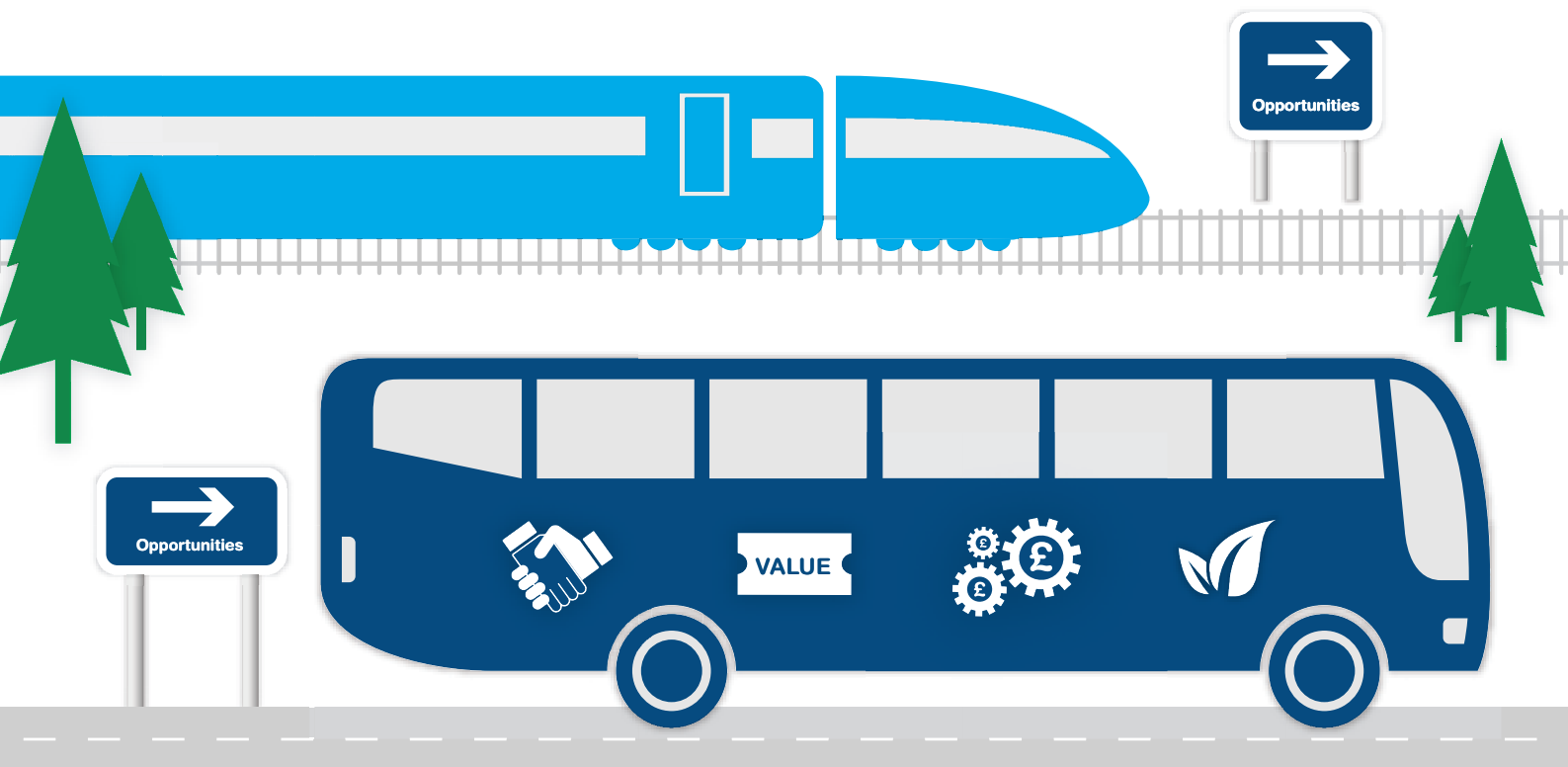


Delivery Adaptability Responsibility

Meeting customer, investor and
other stakeholder expectations

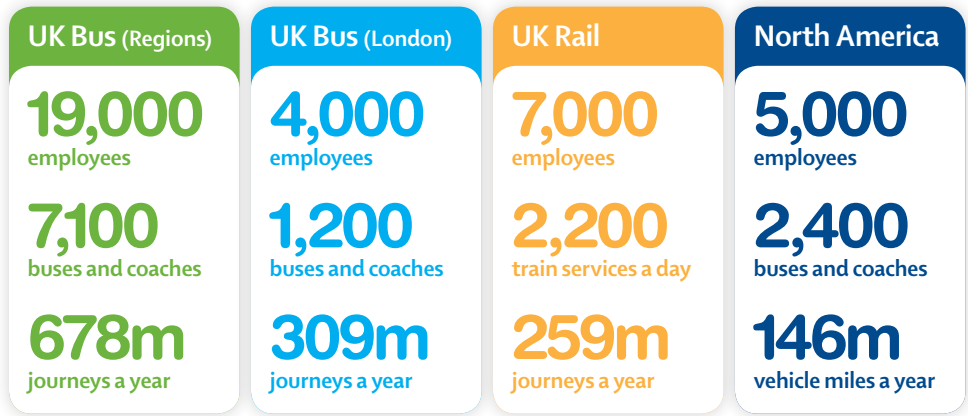


Stagecoach Group Annual Report
and Financial Statements 2014

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 35,000 people and run around 13,000 buses and trains.

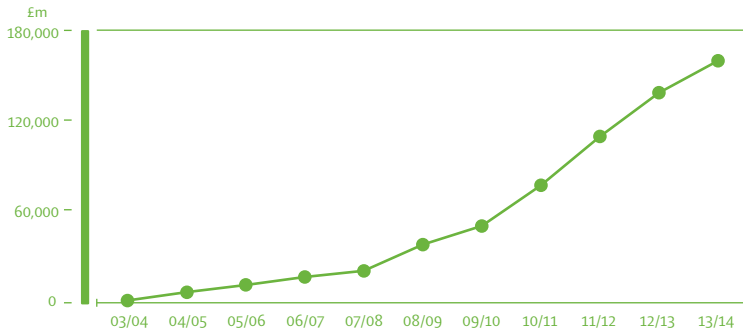


Budget travel

Note: all figures are approximate.

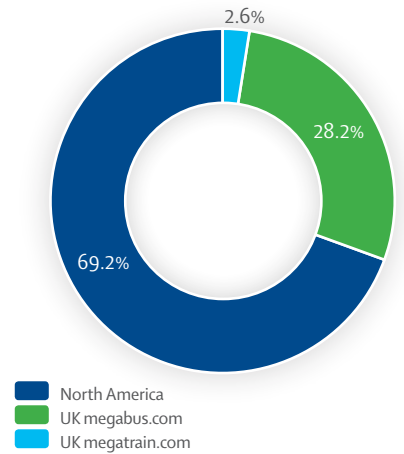


Total megabus.com brand revenues in UK and North America, 2003-04 to 2013-14



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, 2013-14

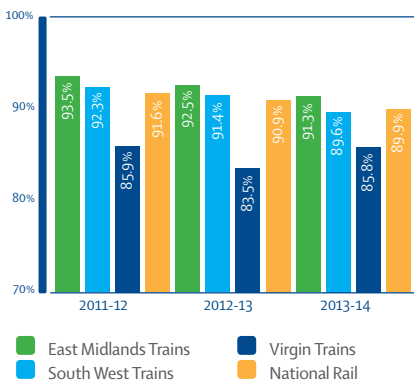


Operational performance

Customer service



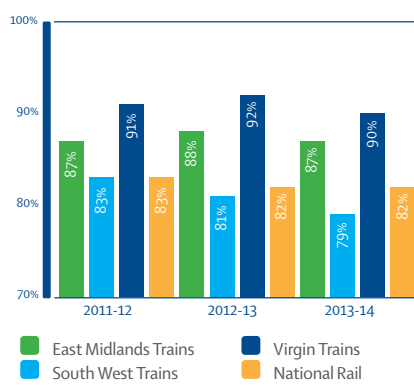
UK rail punctuality



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



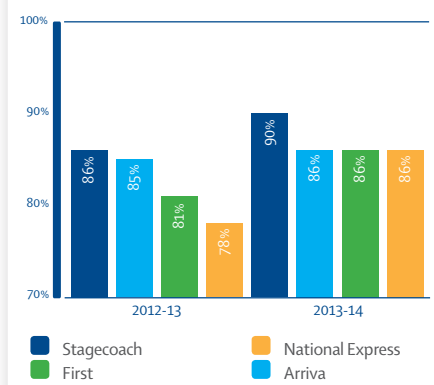
UK rail customer satisfaction



Source: National Passenger Survey, Spring Wave, 2012, 2013, 2014.



UK bus customer satisfaction



Source: Bus Passenger Survey, Autumn 2012 and Autumn 2013.

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 the final destination. London and South East operators (including South West Trains) and regional operators show the percentage arriving within five minutes of the timetabled arrival. data covers the period 1 April 2011 to 31 March 2014. National Rail average is for all franchised train operating companies.

Note: data extracted from National passenger Survey, Spring Wave, 2012, 2013, 2014. 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 tallied for all TOCs across the country to provide a National Rail average.

Note: extracted from the Bus Passenger Survey, Autumn 2012 and Autumn 2013. The survey asks passengers to rate their journey experience, covering overall journey satisfaction and a range of specific factors. As a result of the areas selected the proportion of each national operator's services surveyed will vary. Due to coverage of areas served by Go-Ahead services being less widespread, they have been omitted from the major operator results published by Passenger Focus.

Highlights

Financial results in line with expectations

- Adjusted earnings per share* up 5.7% to 26.0 pence (2013 restated: 24.6 pence)
- Full year dividend per share up 10.5% to 9.5 pence (2013: 8.6 pence)
- Net debt† down £76.4m to £461.6m (2013: £538.0)
- Current trading in line with management expectations

UK Bus

- Market-leading financial performance and customer satisfaction
- Orders for over £110m of new greener buses for 2014/15
- New contract wins in London driven by good cost control and operational performance

UK Rail

- New West Coast Trains franchise agreed
- Extension of South West Trains-Network Rail Alliance
- £9m invested in pursuing new rail franchise opportunities

North America

- Over 80% increase in operating profit
- megabus.com inter-city services driving growth in revenue and operating profit
- Positive steps in resolving legal cases at Twin America sightseeing joint venture

Growth opportunities ahead

- Focus on customer service improvements to support modal shift
- Development of megabus.com product and footprint
- Planned extensions or direct awards of South West and East Midlands rail franchises
- Shortlisted for InterCity East Coast rail franchise in partnership with Virgin, with pipeline of other new rail opportunities in UK

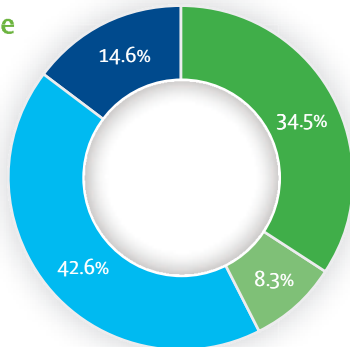
* excluding intangible asset expenses and exceptional items

† see definitions in note 35 to the consolidated financial statements



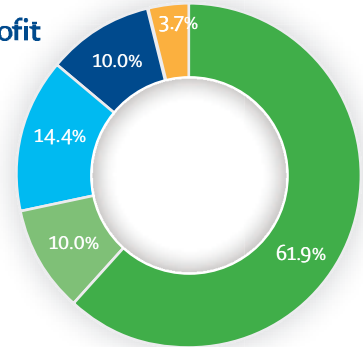
Group revenue (by division)

- 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)



Note: 2012 and 2013 figures are restated.

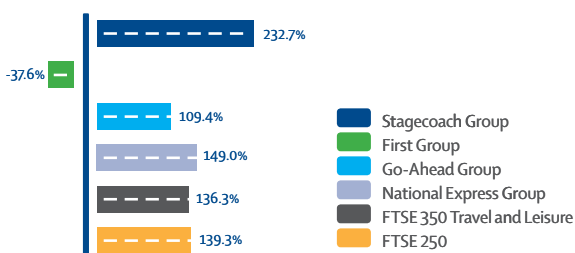
Dividend per ordinary share

(Year ended 30 April)



Total shareholder return

(Five year comparative performance to 30 April 2014)



Notes

- Group revenue:** Revenue is for the year ended 30 April 2014, 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 2014, excluding group overheads, restructuring costs, 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 five years to 30 April 2014 compared with that of First Group, Go-Ahead Group, National Express Group, 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 ⁺		Reported results	
	2014	2013 (restated)	2014	2013 (restated)
Revenue (£m)	2,930.0	2,804.8	2,930.0	2,804.8
Total operating profit (£m)	223.3	220.7	200.9	199.8
Non-operating exceptional items (£m)	-	-	(0.3)	(2.2)
Net finance charges (£m)	(42.6)	(43.3)	(42.6)	(43.3)
Profit before taxation (£m)	180.7	177.4	158.0	154.3
Earnings per share (pence)	26.0p	24.6p	23.1p	22.0p
Proposed final dividend per share (pence)	6.6p	6.0p	6.6p	6.0p
Full year dividend per share (pence)	9.5p	8.6p	9.5p	8.6p

⁺ see definitions in note 35 to the consolidated financial statements



Q&A

Martin Griffiths

How would you sum up your first year as Chief Executive?

Probably three words: busy, rewarding and exciting. I have spent a lot of time at our local companies, meeting our frontline teams who keep our buses and trains running for the many customers we serve every day. Transport operations are a tough environment. When you see at first hand the daily challenges our people deal with, it makes me proud of the job we do and gives me confidence in the future. I've also been meeting many senior politicians and executives across the bus and rail sector to make the case for continued investment in our public transport networks, which are central to the economy and our communities. The consistent theme across our business is that we are delivering growth. That growth supports jobs, helps fund investment in improvements for passengers, provides a premium to government and ensures we reward the investors who underpin our business.

The general economic picture appears to be improving, but public sector investment in transport still seems to be an issue. How is Stagecoach facing up to that challenge?

There is no question public sector budgets are stretched and I expect that will remain the case for some time. We accept that governments face tough decisions on how they spend taxpayers' money. However, it is also important that they properly fund policy commitments. The laudable policy of free travel for senior citizens is a case in point. Underfunding is a stealth tax that undermines the economics of services for all users. Latest figures show that more than 85% of the bus mileage operated in Britain is provided commercially and those services are stable. In contrast, bus services contracted by local authorities have been shrinking rapidly. My priority is to build a sustainable business around our commercial transport services. We have done that through low fares, continued investment and financial discipline, leading to rising customer satisfaction and passenger volume growth. We know there are challenges on big issues such as travel costs, road congestion, rail capacity and investment in our road and rail infrastructure. I'm also clear that Government and transport operators have a shared responsibility to improve bus and rail services. By working together, the public and private sector can make the biggest difference for the people and communities that depend on public transport.

