items of income, expense, gains and losses in respect of financial instruments (excluding commodity hedges, trade and other payables, and trade and other receivables) have been recognised in the financial statements:

	2012	2011
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable	2.0	2.2
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	1.5	3.2
<b>Finance income</b>	<b>3.5</b>	<b>5.4</b>
Interest expense on financial liabilities not at fair value through profit and loss		
– Interest payable and other facility costs on bank loans, loan notes and overdrafts	(5.6)	(5.7)
– Interest payable on hire purchase and finance leases	(6.2)	(6.8)
– Interest payable and other finance costs on bonds	(23.7)	(23.5)
Other finance costs		
– Unwinding of discounts on provisions	(2.7)	(3.9)
<b>Finance costs</b>	<b>(38.2)</b>	<b>(39.9)</b>
<b>Net finance costs</b>	<b>(34.7)</b>	<b>(34.5)</b>

# Notes to the consolidated financial statements

## Note 6 Staff costs

Total staff costs were as follows:

	2012	2011
	£m	£m
<b>Staff costs</b>		
Wages and salaries	<b>871.0</b>	823.7
Social security costs	<b>78.1</b>	68.8
Pension costs (note 25)	<b>(2.0)</b>	42.2
Share based payment costs (excluding social security costs)		
– Equity-settled	<b>3.0</b>	4.7
– Cash-settled	<b>3.7</b>	2.5
	<b>953.8</b>	941.9

	2012	2011
	£m	£m
<b>Summary of directors' remuneration</b>		
Aggregate emoluments (including bonuses awarded in deferred shares)	<b>2.5</b>	2.5
Amount waived by a director	<b>(0.3)</b>	(0.3)
	<b>2.2</b>	2.2

In the table above, awards made under the Executive Participation Plan are shown in the year in respect of which the award was made and the amount is included at its fair value on the grant date.

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 on pages 41 to 47.

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

	2012	2011
	number	number
UK operations	<b>26,278</b>	24,802
UK administration and supervisory	<b>3,126</b>	3,140
North America	<b>3,502</b>	3,857
	<b>32,906</b>	31,799

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

	2012	2011
	number	number
UK Bus (regional operations)	<b>18,394</b>	18,294
UK Bus (London)	<b>4,133</b>	2,429
North America	<b>3,502</b>	3,857
UK Rail	<b>6,742</b>	7,090
Central	<b>135</b>	129
	<b>32,906</b>	31,799



## Note 7 Taxation

### (a) Analysis of charge in the year

	2012			2011		
	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 25.8% (2011: 27.8%)	<b>28.6</b>	<b>(0.6)</b>	<b>28.0</b>	26.3	(1.8)	24.5
Prior year over provision for corporation tax	<b>(2.1)</b>	–	<b>(2.1)</b>	(2.2)	–	(2.2)
Foreign tax (current year)	<b>0.7</b>	<b>0.3</b>	<b>1.0</b>	0.4	–	0.4
Foreign tax (adjustments in respect of prior years)	<b>(0.3)</b>	–	<b>(0.3)</b>	(0.2)	–	(0.2)
<b>Total current tax</b>	<b>26.9</b>	<b>(0.3)</b>	<b>26.6</b>	24.3	(1.8)	22.5
Deferred tax:						
Origination and reversal of temporary differences	<b>16.9</b>	<b>11.4</b>	<b>28.3</b>	12.2	–	12.2
Change in tax rates	<b>(4.0)</b>	–	<b>(4.0)</b>	(4.8)	–	(4.8)
Adjustments in respect of prior years	<b>0.6</b>	–	<b>0.6</b>	3.4	–	3.4
<b>Total deferred tax</b>	<b>13.5</b>	<b>11.4</b>	<b>24.9</b>	10.8	–	10.8
<b>Total tax on profit</b>	<b>40.4</b>	<b>11.1</b>	<b>51.5</b>	35.1	(1.8)	33.3

### (b) Factors affecting tax charge for the year

	2012	2011
	£m	£m
Profit before taxation – continuing operations	<b>239.8</b>	191.2
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 25.8% (2011: 27.8%)	<b>61.9</b>	53.2
Effects of:		
Intangible asset allowances/deductions	<b>0.9</b>	1.2
Non-deductible expenditure/non-taxable income	<b>0.9</b>	1.6
Utilisation of tax losses not previously recognised as deferred tax assets	<b>(3.7)</b>	(11.6)
Foreign taxes differences	<b>3.3</b>	1.6
Adjustments to tax charge in respect of prior years	<b>(1.9)</b>	1.0
Tax effect of share of results of joint ventures	<b>(4.4)</b>	(8.4)
Change in UK corporation rate to 24% from 1 April 2012	<b>(5.5)</b>	(5.3)
<b>Total taxation (note 7a)</b>	<b>51.5</b>	33.3

### (c) Factors that may affect future tax charges

There are no temporary differences associated with investments in foreign subsidiaries for which deferred tax liabilities have not been recognised.

Gross deductible temporary differences of £71.1m (2011: £72.8m) have not been recognised due to restrictions in the availability of their use.

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

The UK Government had previously announced its intention to reduce the UK corporate income tax rate to 23% by April 2014.

On 21 March 2012, the UK Government announced its intention to further reduce the rate with effect from 1 April 2012 by another 1% creating a 22% main rate by 2014.

The deferred tax balances as at 30 April 2012 have been determined with reference to the enacted UK corporate income tax rate of 24%. The rate change reduction to 23% which is proposed to take effect from 1 April 2013 had not been substantively enacted at the balance sheet date. Had the reduction to 23% been substantively enacted the estimated impact of this reduction on the deferred tax liability would have been a reduction of £0.7m.

### (d) Tax on items taken directly or transferred from equity

The components of tax on items taken directly to or transferred from equity are shown in the consolidated statement of comprehensive income on page 51.

# Notes to the consolidated financial statements

## Note 8 Dividends

Dividends payable in respect of ordinary shares are shown below. Dividends payable in respect of 'B' Shares are included as an expense in finance costs.

	2012	2011	2012	2011
	pence per share	pence per share	£m	£m
<b>Amounts recognised as distributions in the year</b>				
<b>Dividends on ordinary shares</b>				
Final dividend in respect of the previous year	4.9	–	35.2	–
Interim dividends in respect of the current year	2.4	2.2	13.8	15.8
<b>Amounts recognised as distributions to equity holders in the year</b>	<b>7.3</b>	<b>2.2</b>	<b>49.0</b>	<b>15.8</b>
<b>Dividends proposed but neither paid nor included as liabilities in the financial statements</b>				
<b>Dividends on ordinary shares</b>				
Final dividend in respect of the current year	5.4	4.9	31.0	35.2

## Note 9 Earnings per share

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held by employee share ownership trusts.

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to share options and long-term incentive plans. In respect of share options, a calculation was performed 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 was compared with the number of ordinary shares that would have been issued assuming the exercise of the share options. The difference was added to the denominator as an issue of ordinary shares for no consideration and no adjustment was made to earnings (numerator).

	2012	2011
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	638.7	717.5
Dilutive ordinary shares		
– Executive Share Option Scheme	–	0.3
– Long Term Incentive Plan	5.1	3.2
– Executive Participation Plan	4.1	4.1
Diluted weighted average number of ordinary shares	647.9	725.1

	2012	2011
	£m	£m
Profit after taxation (for basic EPS calculation)	188.3	176.4
Intangible asset expenses before tax (see note 4)	12.3	15.2
Exceptional items before tax (see note 4)	(49.6)	(0.7)
Tax effect of intangible asset expenses and exceptional items (see note 4)	11.1	(1.8)
Profit for the year from discontinued operations (see note 4)	–	(18.5)
Profit for adjusted EPS calculation	162.1	170.6

## Note 9 Earnings per share (continued)

Earnings per share before intangible asset expenses and exceptional items is calculated by adding back intangible asset expenses and exceptional items after taking account of taxation, as shown on the consolidated income statement on page 50. 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 analysed as follows:

	2012			2011		
	Earnings £m	Weighted average number of shares Million	Earnings per share Pence	Earnings £m	Weighted average number of shares Million	Earnings per share Pence
<b>Basic</b>						
– Continuing operations	188.3	638.7	29.5	157.9	717.5	22.0
– Discontinued operations	–	638.7	–	18.5	717.5	2.6
	188.3	638.7	29.5	176.4	717.5	24.6
<b>Adjusted basic</b>						
– Continuing operations	162.1	638.7	25.4	170.6	717.5	23.8
– Discontinued operations	–	638.7	–	–	717.5	–
	162.1	638.7	25.4	170.6	717.5	23.8
<b>Diluted</b>						
– Continuing operations	188.3	647.9	29.1	157.9	725.1	21.7
– Discontinued operations	–	647.9	–	18.5	725.1	2.6
	188.3	647.9	29.1	176.4	725.1	24.3
<b>Adjusted diluted</b>						
– Continuing operations	162.1	647.9	25.0	170.6	725.1	23.5
– Discontinued operations	–	647.9	–	–	725.1	–
	162.1	647.9	25.0	170.6	725.1	23.5

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 2012.

# Notes to the consolidated financial statements

## Note 10 Goodwill

The movements in goodwill were as follows:

	2012	2011
	£m	£m
<b>Net book value</b>		
At beginning of year	95.3	99.4
Acquired through business combinations	0.7	3.7
Disposals	(1.7)	(2.5)
Impairment	(4.6)	–
Foreign exchange movements	1.7	(5.3)
At end of year	91.4	95.3

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

The cash generating units are as follows:

	UK Bus (regional operations)		UK Bus (London)		North America	
	2012	2011	2012	2011	2012	2011
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	33.1	32.4	3.6	3.6	54.7	59.3

Basis on which recoverable amount has been determined	Value in use	Value in use	Value in use	Value in use	Value in use	Value in use
Period covered by approved management plans used in value in use calculation	5 years	5 years	5 years	5 years	5 years	5 years
Pre-tax discount rate applied to cash flow projections	9.0%	10.3%	9.0%	10.3%	11.8%	13.3%
Growth rate used to extrapolate cash flows beyond period of management plan	2.2%	2.0%	2.2%	2.0%	1.6%	1.7%
Difference between above growth rate and long-term average growth rate for market in which unit operates	Nil	Nil	Nil	Nil	Nil	Nil

The calculation of value in use for each cash generating unit shown above is most sensitive to the assumptions on discount rates and growth rates and in the case of UK Bus (London), the number of new contracts won and the terms of such contracts. The assumptions used are considered to be consistent with past experience and external sources of information and to be realistically achievable in light of economic and industry measures and forecasts.

The principal risks and uncertainties are set out in section 2.3.6 of the Operating and Financial Review.

The cost base of the UK Bus (regional operations) 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. Risks to the cash flow forecasts remain, however, and are described in section 2.3.6. The cost base of UK Bus (London) is less flexible because the business is contractually committed to operate the majority of its services.

The discount rates have been determined with reference to the estimated post-tax Weighted Average Cost of Capital (“WACC”) of the Group. The WACC has been estimated as at 30 April 2012 at 6.7% based on:

- The market capitalisation and net debt of the Group as at 30 April 2012 as an indication of the split between debt and equity;
- A risk-free rate of 2.1%;
- A levered beta for the Group of 0.9;
- A marginal pre-tax cost of debt of 5.3%.

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 11 Other intangible assets

The movements in other intangible assets, none of which were internally generated and all of which are assumed to have finite useful lives, were as follows:

#### Year ended 30 April 2012

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	36.2	12.3	19.7	2.0	70.2
Additions	–	–	–	2.6	2.6
Disposals	–	–	–	(0.2)	(0.2)
Foreign exchange movements	–	0.1	–	–	0.1
At end of year	36.2	12.4	19.7	4.4	72.7
<b>Accumulated amortisation</b>					
At beginning of year	(24.0)	(12.2)	(8.7)	(1.1)	(46.0)
Amortisation charged to income statement	(6.4)	–	(2.2)	(0.5)	(9.1)
Foreign exchange movements	–	(0.1)	–	–	(0.1)
At end of year	(30.4)	(12.3)	(10.9)	(1.6)	(55.2)
Net book value at beginning of year	12.2	0.1	11.0	0.9	24.2
Net book value at end of year	5.8	0.1	8.8	2.8	17.5

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.

