

# A formula for transport growth

Stagecoach Group Annual Report  
and Financial Statements 2013



**STAGECOACH GROUP**  
*greener smarter travel*

# Stagecoach Group overview

Stagecoach Group is a leading international public transport company with bus and rail operations in the UK and North America. We employ around 36,000 people and run around 13,000 buses and trains.

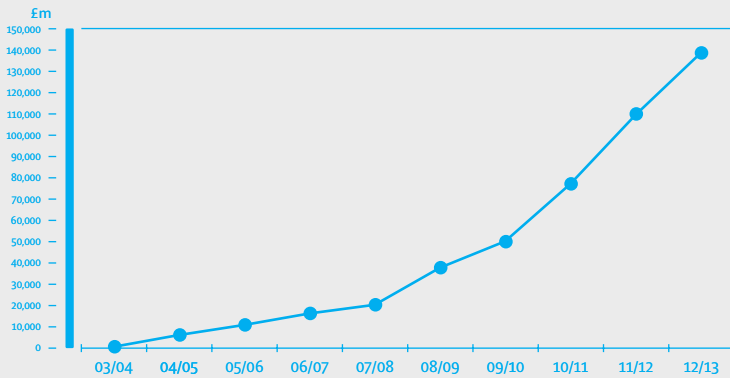
UK BUS (Regions)	UK BUS (London)	UK Rail	North America
<b>19,000</b> employees	<b>4,000</b> employees	<b>7,000</b> employees	<b>5,600</b> employees
<b>6,900</b> buses and coaches	<b>1,100</b> buses and coaches	<b>2,150</b> train services a day	<b>2,800</b> buses and coaches
<b>671m</b> journeys a year	<b>311m</b> journeys a year	<b>250m</b> journeys a year	<b>149m</b> vehicle miles a year

Note: all figures are approximate.

## Budget travel

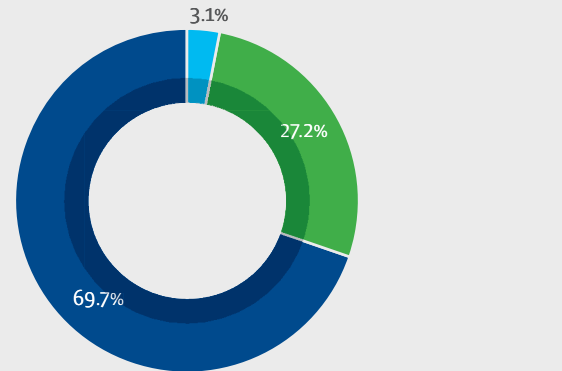


Total megabus.com brand revenues in UK and North America, 2003-04 to 2012-13



The chart includes all revenues from megabus.com branded services in the UK and North America, including 100% of megabus.com branded services within the Scottish Citylink joint venture.

Total megabus.com revenue, 2012-13



## Operational performance



UK rail punctuality

- East Midlands Trains
- South West Trains
- Virgin Trains
- National Rail



Source: Network Rail, Public Performance Measure Moving Annual Average.

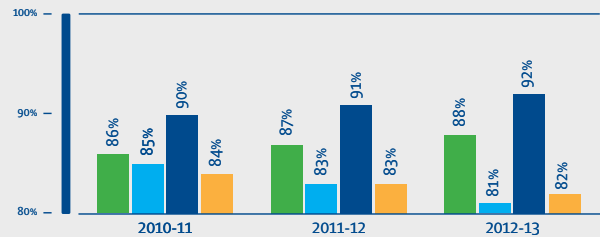
Note: figures used refer to the measure of train punctuality – also known as PPM (public performance measure) – which is commonly used throughout Europe. For long distance operators, such as East Midlands Trains and Virgin Trains, this shows the percentage of trains arriving within 10 minutes of timetabled 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 2010 to 31 March 2013. National Rail average is for all franchised train operating companies.

## Customer service



UK rail customer satisfaction

- East Midlands Trains
- South West Trains
- Virgin Trains
- National Rail



Source: National Passenger Survey, Spring Wave, 2011, 2012, 2013.

Note: data extracted from National Passenger Survey, Spring Wave, 2011, 2012 and 2013. 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.

# Highlights

## Good performance for shareholders and customers

- Earnings per share\* up 18.9% to 30.2p, ahead of market expectations
- Full year dividend up 10.3% to 8.6p
- Financial results underpinned by strong operational delivery, consistent investment, value-for-money travel, high customer satisfaction and effective partnerships

\* excluding intangible asset expenses and exceptional items  
 † See definitions in note 35 to the consolidated financial statements

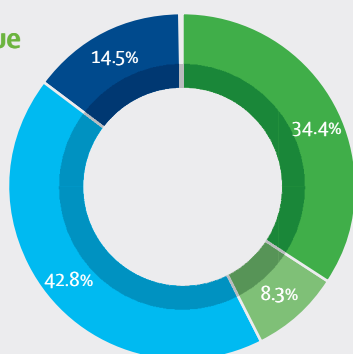
## Well-positioned for future growth

- Consistent and successful strategy with evolution of management responsibilities
- Strong financial position enables pursuit of new opportunities
- Significant scope to secure additional value in UK rail market
- Continued confidence in prospects for megabus.com and acquired businesses in North America
- Further innovation with development of new products (e.g. UK sleepercoach) and initiatives (e.g. rail alliancing)



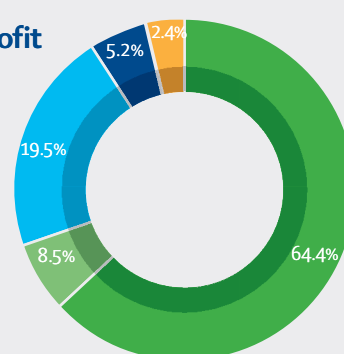
### Group revenue (by division)

- UK Bus regions
- UK Bus London
- UK Rail
- North America



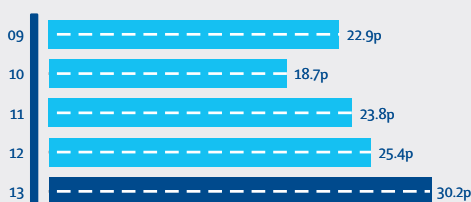
### Operating profit (by division)

- UK Bus regions
- UK Bus London
- UK Rail
- North America
- Other



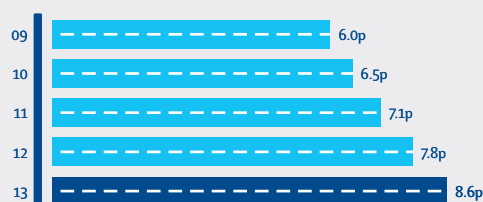
### Adjusted earnings per share

(Year ended 30 April)



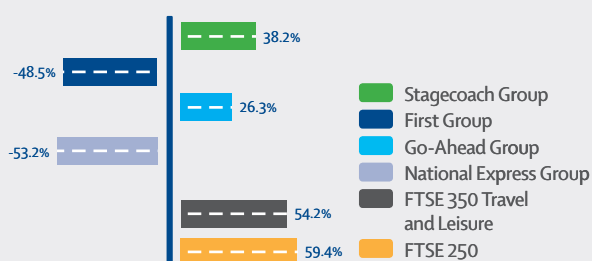
### Dividend per ordinary share

(Year ended 30 April)



### Total shareholder return

(Five year comparative performance to 30 April 2013)



### Notes

- Group revenue:** Revenue is for the year ended 30 April 2013, 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 2013, 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 2013 compared with that of First Group, Go-Ahead Group, National Express Group, the FTSE 350 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 <sup>+</sup>		Reported results	
	2013	2012	2013	2012
Revenue (£m)	<b>2,804.8</b>	2,590.7	<b>2,804.8</b>	2,590.7
Total operating profit (£m)	<b>256.3</b>	237.2	<b>235.4</b>	262.9
Non-operating exceptional items (£m)	-	-	<b>(2.2)</b>	11.6
Net finance charges (£m)	<b>(37.4)</b>	(34.7)	<b>(37.4)</b>	(34.7)
Profit before taxation (£m)	<b>218.9</b>	202.5	<b>195.8</b>	239.8
Earnings per share (pence)	<b>30.2p</b>	25.4p	<b>27.7p</b>	29.5p
Proposed final dividend per share (pence)	<b>6.0p</b>	5.4p	<b>6.0p</b>	5.4p
Full year dividend per share (pence)	<b>8.6p</b>	7.8p	<b>8.6p</b>	7.8p

<sup>+</sup> see definitions in note 35 to the consolidated financial statements

# Q&A

**Martin Griffiths**



Martin Griffiths took up his position as Chief Executive on 1 May. He discusses the Group's strategy, its formula for success, the challenges and opportunities facing the transport sector, and his priorities looking to the future.

**Your recent move to Chief Executive is one of a number of executive management and Board changes at Stagecoach. Will there be a change in the Group's approach or strategy?**

The transition to the new executive team and the Board changes have been part of a well thought through succession plan. I've been part of the Stagecoach journey for the past 16 years and I'm proud to have been entrusted with a fantastic opportunity of taking the Group forward and building on our huge success. The day-to-day leadership has changed and I have my own style and ideas, but it will be very much evolution, not revolution. It would be stupid to rip up something that has worked successfully for a long time. Our consistent strategy has been good for our Group and our people. It's worked for our customers. And we have a great track-record of delivering strong returns to our shareholders. We will do what Stagecoach does best: continue to learn and evolve.

**There are a few changes in roles in the senior management team. Are you confident you have a team that will continue to deliver the strong growth the Group has achieved over many years?**

Success is about leadership and it's also about teamwork. Stagecoach has always had managers at senior and local level who are respected for their experience and delivering results. I'm fortunate to have access to that same expertise and insight. Ross Paterson, who has stepped up to Finance Director, has made a great contribution to Stagecoach for almost 14 years. Stagecoach is in great financial shape and I've absolutely no doubt the Group's assets will be in safe hands. In our UK Bus division, Robert Montgomery has taken over as Managing Director. He has nearly 40 years' experience of regulated and deregulated markets in the bus and coach sector. Alistair Smith, Director of Commercial and IT, has been with the Group for 14 years. He has established our leading position in smart ticketing in the UK and is making sure we remain at the forefront of benefitting from commercial opportunities. Across the Group, we have strong devolved management teams who each know their markets and what their customers want. We are also developing a new generation of talented young managers. All of these factors give me great confidence in the future.

**Sir Brian Souter, as co-founder of the Group, has been hugely influential and been behind some sector-transforming innovations over the years. Is that not a tough act to follow?**

Brian is a unique leader. He has huge experience and his many achievements have been rightly recognised around the world. I'm not going to try to be another Brian. We all have our different personalities and styles. But I have learned a huge amount from him. We have worked as a team for the past dozen or so years. That approach will continue and I'm delighted that, in his role as Chairman, we will continue to have access to his ideas and insight that have been such a big part of the development of Stagecoach since we were founded in 1980.

**What are your priorities having taken over as Chief Executive?**

We have a clear and consistent strategy. Delivering that is what my job is all about. For me, the priorities moving forward are around people, technology and customer service. Stagecoach has consistently been the best and most innovative public transport group. As well as our ideas, our success has been built on the commitment of our employees and having the right people with the right skills in the right place. The success of the transport operation we ran for the London 2012 Games showcased exactly that. Our people have a key role in the daily lives of the three million customers we serve every day in the UK and North America – from our bus and train drivers, to operations and engineering teams, commercial and customer service staff, and many other people behind the scenes. We need to be 100% focused on delivering the best service we can to our customers. Technology is changing all businesses and transport is no different. We live in the age of the smartphone and we need to harness the power of new technology to help grow our business.

**How would you sum up 2012/13?**

It's been a tough, but successful year for Stagecoach. We've posted a good set of financial results and achieved a lot. Revenue has grown further and we've successfully expanded the footprint of the business in North America. Innovation and quality has continued to be at the heart of the business. We've launched new products such as our sleepercoach service and we've won further awards for the high quality of our services and our commitment to sustainable growth. At the same time, we've reduced costs and delivered millions of pounds to the taxpayer. We continue to make a huge positive contribution to our economy, our communities and our environment. And we've achieved all of that against a backdrop of significant reductions in public spending on transport and in a continuing tough economy where businesses in many other sectors are struggling. Most importantly, we've continued to deliver strongly for our investors. It caps ten years of delivery and sustainable growth, with total shareholder return of more than 800% over the ten years ended 30 April 2013.

**Stagecoach consistently delivers strong results in its UK Bus division. What is the secret of its success?**

Without question, we have the best bus division in the UK. It has set the standard for our industry over many years. We have a proven formula that has been behind the success of all of our businesses. It's a combination of strong operational performance, consistent investment in our bus and rail services, delivering value-for-money travel, and consistently achieving high customer satisfaction. Strong partnerships with other organisations have also been central to our approach. All of that has flowed through to good financial performance. It has meant we have delivered consistently for our customers and the shareholders who have invested in our business, many of whom are our own employees. The challenge for me and the team is to continue to deliver that success and I'm confident we have the people to do that.

## **It's now around two-and-a-half years since you re-entered the London bus market. How has the turnaround plan for the business progressed?**

When we bought back the London business in October 2010, it had gone into administration and was loss-making. There was also uncertainty for its 4,000 employees. Since then, a huge amount of management effort and staff commitment has gone into turning the business around. We've worked constructively in partnership with the trade unions and our people to make the business more efficient and we're now winning contracts based on appropriate financial terms. We've also achieved our profit margin target for the business. Our priority is to continue to focus on delivering a good quality bus service to people in London and running an efficient business that gives us a platform to win new contracts.

## **Media coverage has been dominated by the issues with UK rail franchising over the past year and some have questioned the value of the sector for investors. What is your view?**

There's no question it's been a really difficult year. Everyone who is passionate about our railways would prefer not to have gone through that experience, myself included. But out of that hiatus, I think we have a real opportunity. Recent announcements by the Department for Transport have brought greater clarity and confidence in the future of UK rail. While the franchising programme has been delayed, we now have a clear programme for franchising. I'm pleased that Stagecoach is closely involved in helping to develop a new franchising model and we have had positive engagement with the Department for Transport. I'm optimistic we can get a more sustainable model that will have the right balance of risk and reward and one that fully recognises quality operators and quality bids. Let's not forget the huge contribution private sector train companies have made to a growing and more efficient railway, delivering more punctual services and more satisfied passengers. Stagecoach is shortlisted for the Thameslink and Docklands Light Railway franchises.

We have also held initial discussions around the delivery of the planned extensions to our South West Trains and East Midlands Trains franchises. We and our investors have a lot to be positive about. Our priority is to maintain the momentum to make things happen.

## **A year ago, Stagecoach formed an alliance with Network Rail at South West Trains. How has that performed?**

The alliance has delivered a huge amount in a short space of time.

We have put in place new processes, improved the management of the railway infrastructure and enhanced the train service. The efficiency of track maintenance work has increased by 25% and delay minutes per incident have reduced by 11%. We are more efficient, more joined up and more customer-focused. The alliance set-up means we have far better insight into the condition of the infrastructure. It also means we have been able to look holistically at how we address the challenge of growth on the network, which is one of the busiest commuter railways in Europe. We are working on some exciting plans for the future and are also set to introduce new carriages over the next six months or so to create space for thousands more peak time passengers. Our work over the past year shows we are at the forefront of new thinking and I'm convinced what we have learned will give us a competitive advantage in the future.

## **North America is the fastest growing division in the Group, but it's a competitive market and one where the Group and other UK businesses have faced challenges in the past. How do you see the next few years developing for that part of the business?**

North America is a really exciting market for us. We have put in a significant amount of investment over the past few years as we've established our megabus.com brand. Our business acquisitions last summer have also given us a great foundation for the future and we've successfully integrated these businesses into the division. We are in a far different place compared to our initial entry into North America at the end of the 1990s. Today we are clear on our core markets. There is no doubt the inter-city bus market is competitive, but our real competitor is the car and we have only scratched the surface of what is possible there. 2013/14 will be about consolidating our leading position in that market and converting our strong passenger demand into profitable growth.

## **There is still concern about the low growth in the global economy and further cuts in public spending by governments. How is that likely to affect Stagecoach?**

At a macro level, there is continuing uncertainty. Economists are predicting a longer period of low growth than previously predicted after the downturn took hold. Austerity means that we can expect to see continued pressure on public spending and that includes investment in public transport. But the good news for our businesses is that they have been stress-tested over several years during the most difficult economic cycle for many decades and come through it. Our bus and rail businesses have shown great resilience, we are less dependent on government funding and we have continued to maintain our investment grade ratings. Stagecoach is continuing to grow, with value products that are in great demand, and that should give us great confidence.

## **What can governments do to support the public transport sector?**

Promoting pro-public transport measures such as bus park-and-ride, building public transport into planning developments, and measures to help transport operators keep fares affordable for passengers are all important. It is also vital governments continue to recognise the wider value of public transport and the crucial role it plays in our economy, our communities and in meeting our global environmental challenges. Take buses in the UK as just one example. The UK bus sector directly employs over 170,000 people, it spends £2.5 billion in its supply chain, and it supports a further 83,000 supplier jobs. Buses connect people with work and help reduce welfare dependence. Buses are also an important transport mode of young people and low income groups.

This year, Stagecoach launched the UK first long-term nationwide discounted bus travel scheme for jobseekers, providing half-price travel to help them find employment. We fund it entirely on a commercial basis without any public sector support. Our business is built on delivering our services commercially. That is our core strength. At a time of stretched budgets, I hope politicians recognise the value-for-money they get from investment in public transport.

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

The Group is in great financial shape and we've made a good start to the 2013/14 year. The public transport market has long-term fundamental strengths and we have secured a leading position in a range of growing markets in the UK and North America. If you look at issues such as rising road congestion, increasing environmental awareness and higher car operating costs, all of these factors are positive drivers for our business. With a continuing supportive policy environment, I'm confident we can make bus and rail rather than the car the travel modes of choice for increasing numbers of people in the UK and in North America.



# 1. Chairman's statement



Stagecoach Group has delivered a good set of results for the year ended 30 April 2013. We have achieved ten years of growth and sector-leading returns for our shareholders and the Group is in a strong financial position.

We have a proven formula for sustainable growth across the Group: strong operational performance, consistent investment in our bus and rail services, safe, high-quality and value-for-money travel, high customer satisfaction and effective partnerships. Our strategy has ensured that we have been able to make the most of the opportunities for growth and successfully negotiate the challenging economic landscape in recent years.

Stagecoach has the best-performing bus division in the UK, which has set the standard for the industry over many years. Our commercial regional bus operations are the cornerstone of the Group. We have the lowest fares of any major operator, the highest customer satisfaction of any national operator and sector-leading profit margins, which have enabled us to invest several hundred million pounds in new buses in the past six years.

In UK rail, we have continued our record of delivering for passengers and taxpayers across our passenger rail franchises and light rail operations. Our work over the past year under the South West Trains-Network Rail Alliance shows we remain at the forefront of new thinking about how to deliver a more efficient, more joined up and more customer-focused railway.

We are taking a leading role in helping to develop a new UK rail franchising model which we believe can build on the clear contribution of private train companies to a growing, high-quality and financially successful UK rail network. Following the Department for Transport ("DfT") announcement earlier this year regarding its plans, timetable and investment programme for UK rail franchising, we have held initial discussions around the delivery of the planned extensions to our South West Trains and East Midlands Trains franchises. The Group is also shortlisted for the Thameslink and Docklands Light Railway franchises, which are due to begin operating in 2014.

North America is the fastest-growing part of our Group. Our megabus.com brand has transformed the inter-city bus market since it launched in North America in 2006. 2012/13 has seen further investment in the product to ensure we maintain and grow our share of the competitive but rapidly expanding market. Looking ahead, we are closely focused on good cost control and achieving profitable growth. We have also successfully integrated the businesses we acquired last summer into our North America division and we believe they have good potential in their individual sectors.

In December 2012, Virgin Rail Group reached an agreement to continue operating train services on the West Coast Mainline through to November 2014. Subsequently, the DfT has announced plans for a further extension to April 2017. We and Virgin Rail Group want to develop the West Coast business further, maintaining the high quality of service and bringing more improvements to customers.

The Group has achieved good revenue and profit growth in the year to 30 April 2013. Revenue was up 8.3% to £2,804.8m (2012: £2,590.7m). Total operating profit (before intangible asset expenses and exceptional items) was up 8.1% at £256.3m (2012: £237.2m). Earnings per share before intangible asset expenses and exceptional items were 18.9% higher at 30.2p

(2012: 25.4p) reflecting the growth in operating profit and the earnings enhancing effect of the October 2011 return of cash to shareholders.

In line with the Group's strong performance, the Directors have proposed a final dividend of 6.0p per share. This gives a total dividend for the year up 10.3% at 8.6p (2012: 7.8p). The proposed final dividend is payable to shareholders on the register at 30 August 2013 and will be paid on 2 October 2013.

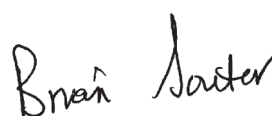
We have made a good start to the 2013/14 financial year. Current trading is in line with our expectations and the Group remains in a strong financial position.

On 1 May 2013, Martin Griffiths became Chief Executive of the Group after 13 years as Finance Director. Ross Paterson, previously Director of Finance & Company Secretary, joined the Board as Finance Director. I became Chairman with the retirement of Sir George Mathewson. Garry Watts became Deputy Chairman, as well as continuing as Senior Independent Non-Executive Director. Gregor Alexander, Finance Director at SSE plc, joined the Board in April 2013 as an independent non-executive director. I would also like to take this opportunity to thank Sir George Mathewson for his business insight and contribution to the Group over the past seven years.

Although there has been a transition of individual management responsibilities, the executive team has been in place for many years and there is no change to the Group's business strategy. I am confident the strategic direction and management of the business is in good hands, with strong governance arrangements and a management team with a record of delivering strong returns to our shareholders. At the same time, I personally remain fully committed to the success of Stagecoach in my role as Chairman and as a significant shareholder.

Since Stagecoach was founded in 1980, the success of the Group has been built on a strong foundation of devolved local management teams who know their markets and what their customers want. We are also developing a generation of talented young managers. Underpinning those teams, we have committed frontline employees who enable the journeys of the many customers we serve every day.

I believe we can look forward to the next chapter of the Stagecoach journey with confidence. The public transport market has long-term fundamental strengths and there is a political consensus that it is central to the future of our economy, as well as making a key contribution to our communities and the environment. Stagecoach is well placed to take advantage of these growth factors and make bus and rail the travel modes of choice for increasing numbers of people in the UK and in North America.



Sir Brian Souter

Chairman

26 June 2013

## 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 2013.

This section 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 36,000 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 6,900 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director.</p> <p>In addition to local bus services in towns and cities, Stagecoach operates interurban services 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 the Scottish Citylink express network and megabus.com branded services to, from and within Scotland. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading 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 10% of the UK Bus (regional operations) revenue is receivable from local authorities in respect of such tendered and school services. Around 24% of the UK Bus (regional operations) revenue is earned from statutory concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying 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 2011 National Travel Survey ("NTS") is a household survey of personal travel in Great Britain. The NTS found that in 2011, there was an average of 958 trips per person per year. Trips by car or van accounted for 79% of distance travelled, bus trips accounted for 5%, rail trips accounted for 8% 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 are positive long-term conditions 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 14% share of that market. The business operates from 9 depots and has a fleet of around 1,100 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 was initially focused on addressing the structurally high cost base at the acquired business and on bidding for contracts that will earn a realistic return. We have now achieved our aspirations for mid to upper single-digit operating margins and our focus will now be on maintaining tight control of costs while seeking to bid competitively for new contracts.
<b>Market opportunity</b>	The Group operates approximately 14% of the bus operating mileage contracted by Transport for London to bus operators. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
<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 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.

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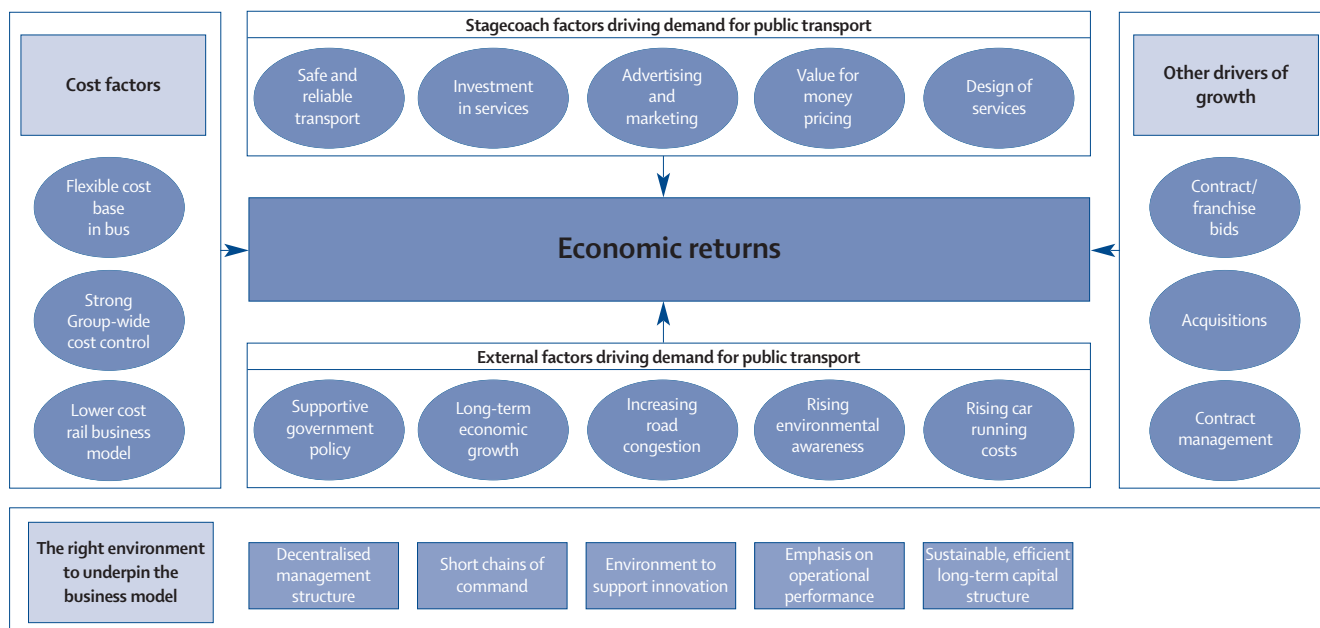
### 2.3.3 What we do (description and strategy of each business segment) (continued)

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 2,800 vehicles in the United States and Canada. The July 2012 acquisition of businesses and assets from Coach America further extended 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 July 2012, we acquired 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 4% of the bus and coach market in North America and is growing this through innovative new services such as megabus.com. The US Department of Transportation's Bureau of Transportation Statistics show that in 2011 some 86% of transportation to work was by car, compared with only 5% by public transport. The opportunity to stimulate modal shift from car to bus and coach is substantial 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 also major operators of coach and bus services in North America.
<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 contracted to run until February 2017 and the UK Government plans to extend it to April 2019. 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 contracted to run until April 2015 and the UK Government plans to extend it to October 2017. 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 November 2014 and the UK Government plans to extend it to April 2017. 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 Chief Executive. Stagecoach's Chief Executive 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 a number of franchises expected to be tendered within the next few 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>	The business faces competition for customers not only from other train operators but also from other modes of transport. The main competitors that bid against the Group for UK rail franchises are FirstGroup, National Express Group, Go Ahead Group, Arriva, MTR, Keolis, SNCF and Abellio.
<b>Future market developments</b>	The UK Government is reviewing the basis for rail franchising in the UK and changes to franchising model are likely. The Group is at the forefront of changes to the UK Rail market in its ground breaking Alliance with Network Rail (see section 2.5.4).

### 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 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 its 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.

Information technology is increasingly important to effectively operate our services and to meet our customer expectations. Significant investment, internal management resource and external supplier input is made in developing and operating IT systems.

### Corporate reputation, brand strength, and market position

Stagecoach is one of the best-known public transport operators in the UK and is consistently rated highly for the quality of its services in research by 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 2013	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 2013	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>As part of its ongoing review of the system of UK Rail franchising, the UK Government is assessing how the exposure to macroeconomic risks should be allocated between Government and train operators in respect of new rail franchises.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.4</li> <li>2.5.4</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 profit</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's West Coast franchise has been extended to November 2014 and the UK Government has confirmed planned extensions to all three rail franchises in which the Group has an interest.</li> <li>The Group is shortlisted for a further two rail franchises, Thameslink and Docklands Light Railway.</li> <li>Further rail franchises expected to be tendered over the next few years.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.4</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 2013	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 liabilities have moved during the year due to market changes.</li> </ul>	<ul style="list-style-type: none"> <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 in our UK Bus (London) and North America divisions decreased in the year as a proportion of revenue.</li> </ul>	<ul style="list-style-type: none"> <li>2.5.2 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 2013	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 tendered and school revenue in UK Bus (regional operations).</li> <li>Litigation in respect of Twin America joint venture.</li> <li>Continuing UK Government review of rail franchising in light of the cancellation of the West Coast rail franchise completion.</li> </ul>	<ul style="list-style-type: none"> <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>Changes to Board during year and from 1 May 2013.</li> <li>New UK Bus Managing Director appointed.</li> </ul>	<ul style="list-style-type: none"> <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 2013	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 scalability. 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		
		2013 pence	2012 pence	2011 pence
Adjusted EPS	To increase in excess of inflation	30.2p	25.4p	23.8

### 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:

- 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.
- UK Bus (London) and North America – growth in constant currency revenue from continuing operations measured as the percentage increase in revenue relative to the equivalent period in the previous year.