The weather seemed to make it a tough year for transport in the UK and North America. How did the Group's bus and rail operations cope?

This past year brought one of the most extended periods of extreme weather I can remember. It was relentless and affected the road and rail networks in the UK and North America. We need to be prepared for more climate volatility in the future. The fact the Group was still able to meet its financial expectations for the year in the face of that shows two things. Firstly, it demonstrates we have a robust set of businesses that are able to adapt. Just as importantly, it is clear evidence of the fantastic contribution of our people. Frontline teams were out working in the most difficult of conditions to keep services moving and repair damaged networks. I can't praise our people enough for their response and our customers too were very understanding and appreciative throughout the disruption.

Buses remain the core of the Group business and don't often have the same profile as railways. What's the outlook for buses?

Buses might not have the same profile as railways, but in some respects they show the way forward. Our experience from our bus networks in the UK is that you can deliver a virtuous cycle of continued investment, rising customer satisfaction and passenger volume growth built on a policy of lower fares. I was delighted that independent research recently confirmed Stagecoach as Britain's best value major bus operator for the third successive time. Not only that, the price of weekly travel in the more regulated London bus market is more than 50% higher than the average in Stagecoach's regional UK bus operations. We also have the best passenger satisfaction of any major operator. Stagecoach has placed over £550m of orders for new buses and coaches for its regional bus operations in the UK in the last seven years. The Group has also ordered more than £100m of new vehicles for its London bus operations since buying the business in 2010. The result of all of that is we have achieved passenger volume growth nearly every year for more than ten years. That demonstrates that we have a model that works for passengers right across the UK. I believe there's lots more growth to come in the future.

What is your view on the progress that is being made in getting rail franchising moving again?

Things are moving and I am pleased our Virgin Rail Group joint venture has reached a commercial agreement on the West Coast rail franchise that will deliver value for money to the Government and a range of improvements to passengers. The Government is following through on the recommendations of the Brown review to tackle areas where we can improve the franchising system. Earlier this year, I was appointed chairman of the Rail Delivery Group ("RDG"), which speaks on behalf of the rail industry. I know all of us would like things to be moving more quickly. That includes investors whose involvement in part-funding Britain's railway is critical. Restoring the competitive award of franchises and taking steps to agree commercial contracts will ensure passengers and taxpayers fully benefit. There is a huge £38bn programme of infrastructure investment planned for the UK rail network over the next five years. This will include extra seats for commuters at peak times, new services and quicker journeys, more electrification of the network, new fleets of electric trains, and the transformation of hundreds of stations around the country. Franchising has transformed our country's railways since the 1990s. There is no question it is right for the future too.

You have recently signed an extension to the South West Trains-Network Rail Alliance. How important is the partnership to the Group moving forward?

We believe fundamentally in an integrated railway. That is not about who owns what. It is about one management team being responsible for both trains and track. We have learned a huge amount about the rail infrastructure and its challenges over the first two years of the Alliance. At the same time, our colleagues at Network Rail have had a greater insight into the expectations of our customers, the people whose money helps fund services. That can only be positive for the future of the railway. We believe our hard work has given us an invaluable insight, which we can leverage as part of our franchising strategy. The extension of the Alliance will allow us to work together with Network Rail to maximise the benefits for passengers during a key period of rail investment over the next five years.

Megabus.com is continuing to expand in North America and now covers more than 30 states in the US and two provinces in Canada. Is there room for further expansion?

Absolutely. Since we launched Megabus.com in North America in 2006, we have transformed inter-city bus travel. It has created a market that was not there before, reversing decades of decline in the industry. That innovation has sparked the entry of a number of providers, which has created a vibrant sector that is changing people's opinions of travelling by bus. Our new hub in Orlando, Florida is the 14th operational centre in the United States and Canada. Florida is a significant additional market in a region that is hugely popular for tourism. Customers can now travel to popular destinations in around the same amount of time it would take to drive themselves, without the stress of being behind the wheel. The quality of the on board offer, such as the free wi-fi, means that as well as offering huge savings and the highest safety standards, customers can make the most of their journey time. We also recently announced a new reserved-seating option on selected routes. A recent study found that travellers in the United States saved more than \$1 billion last year by taking megabus.com and other discount inter-city bus operators rather than the train or plane. The success of Megabus.com has also created well over 1,000 new jobs in North America. It is a fantastic success story and, when you look at the proportion of journeys people make that are still by car, the opportunity out there is significant.

How do you see technology shaping public transport in the next few years?

Technology is moving at an incredible pace, particularly in terms of how customers buy their travel. The easier we can make the process of paying for travel, the more attractive we will make it for people to switch from the car to buses and trains for key journeys. Ticketing and fulfilment for the future is going to be through a mix of channels. We should also not forget that some customers still prefer paper tickets. The future will be about providing choice for customers. We are working on schemes across all of those areas as part of our digital project. It is a myth that this is only happening in London – we have initiatives in place across the country. As well as ticketing, we are also making a multi-million-pound investment in a nationwide automatic vehicle location system for our regional bus fleet in the UK. It will allow real time service information to be provided to customers via smartphone apps and the Internet, and help local authorities deliver real time passenger information. We are also continuing to invest in social media, which has transformed our ability to engage directly with our customers and help them in real time.

The next year will see a referendum on Scottish independence and a General Election in the UK. What is your view on what that could mean for the Group?

Voters decide who they want to elect and what things they want to see happen. We regularly deal with politicians and other decision-makers at national and local level in the UK and North America. Over the years, we have worked successfully with governments and local authorities of many different political colours. As a business, we are party politically neutral. Naturally, we monitor developments closely and make sure our shareholders are aware of the potential for changes which are relevant for our business. On transport matters we play an active role in ensuring policy decisions are based on facts and taken in the long-term interests of our customers and the future sustainability of our Group. Our business has always been able to adapt to different circumstances. I don't see that changing.

What is your message to investors for the year ahead?

There is a lot to be positive about. The long-term prospects for public transport in the UK and North America are good. Sitting behind the wheel in your car and travelling to work in any town and city will tell you that road congestion is getting worse. Governments need to be looking at public transport solutions and consumers want alternatives. Our successful strategy of offering good value travel, investment and high levels of operational performance and customer service has already seen us benefit from modal shift and I am confident that will be the case moving ahead. At the same time, we do face challenges from shrinking public sector investment. That means we cannot let up on being focused on good cost control. But Stagecoach has always built its business around commercial services and that strength will be an advantage. It is no secret we would like to see the pace pick up on UK railways so we can deliver the benefits of franchising to passengers and taxpayers. Overall, I believe our track record of innovation, partnership and growth can benefit passengers and taxpayers and give us a competitive advantage which can generate good returns for our shareholders.

1. Chairman's statement



The Group has delivered on our expectations for the financial year ended 30 April 2014. We have further grown our businesses in the UK and North America, adapting to changing circumstances, improving services for our customers and adding value for our shareholders.

The Group achieved further revenue and profit growth in the year. Revenue was up 4.5% at £2,930.0m (2013: £2,804.8m). Total operating profit (before intangible asset expenses and exceptional items) was up 1.2% at £223.3m (2013 restated: £220.7m). Earnings per share before intangible asset expenses and exceptional items were 5.7% higher at 26.0p (2013 restated: 24.6p).

In line with the Group's performance, the Directors have proposed a final dividend of 6.6p per share. This gives a total dividend for the year up 10.5% at 9.5p (2013: 8.6p). The proposed final dividend is payable to shareholders on the register at 29 August 2014 and will be paid on 1 October 2014.

Our businesses have a focus on delivering our services commercially and growing organically. They have been able to manage the implications of reduced public sector investment in transport services and absorb the impact of extended severe winter weather.

We believe passionately in the benefits of the public and private sector working in partnership to improve bus and rail services. As public sector budgets continue to be squeezed, innovative, efficient and customer-focused commercial operators are key to securing the future of our public transport networks.

Stagecoach has built a sustainable business through low fares, continued investment, financial discipline, rising customer satisfaction and passenger growth. We believe the lessons from this approach can help governments and local authorities develop appropriate policies to tackle the interconnected issues around travel costs, road congestion, rail capacity and investment in our road and rail infrastructure. We are finalising a new five-year sustainability strategy to further improve our environmental performance and reduce costs.

Across the Group, each of our divisions has delivered further revenue growth and we continue to invest in better bus and rail services for our customers. We are committed to maintaining the Group's strong financial position and our success is providing good returns to shareholders.

In the UK, our regional bus services have performed well, with both passenger volumes and revenue growing year-on-year. We have placed orders for over £90m of new greener buses for our regional bus services in England, Scotland and Wales for 2014/15, which is a sign of our confidence in our ability to continue to get people back on board the bus. In London, where we are also investing in our bus fleet, we are seeing the benefit of our focus on efficiencies and cost control flow through into new contract wins and improved profitability.

Our growing megabus.com business is continuing to expand in the UK, mainland Europe and North America. We are also continuing to innovate and our new inter-city sleepercoach services in the UK are achieving good load factors.

In North America, trading has been satisfactory, despite the prolonged period of adverse winter weather across the United States. Megabus.com in North America is the fastest-growing part of the Group and we have significantly expanded our footprint. New services have been added in Florida and North and South Carolina, while our Texas and California networks are performing well. We believe there is a large market for high quality, good value inter-city coach travel.

Trading in the increasingly competitive New York sightseeing market remains challenging and we anticipate that our share of profit from Twin America will further reduce in the year ending 30 April 2015. However, we are pleased that we have made progress in resolving the current litigation involving Twin America and are working to seek a full resolution of the cases.

Our UK Rail division has performed in line with expectations in the face of severe weather which affected the UK rail network over several months. We are pleased that we have extended our innovative alliance with Network Rail at South West Trains, which is planned to operate until April 2019. We are continuing to work closely with government to improve services, deliver better value for rail users and taxpayers, and address capacity and infrastructure challenges. We are working closely with Network Rail to ensure our passengers benefit from the £38bn programme of planned infrastructure investment between 2014 and 2019.

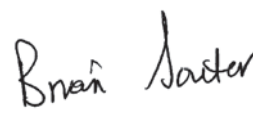
Our Virgin Rail Group joint venture has reached an agreement with the UK Department for Transport to return its West Coast rail franchise to more normal commercial terms following an 18-month management contract. Under the new agreement, the West Coast rail franchise is now planned to run until at least March 2017. We are continuing our discussions with the Department for Transport regarding the terms for our continued operation of our two wholly-owned franchises. The South West Trains franchise is currently due to expire in February 2017 but the Department for Transport plans to extend our tenure to April 2019. The East Midlands Trains franchise is due to expire in October 2015 and it is planned we would operate it for a further two years to October 2017.

We submitted what we considered to be a compelling yet deliverable bid for the complex Thameslink, Southern and Great Northern franchise. While we were disappointed not to secure the franchise, we continue to pursue other new opportunities. We are one of three bidders shortlisted for a new Docklands Light Railway franchise, and we expect Transport for London to announce the winner soon. We have also recently submitted a bid with Virgin for the new East Coast franchise and we expect the Department for Transport to announce later in 2014 which one of the three bidders has been awarded the franchise.

On behalf of the Board, I would like to congratulate Sir Ewan Brown, one of our non-executive directors, on being awarded a knighthood in the recent Queen's Birthday honours list for his service to business, public life and philanthropy in Scotland.

I would like to thank our employees for the huge contribution they make to our Group, often in challenging circumstances, as shown by their response to the extreme weather in the UK and North America during the year. Recent independent research has shown we are leading the way in delivering high levels of customer satisfaction in the bus sector, with high levels of passenger endorsement also achieved in our rail and tram operations. These results and our financial performance are driven by the hard work of our bus and rail teams who serve the many customers who travel with us every day.

Stagecoach has made a satisfactory start to trading in the financial year ending 30 April 2015. The Group is in a strong financial position, with investment grade credit ratings, and I believe the prospects for our customers, employees and our shareholders are positive.



Sir Brian Souter

Chairman

25 June 2014

2. Strategic report

2.1 Introduction

The Directors are pleased to present their report on the Group for the year ended 30 April 2014.

This section contains the Strategic report, which includes the information that the Group is required to produce to meet the need for a strategic report in accordance with the Companies Act 2006. The Strategic report 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 Directors' report is set out in section 4.

2.2 Cautionary statement

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

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, continental Europe, United States and Canada. The Group employs around 35,000 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"> To deliver organic growth across all of the Group's operations; To acquire businesses that are complementary to the Group's existing operations, in areas where the Group's management has proven expertise and which offer prospective returns on capital in excess of the Group's weighted average cost of capital; In addition to organic and acquisition growth, to maintain and grow the Group's Rail business by bidding for selected rail franchises and to seek to secure new franchises where the risk/return trade-off is acceptable.

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

UK Bus (regional operations)	
Description	<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 7,100 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, and a small proportion of the Division's services are megabus.com links to and within continental Europe.</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)	
Regulatory environment	<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 licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality.</p> <p>The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. The Division also operates tendered services, including schools contracts, on behalf of local authorities. Around 11% of the UK Bus (regional operations) revenue is receivable from local authorities in respect of such tendered and school services. Around 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>
Strategy	The strategy of the UK Bus (regional operations) is to deliver value over time driven by organic growth in revenue and passenger volumes. This may be supplemented by acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 20% of the UK Bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel in Great Britain. The NTS found that in 2012, there was an average of 954 trips per person per year. Trips by car or van accounted for 78% of distance travelled, bus trips accounted for 5%, rail trips accounted for 9% and walking, cycling and other modes accounted for 8%. There therefore remains significant market opportunity to stimulate modal shift from car to bus.
Macroeconomic factors	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. We estimate that around 70% of the costs vary with operating miles.
Competition	The UK Bus (regional operations) face competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are three other groups publically quoted on the London Stock Exchange (FirstGroup, National Express Group, and Go-Ahead Group) and Arriva, which is owned by Deutsche Bahn.
Future market developments	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. The Division does continue to face risks related to regulatory changes and availability of public funding as noted in section 2.3.6. 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.