#### Year ended 30 April 2011

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	18.6	12.7	19.7	1.7	52.7
Additions	–	–	–	0.4	0.4
Acquired through business combinations	17.8	–	–	–	17.8
Disposals	(0.2)	–	–	(0.1)	(0.3)
Foreign exchange movements	–	(0.4)	–	–	(0.4)
At end of year	36.2	12.3	19.7	2.0	70.2
<b>Accumulated amortisation</b>					
At beginning of year	(17.1)	(12.3)	(6.6)	(0.6)	(36.6)
Amortisation charged to income statement	(7.1)	(0.3)	(2.1)	(0.6)	(10.1)
Disposals	0.2	–	–	0.1	0.3
Foreign exchange movements	–	0.4	–	–	0.4
At end of year	(24.0)	(12.2)	(8.7)	(1.1)	(46.0)
Net book value at beginning of year	1.5	0.4	13.1	1.1	16.1
Net book value at end of year	12.2	0.1	11.0	0.9	24.2

# Notes to the consolidated financial statements

## Note 12 Property, plant and equipment

The movements in property, plant and equipment were as follows:

### Year ended 30 April 2012

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	283.8	1,059.0	193.3	1,536.1
Additions	11.7	154.3	48.7	214.7
Acquired through business combinations	–	1.6	–	1.6
Disposals of subsidiaries	(1.8)	(22.8)	(0.6)	(25.2)
Disposals	(15.3)	(91.2)	(15.8)	(122.3)
Foreign exchange movements	0.7	4.9	–	5.6
Reclassifications	(1.1)	2.4	(1.3)	–
At end of year	278.0	1,108.2	224.3	1,610.5
<b>Depreciation</b>				
At beginning of year	(33.4)	(446.3)	(132.1)	(611.8)
Depreciation charged to income statement	(6.9)	(80.3)	(12.7)	(99.9)
Disposals of subsidiaries	0.7	9.3	0.3	10.3
Disposals	0.2	52.9	3.2	56.3
Foreign exchange movements	(0.3)	(3.4)	(0.1)	(3.8)
Reclassifications	0.5	(2.3)	1.8	–
At end of year	(39.2)	(470.1)	(139.6)	(648.9)
Net book value at beginning of year	250.4	612.7	61.2	924.3
Net book value at end of year	238.8	638.1	84.7	961.6
Included in the above net book value at end of year are:				
Assets on hire purchase	–	174.0	–	174.0
Assets on finance leases	–	69.2	–	69.2
Long leasehold land and buildings	60.4	–	–	60.4

Included in the net book value of property, plant and equipment is £29.6m (2011: £27.2m) in respect of assets under construction that the Group expects to be sold to Network Rail following the completion of each asset's construction.

### Year ended 30 April 2011

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	237.2	1,001.7	161.6	1,400.5
Additions	10.7	117.4	39.7	167.8
Acquired through business combinations	39.7	41.0	1.5	82.2
Disposals of subsidiaries	(0.6)	(6.5)	(0.6)	(7.7)
Disposals	(0.6)	(70.2)	(11.8)	(82.6)
Foreign exchange movements	(2.6)	(21.4)	(0.1)	(24.1)
Reclassifications	–	(3.0)	3.0	–
At end of year	283.8	1,059.0	193.3	1,536.1
<b>Depreciation</b>				
At beginning of year	(29.1)	(453.6)	(121.6)	(604.3)
Depreciation charged to income statement	(5.7)	(73.5)	(11.1)	(90.3)
Disposals of subsidiaries	0.2	3.5	0.5	4.2
Disposals	0.2	62.7	3.2	66.1
Foreign exchange movements	1.0	11.6	(0.1)	12.5
Reclassifications	–	3.0	(3.0)	–
At end of year	(33.4)	(446.3)	(132.1)	(611.8)
Net book value at beginning of year	208.1	548.1	40.0	796.2
Net book value at end of year	250.4	612.7	61.2	924.3
Included in the above net book value at end of year are:				
Assets on hire purchase	–	224.1	–	224.1
Assets on finance leases	–	64.2	–	64.2
Long leasehold land and buildings	57.5	–	–	57.5

### Note 13 Interests in joint ventures

The principal joint ventures are:

	Country of incorporation	Number of shares in issue at 30 April 2012	Nominal value of share capital in issue at 30 April 2012	% interest held
Virgin Rail Group Holdings Limited	United Kingdom	34,780	£3,478	49%
Scottish Citylink Coaches Limited	United Kingdom	1,643,312	£1,643,312	35%
Twin America LLC	USA	n/a	n/a	60%

The Group has three joint ventures: Virgin Rail Group Holdings Limited, Scottish Citylink Coaches Limited ("Citylink") 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.

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 making this judgement, the Group noted that although it is responsible for the day to day management of Citylink's operations, key decisions are reserved for the joint venture partners.

In North America, Stagecoach has a joint venture Twin America LLC, with CitySights. Twin America LLC began operating 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, which provides for joint decision making on key matters. Although the Managing Director of Twin America LLC is a representative of the other joint venture partner, the Group concluded Twin America LLC is a joint venture because key decisions are reserved for the two joint venture partners.

The Directors undertook an impairment review as at 30 April 2012 of the carrying value of the Group's joint venture interests and concluded that there had been no impairment loss. The movements in the carrying values were as follows:

	Virgin Rail Group	Citylink	Twin America LLC	Total 2012	Total 2011
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	66.5	3.9	41.0	111.4	104.9
Share of recognised profit	15.9	2.0	9.7	27.6	39.5
Share of actuarial losses on defined benefit pension schemes, net of tax	(0.3)	–	–	(0.3)	(0.5)
Share of net fair value losses on cash flow hedges, net of tax	(1.0)	–	–	(1.0)	(0.1)
Dividends received in cash	(15.7)	(1.2)	(8.9)	(25.8)	(28.8)
Foreign exchange movements	–	–	1.2	1.2	(3.6)
At end of year	65.4	4.7	43.0	113.1	111.4
<b>Amounts written off</b>					
At beginning of year	(53.3)	–	–	(53.3)	(48.2)
Goodwill charged to income statement	(3.2)	–	–	(3.2)	(5.1)
At end of year	(56.5)	–	–	(56.5)	(53.3)
Net book value at beginning of year	13.2	3.9	41.0	58.1	56.7
Net book value at end of year	8.9	4.7	43.0	56.6	58.1

A loan payable to Scottish Citylink Coaches Limited of £1.7m (2011: £1.7m) is reflected in note 21.

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

	Virgin Rail Group	Citylink	Twin America LLC	Total 2012	Total 2011
	£m	£m	£m	£m	£m
Non-current assets	1.6	0.1	14.2	15.9	17.3
Current assets	70.0	4.0	6.6	80.6	99.2
Current liabilities	(63.7)	(2.0)	(5.6)	(71.3)	(92.3)
Share of net assets	7.9	2.1	15.2	25.2	24.2
Goodwill	1.0	2.6	27.8	31.4	33.9
	8.9	4.7	43.0	56.6	58.1

# Notes to the consolidated financial statements

## Note 13 Interests in joint ventures (continued)

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

	Virgin Rail Group	Citylink	Twin America LLC	Total 2012	Total 2011
	£m	£m	£m	£m	£m
Revenue	429.5	13.6	50.6	493.7	447.4
Expenses	(408.0)	(10.9)	(40.4)	(459.3)	(395.7)
Operating profit	21.5	2.7	10.2	34.4	51.7
Finance income (net)	0.3	–	–	0.3	0.2
Taxation	(5.9)	(0.7)	(0.5)	(7.1)	(12.4)
Share of joint ventures' profit after taxation	15.9	2.0	9.7	27.6	39.5

## Note 14 Available for sale and other investments

The movements in available for sale and other investments were as follows:

	2012	2011
	£m	£m
<b>Cost / valuation</b>		
At beginning of year	2.1	3.7
Additions	0.3	0.4
Disposals	(0.1)	(1.8)
Foreign exchange movements	–	(0.2)
At end of year	2.3	2.1
<b>Amounts written off</b>		
At beginning of year	–	(1.8)
Disposals	–	1.8
At end of year	–	–
Net book value at beginning of year	2.1	1.9
Net book value at end of year	2.3	2.1

## Note 15 Business combinations

None of the businesses acquired by the Group during the year ended 30 April 2012 were material to the Group as a whole.

The effect of acquisitions on consolidated net debt was:

	2012	2011
	£m	£m
<b>Fair value to Group</b>		
Intangible fixed assets (excluding goodwill)	–	17.8
Property, plant and equipment	1.6	82.2
Other net liabilities	–	(98.2)
Net assets acquired, excluding goodwill	1.6	1.8
Goodwill arising on acquisition	0.7	3.7
Consideration	2.3	5.5
Costs of acquisitions in year	–	0.6
Add: deferred consideration paid in respect of businesses acquired in prior years	–	0.3
Intercompany debt assumed and re-financed	–	54.1
Net cash and cash equivalents acquired (including overdrafts)	–	(3.5)
Net cash outflow	2.3	57.0



## Note 16 Disposals

In respect of businesses disposed of, the consideration, net assets disposed and profit on disposal for the year ended 30 April 2012, were as follows:

	2012	2011
	£m	£m
Net assets disposed	<b>26.5</b>	5.3
Gain/(loss) on disposal	<b>17.7</b>	(3.2)
Net consideration receivable	<b>44.2</b>	2.1
Cash included in net assets disposed	<b>(4.6)</b>	–
Deferred consideration in respect of businesses disposed of in current year	<b>(0.2)</b>	(0.9)
Deferred consideration received in year in respect of businesses disposed of in prior years	<b>0.9</b>	–
Net cash inflow	<b>40.3</b>	1.2

## Note 17 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2012 were:

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

All companies operate in the countries shown above and, except for Stagecoach Transport Holdings Limited, are indirectly held. The Group considers that principal subsidiaries includes 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. These thresholds exclude any intercompany amounts and investments in subsidiaries. A complete list of subsidiary undertakings is available on request to the Company and will be filed with the next Annual Return.

# Notes to the consolidated financial statements

## Note 18 Inventories

Inventories were as follows:

	2012	2011
	£m	£m
Parts and consumables	22.2	26.6

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. Changes in the provision for slow moving and obsolete inventories were as follows:

	2012	2011
	£m	£m
At beginning of year	1.7	1.6
Charged to income statement	0.9	0.4
Amount utilised	(0.2)	(0.3)
At end of year	2.4	1.7

The Group is party to consignment stock arrangements and as at 30 April 2012, the Group physically held consignment stock of a value amounting to £0.5m (2011: £0.7m) in addition to the amounts disclosed above.

## Note 19 Trade and other receivables

Trade and other receivables were as follows:

	2012	2011
	£m	£m
<b>Non-current:</b>		
Loan to joint venture	–	2.8
Less: provision for impairment	–	(2.8)
	–	–
Prepayments	16.1	19.2
Other receivables	0.3	0.2
	16.4	19.4
<b>Current:</b>		
Trade receivables	110.0	115.0
Less: provision for impairment	(1.6)	(1.9)
Trade receivables – net	108.4	113.1
Other receivables	29.2	23.6
Prepayments	24.8	29.3
Accrued income	33.0	31.1
VAT and other government receivables	25.8	24.4
	221.2	221.5

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

	2012	2011
	£m	£m
At beginning of year	(1.9)	(4.5)
Impairment losses in year charged to income statement	(0.4)	(0.8)
Reversal of impairment losses credited to income statement	0.1	0.3
Amounts utilised	0.6	3.1
At end of year	(1.6)	(1.9)

Further information on credit risk is provided in note 26.

## Note 20 Cash and cash equivalents

	2012	2011
	£m	£m
Cash at bank and in hand	<b>241.0</b>	<b>358.3</b>

The cash amounts shown above include £80.0m on 12 month deposit maturing by March 2013, £37.0m on 3 month deposit maturing by July 2012, and £5.0m deposited on 30 day notice accounts (2011: £25.0m on 12 month deposit maturing by March 2012, £52.0m deposited on 3 month deposit maturing by May 2011, £65.0m on 3 month deposit maturing by June 2011, and £35.0m deposited on 30 day notice accounts). The remaining amounts are accessible to the Group within one day (2011: one day).