The measures vary by division reflecting differences in the underlying businesses – for example, a significant proportion of the revenue in North America 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 2013 Growth %	Year ended 30 April 2012 Growth %	Year ended 30 April 2011 Growth %
UK Bus (regional operations) passenger journeys		(0.4)%	1.9%	0.9%
UK Bus (London) revenue		1.0%	n/a	n/a
UK Rail passenger miles	Positive growth each year			
– South West Trains		1.8%	4.1%	4.1%
– East Midlands Trains		2.7%	3.6%	6.9%
– Virgin Rail Group – West Coast Trains		0.9%	4.6%	9.3%
North America revenue		8.9%	14.0%	8.5%

The decline in passenger journeys at UK Bus (regional operations) in the year ended 30 April 2013 is due to fewer journeys by concessionary passengers that we believe is largely attributable to poorer weather. Journeys by fare-paying passengers increased during the year.

### 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.

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

	Target	Year ended 30 April 2013	Year ended 30 April 2012	Year ended 30 April 2011
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	19.3	20.6	21.4
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		27.9	25.0	n/a
US – number of blameworthy accidents per 1 million miles travelled		4.8	5.2	7.3
South West Trains – workforce lost time injuries per 1,000 staff		1.5	1.8	1.8
East Midlands Trains – workforce lost time injuries per 1,000 staff		1.4	1.6	1.5
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		1.4	1.5	2.1

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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) and UK Bus (London) – reliability measured as the percentage of planned miles to be operated that were operated.
- Rail – punctuality measured on the basis of the 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		
		2013 %	2012 %	2011 %
UK Bus (regional operations) reliability	>99.0%	<b>99.3%</b>	99.5%	99.1%
UK Bus (London) reliability	>99.0%	<b>97.8%</b>	97.9%	n/a
UK Rail punctuality				
– South West Trains	>90.0%	<b>91.5%</b>	92.2%	93.3%
– East Midlands Trains	>85.0%	<b>92.3%</b>	93.7%	92.0%
– Virgin Rail Group – West Coast Trains	>85.0%	<b>83.5%</b>	86.0%	86.3%

## 2.4 Overview of financial results

Stagecoach Group has achieved continued strong financial and operational performance for the year ended 30 April 2013.

Revenue by division is summarised below:

REVENUE – YEAR TO 30 APRIL	2013		2012		Growth %
	£m	Functional currency	£m	Functional currency (m)	
<b>Continuing Group operations</b>					
UK Bus (regional operations)	<b>966.7</b>	£	909.7	£	6.3%
UK Bus (London)	<b>232.7</b>	£	230.5	£	1.0%
North America	<b>407.2</b>	US\$	312.6	US\$	28.8%
UK Rail	<b>1,201.3</b>	£	1,140.7	£	5.3%
Intra-Group revenue	<b>(3.1)</b>	£	(2.8)	£	10.7%
<b>Group revenue</b>	<b>2,804.8</b>		2,590.7		

Operating profit by division is summarised below:

OPERATING PROFIT – YEAR TO 30 APRIL	2013		2012		Functional currency	Functional currency (m)
	£m	% margin	£m	% margin		
<b>Continuing Group operations</b>						
UK Bus (regional operations)	<b>165.0</b>	<b>17.1%</b>	162.7	17.9%	£	165.0
UK Bus (London)	<b>21.9</b>	<b>9.4%</b>	13.5	5.9%	£	21.9
North America	<b>13.3</b>	<b>3.3%</b>	19.7	6.3%	US\$	21.0
UK Rail	<b>49.9</b>	<b>4.2%</b>	27.1	2.4%	£	49.9
Group overheads	<b>(14.9)</b>		(11.1)			
Restructuring costs	<b>(1.7)</b>		(2.3)			
<b>Total operating profit from continuing Group operations</b>	<b>233.5</b>		209.6			
<b>Joint ventures – share of profit after tax</b>						
Virgin Rail Group	<b>9.8</b>		15.9			
Citylink	<b>1.3</b>		2.0			
Twin America	<b>11.7</b>		9.7			
<b>Total operating profit before intangible asset expenses and exceptional items</b>	<b>256.3</b>		237.2			
Intangible asset expenses	<b>(16.1)</b>		(12.3)			
Exceptional items	<b>(4.8)</b>		38.0			
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	<b>235.4</b>		262.9			

## 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 2013 is summarised below:

Year to 30 April	2013 £m	2012 £m	Change
Revenue	<b>966.7</b>	909.7	6.3%
Like-for-like* revenue	<b>938.4</b>	908.1	3.3%
Operating profit*	<b>165.0</b>	162.7	1.4%
Operating margin	<b>17.1%</b>	17.9%	(80)bp

The financial results for the year ended 30 April 2013 include revenue of £18.8m and operating profit of around £4m arising from the successful delivery of contracts to provide transport for the media and athletes at the London 2012 Olympic and Paralympic Games. This transport operation, which showcased Stagecoach's management expertise, was widely praised by organisers and made a significant contribution to the success of these global sporting events. This additional revenue of £18.8m is excluded from the like-for-like revenue figures shown above.

#### Passenger and revenue growth

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

Year to 30 April	2013 £m	2012 £m	Change
Commercial on and off bus revenue	<b>569.9</b>	541.9	5.2%
Concessionary revenue	<b>229.1</b>	225.3	1.7%
Tendered and school revenue	<b>98.5</b>	101.3	(2.8)%
Contract revenue	<b>35.6</b>	34.2	4.1%
Hires and excursions	<b>5.3</b>	5.4	(1.9)%
Like-for-like revenue	<b>938.4</b>	908.1	3.3%

The overall like-for-like revenue growth for the year of 3.3% is slightly below the equivalent rate of 3.6% that we previously reported for the forty eight weeks ended 31 March 2013. While the timing of Easter contributed to stronger growth in April 2013, this was more than offset by the timing of settlements on concessionary and scholar revenue schemes that were higher in April 2012 than in April 2013.

Over the year, we have delivered further revenue growth at our UK Bus (regional operations) and vehicle miles operated were broadly consistent with previous years on a like-for-like basis. 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 over 5% reported for that category. The lower rate of growth in concessionary revenue reflects reduced passenger volumes partly due to poorer weather and pressure from local authorities to minimise concessionary reimbursement rates in light of the budgetary pressures that they face, which has also resulted in reduced revenue from tendered and school services. We expect these trends to continue in the short-term with commercial revenue continuing to grow faster than the other revenue categories.

The decrease in operating margin was built up as follows:

Operating margin – 2011/12	<b>17.9%</b>
Effect of Olympics contracts	<b>0.1%</b>
Change in:	
Staff costs	<b>1.1%</b>
Fuel costs	<b>(1.7)%</b>
Other	<b>(0.3)%</b>
Operating margin – 2012/13	<b>17.1%</b>

Staff costs have fallen as a proportion of revenue principally as a result of lower pension expenses.

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

To support the continued provision of good-value bus services to customers, bus operators receive a rebate of a proportion of the fuel duty which they pay. This fuel duty rebate is also referred to as Bus Service Operators' Grant ("BSOG"). The rate of BSOG paid to bus operators was cut in April 2012 in each of England, Scotland and Wales. The effect of this cut contributed to an overall increase of around £22m in the division's fuel costs. Notwithstanding this and increases in other costs, operating profit grew in 2012/13 as a result of the strong growth in commercial revenue and the contribution to profit from the Olympics contracts, each referred to earlier.

#### Local bus networks

We are continuing to deliver sector-leading profit margins through our value fares strategy, continued investment in our fleet and the roll-out of new technology solutions to make travel easier for our customers. Over the past six years, we have invested several hundred million pounds in more than 3,000 new vehicles for local communities and for our inter-city coach services, including £75m already committed for 2013/14. This year, we took delivery of a further 59 hybrid-electric vehicles for our operations, cementing our place as the UK bus industry's leading investor in this technology, which produce up to 30% fewer carbon emissions than standard vehicles. We now have a total of around 240 hybrid buses in our fleet.

Our bus fleet across the UK is equipped to accept smartcards and we continue to explore ways to further develop commercial opportunities related to smart card use. More than 136 million commercial and concessionary smartcard transactions were made on our buses in the UK in 2012/13. We are also working on integrated bus-rail smart ticketing and taking part in the UK's first trial of near-field communications technology using mobile phones for ticketing on public transport.

Our strong partnerships with transport authorities around the country are working well. In Oxford, we are part of a successful multi-operator smart ticketing partnership, which was highlighted last year by the UK's Transport Select Committee as it endorsed partnership working as key to delivering service improvements. In South Yorkshire, passengers are also benefitting from a partnership agreement which is delivering affordable fares, smarter multi-operator ticketing, and newer, greener low-floor buses. Sheffield has become one of the DfT's first "Better Bus Areas" and will benefit from increased funding to further improve bus services and bus-related infrastructure.

The Tyne and Wear Integrated Transport Authority, with the support of the five councils in Tyne and Wear, is continuing to explore the respective benefits of a new Voluntary Partnership Agreement with bus companies, and a Quality Contracts Scheme, in which bus services would be offered under franchise by a single public body. Stagecoach is firmly opposed to Quality Contracts and there is no evidence of market failure in Tyne and Wear where bus passenger satisfaction is among the highest in the UK. We will vigorously resist any proposals to introduce Quality Contracts in the areas where we currently operate. We believe the highly centralised, inflexible and bureaucratic approach of Quality Contracts would result in poorer value for money for taxpayers, inefficient bus operations and a worse service for customers.

Stagecoach Gold, our premium bus brand designed to attract car users, has been further expanded to routes in the south of England and now covers more than 20 towns and cities in the UK. It offers vehicles with luxury leather interiors and free Wi-Fi, as well as customer service guarantees and a money-back promise for significant delays.

Customers have responded positively to our products, pricing and performance. Independent research by Passenger Focus, published in March 2013, found Stagecoach had the highest customer satisfaction of any national bus operator. The study found that 86% of Stagecoach bus passengers in England were satisfied with their service, with only 5% dissatisfied. This has followed other independent studies which have assessed Stagecoach as offering the lowest fares of any major bus operator in the UK.

#### Cost control

We have taken successful steps to manage the impact of cuts in public sector spending, including the reductions in BSOG. Measured fares changes and adjustments to our bus networks have protected services and ensured they

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remain good value. These developments have also made our business less dependent on Government spending. We have been actively engaged with local authorities in England and the devolved administrations in Scotland and Wales to press for the full and proper reimbursement of the costs of our participation in concessionary fare schemes.

Investment in improved energy management systems, eco driving technology and intelligent lighting systems are also helping control our fleet and buildings costs, as well as cut our carbon emissions.

### Acquisitions

We continue to evaluate acquisition opportunities in the UK Bus market. Such opportunities tend to be small relative to the size of our existing operations, reflecting the stability in ownership of the majority of UK Bus operators and the approach taken by the UK competition authorities.

During the year, we expanded our business further with acquisitions in Wigan, North Manchester and Chester and Birkenhead, helping us to deliver our good value, reliable bus services to even more customers. These acquisitions have all been cleared by the Office of Fair Trading.

### Outlook

We expect government finances to remain under pressure and we do not therefore expect significant growth in concessionary or tendered revenue over the next year. We expect BSOG rates to remain stable over the next year, in line with Government promises. We will continue to work hard to control costs and we aim to deliver sufficient growth in commercial revenue to offset expected increases in costs and the non-recurrence of the 2012/13 profit contribution from Olympics contracts. Our commercial bus fares have recently been increased by an average of around 3.5% and this should contribute to the continued growth in commercial revenue.

Our bus operations in the UK have shown their strength in recent times. They have continued to perform well during weak macroeconomic conditions and a period of downward pressure on Government spending. As conditions improve, we believe the division is well placed to grow further by capitalising on rising motoring costs, worsening road traffic congestion, and public policy and consumer opinion focused on greener lifestyles.

### 2.5.2 UK Bus (London)

#### Financial performance

The financial performance of the UK Bus (London) division for the year ended 30 April 2013 is summarised below:

Year to 30 April	2013 £m	2012 £m	Change
Revenue	232.7	230.5	1.0%
Operating profit	21.9	13.5	62.2%
Operating margin	9.4%	5.9%	350bp

The number of contracts being operated by us for Transport for London at 30 April 2013 was consistent with the previous year at 81. During the year, we lost two contracts on re-tender but won nine new contracts and will begin to benefit from these wins in the year ahead.

We acquired the UK Bus (London) business in October 2010 and in our interim results report for the six months ended 31 October 2010, we stated in respect of the business that "our long-term aspirations are for mid to upper single-digit operating margins and we are confident that we can apply our expertise in managing UK bus businesses to create value from a turnaround situation." We have achieved those aspirations during the year ended 30 April 2013, transforming what was a loss-making business in 2010 into one that reported an operating margin of 9.4%.

Although the competitive environment remains challenging, we are keeping tight control of costs to ensure we can compete effectively for contracts.

The financial effect of the positive steps taken to turnaround the business and reduce unit staff costs and other costs is reflected in the improvement in operating margin, which was built up as follows:

Operating margin – 2011/12	5.9%
Change in:	
Staff costs	3.4%
Fuel costs	(0.8)%
Insurance and claims costs	1.7%
Depreciation	0.9%
Lease costs	(1.2)%
Other	(0.5)%
Operating margin – 2012/13	9.4%

In common with the regional UK Bus operations, the London Bus operations experienced a reduction in the rate of BSOG from April 2012, partly offset by underlying fuel costs reducing as a percentage of revenue during the year. Insurance and claims costs have reduced as we remain focussed on minimising claims and as a result of reassessing the level of insurance provisions. Lease costs have increased as a percentage of revenue as a higher proportion of the fleet is held on operating lease and this is partly offset by a reduction in depreciation as a proportion of revenue.

### Outlook

We have achieved the profit margin aspirations we set when we acquired the UK Bus (London) business in October 2010. We now aim to maintain a mid to upper single digit operating margin. In the short-term, maintaining and improving a 9.4% margin will be challenging given the continuing strong competition for contracts in the London bus market. Our focus will be on maintaining tight control of costs while seeking to bid competitively for contracts.

### 2.5.3 North America

#### Financial performance

The financial performance of the North America division for the year ended 30 April 2013 is summarised below:

Year to 30 April	2013 US\$m	2012 US\$m	Change %
Revenue	641.2	498.0	28.8%
Like-for-like revenue	518.0	475.9	8.8%
Operating profit	21.0	31.4	(33.1)%
Operating margin	3.3%	6.3%	(300)bp

The significant increase in revenue reflects the July 2012 acquisition of businesses explained below and further growth in like-for-like revenue, analysed as follows:

Year to 30 April	2013 US\$m	2012 US\$m	Change %
Megabus	152.8	115.9	31.8%
Scheduled service and commuter	214.4	208.9	2.6%
Charter	80.1	79.3	1.0%
Sightseeing and tour	21.5	21.1	1.9%
Contract	42.3	43.7	(3.2)%
School bus	6.9	7.0	(1.4)%
Like-for-like revenue	518.0	475.9	8.8%

The timing of Easter meant that revenue growth at megabus.com in the month of April 2013 was below the growth rate of the preceding relevant months. However, megabus.com remains the fastest growing part of the North American business, reflecting further strong revenue and passenger volume growth on our existing networks as well as the revenue from the networks launched in Texas and California during the year.

The operating profit of the North America division fell short of the expectations we set at the start of the financial year, albeit this shortfall was more than offset by the financial performance of other parts of the Group such that overall adjusted earnings per share exceeded expectations. As we continued to quickly expand megabus.com and grow its market share, we experienced some "growing pains". In the year, profit at megabus.com was adversely affected by:



- As expected, losses from newer services, including the new Texas and California networks. New megabus.com services tend to be loss making for a period of time before profitability improves as demand and yields increase.
- Unusually severe weather conditions. For example, from January to March 2013, we cancelled 668 megabus.com trips due to bad weather compared to none whatsoever from January to March 2012. The poor weather also had some effect on the other parts of the North America division.
- Substantial year-on-year price reductions by competitors on certain routes.
- Preventive measures to enhance our industry-leading safety systems, as explained in our interim results report for the six months ended 31 October 2012.

The reduction in operating margin was built up as follows:

Operating margin – 2011/12	<b>6.3%</b>
Change in:	
Fuel costs	<b>(2.2)%</b>
Insurance and claims costs	<b>0.9%</b>
Other	<b>(1.7)%</b>
Operating margin – 2012/13	<b>3.3%</b>

Unit fuel costs have risen in North America and have in part been offset by revenue growing faster than the rate of change in insurance and claims costs. Other costs have grown disproportionately to revenue reflecting start up costs for new megabus.com routes, increased toll costs for megabus.com services and increases in direct tour costs as a proportion of revenue, reflecting a change in the mix of business following the July 2012 acquisition explained below.

#### Acquisitions and traditional operations

In July 2012, we completed the acquisition of nine businesses and related assets from Coach America for a cash consideration of around US\$134m. Stagecoach also acquired a further 79 vehicles from Coach America for a cash consideration of US\$25.9m. The businesses we acquired include contract, line-run, charter and sightseeing operations. They extended our footprint into Texas, California, Georgia, Ohio, Wyoming, Nevada, Maryland and Oregon. The integration of these businesses into our existing operations in the United States has progressed well.

Our traditional transportation business in North America is operated through 25 independently managed local bus carriers, who have been integral to their communities for many years. We have achieved growth in like-for-like revenue over the past year, despite the impact of severe weather during the year. In particular, we are pleased with the passenger growth on our commuter services linking New Jersey with Manhattan.

In March 2013, we announced an investment of more than US\$20m in a fleet of 51 new greener high-specification coaches for businesses based in Ohio, Wisconsin and New Jersey. Equipped with wheelchair lifts, Wi-Fi, power outlets and a package of safety features, the coaches will all be in service by July 2013.

Our companies and employees in the North East of the United States provided transportation and other assistance to local communities at the time of the Hurricane Sandy storm in autumn 2012. As well as assisting with the evacuation, we operated emergency shuttle services on behalf of New Jersey Transit and for many banks and financial services companies. This helped keep commuters moving after the storm damaged the New Jersey Transit rail system and impacted the New York City subway, the Holland tunnel between New York and New Jersey and a number of rail and bus maintenance facilities.

#### Megabus.com

We have seen strong passenger growth at megabus.com in North America over the past year. In April 2013, we reached the milestone of having completed 25 million passenger journeys across the United States and

Canada as we continue to succeed in attracting people out of their cars. Since launching in May 2006, we have grown to cover more than 100 locations. Megabus.com has also created more than 1,000 jobs in North America since 2006 and has boosted tourism by bringing millions of visitors to key destinations. The megabus.com brand has also been recognised as the greenest operator in the bus industry by the United Motorcoach Association.

During the 2012/13 financial year, we have used the depot infrastructure of our acquired Coach America operations to expand our megabus.com network more quickly and efficiently, retaining direct operational control and avoiding the need to pay a sub-contract profit margin in these locations. We launched our Texas network in June 2012 and our California network started running services in December 2012.

We remain excited by the long-term prospects as we continue to develop the business and the megabus.com brand. We also endorse the US Department of Transportation crackdown against illegal and unsafe motorcoach companies, which we believe is in the long-term interests of passengers and high-quality operators.

#### Outlook

For the year ending 30 April 2014, we aim to deliver a sizeable step up in the operating profit of North America, from driving up the financial performance of megabus.com, the full year effect on profit of the businesses acquired from Coach America in July 2012 and the non-recurrence of vehicle maintenance and other costs incurred in integrating the acquired business to the Group.

Unlike in recent years, we do not intend to add significant new operating mileage to the megabus.com business and we will instead focus on consolidating and improving the profitability of the existing megabus.com services, and the development of selected new products for the North American market. We do still see significant opportunities to add operating mileage to that business and intend to revisit that in due course. We are not anticipating a significant change in the competitive environment or in competitors' pricing policies over the next year.

The longer term prospects for the North America division are excellent, particularly in the growing inter-city market where the launch of megabus.com in 2006 sparked a market transformation.

#### 2.5.4 UK Rail

##### Financial performance

The financial performance of the UK Rail division for the year ended 30 April 2013 is summarised below:

Year to 30 April	<b>2013</b>	2012	
	<b>£m</b>	£m	Change
Revenue	<b>1,201.3</b>	1,140.7	5.3%
Like-for-like revenue (excluding tram)	<b>1,185.6</b>	1,119.1	5.9%
Operating profit	<b>49.9</b>	27.1	84.1%
Operating margin	<b>4.2%</b>	2.4%	180bp

The increase in margin was built up as follows:

Operating margin – 2011/12	<b>2.4%</b>
Change in:	
Amounts paid to / from DfT	<b>1.9%</b>
Other operating income	<b>(0.8)%</b>
Other	<b>0.7%</b>
Operating margin – 2012/13	<b>4.2%</b>

Certain rail franchises are eligible to receive "revenue support" from the DfT to partly offset the extent to which actual revenue falls short of the revenue that was forecast as part of the successful bid for the relevant franchise. In the year ended 30 April 2012, East Midlands Trains was eligible for revenue support for only the latter part of the year. Its revenue for that year was below the levels anticipated in the bid for that franchise and accordingly East Midlands Trains incurred a significant operating loss in the prior year. East Midlands Trains was eligible for revenue support for the full term of the year

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ended 30 April 2013. This returned it to profitability and the improvement in the profitability of the UK Rail Division in the year ended 30 April 2013 is largely due to that factor. Partly offsetting the increased revenue support income was an increase in the premia payments payable to Government in accordance with the relevant franchise agreements.

Other operating income fell because of a number of one-off sources of income in the previous year.

### Rail franchising

There have been several significant developments during the year affecting the UK rail franchising market in general and Stagecoach's rail interests specifically. While some of these developments have resulted in a delay to the original planned franchising timetable, we believe the collective focus of all stakeholders with an interest in the future of the UK rail network can deliver an improved franchising model that is in the long-term interests of passengers, taxpayers and investors.

In August 2012, the DfT confirmed that East Midlands Trains had fulfilled the criteria to ensure the automatic extension of its franchise, as expected, through to April 2015. Similar confirmation was received from the DfT in November 2012 that South West Trains had met the criteria for its franchise to be automatically extended to February 2017.

The DfT made a significant announcement in March 2013, setting out its plans, timetable and investment programme for UK rail franchising following the publication of the results of two major independent rail reviews. The DfT announcement included planned extensions or direct award contracts in relation to the three franchises in which Stagecoach has an involvement:

- The Stagecoach South Western Trains franchise, scheduled to run until February 2017, is to be extended to April 2019, the end of Network Rail's regulatory Control Period 5.
- The East Midlands Trains franchise, scheduled to run until April 2015, is to be extended to October 2017.
- The West Coast franchise, operated by our joint venture, Virgin Rail Group, and which was last year extended to November 2014, is now planned to run to April 2017.

We are pleased the Government has brought greater clarity and confidence in the future of UK rail and we have had initial discussions with the DfT about its planned extensions on franchises in which we have an interest. Despite the difficulties of the past year, the core franchising model works for passengers, Government and investors. It has delivered record passenger growth, huge investment in trains and stations and a more efficient system for taxpayers. It is critical the momentum is maintained, with the delivery of a flow of franchise competitions to maintain investor confidence. We will continue to work closely with the DfT and its newly established Franchise Advisory Panel to help deliver an improved franchising system.

Stagecoach Group will continue to bid for rail franchise opportunities we believe can add shareholder value. The Thameslink franchise competition has resumed and the Group is progressing its bid. An invitation to tender will be issued to existing shortlisted bidders in September 2013, with the franchise expected to be awarded by May 2014. The Group is also shortlisted for the Docklands Light Railway franchise, which is being awarded by Transport for London. Along with our partner, Virgin, we are also considering closely the opportunities in the InterCity East Coast franchise competition, the first of the contracts to be tendered under the DfT's new franchising model.

In January 2013, the DfT cancelled the competition for a new Great Western rail franchise, for which the Group was shortlisted. We were disappointed by this decision, but we look forward to the franchise being re-tendered in due course.

### Investment in trains, stations and customer service

Passengers are continuing to benefit from an ongoing programme of investment to deliver improvements in every area of our business. A £30m

train refurbishment programme at East Midlands Trains, fully completed in summer 2012, has delivered improvements to the fleet of nearly 100 trains. Customers now have access to on-board Wi-Fi and work has also started on the delivery of free Wi-Fi at 30 key stations. Improved mobile phone coverage on trains has been delivered through a joint initiative with Vodafone UK. East Midlands Trains is also investing £10m to enhance stations - with major station improvement schemes completed at Loughborough, Leicester and Derby - and we have installed 30 new collection-only ticket machines at key stations. Smartcard technology is also being rolled out across the network, now covering around 30 stations. This combined investment has helped East Midlands Trains to achieve the best scores in the country for passenger satisfaction with stations.

South West Trains has recently completed a major £35m station improvement programme, providing significantly better facilities for passengers. Further work is also underway under the National Station Improvement Programme at other key locations. Investment in our train fleet at South West Trains includes a £60m upgrade of trains to improve reliability, deliver environmental benefits and make the fleet fully accessible for disabled customers. Work is well underway on the delivery of more than 100 extra carriages between this summer and the end of 2013. More than 130 platforms are being extended to accommodate longer trains. Work is also being carried out to bring Platform 20 at the former Waterloo International station back into use for the first time in over five years. We have also invested in measures to improve passenger information, including social media where South West Trains has one of the UK rail industry's most popular Twitter feeds with more than 40,000 followers.

Looking ahead, our passengers at South West Trains and East Midlands Trains will benefit from Network Rail's strategic investment programme for 2014 to 2019 (Control Period 5). More than £1 billion will be spent on signalling, power supply and capacity improvements on the South West Trains network. We are working closely with the DfT and Network Rail to deliver extra capacity. Initial discussions have taken place with the DfT and Network Rail around procuring extra trains and bringing the remaining Waterloo International platforms back into use. Combined with associated infrastructure schemes, these measures could deliver up to 35% extra capacity by the end of 2024. Long-term plans for the East Midlands route include electrification of the Midland Main line, platform extensions and line remodelling work.

### Efficiency and cost control

In April 2012, South West Trains and Network Rail announced the formation of a ground-breaking alliance under a single management team to deliver better and more efficient rail services in the south and south-west of England. We have improved the management of the railway infrastructure and the train service. The efficiency of track maintenance work has increased by 25%, while delay minutes per incident have reduced by 11%. In the short-term, we do not expect to realise significant financial savings, but we continue to see opportunities for longer term financial savings as we develop the Alliance further. We are exploring how we can support Network Rail to achieve savings from its capital investment programme and deliver financial benefits to both South West Trains and Network Rail.

The Office of Rail Regulation reported last year that East Midlands Trains and South West Trains were both in the list of only four train operating companies whose costs were consistently on or below the average for three measures used to compare costs across different UK train operators.

### Light rail

Sheffield Supertram has had another strong year, carrying more than 14 million customers. The DfT has confirmed that a two-year tram train pilot will run from 2015, delivering a new public transport link between Sheffield and Rotherham. Sheffield Supertram will operate the new trams once the project, funded by the DfT and South Yorkshire Passenger Transport Executive ("SYPTTE"), is completed. Sheffield Supertram has also reached agreement with SYPTTE for a multi-million pound investment programme to replace

tram rails across the network. The five-year project, which starts this summer, will protect the future efficient operation of tram services in Sheffield.

## Outlook

While few associated with the UK Rail industry would have wanted to see the failures in the franchising system that have emerged over the last year, we now see substantial opportunities ahead:

- We will work with the DfT and as appropriate, Virgin, to agree a sensible balance of risk and reward on the three franchises with which we are currently involved. Together, the planned extensions should secure a further nine franchise years of earnings and cash flows compared to where we were a year ago – over two more years at each of South West Trains and East Midlands Trains, and almost five more years at West Coast Trains.
- The planned extension to the South West Trains franchise aligns the franchise end date with that of Network Rail's next five-year regulatory control period, providing a great opportunity to fully develop the alliance between South West Trains and Network Rail with a view to proving the concept as a model for future rail franchises.
- We are already shortlisted for two other rail opportunities (Thameslink and Docklands Light Railway, both franchises that are due to start in 2014) with the chance to bid for others such as East Coast.
- We are encouraged by the progress the DfT is making on a new basis for UK rail franchising. We are hopeful that for future franchises, there will be a more appropriate allocation of risk between the DfT and train operators and the prospect of reasonable financial returns for operators accepting risks that they have some ability to manage.

Notwithstanding that we expect to incur higher rail bid costs in the year ending 30 April 2014, our UK Rail Division should continue to deliver a satisfactory profit and the availability of revenue support from the DfT means that short-term profit is less exposed to variations in revenue.

## 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 2013 is summarised below:

Year to 30 April 49% share	2013 £m	2012 £m	Change
Revenue	<b>441.5</b>	429.5	2.8%
Like-for-like revenue	<b>440.9</b>	425.8	3.5%
Operating profit	<b>12.8</b>	21.5	(40.5)%
Net finance income	<b>0.2</b>	0.3	(33.3)%
Taxation	<b>(3.2)</b>	(5.9)	(45.8)%
Profit after tax	<b>9.8</b>	15.9	(38.4)%
Operating margin	<b>2.9%</b>	5.0%	(210)bp

Virgin Rail Group ("VRG") operated the West Coast rail franchise under an eight-month extension from April 2012 until 8 December 2012. During this time, VRG successfully delivered services for the period of the London 2012 Olympics and managed the introduction of more than 100 new Pendolino train carriages, which will increase standard class capacity by more than 40%. Stagecoach Group's share of VRG's profit after tax for the extension period reflects the relatively low revenue risk.