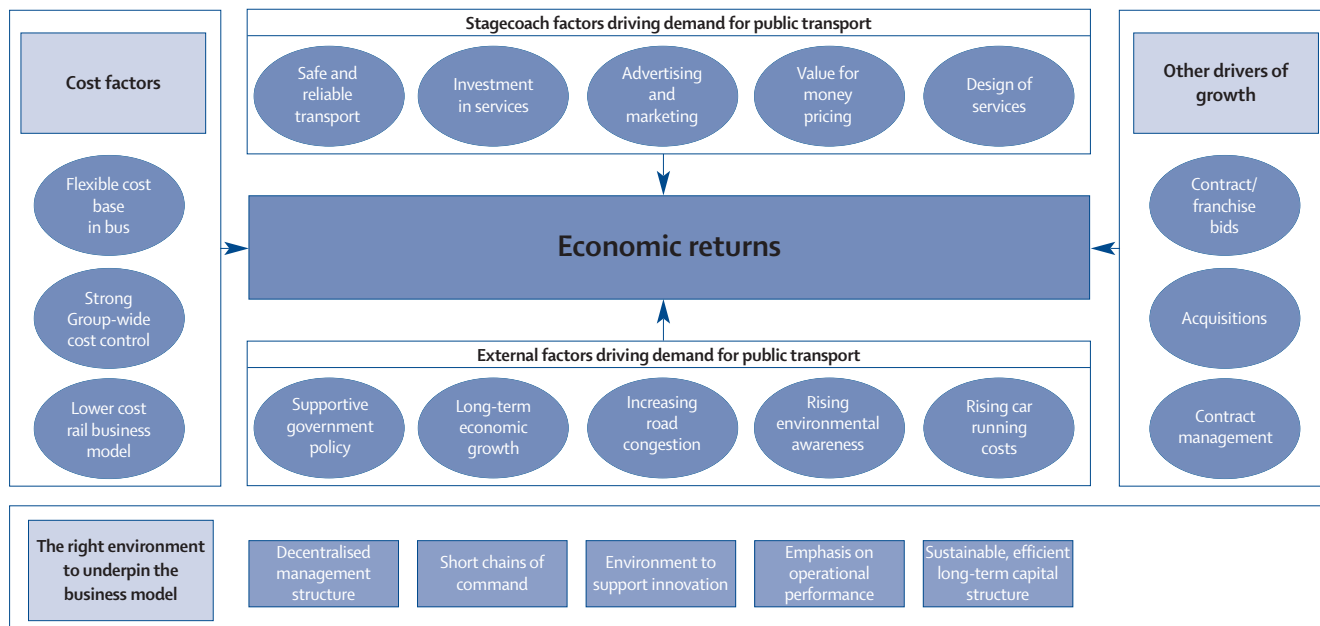
UK Bus (London)	
Description	<p>In October 2010, the Group re-entered the London bus market through the acquisition of the bus business formerly owned by East London Bus Group Limited (in administration), acquiring four companies that together operate the business. We operated a successful and profitable 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 1,200 buses serving routes in and around east and south-east London.</p>
Regulatory environment	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and taking the cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period with the potential for it to be extended by two years.
Strategy	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 is now on maintaining tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	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.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
Competition	UK Bus (London) faces competition to win contracts from Transport for London from other bus operators, the largest of which are Go-Ahead Group, Arriva, Metroline, RATP, Transit Systems and Abellio.
Future market developments	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.

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

North America	
Description	<p>The North America Division provides transport services in the United States and Canada. Our businesses include commuter/transit services, inter-city services, tour, charter and sightseeing 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.</p> <p>The North America business is headed by a chief operating officer. Stagecoach (excluding its joint ventures) currently operates approximately 2,400 vehicles in the United States and Canada.</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>
Regulatory environment	The North America business operates on a commercial basis in a largely deregulated market. It also operates some tendered services for local authorities and services contracted by corporations.
Strategy	The strategy of the North America Division is to deliver organic growth in revenue and passenger volumes. This may be supplemented by acquiring businesses where appropriate opportunities arise. A core short to medium-term objective in delivering this strategy is the expansion of the fast growing megabus.com business.
Market opportunity	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 2012 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.
Macroeconomic factors	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.
Competition	The business faces competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Megabus.com faces competition from the car but also from other coach operators, airlines and train operators. FirstGroup and National Express Group are also major operators of coach and bus services in North America.
Future market developments	The Group has taken a leading role in the development of bus and coach travel in North America through its megabus.com services. The market for inter-city coach travel, such as that provided by megabus.com, is growing rapidly and we expect that to continue and present significant opportunities to the Group.
UK Rail	
Description	<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 our tenure 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 October 2015 and the UK Government plans to extend our tenure 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 March 2017 and the Government has an option to extend it by a further year. The other shareholder in Virgin Rail Group is the Virgin Group of Companies. 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 lead Executive, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.</p>
Regulatory environment	The UK rail operating market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the Department for Transport ("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.
Strategy	In rail, we seek to deliver organic growth across all of our existing operations and to maintain and grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable.
Market opportunity	The market opportunity in rail arises from the potential to retain existing and/or win new franchises, and also, from the potential to attract increased use of the Group's rail services. With a number of franchises expected to be tendered within the next few years, there is scope to grow the Group's share of the rail market.
Macroeconomic factors	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 South West Trains and East Midlands Trains 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. From June 2014, the West Coast Trains franchise operated by the Group's Virgin Rail Group joint venture, is not entitled to revenue support in the form received by South West Trains and East Midlands Trains. It does, however, have a "GDP sharing" agreement that is intended to ensure that the DfT bears most of the risk of variances in West Coast Trains' revenue resulting from UK GDP differing from that expected at the time of the June 2014 franchise agreement. On bids for new franchises, the Group's evaluation of macroeconomic risks is a key component of the bid process.
Competition	The business faces competition for customers not only from other train operators but also from other modes of transport. The main competitors that bid against the Group for UK rail franchises are FirstGroup, National Express Group, Go Ahead Group, Arriva, MTR, Keolis, SNCF, Eurostar, Serco and Abellio.
Future market developments	The UK Government has reviewed the basis for rail franchising in the UK and changes to the franchising model are being implemented. The Group is at the forefront of changes to the UK rail market in its ground breaking Alliance at South West Trains with Network Rail.

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

The financial community

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

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

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

We contract with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis. We have franchise agreements with the 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 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 Rail Delivery Group 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 2014	Section in Annual Report
Catastrophic events			
There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises.	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"> No significant matters to report. 	
Terrorism			
There have been multiple acts of terrorism on public transport systems and other terrorist attacks that whilst not directly targeting public transport have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.	The Group has plans in place designed to reduce the 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"> No significant matters to report. 	

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

Description of risk	Management of risk	Developments in year ended 30 April 2014	Section in Annual Report
Economy			
<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 from bus operations is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. 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"> During the year ended 30 April 2014, the rail franchises in which the Group has an interest had significant protection from macroeconomic changes. The West Coast Trains franchise, operated by the Group's Virgin Rail Group joint venture, operated under a management contract meaning that the DfT bore virtually all of the risk of revenue and costs being significantly different from those expected. The Group's two wholly owned franchises received revenue support from the DfT such that the DfT was and is at risk for the majority of any difference between actual and expected revenue. From June 2014, the West Coast Trains franchise has a "GDP sharing" agreement that is intended to ensure that the DfT bears most of the risk of variances in West Coast Trains' revenue resulting from UK GDP differing from that expected at the time of the June 2014 franchise agreement. 	<ul style="list-style-type: none"> 2.5.4 and 2.5.5.1 2.5.5.1
Rail cost base			
<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.</p>	<ul style="list-style-type: none"> As described above, revenue support and GDP sharing mechanisms reduce the Group's exposure to macroeconomic risks. 	
Sustainability of rail profit			
<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"> The DfT exercised its option to extend the Group's East Midlands Trains franchise from March 2015 to October 2015. The Group is discussing with the DfT, the planned direct award to the Group of a new East Midlands Train franchise and also, a new South West Trains franchise. New commercial terms have been agreed and apply from June 2014 to Virgin Rail Group's West Coast Trains franchise, which is now expected to run until at least March 2017. The Group is shortlisted with Virgin as one of three bidders for a new East Coast franchise. The Group is also shortlisted as one of three bidders for a new Docklands Light Railway contract. Further rail franchises are expected to be tendered over the next few years. The Group's bid for the Thameslink, Southern and Great Northern franchise was confirmed in May 2014 as being unsuccessful. 	<ul style="list-style-type: none"> 2.5.4 2.5.5.1 2.5.4 2.5.4 2.5.4

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

Description of risk	Management of risk	Developments in year ended 30 April 2014	Section in Annual Report
Breach of franchise			
<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 be required to make payments in respect of the related shareholder loan facilities, the performance bonds and the season ticket bonds.</p> <p>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. Contract 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"> No significant matters to report. 	
Pension scheme funding			
<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"> Pension scheme liabilities have moved during the year as explained in section 2.6.11. The Pensions Regulator has initiated reviews of the valuation basis applied by two of the pension schemes to which the Group contributes, the Stagecoach Group Pension Scheme and the East London Bus Group Pension Scheme. This is consistent with reviews the Regulator has undertaken of other pension schemes as part of its remit. 	<ul style="list-style-type: none"> 2.6.11
Insurance and claims environment			
<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"> Insurance and claims costs in our UK Bus (regional operations) division decreased in the year as a proportion of revenue, but increased in our UK Bus (London) and North America divisions. 	<ul style="list-style-type: none"> 2.5.1 2.5.2 2.5.3

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

Description of risk	Management of risk	Developments in year ended 30 April 2014	Section in Annual Report
Regulatory changes and availability of public funding			
<p>Public transport is subject to varying degrees of regulation across different geographies. There is a risk that changes to the regulatory environment in any locations in which the Group operates could impact its 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.</p> <p>The UK General Election planned for May 2015 and the referendum on Scottish Independence planned for September 2014 could result in regulatory change and/or changes on taxation regimes, pension regimes, currency and the like.</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 bodies. 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> <p>Where changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it.</p>	<ul style="list-style-type: none"> The Group confirmed plans to reduce bus services and headcount in Wales to partially mitigate the Welsh Government's decision to cut the rate of concessionary fare payments to bus operators in Wales. Growth in concessionary revenue in the UK Bus (regional operations) is expected to be low in the short term. Progress has been made in resolving litigation in respect of the Twin America joint venture. 	<ul style="list-style-type: none"> 2.5.1 2.5.1 2.5.5.2
Management and Board succession			
<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 7.5) and the Board. The appropriate level of management deals with recruitment and retention of other staff.</p>	<ul style="list-style-type: none"> Changes were made to the Board on 1 May 2013. 	<ul style="list-style-type: none"> 5.1
Disease			
<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"> No significant matters to report. 	

Strategic report

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

Description of risk	Management of risk	Developments in year ended 30 April 2014	Section in Annual Report
Information technology			
<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>There are cyber risks relating to unauthorised access to or disclosure of data, disruption to IT systems and disruption to business operations as a result of a malicious attack.</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> <p>An Information Security Board oversees the management of cyber risks, and takes appropriate advice from suitably experienced third party consultants.</p>	<ul style="list-style-type: none"> The Board has increased its scrutiny of cyber risks given the increasing risks faced by most large businesses in this regard. Cyber risk was specifically considered by the Board at its meeting in February 2014. 	
Treasury risks			
<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>KPI 1 – profitability</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>KPI 2 – organic growth</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>KPIs 3 and 4 – safety and service delivery</p> <p>To deliver organic growth in revenue, we aim to provide safe and reliable transport services that people want to use. We measure safety and service delivery by division using a range of measures appropriate for each business.</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		
		2014 pence	2013 (restated) pence	2012 (restated) pence
Adjusted EPS	To increase in excess of inflation	26.0p	24.6p	21.8

Organic growth

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 and all of the revenue in UK Bus (London) is not determined on a "per passenger" basis.

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

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

	Target	Year ended 30 April 2014 Growth %	Year ended 30 April 2013 Growth %	Year ended 30 April 2012 Growth %
UK Bus (regional operations) passenger journeys		1.3%	(0.4)%	1.9%
UK Bus (London) revenue		5.2%	1.0%	n/a
UK Rail passenger miles	Positive growth each year			
– South West Trains		3.4%	1.8%	4.1%
– East Midlands Trains		(0.8)%	2.7%	3.6%
– Virgin Rail Group – West Coast Trains		4.5%	0.9%	4.6%
North America revenue		3.9%	8.9%	14.0%

The increase in passenger journeys at UK Bus (regional operations) in the year ended 30 April 2014 partly is due to more journeys by concessionary passengers that we believe is largely attributable to better weather (in contrast to the more severe winter weather affecting South West Trains and North America), reversing the weather-related decline in passenger journeys reported for the year ended 30 April 2013. Journeys by fare-paying passengers increased during both years.

The increase in passenger miles at South West Trains during the year ended 30 April 2014 is artificially inflated by changes in travelcard factors used to determine cross-industry passenger volumes in the London area. The decline in passenger miles at East Midlands Trains during the year ended 30 April 2014 includes the disruptive effect of planned engineering works on the rail network.

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 2014	Year ended 30 April 2013	Year ended 30 April 2012
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	19.1	19.3	20.6
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		26.2	27.9	25.0
US – number of blameworthy accidents per 1 million miles travelled		4.9	4.8	5.2
South West Trains – workforce lost time injuries per 1,000 staff		1.4	1.5	1.8
East Midlands Trains – workforce lost time injuries per 1,000 staff		1.3	1.4	1.6
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		1.3	1.4	1.5

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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		
		2014 %	2013 %	2012 %
UK Bus (regional operations) reliability	>99.0%	99.5%	99.3%	99.5%
UK Bus (London) reliability	>99.0%	98.0%	97.8%	97.9%
UK Rail punctuality				
– South West Trains	>90.0%	89.5%	91.5%	92.2%
– East Midlands Trains	>85.0%	91.2%	92.3%	93.7%
– Virgin Rail Group – West Coast Trains	>85.0%	86.1%	83.5%	86.0%

2.4 Overview of financial results

Stagecoach Group has achieved continued good financial and operational performance in the year ended 30 April 2014.

Revenue by division is summarised below:

REVENUE – YEAR TO 30 APRIL	2014	2013		2014	2013	
	£m		Functional currency	Functional currency (m)		Growth %
Continuing Group operations						
UK Bus (regional operations)	1,012.8	966.7	£	1,012.8	966.7	4.8%
UK Bus (London)	244.9	232.7	£	244.9	232.7	5.2%
North America	428.2	407.2	US\$	685.7	641.2	6.9%
UK Rail	1,252.0	1,201.3	£	1,252.0	1,201.3	4.2%
Intra-Group revenue	(7.9)	(3.1)	£	(7.9)	(3.1)	154.8%
Group revenue	2,930.0	2,804.8				

Operating profit by division is summarised below:

OPERATING PROFIT – YEAR TO 30 APRIL	2014		2013 (restated)			2014	2013 (restated)
	£m	% margin	£m	% margin	Functional currency	Functional currency (m)	
Continuing Group operations							
UK Bus (regional operations)	147.4	14.6%	143.2	14.8%	£	147.4	143.2
UK Bus (London)	23.9	9.8%	19.0	8.2%	£	23.9	19.0
North America	23.7	5.5%	13.4	3.3%	US\$	38.0	21.1
UK Rail	34.3	2.7%	41.2	3.4%	£	34.3	41.2
Group overheads	(13.9)		(15.7)				
Restructuring costs	(0.9)		(1.7)				
	214.5		199.4				
Joint ventures – share of profit after tax							
Virgin Rail Group	2.0		8.3				
Citylink	1.3		1.3				
Twin America	5.5		11.7				
Total operating profit before intangible asset expenses and exceptional items	223.3		220.7				
Intangible asset expenses	(14.0)		(16.1)				
Exceptional items	(8.4)		(4.8)				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	200.9		199.8				

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 2014 is summarised below:

Year to 30 April	2014 £m	2013 (restated) £m	Change
Revenue	1,012.8	966.7	4.8%
Like-for-like* revenue	982.7	939.8	4.6%
Operating profit*	147.4	143.2	2.9%
Operating margin	14.6%	14.8%	(20)bp

Our bus businesses are built on a successful commercial formula of low fares, investment and high customer service which has delivered continued passenger volume growth nearly every year for more than ten years. The Division's results reflect a continuation of our successful strategy to grow revenue and passenger volumes organically, as well as pursuing targeted small bolt-on acquisitions.