The Group has a bank offset arrangement whereby the Company and several of its subsidiaries each have bank accounts with the same bank, which are subject to rights of offset. The cash at bank and in hand of £241.0m (2011: £358.3m) above included the net balance on these offset accounts of £7.0m (2011: £24.2m), which comprised £337.3m (2011: £844.5m) of positive bank balances less £330.3m (2011: £820.3m) of bank overdrafts.

## Note 21 Trade and other payables

Trade and other payables were as follows:

	2012	2011
	£m	£m
<b>Current</b>		
Trade payables	<b>129.9</b>	134.6
Accruals	<b>272.0</b>	270.1
Deferred income	<b>105.1</b>	94.1
Cash-settled share based payment liability	<b>3.5</b>	0.5
Deferred grant income	<b>3.1</b>	1.4
Loans from joint ventures	<b>1.7</b>	1.7
PAYE and NIC payable	<b>25.2</b>	23.0
VAT and other government payables	<b>2.9</b>	4.2
	<b>543.4</b>	529.6
<b>Non-current</b>		
Accruals	<b>9.2</b>	13.9
Deferred grant income	<b>9.5</b>	7.3
Cash-settled share based payment liability	<b>2.4</b>	2.0
PAYE and NIC payable	<b>0.6</b>	0.6
Other payables	<b>0.5</b>	0.5
	<b>22.2</b>	24.3

# Notes to the consolidated financial statements

## Note 22 Borrowings

### (a) Repayment profile

Borrowings are repayable as follows:

	2012	2011
	£m	£m
<b>On demand or within 1 year</b>		
Loan notes	20.9	21.1
Hire purchase and lease obligations	35.0	38.8
Redeemable 'B' preference shares	–	2.6
	<b>55.9</b>	<b>62.5</b>
<b>Within 1-2 years</b>		
Hire purchase and lease obligations	41.2	33.7
<b>Within 2-5 years</b>		
Bank loans	155.4	–
Hire purchase and lease obligations	88.8	98.8
Sterling 5.75% Notes	410.4	–
	<b>654.6</b>	<b>98.8</b>
<b>Over 5 years</b>		
Hire purchase and lease obligations	25.2	49.4
Sterling 5.75% Notes	–	410.2
	<b>25.2</b>	<b>459.6</b>
Total borrowings	<b>776.9</b>	654.6
Less current maturities	<b>(55.9)</b>	(62.5)
Non-current portion of borrowings	<b>721.0</b>	592.1

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 LIBOR rates, subject to certain minimum rates. Interest terms on overseas lease obligations are at fixed rates, which at 30 April 2012 average 3.20% per annum. Interest terms on bank loans are at LIBOR plus margins ranging from 0.80% to 1.40%. Interest on loan notes are at three months LIBOR. Loan notes amounting to £20.9m (2011: £21.1m) 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 and Sterling Notes are unsecured.

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

	2012	2011
	£m	£m
Not later than one year	39.6	43.6
Later than one year but not more than five years	138.8	142.7
More than five years	25.5	49.9
	<b>203.9</b>	<b>236.2</b>
Future finance costs on hire purchase and finance leases	<b>(13.7)</b>	(15.5)
Carrying value of hire purchase and finance lease liabilities	<b>190.2</b>	220.7

For variable-rate hire purchase arrangements, the future finance costs included in the above table are based on the interest rates applying at the balance sheet date.

The Group in its ordinary course of business enters into hire purchase and finance lease agreements to fund or refinance the purchase of vehicles. All of the hire purchase and lease obligations shown above are in respect of vehicles. The lease agreements are typically for periods of 5 to 10 years and do not have contingent rent or escalation clauses.

The agreements have industry standard terms and do not contain any restrictions on dividends, additional debt or further leasing.

### (b) Sterling 5.75% Notes

On 16 December 2009, the Group issued £400m of 5.75% Notes due in 2016. Interest on the Notes is paid annually in arrears and all remaining Notes will be redeemed at their principal amount on 16 December 2016.

The Notes were issued at 99.599% of their principal amount. The consolidated carrying value of the Notes at 30 April 2012 was £410.4m (2011: £410.2m) after taking account of accrued interest, the discount on issue, issue costs and the fair value of interest rate swaps used to manage the interest rate profile of the Notes.

## Note 23 Deferred tax

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

	Deferred tax liabilities
	£m
Beginning of year	(46.8)
Charged to income statement	(24.9)
Credited to equity	31.7
End of year	(40.0)

The deferred tax liabilities after more than one year are £40.0m (2011: £46.8m).

Deferred taxation is calculated as follows:

	2012	2011
	£m	£m
Accelerated capital allowances	<b>(87.0)</b>	(99.1)
Pension temporary differences	<b>29.8</b>	25.2
Short-term temporary differences	<b>17.2</b>	27.1
	<b>(40.0)</b>	(46.8)

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

	2012	2011
	£m	£m
Accelerated capital allowances	<b>12.1</b>	(4.9)
Pension temporary differences	<b>(16.2)</b>	(4.8)
Short-term temporary differences	<b>(20.8)</b>	(1.1)
	<b>(24.9)</b>	(10.8)

## Note 24 Provisions

The movements in provisions were as follows:

	Token redemption provision	Insurance provisions	Environmental provisions	Redundancy provision	Onerous contracts	Total
	£m	£m	£m	£m	£m	£m
Beginning of year	12.1	130.3	3.0	1.7	36.4	183.5
Provided during year (after discounting)	–	51.9	0.3	0.3	1.7	54.2
Unwinding of discount	–	2.5	–	–	0.2	2.7
Utilised in the year	–	(50.1)	(0.5)	(1.2)	(8.7)	(60.5)
Disposal of subsidiaries	–	(0.2)	–	–	–	(0.2)
Arising on sale of tokens during year	1.3	–	–	–	–	1.3
Redemption of tokens	(2.9)	–	–	–	–	(2.9)
Foreign exchange movements	–	0.9	0.1	–	–	1.0
End of year	10.5	135.3	2.9	0.8	29.6	179.1
30 April 2012:						
Current	2.9	43.5	0.6	0.8	9.4	57.2
Non-current	7.6	91.8	2.3	–	20.2	121.9
	10.5	135.3	2.9	0.8	29.6	179.1
30 April 2011:						
Current	4.1	41.9	0.5	1.7	8.7	56.9
Non-current	8.0	88.4	2.5	–	27.7	126.6
	12.1	130.3	3.0	1.7	36.4	183.5

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 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 provision relates to planned redundancies and is expected to be utilised within one year.

Provisions for onerous contracts relate to contracts where the costs of fulfilling the contract outweigh the economic benefits to be received, which includes contracts that have been acquired through business combinations that have been identified as being on unfavourable terms at the relevant acquisition date. The provisions are expected to be fully utilised within four years.

# Notes to the consolidated financial statements

## Note 25 Retirement benefits

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

	Date as at which last scheme valuation was prepared
• Stagecoach Pension Schemes (“SPS”) comprising the Stagecoach Group Pension Scheme and the East London Bus Group Pension Scheme;	30 April 2011, 5 April 2010
• The South West Trains section of the Railways Pension Scheme (“RPS”);	30 December 2010
• The Island Line section of the Railways Pension Scheme (“RPS”);	30 December 2010
• The East Midlands Trains section of the Railways Pension Scheme (“RPS”); and	30 December 2010
• A number of UK Local Government Pension Schemes (“LGPS”).	5 April 2010

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. In addition, under the terms of RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of RPS. The employees’ share of the deficit (or surplus) is reflected as an adjustment to the RPS liabilities (or assets). Therefore the liability (or asset) recognised for the relevant sections of RPS reflects that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The “franchise adjustment” is the portion of the deficit (or surplus) that is expected to exist at the end of the franchise and which the Group would not be obliged to fund (or entitled to recover).

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

The consolidated balance sheet shows retirement benefit assets of £17.0m (2011: £23.7m) and retirement benefit obligations of £141.1m (2011: £120.8m). The net liability of £124.1m (2011: £97.1m) is analysed below.

The amounts recognised in the balance sheet were as follows:

As at 30 April 2012	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities and hedge funds	797.1	473.1	178.3	0.3	–	1,448.8
Bonds	120.1	99.1	39.6	0.6	–	259.4
Cash	46.1	3.1	35.3	0.3	–	84.8
Property	70.8	93.8	15.9	–	–	180.5
Fair value of plan assets	1,034.1	669.1	269.1	1.2	–	1,973.5
Present value of obligations						
– gross liabilities	(1,093.0)	(882.3)	(280.8)	(4.6)	(4.3)	(2,265.0)
– adjustment for members’ share of RPS deficit (40%)	–	85.3	–	–	–	85.3
– franchise adjustment	–	85.1	–	–	–	85.1
Present value of obligations	(1,093.0)	(711.9)	(280.8)	(4.6)	(4.3)	(2,094.6)
Irrecoverable surplus	–	–	(3.0)	–	–	(3.0)
Liabilities recognised in the balance sheet	(58.9)	(42.8)	(14.7)	(3.4)	(4.3)	(124.1)

As at 30 April 2011	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities	653.6	474.4	179.7	0.3	–	1,308.0
Bonds	235.8	99.3	39.3	0.6	–	375.0
Cash	71.4	3.1	35.4	0.4	–	110.3
Property	66.9	94.1	15.9	–	–	176.9
Fair value of plan assets	1,027.7	670.9	270.3	1.3	–	1,970.2
Present value of obligations						
– gross liabilities	(1,041.0)	(913.6)	(282.9)	(4.5)	(4.2)	(2,246.2)
– adjustment for members’ share of RPS deficit (40%)	–	97.1	–	–	–	97.1
– franchise adjustment	–	99.2	–	–	–	99.2
Present value of obligations	(1,041.0)	(717.3)	(282.9)	(4.5)	(4.2)	(2,049.9)
Irrecoverable surplus	(8.2)	–	(9.2)	–	–	(17.4)
Liabilities recognised in the balance sheet	(21.5)	(46.4)	(21.8)	(3.2)	(4.2)	(97.1)

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

	2012	2011
	%	%
Equities	73.4	66.4
Bonds	13.1	19.0
Cash	4.3	5.6
Property	9.2	9.0
	100.0	100.0

**Note 25 Retirement benefits (continued)**

The amounts recognised in the income statement were as follows:

**Year ended 30 April 2012**

	Funded plans				Unfunded and DC plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Defined benefit schemes:						
Current service cost	24.3	29.2	1.6	0.1	–	55.2
Curtailment gain	(38.0)	–	–	–	–	(38.0)
Interest cost	57.3	30.6	14.8	0.2	–	102.9
Expected return on plan assets	(72.5)	(31.6)	(19.2)	(0.1)	–	(123.4)
Unwinding of franchise adjustment	–	(5.6)	–	–	–	(5.6)
Total defined benefit costs	(28.9)	22.6	(2.8)	0.2	–	(8.9)
Defined contribution costs	–	–	–	–	6.9	6.9
Total included in staff costs	(28.9)	22.6	(2.8)	0.2	6.9	(2.0)

The actual return on plan assets for the year ended 30 April 2012 was £11.3m.

**Year ended 30 April 2011**

	Funded plans				Unfunded and DC plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Defined benefit schemes:						
Current service cost	24.9	28.1	1.9	1.0	–	55.9
Interest cost	51.3	29.3	16.5	0.2	–	97.3
Expected return on plan assets	(62.0)	(28.2)	(19.2)	(0.1)	–	(109.5)
Unwinding of franchise adjustment	–	(6.3)	–	–	–	(6.3)
Total defined benefit costs	14.2	22.9	(0.8)	1.1	–	37.4
Defined contribution costs	–	–	–	–	4.8	4.8
Total included in staff costs	14.2	22.9	(0.8)	1.1	4.8	42.2

The actual return on plan assets for the year ended 30 April 2011 was £145.6m.