In August 2012, the DfT announced that VRG had not been awarded the new West Coast Trains rail franchise. VRG subsequently commenced Court proceedings seeking a review of the decision by the DfT to award the contract to a subsidiary of FirstGroup plc. In October 2012, the DfT announced that the competition for the West Coast franchise had been cancelled and launched two independent reviews into both the specific franchise and rail

franchising more widely. VRG has recovered the majority of the costs it incurred in bidding for the long-term West Coast rail franchise. The Group's share of these refunds has been recorded as exceptional income. The independent Laidlaw report into the way the West Coast franchise competition was managed has confirmed our long-standing concerns about the process, technical failures and inconsistencies in how bids were treated. Nevertheless, we remain clear that VRG's bid was both robust and deliverable.

In December 2012, VRG agreed a contract with the DfT for the continued operation of the West Coast rail franchise until November 2014. Under the agreement, VRG initially earns a fee equivalent to 1% of revenue with the DfT taking the risk that revenue and/or costs differ from those expected. However, VRG and the DfT have also agreed to seek to negotiate revised commercial terms that would see VRG take greater revenue and cost risk for the period to April 2017 for a commensurate financial return.

VRG has achieved further passenger volume growth during the past year and is continuing to invest in improvements at stations and on board its trains. Discussions have taken place with the DfT around further opportunities to improve services and a major television marketing campaign was launched in June 2013. VRG remains a significant net financial contributor to the DfT.

VRG remains concerned at the sustained poor performance by Network Rail on the West Coast mainline. The Office of Rail Regulation has also criticised Network Rail for failing to meet punctuality targets on long-distance routes in general. Punctuality on West Coast has suffered in recent months and Network Rail has failed to meet most of its targets over the last two years. This has deterred some passengers from travelling and directly affected customers' experience and perception of rail travel. As a result, VRG confirmed in June 2013 that it is preparing enforcement action against Network Rail for breach of contract.

VRG has operated the West Coast rail franchise since 1997, transforming it from a heavily loss-making operation into one that makes significant payments to Government. Passenger journeys have more than doubled since 2005 to over 30 million a year and the franchise has the highest customer satisfaction of any major long distance operator. VRG looks forward to bidding for the long-term franchise under an improved process when it is re-tendered in due course.

### 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 2013 is summarised below:

Year to 30 April 60% share	2013 US\$m	2012 US\$m	Change
Revenue	<b>88.7</b>	80.6	10.0%
Operating profit	<b>19.3</b>	16.2	19.1%
Taxation	<b>(0.8)</b>	(0.8)	–
Profit after tax	<b>18.5</b>	15.4	20.1%
Operating margin	<b>21.8%</b>	20.1%	170bp

Although the business was affected by the severe storms in New York in autumn and winter 2012/13, which resulted in it suspending its New York sightseeing services for several days, Twin America grew profit in the year ended 30 April 2013 by continuing to offer good-value fares and high standards of customer service.

In December 2012, the United States Department of Justice ("DoJ") and the Attorney General of the State of New York ("NYAG") initiated legal proceedings against Twin America, Stagecoach subsidiaries and others alleging that the formation of Twin America in 2009 was anticompetitive. We fundamentally disagree with their allegations and their assessment of the joint venture. Several private actions have also been filed in relation to this matter. We remain in dialogue with the DoJ and the NYAG regarding the Twin America joint venture and we are seeking to reach a settlement of the

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matters raised. We will, however, take action as necessary to defend our position and have recorded an exceptional loss for the estimated legal costs of doing so.

### 2.5.5.3 Scottish Citylink

The Scottish Citylink joint venture, operated in partnership with international transport group ComfortDelGro, has continued to deliver good revenue growth as a result of its investment in new products and expanded services. Scotland's leading coach operator introduced a number of timetable enhancements for passengers during the year, offering more direct journeys to key locations such as Edinburgh and Aberdeen.

Citylink Gold, the express luxury coach service linking Glasgow with Aberdeen and Inverness, has grown strongly and this summer see the launch of a major network of Megabus Gold overnight sleepercoach services linking London with 11 locations in Scotland. The specially-designed vehicles have a clever interior layout that allows the leather seats on daytime services to be converted into beds on overnight trips. The service – which offers free Wi-Fi, free refreshments and at-seat service – builds on the success of the pilot sleepercoach services running between Glasgow and London.

## 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 £370.3m (2012: £343.9m). Pre-exceptional EBITDA can be reconciled to the condensed financial statements as follows:

Year to 30 April	2013 £m	2012 £m
Total operating profit before intangible asset expenses and exceptional items	<b>256.3</b>	237.2
Depreciation	<b>110.0</b>	99.9
Add back joint venture finance income & tax	<b>4.0</b>	6.8
<b>Pre-exceptional EBITDA</b>	<b>370.3</b>	343.9

The income statement charge for intangible assets increased from £12.3m to £16.1m principally due to amortisation of intangible assets arising from acquisitions in the year ended 30 April 2013. Of the charge, £1.0m (2012: £3.2m) related to joint ventures.

### 2.6.2 Exceptional items

The following exceptional items were recognised in the year ended 30 April 2013:

- Virgin Rail Group received £11.3m from the DfT during the year ended 30 April 2013 in respect of the refund of costs incurred on bidding for a new long-term West Coast rail franchise as described earlier in the section headed "Virgin Rail Group". The Group's £5.5m share of this is included within the share of profit of joint ventures as is the related £1.3m tax charge in respect of the refund.
- The share of profit of joint ventures also includes a pre-tax charge of £9.0m for the share of legal costs incurred by Twin America in the year ended 30 April 2013 and an estimate of further legal costs that it expects to incur in relation to its defence of the legal proceedings described earlier in the section headed "Twin America".
- £2.3m of pre-tax costs incurred in connection with the acquisition of businesses during the year ended 30 April 2013 are reported within non-operating exceptional items.

- A £0.1m pre-tax gain in respect of adjustments to past acquisitions and disposals is also reported within non-operating exceptional items.

### 2.6.3 Net finance costs

Net finance costs for the year ended 30 April 2013 were £37.4m (2012: £34.7m) and can be further analysed as follows:

Year to 30 April	2013 £m	2012 £m
<i>Finance costs</i>		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	<b>6.2</b>	5.6
Hire purchase and finance lease interest payable	<b>5.2</b>	6.2
Interest payable and other finance costs on bonds	<b>26.2</b>	23.7
Unwinding of discount on provisions	<b>3.9</b>	2.7
	<b>41.5</b>	38.2
<i>Finance income</i>		
Interest receivable on cash	<b>(2.5)</b>	(2.0)
Effect of interest rate swaps	<b>(1.6)</b>	(1.5)
	<b>(4.1)</b>	(3.5)
	<b>37.4</b>	34.7

### 2.6.4 Taxation

The effective tax rate for the year ended 30 April 2013, excluding exceptional items, was 21.7% (2012: 22.9%). The effective rate is lower than the standard rate of UK corporation tax for the year of 23.9% 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 24% to 23%). The tax charge for continuing operations can be analysed as follows:

Year to 30 April 2013	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	223.1	(49.7)	22.3%
Intangible asset expenses	(16.1)	4.7	29.2%
	<b>207.0</b>	<b>(45.0)</b>	<b>21.7%</b>
Exceptional items	(5.7)	2.5	43.9%
	<b>201.3</b>	<b>(42.5)</b>	<b>21.1%</b>
Reclassify joint venture taxation for reporting purposes	(5.5)	5.5	
Reported in income statement	<b>195.8</b>	<b>(37.0)</b>	<b>18.9%</b>

### 2.6.5 Fuel Costs

The Group's operations as at 30 April 2013 consume approximately 381.5m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending 30 April	2014	2015	2016	2017
Total Group	83%	39%	3%	1%

The Group has no fuel hedges in place for periods beyond 30 April 2017.

## 2.6.6 Cash flows

Net cash from operating activities before tax for the year ended 30 April 2013 was £329.2m (2012: £279.2m) and can be further analysed as follows:

Year to 30 April	2013 £m	2012 £m
EBITDA of Group companies before exceptional items	343.5	309.5
Loss on disposal of plant and equipment	2.0	0.6
Equity-settled share based payment expense	2.6	3.0
Working capital movements	27.9	(0.2)
Net interest paid	(35.2)	(30.8)
Dividends from joint ventures	24.9	25.8
Net cash from operating activities before excess pension contributions	365.7	307.9
Pension contributions in excess of pension costs	(36.5)	(28.7)
Net cash flows from operating activities before taxation	329.2	279.2

The net working capital inflow for the year ended 30 April 2013 of £27.9m (2012: outflow of £0.2m) was better than previously expected, principally due to active management of working capital to maximise cash conversion.

Net cash from operating activities before tax was £329.2m (2012: £279.2m) and after tax was £313.1m (2012: £257.5m). Net cash outflows from investing activities were £241.1m (2012: £75.6m), which included £106.7m (2012: £2.3m) in relation to the acquisition of businesses and net cash used in financing activities was £52.4m (2012: £299.4m), which in the prior year includes the part of the return of cash to shareholders that was funded from excess cash.

## 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 £523.8m at 30 April 2012 to £538.0m at 30 April 2013, primarily due to the £107.0m acquisition of businesses in the year being largely offset by continued strong cash generation. The Group's net debt at 30 April 2013 is further analysed below:

	Fixed rate	Floating rate	Total
	£m	£m	£m
Unrestricted cash	–	46.4	46.4
Cash held within train operating companies	–	196.6	196.6
Restricted cash	–	19.2	19.2
<b>Total cash and cash equivalents</b>	–	<b>262.2</b>	<b>262.2</b>
US Notes	–	(96.0)	(96.0)
Sterling bond	(398.9)	–	(398.9)
Sterling hire purchase and finance leases	(6.2)	(102.5)	(108.7)
US dollar hire purchase and finance leases	(54.7)	–	(54.7)
Loan notes	–	(20.5)	(20.5)
Bank loans	–	(121.4)	(121.4)
<b>Net debt</b>	<b>(459.8)</b>	<b>(78.2)</b>	<b>(538.0)</b>

The split between fixed and floating rate debt shown above takes account of the effect of interest rate swaps in place as at 30 April 2013.

The net impact of purchases of property, plant and equipment for the year on net debt was £208.7m (2012: £211.4m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £181.9m (2012: £176.1m) and new hire purchase and finance lease debt of £26.8m (2012: £35.3m). In addition, £53.4 (2012: £65.4m) cash was received from disposals of property, plant and equipment.

## 2.6.9 Liquidity

There is no change in the Group's financial strategy following the change of Finance Director. The Group's financial position remains strong and is evidenced by:

- The ratio of net debt at 30 April 2013 to pre-exceptional EBITDA for the year ended 30 April 2013 was 1.5 times (2012: 1.5 times). Despite significant investment in capital expenditure and acquiring businesses in the year, the ratio has remained stable.
- Pre-exceptional EBITDA for the year ended 30 April 2013 was 10.0 times (2012: 10.0 times) net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £303.8m at 30 April 2013 (2012: £265.3m) 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 main bank facilities are committed through to 2016.

During the year, we issued US\$150m of 10-year Notes to US investors, re-financing the acquisitions from Coach America while diversifying the Group's sources of finance and extending the average maturity of its debt.

## 2.6.10 Capital expenditure

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

Year to 30 April	2013 £m	2012 £m
UK Bus (regional operations)	90.0	89.9
UK Bus (London)	13.3	32.3
North America	68.3	50.0
UK Rail	33.7	42.4
Other	0.4	0.1
	<b>205.7</b>	<b>214.7</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 2013 were £23.8m (2012: £57.3m) with the change primarily reflecting the actuarial losses on Group defined benefit pension schemes of £57.2m after tax and after-tax movements on Group cash flow hedges of £22.6m, more than offset by strong results for the year.

## 2.6.12 Retirement benefits

The reported net liabilities of £23.8m (2012: £57.3m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £157.8m (2012 restated: £122.1m), and associated deferred tax assets of £36.3m (2012: £29.8m).

The Group recognised pre-tax actuarial losses of £72.1m in the year ended 30 April 2013 (2012: £93.7m) on Group defined benefit schemes.



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## 2.6.13 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 30 April 2013, the Group's capital comprised:

As at 30 April	2013 £m	2012 £m
Market value of ordinary shares in issue	1,771.5	1,428.7
Cash	262.2	241.0
Gross debt	(800.2)	(764.8)
Net debt (see section 2.6.8)	(538.0)	(523.8)

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 Directors' principal focus is on maintaining an investment grade credit rating. As well as considering the measures applied by credit rating agencies, the other principal ratios that the Directors consider are (1) Net Debt to EBITDA, (2) EBITDA to interest and (3) Net Debt to market capitalisation. It is a matter of judgement as to what the optimal levels are for these ratios.

## 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 2013 and subsequently:

- In October 2012, US\$150m of 4.36% US Private Placement notes were issued which mature in October 2022.
- In February 2013, two new one-year rail bonding arrangements of c.£73m and c.£8m were entered into to replace two arrangements that were due to expire in March 2013.
- The Group sold vehicles to banks during the year ended 30 April 2013 for £17.1m and leased them back on operating leases.
- In May 2013, a new c.£31m three-year rail bonding arrangement was agreed to replace an arrangement that was due to expire in November 2013.

## 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.

### 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 2014 and overall trading is in line with our expectations.

We believe the public transport market has long-term fundamental strengths and there is a positive outlook in the markets in which we operate. The private sector has transformed bus and rail travel in recent decades, reducing costs for taxpayers and making a huge positive contribution to our economy, our communities and our environment, even in challenging economic times.

Stagecoach has secured a leading position in a range of growing markets in the UK and North America. Rising road congestion, increasing environmental awareness and higher car operating costs are all positive drivers for further organic growth through modal shift from the car.

Our strong track-record of innovation can deliver further profitable growth in the commercial, deregulated bus and coach market in the UK and North America. We are helping government to deliver a new, improved franchise model and are optimistic about the future of the UK rail market.

Our overall emphasis remains on providing safe, reliable, high quality, good value bus, train and tram services, which in turn we believe can generate significant returns for our shareholders.

## 2.8 Sustainability

Sustainable growth and responsible business are at the heart of what we do day in, day out. It is a key part of our Group ethos, from the principles that underpin our business to the way we support our employees and the steps we take to engage with our stakeholders.

We have published separate documents setting out our sustainability strategy and our approach to corporate social responsibility. These documents and comprehensive information on our initiatives can be found on our website at

the following link: <http://www.stagecoach.com/sustainability.aspx>. This section includes a just small number of examples of our work to demonstrate the steps we are taking to meet our responsibilities.

Stagecoach Group plays a vital role within communities in the UK and North America, providing crucial public transport services and significant employment opportunities. People and partnerships are central to our success and our focus is on continuing to grow our business in a sustainable way, enhancing the communities in which we operate, delivering value to our shareholders and playing our part in meeting the global challenge of climate change.

The Group is consistently ranked highly against the other major transport groups in the UK in comparative studies examining social, environmental and ethical policies and performance. Stagecoach has achieved the FTSE4Good global corporate responsibility standard for the 12th consecutive year. Constituents in the FTSE4Good Index Series have been independently assessed as meeting stringent environmental, social and governance criteria. Stagecoach is the highest rated listed public transport group for carbon disclosure, according to the Carbon Disclosure Project ("CDP") FTSE 350 Climate Change Report 2012, which looks at how companies are measuring and disclosing the impact of their businesses. In addition, figures compiled as part of the Government's Carbon Reduction Commitment ("CRC") Energy Efficiency Scheme show that Stagecoach Group is among the top 10% of large companies in the UK for its performance in reducing the carbon emissions from its business. Stagecoach was ranked 157th out of nearly 2,100 organisations covered by the scheme, ahead of many leading brands and organisations and jumping 142 places from our creditable position of 299th in 2010/11.

We have consistently been rated well ahead of our bus and rail group peers in Management Today's annual review of Britain's top companies. Stagecoach was voted the top public transport group in the Britain's Most Admired Companies 2012 survey.

The way we look after our customers has also been highlighted in the results of independent research. In March 2013, a Passenger Focus survey showed that Stagecoach bus passengers were more satisfied than customers using other major bus operators in the UK.

Our sustainability strategy focuses on a number of specific key areas:

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

Many stakeholders are involved in the success of our business and we work hard to maintain and build strong relationships with the organisations and people we work with.

During the past year we have implemented further measures to improve our contribution to many of the above 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 across a number of areas of our business. These are the values and principles that underpin the way we do business and they apply to every director and employee at all of our companies within the Group.

The Board of Directors remains committed to ensuring the correct processes, controls, governance and culture exists to support the maintenance of these values and behaviours.

Our Group Code of Conduct sets out these key principles and provides practical examples and guidance to help shape employees' corporate behaviour. It includes information on the Group's anti-corruption policy and programme, which is supported by the 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 assessed periodically.

## Operating and Financial Review

The Code of Conduct is subject to periodic review by the Group Compliance Committee and the Audit Committee. We are currently developing updated and expanded guidance for our employees on the rapidly expanding and important area of social media. Regular communications are issued to remind our people of the importance of living up to the Group's values.

A copy of our Code of Conduct can be found at the following link:

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/media/publication-policy-documents/code-of-conduct2011.pdf>

### 2.8.2 Supporting and recognising our people

Our business is built on our people and we have a diverse, high-quality team of around 36,000 employees across the Group. By investing in their skills and talent, we can better serve our customers.

The Group makes a major commitment each year to employee training and development. Our UK Bus division has one of the best vocational training programmes of any bus operator, backed up by mentoring programmes and other initiatives to recruit and retain staff. In UK Rail, our initiatives include a centralised recruitment centre, operations training facility, open learning programmes, customer service academy, support for managers and employee recognition schemes. Our North America business has a centralised driver training school, which has improved the quality and consistency of training. We have also created a management-in-training programme for middle managers.

We also believe it is vital that we contribute to the health and well-being of our people. At our UK Bus division, employees are offered free eye tests through a partnership arrangement with Tesco Opticians. Many of our businesses run staff wellness days during which staff can obtain a confidential and independent health assessment. More than 1,500 of Stagecoach's bus drivers and support staff in the UK have taken, advantage of the company's cycle to work scheme. This allows them to pay for a new bike through monthly pre-tax installments from their salary. We also have a comprehensive occupational health programme at our UK Bus division, carrying out more than 4,300 assessments each year, and all managers receive training on stress management and awareness.

In 2012, Stagecoach's East Midlands Trains and South West Trains franchises both achieved Investors in People status for their work to develop employees and improve performance through effective management. Both rail companies have also been awarded five stars by the British Quality Foundation in the Recognised for Excellence programme. The South West Trains-Network Rail Alliance introduced a screening programme this year in association with charity Beating Bowel Cancer for employees aged between 50 and 60. East Midlands Trains offers staff a free third-party helpline they can use to seek advice if they don't feel they can turn to anyone at home or at work.

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

### 2.8.3 Promoting safety

Safety is at the heart of everything we do across all of our operations. We are committed to delivering the highest standards of health and safety for our employees and customers. 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.

The Group's Strategic Safety Framework outlines our overarching approach to safety, including governance, management processes, use of key performance indicators and associated actions. At our bus and rail operations in the UK and North America we have a strong focus on employee training, accident reduction, regulatory compliance and security preparedness. Health and safety processes and performance are monitored and reported on across the Group with action taken should there be a need to address issues within our procedures. Our Health, Safety and Environmental Committee, chaired by a non-executive director, considers

this area of the business and monitors a range of performance indicators, reporting to the Board on these matters. We expect our suppliers and contractors to have the same commitment as our employees to complying with appropriate health and safety regulations.

At our UK Bus businesses we have in place an engineering regime which is stricter than legally required. This is bolstered by a robust rolling programme of operational and engineering audits at our depots and garages. Our staff receive comprehensive training, and refresher training, in the area of health and safety and are encouraged to report any concerns. 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 liabilities claims to help address policy and working procedures.

Our managers also regularly contribute to health and safety lessons at local schools within their communities, providing safety advice and information to assist young people when using public transport. The vast majority of our buses are fitted with CCTV for the safety of our drivers and our customers, and we liaise closely with police where required on promoting road safety and dealing with local issues. In addition, our local managers often work alongside local authority officials in providing guidance on local transport decisions, for example around bus station safety or road layout options. This year, Stagecoach worked with Cycle Training UK ("CTUK") to develop the UK's first in-house cycle awareness programme, which aims to help bus drivers minimise the risk around sharing road space with cyclists.

At our UK rail operations, we continue to work closely with industry partners and the Samaritans on measures to reduce the level of suicides on rail networks. There are now 103 stations on the South West Trains-Network Rail Alliance network that have Secure Station status, awarded by the British Transport Police, as well as 36 stations on East Midlands Trains which have achieved the same mark. East Midlands Trains also works closely with the British Transport Police to identify trends in crime data, thereby allowing resources to be focused on risk areas.

In North America, we have a regular safety programme focusing on key issues such as pedestrian awareness, lane changing, speed, driver fatigue, and sleep management. Our computer-based screening system determines whether candidates for driving positions can progress to our training school. Our safety executives in the United States have assisted with a number of federal policy reviews covering bus industry regulation, including areas such as hours of service and compliance enforcement. At our operations in Canada, we can track and monitor speed, location, departures and hard stops through recent WebTech satellite fleet management enhancements. Night drivers also use sleep prevention devices called 'Nap Zappers' to further protect the safety of our customers.

### 2.8.4 Accessible and affordable travel

Making travel more accessible and more affordable is central to driving modal shift from the private car to greener, smarter public transport. Stagecoach has twice been independently confirmed as Britain's best value bus operator. Our own internal study has revealed that commuters could save an average of £150 by taking the bus instead of commuting by car.

This year, Stagecoach became the first UK bus operator to introduce a long-term nationwide discounted travel scheme for jobseekers. The initiative means that holders of a Jobcentreplus Travel Discount Card will qualify for half-price single and return tickets on Stagecoach's buses in the UK outside London. Stagecoach is already part of a Transport for London scheme which offers reduced bus, tram and train travel rates for jobseekers in the capital.

We have continued to expand our budget coach service, megabus.com, both in the UK and the US. A major new network of overnight sleeper services – using specially-designed coaches with lie-flat beds – is set to operate between Scotland and London this summer in conjunction with our joint venture, Scottish Citylink. Our megabus.com services in the UK and Europe continue to be extremely popular with passengers looking for low-cost, reliable travel. In North America, our megabus.com network has expanded significantly in the past year, including new services in Texas, California and Nevada. More than 100 destinations are now covered by megabus.com in the United States and Canada.

Passengers can use our discounted rail service, [www.megatrain.com](http://www.megatrain.com), to travel for as little as £1 (plus 50p booking fee) to around 30 locations in the UK on the South West Trains, East Midlands Trains and Virgin Trains networks. We also offer megabusplus.com, an integrated coach-rail service between the north of England and London.

In UK Rail, we have held a number of promotional events over the past year on our rail networks, including Rainbow Days on South West Trains which offer journeys across the network for a special return fare for one day, to encourage people to try the train.

At our UK Bus Division we are continuing to invest in hundreds of low-floor vehicles every year to help our services become more accessible to wheelchair, mobility scooter users and parents with buggies. We have also signed up to the Confederation of Passenger Transport Mobility Scooter Code which put in place standardised procedures for operators and mobility scooter users to ensure they are able to use bus services more easily and safely.

East Midlands Trains invested £360,000 on accessibility improvements at its stations in 2012/13 while the South West Trains-Network Rail Alliance has introduced the UK's first guided pavements and Braille signage at Clapham Junction.

### 2.8.5 Environmental stewardship

Our businesses in the UK and North America are focused on reducing our local environmental impacts, improving energy efficiency, increasing recycling and conserving water. The Group's five-year Sustainability Strategy has achieved our overall fleet and buildings carbon reduction goals ahead of schedule.

We have cut the carbon intensity (kg CO<sub>2</sub> per £ of revenue) of our businesses in the UK and North America by more than 20% in the past four years. We are investing £11m in a range of measures to reduce the carbon footprint of our businesses, with specific targets set around fleet and buildings emissions. As well as ensuring we meet our regulatory obligations, we believe our initiatives can help improve efficiency, cut costs and contribute to the growth and success of our business. The measures put in place are being supported by a network of green teams at our operating companies.

In addition to improving energy efficiency and reducing the impact of our own operations on the environment, our focus is on attracting more people on to public transport services. We believe this can play a key role in reducing overall emissions from the transport sector and help address the global challenge of climate change.

In May 2013, we held our fifth annual Group-wide Green Week to continue driving forward awareness of environmental issues among our people and our customers in the UK and North America. A week-long programme of events demonstrated the steps we are taking to become a greener business as well as highlighting the environmental and financial benefits of using public transport. Roadshows, competitions and eco-giveaways took place across our operations and regional teams got involved in local events and environmental projects. Employees were given the opportunity to propose their own green suggestions. Our businesses also took part in carbon reduction drives during the week.

Every year, Stagecoach reports on its carbon emissions through its corporate website, [www.stagecoach.com](http://www.stagecoach.com). We also provide information on our global carbon footprint to the Carbon Disclosure Project, the world's largest corporate greenhouse gas emissions database. We have twice been awarded the prestigious Carbon Trust Standard in recognition of our action on carbon reduction.

Stagecoach Group has made further progress in reducing the impact of its businesses on the environment by:

- completing the roll-out of a hi-tech eco-driving system at its regional bus operations in the UK.
- continuing 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 now has more hybrid electric buses in service across the UK than any other operator.

- a multi-million-pound investment in new buses and coaches with greener engines, while also increasing the use of biofuels.
- improving energy management systems and lighting at facilities.
- implementing new contracts for waste and recycling.
- cutting gas and energy consumption at major stations.

Stagecoach 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 also works with the Confederation of Passenger Transport and campaign group, Greener Journeys ([www.greenerjourneys.com](http://www.greenerjourneys.com)) to seek more pro-bus and coach policies. We have also highlighted to the UK Government the need to tackle energy security risks through our involvement in the UK Industry taskforce on Peak Oil and Energy Security.

We have received independent recognition over the past year for our environmental initiatives. In April 2013, we won the Sustainability category for the second consecutive year at the Scotland Plc Awards.

### 2.8.6 Supporting our communities and the economy

Stagecoach Group is a major employer and our investment in improving our transport services also supports thousands of other jobs through the supply chain.

We share our success with local people and communities by investing part of our profits in good causes. During the year ended 30 April 2013, £0.7m (2012: £0.5m) was donated by Stagecoach Group to help a number of charities and to support fundraising events and vital services. Among many other donations, the Group has pledged £100,000 over the next five years to Scotland's first charity air ambulance and already has a four-year agreement to donate £100,000 in total to the London Air Ambulance service.

Stagecoach also provides support in other ways, including sponsorship of charity initiatives and local groups, as well as providing buses and coaches for various local and national events. Our rail companies often take part in train naming events to support local organisations. Many of our employees also regularly join in national fundraising events such as Children in Need and Comic Relief. During the 2012 London Olympic and Paralympic Games, Stagecoach handed out thousands of free ice lollies to spectators. We also support a number of bus and rail industry charities and events each year.

In Canada, we have helped fund a new women's shelter in the local community and a team of Coach Canada employees participate in a project each year to help build a new home in the area.

Many of the Group's employees carry out their own fundraising activities in their spare time, and Stagecoach often offers match funding to complement their efforts. The Group has also contributed significant in-kind support by seconding staff to good causes overseas as well as getting involved with local events in the UK and North America.

### 2.8.7 Corporate Governance

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

Growth and sustainability are at the heart of our strategy and our values. It's right for our business, our customers, our people and our planet.

Fairness, respect and a strong commitment to equal opportunities are central to our values and how we work. Our customers come first – and our focus is on new ideas and making things happen. We also believe in helping our people develop their skills and rewarding them for their performance.

Every day, we help around 3 million people lead more sustainable lives. And we are working together to become even more efficient and cut our business impact on the environment.

We pride ourselves on being a good partner to work with and we continue to share our success with the communities where we work.

# Board of Directors



Details of corporate governance, including the operation of the Board of Directors, are given in section 5 of this Annual Report. A brief biography of each director is given below.

## Executive Directors

### 3.1 Martin Griffiths

**Position:** Chief Executive

**Appointment to the Board:** 2000

**Age:** 47

**Committee membership:** Health, Safety and Environmental.

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

**Previous experience:** A Chartered Accountant, Martin Griffiths is a former Director of Troy Income & Growth Trust plc. He was young Scottish Finance Director of the year in 2004.

**Executive responsibilities:** Previously the Group's Finance Director, Martin Griffiths was appointed Chief Executive from 1 May 2013. Martin Griffiths is responsible for the Group's overall strategy and management of all of the Group's operations.

### 3.2 Ross Paterson

**Position:** Finance Director

**Appointment to the Board:** 2013

**Age:** 41

**Committee membership:** Pension Oversight.

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

**Previous experience:** A Chartered Accountant, Ross Paterson joined Stagecoach in 1999 and has since held various senior finance and company secretarial roles. He became Director of Finance & Company Secretary in 2007, with responsibility for treasury, corporate finance, City relations, financial reporting, internal audit and the company secretariat.

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



## Non-Executive Directors

### 3.3 Sir Brian Souter

**Position:** Chairman

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

**Age:** 59

**Committee membership:** None.

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

**Previous experience:** A Chartered Accountant, Sir Brian co-founded Stagecoach, Scottish Business Awards 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.

Sir Brian is the architect of the Group's strategy and philosophy and was the Group's Chief Executive until 1 May 2013. He has extensive knowledge of the ground transportation industry around the world and continues to support Martin Griffiths and the rest of the management team. Sir Brian has responsibility for the running of the Board.