The previous year's financial results to 30 April 2013 included 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. Excluding that £4m operating profit, the division has increased operating profit by £8.2m or 5.9% in the year ended 30 April 2014.

Passenger volume and revenue growth

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

Year to 30 April	2014 £m	2013 £m	Change
Commercial on and off bus revenue	591.4	570.4	3.7%
Concessionary revenue	236.8	229.4	3.2%
Tendered and school revenue	105.8	98.9	7.0%
Contract revenue	45.2	37.7	19.9%
Hires and excursions	3.5	3.4	2.9%
Like-for-like revenue	982.7	939.8	4.6%

The like-for-like revenue growth of 4.6% shown above for the year ended 30 April 2014 is in line with our expectations. We had previously reported like-for-like revenue growth of 4.8% for the forty eight weeks ended 30 March 2014. The lower growth for April 2014 reflects the timing of Easter. Bus revenue is generally lower than normal around Easter and in 2014, Easter weekend fell in the second half of April whereas in 2013, it fell around the end of March.

Overall like-for-like passenger volume growth for the year was 1.3%.

An increase in our commercial revenue has contributed most to the overall revenue growth, with concessionary, contract, tendered and school revenue also continuing to grow. The growth in concessionary revenue is principally a result of an increase in the volume of concessionary journeys during the year, which we believe reflects more benign weather conditions. Although severe weather adversely affected our North America and South West Trains operations in the year, the weather across the UK was generally better than in the previous year. In addition to underlying growth, we benefitted from the division providing additional bus services to replace train services that were affected by planned railway resignalling work in the Nottingham area, and this is reflected in the increased contract revenue.

Continuing pressure on public sector budgets has, however, resulted in further reductions in central and local government investment in bus services. This has been particularly acute in Wales where we were recently forced to announce a 10% reduction in our fleet, the planned closure of our Brynmawr

depot and a number of service reductions, following a succession of Welsh Government bus investment cuts.

Stagecoach has been appointed as the official provider of buses to the 2014 Ryder Cup, being held at Gleneagles in Scotland. We will provide a fleet of 150 double decker buses to and from several park and ride sites during the week of the event. It builds further on our expertise in managing major transport operations at the 2012 London Olympics, the 2010 Ryder Cup in Wales, the British Grand Prix at Silverstone and other events.

Profitability

The decrease in operating margin was built up as follows:

Operating margin – 2012/13 (restated)	14.8%
Effect of Olympics contracts	(0.1)%
Change in:	
Insurance and claims costs	0.3%
Operating lease costs	0.4%
Bus Service Operators' Grant	(0.6)%
Other	(0.2)%
Operating margin – 2013/14	14.6%

The main changes in the operating margin shown above are:

- The Olympics contracts in the prior year earned an operating margin in excess of the average operating margin for the division. The non recurrence of those contracts this year results in a slight decrease in margin.
- Continuing the trend seen in the first half of the year just ended, insurance and claims costs have reduced as we remain focussed on minimising claims.
- Operating lease costs fell due to a combination of additional lease costs in the prior year to cover for vehicles redeployed on Olympics work, vehicles reaching the end of their lease terms and lower charges on vacant properties.
- In April 2012, the proportion of fuel duty that is rebated to bus operators in the form of Bus Service Operators' Grant ("BSOG") was cut. Since April 2012, the rate of BSOG has remained stable meaning that the total BSOG received by the division has fallen as a percentage of revenue.

Acquisition

In December 2013, we acquired Norfolk Green, an award-winning independent bus operator in the east of England. It will allow us to expand our operations in the east of England, where we have achieved good passenger volume growth by focusing on good value fares, investing in our networks and delivering punctual and reliable services.

Investment

We have now placed orders worth more than £90m for 534 new greener vehicles for the UK Bus regional operations benefitting communities in regions across England, Scotland and Wales. Most of the buses and coaches will be produced in the UK, supporting British manufacturing jobs and smaller businesses in the supply chain. It takes the Group's total orders of new buses and coaches for its regional bus operations in the UK to over £550m in the last seven years.

Customer service and smart ticketing

Customer service is central to our growth plans. The latest independent research by Passenger Focus shows that our customers are more satisfied with their service than those using other national UK bus operators for the second year in a row. Some 90% of Stagecoach bus passengers were either very or fairly satisfied with their overall service, which is higher than the national average of 88%. We are working hard to further improve the passenger experience, by for example, expanding our use of social media site, Twitter. We are also making a multi-million-pound investment in a nationwide automatic vehicle location system for our regional bus fleet in the UK. It will allow real time service information to be provided to customers via smartphone apps and the Internet, and help local authorities deliver real time passenger information.

* See definitions in note 35 to the consolidated financial statements

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We are continuing to invest and roll-out smarter ticketing across the UK to make travel easier for our customers. Nearly all of our bus companies in England offer customers our StagecoachSmart travel cards and we have now extended this benefit to passengers in Scotland and Wales. We were the first major operator to accept concessionary smartcard transactions on every one of our buses outside London. More than 240 million journeys are now made each year on Stagecoach bus and rail services using smartcards and that figure will grow further as we complete our roll out programme. In addition, we are testing smartphone ticketing using near-field communications technology.

Partnership

Strong partnerships with local authorities are continuing to deliver improved services for customers and support our growth plans. As well as building good relationships in shire counties, partnerships are either in place or have been proposed by bus operators in each of the metropolitan areas in England outside London. Successful, award-winning partnerships, such as that in Sheffield between South Yorkshire Passenger Transport Executive and several operators, have helped improve bus reliability and punctuality, increase customer satisfaction and generate passenger volume growth. In Oxford, our partnership with Oxfordshire County Council and other operators has delivered coordinated high-frequency bus services and an improved urban environment, whilst maintaining high levels of bus use in the city.

In Tyne and Wear, as previously reported, there has been consideration of a potential bus contracting system. Bus operators have put forward alternative better partnership proposals to the transport authority, offering investment in new vehicles, ticketing, network and customer service improvements, and guaranteed financial savings for the public sector. Tyne and Wear has one of the most used bus networks and recent research found it has the highest customer satisfaction of any metropolitan area in England. Responsibility for deciding on the merits of the respective partnership and bus contracting proposals has passed from the now dissolved Tyne and Wear Integrated Transport Authority to a new Combined Authority, which includes councils in County Durham and Northumberland, with a decision expected in September 2014. We believe that our extensive engagement with customers, bus employees and other stakeholders suggests significant backing for partnership as the best way forward for bus services and communities.

Inter-city coach services

Inter-city coach services operated under the megabus.com brand continue to grow in the UK and in mainland Europe. Our megabus.com network in mainland Europe is performing well and we have invested in new left-hand drive coaches to serve these locations. We have built on our initial services linking London with Paris, Brussels, Amsterdam and Boulogne to offer several new destinations. In October 2013, we entered the German market for the first time with a new route from London to Cologne. We have also added new services to Ghent, Lille, Rotterdam and Antwerp. Most recently, in June 2014, we extended our network into Spain and also widened our footprint in France, with a new route linking London, Paris, Toulouse and Barcelona. We continue to explore opportunities for the further expansion of the Group's inter-city coach services in continental Europe.

Outlook

We do not expect significant short-term growth in concessionary and tendered revenue as local authorities look to minimise concessionary reimbursement amounts and bus tenders in light of their budget constraints. This is exemplified by the Welsh Government's cuts in concessionary reimbursement rates for bus operators in Wales. Our focus is therefore to seek to continue to deliver good growth in commercial revenue to offset inflationary cost pressures.

Our assessment of the longer term outlook for our UK Bus (regional operations) remains as before: the market conditions are positive with a combination of a rising population, increasing road congestion, the cost of running a car and widespread concern for the natural environment providing good potential for increased bus usage across the UK. Furthermore, our business is well positioned to outperform the market with its low fares, high customer satisfaction and continued investment.

2.5.2 UK Bus (London)

Financial performance

The financial performance of the UK Bus (London) division for the year ended 30 April 2014 is summarised below:

Year to 30 April	2014 £m	2013 (restated) £m	Change
Revenue and like-for-like revenue	244.9	232.7	5.2%
Operating profit	23.9	19.0	25.8%
Operating margin	9.8%	8.2%	160bp

Our UK Bus (London) operations have already surpassed the expectations we had when we reacquired the business in 2010, reflecting the progress made in restructuring the cost base, winning new profitable contracts and improving operational performance. The operating profit for the year ended 30 April 2014 exceeds our expectations from the start of the year reflecting the further positive progress made in the turnaround of the business.

Revenue growth

From 1 October 2013, the business no longer receives BSOG but this is offset by a corresponding uplift in the contract prices paid to the business by Transport for London. The impact of this change (all other things being equal) is an increase in both our reported revenues and costs, and a decline in profit margin (as shown in the table below) but no overall change to profit. Excluding the effect of this change, revenue increased by 2.1%. As we anticipated, the underlying decline in revenue that was reported in the first half of the financial year was more than offset by growth in the second half as we benefitted from the nine new contracts won last financial year.

Profitability

The further progress in improving both operational and financial performance is reflected in the improvement in operating margin, which was built up as follows:

Operating margin – 2012/13 (restated)	8.2%
Change in:	
Staff costs – Olympic payment	0.3%
Staff costs – Other	2.6%
Bus Service Operators' Grant	(3.3)%
Fuel costs	1.2%
Insurance and claims costs	(0.8)%
Materials, consumables and other costs	1.6%
Operating margin – 2013/14	9.8%

The results for the year ended 30 April 2013 included a net cost of £0.8m as a result of the agreement reached between London bus operators, Transport for London and trade unions to pay additional amounts to bus operators' employees in connection with the 2012 London Olympics. This payment did not recur in the current financial year contributing to the improved operating margin shown above. In addition and consistent with the trend seen in the first half of the year, other staff costs continue to reduce as a proportion of revenue reflecting the steps previously taken to reduce unit costs to ensure that the business can compete effectively for new contracts.

During the second half of the year ended 30 April 2014, we benefited from falling fuel prices with only around half of our anticipated fuel consumption hedged by financial derivatives against price movements. This unanticipated saving is reflected in the reduction in fuel costs as a percentage of revenue.

As we expected, insurance and claims costs increased in the second half of the year ended 30 April 2014 because the equivalent costs in the prior year included a benefit from reassessing the level of insurance provisions held in respect of historic claims.

The reduction in other costs as a percentage of revenue mainly arises from lower maintenance and other expenses relating to the return of leased buses to lessors.

Operational performance and investment

We are pleased to have made further steady progress in improving our operational performance. Transport for London closely monitors the delivery of its contractors across a range of indicators. Since we acquired the UK Bus (London) division in 2010, we have improved the standing of the business in Transport for London's league tables significantly and are now among the leading operators on key measures.

We have announced orders for around £21m of hybrid electric buses for London to be delivered in 2014/15.

Current contract portfolio

The current, contracted, annualised revenue base (excluding contingent quality incentive income and any miscellaneous income) of the Group's London bus operations is estimated at £257.4m (which compares to £239.2m of such revenue for the year ended 30 April 2014) and can be analysed by contract expiry date as follows:

Earliest date of contract expiry	Annualised revenue
	£m
Year ending 30 April 2015	28.5
Year ending 30 April 2016	62.2
Year ending 30 April 2017	69.2
Year ending 30 April 2018	44.1
Year ending 30 April 2019	53.4
	257.4

Outlook

Having surpassed the expectations we had for the London Bus business when we reacquired it in 2010, the focus now remains on keeping costs under control and aiming to retain and win contracts on acceptable terms. Given the competitive environment in which our London Bus business operates, we believe that delivering further improvement in reported operating margin would be challenging but we do see potential for growth in absolute revenue and profit over time.

2.5.3 North America

Financial performance

The financial performance of the North America division for the year ended 30 April 2014 is summarised below:

Year to 30 April	2014 US\$m	2013 (restated) US\$m	Change %
Revenue	685.7	641.2	6.9%
Like-for-like revenue	530.1	510.3	3.9%
Operating profit	38.0	21.1	80.1%
Operating margin	5.5%	3.3%	220bp

The increase in revenue and operating profit shown above includes the full year effect of the businesses acquired from Coach America in July 2012 and further growth in like-for-like revenue as analysed below.

Revenue growth

Year to 30 April	2014 US\$m	2013 US\$m	Change %
Megabus	177.9	152.8	16.4%
Scheduled service and commuter	213.6	212.3	0.6%
Charter	78.1	79.7	(2.0)%
Sightseeing and tour	22.6	21.4	5.6%
Contract	36.1	42.2	(14.5)%
School bus	1.8	1.9	(5.3)%
Like-for-like revenue	530.1	510.3	3.9%

Despite the impact of severe weather during the year, further like-for-like revenue growth has been delivered. Megabus.com continues to be the fastest growing part of the North American business, with the growth reflecting both the full year effect of the new networks launched in Texas and California in 2012/13 as well as further growth on more established networks.

Like-for-like charter revenue declined as we continued to adjust our charter fleet size to reflect changes in demand and the decline in contract revenue reflects the expiry of certain contracts previously operated by the Group.

The like-for-like growth in scheduled service and commuter revenue includes declines in revenue on certain airport express services that we have restructured with a view to improving their profitability. The like-for-like growth in sightseeing and tour revenue included good growth in revenue at our Chicago sightseeing operations.

Profitability

The increase in operating margin was built up as follows:

Operating margin – 2012/13	3.3%
Change in:	
Staff costs	1.0%
Fuel costs	0.9%
Sub-contracted services	0.7%
Insurance and claim costs	(0.2)%
Other	(0.2)%
Operating margin – 2013/14	5.5%

Growth in our North America division is continuing to be driven by our inter-city megabus.com services where we have further expanded our growing megabus.com coach network. We have achieved our objective for the year, which was to deliver a significant increase in the division's operating profit compared to 2012/13.

Overall, the financial performance of the non-megabus businesses remains satisfactory and the integration of the businesses acquired from Coach America in July 2012 has been successfully completed.