# Notes to the consolidated financial statements

## Note 25 Retirement benefits (continued)

The movements in the net liability recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2012 were as follows:

Year ended 30 April 2012	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
At beginning of year – liability	21.5	46.4	21.8	3.2	4.2	97.1
Total expense/(credit)	(28.9)	22.6	(2.8)	0.2	–	(8.9)
Actuarial losses	92.0	0.9	0.5	–	0.3	93.7
Employers' contributions and settlements	(25.7)	(27.1)	(4.8)	–	(0.2)	(57.8)
At end of year – liability	58.9	42.8	14.7	3.4	4.3	124.1

The movements in the net liability recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2011 were as follows:

Year ended 30 April 2011	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
At beginning of year – liability	96.1	38.9	59.6	2.9	4.6	202.1
Total expense	14.2	22.9	(0.8)	1.1	–	37.4
Actuarial (gains)/losses	(53.8)	10.7	(32.7)	(0.6)	(0.1)	(76.5)
Employers' contributions and settlements	(27.2)	(26.1)	(4.2)	–	(0.3)	(57.8)
Acquisitions	(7.8)	–	–	–	–	(7.8)
Disposals	–	–	(0.1)	–	–	(0.1)
Foreign exchange movements	–	–	–	(0.2)	–	(0.2)
At end of year – liability	21.5	46.4	21.8	3.2	4.2	97.1

The movements in the present value of obligations recognised in the balance sheet in respect of defined benefit plans were as follows:

	2012	2011
	£m	£m
At beginning of year	2,049.9	1,792.6
Current service cost	55.2	55.9
Curtailement gain	(38.0)	–
Interest cost	102.9	97.3
Unwinding of franchise adjustment	(5.6)	(6.3)
Members' contributions paid	13.1	10.9
Actuarial gains	(4.0)	(57.8)
Benefits paid	(78.9)	(65.5)
Acquisitions	–	236.2
Disposals	–	(13.3)
Foreign exchange movements	–	(0.1)
At end of year	2,094.6	2,049.9

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

	2012	2011
	£m	£m
At beginning of year	1,970.2	1,590.5
Expected return on scheme assets	123.4	109.5
Actuarial (losses)/gains	(112.1)	36.1
Other employers' contributions and settlements	57.8	57.8
Members' contributions paid	13.1	10.9
Benefits paid	(78.9)	(65.5)
Acquisitions	–	244.0
Disposals	–	(13.2)
Foreign exchange movements	–	0.1
At end of year	1,973.5	1,970.2



## Note 25 Retirement benefits (continued)

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

	2012	2011
	£m	£m
Actual return less expected return on plan assets	<b>(112.1)</b>	36.1
Experience adjustment, arising on scheme liabilities	<b>22.2</b>	(23.1)
Adjustment for unrecognised surplus	<b>14.4</b>	(17.4)
Changes in assumptions underlying the present value of the liabilities	<b>1.5</b>	98.8
Franchise adjustment	<b>(19.7)</b>	(17.9)
<b>Total actuarial (loss)/gain recognised</b>	<b>(93.7)</b>	76.5

The history of the assets, liabilities and experience adjustments is as follows:

	2012	2011	2010	2009	2008
Experience adjustments on scheme liabilities (£m)	<b>22.2</b>	(23.1)	42.3	59.7	(28.6)
Scheme liabilities (£m)	<b>(2,094.6)</b>	(2,049.9)	(1,792.6)	(1,339.0)	(1,432.1)
Experience adjustments on plan assets (£m)	<b>(112.1)</b>	36.1	246.9	(334.2)	(141.7)
Plan assets (£m)	<b>1,973.5</b>	1,970.2	1,590.5	1,258.4	1,474.6
Surplus or deficit (£m)	<b>(121.1)</b>	(79.7)	(202.1)	(80.6)	42.5

The cumulative amount of actuarial gains and losses on Group defined benefit schemes recognised in the statement of comprehensive income since 1 May 2004 is a £253.4m loss (2011: £159.7m loss).

The estimated amounts of contributions expected to be paid by the Group to the schemes during the financial year ending 30 April 2013 is £64.3m (estimated at 30 April 2011 for year ended 30 April 2012: £68.1m).

The principal actuarial assumptions used were as follows:

	2012	2011
Rate of increase in pensionable salaries – SPS	<b>2.0%</b>	3.4%
Rate of increase in pensionable salaries – other defined benefit schemes	<b>4.1%</b>	4.3%
Rate of increase of pensions in payment		
– SPS	<b>3.1%</b>	3.3%
– other defined benefit schemes	<b>2.1%</b>	2.5%
Discount rate	<b>5.2%</b>	5.6%
RPI Inflation	<b>3.1%</b>	3.3%
CPI Inflation	<b>2.1%</b>	2.3%
Expected long-term rates of return as at 30 April were:		
Equities and hedge funds*	<b>8.3%</b>	8.3%
Bonds	<b>4.3%</b>	5.0%
Cash	<b>3.4%</b>	4.4%
Property	<b>7.5%</b>	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 2012 were:

	2012	2011
	years	years
Current pensioners aged 65 – male	<b>20.3</b>	19.6
Current pensioners aged 65 – female	<b>24.6</b>	23.9
Future pensioners at age 65 (aged 45 now) – male	<b>22.4</b>	21.9
Future pensioners at age 65 (aged 45 now) – female	<b>26.4</b>	26.0

## Note 26 Financial instruments

### (a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries and joint ventures accounted for in accordance with International Accounting Standard 27 ("IAS 27"), *Consolidated and Separate Financial Statements* and International Accounting Standard 31 ("IAS 31"), *Interests in Joint Ventures*.
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments, prepayments, provisions and deferred income) are not financial liabilities or financial assets. Accordingly, prepayments, provisions, deferred income and amounts payable or receivable in respect of corporation tax, sales tax (including UK Value Added Tax), payroll tax and other taxes are excluded from the disclosures provided in this note.

# Notes to the consolidated financial statements

## Note 26 Financial instruments (continued)

### (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	2012	2011	2012	2011
		Carrying value	Carrying value	Fair value	Fair value
		£m	£m	£m	£m
<b>Financial assets</b>					
Financial assets at fair value through profit or loss		–	–	–	–
Held-to-maturity investments		–	–	–	–
Loans and receivables					
– Non-current assets					
– Other receivables	19	<b>0.3</b>	0.2	<b>0.3</b>	0.2
– Current assets					
– Accrued income	19	<b>33.0</b>	31.1	<b>33.0</b>	31.1
– Trade receivables, net of impairment	19	<b>108.4</b>	113.1	<b>108.4</b>	113.1
– Other receivables	19	<b>29.2</b>	23.6	<b>29.2</b>	23.6
– Cash and cash equivalents	20	<b>241.0</b>	358.3	<b>241.0</b>	358.3
Available for sale financial assets					
– Non-current assets					
– Available for sale and other investments	14	<b>2.3</b>	2.1	<b>2.3</b>	2.1
<b>Total financial assets</b>		<b>414.2</b>	528.4	<b>414.2</b>	528.4
<b>Financial liabilities</b>					
Financial liabilities at fair value through profit or loss		–	–	–	–
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Accruals	21	<b>(9.2)</b>	(13.9)	<b>(9.2)</b>	(13.9)
– Other payables	21	<b>(0.5)</b>	(0.5)	<b>(0.5)</b>	(0.5)
– Borrowings	22	<b>(721.0)</b>	(592.1)	<b>(748.4)</b>	(605.1)
– Current liabilities					
– Trade payables	21	<b>(129.9)</b>	(134.6)	<b>(129.9)</b>	(134.6)
– Accruals	21	<b>(272.0)</b>	(270.1)	<b>(272.0)</b>	(270.1)
– Loans from joint ventures	21	<b>(1.7)</b>	(1.7)	<b>(1.7)</b>	(1.7)
– Borrowings	22	<b>(55.9)</b>	(62.5)	<b>(55.9)</b>	(62.5)
<b>Total financial liabilities</b>		<b>(1,190.2)</b>	(1,075.4)	<b>(1,217.6)</b>	(1,088.4)
<b>Net financial liabilities</b>		<b>(776.0)</b>	(547.0)	<b>(803.4)</b>	(560.0)

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 26(g).

The fair values of financial assets and financial liabilities shown above are determined as follows:

- The carrying value of accrued income, trade receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- £2.3m (2011: £2.1m) 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, accruals and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the “bid” price as at the balance sheet date.
- The carrying value of fixed rate hire purchase and finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. We estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed-rate notes liability by around £16.4m (2011: £20.1m).

## Note 26 Financial instruments (continued)

### (b) Carrying values of financial assets and financial liabilities (continued)

#### Fair value estimation

Financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2012.

	Note	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Derivatives used for hedging	26(g)	22.4	–	22.4
Available for sale financial assets – Equity securities		–	2.3	2.3
<b>Total assets</b>		22.4	2.3	24.7
<b>Liabilities</b>				
Derivatives used for hedging	26(g)	(1.0)	–	(1.0)

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2011.

	Note	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Derivatives used for hedging	26(g)	71.5	–	71.5
Available for sale financial assets – Equity securities		–	2.1	2.1
<b>Total assets</b>		71.5	2.1	73.6
<b>Liabilities</b>				
Derivatives used for hedging	26(g)	(0.2)	–	(0.2)

The following table presents the changes in Level 3 financial assets for the year:

	2012	2011
	£m	£m
At beginning of year	2.1	1.9
Foreign exchange movements	–	(0.2)
Disposal of subsidiaries	(0.1)	–
Purchases	0.3	0.4
At end of year	2.3	2.1

The "Level 3" financial assets of £2.3m (2011: £2.1m) shown above represent investments in securities that do not trade on a recognised market, such as investments in unlisted companies. The Group does not intend to dispose of these assets in the foreseeable future. These assets are measured at cost because their fair value cannot be measured reliably. The value of the assets is not material to the Group and therefore changes in valuations would not have a material effect on the financial statements.

### (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 2012. 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 2.6.13 of the Operating and Financial Review.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments 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.

# Notes to the consolidated financial statements

## Note 26 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and commodity prices will affect the Group's financial performance and/or financial position. The objective of the Group's management of market risk is to manage and control market risk exposures within acceptable parameters.

The Group enters into derivative financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally the Group seeks to apply hedge accounting in order to reduce volatility in the consolidated income statement.

#### Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument (including foreign net investments) will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency translation risk principally as a result of net investments in foreign operations and borrowings denominated in foreign currencies.

The Group has foreign investments in Canada and the USA. To reduce balance sheet translation exposure, the Group partially hedges the sterling carrying value of foreign operations through borrowings denominated in their functional currency or, where appropriate, through the use of derivative financial instruments. Gains and losses arising from hedging instruments that provide a hedge against foreign net investments are recognised in the statement of comprehensive income. On 18 December 2009, the Group entered into foreign currency derivative contracts with a notional value of US\$160.0m, which were accounted for as a hedge of the Group's foreign net investment until they expired in December 2011. Bank loans drawn in US Dollars since December 2011 have been accounted for as a hedge of the Group's foreign net investments. The table below includes the sterling notional value (calculated using the year-end exchange rate) of foreign currency derivatives outstanding at the balance sheet date.

The Group's objective in managing and measuring foreign currency translation risk associated with net investments in foreign operations and borrowings denominated in foreign currencies is to maintain an appropriate cost of borrowing and retain some potential for benefiting from currency movements whilst partially hedging against adverse currency movements. It is the Group's policy to examine each foreign investment individually and to adopt 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 and Canadian dollar denominated debt.

The Group's consolidated balance sheet exposures to foreign currency translation risk were as follows:

	2012	2011
	£m	£m
<b>US dollars</b>		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	166.1	165.4
– Cash	16.8	11.0
– Borrowings	(151.7)	(40.4)
– Notional value of foreign currency derivatives	–	(95.9)
<b>Canadian dollars</b>		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	49.9	47.5
– Cash	1.0	0.8
– Borrowings	–	(3.4)
Net exposure	82.1	85.0

The amounts shown above are the notional values of all foreign currency derivatives that are net investment hedges and 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:

	2012	2011
<b>US dollar</b>		
US dollar balance sheet foreign exchange rate	1.6239	1.6680
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.4615	1.5012
– Increase in consolidated equity (£m)	3.5	4.5
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.7863	1.8348
– Decrease in consolidated equity (£m)	(2.8)	(3.6)
<b>Canadian dollar</b>		
Canadian dollar balance sheet foreign exchange rate	1.6043	1.5827
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.4439	1.4244
– Increase in consolidated equity (£m)	5.7	5.0
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.7647	1.7410
– Decrease in consolidated equity (£m)	(4.6)	(4.1)

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.