### 3.4 Garry Watts MBE

**Position:** Deputy Chairman and Senior Independent Non-Executive Director

**Appointment to the Board:** 2007

**Age:** 56

**Committee membership:** Audit (Chair to 30 June 2013) and Nomination (Chair from 1 May 2013).

**External appointments:** Spire Healthcare Limited (Executive 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.

### 3.5 Gregor Alexander

**Position:** Non-Executive Director

**Appointment to the Board:** 2013

**Age:** 50

**Committee membership:** Audit (Chair from 1 July 2013).

**External appointments:** Finance Director of SSE plc. Chairman of Scotia Gas Networks, a company 50% owned by SSE plc.

**Previous experience:** Gregor has worked in the energy industry since 1990, when he joined Scottish Hydro Electric. He was appointed Finance Director and joined the board of SSE in 2002, having previously been its Group Treasurer and Tax Manager.

### 3.6 Ewan Brown CBE

**Position:** Non-Executive Director

**Appointment to the Board:** 1988

**Age:** 71

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

**External appointments:** Scottish Financial Enterprise (Chair). Noble Grossart Holdings Ltd (Non-Executive Director), Senior Governor of St Andrews 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.

### 3.7 Ann Gloag OBE

**Position:** Non-Executive Director

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

**Age:** 70

**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.

### 3.8 Helen Mahy

**Position:** Non-Executive Director

**Appointment to the Board:** 2010

**Age:** 52

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

**External appointments:** Chair of the Advisory Board of Obelisk Legal Support Solutions Limited.

**Previous experience:** Former Group Company Secretary and General Counsel, and member of Executive Committee of National Grid plc. Former Non-Executive Director of Aga Rangemaster Group plc and Advisory Board Member of Opportunity Now.

### 3.9 Phil White CBE

**Position:** Non-Executive Director

**Appointment to the Board:** 2010

**Age:** 63

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

**External appointments:** Lookers plc (Non-Executive Chairman), Kier Group plc (Non-Executive Chairman), Unite Group plc (Non-Executive Chairman), Vp plc (Non-Executive Director).

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

### 3.10 Will Whitehorn

**Position:** Non-Executive Director

**Appointment to the Board:** 2011

**Age:** 53

**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. Transport Systems Catapult Limited (Chairman).

**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, North America and to a lesser extent, continental Europe. 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 54.

An interim dividend of 2.6p per ordinary share was paid on 6 March 2013. The Directors recommend a final dividend of 6.0p per share, making a total dividend of 8.6p per share in respect of the year ended 30 April 2013. Subject to approval by shareholders, the final dividend will be paid on 2 October 2013 to those shareholders on the register on 30 August 2013.

### 4.4 Directors and their interests

The names, responsibilities and biographical details of the current members of the Board of Directors appear in section 3 of this Annual Report. Gregor Alexander joined the Board on 1 April 2013 as an additional non-executive director and will chair the Audit Committee from 1 July 2013. Sir George Mathewson retired as Chairman of the Board and Sir Brian Souter took over that role on 1 May 2013. Martin Griffiths succeeded Sir Brian as Chief Executive from that date. Ross Paterson was appointed to the Board as Finance Director on 1 May 2013. Table A shows the Directors' interests in the Company's shares.

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 elected or re-elected (as appropriate) at the 2013 Annual General Meeting.

TABLE A	Number of ordinary shares (including those held under BAYE scheme)		
	25 June 2013	30 April 2013	30 April and 25 June 2012
Sir Brian Souter	<b>86,900,445</b>	<b>86,900,445</b>	86,900,445
Martin Griffiths	<b>203,394</b>	<b>203,300</b>	197,210
Ross Paterson (appointed 1 May 2013)	<b>135,073</b>	<b>134,979</b>	Not applicable
Gregor Alexander (appointed 1 April 2013)	<b>406</b>	<b>406</b>	Not applicable
Ewan Brown	<b>See below</b>	<b>See below</b>	See below
Ann Gloag	<b>62,501,721</b>	<b>62,501,721</b>	62,553,721
Sir George Mathewson (retired 1 May 2013)	<b>Not applicable</b>	<b>28,640</b>	28,640
Helen Mahy	<b>8,710</b>	<b>8,710</b>	4,732
Garry Watts	<b>16,000</b>	<b>16,000</b>	16,000
Phil White	<b>4,070</b>	<b>4,070</b>	4,070
Will Whitehorn	<b>72,288</b>	<b>72,288</b>	72,288

Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 22% (2012: 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 25 June 2013 (2012: 3,267,999).

The Listing Rules of the Financial Conduct Authority (LR 9.8.6 R(1)) require listed companies to disclose in their Annual Reports the interests of each director. The Directors' interests set out in Table A have been determined on the same basis as in previous years and are intended to comply with the requirements of LR 9.8.6 R(1), which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority. 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 2013 were 87,055,636 ordinary shares (2012: 79,864,522) and 62,501,721 ordinary shares (2012: 53,181,832) respectively.

Full details of options and other share based awards held by the Directors at 30 April 2013 are contained in the Directors' remuneration report in section 9 of this Annual Report. From 1 May 2013, Sir Brian Souter is Chairman but is no longer an executive director of the Company. Details of the options and other share based awards held by Sir Brian are set out in the remuneration report. No other non-executive director had an interest in share options or the Executive Participation Plan at 30 April 2012, 26 June 2012, 30 April 2013 and 25 June 2013.

In addition to their individual interests in shares, Sir Brian Souter, Martin Griffiths and Ross Paterson are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 2,030,824 ordinary shares (2012: 2,295,204) as at 30 April 2013. Martin Griffiths and Ross Paterson are also potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 300,634 ordinary shares (2012: 300,634) as at 30 April 2013.

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 to the fullest extent permitted by law, the Company has indemnified each of its directors and other officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group.

### 4.6 Substantial shareholdings

As at 30 April 2013 and 25 June 2013 (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 2013 and 25 June 2013
Standard Life Investments Ltd	<b>7.1%</b>
Ameriprise Financial, Inc. and its group	<b>5.0%</b>
Blackrock Inc	<b>4.9%</b>
JP Morgan Chase & Co	<b>4.7%</b>

### 4.7 Employment policies

The Group employs around 36,000 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 "Speaking Up" policy is designed to ensure that employees can raise serious concerns without fear of victimisation, 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.stagecoach.com](http://www.stagecoach.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in section 3 of the annual report confirms 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 2012 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 39 days' purchases (2012: 32 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 £0.7m (2012: £0.5m) 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 (2012: £Nil).

## 4.13 Authority for company to purchase its own shares

At the 2012 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,609,996 of its 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 2013 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 shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2012 Annual General Meeting and will lapse at the conclusion of the 2014 Annual General Meeting.

### 4.14 Shareholder and control structure

As at 30 April 2013, there were 576,099,960 ordinary shares (2012: 576,099,960) in issue with a nominal value of 125/228th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against") and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. 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 Conduct 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 2013 (2012: 25.9%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2013 (2012: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts held a further 0.4% of the ordinary shares in issue as at 30 April 2013 (2012: 0.5%). The shares held by the trusts are for the benefit of employees of the Group. The voting rights are exercised by the trustees.

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

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

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

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

The powers of the Directors to issue or repurchase ordinary shares are set by a resolution at a general meeting of holders of ordinary shares. 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 leases 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 Company's US\$150m 10-year notes contain provisions that would require the Company to offer to prepay those notes following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.

The impact of a change of control of the Group on remuneration arrangements is explained in section 9.8.

## 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
2013	–	576,099,960	–
2012	–	720,124,950	–
2011	58,764	719,478,434	<0.1%
Total last 3 years	58,764		<0.1%
2010	587,752	719,478,434	0.1%
2009	1,333,135	718,145,299	0.2%
Total last 5 years	1,979,651		0.3%

The cumulative shares issued on a non pre-emptive basis as a percentage of the ordinary shares in issue at 30 April 2013 were:

Year ended 30 April 2013	Nil
Three years ended 30 April 2013	<0.1%
Five years ended 30 April 2013	0.3%

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

## 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



Mike Vaux  
Company Secretary

26 June 2013

# 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 Code issued in June 2010 applied to the Company's financial year from 1 May 2012 to 30 April 2013. The June 2010 Code is available on the FRC's website at <https://www.frc.org.uk/getattachment/b0832de2-5c94-48c0-b771-ebb249fe1fec/The-UK-Corporate-Governance-Code.aspx>. The Directors believe that throughout the year ended 30 April 2013 the Group complied with all of the recommendations of the June 2010 Code. The Group also complies with the corporate governance requirements of the Financial Conduct Authority's Listing Rules, and Disclosure and Transparency Rules.

In September 2012, the FRC issued revisions to the Code. The revised Code will replace the June 2010 edition and is available on the FRC's website at <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>. The September 2012 edition of the Code applies to the Company's financial year that began on 1 May 2013. Where appropriate, this report sets out changes made to comply with the September 2012 Code.

## 5.3 Composition of the Board

The following Board changes took effect from 1 May 2013. Sir George Mathewson retired as Chairman of the Group and Sir Brian Souter, former Chief Executive, was appointed Chairman of the Group from that date. Martin Griffiths, former Finance Director, became the Group's Chief Executive and Ross Paterson, former Company Secretary and Director of Finance, was appointed to the Board as Finance Director.

In order to further strengthen the Group's corporate governance arrangements, Garry Watts, the Senior Independent Director, has been appointed Deputy Chairman. Gregor Alexander has been appointed as an additional independent non-executive director of the Group and will take over Garry's role as Audit Committee Chairman from 1 July 2013.

The Board is aware of investor concerns regarding a former Chief Executive becoming the Chairman of the Group and has taken steps to address these. The Board has appointed Garry Watts in the newly created role of Deputy Chairman. The split of the Chairman's, Deputy Chairman's and Chief Executive's responsibilities has been agreed in writing and has been approved by the Board. The Deputy Chairman reports to the Chairman and to the Board and has responsibility for ensuring proper corporate governance. The Deputy Chairman's role includes ensuring that the Board's consideration of matters is in the best interests of the Group and unaffected by conflicts of interest. No executives report directly to the Deputy Chairman.

The Deputy Chairman is responsible for ensuring that it is the Board that determines the Group's strategy and overall commercial objectives. The Chief Executive is responsible for proposing and developing that strategy with support and guidance from the Chairman. In this way, the Group is able to draw upon the talent, knowledge and entrepreneurial skills of Sir Brian Souter, in his new role as Chairman, while maintaining a strong board, independent of executive management. This also allows a continuation of the succession planning, with the new Chief Executive having all executive responsibility but with the ability to draw on Sir Brian's experience in that role.

In his role as Chairman, Sir Brian Souter's key responsibility is the running of the Board. The Chief Executive, Martin Griffiths, is responsible for the running

of the Group's business and reports to the Chairman and to the Board directly. All other members of the executive management team report either directly or indirectly to the Chief Executive.

Garry Watts remains the Group's Senior Independent Director and is available to shareholders if they have concerns which contact through the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

The composition of the Board is as follows:

	Chairman	Independent Non-Executive Director	Other Director
Sir Brian Souter <i>Chairman</i>	✓		
Gregor Alexander <i>Non-Executive Director</i>		✓	
Ewan Brown <i>Non-Executive Director</i>		✓	
Helen Mahy <i>Non-Executive Director</i>		✓	
Garry Watts <i>Senior Independent Director &amp; Deputy Chairman</i>		✓	
Phil White <i>Non-Executive Director</i>		✓	
Will Whitehorn <i>Non-Executive Director</i>		✓	
Ann Gloag <i>Non-Executive Director</i>			✓
Martin Griffiths <i>Chief Executive</i>			✓
Ross Paterson <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 2012 to 30 April 2013, the Board considers that it complied with this Code requirement. The current position, shown in the above table, is that two thirds of the Board members (excluding the Chairman) are independent.

In determining the independence of non-executive directors, the Board considers a number of factors. In particular the Board satisfies itself on the following questions:

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

Ewan Brown, one of the six 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. Six of the nine 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 balance of executive and non-executive directors 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.

All directors stand for election or re-election at each Annual General Meeting of the Company.

## 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 Directors' biographies appear in section 3 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 Deputy Chairman, meet without the Chairman at least annually.

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

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

The number of full Board meetings during the year was 7. 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 June 2012, the Group held a conference of senior management from each of its divisions and combined this with Board and Committee meetings in London. This gave the Board members an opportunity to see the preparations then being made for the services that the Group provided to the London Olympic and Paralympic games. In April 2013, the Board met in Chicago and visited the Group's operations in that area and met management from across the North American division.

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 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 2013 included:

- Approval of the October 2012 private placement of US\$150m loan notes
- Consideration of invitations to tender for rail franchises
- Safety processes at Megabus, North America
- Review of the decision to award the West Coast rail franchise to First Group
- Potential business acquisitions by the Group's UK Bus and North American divisions
- 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 Chief Executive and 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. With effect from 1 May 2013, the Managing Director of the Group's London Bus operations reports directly to the Group Chief Executive. Accordingly, there are four principal operating divisions (UK Bus (London): headed by a Managing Director, UK Bus (regional operations): headed by a Managing Director, North America: headed by a Chief Operating Officer and UK Rail: headed by the Group Chief Executive) 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.

The June 2010 code, which applied to accounting periods commencing on or after 29 June 2010, introduced a recommendation that board performance evaluation should be externally facilitated at least every three years.

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: 4

All members are independent non-executive directors.

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

Garry Watts

#### Other members

Gregor Alexander

Helen Mahy

Phil White

Gregor Alexander will take over the role of Chairman of the Audit Committee from 1 July 2013.

### Remuneration Committee

Number of members of Committee: 3

All members are independent non-executive directors.

#### Chairman

Phil White

#### Other members

Garry Watts

Will Whitehorn

### Nomination Committee

Number of members of Committee: 3

All members are independent non-executive directors.

#### Chairman

Garry Watts (Chairman from 1 May 2013)

#### Other members

Ewan Brown

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 51 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 2013:

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	6	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
Gregor Alexander	1	1	1	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
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	2	3	n/a	n/a	4	4	n/a	n/a	1	1
Garry Watts	7	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	6	7	n/a	n/a	2	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.stagecoach.com/investors/shareholder-services/aggm>. 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 2013 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 2013 have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

### 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



Mike Vaux  
Company Secretary  
26 June 2013

## 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.

As previously announced, Gregor Alexander will take over as Chairman of the Audit Committee from 1 July 2013. Gregor is the Finance Director of SSE plc, a FTSE 100 company. He is a Chartered Accountant and will be the designated Committee member with recent and relevant financial experience. 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 was the 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. The Committee retains discretion as to who from outside the Committee should attend its meetings but generally invites the following to attend:

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

In addition, the Group Tax Director and Group Treasurer are expected to present to the Committee at least annually.

Other directors 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/Terms-of-reference-of-the-Audit-Committee-30-Nov-2012.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 auditors' independence and objectivity, taking account of relevant Ethical Standards. The auditors explain to the Audit Committee their policies and processes for maintaining independence and monitoring compliance with relevant requirements.

The latest version of the UK Corporate Governance Code (the "Code") will be effective for the Group's year ending 30 April 2014 and thereafter. The Code recommends that FTSE 350 companies retender their audits at least every ten years.

The Group last tendered its audit in 2002 and appointed PricewaterhouseCoopers ("PwC") as auditors in place of Arthur Andersen.

Since 2002, PwC's effectiveness has been annually assessed by the Audit Committee, which has not considered it necessary to require the firm to tender for the audit work. The external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every five years, and the current audit partner took responsibility for the Group and subsidiary audits from the year ended 30 April 2012.

The suggested transitional arrangements are that where a company has put its audit to tender or changed audit firm in or after 2000, the tender process might be deferred for five years on expiry of the current audit engagement partner's tenure. While that would allow the Group to defer tendering the audit until as late as 2021, the Group does intend to tender the audit earlier than that.

Ongoing deliberations by other bodies (such as the UK's Competition Commission and European Union) might result in further requirements or recommendations on audit rotation or tendering. We therefore intend to await the results of these deliberations before making any firm decisions on the timing of tendering the audit.

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 (2012: £0.8m) for PricewaterhouseCoopers LLP and non-audit related fees of £0.1m (2012: £0.3m) 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 interim reporting, 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.

# Audit Committee report

- 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

At each meeting, the Audit 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 main accounting judgements that the Committee considered in respect of the financial results for the year ended 30 April 2013, included:

- The appropriateness of the judgements made in preparing the financial statements in respect of the matters detailed in section 2.6.15 of this report, "critical accounting policies and estimates", including the judgements in determining the amount of tax balances, insurance provisions, contract provisions, pension assets and liabilities, the carrying values of property, plant and equipment and balances in respect of rail contractual positions.
- The appropriateness of the judgements made in determining the amount of the token redemption provision.
- Which items should be reported as exceptional items in the consolidated income statement.
- The timing of recognising the refund to the Group's joint venture, Virgin Rail Group, of bid costs incurred in bidding for the aborted West Coast Trains franchise.

- The appropriateness of liabilities held in respect of legal cases and in particular, the amount, timing and classification of the legal costs recognised in connection with the litigation relating to the Group's joint venture, Twin America.
- The determination of acquisition-date fair values of assets and liabilities relating to the acquisitions of businesses during the year and in particular, the acquisition of businesses from Coach America in July 2012.

The Committee has considered a wide range of other 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.
- A presentation was received from the Group Tax Director on the Group's tax affairs, significant tax accounting judgements and tax risks. The Group Treasury team presented on the Group's treasury affairs and management of treasury risks.
- 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 with the exception of the litigation relating to the Group's joint venture, Twin America, 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, the Financial Reporting Council UK Corporate Governance Code and 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 2013

## 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. The appointment of Ross Paterson to the Board and the appointment of Martin Griffiths to the position of Chief Executive were considered and recommended to the Board by the Committee taking account of the succession plans that had been developed over recent years.

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. The Company used Russell Reynolds Associates, an external search consultancy, in connection with the recent appointment of Gregor Alexander to the Board. There is no other connection between Russell Reynolds and the Company.

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 more than the last ten years, at least two.

There are currently ten directors of the Company. While the Board had nine members, the Board stated its aspiration to maintain the percentage of women on the Board at 22%. By increasing the size of the Board to ten directors, the proportion of women has decreased from 22% to 20% of the Board. The appointment of an additional director to the Board brings the benefit of an increased diversity of opinions and knowledge to the Board. The percentage of women on the Board is now 20% and the Board aspires to maintain this percentage in the future. 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	80.0%	20.0%
Senior management	88.0%	12.0%
Whole workforce	85.8%	14.2%

### 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 believes that it is important to develop and promote existing talent from within the organisation. The Committee was pleased to be able to recommend Martin Griffiths to succeed Sir Brian Souter as Chief Executive of the Company and to retain Sir Brian's knowledge and experience of the industry in the role of Chairman. As part of the Committee's succession plan, Ross Paterson was identified from within the Group's existing management team as the preferred candidate to join the Board and succeed Martin Griffiths in the position of Finance Director.

Following the recent Board changes, the Committee is developing new succession plans to anticipate future management changes. Given the importance of succession planning, the views of all directors are considered and not just the views of the members of the Committee.



Garry Watts  
Chairman of the Nomination Committee

26 June 2013



## 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/~media/Files/S/Stagecoach-Group/Attachments/about/HSE-terms-of-ref-Nov-2011.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 East Midlands Trains and North America 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 UK Bus employees to gain further understanding of health, safety and environmental processes in that business. 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 safety at Megabus North America, safety processes at Sheffield Supertram, energy management at South West Trains and the management of employee ill health.

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 2013



## 9. Directors' remuneration report

### 9.1 A statement to shareholders from the Chairman of the Remuneration Committee

On behalf of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 30 April 2013.

Stagecoach Group's remuneration policy remained unchanged during 2012/13, and our approach to implementation has also remained consistent with previous years. The Remuneration Committee's focus is on ensuring that the way we manage remuneration for executives rewards them for delivering what we see as being their central responsibility – to promote the success of the business in a sustainable and responsible manner, and in a way that supports the social and environmental benefits that can be delivered through passenger land transportation.

The main focus of the Committee's work is to manage the various aspects of the remuneration package of the Executive Directors at Stagecoach Group which comprises:

- Fixed elements of remuneration:
  - Basic salary;
  - Pensions and life assurance arrangements;
  - Benefits in kind and other allowances.
- Variable elements of remuneration:
  - Performance-related annual cash bonuses;
  - Deferred Shares under the Executive Participation Plan ("EPP");
  - The Long Term Incentive Plan ("LTIP");
  - The Buy As You Earn Scheme ("BAYE").

The main tasks for the Committee during the year ended 30 April 2013 were:

- Reviewed the performance and approved the Executive Directors' bonuses for year ended 30 April 2012.
- Set annual performance targets for the Executive Directors' bonuses.
- Reviewed performance and approved the vesting of the 2009 awards under the LTIP, in December 2012.
- Reviewed and approved targets for LTIP awards made in the year ended 30 April 2013.
- Reviewed and approved the vesting of the 2009 awards under the EPP.
- Consulted with major shareholders on remuneration packages for the new Chief Executive and Finance Director, and fees for the new Chairman and Deputy Chairman.
- Reviewed and recommended to the Board the remuneration package for the new Chief Executive and Finance Director, effective 1 May 2013.
- Reviewed and recommended to the Board the fees for the new Chairman and Deputy Chairman, effective 1 May 2013.
- Decided on levels of pay and benefit increases in the annual salary review, including reviewing the remuneration for senior non-Board managers.
- Reviewed the suitability of the EPP and LTIP and proposed to renew both plans for another ten years, subject to shareholder consultation and approval at the 2013 Annual General Meeting.
- Reviewed the possible changes in reporting requirements for directors' remuneration.
- Consulted formally with major shareholders on matters of remuneration policy.

The Committee is aware of the ongoing public debate on executive remuneration in the UK and is supportive of the concerns of shareholders and other stakeholders on this subject. During the year, the Committee has kept abreast of the developments in regulatory thinking on shareholder voting rights and the reporting of directors' remuneration.

Although the proposed new reporting requirements are not yet finalised, we have opted to incorporate a number of the proposed changes in this year's report to enhance transparency, and to aid the transition to the proposed new regime. This report is therefore divided into two distinct sections: a 'Policy Report' in sections 9.2 to 9.10 and an 'Implementation Report' sections 9.11 to 9.22. The Policy Report outlines the Group's remuneration policy for the year ended 30 April 2013 and the proposed policy for the year ending 30 April 2014. It sets out the role of each element of pay and how the structure of the package helps reinforce the achievement of the Group's strategy. The Implementation Report details how the policy was implemented in the year ended 30 April 2013.

We hope these changes help make the Directors' remuneration report clearer and easier to understand, and would welcome any feedback.



Phil White  
Chairman of the Remuneration Committee

26 June 2013

# Directors' remuneration report

## Policy Report

### 9.2 Compliance statement

This Directors' remuneration report covers the period 1 May 2012 to 30 April 2013 and provides details of the Remuneration Committee's role and the remuneration policy we apply in decisions on executive remuneration. The structure of this report has been modified from previous years to take account of the proposed regulations put forward by the UK Department of Business, Innovation and Skills.

The Company has complied with the principles and provisions relating to directors' remuneration in the UK Corporate Governance Code ("the Code"), and this report has been prepared in accordance with the Large & Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. In accordance with Section 439 of the Companies Act 2006, an advisory resolution to approve this report will be proposed at the 2013 Annual General Meeting.

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

### 9.3 Remuneration Committee

The Committee's principal function is to determine Stagecoach Group's policy on executive remuneration and to approve specific remuneration packages for its executive directors, and such senior members of the executive management as it is asked by the Board to consider, including their service contracts with the Company. The Committee also has responsibility for making a recommendation to the Board in respect of the remuneration of the Chairman and Deputy Chairman.

The terms of reference of the Committee are available on our website at: <http://www.stagecoach.com/remun-committee-tor-2011.pdf>

### 9.4 Key principles of the remuneration policy

The remuneration policy was approved by our shareholders at the 2012 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 the Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance.

The Remuneration Committee believes that packages for the Executive Directors should contain meaningful 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 the Executive Directors' remuneration, including environmental, social and governance matters. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short-term and long-term targets. Performance targets include financial measures as well as non-financial targets, such as 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, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry. Proposals for the forthcoming year are then discussed in the light of the prospects for the Group as a whole. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Group. The approach is consistent with that applied for the workforce in that we look to pay at the market rate for a job. With regard to pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations.

### 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 LTIP 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 condition applied. Likewise, while the 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

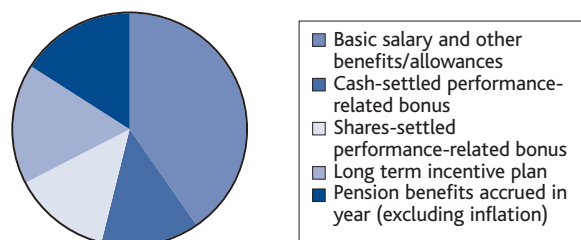
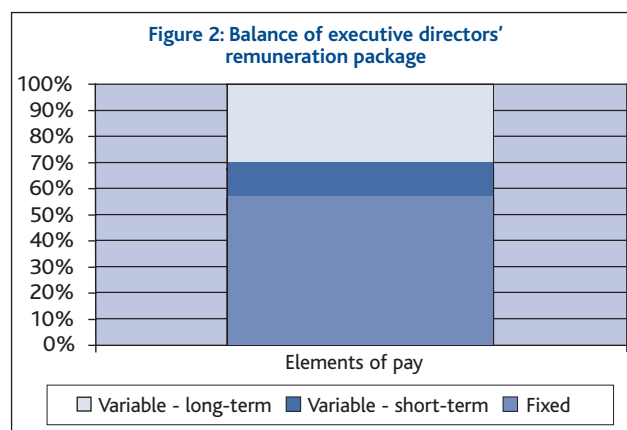


Figure 2 below provides a further analysis of the intended balance of the Executive Directors' pay between fixed elements (for example, basic salary and pension benefits), variable short-term elements (for example, annual cash bonuses) and variable long-term elements (for example, awards under share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



The Remuneration Committee will keep remuneration policy under review during the forthcoming year, and, in doing so, will continue to give full consideration to the principles set out in the UK Corporate Governance Code in relation to directors' remuneration and to the guidance of investor representative bodies.

In particular, the Remuneration Committee intends to review all aspects of 2013 variable pay to ensure it continues to be aligned with the remuneration policy and Group strategy. The Committee will consult with major shareholders before making any major changes to the policy.

## 9.6 Summary of Stagecoach Group's remuneration policy for the Executive Directors

This section of our report summarises the key components of remuneration for the Executive Directors.

### Fixed Pay

Purpose and link to strategy	Operation	Potential value	Performance metrics	Changes for 2013/14
<b>Basic salary</b>				
To attract, retain and motivate executives ensuring basic salaries are competitive in the market.	Basic salaries are generally reviewed as at 1 May each year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. Account is also taken of pay conditions throughout the Group.	Basic salary increases are applied in line with the outcome of the annual review.	Continued good performance.	No changes to the policy for 2013/14. Following consultation, current salary levels set effective from 1 May 2013 as set out in section 9.7
<b>Pensions and life assurance arrangements</b>				
To provide relevant life assurance and pension benefits that are competitive in the market.	Pension obligations for the Executive Directors are met through a combination of approved defined benefit, unfunded pension arrangements, and cash allowances, designed to provide pension benefits on retirement of up to two thirds of final pensionable pay. Her Majesty's Revenue and Customs ("HMRC") and Scheme rules provide that defined benefit pension benefits may not be drawn before age 55.	Related to basic salary levels.	Continued good performance.	None
<b>Benefits in kind and other allowances</b>				
Designed to be competitive in the market.	Includes health-care benefits, life assurance cover, company car allowance, and telephone costs.	Benefits vary by role, and are reviewed periodically relative to market.	Continued good performance.	None

### Variable Pay

Purpose and link to strategy	Operation	Potential value	Performance metrics	Changes for 2013/14
<b>Performance-related annual cash bonuses</b>				
Aims to focus the Executive Directors on achieving demanding annual targets relating to Company performance.	At the start of each financial year, the Committee agrees specific objectives for each executive director. At the end of each financial year, the Remuneration Committee determines the performance-related annual bonus for each executive director for the year just ended. This is based on each director's performance in achieving the set objectives, and affordability for the Group.	The maximum annual bonus is 100% of basic salary.	70% allocated over a range of demanding key financial objectives, and 30% for meeting individual business related objectives. In accordance with the rules of the EPP, 50% of any actual bonus will be deferred as shares under the EPP.	None
<b>EPP</b>				
Aims to align the interests of managers and shareholders by purchasing shares out of the annual bonus award. It 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.	There are no specific performance conditions attaching to the release of deferred shares because the annual bonus is already subject to performance conditions.	50% of any actual bonus earned in the year will be deferred as shares under the EPP. Additional shares are allocated in respect of dividends payable during the relevant period. By agreement or in appropriate circumstances, more than 50% may be deferred.	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. It also increases participants' effective equity interests in the Group and so better aligns their interests with shareholders.	No changes to the substance of the scheme. Shareholder approval being sought at the 2013 Annual General Meeting to extend the scheme to 2023 and updating for current best practice on clawback/malus provisions.
<b>BAYE</b>				
Aims to align the interests of employees and shareholders by purchasing shares out of salary. It is designed to aid staff motivation and retention.	Available to all UK employees of the Group.	Maximum employee purchase is £125 per month and the Group provides two matching shares for every share purchased on the first £10 of each employee's monthly investment. Additional shares are allocated in respect of dividends payable during the relevant period.	Employees forfeit matching shares if they leave the Group within three years of date of purchase.	None

# Directors' remuneration report

## Variable Pay (continued)

Purpose and link to strategy	Operation	Potential value	Performance metrics	Changes for 2013/14
<b>LTIP</b>				
Aims to align the interests of shareholders and management in growing the return to shareholders and the value of the business over the long-term.	The LTIP introduces a stringent performance condition 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 relative to a comparator group, which is the list of FTSE 250 companies.	The maximum awards granted in relation to any financial year for an individual is limited to Incentive Units with an aggregate face value at the time of award, not exceeding 1.5 times the individual's basic salary.	The TSR must exceed the median of the comparator group. The amount of units awarded which are released will range from 16.67% to 100% depending on the actual ranking. A challenging performance target of top decile ranking is required to achieve 100% release of units.	No changes to the substance of the scheme. Shareholder approval being sought at the 2013 Annual General Meeting to extend the scheme to 2023 and updating for current best practice on clawback/malus provisions.