The changes in operating margin partly reflect the shift in the mix of business with a full year of the businesses acquired in 2012 and as megabus.com continues to grow at a faster rate than the other businesses. As revenue and yield improves on megabus.com, staff and fuel costs grow to a lesser extent and therefore fall as a proportion of revenue. Additional claims costs were recorded in the year to reflect our latest assessment of the required provision for claims on major incidents. Less megabus.com work has been sub-contracted to third parties resulting in lower sub-contracting costs.

Megabus.com expansion

We have further expanded our growing megabus.com coach network in North America during the year. It now serves around 130 cities in the United States and Canada. We have also created more than 1,000 new jobs over the past seven years as a result of the success of the product. In April 2014, we announced a 14th North America hub, located in Orlando, Florida. Across Florida, megabus.com now serves a total of six metro areas - Gainesville, Jacksonville, Miami, Orlando, Tallahassee and Tampa. We also launched a new route connecting Orlando and New Orleans. This followed the addition of new destinations in North and South Carolina in February 2014 and routes between Baton Rouge and Houston and New Orleans in September 2013. In July 2013, we relaunched daily services between Cleveland and eight cities.

Recent research by the Chaddick Institute for Metropolitan Development of DePaul University found travellers in the United States saved \$1.1 billion last year by taking megabus.com and other inter-city bus operators rather than the train or plane. We believe the market to encourage people to switch from the car to the bus is significant.

Investment and customer improvements

The North America division continues to invest in new vehicles and other improvements in customer service. Our megabus.com expansion in 2013/14 has been supported by a US\$10.5m investment in new double-decker coaches. We have further improved the megabus.com website to better provide customer alerts and exchange of trips during periods of weather disruption. We are also seeking to further improve the safety and fuel-efficiency of our services through the introduction of the same eco-driving technology we have introduced in the UK.

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Canada

We have been working with other bus operators in Ontario on a campaign to encourage greater customer choice through changes to the current licensed system in the province, which is controlled by government. The Premier of Ontario and the Minister of Transportation have previously publicly supported a change to the system, but as yet the regulation has not been modified. Research published by Ipsos Reid found that 80% of Ontarians polled believed change should be a priority for the Ontario government.

Disposals

In October 2013, we completed two small disposals of businesses as part of our strategic focus on commercial intercity, commuter and scheduled services. RAZ was purchased by DMC Transport, LLC for US\$0.8m. The business, located in the North West of the United States, provides charter services and operating contracts for the transportation of construction workers to and from work sites. In Canada, we sold several small operations to Pacific Western Transportation Ltd for C\$4.6m. This included the last of our remaining school bus operations, based in Peterborough and Whitby, a local transit contract business, and services providing transport to and from Pearson International Airport in Toronto.

Outlook

Revenue growth in North America remains the highest of any of our divisions, reflecting the successful expansion of megabus.com services. We expect this to continue with the further expansion of the megabus.com inter-city services, including the new Florida network where operations began in May 2014. Although we would not expect the level of increase in operating profit in the year ended 30 April 2014 to be repeated in the new financial year, we remain positive on the prospects for the North America Division.

2.5.4 UK Rail

Financial performance

The financial performance of the UK Rail division for the year ended 30 April 2014 is summarised below:

Year to 30 April	2014 £m	2013 (restated) £m	Change
Revenue and like-for-like revenue	1,252.0	1,201.3	4.2%
Operating profit	34.3	41.2	(16.7)%
Operating margin	2.7%	3.4%	(70)bp

Revenue growth

The Group's two wholly-owned rail franchises, South West Trains and East Midlands Trains, continue to receive "revenue support" which partly offsets the extent to which actual revenue falls short of the revenue that was forecast as part of the successful bids for the franchises. As a result of the revenue support arrangements, the profit of our UK Rail Division is less sensitive to changes in revenue than it would otherwise be.

The Division reported good revenue growth for the year ended 30 April 2014 even after allowing for the adverse effect on revenue of severe winter weather, particularly at South West Trains.

Profitability

The decrease in operating margin was built up as follows:

Operating margin – 2012/13 (restated)	3.4%
Change in:	
Amounts paid to / from DfT	(1.0)%
Other operating income	0.7%
Other	(0.4)%
Operating margin – 2013/14	2.7%

The financial performance of our rail businesses is in line with our expectations and there is continuing good passenger revenue growth at our South West and East Midlands rail franchises. Expected increases in the franchise payments to the DfT resulted in a reduced operating margin for the year.

Our efficient financial stewardship of the railway and our ability to generate continued growth is benefitting taxpayers. Recent data published by the Office of the Rail Regulator shows that our South West Trains franchise made the largest net return to the taxpayer of any UK train operator in 2012/13, providing a significant premium which the government can choose to invest in public services and improvements for passengers.

Franchise opportunities and negotiations

We are pleased that the rail franchising programme is again moving. We believe it is important to move quickly in restoring the competitive award of franchises and taking steps to agree commercial contracts to ensure passengers and taxpayers fully benefit. There are several opportunities ahead and we will bid for franchises where we believe we can improve services for passengers and add value to our shareholders. In the year ended 30 April 2014, we invested around £9m in pursuing new rail franchise opportunities.

We continue to discuss with the DfT the planned direct awards of new South West Trains and East Midlands Trains franchises. The DfT has previously announced that it plans to extend our tenure at South West Trains from February 2017 to April 2019, the end of Network Rail's regulatory Control Period 5. In March 2014, the DfT exercised the pre-contracted extension of the East Midlands rail franchise through to October 2015. The Group is continuing discussions with the DfT on a planned direct award at East Midlands Trains, subject to agreement of commercial terms, from October 2015 through to October 2017.

In December 2013, we submitted our bid for the Thameslink, Southern and Great Northern franchise with clear plans to manage the substantial, complex changes the franchise will face in the coming years. We were disappointed not to win the franchise but see further opportunities for franchise wins. We are one of three bidders shortlisted for a new Docklands Light Railway franchise, and we expect Transport for London to soon announce who has been awarded that franchise. We have also recently submitted a bid with Virgin for the new East Coast franchise and we expect the DfT to announce later in 2014 which of the three bidders has been awarded the franchise.

Our Alliance between South West Trains and Network Rail, where one management team manages both trains and track, is helping deliver a more integrated and customer-focused railway for passengers. We believe our hard work over the past two years has given us an invaluable insight, which we can leverage as part of our franchising strategy. We are pleased that South West Trains and Network Rail have entered into a new agreement that extends the duration of their alliance and will build on the successes that the Alliance has achieved over the last two years. The new agreement contemplates that the single, joint Alliance management team will continue to have responsibility for both train and infrastructure operations for the next five years to April 2019.

Investment in trains, stations, infrastructure and customer service

Strong operational performance has been underpinned by consistently high levels of customer satisfaction across our UK rail division over several years. The latest National Passenger Survey, published in June 2014, shows more than eight in ten customers at our South West Trains and East Midlands Trains networks are satisfied with their services.

Expanding capacity and improving the resilience of the track and signalling infrastructure is a key priority, particularly on busy commuter services into London. Around £360m is being spent to renew and enhance the infrastructure to provide more reliable journeys at our South West Trains franchise, Europe's busiest commuter network. The first of 108 extra carriages have been introduced on the network as part of a £65m programme to provide an additional 23,000 peak time seats every weekday. Platform 20 at the former

Waterloo International Terminal (“WIT”) has been opened ahead of schedule to help accommodate trains during disruption. The Alliance is also working with the DfT on significant proposals to re-open the remaining four WIT platforms and to extend platforms 1 to 4 at London Waterloo to create extra capacity at the UK’s busiest station.

East Midlands Trains has been the UK’s most punctual long distance train operator for the past four years and we are committed to improving services further for our customers. We worked in partnership with Network Rail over the summer to deliver a successful £100m resignalling improvement scheme in the Nottingham area. It included one of the largest bus rail replacement operations and we offered affected passengers a 15% discount on rail fares during the works. Station improvement schemes have been completed at the key Derby and Leicester transport hubs and we are rolling out free wi-fi to 30 stations. East Midlands Trains is creating more than 1,000 extra cycle spaces at stations throughout the network, to deliver greener and more integrated travel. New changing facilities and a cycle repair shop are being introduced at Sheffield and Leicester stations.

Customer service and improved communication and engagement are among our top priorities across our rail businesses. South West Trains, which has won a national “Putting Passengers First” award for keeping customers informed, has launched a new Passenger Forum. East Midlands Trains has launched a new customer contact centre with extended opening hours. It has also become the first train company in the UK to offer a 24-hour, 7-day-a-week point of contact for its customers within its control centre. The team is available to book passenger assistance, answer help-point calls, help to track lost property and deal with any urgent enquiries, as well as engaging with customers via social media.

Light rail

The Sheffield Supertram network is benefitting from a five-year multi-million-pound track improvement project, which will safeguard the future of Sheffield’s tram network for the long-term. During the year, we launched a commercial smart ticketing scheme, which allows customers to store their tickets electronically on a StagecoachSmart travel card. It means passengers can access integrated smart ticketing across Stagecoach’s bus and tram operations in Sheffield. Recent Passenger Focus research showed that 94% of Supertram customers in Sheffield were satisfied with their overall service, above the average score of 90% for the five UK light rail networks covered in the survey.

Outlook

As we approach the end of the existing period of our two wholly-owned franchises, the financial performance of the businesses becomes more challenging compared to that forecast in the original bids for the franchises. The existing franchise periods end in 2015 for East Midlands Trains and in 2017 for South West Trains. South West Trains and East Midlands Trains face further substantial increases in the amounts they are due to pay to the DfT as franchise premia amounts in the year ahead. While we remain focussed on growing revenue and controlling costs to offset these increased premia payments, to the extent possible, the greater opportunities to add value in UK Rail lie in the planned direct awards of new South West Trains and East Midlands Trains franchises and in the opportunities to secure other new franchises.

2.5.5 Joint Ventures

2.5.5.1 Virgin Rail Group

Financial performance

The financial performance of the Group’s Virgin Rail Group joint venture (excluding intangible asset expenses and exceptional items) for the year ended 30 April 2014 is summarised below:

Year to 30 April 49% share	2014 £m	2013 (restated) £m	Change
Revenue and like-for-like revenue	465.6	441.5	5.5%
Operating profit	2.6	10.5	(75.2)%
Net finance income	0.3	0.5	(40.0)%
Taxation	(0.9)	(2.7)	(66.7)%
Profit after tax	2.0	8.3	(75.9)%
Operating margin	0.6%	2.4%	(180)bp

Until December 2012, Virgin Rail Group (“VRG”) operated the West Coast rail franchise under a commercial agreement where it was at risk for variations in revenue and cost, and earned a commensurate return. To ensure the continued operation of the franchise following the DfT’s failure to properly conclude its re-letting of the franchise during 2012, a temporary commercial arrangement was entered into in December 2012. Since then until June 2014, VRG has earned a pre-tax profit equivalent to 1% of revenue from the West Coast rail franchise with the DfT taking virtually all of the risk that revenue and/or costs differ from those expected.

VRG has now reached an agreement with the DfT to return its West Coast rail franchise to more normal commercial terms. Under the new agreement, the West Coast rail franchise is now planned to run until at least March 2017. VRG will look to build on its industry-leading customer satisfaction by delivering a range of further enhancements to the customer experience, including, high bandwidth wi-fi, a partnership with the Nectar loyalty scheme, additional standard class seating capacity, more ticket vending machines, an upgraded website and planned new train services from London to Blackpool and Shrewsbury. The new franchise has a “GDP sharing” agreement that is intended to ensure that the DfT bears most of the risk of variances in the West Coast Trains’ revenue resulting from UK GDP differing from that expected at the time of the June 2014 franchise agreement. A profit share arrangement also applies whereby a share of the profit above certain pre-determined thresholds is payable to the DfT.

Business developments

VRG introduced a new timetable in December 2013 following investment in four new 11-car Pendolino trains and 62 extra standard train carriages, which has delivered significant extra capacity. The new timetable provides new through journey opportunities between the Midlands, North West England and Scotland. Network Rail has delivered a £7.6m investment in improvements to overhead power lines on the busiest section of the West Coast Main Line between London and Rugby. The work is designed to improve operational performance and reduce delays for passengers. VRG is also working closely to ensure the West Coast franchise is effectively integrated with the Government’s planned HS2 network.

Further investment is being made by VRG in customer service improvements for passengers, including a new First Class lounge at London Euston station and accessibility enhancements at other stations. VRG’s West Coast franchise has achieved consistently high customer satisfaction and in the most recent National Passenger Survey, customer satisfaction was 90%.

Outlook

The new West Coast Trains franchise that Virgin Rail Group has now agreed enables it to deliver a range of benefits to customers. The franchise also has the potential to deliver higher levels of profitability than were earned in the year ended 30 April 2014 under the management contract then in force.

2.5.5.2 Twin America

Financial performance

The financial performance of the Group's Twin America joint venture (excluding intangible asset expenses and exceptional items) for the year ended 30 April 2014 is summarised below:

Year to 30 April 60% share	2014 US\$m	2013 US\$m	Change
Revenue	81.6	88.7	(8.0)%
Operating profit	9.1	19.3	(52.8)%
Taxation	(0.3)	(0.8)	(62.5)%
Profit after tax	8.8	18.5	(52.4)%
Operating margin	11.2%	21.8%	(1,060)bp

Trading remains challenging as a result of an increasingly competitive New York sightseeing market, among other factors, and we anticipate that our share of profit from Twin America will further reduce in the year ending 30 April 2015. Major international bus operators such as Big Bus and RATP have entered the New York sightseeing market in recent months adding to an already highly competitive New York Tourist market.

Litigation

We have made progress in resolving the previously reported litigation regarding Twin America.

The US Department of Justice and the New York Attorney General (together, "the Government plaintiffs") initiated litigation against Twin America and its joint venture partners ("the Defendants", which include two Stagecoach US subsidiaries) in 2012. The litigation alleges that the formation of the Twin America joint venture in 2009 was anti-competitive. Separately, private plaintiffs brought a claim based on the same allegations on behalf of a proposed class of customers.

The Defendants have not admitted any liability but have agreed a cash settlement of US\$19m (US\$11.9m) with the private plaintiffs to fully resolve the private litigation. That settlement has received preliminary court approval. Final court approval is anticipated in approximately six to nine months following a period for class notification and claims administration.

The Government action remains pending at this time. Until the Government action concludes, the total financial cost of the actions cannot be determined.

The Group has recorded exceptional pre-tax costs of US\$14.8m (£9.2m) in its consolidated financial statements for the year ended 30 April 2014 in respect of its share of financial costs connected with the litigation. The ultimate cost to the Group may differ from this as it remains dependent on court approval of the settlement with private plaintiffs and also, the outcome of the Government action.