## Note 26 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

The Group's consolidated income statement exposures to foreign currency translation risk were as follows:

	2012	2011
	£m	£m
<b>US dollars</b>		
- US\$ element of North American operating profit	16.4	17.8
- Intangible asset expenses	-	(0.1)
- Redundancy / restructuring costs	-	(0.7)
- Share of profit of joint ventures	9.7	9.3
- Exceptional items	4.5	-
- Net finance costs	(4.6)	(0.4)
- Net tax charge	(8.5)	(10.0)
<b>Canadian dollars</b>		
- C\$ element of North American operating profit	4.1	2.2
- Net tax charge	(0.8)	(0.8)
Net exposure	20.8	17.3

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:

	2012	2011
	£m	£m
US\$ element of North American operating profit shown above	16.4	17.8
C\$ element of North American operating profit shown above	4.1	2.2
Share based payment charges denominated in sterling	(0.8)	(0.7)
Operating profit shown in segmental information	19.7	19.3

The sensitivity of the Group's consolidated income statement to translational exposures is illustrated below:

	2012	2011
<b>US dollar</b>		
US dollar average foreign exchange rate	1.5931	1.5646
Impact of 10% depreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.4338	1.4081
- Increase in consolidated profit after taxation (£m)	1.9	1.8
Impact of 10% appreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.7524	1.7211
- Decrease in consolidated profit after taxation (£m)	(1.6)	(1.4)
<b>Canadian dollar</b>		
Canadian dollar average foreign exchange rate	1.5860	1.5823
Impact of 10% depreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.4274	1.4241
- Increase in consolidated profit after taxation (£m)	0.4	0.2
Impact of 10% appreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.7446	1.7405
- 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.

# Notes to the consolidated financial statements

## Note 26 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

##### Foreign currency transactional risk

Foreign currency transactional risk is the risk that future cash flows (such as from sales and purchases of goods and services) will fluctuate because of changes in foreign exchange rates.

The Group is exposed to limited foreign currency transactional risk due to the low value of transactions entered into by subsidiaries in currencies other than their functional currency. Group Treasury carries out forward buying of currencies where appropriate.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2012 there were no material net transactional foreign currency exposures (2011: £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 91.

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk principally through its borrowings and interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates), cash and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to reduce the risk of changes in interest rates significantly affecting future cash flows and/or profit. To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative financial instruments are also used where appropriate to generate the desired interest rate profile.

The Group measures interest rate risk by quantifying the relative proportions of each of gross debt and net debt that are effectively subject to fixed interest rates and considers the duration for which the relevant interest rates are fixed.

At 30 April 2012, 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	207.4	417.8	625.2	5.8%	4.6
US Dollar	95.5	56.2	151.7	3.2%	3.5
Gross borrowings	302.9	474.0	776.9	3.6%	4.5

At 30 April 2011, 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	342.2	268.6	610.8	5.8%	5.7
US Dollar	–	40.4	40.4	4.2%	3.7
Canadian Dollar	–	3.4	3.4	5.1%	0.9
Gross borrowings	342.2	312.4	654.6	5.5%	5.4

All of the above figures take into account the effect of interest rate derivatives.

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 22(a).

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £241.0m (2011: £358.3m). As at 30 April 2012 the Group has no financial assets on which fixed interest is receivable (2011: £2.8m – comprising a loan to a joint venture with no fixed repayment date and interest rate of 7.0%).

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

## Note 26 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (i) Market risk (continued)

The impact of a change of 100 basis points on all relevant floating interest rates on annualised interest payable on cash and borrowings balances outstanding at the balance sheet date was not material.

#### Price risk

The Group is exposed to commodity price risk. The Group's operations as at 30 April 2012 consume approximately 363.7m 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 reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The Group has a policy of managing the volatility in its fuel costs by maintaining an ongoing fuel-hedging programme whereby derivatives are used to fix or cap the variable unit cost of a percentage of anticipated fuel consumption. The Group's exposure to commodity price risk is measured by quantifying the element of projected future fuel costs, after taking account of derivatives in place, which varies due to movements in fuel prices. Group Treasury is responsible for the processes for measuring and managing commodity price risk.

The Group's overall fuel costs include the impact of delivery margins, fuel taxes and fuel tax rebates. These elements of fuel costs are not managed as part of Group Treasury's commodity price risk management and are managed directly by business unit management.

The Group uses a number of fuel derivatives to hedge against movements in the price of the different types of fuel used in each of its divisions. The fuel derivatives hedge the underlying commodity price risk (denominated in US\$) and in the case of the UK Bus (regional operations) division, the UK Bus (London) division and the UK Rail division, they also hedge the currency risk due to the commodity being priced in US\$ and the functional currency of the divisions being pounds sterling.

At 30 April 2012 and 30 April 2011, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2012	2011
	£m	£m
Costs subject to fuel swaps:		
- UK Bus (regional operations)	(78.8)	(76.3)
- UK Bus (London)	(9.0)	(9.4)
- UK Rail	(22.0)	(19.0)
- North America	(26.6)	(21.0)
	<b>(136.4)</b>	<b>(125.7)</b>
Costs not subject to fuel swaps:		
- UK Bus (regional operations)	(9.6)	(4.1)
- UK Bus (London)	(10.4)	(11.4)
- UK Rail	(9.8)	(8.4)
- North America	(9.7)	(9.0)
	<b>(39.5)</b>	<b>(32.9)</b>
Total	<b>(175.9)</b>	<b>(158.6)</b>

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:

	2012	2011
	£m	£m
Costs not subject to fuel swaps:		
- UK Bus (regional operations)	(1.0)	(0.4)
- UK Bus (London)	(1.0)	(1.1)
- UK Rail	(1.0)	(0.8)
- North America	(1.0)	(0.9)
Decrease in projected profit before taxation	<b>(4.0)</b>	<b>(3.2)</b>

# Notes to the consolidated financial statements

## Note 26 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:

	2012	2011
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	1.0	0.4
– UK Bus (London)	1.0	1.1
– UK Rail	1.0	0.8
– North America	1.0	0.9
Increase in projected profit before taxation	4.0	3.2

#### (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 19.

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
	2012	2012	2012	2011	2011	2010
	£m	£m	£m	£m	£m	£m
Trade receivables	110.0	(1.6)	108.4	115.0	(1.9)	113.1
Loans, other receivables and accrued income	62.5	–	62.5	57.7	(2.8)	54.9
Cash and cash equivalents – pledged as collateral	19.8	–	19.8	20.3	–	20.3
Cash and cash equivalents – other	221.2	–	221.2	338.0	–	338.0
Excluding derivative financial instruments	413.5	(1.6)	411.9	531.0	(4.7)	526.3
Derivatives used for hedging	22.4	–	22.4	71.5	–	71.5
Total exposure to credit risk	435.9	(1.6)	434.3	602.5	(4.7)	597.8

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, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.



## Note 26 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:

	2012	2011
	£m	£m
United Kingdom	398.8	552.0
North America	35.5	45.8
	<b>434.3</b>	<b>597.8</b>

The Group's financial assets by currency are analysed below:

	2012	2011
	£m	£m
Sterling	396.1	552.0
US dollars	33.2	41.0
Canadian dollars	5.0	4.8
	<b>434.3</b>	<b>597.8</b>

The following financial assets were past due, but not impaired at the balance sheet date:

	2012	2011
	£m	£m
Amounts 1 to 90 days overdue	10.2	13.7
Amounts 91 to 180 days overdue	1.3	1.3
Amounts 181 to 365 days overdue	0.6	0.5
	<b>12.1</b>	<b>15.5</b>

The Group does not hold any collateral in respect of its credit risk exposures set out above (2011: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2012 (2011: £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 2012, the Group's credit facilities were £1,160.8m (2011: £1,112.1m), £599.4m (2011: £447.2m) 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 uncommitted asset finance facilities:

	2012	2011
	£m	£m
Expiring within one year	265.9	204.7
Expiring in more than one year but not more than two years	10.9	6.6
Expiring beyond two years	284.6	453.6
	<b>561.4</b>	<b>664.9</b>

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding. The Group'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 2012 are analysed below:

Expiring in	Facility £m	Loans drawn £m	Performance bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
<b>MAIN GROUP FACILITIES</b>					
- 2016	510.0	(155.4)	(70.0)	(33.0)	251.6
- 2014	43.1	-	(35.7)	(7.4)	-
- 2013	159.8	-	(104.8)	(55.0)	-
	<b>712.9</b>	<b>(155.4)</b>	<b>(210.5)</b>	<b>(95.4)</b>	<b>251.6</b>
<b>LOCAL &amp; SHORT-TERM FACILITIES</b>					
- Various	15.0	-	(1.3)	-	13.7
	<b>727.9</b>	<b>(155.4)</b>	<b>(211.8)</b>	<b>(95.4)</b>	<b>265.3</b>

# Notes to the consolidated financial statements

## Note 26 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### (iii) Liquidity risk (continued)

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, including interest payments. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 30 April 2012	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
<b>Non derivative financial liabilities:</b>						
Unsecured bond issues	(410.4)	(518.5)	(26.5)	(23.0)	(469.0)	–
Finance lease liabilities	(56.2)	(60.3)	(12.3)	(19.4)	(28.6)	–
Hire purchase liabilities	(134.0)	(143.6)	(27.3)	(25.5)	(65.3)	(25.5)
Loan notes payable	(20.9)	(20.9)	(20.9)	–	–	–
Trade and other payables	(413.3)	(413.3)	(403.6)	(9.7)	–	–
Bank loans	(155.4)	(155.4)	–	–	(155.4)	–
	(1,190.2)	(1,312.0)	(490.6)	(77.6)	(718.3)	(25.5)
<b>Derivative financial liabilities:</b>						
Derivatives used for hedging	(1.0)	(1.0)	(0.6)	(0.1)	(0.3)	–
	(1,191.2)	(1,313.0)	(491.2)	(77.7)	(718.6)	(25.5)

As at 30 April 2011	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
<b>Non derivative financial liabilities:</b>						
Unsecured bond issues	(410.2)	(538.0)	(23.0)	(23.0)	(69.0)	(423.0)
Redeemable preference shares	(2.6)	(2.6)	(2.6)	–	–	–
Finance lease liabilities	(43.8)	(48.2)	(11.7)	(8.4)	(26.9)	(1.2)
Hire purchase liabilities	(176.9)	(188.0)	(31.9)	(29.2)	(78.2)	(48.7)
Loan notes payable	(21.1)	(21.1)	(21.1)	–	–	–
Trade and other payables	(420.8)	(420.8)	(406.4)	(14.4)	–	–
	(1,075.4)	(1,218.7)	(496.7)	(75.0)	(174.1)	(472.9)
<b>Derivative financial liabilities:</b>						
Derivatives used for hedging	(0.2)	(0.2)	(0.1)	(0.1)	–	–
	(1,075.6)	(1,218.9)	(496.8)	(75.1)	(174.1)	(472.9)

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 26 Financial instruments (continued)

### (d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

### (e) Collateral

Included within the cash and cash equivalents balance of £241.0m as at 30 April 2012 (2011: £358.3m) are £19.8m (2011: £20.3m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.7m (2011: £18.9m) has been pledged by the Group as collateral for £18.7m (2011: £18.9m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit at Bank of Scotland. Bank of Scotland has guaranteed the Group's obligations to the holders of the loan notes and to the extent that the Group fails to satisfy its obligations under the loan notes, Bank of Scotland shall use the cash collateral to satisfy such obligations.
- £0.7m (2011: £1.0m) has been pledged by the Group as collateral for liabilities to the vendors of certain businesses that the Group acquired in North America.
- £0.4m (2011: £0.4m) is held in an escrow account in North America in relation to insurance claims.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 30 April 2012 and 30 April 2011.

### (f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2012 and 30 April 2011 and no loans payable are in default as at 30 April 2012 and 30 April 2011. The Group was in compliance with all bank loan covenants as at 30 April 2012 and as at 30 April 2011.