## 9.7 Details of directors' service contracts

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

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

<b>Executive Directors' service contracts</b>		
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

Martin Griffiths entered into a new executive director's service contract on 22 February 2013, effective 1 May 2013 for his assumption to the role of Chief Executive, under which his annual basic salary for the 2013/14 year will be £600,000. Other provisions, including a 12-month notice period are consistent with his current terms and conditions and comply with this Policy Report.

Ross Paterson assumed the role of Finance Director on 1 May 2013 and entered into an executive director's service contract dated 11 February 2013, under which his annual basic salary increased to £400,000 per annum, and the terms of which are consistent with and comply with this Policy Report.

The new contracts for the Chairman and Deputy Chairman (effective of 1 May 2013) provide for six and three months' notice periods respectively. Other non-executive directors are appointed by a letter, which provide for one month's notice. The letters of appointment do not contain any contractual entitlement to a termination payment and the directors can be removed in accordance with the Company's Articles of Association.

## 9.8 Loss of office payment policy

The Group's policy is to make severance payments on termination in line with any pre-established contractual arrangements. If the Group terminates an executive director's contract, the costs for which the Group is liable will vary depending on length of service. Service contracts provide that an executive director shall give and shall receive 12 months' notice on termination. The contracts also contain standard garden leave provisions which the Group can enforce in order to protect the Group's interests during a period of notice. An executive would continue to be paid his basic salary and contractual benefits during any period of garden leave in the usual way save that he will not be entitled to receive awards under the EPP or the LTIP (or similar), and any bonus in respect of any period of garden leave would be at the discretion of the Remuneration Committee considering the specific circumstances. In any event, the Remuneration Committee can decide that no such bonus will be payable if and to the extent it reasonably considers that the payment of a bonus could be perceived as a reward for failure.

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

In the case of gross misconduct by an executive director, a provision is included in the executive's contract for immediate dismissal with no compensation payable.

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

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, or his employing company ceasing to be a member of the Group, then deferred EPP awards will vest at the date of leaving for the benefit of the director. If an executive director retires with the agreement of the Company, retirement is not a vesting event for the EPP, and so the awards will vest on their original vesting date.

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

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

- The 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, deferred shares would automatically vest on a change of control;
- under the LTIP, Incentive Units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the 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 in accordance with HMRC approved rules.

## 9.9 Consideration of shareholder views

The Committee consults both formally and informally with major stakeholders on key aspects of the remuneration policy.

## 9.10 External appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other quoted companies as this will broaden and enrich the business skills of the directors. Any such directorships must be formally approved by the Board. The number of paid directorships should not exceed two and the time commitments should not have any detrimental impact on the ability of the director to fully fulfill his duties. Details of external directorships held by the Executive Directors during the year ended 30 April 2013, together with the fees retained are as follows:

Executive Director	Company	Role held	Fees retained in respect of the year ended 30 April 2013
Martin Griffiths	Virgin Rail Group Holdings Limited	Co-Chairman	£Nil
	Robert Walters plc	Senior Independent Non-executive Director (will step down from role with effect from 1 August 2013)	£62,400
	AG Barr plc	Non-Executive Director	£42,847

## Implementation Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 30 April 2013.

## 9.11 Committee members

The Remuneration Committee is composed of three independent Non-executive Directors who met three times during the year. Attendance at meetings by individual members is detailed in section 5.9. No Director is present when his own remuneration is being discussed.

The members of the Committee during the year ended 30 April 2013 and at the date of this report were:

- Phil White (Chairman)
- Garry Watts
- Will Whitehorn

## 9.12 Advisers

The Committee retained Addleshaw Goddard LLP as its remuneration consultant to provide access to independent research and advice. It has no other connection to the Group. Addleshaw Goddard LLP received £12,380 (2012: £36,231) in respect of work carried out in the year ended 30 April 2013. We do not consider the level of fees paid or the nature of the work performed would prejudice the independence of Addleshaw Goddard LLP.

## Directors' remuneration report

### 9.13 Remuneration of the Executive Directors and other executives (audited)

The remuneration of the Executive Directors and other executives may comprise a number of elements, as described in section 9.1.

Directors' remuneration for the year ended 30 April 2013 is shown in Table 1 below, along with information on pension benefits and LTIP awards in Tables 2 and 3 respectively. Each of the elements of remuneration is discussed further below.

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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
<b>Executive directors</b>												
Sir Brian Souter	599	581	382	136	–	136	22	23	200	–	1,203	876
Martin Griffiths	450	394	225	187	225	187	24	23	–	91	924	882
<b>Non-executive directors</b>												
Ewan Brown	50	48	–	–	–	–	–	–	–	–	50	48
Ann Gloag	50	48	–	–	–	–	–	–	–	–	50	48
Helen Mahy	50	48	–	–	–	–	–	–	–	–	50	48
Sir George Mathewson <sup>^</sup>	283	165	–	–	–	–	–	–	–	–	283	165
Garry Watts	50	48	–	–	–	–	–	–	–	–	50	48
Phil White	50	48	–	–	–	–	–	–	–	–	50	48
Will Whitehorn	50	48	–	–	–	–	–	–	–	–	50	48
Gregor Alexander (appointed 1 April 2013)	4	–	–	–	–	–	–	–	–	–	4	–
<b>Total</b>	<b>1,636</b>	<b>1,428</b>	<b>607</b>	<b>323</b>	<b>225</b>	<b>323</b>	<b>46</b>	<b>46</b>	<b>200</b>	<b>91</b>	<b>2,714</b>	<b>2,211</b>

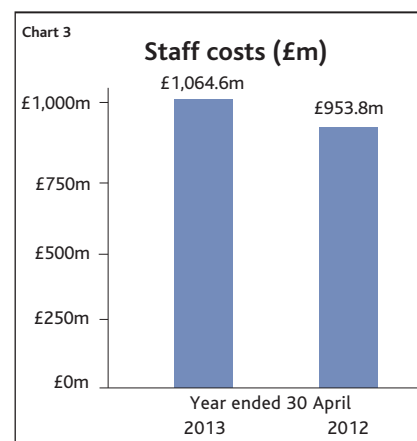
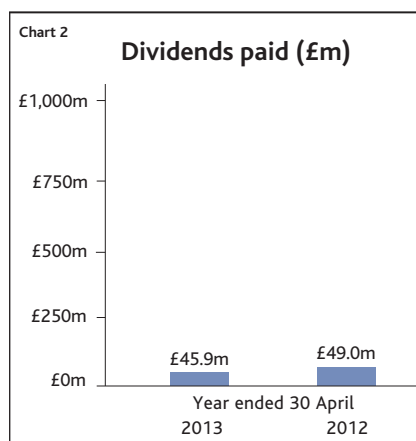
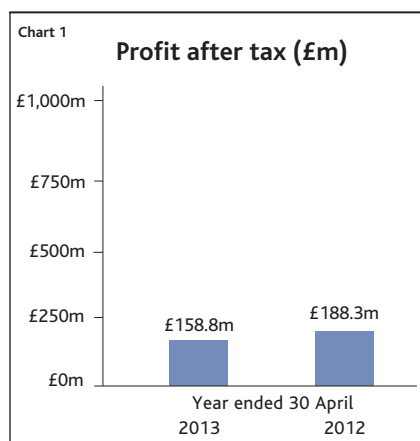
† Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits.

\*\* 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 divisions. The amounts shown above reflects a reduction of £157,000 (2012: waiver amount £250,000, apportioned equally between cash and deferred share bonus). Annual bonus is normally split 50:50 cash and deferred shares, but for Sir Brian Souter the bonus award in respect of the year ended 30 April 2013 is settled wholly in cash as explained in section 9.19.

<sup>^</sup> Sir George Mathewson's remuneration included a one-off payment of £113,333 on his retirement from office.

### 9.14 Relative Importance of spend on pay

The graphs below shows Stagecoach Group's profit after tax, dividends paid, and staff costs for the financial years ended 30 April 2012 and 30 April 2013.





## 9.15 Benefits in kind and other allowances

The benefits in kind shown in Table 1 for the year ended 30 April 2013 are made up as follows:

- Sir Brian Souter received £22,000 (2012: £22,000) of cash allowance in lieu of company car and £381 (2012: £516) in re-imbusement of home telephone expenses.
- Martin Griffiths received £22,000 (£2012: £22,000) of cash allowance in lieu of company car, £1,212 (2012: £727) of healthcare benefits and £459 (2012: £508) in re-imbusement of home telephone expenses.

## 9.16 Pensions (audited)

Under the terms of their service agreements, the Executive Directors are entitled to become members of one of the Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension arrangements. Defined benefit pensions may be accrued either under the HMRC approved pension scheme or the Group's funded pension arrangements. For pension purposes, the Executive Directors have a normal retirement age of 60 and in accordance with HMRC rules accrued defined benefits may not be drawn before age 55.

Martin Griffiths ceased annual benefit accrual under the HMRC approved scheme in March 2012 and thereafter from 1 May 2012 accrued benefits under the Group funded pension arrangements.

Sir Brian Souter drew his accrued benefits from the approved scheme on a discounted basis in November 2011, and thereafter and only until 30 April 2012 accrued benefits under the Group's funded pension arrangements. For the current year, 2012/13, he received a cash payment of 33.3% of his basic salary in lieu of further pension provision as included within Table 1 in section 9.13.

Life assurance of four times basic annual salary is provided under the arrangements for pension benefits.

Table 2 below shows benefits accruing during the year under the Group's funded pension arrangements. Other than adjustments for inflation no further benefits accrued under the HMRC approved scheme during the year.

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	2013	2012	2013	2012	2013	2012		2013	2012 <sup>†</sup>
<b>Executive directors</b>											
Sir Brian Souter <sup>+</sup>	–	–	–	7	–	–	–	103	–	–	103
Martin Griffiths <sup>**</sup>	14	18	68	53	161	158	133	14	92	708	575

\*The director participated in pension salary sacrifice arrangements during the year. The director's contributions are set against the increase in transfer value in the table above include salary sacrificed by the director and contributed to the pension schemes.

<sup>†</sup> The accrued benefits brought forward were commuted for a taxable sum of £80,686.

<sup>\*\*</sup> The transfer value of pension for 2012 has been updated to reflect market conditions at 30 April 2013.

## 9.17 Share based payments (audited)

### 9.17.1 Long Term Incentive Plan

To be used for the Executive Directors and a select number of senior executives, the 2005 Long Term Incentive Plan was approved at the 2005 Annual General Meeting. The LTIP introduces a stringent performance condition 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.

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 (and for this purpose, the value of one Incentive Unit equals the market value of one ordinary share).

The Group's approach has been to settle all such awards in cash but it would support the settlement in shares (including 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.

The number of Incentive 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 Incentive Units awarded will be released;
- For 100% of the Incentive 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 Incentive Units to be released would be between 16.67% and 100% of the Incentive Units awarded depending on the actual ranking against the comparator group.

In addition the Committee has 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.

An independent third party calculates 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.

Given the successful operation of the LTIP since it was approved by shareholders at the 2005 Annual General Meeting to run for a period of 10 years through to 2015, it is proposed to seek shareholder approval at the 2013 Annual General Meeting to:

- extend the term of the LTIP for 10 years to 2023;
- update clawback/malus provisions for current practice to reduce or cancel awards in appropriate circumstances; and
- increase the flexibility to satisfy awards through the issue of shares, within ABL guidelines on the limits for satisfying awards with shares (5% in any 10 year period).

# Directors' remuneration report

Details of LTIP awards made to the directors are shown below.

<b>TABLE 3 – LTIP</b>	As at 30 April 2012 (Incentive Units)	Awards granted in year (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	Vested during year (Incentive Units)	As at 30 April 2013 (Incentive Units)	Price per Incentive Unit achieved on vesting £	Vesting Date	Expected total value of award at time of grant £	Closing share price at time of grant £
<b>Sir Brian Souter</b>										
10 Dec 09	555,801	–	10,392	(94,385)	(471,808)	–	3.0575+	10 Dec 12+	238,382	1.6070
28 Jun 10	231,146	–	6,370	(141,190)	(96,326)	–*	3.0755+	30 Apr 13*	115,275	1.9030
09 Dec 10	211,629	–	5,833	(96,650)	(120,812)	–*	3.0755+	30 Apr 13*	121,863	2.0785
30 Jun 11	175,680	–	4,841	(138,399)	(42,122)	–*	3.0755+	30 Apr 13*	125,263	2.5530
08 Dec 11	169,655	–	4,676	(174,331)	–	–*	3.0755+	30 Apr 13*	125,251	2.5915
27 Jun 12	–	171,666	4,731	(176,397)	–	–*	3.0755+	30 Apr 13*	129,141	2.6170
	<b>1,343,911</b>	<b>171,666</b>	<b>36,843</b>	<b>(821,352)</b>	<b>(731,068)</b>	<b>–</b>				
<b>Martin Griffiths</b>										
10 Dec 09	376,361	–	7,037	(63,913)	(319,485)	–	3.0575+	10 Dec 12	161,421	1.6070
28 Jun 10	156,556	–	4,315	–	–	160,871	n/a	28 Jun 13	78,076	1.9030
09 Dec 10	143,338	–	3,950	–	–	147,288	n/a	09 Dec 13	82,539	2.0785
30 Jun 11	119,136	–	3,283	–	–	122,419	n/a	30 Jun 14	84,946	2.5530
08 Dec 11	115,050	–	3,171	–	–	118,221	n/a	08 Dec 14	84,938	2.5915
27 Jun 12	–	128,964	3,554	–	–	132,518	n/a	27 Jun 15	97,017	2.6170
06 Dec 12	–	108,138	941	–	–	109,079	n/a	06 Dec 15	97,017	3.1210
	<b>910,441</b>	<b>237,102</b>	<b>26,251</b>	<b>(63,913)</b>	<b>(319,485)</b>	<b>790,396</b>				

+The LTIP awards granted in December 2009, vested on 10 December 2012 with a TSR ranking of 45 out of the FTSE 250 comparator group delivering a cumulative Total Shareholder Return over the period of 102.61%, meriting 83.33% of the award being released on vesting at the price achieved in the above table.

\* Under the rules of the Scheme, LTIP awards vested on Sir Brian Souter's retirement as Chief Executive on 30 April 2013. An independent assessment of the performance criteria determined that three of LTIP awards vested having achieved TSR rankings and Total Shareholder Returns over the relevant performance period as follows:

Grant Date	TSR Rank (out of 250)	Cumm. TSR over performance period	% Award Released **
28 Jun 10	72	38.73%	40.56%
09 Dec 10	45	55.78%	55.56%
30 Jun 11	61	12.34%	23.33%

\*\* The performance conditions of the LTIP Awards require that where the awards vested part way through a three-year performance period, such as on retirement, any payout on the awards is restricted on a pro-rata time basis with credit only given for completed years within the performance period, and that the performance assessment period is then similarly restricted to complete anniversary years only from the award date. As such the payout on the 2010 Awards noted above were subject to a one-third reduction and the 2011 Award was subject to two-thirds reduction resulting in the percentage of awards being released on vesting as noted above.

## 9.17.2 Executive Participation Plan

The 2005 Executive Participation Plan was approved at the 2005 Annual General Meeting.

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

Awards under the EPP can be 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, other than by retirement, during the three-year deferral period.

Given the successful operation of the EPP since it was approved by shareholders at the 2005 Annual General Meeting to run for a period of 10 years through to 2015, it is proposed to seek shareholder approval at the 2013 Annual General Meeting to:

- extend the term of the EPP for 10 years to 2023;
- update clawback/malus provisions for current practice to reduce or cancel awards in appropriate circumstances; and
- increase the flexibility to satisfy awards through the issue of shares, within ABL guidelines on the limits for satisfying awards with shares (5% in any 10 year period).

Information on awards made to the Executive Directors under the EPP, are shown below.

<b>TABLE 4 – EPP Awards</b>	As at 30 April 2012 (deferred shares)	Awards granted in year (deferred shares)	Dividends in year (deferred shares)	Vested in year (deferred shares)	As at 30 April 2013 (deferred shares)	Price per share achieved on vesting £	Vesting Date	Expected total value of award at time of grant £	Closing Share price on date of grant £
<b>Sir Brian Souter</b>									
10 Dec 09	358,359	–	6,624	(364,983)	–	3.0538	10 Dec 12	525,259	1.6060
28 Jun 10	51,529	–	1,407	–	52,936		28 Jun 13	96,222	1.9020
30 Jun 11	51,967	–	1,419	–	53,386		30 Jun 14	128,797	2.5530
27 Jun 12	–	51,495	1,406	–	52,901		27 Jun 15	136,450	2.6190
	<u>461,855</u>	<u>51,495</u>	<u>10,856</u>	<u>(364,983)</u>	<u>159,223</u>				
<b>Martin Griffiths</b>									
10 Dec 09	255,434	–	6,981	–	262,415		27 Jun 13*	374,400	1.6060
28 Jun 10	100,316	–	2,741	–	103,057		28 Jun 13	187,000	1.9020
30 Jun 11	69,358	–	1,895	–	71,253		30 Jun 14	171,898	2.5530
27 Jun 12	–	70,629	1,929	–	72,558		27 Jun 15	187,150	2.6190
	<u>425,108</u>	<u>70,629</u>	<u>13,546</u>	<u>–</u>	<u>509,283</u>				
* In accordance with the Rules of the EPP, Martin Griffiths applied to defer vesting of the deferred shares for six months from the original vesting date of 10 December 2012. As the revised deferred vesting date was within a close period, the expected vesting date has been extended to the first available date after the announcement of the Group's preliminary results for the year ended 30 April 2013.									

### 9.17.3 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 the Executive Directors) to purchase partnership shares from their gross income (before income tax and National Insurance deductions). The Group provides two matching shares for every share purchased on the first £10 of every 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. During the year ended 30 April 2013, one director held shares acquired under the BAYE scheme and details are shown below.

<b>TABLE 5 – BAYE - AUDITED</b>	Financial Year of Initial Grant	BAYE awards held in Trust at 30 April 2012	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 2013
<b>Martin Griffiths</b>						
Shares held in trust	2011/12	265	–	–	–	265
	2012/13	–	528	74	16	618
		<u>265</u>	<u>528</u>	<u>74</u>	<u>16</u>	<u>883</u>

### 9.18 Performance targets

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. These comprise both financial objectives for the Group and individual business related objectives for each director. For each executive director, the Group financial objectives for the year ended 30 April 2013 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 2013, Sir Brian Souter and Martin Griffiths each had a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of demanding key financial objectives and 30% for meeting individual business related objectives.

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 performance. Performance related bonuses awarded to the Executive Directors in respect of the year ended 30 April 2013 are shown below.

<b>TABLE 6 – DIRECTORS' BONUSES AWARDED</b>	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Deferred Shares	Cash	Deferred Shares
Sir Brian Souter*	63.8%	–	100%	–
Martin Griffiths	50%	50%	50%	50%

\* Sir Brian Souter waived entitlement to part of his cash bonus, with the amounts being used to support funding of medical screening in the UK Bus Divisions. Save for the waiver, he would have been entitled to a bonus of 90% (2012: 90%) of basic salary. Refer to section 9.19 for information on the allocation of bonus between cash and deferred shares.

## Directors' remuneration report

### 9.19 Retirement of Chief Executive

Sir Brian Souter retired as Chief Executive on 30 April 2013, and became Chairman on 1 May 2013, replacing Sir George Mathewson who also retired on 30 April 2013. As Sir Brian Souter ceased to be a full time employee from that date, no new awards of Deferred Shares could be granted under the EPP and therefore the entire bonus award for the year ended 30 April 2013 will be paid in cash.

At the date of retirement, Sir Brian Souter held a number of outstanding awards under the LTIP scheme, which are subject to restricted vesting on retirement as described in section 9.17.1.

The Committee is satisfied that all contractual entitlements were settled correctly and confirm that no enhanced payments or benefits were made to Sir Brian on his retirement.

### 9.20 Directors' shareholdings

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

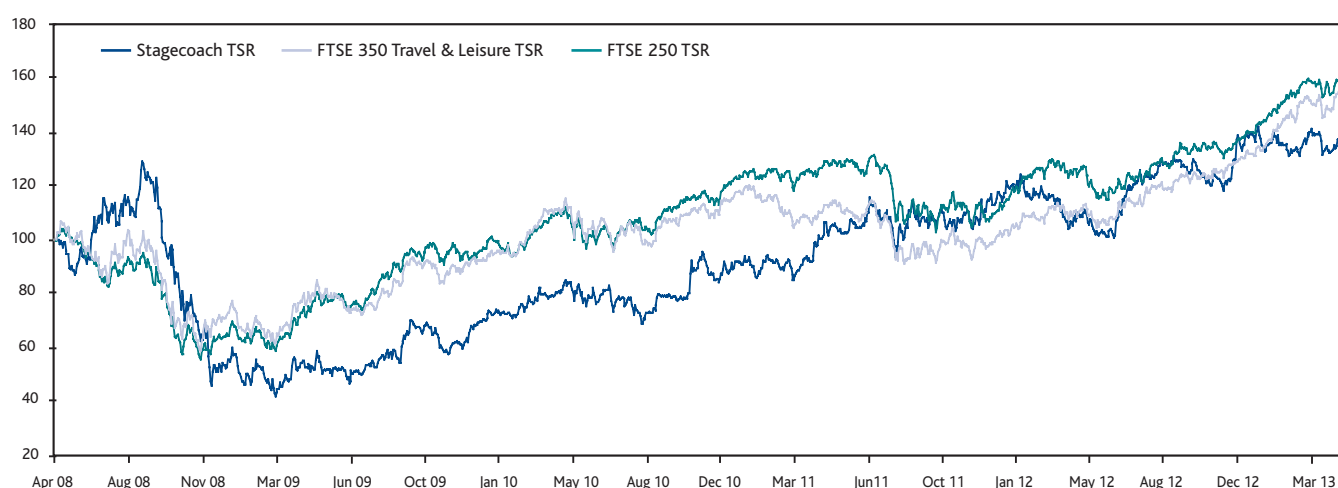
The Executive Directors have significant effective interests in the Company's ordinary shares ensuring alignment of the executive directors' and shareholders' interests. The effective interests of the Executive Directors as at 30 April 2013 were:

TABLE 7 – EXECUTIVE DIRECTORS' SHAREHOLDING	Sir Brian Souter	Martin Griffiths
Ordinary shares (excluding BAYE)	86,900,445	202,417
Shares acquired under the BAYE scheme and held in trust	–	883
Deferred shares under Executive Participation Plan	159,223	509,283
	<u>87,059,668</u>	<u>712,583</u>

### 9.21 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 2013 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.

#### Stagecoach 5-Year TSR Comparative Performance to 30 April 2013



## 9.22 Consideration of shareholder views

The following table shows the results of the advisory vote on the 2012 Remuneration Report at the 2012 Annual General Meeting. It is the Remuneration Committee's policy to consult with shareholders prior to any major changes to its executive director remuneration structure.

TABLE 8 – SHAREHOLDER VOTE	Total number of votes	% of votes cast
For+	449,478,191	98.73%
Against	5,785,880	1.27%
Total votes cast (excluding withheld votes)	455,264,071	100.00%
Votes withheld*	2,486,271	
Total votes cast (including withheld votes)	457,750,342	

+the number of votes "for" the resolution includes those cast at the Chairman's discretion.  
\*A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.



## 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 2013 on behalf of the Board by:



Martin A Griffiths  
Chief Executive



Ross Paterson  
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 2013 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 2013 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 110 on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2013 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 2013

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated income statement

For the year ended 30 April 2013

	Notes	2013			2012		
		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>2,804.8</b>	–	<b>2,804.8</b>	2,590.7	–	2,590.7
Operating costs and other operating income	3	<b>(2,571.3)</b>	<b>(15.1)</b>	<b>(2,586.4)</b>	(2,381.1)	28.9	(2,352.2)
<b>Operating profit of Group companies</b>	2	<b>233.5</b>	<b>(15.1)</b>	<b>218.4</b>	209.6	28.9	238.5
Share of profit of joint ventures after finance income and taxation	2	<b>22.8</b>	<b>(5.8)</b>	<b>17.0</b>	27.6	(3.2)	24.4
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	2	<b>256.3</b>	<b>(20.9)</b>	<b>235.4</b>	237.2	25.7	262.9
Non-operating exceptional items	4	–	<b>(2.2)</b>	<b>(2.2)</b>	–	11.6	11.6
<b>Profit before interest and taxation</b>		<b>256.3</b>	<b>(23.1)</b>	<b>233.2</b>	237.2	37.3	274.5
Finance costs	5	<b>(41.5)</b>	–	<b>(41.5)</b>	(38.2)	–	(38.2)
Finance income	5	<b>4.1</b>	–	<b>4.1</b>	3.5	–	3.5
<b>Profit before taxation</b>		<b>218.9</b>	<b>(23.1)</b>	<b>195.8</b>	202.5	37.3	239.8
Taxation	7	<b>(45.5)</b>	<b>8.5</b>	<b>(37.0)</b>	(40.4)	(11.1)	(51.5)
<b>Profit for the year from continuing operations and profit after taxation for the year attributable to equity shareholders of the parent</b>		<b>173.4</b>	<b>(14.6)</b>	<b>158.8</b>	162.1	26.2	188.3
<b>Earnings per share (all of which relates to continuing operations)</b>							
– Adjusted basic/Basic	9	<b>30.2p</b>		<b>27.7p</b>	25.4p		29.5p
– Adjusted diluted/Diluted	9	<b>29.7p</b>		<b>27.2p</b>	25.0p		29.1p

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

# Consolidated statement of comprehensive income

For the year ended 30 April 2013

		2013	2012
	Notes	£m	£m
<b>Profit for the year attributable to equity shareholders of the parent</b>		<b>158.8</b>	188.3
<b>Other comprehensive expense</b>			
Foreign exchange differences on translation of foreign operations (net of hedging)		2.7	0.4
Actuarial losses on Group defined benefit pension schemes	25	<b>(72.1)</b>	(93.7)
Share of actuarial losses on joint ventures' defined benefit pension schemes		–	(0.4)
Share of other comprehensive expense on joint ventures' cash flow hedges		<b>(0.2)</b>	(1.5)
Net fair value losses on cash flow hedges	26(g)	<b>(17.3)</b>	(6.8)
		<b>(86.9)</b>	(102.0)
<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>(12.3)</b>	(33.2)
<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)		–	0.6
Tax effect of actuarial losses on Group defined benefit pension schemes		<b>14.9</b>	20.7
Tax effect of share of actuarial losses on joint ventures' defined benefit pension schemes		–	0.1
Tax effect of share of other comprehensive expense on joint ventures' cash flow hedges		<b>0.1</b>	0.5
Tax effect of cash flow hedges	26(g)	<b>7.0</b>	10.8
		<b>22.0</b>	32.7
<b>Total comprehensive income for the year attributable to equity shareholders of the parent</b>		<b>81.6</b>	85.8

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 2013

		2013	2012 (restated)
	Notes	£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10	127.8	91.4
Other intangible assets	11	29.6	17.5
Property, plant and equipment	12	1,063.1	961.6
Interests in joint ventures	13	50.3	56.6
Available for sale and other investments	14	0.3	0.3
Derivative instruments at fair value	26(g)	0.4	1.6
Retirement benefit asset	25	5.8	17.0
Other receivables	19	18.2	16.4
		<b>1,295.5</b>	<b>1,162.4</b>
<b>Current assets</b>			
Inventories	18	21.1	22.2
Trade and other receivables	19	239.7	221.2
Derivative instruments at fair value	26(g)	2.2	20.8
Foreign tax recoverable		1.1	0.4
Cash and cash equivalents	20	262.2	241.0
		<b>526.3</b>	<b>505.6</b>
<b>Total assets</b>		<b>1,821.8</b>	<b>1,668.0</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	21	594.1	543.4
Current tax liabilities		40.0	23.6
Borrowings	22	63.7	55.9
Derivative instruments at fair value	26(g)	9.9	0.6
Provisions	24	59.1	57.2
		<b>766.8</b>	<b>680.7</b>
<b>Non-current liabilities</b>			
Other payables	21	21.2	22.2
Borrowings	22	747.9	721.0
Derivative instruments at fair value	26(g)	3.2	0.4
Deferred tax liabilities	23	24.4	40.0
Provisions	24	118.5	121.9
Retirement benefit obligations	25	163.6	139.1
		<b>1,078.8</b>	<b>1,044.6</b>
<b>Total liabilities</b>		<b>1,845.6</b>	<b>1,725.3</b>
<b>Net liabilities</b>		<b>(23.8)</b>	<b>(57.3)</b>
<b>EQUITY</b>			
Ordinary share capital	27	3.2	3.2
Share premium account	29	8.4	8.4
Retained earnings	29	(431.1)	(489.7)
Capital redemption reserve	29	422.8	422.8
Own shares	29	(23.4)	(18.2)
Translation reserve	29	4.8	2.1
Cash flow hedging reserve	29	(8.5)	14.1
<b>Total equity</b>		<b>(23.8)</b>	<b>(57.3)</b>

These financial statements have been approved for issue by the Board of Directors on 26 June 2013. The accompanying notes form an integral part of this consolidated balance sheet.