2.5.5.3 Scottish Citylink

Our Scottish Citylink joint venture with Comfort DelGro is the leading inter-city coach operator in Scotland. The megabusGold and sleepercoach services, launched in 2012/13, have performed well. During the year, we launched a dedicated website to market these services. We are already achieving good load factors and are now focused on effective yield management and refinements to our customer service offer.

2.6 Other financial matters

2.6.1 EBITDA, depreciation and intangible asset expenses

Earnings from continuing operations before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £340.2m (2013 restated: £333.9m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

Year to 30 April	2014 £m	2013 (restated) £m
Total operating profit before intangible asset expenses and exceptional items	223.3	220.7
Depreciation	115.7	110.0
Add back joint venture finance income & tax	1.2	3.2
Pre-exceptional EBITDA	340.2	333.9

The income statement charge for intangible assets decreased from £16.1m to £14.0m. Of the charge, none (2013: £1.0m) related to joint ventures.

2.6.2 Exceptional items

The following exceptional items were recognised in the year ended 30 April 2014:

- The share of profit of joint ventures includes a pre-tax charge of £9.2m in respect of the Group's share of the financial costs associated with the Twin America litigation. Further details are provided in section 2.5.5.2 above.
- Virgin Rail Group received a further £2.0m from the DfT during the year ended 30 April 2014 in respect of the refund of bid and related legal costs incurred on the West Coast rail franchise. The Group's £1.0m share of this is included within the share of profit of joint ventures as is the related £0.2m tax charge in respect of the refund.
- A net pre-tax loss of £0.2m in respect of the disposal of certain North American businesses is recognised within non-operating exceptional items.
- £0.1m of pre-tax costs incurred in connection with the acquisition of businesses during the year ended 30 April 2014 are reported within non-operating exceptional items.

2.6.3 Net finance costs

Net finance costs for the year ended 30 April 2014 were £42.6m (2013 restated: £43.3m) and can be further analysed as follows:

Year to 30 April	2014 £m	2013 (restated) £m
<i>Finance costs</i>		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	7.2	6.2
Hire purchase and finance lease interest payable	3.5	5.2
Interest payable and other finance costs on bonds	28.0	26.2
Unwinding of discount on provisions	3.9	3.9
Interest charge on defined benefit pension schemes	4.6	5.9
	47.2	47.4
<i>Finance income</i>		
Interest receivable on cash	(3.2)	(2.5)
Effect of interest rate swaps	(1.4)	(1.6)
	(4.6)	(4.1)
Net finance costs	42.6	43.3

2.6.4 Taxation

The effective tax rate for the year ended 30 April 2014, excluding exceptional items, was 16.8% (2013 restated: 21.4%). The effective rate is lower than the standard rate of UK corporation tax for the year of 22.8% due primarily to adjustments in respect of prior years 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 23% to 20%). The tax charge for continuing operations can be analysed as follows:

Year to 30 April 2014	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	182.2	(32.7)	17.9%
Intangible asset expenses	(14.0)	4.5	32.1%
	168.2	(28.2)	16.8%
Exceptional items	(8.5)	1.0	11.8%
	159.7	(27.2)	17.0%
Reclassify joint venture taxation for reporting purposes	(1.7)	1.7	
Reported in income statement	158.0	(25.5)	16.1%

2.6.5 Fuel costs

The Group's operations as at 30 April 2014 consume approximately 399.5m 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	2015	2016	2017	2018
Total Group	83%	35%	3%	1%

The Group has no fuel hedges in place for periods beyond 30 April 2018.

2.6.6 Cash flows

Net cash from operating activities before tax for the year ended 30 April 2014 was £268.5m (2013: £329.2m) and can be further analysed as follows:

Year to 30 April	2014 £m	2013 (restated) £m
EBITDA of Group companies before exceptional items	330.2	309.4
Loss on disposal of property, plant and equipment	2.1	2.0
Equity-settled share based payment expense	2.2	2.6
Working capital movements	(42.3)	27.9
Net interest paid	(33.5)	(35.2)
Dividends from joint ventures	8.2	24.9
Difference between employer pension contributions and pension expense in operating profit	1.6	(2.4)
Net cash flows from operating activities before taxation	268.5	329.2

The net working capital outflow for the year ended 30 April 2014 of £42.3m (2013: inflow of £27.9m) was principally attributable to the timing of cash flows in the UK Rail division. Excluding the cash held within train operating companies, net debt reduced £102.5m in the year.

Net cash from operating activities before tax was £268.5m (2013: £329.2m) and after tax was £248.3m (2013: £313.1m). Net cash outflows from investing activities were £121.8m (2013: £241.1m), which included £5.5m (2013: £106.7m) in relation to the acquisition of businesses. Net cash used in financing activities was £146.3m (2013: £52.4m).

2.6.7 Net debt

Net debt (as analysed in note 30(c) to the consolidated financial statements) decreased from £538.0m at 30 April 2013 to £461.6m at 30 April 2014, due to the Group's continued strong cash generation. The Group's net debt at 30 April 2014 is further analysed below:

	Fixed rate £m	Floating rate £m	Total £m
Unrestricted cash	–	50.6	50.6
Cash held within train operating companies	–	170.8	170.8
Restricted cash	–	18.9	18.9
Total cash and cash equivalents	–	240.3	240.3
US Notes	–	(88.5)	(88.5)
Sterling bond	(400.0)	–	(400.0)
Sterling hire purchase and finance leases	(5.0)	(68.1)	(73.1)
US dollar hire purchase and finance leases	(38.2)	–	(38.2)
Loan notes	–	(19.7)	(19.7)
Bank loans	–	(82.4)	(82.4)
Net debt	(443.2)	(18.4)	(461.6)

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 2014.

The net impact of purchases of property, plant and equipment for the year on net debt was £160.9m (2013: £208.7m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £154.2m (2013: £181.9m) and new hire purchase and finance lease debt of £6.7m (2013: £26.8m). In addition, £42.0m (2013: £53.4m) cash was received from disposals of property, plant and equipment.

2.6.8 Liquidity

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

- The ratio of net debt at 30 April 2014 to pre-exceptional EBITDA for the year ended 30 April 2014 was 1.4 times (2013 restated: 1.6 times).
- Pre-exceptional EBITDA for the year ended 30 April 2014 was 8.0 times (2013 restated: 7.8 times) net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £342.1m at 30 April 2014 (2013: £303.8m) 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.

2.6.9 Capital expenditure

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

Year to 30 April	2014 £m	2013 £m
UK Bus (regional operations)	88.5	90.0
UK Bus (London)	2.9	13.3
North America	33.9	68.3
UK Rail	37.1	33.7
Other	–	0.4
	162.4	205.7

Strategic report

2.6.10 Net assets

Net assets at 30 April 2014 were £79.3m (2013 restated: £16.3m).

2.6.11 Retirement benefits

The reported net assets of £79.3m (2013 restated: £16.3m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £115.8m (2013 restated: £109.6m), and associated deferred tax assets of £23.1m (2013 restated: £25.2m).

The Group recognised net pre-tax actuarial losses of £Nil in the year ended 30 April 2014 (2013 restated: £29.2m) on Group defined benefit schemes.

2.6.12 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 30 April 2014, the Group's capital comprised:

As at 30 April	2014 £m	2013 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	2,134.6	1,771.5
Cash	240.3	262.2
Gross debt	(701.9)	(800.2)
Net debt (see section 2.6.7)	(461.6)	(538.0)

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.

2.6.13 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 2014 and subsequently:

- 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.
- In February 2014, two new one-year rail bonding arrangements of c.£72m and c.£8m were entered into to replace two arrangements that were due to expire in March 2014.
- In November 2013, a US\$70m bank facility which was due to expire in February 2014, was increased to US\$80m and extended until November 2018. This facility was subsequently increased to US\$85m in May 2014.
- The Group entered into new operating lease commitments totalling £21.2m in respect of new vehicles.

2.6.14 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.

Pensions

The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and mortality rates. The 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.

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.

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.

Litigation

The Group is from time to time party to litigation. The nature of litigation is such that there can be uncertainty in estimating the amounts that the Group will ultimately receive or pay. Assessment of the likely outcomes is based on legal advice and past experience. However, the final outcomes may differ from those reflected in the financial statements. Contingent liabilities are disclosed in the financial statements to the extent required by accounting standards.

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.

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 satisfactory start to its financial year ending 30 April 2015 and overall trading for the financial year to date is in line with our expectations.

We continue to see positive long-term prospects for public transport in the markets in which we operate. There is a large market opportunity for modal shift in both the UK and North America to capitalise on rising road congestion, higher car operating costs and increasing environmental awareness. Our successful strategy of offering good value travel, investment and high levels of operational performance and customer service means we are well placed to achieve further sustainable growth. We are progressing discussions to reach commercial agreements with the Government to extend our current rail franchises. In addition, under the DfT's franchising programme, there are several opportunities ahead to expand our rail portfolio and we are focussed on developing bids which will benefit customers and deliver value for money to government. We believe our track record of innovation and partnership working can benefit passengers and taxpayers and give us a competitive advantage which can generate good returns for our shareholders.

2.8 Corporate Social Responsibility

Every day, our business and our employees touch people's lives and we make a significant contribution to society. Like all businesses, we want to grow, but we want to do that responsibly. Our approach 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

We take a proactive approach to conducting our business in a responsible manner and this has been independently recognised by a range of organisations. We are a constituent in the FTSE4Good Index Series, meeting stringent environmental, social and governance criteria. The Group has been rated highly for its carbon disclosure and the steps it has taken in reducing carbon emissions from its business. 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. At the same time, research in the UK by Passenger Focus has highlighted our sector-leading customer satisfaction. This all contributes to a positive reputation that in turn supports the recruitment and retention of frontline employee and management talent.

The success of our business helps generate income for government to invest in public services and improvements to transport infrastructure. Understanding the impacts of our business and having policies and targets in place also means we are well-placed to meet our social and regulatory obligations in each of our markets.

Right across our global operations, we will continue to work with our stakeholders to become even more efficient and cut our business impact on the environment.

We have published separate documents setting out 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 just a small number of examples of our work to demonstrate the steps we are taking to meet our responsibilities.

2.8.1 Living our values

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. This sets out 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. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review by the Group Compliance Committee and the Audit Committee. We have developed new and expanded guidance for our employees on the use of social media. A copy of our Code of Conduct can be found at the following link:

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/pdf/stagecoach-group-code-of-conduct-2014.pdf>

2.8.2 Supporting and recognising our people

Our employees are fundamental to the success of our business. This has been illustrated during the year by the response of our teams to the challenges of extended extreme weather. We believe in engaging and supporting our people and investing in a high quality, diverse team. We promote a culture where employees are treated with respect and given the opportunity to develop. This means that we are able to provide a better service to our customers.

We have a strong vocational training programme in our bus and rail businesses and we continue to invest in developing our people. Our UK Bus business has one of the most extensive vocational training programmes of any bus operator. Our UK team of around 18,000 bus drivers has completed more than 90,000 training courses as part of the Driver Certificate in Professional Competence ("CPC") initiative, which is accredited by the Driver Standards Agency. Around 150 people benefit at any one time from our engineering apprentice programme, while our graduate development initiative continues to produce directors, senior managers and experts in operations and engineering. We have similar schemes in place at our UK Rail division. More than 200 employees at South West Trains were given the opportunity to achieve an NVQ during 2013/14. During the year, we also launched a management development programme at East Midlands Trains which offers aspiring frontline employees the chance to develop their skills to forge a career in management. Our centralised driver training school for our New York and New Jersey bus operations is also helping to improve the quality and consistency of our training. Major investment is also being made across our business in dedicated customer service training.

The health and well-being of our people remains a priority. Many of our businesses run dedicated well-being days where employees have access to free flu jabs and confidential health assessments. There is also advice available from bowel cancer and ovarian cancer awareness charities and female employees within our UK bus operations were provided with education and self-examination packs during National Breast Cancer Awareness Week. Employees across the UK and North America are given access to 24/7 assistance programmes where they can seek confidential advice on any problems. Our successful cycle to work scheme has now been rolled out across the UK. It provides an opportunity for our employees to pay for a bike through monthly pre-tax installments.

We believe firmly in creating an inclusive and diverse workforce. In partnership with trade unions, we have introduced management training programmes and awareness campaigns on various issues, such as mental health. We have also partnered with the charity Mencap and taken part in a number of work experience programmes for people with learning difficulties.

We work hard to create a great place to work and build a culture that rewards the excellent work of our employees. Our annual Stagecoach Champions Awards, which are open to all employees, recognise excellence in the areas of safety, community, health, customer service, environment and innovation.

2.8.3 Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and to maintain and, where possible, improve operational performance. The Group is also committed to providing equality of opportunity to employees. This applies to appropriate training, career development and promotion opportunities for all employees regardless of 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.

2.8.4 Diversity

The Group recognises and values the individuality and diversity that each employee brings to the business. We value diversity in its wider sense, including but not limited to gender diversity. The table below shows the gender split at different levels within the organisation, as at 30 April 2014. The Group's workforce is around 86% male and that high proportion is common in the ground transportation industry. Gender diversity within the Group is improving as new managers are developed. For example, 50% of those current participants in the UK Bus two-year graduate training programme are female. Encouraging and supporting diversity throughout the Group is central to developing our talent pool.

Population	Male	Female	Total	%	
				Male	Female
Board	8	2	10	80.0%	20.0%
Senior management *	91	17	108	84.3%	15.7%
Whole workforce	30,413	5,057	35,470	85.7%	14.3%

* Senior management is defined as those employees who receive awards under the Group's Executive Participation Plan and individuals who are statutory directors of the corporate entities whose financial information is included in the Group's 2014 consolidated financial statements in the Annual Report. This satisfies the definition set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

2.8.5 Promoting safety

Safety is at the heart of our business. Independent research shows that travelling by bus, coach and rail remains significantly safer than journeys by private car, motorbike, cycling or walking (Source: Department for Transport, Passenger casualty rates by mode, 2003-2012). We are committed to delivering the highest standards of safety. Our safety record is good, however we continue to drive improvement and encourage a proactive culture so it remains a top priority.

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

At our UK and North America bus businesses we have in place engineering regimes which are stricter than legal requirements. These are bolstered by a robust rolling programme of operational, engineering and health & safety audits at our depots and garages. Comprehensive training programmes and refresher sessions are in place covering all areas of work activity and our people are encouraged to report any concerns. We are focused on achieving the standards set by regulations as our minimum performance standards. Detailed policies, risk assessments and safe working procedures are in place covering all aspects of our activities including noise, vibration, display screen equipment and the Working Time Directive. Performance is measured and reviewed at operating company and Group level. This is supported by analysis of audit results and review of civil liabilities claims to address any issues around policies and working procedures.

Our managers 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. Most 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 transport decisions, such as bus station safety or road layout options. We are continuing to work with Cycle Training UK on raising awareness of the safety of cyclists among our driving team.