### (g) 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	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
	– 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)

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2012	2011
	£m	£m
<b>Non-current assets</b>		
Interest rate derivatives	–	2.9
Fuel derivatives	1.6	17.8
	1.6	20.7
<b>Current assets</b>		
Interest rate derivatives	–	2.7
Fuel derivatives	20.8	45.2
Foreign currency derivatives	–	2.9
	20.8	50.8
<b>Current liabilities</b>		
Fuel derivatives	(0.6)	(0.1)
<b>Non-current liabilities</b>		
Fuel derivatives	(0.4)	(0.1)
<b>Total net carrying value</b>		
Interest rate derivatives	–	5.6
Fuel derivatives	21.4	62.8
Foreign currency derivatives	–	2.9
	21.4	71.3

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

#### Embedded derivatives

In accordance with IAS 39, *Financial Instruments: Recognition and measurement*, all significant contracts to which the Group is a party have been reviewed for embedded derivatives. There were no embedded derivatives as at 30 April 2012 (2011: None) which were separately accounted for.

# Notes to the consolidated financial statements

## Note 26 Financial instruments (continued)

### (g) Hedge accounting (continued)

#### Cash flow hedges - fuel

As noted previously, the Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions.

The movements in the fair value of fuel derivatives in the year were as follows:

	2012	2011
	£m	£m
<b>Fuel derivatives</b>		
Fair value at start of year	62.8	22.5
Changes in fair value during year taken to cash flow hedging reserve	(6.8)	52.6
Cash received during the year	(34.6)	(12.3)
Fair value at end of year	21.4	62.8

The fair value of the fuel derivatives split by maturity was as follows:

	Assets	Liabilities
	£m	£m
<b>As at 30 April 2012</b>		
Within one year	20.8	(0.6)
1 to 2 years	1.6	(0.1)
2 to 3 years	–	(0.2)
3 to 4 years	–	(0.1)
	22.4	(1.0)

#### As at 30 April 2011

Within one year	45.2	(0.1)
1 to 2 years	17.0	(0.1)
2 to 3 years	0.8	–
	63.0	(0.2)

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value	Notional quantity of fuel covered by derivatives
	£m	Millions of litres
<b>As at 30 April 2012</b>		
Sterling denominated – UK Bus (regional operations)	13.0	301.5
Sterling denominated – UK Bus (London)	1.9	72.1
Sterling denominated – UK Rail	3.8	123.3
US dollar denominated – North America	2.7	93.2
	21.4	590.1
<b>As at 30 April 2011</b>		
Sterling denominated – UK Bus (regional operations)	37.0	277.8
Sterling denominated – UK Bus (London)	4.4	7.8
Sterling denominated – UK Rail	9.6	88.1
US dollar denominated – North America	11.8	79.1
	62.8	452.8

#### Fair value and cash flow hedges - interest

The Group uses a number of interest rate derivatives to hedge its exposure to floating interest rates. In connection with the issue of the Group's £400m 5.75% Bonds in December 2009, the Group entered into a number of interest rate fair value hedges. These were subsequently terminated in May 2011 as part of the Group's ongoing management of its exposure to floating interest rates.

The movements in the fair value of interest rate derivatives used as hedging instruments in the year were as follows:

	Fair value hedges	
	2012	2011
	£m	£m
<b>Interest rate derivatives</b>		
Fair value at start of year	5.6	2.8
Changes in fair value reflected in carrying value of hedged item	0.9	6.1
Cash received during the year	(6.5)	(3.3)
Fair value at end of year	–	5.6

## Note 26 Financial instruments (continued)

### (g) Hedge accounting (continued)

Fair value and cash flow hedges - interest (continued)

There were no interest rate derivatives held by the Group as at 30 April 2012.

The fair value of the interest rate derivatives split by maturity as at 30 April 2011 was as follows:

	Fair value hedges
	Assets
	£m
<b>As at 30 April 2011</b>	
Within one year	2.7
1 to 2 years	1.5
2 to 3 years	0.3
3 to 4 years	1.1
	<b>5.6</b>

All of the interest rate derivatives were sterling denominated and were managed and held centrally.

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Fuel derivatives
	£m
Cash flow hedging reserve at 1 May 2010	19.9
Changes in fair value during the year taken to cash flow hedging reserve	52.6
Cash flow hedges reclassified and reported in profit for year	(21.8)
Tax effect of cash flow hedges	(7.4)
Cash flow hedging reserve at 30 April 2011	43.3
Changes in fair value during the year taken to cash flow hedging reserve	(6.8)
Cash flow hedges reclassified and reported in profit for year	(33.2)
Tax effect of cash flow hedges	10.8
Cash flow hedging reserve at 30 April 2012	14.1
Cash flow hedging reserve before tax	18.4
Tax to be charged to income statement in future periods	(4.3)
Cash flow hedging reserve after tax	14.1

There have been no instances during the year ending 30 April 2012 (2011: None) from a Group perspective where a forecast transaction for which hedge accounting had previously been used was no longer expected to occur.

Hedge of foreign net investments

Changes in the Group's hedging of foreign net investments during the year ended 30 April 2012 are explained on page 88.

The movements in the fair value of the foreign currency derivative contracts and bank loans used as hedging instruments in the year were as follows:

	2012	2011
	£m	£m
<b>Foreign currency derivatives</b>		
Fair value at start of year	2.9	(5.4)
Changes in fair value during the year	(6.9)	8.3
Cash paid during the year	4.0	–
Fair value at end of year	–	2.9
<b>Bank loans</b>		
Loans drawn during the year	112.1	–
Loans repaid during the year	(12.6)	–
Changes in fair value during the year	(4.0)	–
Fair value at end of year	95.5	–

# Notes to the consolidated financial statements

## Note 27 Share capital

Under the Companies Act 2006, companies are no longer required to have an authorised share capital and a resolution was passed at the 2010 Annual General Meeting to take advantage of this deregulating measure. Therefore, the Company no longer has an authorised share capital. The allotted, called-up and fully paid ordinary share capital was:

	2012		2011	
	No. of shares	£m	No. of shares	£m
<b>Allotted, called-up and fully-paid ordinary shares of 125/228 pence each (2011: 56/57 pence)</b>				
At beginning of year	<b>720,124,950</b>	<b>7.1</b>	720,066,186	7.1
Effect of share consolidation	<b>(144,024,990)</b>	<b>(3.9)</b>	–	–
Allotted to employees and former employees under share option schemes	–	–	58,764	–
At end of year	<b>576,099,960</b>	<b>3.2</b>	720,124,950	7.1

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 2012, the QUEST held 300,634 (2011: 333,372) ordinary shares in the Company and the EBT held 2,295,204 (2011: 1,854,213) ordinary shares in the Company. The trusts have waived dividends on the shares they hold.

On 10 October 2011, a share capital consolidation took place that replaced every 5 existing ordinary shares with 4 new ordinary shares. The effect of this share capital consolidation changed the par value of an ordinary share from 56/57 pence to 125/228 pence.

Also on 10 October 2011, shareholders received 1 ‘D’ share for each existing ordinary share held. This was a means of returning cash to shareholders. The ‘D’ shares were subsequently dealt with as follows:

- A dividend of 47 pence per ‘D’ share was paid on 180,922,880 ‘D’ shares, with the dividend paid to holders on 21 October 2011. These ‘D’ shares were then converted to deferred shares. The deferred shares have been subsequently cancelled.
- 539,202,070 ‘D’ shares were purchased by the Company for 47 pence each and the proceeds paid to shareholders on 21 October 2011. These ‘D’ shares have been subsequently cancelled.
- No ‘D’ shares remained in issue as at 30 April 2012.

## Note 28 Share based payments

The Group operates an Executive Share Option Scheme, a Save as You Earn Scheme ("SAYE"), a Buy as You Earn Scheme ("BAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report on pages 41 to 47 gives further details of each of these arrangements.

As disclosed in note 6, share based payment charges of £6.7m (2011: £7.2m) have been recognised in the income statement during the year in relation to the above schemes.

	Executive Share Option Scheme	SAYE	LTIP*	LTIP*	LTIP*	LTIP*	LTIP*	LTIP*
Grant date	December 2004 <sup>a</sup>	October 2008	June 2008	December 2009	June 2010	December 2010	June 2011	December 2011
Share price at grant/award date (£)	1.1150	3.2750	2.8000	1.6070	1.9030	2.0785	2.5530	2.5915
Exercise price (£)	1.1150	2.5178	n/a	n/a	n/a	n/a	n/a	n/a
Vesting period (years)	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	30%	30%	30%	30%	30%
Option/award life (years)	7	3.5	3	3	3	3	3	3
Expected life (years)	4.4	3	3	3	3	3	3	3
Risk free rate	4.75%	4.43%	n/a	n/a	n/a	n/a	n/a	n/a
Expected dividends expressed as an average annual dividend yield	3.14%	1.37%	2.12%	4.04%	3.89%	3.37%	3.00%	2.96%
Expectations of meeting performance criteria	100%	100%	**	**	**	**	**	**
Fair value per option/notional unit at grant date (£)	0.26	1.14	1.08	0.46	0.52	0.60	0.73	0.74
Option pricing model	Black-Scholes	Black-Scholes	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

∅ 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 executive share options during the year were as follows:

Award date	At 1 May 2011	Exercised	At 30 April 2012	Exercise price £	Date from which exercisable	Expiry date
10 December 2004	72,824	(72,824)	–	1.1150	10 December 2007	10 December 2011

All options were granted for nil consideration. The mid-market price for the ordinary shares at 30 April 2012 was £2.48 (2011: £2.47). The Company's ordinary shares traded in the range of £2.17 to £2.87 (2011: £1.60 to £2.47) during the year to that date.

As share options are exercised continuously throughout the year, the average share price during the year of £2.53 (2011: £1.97) is considered representative of the weighted average share price at the date of exercise.

# Notes to the consolidated financial statements

## Note 28 Share based payments (continued)

### Save as You Earn Scheme

One issue from the SAYE scheme was in operation during the year as follows:

Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
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 and in certain circumstances can be extended to no later than twelve months after the expiry date shown above.

The changes in the number of options over ordinary shares were as follows:

	Ordinary shares under option
Beginning of year	6,042,752
Cancelled	(5,183,546)
Forfeited	(83,730)
Exercised in year	(747,751)
End of year	27,725

### 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 the same performance conditions disclosed in the Directors' remuneration report. The movements in the LTIP during the year to 30 April 2012 were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted 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 2012 £	TSR ranking at 30 April 2012†	Vesting date
30 June 2008	1,030,295	–	(1,030,295)	–	–	1.0830	–	–	30 June 2011
10 Dec 2009	2,779,259	–	–	81,404	2,860,663	0.4619	1.5553	29	10 Dec 2012
28 June 2010	1,185,910	–	–	34,721	1,220,631	0.5186	1.4614	41	28 June 2013
9 Dec 2010	1,085,777	–	–	31,792	1,117,569	0.5988	1.4694	40	9 Dec 2013
30 June 2011	–	998,936	–	29,247	1,028,183	0.7339	1.4533	42	30 June 2014
8 Dec 2011	–	924,014	–	8,288	932,302	0.7449	0.5664	143	8 Dec 2014
	6,081,241	1,922,950	(1,030,295)	185,452	7,159,348				

† 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 £
26 June 2008	887,156	–	(887,156)	–	–	–	26 June 2011	2,411,107	2.6825
29 June 2009	1,456,450	–	–	(77,786)	40,630	1,419,294	29 June 2012	1,819,440	1.2700
10 Dec 2009	1,020,260	–	–	–	29,674	1,049,934	10 Dec 2012	1,538,943	1.6060
28 June 2010	905,556	–	–	(18,389)	25,943	913,110	28 June 2013	1,780,805	1.9020
30 June 2011	–	845,013	–	(8,754)	24,428	860,687	30 June 2014	2,155,206	2.5530
	4,269,422	845,013	(887,156)	(104,929)	120,675	4,243,025			

### Buy As You Earn Scheme (BAYE)

BAYE enables eligible employees to purchase shares ("partnership shares") from their gross income. The Company provides two matching shares for every share bought from the first £10 of each employee's monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no Income Tax and National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 30 April 2012 there were 7,729 (2011: Nil) participants in the BAYE scheme who had cumulatively purchased 662,157 (2011: Nil) shares with the Company contributing 231,040 (2011: Nil) matching shares on a cumulative basis. Dividends had been reinvested in a further 1,659 (2011: Nil) for these participants.