Martin A Griffiths  
Chief Executive



Ross Paterson  
Finance Director

# Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m
<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	8	-	-	(49.0)	-	-	-	-	(49.0)
<b>Balance at 30 April 2012 and 1 May 2012</b>		3.2	8.4	(489.7)	422.8	(18.2)	2.1	14.1	(57.3)
Profit for the year		-	-	158.8	-	-	-	-	158.8
Other comprehensive income/(expense), net of tax		-	-	(57.3)	-	-	2.7	(22.6)	(77.2)
<b>Total comprehensive income/(expense)</b>		-	-	<b>101.5</b>	-	-	<b>2.7</b>	<b>(22.6)</b>	<b>81.6</b>
Own ordinary shares purchased		-	-	-	-	(5.2)	-	-	(5.2)
Credit in relation to equity-settled share based payments		-	-	2.6	-	-	-	-	2.6
Tax credit in relation to equity-settled share based payments		-	-	0.4	-	-	-	-	0.4
Dividends paid on ordinary shares	8	-	-	(45.9)	-	-	-	-	(45.9)
<b>Balance at 30 April 2013</b>		3.2	8.4	(431.1)	422.8	(23.4)	4.8	(8.5)	(23.8)

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 2013

		2013	2012
	Notes	£m	£m
<b>Cash flows from operating activities</b>			
Cash generated by operations	30	339.5	284.2
Interest paid		(39.8)	(34.4)
Interest received		4.6	3.6
Dividends received from joint ventures		24.9	25.8
<b>Net cash flows from operating activities before tax</b>		<b>329.2</b>	<b>279.2</b>
Tax paid		(16.1)	(21.7)
<b>Net cash from operating activities after tax</b>		<b>313.1</b>	<b>257.5</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	15	(106.7)	(2.3)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	16	–	40.3
Purchase of property, plant and equipment		(181.9)	(176.1)
Disposal of property, plant and equipment		53.4	65.4
Purchase of intangible assets		(5.9)	(2.6)
Purchase of other investments		–	(0.3)
<b>Net cash outflow from investing activities</b>		<b>(241.1)</b>	<b>(75.6)</b>
<b>Cash flows from financing activities</b>			
Redemption of 'B' shares		–	(2.6)
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		(5.2)	(5.7)
Sale of own ordinary shares by employee share ownership trusts		–	2.1
Repayments of hire purchase and lease finance		(57.0)	(66.6)
Movement in other borrowings		56.0	164.1
Dividends paid on ordinary shares	8	(45.9)	(49.0)
Sale of tokens		1.4	1.3
Redemption of tokens		(1.7)	(2.9)
<b>Net cash used in financing activities</b>		<b>(52.4)</b>	<b>(299.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>19.6</b>	<b>(117.5)</b>
Cash and cash equivalents at the beginning of year		241.0	358.3
Exchange rate effects		1.6	0.2
<b>Cash and cash equivalents at the end of year</b>	20	<b>262.2</b>	<b>241.0</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 financial assets 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.

The consolidated balance sheet as at 30 April 2012 has been re-stated. Each of "available for sale and other investments" and "retirement benefit obligations" has been decreased by £2.0m from the figures previously reported. The restatement has no effect on the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows or consolidated net liabilities. As the change is immaterial, no restated balance sheet is presented as at 30 April 2011. The restatement relates to £2.0m of assets that are set aside by the Group for the purpose of meeting certain retirement benefit obligations and which were previously classified as investments. Following a review of the classification of these assets, the Group considered that the substance of the arrangement is better presented by classifying the assets as part of the net retirement benefit obligations together with the related liabilities.

### • New accounting standards adopted during the year

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 May 2012, but do not have any significant effect on the consolidated financial statements of the Group.

- Amendments to IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 1 First time adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

### • 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 7 Financial instruments: Disclosures (amended 2009)	1 January 2013
IFRS 9 Financial instruments: Classification and measurement (revised 2010)	1 January 2015
IFRS 10 Consolidated financial statements (amended 2012)	1 January 2014
IFRS 11 Joint arrangements (amended 2012)	1 January 2013
IFRS 12 Disclosures of interests in other entities	1 January 2013
IFRS 12 Disclosures of interests in other entities (amended 2012)	1 January 2013
IFRS 13 Fair value measurement	1 January 2013
IAS 1 Presentation of financial statements (revised 2011)	1 July 2012
IAS 1 Presentation of financial statements (revised 2012)	1 January 2013
IAS 16 Property, Plant and Equipment (revised 2012)	1 January 2013
IAS 19 Employee benefits (revised 2011)	1 January 2013
IAS 27 Consolidated and separate financial statements (amended 2011)	1 January 2013
IAS 28 Investments in associates and joint ventures (amended 2011)	1 January 2013
IAS 32 Financial instruments: Presentation (amended 2011)	1 January 2014
IAS 32 Financial instruments: Presentation (amended 2012)	1 January 2013
IAS 34 Interim Financial Reporting (amended 2012)	1 January 2013
IAS 36 Impairment of Assets (amended 2013)	1 January 2014
IFRIC 21 Levies	1 January 2014

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 2013, the revenue 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)	165.0	(21.8)	143.2
UK Bus (London)	21.9	(2.9)	19.0
North America	13.3	0.1	13.4
Total bus continuing operations	200.2	(24.6)	175.6
UK Rail	49.9	(8.7)	41.2
Total continuing operations	250.1	(33.3)	216.8
Group overheads	(14.9)	(0.8)	(15.7)
Intangible asset expenses	(15.1)	–	(15.1)
Restructuring costs	(1.7)	–	(1.7)
Total operating profit of continuing Group companies	218.4	(34.1)	184.3
Share of joint ventures' profit after finance income and taxation	17.0	(1.5)	15.5
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	235.4	(35.6)	199.8
Non-operating exceptional items	(2.2)	–	(2.2)
Profit before interest and taxation	233.2	(35.6)	197.6
Finance charges (net)	(37.4)	(5.9)	(43.3)
Profit on ordinary activities before taxation	195.8	(41.5)	154.3
Taxation	(37.0)	9.2	(27.8)
Profit from continuing operations	158.8	(32.3)	126.5
Adjusted earnings per share (pence)	30.2p	(5.6)p	24.6p

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.

The Group had not previously expected the new version of IAS 19 to affect the consolidated balance sheet but following further review and advice, it is now expected that the implementation of the new standard will have an effect on the consolidated balance sheet. The liability (or asset) recognised for the relevant sections of the Railways Pension Scheme 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 determination of those amounts includes considering the expected return on assets in the relevant sections over the life of the related franchises. The new version of IAS 19 in effect applies a lower expected return on assets and so, results in a change in the liability recognised for the relevant sections of the Railways Pension Scheme. The consolidated balance sheet as at 30 April 2013 would have been affected as follows:

	Audited		
	Reported net liabilities	Effect of applying new IAS 19	Pro forma net assets including new IAS 19
	£m	£m	£m
Interests in joint ventures	50.3	3.0	53.3
Net retirement benefit liability	(157.8)	48.2	(109.6)
Deferred tax liabilities	(24.4)	(11.1)	(35.5)
Other net assets	108.1	–	108.1
Net (liabilities)/assets	(23.8)	40.1	16.3

### • 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.

### • 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

## Note 1 IFRS accounting policies (continued)

### • Subsidiaries and joint ventures (continued)

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

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 cumulative 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.

### • 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 23 and 24 which form part of these financial statements.

### • 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 costs 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 or receivable (if any) are treated as operating costs or 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 treated as 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.

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Share based payments

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

#### Equity-settled transactions

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

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

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

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

#### Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

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 68.

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:

	2013	2012
<b>US Dollar:</b>		
Year end rate	1.5564	1.6239
Average rate	1.5748	1.5931
<b>Canadian Dollar:</b>		
Year end rate	1.5655	1.6043
Average rate	1.5796	1.5860

## Note 1 IFRS accounting policies (continued)

### • 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 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 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. Amortisation of intangible assets relating to customer contracts and lease contracts is amortised based on the pattern of the consumption of economic benefits obtained from the relevant contract. Amortisation on other tangible assets is calculated on the straight-line method. Intangible assets relating to rail franchises of a finite duration are amortised over the life of the franchise.

Operating leases on favourable terms	over the life of the lease (up to 4 years for current contracts)
Customer contracts	operating leases on favourable terms over the life of the lease 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.



# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Property, plant and equipment (continued)

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.

### • 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 2013, it has been estimated that 97% (30 April 2012: 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.

## Note 1 IFRS accounting policies (continued)

### • Retirement benefit obligations

For defined contribution schemes, the Group pays contributions to separately administered pension schemes. Once the contributions have been paid, the Group has no further payment obligations. The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

### • Financial instruments

The disclosure of the accounting policies that follow for financial instruments are those that apply under IFRS 7 'Financial Instruments: Disclosures', IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and measurement'.

#### Financial assets

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

# Notes to the consolidated financial statements

## Note 1 IFRS accounting policies (continued)

### • Financial instruments (continued)

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

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

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

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

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recorded in the statement of comprehensive income remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement immediately.

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

Non-derivative financial liabilities 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:

	2013	2012
	£m	£m
<b>Continuing operations</b>		
UK Bus (regional operations)	966.7	909.7
UK Bus (London)	232.7	230.5
North America	407.2	312.6
Total bus continuing operations	1,606.6	1,452.8
UK Rail	1,201.3	1,140.7
<b>Total Group revenue</b>	<b>2,807.9</b>	<b>2,593.5</b>
Intra-Group revenue – UK Bus (regional operations)	(3.1)	(2.8)
<b>Reported Group revenue</b>	<b>2,804.8</b>	<b>2,590.7</b>

### (b) Operating profit

Operating profit split by segment was as follows:

	2013			2012		
	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>						
UK Bus (regional operations)	165.0	–	165.0	162.7	35.9	198.6
UK Bus (London)	21.9	–	21.9	13.5	–	13.5
North America	13.3	–	13.3	19.7	–	19.7
Total bus continuing operations	200.2	–	200.2	195.9	35.9	231.8
UK Rail	49.9	–	49.9	27.1	0.8	27.9
Total continuing operations	250.1	–	250.1	223.0	36.7	259.7
Group overheads	(14.9)	–	(14.9)	(11.1)	1.3	(9.8)
Intangible asset expenses	–	(15.1)	(15.1)	–	(9.1)	(9.1)
Restructuring costs	(1.7)	–	(1.7)	(2.3)	–	(2.3)
<b>Total operating profit of continuing Group companies</b>	<b>233.5</b>	<b>(15.1)</b>	<b>218.4</b>	<b>209.6</b>	<b>28.9</b>	<b>238.5</b>
Share of joint ventures' profit after finance income and taxation	22.8	(5.8)	17.0	27.6	(3.2)	24.4
<b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b>	<b>256.3</b>	<b>(20.9)</b>	<b>235.4</b>	<b>237.2</b>	<b>25.7</b>	<b>262.9</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:

	2013			2012		
	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</b>						
<b>Virgin Rail Group (UK Rail)</b>						
Operating profit	12.8	5.5	18.3	21.5	–	21.5
Finance income (net)	0.2	–	0.2	0.3	–	0.3
Taxation	(3.2)	(1.3)	(4.5)	(5.9)	–	(5.9)
	9.8	4.2	14.0	15.9	–	15.9
Goodwill charged on investment in continuing joint ventures	–	(1.0)	(1.0)	–	(3.2)	(3.2)
	9.8	3.2	13.0	15.9	(3.2)	12.7
<b>Citylink (UK Bus, regional operations)</b>						
Operating profit	1.8	–	1.8	2.7	–	2.7
Taxation	(0.5)	–	(0.5)	(0.7)	–	(0.7)
	1.3	–	1.3	2.0	–	2.0
<b>Twin America LLC (North America)</b>						
Operating profit	12.2	(9.0)	3.2	10.2	–	10.2
Taxation	(0.5)	–	(0.5)	(0.5)	–	(0.5)
	11.7	(9.0)	2.7	9.7	–	9.7
<b>Share of profit of joint ventures after finance income and taxation</b>	<b>22.8</b>	<b>(5.8)</b>	<b>17.0</b>	<b>27.6</b>	<b>(3.2)</b>	<b>24.4</b>

### (d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	2013			2012 (restated)		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	772.7	(278.8)	493.9	740.7	(261.9)	478.8
UK Bus (London)	89.0	(93.1)	(4.1)	117.3	(84.2)	33.1
North America	397.0	(110.9)	286.1	259.6	(76.4)	183.2
UK Rail	226.4	(448.7)	(222.3)	232.4	(417.3)	(184.9)
	1,485.1	(931.5)	553.6	1,350.0	(839.8)	510.2
Central functions	23.1	(38.1)	(15.0)	20.0	(45.0)	(25.0)
Joint ventures	50.3	–	50.3	56.6	–	56.6
Borrowings and cash	262.2	(811.6)	(549.4)	241.0	(776.9)	(535.9)
Taxation	1.1	(64.4)	(63.3)	0.4	(63.6)	(63.2)
<b>Total</b>	<b>1,821.8</b>	<b>(1,845.6)</b>	<b>(23.8)</b>	<b>1,668.0</b>	<b>(1,725.3)</b>	<b>(57.3)</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.

	2013	2012
	£m	£m
UK Bus (regional operations)	99.6	90.3
UK Bus (London)	13.3	32.3
North America	112.2	51.2
UK Rail	33.7	42.4
Central	0.4	0.1
	<b>259.2</b>	<b>216.3</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.

	2013	2012
	£m	£m
UK Bus (regional operations)	11.9	1.0
North America	45.9	1.6
UK Rail	2.5	0.7
Central	0.4	–
	<b>60.7</b>	<b>3.3</b>

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

The results of each segment are further analysed below:

	Year ended 30 April 2013								
	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)	227.2	–	227.2	(62.2)	165.0	(0.5)	–	(0.7)	163.8
UK Bus (London)	27.9	–	27.9	(6.0)	21.9	(2.7)	–	–	19.2
North America	44.6	–	44.6	(31.3)	13.3	(8.4)	–	(0.1)	4.8
UK Rail – subsidiaries	60.2	–	60.2	(10.3)	49.9	(3.5)	–	(0.9)	45.5
UK Rail – joint venture (Virgin Rail Group)	12.8	(3.0)	9.8	–	9.8	(1.0)	4.2	–	13.0
UK Bus – joint venture (Citylink)	1.8	(0.5)	1.3	–	1.3	–	–	–	1.3
North America – joint venture (Twin America)	12.2	(0.5)	11.7	–	11.7	–	(9.0)	–	2.7
Group overheads	(14.7)	–	(14.7)	(0.2)	(14.9)	–	–	–	(14.9)
Restructuring costs	(1.7)	–	(1.7)	–	(1.7)	–	–	1.7	–
	<b>370.3</b>	<b>(4.0)</b>	<b>366.3</b>	<b>(110.0)</b>	<b>256.3</b>	<b>(16.1)</b>	<b>(4.8)</b>	<b>–</b>	<b>235.4</b>

	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>



# Notes to the consolidated financial statements

## Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2013	2012
	£m	£m
Miscellaneous revenue	115.3	104.7
Rail franchise premia	(531.4)	(407.5)
Rail revenue support	256.4	124.4
Materials and consumables	(379.3)	(326.2)
Staff costs (note 6)	(1,064.6)	(953.8)
Depreciation on property, plant and equipment (note 12)	(110.0)	(99.9)
Loss on disposal of plant and equipment	(2.0)	(0.6)
Repairs and maintenance expenditure on property, plant and equipment	(29.0)	(31.4)
Amortisation of intangible assets (note 11)	(15.1)	(9.1)
Network Rail charges, including electricity for traction	(242.8)	(225.4)
Operating lease rentals payable		
– plant and equipment	(164.3)	(153.4)
– property	(11.8)	(9.9)
Other external charges	(406.1)	(361.8)
Restructuring costs	(1.7)	(2.3)
<b>Total operating costs and other operating income</b>	<b>(2,586.4)</b>	<b>(2,352.2)</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:

	2013	2012
	£000	£000
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	400.0	379.3
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	410.0	389.2
<b>Total audit fees</b>	<b>810.0</b>	<b>768.5</b>
Taxation compliance services	–	61.1
Other taxation advisory services	16.0	144.1
Other assurance services	97.0	88.3
Other non-audit services	–	0.9
<b>Non-audit fees</b>	<b>113.0</b>	<b>294.4</b>
<b>Total fees payable by the Group to its auditors</b>	<b>923.0</b>	<b>1,062.9</b>

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US\$155,000 (2012: US\$130,000) 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 2013 and for the prior year comparatives can be further analysed as follows:

	2013			2012		
	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	–	(15.1)	(15.1)	–	(9.1)	(9.1)
	–	(15.1)	(15.1)	38.0	(9.1)	28.9
<b>Share of profit of joint ventures</b>						
Refund of franchise bid costs	5.5	–	5.5	–	–	–
– related tax	(1.3)	–	(1.3)	–	–	–
Twin America legal fees	(9.0)	–	(9.0)	–	–	–
Goodwill charged on investment in joint ventures	–	(1.0)	(1.0)	–	(3.2)	(3.2)
	(4.8)	(1.0)	(5.8)	–	(3.2)	(3.2)
<b>Non-operating exceptional items – continuing operations</b>						
Adjustments to assets and liabilities relating to previous acquisitions and disposals	0.1	–	0.1	–	–	–
Expenses incurred in relation to acquisitions	(2.3)	–	(2.3)	(0.5)	–	(0.5)
Gains on disposal of operations (note 16)	–	–	–	17.7	–	17.7
Loss on closure or restructuring of operations	–	–	–	(5.6)	–	(5.6)
<b>Non-operating exceptional items – continuing operations</b>	(2.2)	–	(2.2)	11.6	–	11.6
<b>Intangible asset expenses and exceptional items – continuing operations</b>	(7.0)	(16.1)	(23.1)	49.6	(12.3)	37.3
Tax effect of intangible asset expenses and exceptional items	3.8	4.7	8.5	(13.5)	2.4	(11.1)
<b>Intangible asset expenses and exceptional items after taxation – continuing operations</b>	(3.2)	(11.4)	(14.6)	36.1	(9.9)	26.2

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. The previous long-term franchise ended on 8 December 2012 and we therefore have reduced 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 previous 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. Virgin Rail Group currently operates West Coast Trains services on a 2-year contract, which commenced on 9 December 2012.

#### Note 5 Finance costs and income

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

	2013	2012
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable on cash	2.5	2.0
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	1.6	1.5
<b>Finance income</b>	<b>4.1</b>	<b>3.5</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, overdrafts and trade finance	(6.2)	(5.6)
– Interest payable on hire purchase and finance leases	(5.2)	(6.2)
– Interest payable and other finance costs on bonds	(26.2)	(23.7)
Other finance costs		
– Unwinding of discounts on provisions	(3.9)	(2.7)
<b>Finance costs</b>	<b>(41.5)</b>	<b>(38.2)</b>
<b>Net finance costs</b>	<b>(37.4)</b>	<b>(34.7)</b>

# Notes to the consolidated financial statements

## Note 6 Staff costs

Total staff costs were as follows:

	2013	2012
	£m	£m
<b>Staff costs</b>		
Wages and salaries	942.4	871.0
Social security costs	84.7	78.1
Pension costs (note 25)	26.0	(2.0)
Share based payment costs (excluding social security costs)		
– Equity-settled	2.6	3.0
– Cash-settled	8.9	3.7
	<b>1,064.6</b>	<b>953.8</b>

	2013	2012
	£m	£m
<b>Summary of directors' remuneration</b>		
Aggregate emoluments (including bonuses awarded in deferred shares)	2.9	2.5
Amount waived by a director	(0.2)	(0.3)
	<b>2.7</b>	<b>2.2</b>

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 51.

The total amount shown for staff costs above includes an amount of £2.5m (2012: £1.7m) in respect of share based payment costs for the Directors.

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

	2013	2012
	number	number
UK operations	26,890	26,278
UK administration and supervisory	3,183	3,126
North America	5,433	3,502
	<b>35,506</b>	<b>32,906</b>

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

	2013	2012
	number	number
UK Bus (regional operations)	19,045	18,394
UK Bus (London)	3,994	4,133
North America	5,433	3,502
UK Rail	6,901	6,742
Central	133	135
	<b>35,506</b>	<b>32,906</b>

## Note 7 Taxation

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

	2013			2012		
	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 23.9% (2012: 25.8%)	<b>36.1</b>	<b>(1.3)</b>	<b>34.8</b>	28.6	(0.6)	28.0
Prior year over provision for corporation tax	<b>(3.2)</b>	–	<b>(3.2)</b>	(2.1)	–	(2.1)
Foreign tax (current year)	<b>0.2</b>	–	<b>0.2</b>	0.7	0.3	1.0
Foreign tax (adjustments in respect of prior years)	–	–	–	(0.3)	–	(0.3)
<b>Total current tax</b>	<b>33.1</b>	<b>(1.3)</b>	<b>31.8</b>	26.9	(0.3)	26.6
Deferred tax:						
Origination and reversal of temporary differences	<b>12.8</b>	<b>(7.2)</b>	<b>5.6</b>	16.9	11.4	28.3
Change in tax rates	<b>(2.3)</b>	–	<b>(2.3)</b>	(4.0)	–	(4.0)
Adjustments in respect of prior years	<b>1.9</b>	–	<b>1.9</b>	0.6	–	0.6
<b>Total deferred tax</b>	<b>12.4</b>	<b>(7.2)</b>	<b>5.2</b>	13.5	11.4	24.9
<b>Total tax on profit</b>	<b>45.5</b>	<b>(8.5)</b>	<b>37.0</b>	40.4	11.1	51.5

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

	2013	2012
	£m	£m
Profit before taxation – continuing operations	<b>195.8</b>	239.8
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 23.9% (2012: 25.8%)	<b>46.8</b>	61.9
Effects of:		
Intangible asset allowances/deductions	<b>0.3</b>	0.9
Non-deductible expenditure/non-taxable income	<b>1.2</b>	0.9
Utilisation of tax losses not previously recognised as deferred tax assets	<b>(2.9)</b>	(3.7)
Foreign taxes differences	<b>(1.0)</b>	3.3
Adjustments to tax charge in respect of prior years	<b>(1.3)</b>	(1.9)
Tax effect of share of results of joint ventures	<b>(3.9)</b>	(4.4)
Change in UK corporation rate to 23% from 1 April 2013 (2012: 24% from 1 April 2012)	<b>(2.2)</b>	(5.5)
<b>Total taxation (note 7a)</b>	<b>37.0</b>	51.5

### (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 £63.1m (2012: £71.1m) have not been recognised due to restrictions in the availability of their use.

Temporary differences in respect of the revaluation of land and buildings 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 21% by April 2014.

On 20 March 2013, the UK Government announced its intention to further reduce the rate with effect from 1 April 2015 by another 1% resulting in a 20% corporate income tax rate.

The deferred tax balances as at 30 April 2013 have been determined with reference to the enacted UK corporate income tax rate of 23% (2012: 24%). The rate change reduction to 20% which is proposed to take effect from 1 April 2015 had not been substantively enacted at the balance sheet date. Had the reduction to 20% 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 57.

# 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.

	2013	2012	2013	2012
	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	5.4	4.9	31.0	35.2
Interim dividends in respect of the current year	2.6	2.4	14.9	13.8
<b>Amounts recognised as distributions to equity holders in the year</b>	<b>8.0</b>	<b>7.3</b>	<b>45.9</b>	<b>49.0</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	6.0	5.4	34.4	31.0

## 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 executive share plans and long-term incentive plans.

	2013	2012
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	573.8	638.7
Dilutive ordinary shares		
– Long Term Incentive Plan	6.1	5.1
– Executive Participation Plan	3.5	4.1
Diluted weighted average number of ordinary shares	583.4	647.9

	2013	2012
	£m	£m
Profit after taxation (for basic EPS calculation)	158.8	188.3
Intangible asset expenses before tax (see note 4)	16.1	12.3
Exceptional items before tax (see note 4)	7.0	(49.6)
Tax effect of intangible asset expenses and exceptional items (see note 4)	(8.5)	11.1
Profit for adjusted EPS calculation	173.4	162.1

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. This has been presented to allow shareholders to gain a further understanding of the underlying performance.

## Note 10 Goodwill

The movements in goodwill were as follows:

	2013	2012
	£m	£m
<b>Net book value</b>		
At beginning of year	91.4	95.3
Acquired through business combinations	33.7	0.7
Disposals	–	(1.7)
Impairment	–	(4.6)
Foreign exchange movements	2.7	1.7
At end of year	<b>127.8</b>	<b>91.4</b>

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	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	<b>43.5</b>	33.1	<b>3.6</b>	3.6	<b>80.7</b>	54.7

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	<b>5 years</b>	5 years	<b>5 years</b>	5 years	<b>5 years</b>	5 years
Pre-tax discount rate applied to cash flow projections	<b>9.3%</b>	9.0%	<b>9.3%</b>	9.0%	<b>11.8%</b>	11.8%
Growth rate used to extrapolate cash flows beyond period of management plan	<b>2.2%</b>	2.2%	<b>2.2%</b>	2.2%	<b>4.6%</b>	1.6%
Difference between above growth rate and long-term average growth rate for market in which unit operates	<b>Nil</b>	Nil	<b>Nil</b>	Nil	<b>Nil</b>	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 2013 at 7.2% based on:

- The market capitalisation and net debt of the Group as at 30 April 2013 as an indication of the split between debt and equity;
- A risk-free rate of 1.8%;
- A levered beta for the Group of 1.0;
- A marginal pre-tax cost of debt of 5.1%.

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.



# Notes to the consolidated financial statements

## 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 2013

	Operating leases	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At beginning of year	–	36.2	12.4	19.7	4.4	72.7
Additions	–	–	–	–	5.9	5.9
Acquired through business combinations	1.0	20.1	–	–	–	21.1
Foreign exchange movements	–	0.2	0.2	–	0.1	0.5
At end of year	1.0	56.5	12.6	19.7	10.4	100.2
<b>Accumulated amortisation</b>						
At beginning of year	–	(30.4)	(12.3)	(10.9)	(1.6)	(55.2)
Amortisation charged to income statement	(0.3)	(9.8)	–	(2.2)	(2.8)	(15.1)
Foreign exchange movements	–	–	(0.3)	–	–	(0.3)
At end of year	(0.3)	(40.2)	(12.6)	(13.1)	(4.4)	(70.6)
Net book value at beginning of year	–	5.8	0.1	8.8	2.8	17.5
Net book value at end of year	0.7	16.3	–	6.6	6.0	29.6

Intangible assets include customer contracts and operating leases on favourable terms to market 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 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

## Note 12 Property, plant and equipment

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

### Year ended 30 April 2013

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	278.0	1,108.2	224.3	1,610.5
Additions	13.7	154.5	37.5	205.7
Acquired through business combinations	5.2	48.2	0.1	53.5
Disposals	(1.7)	(76.1)	(34.4)	(112.2)
Foreign exchange movements	1.4	12.8	0.1	14.3
Reclassification	2.1	(0.4)	(1.7)	–
At end of year	298.7	1,247.2	225.9	1,771.8
<b>Depreciation</b>				
At beginning of year	(39.2)	(470.1)	(139.6)	(648.9)
Depreciation charged to income statement	(7.7)	(88.0)	(14.3)	(110.0)
Disposals	0.3	54.8	1.8	56.9
Foreign exchange movements	(0.6)	(6.0)	(0.1)	(6.7)
Reclassification	–	0.4	(0.4)	–
At end of year	(47.2)	(508.9)	(152.6)	(708.7)
Net book value at beginning of year	238.8	638.1	84.7	961.6
Net book value at end of year	251.5	738.3	73.3	1,063.1
Included in the above net book value at end of year are:				
Assets on hire purchase	–	145.9	–	145.9
Assets on finance leases	–	9.8	–	9.8
Long leasehold land and buildings	55.9	–	–	55.9

Included in the net book value of property, plant and equipment is £24.6m (2012: £29.6m) 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 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

# Notes to the consolidated financial statements

## Note 13 Interests in joint ventures

The principal joint ventures are:

	Country of incorporation	Number of shares in issue at 30 April 2013	Nominal value of share capital in issue at 30 April 2013	% 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 2013 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 2013	Total 2012
	£m	£m	£m	£m	£m
<b>Cost</b>					
At beginning of year	65.4	4.7	43.0	113.1	111.4
Share of recognised profit	14.0	1.3	2.7	18.0	27.6
Share of actuarial losses on defined benefit pension schemes, net of tax	–	–	–	–	(0.3)
Share of other comprehensive income on cash flow hedges, net of tax	(0.1)	–	–	(0.1)	(1.0)
Dividends received in cash	(13.2)	(1.8)	(9.9)	(24.9)	(25.8)
Foreign exchange movements	–	–	1.7	1.7	1.2
At end of year	66.1	4.2	37.5	107.8	113.1
<b>Amounts written off</b>					
At beginning of year	(56.5)	–	–	(56.5)	(53.3)
Goodwill charged to income statement	(1.0)	–	–	(1.0)	(3.2)
At end of year	(57.5)	–	–	(57.5)	(56.5)
Net book value at beginning of year	8.9	4.7	43.0	56.6	58.1
Net book value at end of year	8.6	4.2	37.5	50.3	56.6

A loan payable to Scottish Citylink Coaches Limited of £1.7m (2012: £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 2013	Total 2012
	£m	£m	£m	£m	£m
Non-current assets	1.5	0.1	14.6	16.2	15.9
Current assets	83.1	4.2	8.5	95.8	80.6
Current liabilities	(76.0)	(2.7)	(14.6)	(93.3)	(71.3)
Share of net assets	8.6	1.6	8.5	18.7	25.2
Goodwill	–	2.6	29.0	31.6	31.4
	8.6	4.2	37.5	50.3	56.6

### 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 2013	Total 2012
	£m	£m	£m	£m	£m
Revenue	441.5	14.2	56.3	512.0	493.7
Expenses	(428.7)	(12.4)	(44.1)	(485.2)	(459.3)
Operating profit	12.8	1.8	12.2	26.8	34.4
Exceptional items	5.5	–	(9.0)	(3.5)	–
Finance income (net)	0.2	–	–	0.2	0.3
Taxation	(4.5)	(0.5)	(0.5)	(5.5)	(7.1)
Share of joint ventures' profit after taxation	14.0	1.3	2.7	18.0	27.6

### Note 14 Available for sale and other investments

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

	2013	2012 (restated)
	£m	£m
<b>Cost / valuation and net book value</b>		
At beginning of year	0.3	0.1
Additions	–	0.3
Disposals	–	(0.1)
At end of year	0.3	0.3

### Note 15 Business combinations

#### Acquisition from Coach America Holdings, Inc.

On 20 July 2012, a number of Stagecoach subsidiaries completed the acquisition of certain bus businesses and assets from Coach America Holdings, Inc. The acquired businesses include contract, line-run, charter and sightseeing operations. They extended the Group's geographical footprint into Texas, California, Georgia, Ohio, Wyoming, Nevada, Maryland and Oregon.