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. More than 100 stations on the South West Trains-Network Rail Alliance network now have Secure Station status, awarded by the British Transport Police. A further 35 stations and 31 station car parks on East Midlands Trains have also 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 helps identify candidates for driving positions who 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. Our central support centre, covering a number of our US businesses, including

megabus.com, monitors vehicles remotely to ensure that they are operating on pre-approved routes. It also tracks speed, tyre pressures, and idling to provide instant feedback and identify trends to help educate employees. New vehicles for our megabus.com network in North America are fitted with three-point lap/shoulder seat belts. Megabus.com was the first major US bus/coach operator to achieve Transportation Safety Exchange ("TSX") approval for all of its operations. TSX is an independent safety rating organisation that assesses more than 300,000 passenger and freight carriers. Almost a third of our other business units in the United States are also TSX approved. 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 our customers.

2.8.6 Accessible and affordable travel

We believe that providing accessible and affordable travel is central to encouraging modal shift from the private car to greener, smarter public transport. Stagecoach has for the third time been independently assessed by transport consultants, TAS, as Britain's best value bus operator, offering weekly travel that is significantly cheaper than both other companies in regions across the UK and in London.

Stagecoach is the only UK bus operator to operate a long-term nationwide discounted travel scheme for jobseekers which offers half-price single and return bus travel in the UK outside London. We are also part of a Transport for London scheme which offers reduced bus, tram and train travel rates for jobseekers in the capital.

In 2014, we launched a discounted travel scheme for young people in Wales. Under the scheme, people under the age of 19 receive a third off all adult bus tickets on all Stagecoach services in Wales, making it easier for young people to access employment and education opportunities.

Our bus and coach services also regularly run extra services to make it easier for people to access sporting events and other attractions by public transport instead of taking the car.

We have continued to expand our budget coach service, megabus.com, in the UK, Europe and North America, bringing low-cost travel to more people. A study by the DePaul University Chaddick Institute for Metropolitan Development in Chicago found that travellers in the United States saved more than \$1 billion last year by taking megabus.com and other inter-city bus operators rather than the train or plane. Customers are also accessing more affordable travel options as a result of our new network of sleepercoach services and megabusplus.com, our integrated coach-rail service between the north of England and London.

Our rail networks continue to offer discounted tickets and promotions to encourage people to try the train. We also offer a comprehensive assisted travel service to support those with additional mobility requirements when using our services.

We are continuing to invest significantly in new accessible buses and coaches to help wheelchair and mobility scooter users, among others. In the UK, we are on track to meet legislation requiring fully accessible fleets ahead of schedule.

At our rail stations in the UK, we are making investments in ticketing facilities, waiting areas and other accessibility improvements, including tactile maps. East Midlands Trains has also become the first train company in the UK to offer a 24-hour, seven-day-a-week point of contact for customers.

2.8.7 Environmental stewardship

We continue to take a responsible approach to environmental matters. We have met our five-year Group-wide carbon targets ahead of schedule and have cut the carbon intensity of our businesses in the UK and North America by 30% in the past five years. We hold the Carbon Trust Standard for our global operations in recognition of the steps we have taken to monitor, manage and reduce our footprint.

Our plans have been focused to date principally on improving the efficiency and reducing the carbon impact of our transport fleets and buildings. As well as ensuring we meet our regulatory obligations, our initiatives have helped improve efficiency, cut costs and contributed to the growth and success of our business.

We have a network of “green teams” at our operating companies and this has been central to driving improvement. Our Group organic growth strategy is designed to encourage people to switch to greener bus and rail travel, reducing overall emissions from transport and helping address the global challenge of climate change.

Over the past year, Stagecoach Group has taken the following measures to reduce the impact of its businesses on the environment:

- extending the use of a hi-tech eco-driving system from all of our UK regional bus companies to our operations in London
- cementing our position as the UK bus industry’s leading investor in new hybrid electric buses, with around 380 now in service in England, Scotland and Wales
- increasing the number of vehicles running on 100% biofuel, extending our use of a 30% biofuel mix and introducing more gas powered buses
- continuing the installation of energy-saving lighting systems at bus depots and railway stations across the UK and in North America
- delivering improved energy management systems and cutting gas consumption at offices and depots
- significantly improving waste recycling rates at major train stations, offices and depots
- holding our sixth annual Group-wide Green Week to drive up awareness of environmental issues among our people and our customers in the UK and North America

We have received further independent recognition for our environmental initiatives, including our megabus.com brand receiving the American Bus Association’s 2014 Green Operator Award.

Stagecoach Group works 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. We also support the work of industry bodies and other stakeholders to seek policies which promote more carbon-efficient modes of travel, such as buses and trains.

Work is nearing completion on a new five-year Stagecoach Group sustainability strategy running to 2019. This will include identifying further cost-effective energy-saving opportunities, continuing investment to make the business greener, and setting new targets around carbon reduction, water consumption and waste recycling rates.

Communicating our performance is also a key part of our approach. Every year, Stagecoach reports on its carbon emissions through its corporate website, 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.

The data below shows our greenhouse gas emissions for the period 1 May 2013 to 30 April 2014. Emissions are expressed in terms of equivalent carbon dioxide (“CO₂e”) and are also shown relative to revenue.

Greenhouse Gas Emission Source	2013/14	
	tonnes CO ₂ e	Kg CO ₂ e/£ of revenue
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	1,030,488	0.35
Operation of facilities (refrigerants)	16,798	0.01
Total Scope 1	1,047,286	0.36
Scope 2		
Purchased electricity	217,627	0.07
Statutory total (Scope 1 & 2)*	1,264,913	0.43

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

The Group has used the UK Government Environmental Reporting Guidance methodology in reporting its greenhouse gas emissions, together with emissions factors from the DEFRA/DECC Greenhouse Gas Conversion Factors for Company Reporting 2013.

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

Group Metrics	2013/14
Revenue (£)	2,930,000,000
Total Scope 1 & 2 emissions tonnes (tCO ₂ e)	1,264,913
Intensity ratio	
Scope 1 & 2 emissions per £ of revenue (Kg CO ₂ e/£)	0.43

2.8.8 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 2014, £0.7m (2013: £0.7m) was donated by Stagecoach Group to help a number of charities and to support fundraising events and vital services.

Many of our bus companies have adopted specific good causes as their charities of the year and focus for local fundraising. In North America, our megabus.com business donated \$1 to the Wounded Warrior Project on Veterans Day for every customer travelling with the service, raising nearly \$25,000 to help support injured servicemen and women.

In our UK Rail division, the South West Trains-Network Rail Alliance Charity Panel donates thousands of pounds to local charities every year as well as a similar value in complimentary train tickets across the network. East Midlands Trains has also taken part in several train naming events in support of local organisations.

Across our business, we provide in-kind support to local groups, including buses and coaches for various local and national events. Many of our employees regularly join in national fundraising events such as Children in Need, Comic Relief and Sport Relief. In November 2013, the South West

Trains-Network Rail Alliance attached moustaches to the front of many trains to help raise awareness for male cancer charities as part of the Movember campaign. We also support a number of bus and rail industry charities and events each year.

In the UK, we have supported a government back to work initiative where we work with JobCentre Plus offices to recruit and train potential new drivers. After a six-week Stagecoach training programme, we offer a permanent driving job or individuals return to JobCentre Plus to seek alternative employment, but having hopefully gained a PCV (Passenger Carrying Vehicle) licence, Driver Certificate in Professional Competence and work experience.

2.8.9 Human rights

The Group does not see human rights matters as presenting material issues or risks for the Group and therefore the Group does not have specific, detailed policies in respect of human rights. However, in the Group's code of conduct (see section 2.8.1), the Group recognises the fundamental civil, political, economic and social human rights and freedoms of every individual and strives to reflect this in its business. A respect for human rights is reflected in our wider policies and in how we do business with customers, suppliers, employees and other stakeholders.

2.8.10 Conclusion

Our responsible approach to business is reflected in the policies and examples set out in this section 2.8. We continue to believe that corporate social responsibility and good financial returns go hand in hand, reflecting consideration of all stakeholders.

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



Mike Vaux
Company Secretary
25 June 2014

3. 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: 48

Committee membership: Health, Safety and Environmental.

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

Previous experience: A Chartered Accountant, Martin Griffiths is a former Director of Robert Walters plc and 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: 42

Committee membership: Pension Oversight.

External appointments: Director and Chairman of Audit Committee, Virgin Rail Group Holdings Limited. Deputy Convenor 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: 60

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 and Hospitality Industry Hall of Fame.

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



3.4 Garry Watts MBE

Position: Deputy Chairman and Senior Independent Non-Executive Director

Appointment to the Board: 2007

Age: 57

Committee membership: Remuneration and Nomination (Chair from 1 May 2013).

External appointments: Spire Healthcare Limited (Executive Chairman), BTG plc (Chairman), Foxtons Group plc (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.



Gregor Alexander

3.5 Gregor Alexander

Position: Non-Executive Director
Appointment to the Board: 2013
Age: 51
Committee membership: Audit (Chair from 1 July 2013) and Remuneration Committee (from 1 September 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.



Sir Ewan Brown CBE

3.6 Sir Ewan Brown CBE

Position: Non-Executive Director
Appointment to the Board: 1988
Age: 72
Committee membership: Pension Oversight (Chair) and Nomination.
External appointments: Scottish Financial Enterprise (Chair). Noble Grossart Holdings Ltd (Non-Executive

Director) and Senior Governor of St Andrews University.
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 and Deputy Chair of the Edinburgh International Festival.



Ann Gloag OBE

3.7 Ann Gloag OBE

Position: Non-Executive Director
Appointment to the Board: n/a (co-founder)
Age: 71
Committee membership: Health, Safety and Environmental.

External appointments: Mercy Ships (International Board Member).
Previous experience: Ann Gloag co-founded Stagecoach and served as an executive director until 2000.



Helen Mahy

3.8 Helen Mahy

Position: Non-Executive Director
Appointment to the Board: 2010
Age: 53
Committee membership: Health, Safety and Environmental (Chair), Audit and Nomination (from 1 September 2013).
External appointments: Chair of Obelisk Legal Support Solutions Limited, Chair of The Renewables

Infrastructures Group Limited, Non-Executive Director of Bonheur ASA and Ganger Rolf ASA.
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.



Phil White CBE

3.9 Phil White CBE

Position: Non-Executive Director
Appointment to the Board: 2010
Age: 64
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.



Will Whitehorn

3.10 Will Whitehorn

Position: Non-Executive Director
Appointment to the Board: 2011
Age: 54
Committee membership: Remuneration, Nomination and Health, Safety and Environmental (from 1 September 2013).
External appointments: Speed Communications (Chairman), Scottish Exhibition Centre Limited (Chairman), ILN Group (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), Vice-President and Fellow of the Chartered Institute of Logistics and Transport.
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 Strategic report

The Group is required to produce a Strategic report complying with the requirements of the Companies Act 2006. The Group has complied with these minimum requirements as part of the Strategic report in section 2, which also provides significant information over and above the statutory minimum.

4.2 Group results and dividends

The results for the year are set out in the consolidated income statement on page 62.

An interim dividend of 2.9p per ordinary share was paid on 5 March 2014. The Directors recommend a final dividend of 6.6p per share, making a total dividend of 9.5p per share in respect of the year ended 30 April 2014. Subject to approval by shareholders, the final dividend will be paid on 1 October 2014 to those shareholders on the register on 29 August 2014.

4.3 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. 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 discharge their duties properly 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 Chairman will therefore propose that each of the Directors be re-elected at the 2014 Annual General Meeting.

TABLE A	Number of ordinary shares (including those held under BAYE scheme)			
	24 June 2014	30 April 2014	25 June 2013	30 April 2013
Sir Brian Souter	86,900,445	86,900,445	86,900,445	86,900,445
Martin Griffiths	397,164	397,091	203,394	203,300
Ross Paterson	198,808	198,735	135,073	134,979
Gregor Alexander	10,406	10,406	406	406
Sir Ewan Brown	See below	See below	See below	See below
Ann Gloag	62,501,721	62,501,721	62,501,721	62,501,721
Helen Mahy	8,834	8,834	8,710	8,710
Garry Watts	16,000	16,000	16,000	16,000
Phil White	4,070	4,070	4,070	4,070
Will Whitehorn	72,288	72,288	72,288	72,288

Sir Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 18% (2013: 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 24 June 2014 (2013: 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 voting rights of Sir Brian Souter and Ann Gloag determined in accordance with the Disclosure and Transparency Rules which as at 30 April 2014 were 87,055,636 ordinary shares (2013: 87,055,636) and 62,501,721 ordinary shares (2013: 62,501,721) respectively.

Full details of share based awards held by the Directors at 30 April 2014 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 Directors' remuneration report. No other non-executive director had an interest in share based awards at 30 April 2013, 25 June 2013, 30 April 2014 and 24 June 2014.

In addition to their individual interests in shares, Sir Brian Souter, Ann Gloag, Martin Griffiths and Ross Paterson are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 725,821 ordinary shares (2013: 2,030,824) as at 30 April 2014. Martin Griffiths and Ross Paterson are also potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 300,634 ordinary shares (2013: 300,634) as at 30 April 2014.

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

4.4 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.

4.5 Substantial shareholdings

As at 30 April 2014 and 24 June 2014 (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 4.3 of this report):

	24 June 2014	30 April 2014
Ameriprise Financial, Inc.	5.0%	5.0%
Standard Life Investments Ltd	4.0%	4.7%

4.6 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 also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and

understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

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

Each of the Directors, whose names and functions are listed in section 3 of this 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 Strategic report and Directors' report contained in sections 2 and 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.

4.7 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 is appropriate.

From the period from 1 May 2013 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.

4.8 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.

4.9 Political donations

It is the Group's policy not to make political contributions and accordingly there were no contributions for political purposes during the year (2013: £Nil).

4.10 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. Between 26 June 2013 and 1 July 2013, the Company acquired 724,693 of its own 125/228p ordinary shares. The aggregate amount paid for the repurchased shares was £2.3m (excluding fees). This represented 0.1% of the Company's called up share capital (excluding treasury shares) on 1 July 2013.

The shares were purchased to satisfy awards made under the Group's employee shares schemes. At the 2013 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,609,996 of its ordinary shares. Under the existing authority, the Company may therefore repurchase up to a further 57,609,996 ordinary shares. This authority will expire at the conclusion of the 2014 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 2013 Annual General Meeting and will lapse at the conclusion of the 2015 Annual General Meeting.

4.11 Shareholder and control structure

As at 30 April 2014, there were 576,099,960 ordinary shares (2013: 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. As at 30 April 2014, 724,693 (2013: nil) ordinary shares representing 0.1% of the Company's called-up share capital (excluding treasury shares) were held in treasury and carried no voting rights.