## Note 29 Reserves

A reconciliation of the movements in each reserve is shown in the Consolidated statement of changes in equity on page 53.

The balance of the share premium account represents the amounts received in excess of the nominal value of the ordinary shares offset by issue costs, bonus issues of shares and any transfer between reserves.

The balance held in the retained earnings reserve is the accumulated retained profits of the Group. Cumulative goodwill of £113.8m (2011: £113.8m) has been written off against reserves in periods prior to 1 May 1998 in accordance with the UK accounting standards then in force and such goodwill will remain eliminated against reserves.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Details of own shares held are given in note 27. 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 cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

## Note 30 Consolidated cash flows

### (a) Reconciliation of operating profit to cash generated by operations

The operating profit of Group companies reconciles to cash generated by operations as follows:

	2012	2011
	£m	£m
Operating profit of Group companies	238.5	190.6
Exceptional pensions curtailment gain	(38.0)	–
Depreciation	99.9	90.3
Loss on disposal of plant and equipment	0.6	0.9
Intangible asset expenses	9.1	10.1
Equity-settled share based payment expense	3.0	4.7
Operating cashflows before working capital movements	313.1	296.6
Increase in inventories	(2.6)	(2.1)
Increase in receivables	(2.6)	(13.4)
Increase/(decrease) in payables	12.5	(4.4)
Decrease in provisions	(7.5)	(2.8)
Differences between employer pension contributions and pre-exceptional amounts recognised in the income statement	(28.7)	(20.4)
Cash generated by operations	284.2	253.5

### (b) Reconciliation of net cash flow to movement in net debt

The decrease in cash reconciles to the movement in net debt as follows:

	2012	2011
	£m	£m
Decrease in cash	(117.5)	(16.1)
Cash flow from movement in borrowings	(90.0)	29.9
	(207.5)	13.8
New hire purchase and finance leases	(35.3)	(8.1)
Foreign exchange movements	0.5	10.8
Other movements	(0.6)	(0.7)
(Increase)/decrease in net debt	(242.9)	15.8
Opening net debt (as defined in note 35)	(280.9)	(296.7)
Closing net debt (as defined in note 35)	(523.8)	(280.9)

# Notes to the consolidated financial statements

## Note 30 Consolidated cash flows (continued)

### (c) Analysis of net debt

For the purpose of this note, net debt is as defined in note 35. 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	Foreign exchange movements £m	Other movements £m	Closing £m
Cash	338.0	(117.0)	–	0.2	–	221.2
Cash collateral (see note 26(e))	20.3	(0.5)	–	–	–	19.8
Hire purchase and finance lease obligations	(220.7)	66.6	(35.3)	(0.8)	–	(190.2)
Bank loans and loan stock	(21.1)	(159.2)	–	4.0	–	(176.3)
Bonds	(394.8)	–	–	(2.9)	(0.6)	(398.3)
Preference shares	(2.6)	2.6	–	–	–	–
<b>Net debt</b>	<b>(280.9)</b>	<b>(207.5)</b>	<b>(35.3)</b>	<b>0.5</b>	<b>(0.6)</b>	<b>(523.8)</b>
Accrued interest on bonds and preference shares	(8.6)	23.0	–	–	(23.0)	(8.6)
Effect of fair value hedges on carrying value of borrowings	(3.9)	–	–	–	3.9	–
Unamortised gain on early settlement of interest rate swaps	–	(4.9)	–	–	1.4	(3.5)
Foreign exchange derivatives not included in borrowings in balance sheet	(2.9)	–	–	2.9	–	–
<b>Net borrowings (IFRS)</b>	<b>(296.3)</b>	<b>(189.4)</b>	<b>(35.3)</b>	<b>3.4</b>	<b>(18.3)</b>	<b>(535.9)</b>

The cash amounts shown above include term deposits as explained in note 20 and cash held by train operating companies as explained in note 31(iii).

### (d) Non cash transactions

The principal non cash transactions were the acquisition of property, plant and equipment using new hire purchase and finance leases.

During the year, the Group entered into hire purchase and finance lease arrangements in respect of new assets with a total capital value at inception of the contracts of £36.6m (2011: £8.9m). After taking account of deposits paid up front and other financing transactions of £1.3m (2011: £Nil) new hire purchase and finance lease liabilities of £35.3m (2011: £8.1m) were recognised.

## Note 31 Contingencies

### Contingent liabilities

(i) At 30 April 2012, the following bonds and guarantees were in place relating to the Group's rail operations:

	2012 £m	2011 £m
Performance bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	34.4	53.3
– East Midlands Trains	17.3	17.5
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	47.8	46.8
– East Midlands Trains	5.3	5.0

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. Estimates of cash flows are consistent with management's plans and forecasts. The Group has determined that no provision is necessary. The estimation of future cash flows and the discount rate involves a

### Note 31 Contingencies (continued)

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 2012, the capital at risk of the Group in this respect was:

	South Western Trains	East Midlands Trains	Total
	£m	£m	£m
<b>Actual liabilities</b>			
Net intra-group amounts payable to train operators	51.8	–	51.8
<b>Contingent liabilities</b>			
Season ticket bonds	47.8	5.3	53.1
Performance bonds	34.4	17.3	51.7
Parent company guarantees to suppliers	–	10.6	10.6
Undrawn committed loan facilities	25.0	–	25.0
Capital at risk as at 30 April 2012	159.0	33.2	192.2
<b>Cash</b>			
Cash in train operating companies	118.9	50.3	169.2
Pro forma impact on net debt	277.9	83.5	361.4

We consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised at 30 April 2012, the Group would have needed to have financed £192.2m (2011: £226.4m) 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 £361.4m (2011: £389.5m).

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 2012, the accruals in the consolidated financial statements for such claims total £2.1m (2011: £2.0m). In addition, certain of the claims intended to be covered by the insurance provisions (see note 24) are subject to or might become subject to litigation against the Group and/or the Company.

### Note 32 Guarantees and other financial commitments

#### (a) Capital commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2012	2011
	£m	£m
Contracted for but not provided		
For delivery within one year	42.6	119.8

#### (b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2012:

As at 30 April 2012	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 2013	11.5	9.8	138.3	4.4	164.0
Year ending 30 April 2014	9.9	8.9	100.9	3.4	123.1
Year ending 30 April 2015	8.1	6.8	–	1.4	16.3
Year ending 30 April 2016	4.9	2.4	–	0.6	7.9
Year ending 30 April 2017	4.5	0.2	–	0.1	4.8
1 May 2017 and thereafter	33.0	–	–	–	33.0
	71.9	28.1	239.2	9.9	349.1

# Notes to the consolidated financial statements

## Note 32 Guarantees and other financial commitments (continued)

### (b) Operating lease commitments (continued)

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2011:

As at 30 April 2011	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 2012	11.6	7.8	134.0	3.5	156.9
Year ending 30 April 2013	10.3	7.4	124.6	2.0	144.3
Year ending 30 April 2014	8.3	6.2	85.2	0.3	100.0
Year ending 30 April 2015	4.3	1.9	–	0.1	6.3
Year ending 30 April 2016	3.8	0.2	–	–	4.0
1 May 2016 and thereafter	27.2	–	–	0.6	27.8
	65.5	23.5	343.8	6.5	439.3

All operating lease commitments associated with UK Rail franchises are assumed to terminate in line with the expected franchise end. The franchise-end for the purpose of determining the commitments 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 32(c).

### (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 2012 are as shown below.

	2012
	£m
Lease payments due in respect of:	
Year ending 30 April 2013	146.1
Year ending 30 April 2014	140.1
Year ending 30 April 2015	4.7
Year ending 30 April 2016	4.7
	295.6

Commitments for payments under these contracts as at 30 April 2011 were as follows:

	2011
	£m
Lease payments due in respect of:	
Year ending 30 April 2012	140.7
Year ending 30 April 2013	125.2
Year ending 30 April 2014	100.9
	366.8

### (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:

	2012	2011
	£m	£m
Annual commitments under non-cancellable operating leases	48.7	48.1
Franchise performance bonds	10.3	10.3
Season ticket bonds	2.3	2.1

The arrangements pursuant to which a performance bond is issued in respect of Virgin Rail Group Holdings Limited, a joint venture, requires that the consolidated net assets (under UK GAAP and applying its own accounting policies) of Virgin Rail Group Holdings Limited are no less than £22.5m (2011: £22.5m). This could restrict Virgin Rail Group Holding's ability to make distributions to the Group.

### Note 33 Related party transactions

Details of major related party transactions during the year ended 30 April 2012 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 the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 30 April 2012, the Group earned fees of £60,000 (2011: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 30 April 2012, the Group had £60,000 (2011: £60,000) receivable from Virgin Rail Group Holdings Limited.

#### (ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see above). For the year ended 30 April 2012, East Midlands Trains (a subsidiary of the Group) had purchases totalling £0.3m (2011: £0.3m) from West Coast Trains Limited.

#### (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. At 30 April 2012, Noble Grossart Investment Limited, a subsidiary of Noble Grossart Limited held 3,267,999 (2011: 4,084,999) ordinary shares in the Company, representing 0.6% (2011: 0.6%) of the Company's issued ordinary share capital.

#### (iv) Alexander Dennis Limited

Sir Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 46.8% (2011: 37.9%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (iii) above) controls a further 35.1% (2011: 28.4%) of the shares and voting rights of Alexander Dennis Limited. None of Sir 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 2012, the Group purchased £85.6m (2011: £87.1m) of vehicles from Alexander Dennis Limited and £8.6m (2011: £5.7m) of spare parts and other services. As at 30 April 2012, the Group had £0.4m (2011: £1.3m) payable to Alexander Dennis Limited, along with outstanding orders of £8.8m (2011: £63.5m).

#### (v) Pension Schemes

Details of contributions made to pension schemes are contained in note 25 to the consolidated financial statements.

#### (vi) Robert Walters plc

Martin Griffiths (Finance Director) is a non-executive director and the Senior Independent Director of Robert Walters plc and received remuneration of £61,373 (2011: £58,927) in respect of his services for the year ended 30 April 2012. Martin Griffiths holds 20,000 (2011: 20,000) shares in Robert Walters plc which represents 0.03% (2011: 0.03%) of the issued share capital. During the year ended 30 April 2012, the Group paid Robert Walters plc £10,000 (2011: £5,286) for recruitment services.

#### (vii) AG Barr plc

Martin Griffiths (Finance Director) became a non-executive director of AG Barr plc on 1 September 2010 and received remuneration of £39,297 (2011: £25,125) in respect of his services for the year ended 30 April 2012. Martin Griffiths holds 1,800 (2011: 1,800) shares in AG Barr plc which represents less than 0.1% (2011: less than 0.1%) of the issued share capital.

#### (viii) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2011: £1.7m) was due to Scottish Citylink Coaches Limited as at 30 April 2012. The Group received £18.5m (2011: £16.0m) in the year ended 30 April 2012 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited. As at 30 April 2012, the Group had a net £0.2m (2011: £1.6m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

#### (ix) Argent Energy Group Limited

Sir Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 39.3% (2011: 39.3%) of the shares and voting rights in Argent Energy Group Limited. Neither Sir Brian Souter nor Ann Gloag is a director of Argent Energy Group Limited nor do they have any involvement in the management of Argent Energy Group. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Argent Energy Group.

For the year ended 30 April 2012, the Group purchased £7.3m (2011: £2.0m) of biofuel from Argent Energy Group. As at 30 April 2012, the Group had £0.3m (2011: £0.2m) payable to Argent Energy Group, along with outstanding orders of £0.1m (2011: £0.2m).

#### (x) Twin America LLC

In the year ended 30 April 2012, the Group received £3.9m (2011: £2.9m) from its joint venture, Twin America LLC, in respect of ticket sales made by Twin America LLC for tour services provided by Group subsidiaries. As at 30 April 2012, the Group had £0.3m (2011: £Nil) receivable from Twin America LLC.

### Note 34 Post balance sheet events

Details of the final dividend proposed are given in note 8.

In May 2012, the Group agreed to acquire selected business and assets from Coach America as follows:

- (i) Certain businesses and related assets and liabilities, for a cash consideration of US\$134.2m and;
- (ii) At the option of the Sellers, up to 85 further coaches for a cash consideration of up to US\$25.6m.