The cash paid in respect of the acquisition was US\$133.7m (£84.9m). The Group also acquired a further 79 vehicles from Coach America Holdings, Inc for a cash consideration of US\$25.9m (£16.4m), and this has been treated as additions to property, plant and equipment in the year ended 30 April 2013.

The Group believes that there was a compelling rationale for acquiring the businesses at the price paid. It enabled the Group to expand its presence in North America at a reasonable price and provides it with depot infrastructure in new locations where it can further expand its low-cost megabus.com coach network.

Goodwill of US\$36.7m (£23.3m) arose on the acquisition and represents:

- the benefits that the Group expects to obtain from operating new types of services, such as megabus.com, from the acquired depot infrastructure;
- the benefits that the Group expects to obtain from synergies with its other businesses;
- the benefits that the Group expects to obtain from applying its own management expertise to improve the operational and financial performance of the acquired business;
- the value of the assembled workforce of the businesses and;
- the value of the arrangements with customers, over and above the existing contracts for particular bus services, but which cannot be reliably valued as separate assets.

All of the goodwill arising from the acquisition is expected to be deductible for tax purposes.

The acquisition was only completed three months before the balance sheet date of 31 October 2012. The initial accounting for the business combination was reported in the Group's interim results for the six months ended 31 October 2012 and was based on provisional amounts. The amounts have since been updated and the initial goodwill reported of US\$30.2m is now US\$36.7m. The revisions principally related to the fair values of acquired property and vehicles.

The revenue and operating profit before intangible asset expenses and exceptional items of the acquired business recognised in the consolidated income statement for the period from the acquisition date of 20 July 2012 to 30 April 2013 was US\$124.2m (£78.9m) and US\$3.8m (£2.4m) respectively.

The consolidated revenue of the Group for the year ended 30 April 2013 would have been £2,830.4m had the acquisition occurred on 1 May 2012. The equivalent consolidated operating profit of wholly owned operations before intangible asset expenses and exceptional items for the year would have been £2.9m higher at £236.4m.

# Notes to the consolidated financial statements

## Note 15 Business combinations (continued)

### UK Bus (regional operations) acquisitions

The Group acquired three small UK Bus businesses during the year ended 30 April 2013, as follows:

	Bluebird in North Manchester	First Group's Wigan bus operations	First Group's Chester, Wrexham and Birkenhead bus operations
Last financial year-end prior to acquisition	31 January 2012	31 March 2012	31 March 2012
Revenue in last financial year (£m)	4.0	13.2	11.9
EBITDA in last financial year (£m)	0.5	2.2	1.7

The effect of these three acquisitions on the consolidated income statement for the year ended 30 April 2013 is not material and had the acquisitions completed on 1 May 2012, the effect on the consolidated income statement for the year ended 30 April 2013 would have been immaterial.

### Fair values

The fair value of the net assets of the businesses acquired during the year ended 30 April 2013 was as follows:

	Acquisition from Coach America £m	UK Bus (regional) acquisitions £m	Total £m
Intangible assets			
– Customer contracts	18.6	1.5	20.1
– Operating leases favourable to market terms	1.0	–	1.0
Property, plant and equipment			
– Land and buildings	1.5	3.7	5.2
– Passenger service vehicles	42.4	5.8	48.2
– Other	–	0.1	0.1
Inventory	1.0	0.3	1.3
Trade and other receivables	12.4	–	12.4
Trade and other payables	(13.0)	(0.1)	(13.1)
Borrowings	(1.0)	–	(1.0)
Deferred taxation	–	(0.8)	(0.8)
Provisions			
– Environmental provisions	(0.7)	–	(0.7)
– Acquired customer contracts	(0.6)	(2.1)	(2.7)
<b>Fair value of net assets acquired, excluding goodwill</b>	<b>61.6</b>	<b>8.4</b>	<b>70.0</b>
Goodwill arising on acquisition	23.3	10.4	33.7
<b>Total consideration (settled in cash)</b>	<b>84.9</b>	<b>18.8</b>	<b>103.7</b>
Expenses relating to the acquisition	2.1	0.6	2.7
<b>Cash outflow relating to acquisitions in year</b>	<b>87.0</b>	<b>19.4</b>	<b>106.4</b>
Deferred consideration paid on acquisitions from prior years			0.3
<b>Total cash outflow relating to acquisitions</b>			<b>106.7</b>

There are no material receivables that are considered to be uncollectable as at the date of acquisition.

### Note 16 Disposals

In respect of businesses disposed of, the consideration, net assets disposed and profit on disposal for the year ended 30 April 2013, were as follows:

	2013	2012
	£m	£m
Net assets disposed	–	26.5
Gain on disposal	–	17.7
Net consideration receivable	–	44.2
Cash included in net assets disposed	–	(4.6)
Deferred consideration in respect of businesses disposed of in current year	–	(0.2)
Deferred consideration received in year in respect of businesses disposed of in prior years	–	0.9
Net cash inflow	–	40.3

## Note 17 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2013 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
Glenvale Transport Limited	England	Bus and coach operator
Stagecoach Devon Limited	England	Bus and coach operator
Stagecoach UK Bus Events Limited	England	Bus and coach operator
South Yorkshire Supertram Limited	England	Holding company
Thames Transit 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
Hudson Transit Lines Inc	USA	Bus and coach operator
Sam Van Galder Inc	USA	Bus and coach operator
PSV Claims Bureau Limited	England	Claims handling
Stagecoach South Western Trains Limited	England	Train operating company
East Midlands Trains Limited	England	Train operating company
Stagecoach Rail Holdings Limited	Scotland	Holding 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.

Stagecoach Group plc has given a guarantee under section 479C of the Companies Act 2006 (the "Act") in respect of the year ended 30 April 2013 of the following of its subsidiary companies and the following subsidiary companies are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Companies Act 2006:

- Stagecoach Aviation Europe Limited
- SCH US Bond Co Limited
- Concessionary Solutions Limited



# Notes to the consolidated financial statements

## Note 18 Inventories

Inventories were as follows:

	2013	2012
	£m	£m
Parts and consumables	21.1	22.2

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:

	2013	2012
	£m	£m
At beginning of year	(2.4)	(1.7)
Charged to income statement	(0.3)	(0.9)
Amount utilised	0.6	0.2
At end of year	(2.1)	(2.4)

The Group is party to consignment stock arrangements and as at 30 April 2013, the Group physically held consignment stock of a value amounting to £0.3m (2012: £0.5m) in addition to the amounts disclosed above.

## Note 19 Trade and other receivables

Trade and other receivables were as follows:

	2013	2012
	£m	£m
<b>Non-current:</b>		
Prepayments	17.5	16.1
Other receivables	0.7	0.3
	18.2	16.4
<b>Current:</b>		
Trade receivables	123.7	110.0
Less: provision for impairment	(1.9)	(1.6)
Trade receivables – net	121.8	108.4
Other receivables	21.1	29.2
Prepayments	27.1	24.8
Accrued income	43.7	33.0
VAT and other government receivables	26.0	25.8
	239.7	221.2

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

	2013	2012
	£m	£m
At beginning of year	(1.6)	(1.9)
Impairment losses in year charged to income statement	(0.7)	(0.4)
Reversal of impairment losses credited to income statement	0.1	0.1
Amounts utilised	0.3	0.6
At end of year	(1.9)	(1.6)

Further information on credit risk is provided in note 26.

## Note 20 Cash and cash equivalents

	2013	2012
	£m	£m
Cash at bank and in hand	<b>262.2</b>	241.0

The cash amounts shown above include £105.0m on 12 month deposit maturing by March 2014, £32.0m on 3 month deposit maturing by July 2013 and £15.0m on 1 month deposit maturing May 2013 (2012: £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). The remaining amounts are accessible to the Group within one day (2012: 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 £262.2m (2012: £241.0m) above included the net balance on these offset accounts of £14.8m (2012: £7.0m), which comprised £370.3m (2012: £337.3m) of positive bank balances less £355.5m (2012: £330.3m) of bank overdrafts.

## Note 21 Trade and other payables

Trade and other payables were as follows:

	2013	2012
	£m	£m
<b>Current</b>		
Trade payables	<b>170.3</b>	129.9
Accruals	<b>283.6</b>	272.0
Deferred income	<b>109.7</b>	105.1
Cash-settled share based payment liability	<b>3.0</b>	3.5
Deferred grant income	<b>1.5</b>	3.1
Loans from joint ventures	<b>1.7</b>	1.7
PAYE and NIC payable	<b>21.5</b>	25.2
VAT and other government payables	<b>2.8</b>	2.9
	<b>594.1</b>	543.4
<b>Non-current</b>		
Accruals	<b>10.1</b>	9.2
Deferred grant income	<b>7.4</b>	9.5
Cash-settled share based payment liability	<b>1.2</b>	2.4
PAYE and NIC payable	<b>0.5</b>	0.6
Other payables	<b>0.1</b>	0.5
Deferred income	<b>1.9</b>	–
	<b>21.2</b>	22.2

# Notes to the consolidated financial statements

## Note 22 Borrowings

### (a) Repayment profile

Borrowings are repayable as follows:

	2013	2012
	£m	£m
<b>On demand or within 1 year</b>		
Loan notes	20.5	20.9
Hire purchase and lease obligations	43.2	35.0
	<b>63.7</b>	<b>55.9</b>
<b>Within 1-2 years</b>		
Hire purchase and lease obligations	34.6	41.2
<b>Within 2-5 years</b>		
Bank loans	121.4	155.4
Hire purchase and lease obligations	76.3	88.8
Sterling 5.75% Notes	409.8	410.4
	<b>607.5</b>	<b>654.6</b>
<b>Over 5 years</b>		
Hire purchase and lease obligations	9.3	25.2
US Dollar 4.36% Notes	96.5	–
	<b>105.8</b>	<b>25.2</b>
Total borrowings	<b>811.6</b>	<b>776.9</b>
Less current maturities	<b>(63.7)</b>	<b>(55.9)</b>
Non-current portion of borrowings	<b>747.9</b>	<b>721.0</b>

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 2013 average 3.0% 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 £20.5m (2012: £20.9m) 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, Sterling Notes and US Dollar Notes are unsecured.

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

	2013	2012
	£m	£m
Not later than one year	46.7	39.6
Later than one year but not more than five years	116.2	138.8
More than five years	9.5	25.5
	<b>172.4</b>	<b>203.9</b>
Future finance costs on hire purchase and finance leases	<b>(9.0)</b>	<b>(13.7)</b>
Carrying value of hire purchase and finance lease liabilities	<b>163.4</b>	<b>190.2</b>

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 2013 was £409.8m (2012: £410.4m) after taking account of accrued interest, the discount on issue, issue costs and the fair value of interest rate swaps previously used to manage the interest rate profile of the Notes.

### (c) US Dollar 4.36% Notes

On 18 October 2012, the Group issued US\$150m of 4.36% Notes as a private placement. The Notes are due in 2022. Interest on the Notes is paid semi-annually in arrears and all remaining Notes will be redeemed at their principal amount on 18 October 2022. The consolidated carrying value of the Notes at 30 April 2013 was £96.5m (2012: £Nil) after taking account of accrued interest, issue costs and the effect of fair value hedges.

## Note 23 Deferred tax

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

	Deferred tax liabilities
	£m
Due after more than one year:	
Beginning of year	(40.0)
Charged to income statement	(5.2)
Arising through business combinations	(0.8)
Credited to equity	21.6
End of year	(24.4)

Deferred taxation is calculated as follows:	2013	2012
	£m	£m
Accelerated capital allowances	<b>(95.0)</b>	(87.0)
Pension temporary differences	<b>36.3</b>	29.8
Short-term temporary differences	<b>34.3</b>	17.2
	<b>(24.4)</b>	(40.0)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:	2013	2012
	£m	£m
Accelerated capital allowances	<b>(7.5)</b>	12.1
Pension temporary differences	<b>(8.2)</b>	(16.2)
Short-term temporary differences	<b>10.5</b>	(20.8)
	<b>(5.2)</b>	(24.9)

## 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	10.5	135.3	2.9	0.8	29.6	179.1
Provided during year (after discounting)	–	45.7	0.1	0.8	–	46.6
Amounts recognised through business combinations	–	–	0.7	–	2.7	3.4
Unwinding of discount	–	3.7	–	–	0.2	3.9
Utilised in the year	–	(44.9)	(0.1)	(0.9)	(10.8)	(56.7)
Arising on sale of tokens during year	1.4	–	–	–	–	1.4
Redemption of tokens	(1.7)	–	–	–	–	(1.7)
Foreign exchange movements	–	1.5	0.1	–	–	1.6
End of year	10.2	141.3	3.7	0.7	21.7	177.6
30 April 2013:						
Current	2.0	45.2	0.6	0.7	10.6	59.1
Non-current	8.2	96.1	3.1	–	11.1	118.5
	10.2	141.3	3.7	0.7	21.7	177.6
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

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

The insurance provisions relate to insurance reserves on incurred accidents up to 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 utilised over the next five years.

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

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

# Notes to the consolidated financial statements

## Note 25 Retirement benefits

The Group contributes to a number of pension schemes. The principal defined benefit 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 £5.8m (2012: £17.0m) and retirement benefit obligations of £163.6m (2012 restated: £139.1m). The net liability of £157.8m (2012 restated: £122.1m) is analysed below.

The amounts recognised in the balance sheet were as follows:

As at 30 April 2013	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities and hedge funds	890.0	532.9	200.4	2.7	–	1,626.0
Bonds	131.5	111.3	44.8	0.9	–	288.5
Cash	50.7	3.5	39.7	0.6	–	94.5
Property	79.0	105.7	17.9	–	–	202.6
Fair value of plan assets	1,151.2	753.4	302.8	4.2	–	2,211.6
Present value of obligations						
– gross liabilities	(1,257.2)	(1,054.6)	(304.8)	(5.8)	(4.2)	(2,626.6)
– adjustment for members’ share of RPS deficit (40%)	–	120.5	–	–	–	120.5
– franchise adjustment	–	142.3	–	–	–	142.3
Present value of obligations	(1,257.2)	(791.8)	(304.8)	(5.8)	(4.2)	(2,363.8)
Irrecoverable surplus	–	–	(5.6)	–	–	(5.6)
Liabilities recognised in the balance sheet	(106.0)	(38.4)	(7.6)	(1.6)	(4.2)	(157.8)

### As at 30 April 2012 (restated)

As at 30 April 2012 (restated)	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities and hedge funds	797.1	473.1	178.3	1.5	–	1,450.0
Bonds	120.1	99.1	39.6	1.4	–	260.2
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	3.2	–	1,975.5
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)	(1.4)	(4.3)	(122.1)

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

	2013	2012
	%	%
Equities and hedge funds	73.5	73.4
Bonds	13.0	13.2
Cash	4.3	4.3
Property	9.2	9.1
	100.0	100.0

**Note 25 Retirement benefits (continued)**

The amounts recognised in the income statement were as follows:

**Year ended 30 April 2013**

	Funded plans				Unfunded and DC plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Defined benefit schemes:						
Current service cost	18.5	29.5	1.5	0.3	–	49.8
Interest cost	56.5	27.8	14.2	0.2	–	98.7
Expected return on plan assets	(77.0)	(31.2)	(18.4)	(0.1)	–	(126.7)
Unwinding of franchise adjustment	–	(4.4)	–	–	–	(4.4)
Total defined benefit costs	(2.0)	21.7	(2.7)	0.4	–	17.4
Defined contribution costs	–	–	–	–	8.6	8.6
Total included in staff costs	(2.0)	21.7	(2.7)	0.4	8.6	26.0

The actual return on plan assets for the year ended 30 April 2013 was £241.8m.

**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.



# 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 2013 were as follows:

### Year ended 30 April 2013

	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
At beginning of year – liability (restated)	58.9	42.8	14.7	1.4	4.3	122.1
Total (credit)/expense	(2.0)	21.7	(2.7)	0.4	–	17.4
Actuarial losses	68.8	2.7	0.3	–	0.3	72.1
Employers' contributions and settlements	(19.7)	(28.8)	(4.7)	(0.3)	(0.4)	(53.9)
Foreign exchange movements	–	–	–	0.1	–	0.1
At end of year – liability	106.0	38.4	7.6	1.6	4.2	157.8

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 (restated)

	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
At beginning of year – liability	21.5	46.4	21.8	1.2	4.2	95.1
Total (credit)/expense	(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	1.4	4.3	122.1

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

	2013	2012
	£m	£m
At beginning of year	2,094.6	2,049.9
Current service cost	49.8	55.2
Curtailement gain	–	(38.0)
Interest cost	98.7	102.9
Unwinding of franchise adjustment	(4.4)	(5.6)
Members' contributions paid	13.1	13.1
Actuarial losses/(gains)	184.6	(4.0)
Benefits paid	(72.7)	(78.9)
Foreign exchange movements	0.1	–
At end of year	2,363.8	2,094.6

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

	2013	2012 (restated)
	£m	£m
At beginning of year	1,975.5	1,972.2
Expected return on scheme assets	126.7	123.4
Actuarial gains/(losses)	115.1	(112.1)
Employers' contributions and settlements	53.9	57.8
Members' contributions paid	13.1	13.1
Benefits paid	(72.7)	(78.9)
At end of year	2,211.6	1,975.5

## Note 25 Retirement benefits (continued)

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

	2013	2012 (restated)
	£m	£m
Actual return less expected return on plan assets	115.1	(112.1)
Experience adjustment, arising on scheme liabilities	16.1	22.2
Adjustment for unrecognised surplus	(2.6)	14.4
Changes in assumptions underlying the present value of the liabilities	(253.5)	1.5
Franchise adjustment	52.8	(19.7)
<b>Total actuarial loss recognised</b>	<b>(72.1)</b>	<b>(93.7)</b>

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

	2013	2012 (restated)	2011 (restated)	2010	2009
Experience adjustments on scheme liabilities (£m)	16.1	22.2	(23.1)	42.3	59.7
Scheme liabilities (£m)	(2,363.8)	(2,094.6)	(2,049.9)	(1,792.6)	(1,339.0)
Experience adjustments on plan assets (£m)	115.1	(112.1)	36.1	246.9	(334.2)
Plan assets (£m)	2,211.6	1,975.5	1,972.2	1,590.5	1,258.4
Deficit (£m)	(152.2)	(119.1)	(77.7)	(202.1)	(80.6)

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 £325.5m loss (2012: £253.4m loss).

The estimated amounts of contributions expected to be paid by the Group to the schemes during the financial year ending 30 April 2014 is £67.6m (estimated at 30 April 2012 for year ended 30 April 2013: £64.3m).

The principal actuarial assumptions used were as follows:

	2013	2012
Rate of increase in pensionable salaries – SPS	2.0%	2.0%
Rate of increase in pensionable salaries – other defined benefit schemes	3.7%	4.1%
Rate of increase of pensions in payment		
– SPS	3.1%	3.1%
– other defined benefit schemes	2.2%	2.1%
Discount rate	4.4%	5.2%
RPI Inflation	3.2%	3.1%
CPI Inflation	2.2%	2.1%
Expected long-term rates of return as at 30 April were:		
Equities and hedge funds*	8.3%	8.3%
Bonds	3.7%	4.3%
Cash	3.0%	3.4%
Property	7.5%	7.5%

\* includes private equity

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

The life expectancy assumptions have been chosen with regard to the latest available published tables adjusted where appropriate to reflect the experience of the Group and its sector, in addition to an extrapolation of past longevity improvements into the future. The weighted average life expectancies assumed as at 30 April 2013 were:

	2013	2012
	years	years
Current pensioners aged 65 – male	19.1	20.3
Current pensioners aged 65 – female	23.4	24.6
Future pensioners at age 65 (aged 45 now) – male	21.2	22.4
Future pensioners at age 65 (aged 45 now) – female	25.2	26.4

## 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	2013	2012	2013	2012
	Carrying value	Carrying value (restated)	Fair value	Fair value (restated)
	£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	0.3	0.7	0.3
– Current assets				
– Accrued income	19	33.0	43.7	33.0
– Trade receivables, net of impairment	19	108.4	121.8	108.4
– Other receivables	19	29.2	21.1	29.2
– Cash and cash equivalents	20	241.0	262.2	241.0
Available for sale financial assets				
– Non-current assets				
– Available for sale and other investments	14	0.3	0.3	0.3
<b>Total financial assets</b>	<b>449.8</b>	<b>412.2</b>	<b>449.8</b>	<b>412.2</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	–	–	–	–
Financial liabilities measured at amortised cost				
– Non-current liabilities				
– Accruals	21	(9.2)	(10.1)	(9.2)
– Other payables	21	(0.5)	(0.1)	(0.5)
– Borrowings	22	(721.0)	(797.0)	(748.4)
– Current liabilities				
– Trade payables	21	(129.9)	(170.3)	(129.9)
– Accruals	21	(272.0)	(283.6)	(272.0)
– Loans from joint ventures	21	(1.7)	(1.7)	(1.7)
– Borrowings	22	(55.9)	(63.7)	(55.9)
<b>Total financial liabilities</b>	<b>(1,277.4)</b>	<b>(1,190.2)</b>	<b>(1,326.5)</b>	<b>(1,217.6)</b>
<b>Net financial liabilities</b>	<b>(827.6)</b>	<b>(778.0)</b>	<b>(876.7)</b>	<b>(805.4)</b>

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.
- £0.3m (2012 restated: £0.3m) 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 notes that are not quoted on a recognised stock exchange and fixed-rate hire purchase and finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. Excluding the element hedged in a fair value hedge, we estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed-rate notes liability by around £20.3m (2012: £16.4m).

## 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 2013.

	Note	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Derivatives used for hedging	26(g)	2.6	–	<b>2.6</b>
Available for sale financial assets – Equity securities		–	0.3	<b>0.3</b>
<b>Total assets</b>		<b>2.6</b>	<b>0.3</b>	<b>2.9</b>
<b>Liabilities</b>				
Derivatives used for hedging	26(g)	(13.1)	–	<b>(13.1)</b>

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

	Note	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Derivatives used for hedging	26(g)	22.4	–	<b>22.4</b>
Available for sale financial assets – Equity securities		–	0.3	<b>0.3</b>
<b>Total assets</b>		<b>22.4</b>	<b>0.3</b>	<b>22.7</b>
<b>Liabilities</b>				
Derivatives used for hedging	26(g)	(1.0)	–	<b>(1.0)</b>

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

	2013	2012 (restated)
	£m	£m
At beginning of year	<b>0.3</b>	0.1
Disposal	–	(0.1)
Purchases	–	0.3
At end of year	<b>0.3</b>	0.3

The "Level 3" financial assets of £0.3m (2012 restated: £0.3m) 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 2013. 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 which forms part of these financial statements.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments 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 and a US\$150.0m bond issued in October 2012 have been accounted for as a hedge of the Group's foreign net investments.

The Group's objective in managing and measuring foreign currency translation risk associated with net investments in foreign operations and borrowings denominated in foreign currencies is to maintain an appropriate cost of borrowing and retain some potential for benefiting from currency movements whilst partially hedging against adverse currency movements. It is the Group's policy to examine each foreign investment individually and to adopt a strategy based on current and forecast political and economic climates. The Group measures foreign currency translation risk by identifying the carrying value of assets and liabilities denominated in the relevant foreign currency and quantifying the impact on equity of changes in the relevant foreign currency rate.

The Group's consolidated income statement is exposed to movements in foreign exchange rates in the following ways:

- The translation of the revenues and costs of the Group's North American operations; and
- The translation of interest payable on US dollar denominated debt.

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

	2013	2012
	£m	£m
<b>US dollars</b>		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	272.6	166.1
– Cash	21.4	16.8
– Borrowings	(202.6)	(151.7)
<b>Canadian dollars</b>		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	47.6	49.9
– Cash	1.2	1.0
<b>Net exposure</b>	<b>140.2</b>	<b>82.1</b>

The amounts shown above are the carrying values of all items in the consolidated balance sheet that would have differed at the balance sheet date had a different foreign currency exchange rate been applied, except that commodity derivatives that are cash flow hedges are excluded.

The sensitivity of the Group's consolidated balance sheet to translation exposures is illustrated below:

	2013	2012
<b>US dollar</b>		
US dollar balance sheet foreign exchange rate	1.5564	1.6239
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.4008	1.4615
– Increase in consolidated equity (£m)	10.2	3.5
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.7120	1.7863
– Decrease in consolidated equity (£m)	(8.3)	(2.8)
<b>Canadian dollar</b>		
Canadian dollar balance sheet foreign exchange rate	1.5655	1.6043
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.4090	1.4439
– Increase in consolidated equity (£m)	5.4	5.7
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.7221	1.7647
– Decrease in consolidated equity (£m)	(4.4)	(4.6)

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:

	2013	2012
	£m	£m
<b>US dollars</b>		
- US\$ element of North American operating profit	11.8	16.4
- Intangible asset expenses	(8.4)	-
- Redundancy / restructuring costs	(0.1)	-
- Share of profit of joint ventures (excluding exceptional items)	11.7	9.7
- Exceptional items	(10.6)	4.5
- Net finance costs	(7.7)	(4.6)
- Net tax credit/(charge)	0.3	(8.5)
<b>Canadian dollars</b>		
- C\$ element of North American operating profit	2.8	4.1
- Net tax credit/(charge)	0.8	(0.8)
Net exposure	0.6	20.8

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:

	2013	2012
	£m	£m
US\$ element of North American operating profit shown above	11.8	16.4
C\$ element of North American operating profit shown above	2.8	4.1
Share based payment charges denominated in sterling	(1.3)	(0.8)
Operating profit shown in segmental information	13.3	19.7

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

	2013	2012
<b>US dollar</b>		
US dollar average foreign exchange rate	1.5748	1.5931
Impact of 10% depreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.4173	1.4338
- (Decrease)/increase in consolidated profit after taxation (£m)	(0.3)	1.9
Impact of 10% appreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.7323	1.7524
- Increase/(decrease) in consolidated profit after taxation (£m)	0.3	(1.6)
<b>Canadian dollar</b>		
Canadian dollar average foreign exchange rate	1.5796	1.5860
Impact of 10% depreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.4216	1.4274
- Increase in consolidated profit after taxation (£m)	0.4	0.4
Impact of 10% appreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.7376	1.7446
- Decrease in consolidated profit after taxation (£m)	(0.3)	(0.3)

The above sensitivity analysis is based on the following assumptions:

- Only those income statement items directly affected by changes in foreign exchange rates are included in the calculation. For example, changes in 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 2013 there were no material net transactional foreign currency exposures (2012: £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 95.

##### 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 2013, 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	193.0	416.0	609.0	5.8%	3.6
US Dollar	147.9	54.7	202.6	3.0%	2.8
Gross borrowings	340.9	470.7	811.6	5.4%	3.5

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	5.5%	4.5

The above figures take into account the effect of US\$150m of interest rate derivatives which swap the US\$150m Notes maturing October 2022 from fixed to floating rate debt for a period of four years out to December 2016.

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 £262.2m (2012: £241.0m). As at 30 April 2013 the Group has no financial assets on which fixed interest is receivable (2012: £Nil).