# Notes to the consolidated financial statements

## Note 35 Definitions

- **Adjusted earnings per share** is calculated by dividing profit after taxation excluding intangible asset expenses and exceptional items by the basic weighted average number of shares in issue in the period.
- **Like-for-like** amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods.
- **Operating profit or loss** for a particular business unit or division within the Group refers to profit or loss before net finance income/charges, taxation, intangible asset expenses, exceptional items and restructuring costs.
- **Operating margin** for a particular business unit or division within the Group means operating profit or loss 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.
- **Gross debt** is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest, the effect of fair value hedges on the carrying value of borrowings and unamortised gains on the early settlement of interest rate swaps, and to include the effect of foreign exchange derivatives that synthetically convert an element of borrowings from one currency to another.
- **Net debt** (or net funds) is the net of cash and gross debt.

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

We have audited the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2012 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 29, 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 and express an opinion on 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 Chapter 3 of Part 16 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2012;
- 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 49 on the group financial statements of Stagecoach Group plc for the year ended 30 April 2012.



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

26 June 2012

# SEPARATE FINANCIAL STATEMENTS OF PARENT, STAGECOACH GROUP PLC

## Company balance sheet

As at 30 April 2012

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

	Notes	2012	2011
		£m	£m
<b>Fixed assets</b>			
Tangible assets	2	<b>0.8</b>	0.1
Derivative financial instruments at fair value – due after more than one year	7	–	2.9
Investments	3	<b>1,025.3</b>	1,022.8
		<b>1,026.1</b>	1,025.8
<b>Current assets</b>			
Debtors – due within one year	4	<b>601.2</b>	662.8
Deferred tax asset	5	<b>0.2</b>	0.2
Derivative financial instruments at fair value – due within one year	7	–	2.7
Cash		<b>46.1</b>	181.9
		<b>647.5</b>	847.6
<b>Creditors: Amounts falling due within one year</b>			
Trade and other creditors	6	<b>(448.3)</b>	(572.8)
Redeemable 'B' preference shares		–	(2.6)
		<b>(448.3)</b>	(575.4)
<b>Net current assets</b>		<b>199.2</b>	272.2
<b>Total assets less current liabilities</b>		<b>1,225.3</b>	1,298.0
<b>Creditors: Amounts falling due after more than one year</b>			
Other creditors	6	<b>(562.6)</b>	(409.4)
<b>Net assets excluding pension liability</b>		<b>662.7</b>	888.6
<b>Pension liability, net of deferred tax</b>	8	<b>(2.1)</b>	(2.0)
<b>Net assets including pension liability</b>		<b>660.6</b>	886.6
<b>Capital and reserves</b>			
Called-up share capital	9	<b>3.2</b>	7.1
Share premium account	10	<b>8.4</b>	9.8
Capital redemption reserve	10	<b>422.8</b>	416.3
Own shares	10	<b>(18.2)</b>	(14.6)
Profit and loss account	10	<b>244.4</b>	468.0
<b>Total shareholders' funds</b>		<b>660.6</b>	886.6

These financial statements were approved for issue by the Board of Directors on 26 June 2012. The accompanying notes form an integral part of this balance sheet.



Sir Brian Souter  
Chief Executive



Martin A Griffiths  
Finance Director



# 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, except for the revaluation of certain financial instruments, 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 assets

Tangible assets are shown at their original historic cost net of depreciation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over their estimated useful lives, as follows:

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any 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 foreign 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 58.

### • Share based payment

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

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 determinable from the Company's quoted share price at the time of the award.

At each balance sheet date, before vesting, the cumulative expense or investment is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

#### Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

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).

# Notes to the Company financial statements

## 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", FRS 26 "Financial instruments: Recognition and measurement" and FRS 29 "Financial instruments: Disclosures" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial instruments: Recognition and measurement", and IFRS 7 "Financial instruments: Disclosures". Therefore for details of the Company's accounting policy for financial instruments refer to pages 60 to 62.

### • 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 assets

The movements in tangible assets were as follows:

	£m
<b>Cost</b>	
At beginning of year	0.7
Additions	0.9
At end of year	1.6
<b>Depreciation</b>	
At beginning of year	(0.6)
Charge for year	(0.2)
At end of year	(0.8)
Net book value at beginning of year	0.1
Net book value at end of year	0.8

## Note 3 Investments

The movements in investments were as follows:

	Subsidiary undertakings
	£m
<b>Cost and net book value</b>	
At beginning of year	1,022.8
Additions	3.0
Disposals	(0.5)
At end of year	1,025.3

**Note 4 Debtors**

Amounts falling due within one year were:

	2012	2011
	£m	£m
Amounts owed by Group undertakings	583.1	644.3
Other debtors	17.1	15.9
Prepayments and accrued income	1.0	2.6
	<b>601.2</b>	<b>662.8</b>

**Note 5 Deferred tax asset**

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

	2012	2011
	£m	£m
At beginning of year	0.2	0.4
Charge to profit and loss account	–	(0.2)
At end of year	<b>0.2</b>	<b>0.2</b>

The deferred tax asset recognised can be analysed as follows:

	2012	2011
	£m	£m
Short-term timing differences	<b>0.2</b>	<b>0.2</b>

**Note 6 Creditors**

(a) Creditors: Amounts falling due within one year

	2012	2011
	£m	£m
Bank overdrafts	202.9	375.7
Loan notes	20.9	21.1
Amounts owed to Group undertakings	217.1	172.5
Accruals and deferred income	7.4	3.5
	<b>448.3</b>	<b>572.8</b>

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

	2012	2011
	£m	£m
Sterling 5.75% Notes	406.8	408.9
Bank loans	155.4	–
Accruals and deferred income	0.4	0.5
	<b>562.6</b>	<b>409.4</b>

(c) Borrowings were repayable as follows:

	2012	2011
	£m	£m
<b>On demand or within 1 year</b>		
Bank overdraft	202.9	375.7
Loan notes	20.9	21.1
<b>Repayable after 2 years, but within 5 years</b>		
Bank loans	155.4	–
Sterling 5.75% Notes	406.8	–
<b>Repayable after 5 years</b>		
Sterling 5.75% Notes	–	408.9
<b>Total borrowings</b>	<b>786.0</b>	<b>805.7</b>

# Notes to the Company financial statements

## Note 7 Financial instruments

The fair values of derivative financial instruments, all of which are with counterparties that are subsidiaries of the Company, are set out below:

	2012	2011
	£m	£m
<b>Current assets</b>		
Interest rate swaps – due within one year	–	2.7
Interest rate swaps – due after more than one year	–	2.9

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. No such embedded derivatives were identified.

There were no derivatives outstanding at the balance sheet date designated as hedges.

## Note 8 Pension liability, net of deferred tax

	2012	2011
	£m	£m
Unfunded pension liability	<b>2.8</b>	2.7
Deferred tax asset	<b>(0.7)</b>	(0.7)
	<b>2.1</b>	2.0

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above. See note 25 to the consolidated financial statements for more details on retirement benefits.

## Note 9 Called up share capital

Information on share capital is provided in note 27 to the consolidated financial statements.

## Note 10 Share capital and reserves

	Equity share capital	Share premium account	Capital redemption reserve	Own shares	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 1 May 2011	7.1	9.8	416.3	(14.6)	468.0	<b>886.6</b>
Profit for the year	–	–	–	–	163.5	<b>163.5</b>
Credit in relation to share based payment	–	–	–	–	3.0	<b>3.0</b>
Return of cash to shareholders	(3.9)	(1.4)	3.9	–	(338.5)	<b>(339.9)</b>
Dividends	–	–	–	–	(49.0)	<b>(49.0)</b>
Own shares sold	–	–	–	2.1	–	<b>2.1</b>
Own shares purchased	–	–	–	(5.7)	–	<b>(5.7)</b>
Preference shares redeemed	–	–	2.6	–	(2.6)	–
At 30 April 2012	3.2	8.4	422.8	(18.2)	244.4	<b>660.6</b>

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The profit as disclosed above of £163.5m (2011: £90.0m) is consolidated in the results of the Group. Details of dividends paid, declared and proposed during the year are given in note 8 to the consolidated financial statements.

The profit and loss account reserve is distributable but the other components of shareholders' funds shown above are not distributable.

The remuneration of the Directors is borne by other Group companies and is equal to the amounts shown in note 6 to the consolidated financial statements. The remuneration of the auditors is shown in note 3 to the consolidated financial statements.

## Note 11 Share based payments

For details of share based payment awards and fair values see note 28 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £3.0m (2011: £4.4m) 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 (2011: Nil) and all share based payment awards 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 £3.7m (2011: £2.5m) 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 £218.2m (2011: £85.7m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the Company balance sheet.

In addition, the Company has provided guarantees to third parties of £143.6m (2011: £91.7m) in respect of contingent liabilities that are neither included in the consolidated balance sheet nor the Company balance sheet.

The Company is also party to cross-guarantees whereby the bank overdrafts and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the legal liabilities referred to in note 31 (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:

	2012	2011
	£m	£m
Contracted for but not provided: For delivery in one year	–	72.4

(c) Operating lease commitments

Annual charges for operating leases are made with expiry dates as follows:

	2012		2011	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	–	0.1	–	0.1
Between one year and five years	–	0.6	–	0.6
Five years and over	0.3	–	0.3	–

#### 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 in note 33 to the consolidated financial statements.

# Shareholder information

## 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 Limited, Stagecoach Group Dedicated Team, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TH. Telephone 0871 664 0443 (calls cost 10p per minute plus network extras) if calling from the UK, or +44 203 367 2699 if calling from outside the UK, or email [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com). Registrar forms can be obtained on-line at <http://www.stagecoach.com/investors/shareholder-services/registrar-forms/>

## Online share portal

You can register to access your share account online using the share portal service at [www.capitashareportal.com](http://www.capitashareportal.com). You will need your Investor Code, which is shown on shareholder correspondence, in order to register to use the portal.

Registering your account is quick and easy and you will immediately be able to benefit from the full range of services available on the share portal including updating your personal details, adding a mandate to receive dividends direct to your bank account and registering proxy votes online. Using the online share portal reduces the need for paperwork and provides 24 hour access.

## Stagecoach individual savings accounts

The Company has arrangements with Stocktrade (a division of Brewin Dolphin) for Individual Savings Accounts ("ISAs"). Shareholders who would like further information should contact their help desk on 0131 240 0448.

## Share dealing facilities

The Company has set up a range of execution only share dealing services to enable Stagecoach shareholders to buy and sell shares by phone, online or by post. The phone and online dealing services are provided by Capita Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services go to [www.capitadeal.com](http://www.capitadeal.com) or call 0871 664 0454 (calls cost 10p a minute plus network extras, lines are open 8.00am-4.30pm Mon-Fri). From outside the UK dial +44 203 367 2699. Please have your share certificate to hand when you log-in or call. Charges start from £20 online and £25 by phone.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Charges start from £15. 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, or register their details through the Capita Share Portal.

## 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 +44 800 280 2583 if calling from outside the UK.

## SHARE FRAUD WARNING

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this usually lose their money.

The Financial Services Authority ("FSA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

### PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FSA Register at [www.fsa.gov.uk/fsaregister](http://www.fsa.gov.uk/fsaregister) to ensure they are authorised.
3. Use the details on the FSA Register to contact the firm.
4. Call the FSA Consumer Helpline on **0845 606 1234** if there are no contact details on the Register or you are told they are out of date.
5. Search the FSA list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme ("FSCS") if things go wrong.

### REPORT A SCAM

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at [www.fsa.gov.uk/scams](http://www.fsa.gov.uk/scams), where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0845 606 1234**.

**If you have already paid money to share fraudsters you should contact Action Fraud on: 0300 123 2040**

# Corporate information, advisers and financial calendar

## Corporate Information

### **Company Secretary**

Ross Paterson

### **Registered Office**

10 Dunkeld Road

Perth PH1 5TW

Telephone +44 (0) 1738 442 111

Facsimile +44 (0) 1738 643 648

Email [info@stagecoach.com](mailto:info@stagecoach.com)

### **Company Number**

SC 100764

## Financial Calendar

Annual General Meeting

24 August 2012

Interim Results

December 2012

Final Dividend

3 October 2012

Interim Dividend

March 2013

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