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

#### Price risk

The Group is exposed to commodity price risk. The Group's operations as at 30 April 2013 consume approximately 381.5m 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 2013 and 30 April 2012, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2013	2012
	£m	£m
Costs subject to fuel swaps:		
- UK Bus (regional operations)	(91.6)	(78.8)
- UK Bus (London)	(9.3)	(9.0)
- UK Rail	(25.8)	(22.0)
- North America	(37.2)	(26.6)
	<b>(163.9)</b>	<b>(136.4)</b>
Costs not subject to fuel swaps:		
- UK Bus (regional operations)	(3.1)	(9.6)
- UK Bus (London)	(9.2)	(10.4)
- UK Rail	(7.5)	(9.8)
- North America	(11.8)	(9.7)
	<b>(31.6)</b>	<b>(39.5)</b>
Total	<b>(195.5)</b>	<b>(175.9)</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:

	2013	2012
	£m	£m
Costs not subject to fuel swaps:		
- UK Bus (regional operations)	(0.3)	(1.0)
- UK Bus (London)	(0.9)	(1.0)
- UK Rail	(0.8)	(1.0)
- North America	(1.2)	(1.0)
Decrease in projected profit before taxation	<b>(3.2)</b>	<b>(4.0)</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:

	2013	2012
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	0.3	1.0
– UK Bus (London)	0.9	1.0
– UK Rail	0.8	1.0
– North America	1.2	1.0
Increase in projected profit before taxation	3.2	4.0

The revenue receivable under certain of the contracts that the Group has with customers is subject to adjustment for changes to certain fuel prices. This further reduces the unhedged exposure to fuel prices shown above.

#### (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
	2013	2013	2013	2012	2012	2012
	£m	£m	£m	£m	£m	£m
Trade receivables	123.7	(1.9)	121.8	110.0	(1.6)	108.4
Loans, other receivables and accrued income	65.5	–	65.5	62.5	–	62.5
Cash and cash equivalents – pledged as collateral	19.2	–	19.2	19.8	–	19.8
Cash and cash equivalents - other	243.0	–	243.0	221.2	–	221.2
Excluding derivative financial instruments	451.4	(1.9)	449.5	413.5	(1.6)	411.9
Derivatives used for hedging	2.6	–	2.6	22.4	–	22.4
Total exposure to credit risk	454.0	(1.9)	452.1	435.9	(1.6)	434.3

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:

	2013	2012
	£m	£m
United Kingdom	403.0	398.8
North America	49.1	35.5
	<b>452.1</b>	<b>434.3</b>

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

	2013	2012
	£m	£m
Sterling	402.2	396.1
US dollars	45.6	33.2
Canadian dollars	4.3	5.0
	<b>452.1</b>	<b>434.3</b>

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

	2013	2012
	£m	£m
Amounts 1 to 90 days overdue	10.3	10.2
Amounts 91 to 180 days overdue	1.0	1.3
Amounts 181 to 365 days overdue	0.6	0.6
	<b>11.9</b>	<b>12.1</b>

The Group does not hold any collateral in respect of its credit risk exposures set out above (2012: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2013 (2012: £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 2013, the Group's credit facilities were £1,098.9m (2012: £1,160.8m), £540.8m (2012: £599.4m) 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:

	2013	2012
	£m	£m
Expiring within one year	229.3	265.9
Expiring in more than one year but not more than two years	–	10.9
Expiring beyond two years	328.8	284.6
	<b>558.1</b>	<b>561.4</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 2013 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	546.8	(121.4)	(109.5)	(26.1)	289.8
– 2015	30.5	–	(17.6)	(12.9)	–
– 2014	126.0	–	(91.1)	(34.9)	–
	<b>703.3</b>	<b>(121.4)</b>	<b>(218.2)</b>	<b>(73.9)</b>	<b>289.8</b>
<b>LOCAL &amp; SHORT-TERM FACILITIES</b>					
– Various	25.6	–	(11.6)	–	14.0
	<b>728.9</b>	<b>(121.4)</b>	<b>(229.8)</b>	<b>(73.9)</b>	<b>303.8</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 2013	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	(506.3)	(619.9)	(25.8)	(26.0)	(455.7)	(112.4)
Finance lease liabilities	(54.7)	(57.5)	(21.4)	(12.7)	(23.4)	–
Hire purchase liabilities	(108.7)	(114.9)	(25.3)	(24.4)	(55.7)	(9.5)
Loan notes payable	(20.5)	(20.5)	(20.5)	–	–	–
Trade and other payables	(465.8)	(465.8)	(455.6)	(10.2)	–	–
Bank loans	(121.4)	(121.8)	(0.4)	–	(121.4)	–
	(1,277.4)	(1,400.4)	(549.0)	(73.3)	(656.2)	(121.9)
<b>Derivative financial liabilities:</b>						
Derivatives used for hedging	(13.1)	(13.1)	(9.9)	(2.8)	(0.4)	–
	(1,290.5)	(1,413.5)	(558.9)	(76.1)	(656.6)	(121.9)

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)

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 £262.2m as at 30 April 2013 (2012: £241.0m) are £19.2m (2012: £19.8m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.5m (2012: £18.7m) has been pledged by the Group as collateral for £18.5m (2012: £18.7m) 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.
- £0.3m (2012: £0.7m) 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 (2012: £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 2013 and 30 April 2012.

### (f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2013 and 30 April 2012 and no loans payable are in default as at 30 April 2013 and 30 April 2012. The Group was in compliance with all bank loan covenants as at 30 April 2013 and as at 30 April 2012.

### (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:

	2013	2012
	£m	£m
<b>Non-current assets</b>		
Interest rate derivatives	0.2	–
Fuel derivatives	0.2	1.6
	0.4	1.6
<b>Current assets</b>		
Interest rate derivatives	0.3	–
Fuel derivatives	1.9	20.8
	2.2	20.8
<b>Current liabilities</b>		
Fuel derivatives	(9.9)	(0.6)
<b>Non-current liabilities</b>		
Fuel derivatives	(3.2)	(0.4)
<b>Total net carrying value</b>		
Interest rate derivatives	0.5	–
Fuel derivatives	(11.0)	21.4
	(10.5)	21.4

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 2013 (2012: 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:

	2013	2012
	£m	£m
<b>Fuel derivatives</b>		
Fair value at start of year	21.4	62.8
Changes in fair value during year taken to cash flow hedging reserve	(17.3)	(6.8)
Cash received during the year	(15.1)	(34.6)
Fair value at end of year	(11.0)	21.4

The fair value of the fuel derivatives split by maturity was as follows:

	Assets	Liabilities
	£m	£m
<b>As at 30 April 2013</b>		
Within one year	1.9	(9.9)
1 to 2 years	0.2	(2.8)
2 to 3 years	–	(0.2)
3 to 4 years	–	(0.2)
	2.1	(13.1)

#### As at 30 April 2012

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)

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 2013</b>		
Sterling denominated – UK Bus (regional operations)	(4.8)	372.4
Sterling denominated – UK Bus (London)	(1.2)	63.7
Sterling denominated – UK Rail	(2.4)	120.5
US dollar denominated – North America	(2.6)	158.7
	(11.0)	715.3
<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

#### 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 US\$150m Bonds in October 2012, the Group entered into a number of interest rate fair value hedges.

The movements in the fair value of interest rate derivatives used as hedging instruments in the year were as follows:

	Fair value hedges	
	2013	2012
	£m	£m
<b>Interest rate derivatives</b>		
Fair value at start of year	–	5.6
Changes in fair value reflected in carrying value of hedged item	0.6	0.9
Cash received during the year	(0.1)	(6.5)
Fair value at end of year	0.5	–

## Note 26 Financial instruments (continued)

### (g) Hedge accounting (continued)

Fair value and cash flow hedges - interest (continued)

The fair value of the interest rate derivatives split by maturity as at 30 April 2013 was as follows:

	Assets
	£m
<b>As at 30 April 2013</b>	
Within one year	0.3
1 to 2 years	0.2
	0.5

All of the interest rate derivatives were US Dollar denominated and were managed and held centrally.

There were no interest rate derivatives held by the Group as at 30 April 2012.

#### 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 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
Changes in fair value during the year taken to cash flow hedging reserve	(17.3)
Cash flow hedges reclassified and reported in profit for year	(12.3)
Tax effect of cash flow hedges	7.0
Cash flow hedging reserve at 30 April 2013	(8.5)
Cash flow hedging reserve before tax	(11.2)
Tax to be credited to income statement in future periods	2.7
Cash flow hedging reserve after tax	(8.5)

There have been no instances during the year ending 30 April 2013 (2012: 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 2013 are explained on page 92.

The movements in the fair value of the US\$150m 4.36% notes and bank loans used as hedging instruments in the year were as follows:

	2013	2012
	£m	£m
<b>Foreign currency derivatives</b>		
Fair value at start of year	–	2.9
Changes in fair value during the year	–	(6.9)
Cash paid during the year	–	4.0
Fair value at end of year	–	–
<b>US\$ 4.36% notes</b>		
Notes issued during the year	93.0	–
Changes in fair value during the year	3.4	–
Fair value at end of year	96.4	–
<b>Bank loans</b>		
Fair value at start of year	95.5	–
Loans drawn during the year	70.3	112.1
Loans repaid during the year	(116.9)	(12.6)
Changes in fair value during the year	2.5	(4.0)
Fair value at end of year	51.4	95.5

The fair values of the non-derivative hedging instruments shown above only take account of fair value movements arising from movements in foreign exchange rates.

# 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:

	2013		2012	
	No. of shares	£m	No. of shares	£m
<b>Allotted, called-up and fully-paid ordinary shares of 125/228 pence each (2012: 125/228 pence)</b>				
At beginning of year	<b>576,099,960</b>	<b>3.2</b>	720,124,950	7.1
Effect of share consolidation	–	–	(144,024,990)	(3.9)
At end of year	<b>576,099,960</b>	<b>3.2</b>	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue.

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 2013, the QUEST held 300,634 (2012: 300,634) ordinary shares in the Company and the EBT held 2,030,824 (2012: 2,295,204) 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 or 30 April 2013.

## Note 28 Share based payments

The Group operates 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 43 to 53 gives further details of each of these arrangements.

As disclosed in note 6, share based payment charges of £11.5m (2012: £6.7m) have been recognised in the income statement during the year in relation to the above schemes.

The following assumptions were applied in accounting for awards under the SAYE and LTIP schemes:

	SAYE	LTIP*	LTIP*	LTIP*	LTIP*	LTIP*	LTIP*	LTIP*
Grant date	October 2008	December 2009	June 2010	December 2010	June 2011	December 2011	June 2012	December 2012
Share price at time of grant/award (£)	3.2750	1.6070	1.9030	2.0785	2.5530	2.5915	2.6170	3.1210
Exercise price (£)	2.5178	n/a	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)	3.5	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3	3
Risk free rate	4.43%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected dividends expressed as an average annual dividend yield	1.37%	4.04%	3.89%	3.37%	3.00%	2.96%	3.22%	2.70%
Expectations of meeting performance criteria	100%	**	**	**	**	**	**	**
Fair value per option/notional unit at grant date (£)	1.14	0.46	0.52	0.60	0.73	0.74	0.75	0.90
Option pricing model	Black-Scholes	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

\*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.

# 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	27,725
Forfeited	(27,725)
End of year	–

### 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 2013 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)	Vested in year (notional units)	Outstanding at end of year (notional units)	Price per incentive unit achieved on vesting £	Fair value per LTIP unit at grant £	Fair value per LTIP unit at 30 April 2013 £	TSR ranking at 30 April 2013**	Vesting date
10 Dec 2009	2,641,121	–	(448,513)	49,379	(2,241,987)	–	3.0575	0.4619	0.0000	–	10 Dec 2012
10 Dec 2009	219,542	–	(37,606)	6,051	(187,987)	–	3.0755	0.4619	0.0000	–	30 April 2013
28 June 2010	1,220,631	–	(179,895)	33,633	(151,446)	922,923	3.0755	0.5186	1.8065	75	28 June 2013
9 Dec 2010	1,117,569	–	(122,874)	30,792	(180,493)	844,994	3.0755	0.5988	2.1363	62	9 Dec 2013
30 June 2011	1,028,183	–	(167,879)	28,325	(90,318)	798,311	3.0755	0.7339	1.4916	71	30 June 2014
8 Dec 2011	932,302	–	(249,342)	25,684	–	708,644	–	0.7449	0.6648	147	8 Dec 2014
27 June 2012	–	1,007,829	(176,397)	27,764	–	859,196	–	0.7523	1.0477	110	27 June 2015
6 Dec 2012	–	718,977	–	6,251	–	725,228	–	0.8972	0.4576	172	6 Dec 2015
	7,159,348	1,726,806	(1,382,506)	207,879	(2,852,231)	4,859,296					

\*\*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 £
29 June 2009	1,419,294	–	(1,419,294)	–	–	–	29 June 2012	1,819,440	1.2700
10 Dec 2009	1,049,934	–	(662,282)	–	22,941	410,593	10 Dec 2012	1,538,943	1.6060
28 June 2010	913,110	–	–	(42,088)	23,471	894,493	28 June 2013	1,780,805	1.9020
30 June 2011	860,687	–	–	(29,772)	22,460	853,375	30 June 2014	2,155,206	2.5530
27 June 2012	–	857,288	–	–	23,355	880,643	27 June 2015	2,271,556	2.6190
	4,243,025	857,288	(2,081,576)	(71,860)	92,227	3,039,104			

### Buy As You Earn Scheme

BAYE enables eligible employees to purchase shares ("partnership shares") from their gross income. The Company provides two matching shares for every share bought from the first £10 of each employee's monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no Income Tax and National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 30 April 2013 there were 8,122 (2012: 7,729) participants in the BAYE scheme who had cumulatively purchased 2,090,496 (2012: 662,157) shares with the Company contributing 784,394 (2012: 231,040) matching shares on a cumulative basis. Dividends had been reinvested in a further 51,683 shares (2012: 1,659) 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 57.

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 (2012: £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:

	2013	2012
	£m	£m
Operating profit of Group companies	218.4	238.5
Exceptional pensions curtailment gain	–	(38.0)
Depreciation	110.0	99.9
Loss on disposal of plant and equipment	2.0	0.6
Intangible asset expenses	15.1	9.1
Equity-settled share based payment expense	2.6	3.0
Operating cashflows before working capital movements	348.1	313.1
Decrease/(increase) in inventories	2.5	(2.6)
Increase in receivables	(7.4)	(2.6)
Increase in payables	42.9	12.5
Decrease in provisions	(10.1)	(7.5)
Differences between employer pension contributions and pre-exceptional amounts recognised in the income statement	(36.5)	(28.7)
Cash generated by operations	339.5	284.2

### (b) Reconciliation of net cash flow to movement in net debt

The decrease in cash reconciles to the movement in net debt as follows:

	2013	2012
	£m	£m
Increase/(decrease) in cash	19.6	(117.5)
Cash flow from movement in borrowings	1.0	(90.0)
Debt assumed in business combinations	20.6	(207.5)
New hire purchase and finance leases	(1.0)	–
Foreign exchange movements	(26.8)	(35.3)
Other movements	(6.7)	0.5
	(0.3)	(0.6)
Increase in net debt	(14.2)	(242.9)
Opening net debt (as defined in note 35)	(523.8)	(280.9)
Closing net debt (as defined in note 35)	(538.0)	(523.8)

# 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	Business combinations £m	Foreign exchange movements £m	Other charged to income statement £m	Closing £m
Cash	221.2	20.2	–	–	1.6	–	243.0
Cash collateral (see note 26(e))	19.8	(0.6)	–	–	–	–	19.2
Hire purchase and finance lease obligations	(190.2)	57.0	(26.8)	(1.0)	(2.4)	–	(163.4)
Bank loans and loan stock	(176.3)	37.0	–	–	(2.6)	–	(141.9)
Bonds	(398.3)	(93.0)	–	–	(3.3)	(0.3)	(494.9)
<b>Net debt</b>	<b>(523.8)</b>	<b>20.6</b>	<b>(26.8)</b>	<b>(1.0)</b>	<b>(6.7)</b>	<b>(0.3)</b>	<b>(538.0)</b>
Accrued interest on bonds	(8.6)	25.1	–	–	–	(25.3)	(8.8)
Effect of fair value hedges on carrying value of borrowings	–	–	–	–	–	(0.4)	(0.4)
Unamortised gain on early settlement of interest rate swaps	(3.5)	–	–	–	–	1.3	(2.2)
<b>Net borrowings (IFRS)</b>	<b>(535.9)</b>	<b>45.7</b>	<b>(26.8)</b>	<b>(1.0)</b>	<b>(6.7)</b>	<b>(24.7)</b>	<b>(549.4)</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 £29.1m (2012: £36.6m). After taking account of deposits paid up front and other financing transactions of £2.3m (2012: £1.3m) new hire purchase and finance lease liabilities of £26.8m (2012: £35.3m) were recognised.

## Note 31 Contingencies

### Contingent liabilities

(i) At 30 April 2013, the following bonds and guarantees were in place relating to the Group's rail operations:

	2013 £m	2012 £m
Performance bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	34.7	34.4
– East Midlands Trains	17.6	17.3
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	51.2	47.8
– East Midlands Trains	5.7	5.3

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 2013, 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	56.3	–	56.3
<b>Contingent liabilities</b>			
Season ticket bonds	51.2	5.7	56.9
Performance bonds	34.7	17.6	52.3
Parent company guarantees to suppliers	–	10.6	10.6
Undrawn committed loan facilities	25.0	20.0	45.0
Capital at risk as at 30 April 2013	167.2	53.9	221.1
<b>Cash</b>			
Cash in train operating companies	141.6	55.0	196.6
Pro forma impact on net debt	308.8	108.9	417.7

We consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised at 30 April 2013, the Group would have needed to have financed £221.1m (2012: £192.2m) 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 £417.7m (2012: £361.4m).

There is no recourse to the Group in respect of any liabilities or contingent liabilities of Virgin Rail Group.

- (iv) In December 2012, the United States Department of Justice ("DoJ") and the Attorney General of the State of New York ("NYAG") initiated legal proceedings against the Group's joint venture, Twin America, and others alleging that the formation of Twin America in 2009 was anticompetitive. Further details are provided in section 2.6.2 of the Operating and Financial Review and note 4.
- (v) The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 30 April 2013, the accruals in the consolidated financial statements for such claims total £1.9m (2012: £2.1m). 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:

	2013	2012
	£m	£m
Contracted for but not provided		
For delivery within one year	44.2	42.6

#### (b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2013:

As at 30 April 2013	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 2014	16.4	22.3	138.1	3.2	180.0
Year ending 30 April 2015	11.0	19.0	150.7	2.1	182.8
Year ending 30 April 2016	9.6	10.2	126.8	1.1	147.7
Year ending 30 April 2017	8.2	4.4	97.5	0.4	110.5
Year ending 30 April 2018	6.5	1.0	–	0.1	7.6
1 May 2018 and thereafter	33.5	–	–	–	33.5
	85.2	56.9	513.1	6.9	662.1

# 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 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

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 2013 are as shown below.

	2013
	£m
Lease payments due in respect of:	
Year ending 30 April 2014	183.3
Year ending 30 April 2015	161.1
Year ending 30 April 2016	94.5
Year ending 30 April 2017	72.7
	511.6

Commitments for payments under these contracts as at 30 April 2012 were as follows:

	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

### (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:

	2013	2012
	£m	£m
Annual commitments under non-cancellable operating leases	63.9	48.7
Franchise performance bonds	10.3	10.3
Season ticket bonds	2.5	2.3

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 (2012: £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 2013 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 2013, the Group earned fees of £60,000 (2012: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 30 April 2013, the Group had £60,000 (2012: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group earned £1.5m (2012: £Nil) from the group headed by Virgin Rail Group Holdings Limited in respect of work undertaken on franchise bids and had an outstanding receivable of £0.8m as at 30 April 2013 (2012: £Nil) in this respect.

### Note 33 Related party transactions (continued)

#### (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 2013, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2012: £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 has provided advisory services to the Group in previous years. At 30 April 2013, Noble Grossart Investment Limited, a subsidiary of Noble Grossart Limited held 3,267,999 (2012: 3,267,999) ordinary shares in the Company, representing 0.6% (2012: 0.6%) of the Company's issued ordinary share capital.

#### (iv) Alexander Dennis Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold 46.8% (2012: 46.8%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (iii) above) controls a further 35.1% (2012: 35.1%) 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 2013, the Group purchased £67.9m (2012: £85.6m) of vehicles from Alexander Dennis Limited and £10.7m (2012: £8.6m) of spare parts and other services. As at 30 April 2013, the Group had £1.3m (2012: £0.4m) payable to Alexander Dennis Limited, along with outstanding orders of £Nil (2012: £8.8m).

#### (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 (Chief Executive) is a non-executive director and the Senior Independent Director of Robert Walters plc and received remuneration of £62,400 (2012: £61,373) in respect of his services for the year ended 30 April 2013. Martin Griffiths holds 20,000 (2012: 20,000) shares in Robert Walters plc which represents 0.03% (2012: 0.03%) of the issued share capital. During the year ended 30 April 2013, the Group paid Robert Walters plc £63,925 (2012: £10,000) for recruitment services.

#### (vii) AG Barr plc

Martin Griffiths (Chief Executive) is a non-executive director of AG Barr plc and received remuneration of £42,847 (2012: £39,297) in respect of his services for the year ended 30 April 2013. Martin Griffiths holds 1,800 (2012: 1,800) shares in AG Barr plc which represents less than 0.1% (2012: less than 0.1%) of the issued share capital.

#### (viii) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2012: £1.7m) was due to the Group's joint ventures, Scottish Citylink Coaches Limited, as at 30 April 2013. The Group received £23.2m in the year ended 30 April 2013 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2012: £18.5m). As at 30 April 2013, the Group had a net £1.2m (2012: £0.2m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

#### (ix) Argent Energy Group Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold 39.3% (2012: 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 2013, the Group purchased £10.9m (2012: £7.3m) of biofuel from Argent Energy Group. As at 30 April 2013, the Group had £0.2m (2012: £0.3m) payable to Argent Energy Group, along with outstanding orders of £0.3m (2012: £0.1m).

#### (x) Twin America LLC

In the year ended 30 April 2013, the Group received £3.9m (2012: £3.9m) 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 2013, the Group had £0.4m (2012: £0.3m) receivable from Twin America LLC.

### Note 34 Post balance sheet events

Details of the final dividend proposed are given in note 8.

### 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.
- **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 2013 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 2013;
- 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 53 on the group financial statements of Stagecoach Group plc for the year ended 30 April 2013.



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

26 June 2013

# SEPARATE FINANCIAL STATEMENTS OF PARENT, STAGECOACH GROUP PLC

## Company balance sheet

As at 30 April 2013

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

	Notes	2013	2012
		£m	£m
<b>Fixed assets</b>			
Tangible assets	2	1.4	0.8
Investments	3	1,182.0	1,025.3
		<b>1,183.4</b>	<b>1,026.1</b>
<b>Current assets</b>			
Debtors – due within one year	4	692.7	601.2
Deferred tax asset	5	0.2	0.2
Derivative financial instruments at fair value – due after more than one year	7	3.6	–
Derivative financial instruments at fair value – due within one year	7	11.0	–
Cash		20.0	46.1
		<b>727.5</b>	<b>647.5</b>
<b>Creditors: Amounts falling due within one year</b>			
Derivative financial instruments at fair value	7	(10.7)	–
Trade and other creditors	6	(560.9)	(448.3)
		<b>155.9</b>	<b>199.2</b>
<b>Net current assets</b>			
		<b>1,339.3</b>	<b>1,225.3</b>
<b>Total assets less current liabilities</b>			
<b>Creditors: Amounts falling due after more than one year</b>			
Derivative financial instruments at fair value	7	(3.4)	–
Other creditors	6	(625.2)	(562.6)
		<b>710.7</b>	<b>662.7</b>
<b>Net assets excluding pension liability</b>			
<b>Pension liability, net of deferred tax</b>			
	8	(2.0)	(2.1)
<b>Net assets including pension liability</b>			
		<b>708.7</b>	<b>660.6</b>
<b>Capital and reserves</b>			
Called-up share capital	9	3.2	3.2
Share premium account	10	8.4	8.4
Capital redemption reserve	10	422.8	422.8
Own shares	10	(23.4)	(18.2)
Profit and loss account	10	297.7	244.4
<b>Total shareholders' funds</b>			
		<b>708.7</b>	<b>660.6</b>

These financial statements were approved for issue by the Board of Directors on 26 June 2013. The accompanying notes form an integral part of this balance sheet.



Martin A Griffiths  
Chief Executive



Ross Paterson  
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.

Where the Company has designated foreign currency borrowings as a fair value hedge against its foreign equity investments, the part of that investment which has been hedged is treated as a monetary asset and retranslated at the spot rate at the balance sheet date.

Exchange differences arising on the translation of foreign currency equity investments and on foreign currency borrowings (including loans from other group companies), to the extent the borrowings hedge the equity investments, are dealt within the profit and loss account.

### • 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 62.

### • Share based payment

The Company issues equity-settled and cash-settled share based payments to certain employees of its subsidiary companies.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the 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).

### • 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.

## Note 1 UK GAAP accounting policies (continued)

### • 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 65 and 66.

### • 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	1.6
Additions	0.8
At end of year	2.4
<b>Depreciation</b>	
At beginning of year	(0.8)
Charge for year	(0.2)
At end of year	(1.0)
Net book value at beginning of year	0.8
Net book value at end of year	1.4

## Note 3 Investments

The movements in investments were as follows:

	Subsidiary undertakings
	£m
<b>Cost and net book value</b>	
At beginning of year	1,025.3
Additions	152.8
Foreign exchange movements	3.9
At end of year	1,182.0

## Note 4 Debtors

Amounts falling due within one year were:

	2013	2012
	£m	£m
Amounts owed by Group undertakings	672.5	583.1
Other debtors	20.0	17.1
Prepayments and accrued income	0.2	1.0
	692.7	601.2

## Note 5 Deferred tax asset

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

	2013	2012
	£m	£m
At beginning and end of year	0.2	0.2

The deferred tax asset recognised can be analysed as follows:

	2013	2012
	£m	£m
Short-term timing differences	0.2	0.2



# Notes to the Company financial statements

## Note 6 Creditors

(a) Creditors: Amounts falling due within one year	2013	2012
	£m	£m
Bank overdrafts	291.6	202.9
Loan notes	20.5	20.9
Amounts owed to Group undertakings	242.3	217.1
Accruals and deferred income	6.5	7.4
	<b>560.9</b>	<b>448.3</b>

(b) Creditors: Amounts falling due after more than one year	2013	2012
	£m	£m
Sterling 5.75% Notes	407.3	406.8
US Dollar 4.36% Notes	96.2	–
Bank loans	121.4	155.4
Accruals and deferred income	0.3	0.4
	<b>625.2</b>	<b>562.6</b>

(c) Borrowings were repayable as follows:	2013	2012
	£m	£m
<b>On demand or within 1 year</b>		
Bank overdraft	291.6	202.9
Loan notes	20.5	20.9
<b>Repayable after 2 years, but within 5 years</b>		
Bank loans	121.4	155.4
Sterling 5.75% Notes	407.3	406.8
<b>Repayable after 5 years</b>		
US Dollar 4.36% Notes	96.2	–
<b>Total borrowings</b>	<b>937.0</b>	<b>786.0</b>

## Note 7 Financial instruments

The fair values of derivative financial instruments are set out below:

	2013	2012
	£m	£m
<b>Current assets – due after more than one year</b>		
Interest rate derivatives – external	0.2	–
Fuel derivatives – external	0.2	–
Fuel derivatives – intra-group	3.2	–
	<b>3.6</b>	<b>–</b>
<b>Current assets – due within one year</b>		
Interest rate derivatives – external	0.3	–
Fuel derivatives – external	1.3	–
Fuel derivatives – intra-group	9.4	–
	<b>11.0</b>	<b>–</b>
<b>Current liabilities</b>		
Fuel derivatives – external	(9.4)	–
Fuel derivatives – intra-group	(1.3)	–
	<b>(10.7)</b>	<b>–</b>
<b>Non-current liabilities</b>		
Fuel derivatives – external	(3.2)	–
Fuel derivatives – intra-group	(0.2)	–
	<b>(3.4)</b>	<b>–</b>

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

	2013	2012
	£m	£m
Unfunded pension liability	2.7	2.8
Deferred tax asset	(0.7)	(0.7)
	<b>2.0</b>	2.1

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 2012	3.2	8.4	422.8	(18.2)	244.4	660.6
Profit for the year	–	–	–	–	96.6	96.6
Credit in relation to share based payments	–	–	–	–	2.6	2.6
Dividends	–	–	–	–	(45.9)	(45.9)
Own shares purchased	–	–	–	(5.2)	–	(5.2)
At 30 April 2013	3.2	8.4	422.8	(23.4)	297.7	708.7

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 £96.6m (2012: £163.5m) 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 £2.6m (2012: £3.0m) 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 (2012: 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 £7.0m (2012: £3.7m) 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 £224.0m (2012: £218.2m) 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 £144.2m (2012: £143.6m) 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 (v) to the consolidated financial statements.

- (b) Capital commitments

The Company had no contractual commitment as at 30 April 2013 or 30 April 2012.

- (c) Operating lease commitments

Annual charges for operating leases are made with expiry dates as follows:

	2013		2012	
	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 4TU. Telephone 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, 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's 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 Conduct Authority ("FCA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

### PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at [www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/](http://www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/) to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 11 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme ("FSCS") if things go wrong.

### REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at [www.fca.org.uk/consumers/scams/investment-scams](http://www.fca.org.uk/consumers/scams/investment-scams), where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.

**If you have already paid money to share fraudsters you should contact Action Fraud on: 0300 123 2040**





# Corporate information and financial calendar

## Corporate Information

### **Company Secretary**

Mike Vaux

### **Registered Office**

10 Dunkeld Road

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Email [info@stagecoachgroup.com](mailto:info@stagecoachgroup.com)

### **Company Number**

SC 100764

## Financial Calendar

Annual General Meeting

30 August 2013

Interim Results

December 2013

Final Dividend

2 October 2013

Interim Dividend

March 2014

**Registered Office:**

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Number: 100764