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

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

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- 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 4.5 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 4.3 of this Directors' report. Two directors of the Company, Sir Brian Souter and Ann Gloag, who are siblings, were interested in 26.0% of the ordinary shares in issue as at 30 April 2014, excluding shares held by the Company in treasury (2013: 25.9%). The other directors of the Company held 0.1% of the ordinary shares in issue as at 30 April 2014 (2013: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts held a further 0.2% of the ordinary shares in issue as at 30 April 2014 (2013: 0.4%). 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.

Directors' report

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 4.10 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 West Trains and East Midlands Trains rail franchises. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these 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.
- Certain of the Group's bank facilities (including asset finance) contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.
- The Group's arrangements with surety companies for the issue of rail performance bonds and season ticket bonds 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 9.4.12.

4.12 Going concern

On the basis of current financial projections and the funding facilities available, the Directors are satisfied that it is reasonable to assume 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 2.6.8 of this Annual Report comments on liquidity, a key element of the Directors' assessment of going concern.

4.13 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 of 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.

4.14 Material included in the Strategic report

The Strategic report in section 2 includes information on the following matters that would otherwise be required to be presented in the Directors' report:

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

By order of the Board



Mike Vaux
Company Secretary

25 June 2014

5. Corporate governance report

5.1 Introduction from Garry Watts, Deputy Chairman

The year to 30 April 2014 started with a new management structure for the Group. Sir Brian Souter, who co-founded the Group with his sister, Ann Gloag, became Chairman and Martin Griffiths took over the position of Chief Executive after 13 years as the Group's Finance Director. Ross Paterson, who had been Director of Finance and Company Secretary, took over as Finance Director. This introduction to the Group's corporate governance report is an opportunity to look back at the year 2013/14 and at the progress that has been made with the governance of the Group and to look forward to the governance challenges for the future.

The changes to the management structure were in many ways a development of the executive team's existing roles but the changes needed to be managed to ensure a smooth, successful progression and to ensure that the Board remained balanced and effective.

The Group discussed the proposal for Sir Brian Souter to become Chairman with major shareholders before the changes were announced in 2012. We were pleased with the support that we received, which has allowed the Group to retain his knowledge and experience, while giving the executive team the chance to progress into their new roles. We were asked by some investors to explain why we appointed Sir Brian and not a new independent non-executive Chairman. We considered this and other options when planning the changes that were made. Sir Brian is a well recognised and respected figure in the Group and in the wider transport industry. The Group benefits from having him in the position of Chairman where he can continue to represent the interests of the Group to the public and to address our shareholders and answer their questions at the Annual General Meeting. The Corporate Governance report that follows sets out in more detail how we address the challenges arising from our Chief Executive moving to the role of Chairman.

At an early stage, the decision was taken to strengthen the independence of the Board by appointing an additional non-executive director and to create the new role of Deputy Chairman, which I assumed on 1 May 2013. A formal division of responsibilities is in place, which requires the Deputy Chairman to promote the highest standards of corporate governance throughout the Group and particularly at Board level.

Gregor Alexander joined the Board on 1 April 2013. Gregor's position as Finance Director of SSE plc made him an ideal candidate to take on the role of Audit Committee Chairman, which he took over from me, following a handover period, on 1 July 2013. I believe that for Stagecoach and its shareholders, the Board structure maintains the appropriate balance between independent, non-independent and executive directors. In his new position as Chairman, the Board is able to draw on the depth of experience of Sir Brian Souter while he has ensured that the executive directors have been given the space to manage the business. I am satisfied that the views of all of the Directors are heard and given due weight and that our corporate governance procedures are appropriate for the Group.

Following the changes to the Board, it was appropriate to review the composition of our board committees. I chair the Nomination Committee and asked Helen Mahy to join as an additional member of that committee. We agreed that Gregor Alexander would become an additional member of the Remuneration Committee and that Will Whitehorn would join the Health, Safety and Environmental Committee. I believe that with these changes, we are able to use the strengths of our non-executive directors more fully.

The end of our first year following the management changes seemed an appropriate time to refresh our Board evaluation and I appointed Margaret Exley of SCT Consultants to facilitate that process. I was pleased that Margaret's report was very positive and found only a small number of areas for development. We will work to implement these over the coming year. Further detail of the evaluation and its outcomes is given in the Corporate Governance report.

2013/14 has been a year of transition for the governance of the Company, during which the Group has continued to expand its UK Bus business, consolidated and strengthened its North American business and has evaluated and submitted rail franchise bids. I look forward to 2014/15 as Martin and Ross push forward their strategy for the future success of the Group.



Garry Watts
Deputy Chairman
25 June 2014

5.2 Corporate governance and compliance with the Code

The Stagecoach Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group. This section 5 of the Annual Report sets out Stagecoach Group's corporate governance arrangements. Taken together with the Directors' Report, it includes the disclosures recommended by the Financial Reporting Council ("FRC") UK Corporate Governance Code (the "Code"), and describes how the principles of good corporate governance that are set out in the Code have been applied. In line with best practice, separate reports are provided from each of the Audit Committee, Nomination Committee, Health, Safety and Environmental Committee and Remuneration Committee.

The Code issued in September 2012 applied to the Company's financial year from 1 May 2013 to 30 April 2014. The Directors believe that throughout the year ended 30 April 2014 the Group complied with all of the provisions of the Code. The Group's approach to audit tendering is considered in section 6.4.2. A copy of the Code is available at

<http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf>

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

5.3 Composition of the Board

The composition of the Board is as follows:

	Chairman	Independent Non-Executive Director	Other Director
Sir Brian Souter Chairman	✓		
Gregor Alexander Non-Executive Director		✓	
Sir Ewan Brown Non-Executive Director		✓	
Helen Mahy Non-Executive Director		✓	
Garry Watts Senior Independent Director & Deputy Chairman		✓	
Phil White Non-Executive Director		✓	
Will Whitehorn Non-Executive Director		✓	
Ann Gloag Non-Executive Director			✓
Martin Griffiths Chief Executive			✓
Ross Paterson Finance Director			✓

5.4 Division of responsibilities

Sir Brian Souter was the Chief Executive of the Group until 1 May 2013. To address concerns regarding a Chief Executive becoming the Chairman of the Group the Board has appointed Garry Watts to the 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 of the Board. 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 the Board determines the Group's strategy and overall commercial objectives with the overall success of the Group in mind and to provide guidance in this regard to the Chairman.

Corporate governance report

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 role as Chairman, while maintaining a strong board, independent of executive management. This gives Martin Griffiths full executive responsibility while retaining the ability to draw on Sir Brian Souter's experience in that role. In his role as Chairman, Sir Brian Souter's key responsibility is the running of the Board. Martin Griffiths is responsible for the running of the Group's business and reports to Sir Brian Souter and to the Board directly. All other members of the executive management team report either directly or indirectly to Martin Griffiths.

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

5.5 Board independence and balance

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 Board delegates the operational management of the Group to the Chief Executive and Finance Director ("Executive Directors"). The Non-Executive Directors bring an independent viewpoint and create an overall balance. The 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 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 2013 to 30 April 2014, the Board considers that it complied with this Code requirement. The current position 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?

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

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

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

5.6 Operation of the Board

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

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

The Chairman 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 seven. The full Board typically meets once a year at an operational location and regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. The June 2013 Board meeting was combined with a Group management conference, allowing the Board members to gain a greater insight into the strategies being pursued by the Group's businesses and to meet a wide range of managers from throughout the Group. In November 2013, the Health, Safety and Environmental Committee of the Board visited the Group's tram operations in Sheffield to gain a greater understanding of how that business addresses the challenges of operating a tram network.

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 2014 included:

- The Group's bids to operate the Docklands Light Railway, and Thameslink, Southern and Great Northern franchises
- Management succession planning
- Potential business acquisitions
- Group strategy and development opportunities
- Risk management, including the management of Cyber risks
- Developments in the litigation regarding Twin America and the trading performance of Twin America
- Political and regulatory developments and potential developments, including the Quality Contract proposals in North East England and changes in UK bus concessionary fares schemes

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.

5.7 Operational management of the Group

The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in video conferences with non-board senior management. 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
- UK Rail: headed by the Group Chief Executive

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

5.8 Performance evaluation

The Board assesses its own performance and the performance of each individual Board member; this assessment is co-ordinated and directed by the Chairman with the support of the Company Secretary. The Deputy Chairman 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 typically involves the completion of a questionnaire (which in 2014, was co-ordinated by SCT Consultants – see below) and a follow-up discussion. In the same way, the Senior Independent Non-Executive Director obtains feedback from each individual director on the performance of the Chairman. A similar process is undertaken to assess the performance of each of the Board's committees.

The Directors have reviewed the effectiveness of the Board as a whole and its committees. In 2010, the Code was amended to include a recommendation that board performance evaluation should be externally facilitated at least every three years. The Board appointed Margaret Exley of SCT Consultants to facilitate its evaluation in the year ended 30 April 2014. Margaret Exley's evaluation comprised one-to-one interviews with each director and the Company Secretary, review of a questionnaire completed by each director and the Company Secretary, consideration of the papers from three Board meetings held in 2013 and consideration of other key documents. Neither Margaret Exley, nor SCT Consultants, has any other connection with, or supplies any other services to the Group.

The Directors also reviewed the effectiveness of each committee of which he or she is a member.

The assessment of effectiveness included consideration of:

- The composition of the Board and its committees;
- The balance of skills, experience, independence and knowledge on the Board;
- The diversity of the Board;
- 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; and
- The allocation of the Board's time between differing priorities including the time spent on strategic considerations relative to other matters.

A report of SCT Consultants' conclusions of the Board evaluation was presented and discussed at the April 2014 Board meeting. The review was very positive about the Board's performance and capability. SCT Consultants identified a small number of areas for development, which included increasing the breadth of the Board's discussions on strategy, further developing the pipeline of senior talent and streamlining the information provided to the Board. The Chairman and Company Secretary will work with the Board to implement an action plan to address these areas over the course of the year to 30 April 2015. The Board intends to continue to use external facilitation of its performance evaluation no less frequently than every third year.

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.

5.9 Composition of Committees

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

Audit Committee

Number of members of Committee: 3

All members are independent non-executive directors.

Chairman and designated member with recent and relevant financial experience

Gregor Alexander (Chairman from 1 July 2013)

Other members

Helen Mahy

Phil White

Nomination Committee

Number of members of Committee: 4

All members are independent non-executive directors.

Chairman

Garry Watts

Other members

Sir Ewan Brown

Helen Mahy (from 1 September 2013)

Will Whitehorn

Remuneration Committee

Number of members of Committee: 4

All members are independent non-executive directors.

Chairman

Phil White

Other members

Gregor Alexander (from 1 September 2013)

Garry Watts

Will Whitehorn

Health, Safety and Environmental Committee

Number of members of Committee: 5

Chairman

Helen Mahy

Other members

Martin Griffiths

Ann Gloag

Phil White

Will Whitehorn (from 1 September 2013)

5.10 Reports from the Committees

Reports from each of the Committees of the Board are set out in sections 6 to 9 of this Annual Report.

5.11 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by directors during the year ended 30 April 2014:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	7	7	n/a	n/a	n/a	n/a
Martin Griffiths	7	7	n/a	n/a	n/a	n/a
Gregor Alexander	7	7	3	3	2	2
Sir Ewan Brown	7	7	n/a	n/a	n/a	n/a
Ann Gloag	7	7	n/a	n/a	n/a	n/a
Helen Mahy	7	7	3	3	n/a	n/a
Ross Paterson	7	7	n/a	n/a	n/a	n/a
Garry Watts	7	7	1	1	3	3
Phil White	7	7	3	3	3	3
Will Whitehorn	7	7	n/a	n/a	3	3

PARTICIPATION IN MEETINGS	Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	4	4	n/a	n/a	1	1
Gregor Alexander	n/a	n/a	n/a	n/a	1	1
Sir Ewan Brown	n/a	n/a	1	1	1	1
Ann Gloag	4	4	n/a	n/a	1	1
Helen Mahy	4	4	n/a	n/a	1	1
Ross Paterson	n/a	n/a	n/a	n/a	1	1
Garry Watts	n/a	n/a	1	1	1	1
Phil White	4	4	n/a	n/a	1	1
Will Whitehorn	2	3	1	1	1	1

5.12 Relations with shareholders

The Board endeavours to present a fair, balanced and understandable assessment of the Group's position and prospects in communications with shareholders. The Group 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.aspx>

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

5.13 Risk management

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

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 2014 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.

5.14 Internal control

The wider process described above and the key procedures noted below, enable the Directors to confirm that they have reviewed the effectiveness of the system of 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.
- 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 2014 have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

5.15 Process for preparing consolidated financial statements

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

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training 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.

5.16 Pension schemes

The assets of the Group's pension schemes are held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. There are 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 and is the immediate past Trustee Chairman of the Railways Pension Scheme trustees. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

A Pensions Oversight Committee was in operation throughout the year. This Committee is chaired by a non-executive director, Sir Ewan Brown, and also comprises one executive director and other members of senior management.

The Committee operates at a strategic level and its remit covers all matters affecting the Group's pension schemes from the perspective of the Group's shareholders and other stakeholders, and it will consider, develop and propose recommendations to the Board in respect of such issues as may arise. The Committee reviews pension scheme funding, investment strategy, risk management, 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
25 June 2014

6. Audit Committee report

6.1 Introduction from Gregor Alexander, Chairman of the Audit Committee

Following my appointment as Chair of the Audit Committee in July 2013, I am pleased to present our Audit Committee report for the financial year ended 30 April 2014. I would like to take this opportunity to thank Garry Watts for his effective Chairmanship of the Audit Committee over the previous six years.

This is our first Audit Committee report under the revised UK Corporate Governance Code ("the Code"), and it is our view that the recommendations in the Code have further strengthened the role of the Audit Committee as a key independent oversight Committee of the Group.



Gregor Alexander
Chairman of the Audit Committee
25 June 2014

6.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 5.9. Gregor Alexander is the current Chairman of the Audit Committee and is a Chartered Accountant. Gregor is the Finance Director of SSE plc, a FTSE 100 company, and is the designated Committee member with recent and relevant financial experience. 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.

6.3 Operation of the Audit Committee

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

- The Group Finance Director;
- 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.

The Committee may also invite other directors of the Company to attend meetings of the Committee and does so from time to time.

6.4 Activities of the Audit Committee

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>

In response to the implementation of the revised version of the UK Corporate Governance Code, which applies to financial years commencing on or after 1 October 2012, the Board requested that the Committee advise them on whether it considers the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. Having carefully considered this, the Committee concluded positively and reported its conclusion to the Board. The Committee did not consider it necessary to make significant changes to its processes to enable it to conclude on this matter because the controls and processes that were already in place in respect of the production of the Annual Report and financial statements, and in respect of the provision of information to the Committee were viewed as being sufficient. A new document was, however, provided to the Committee that summarised the various sources of information and assurance that enabled the Committee to make the fair, balanced and understandable conclusion.

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 30 April 2014.

6.4.1 Financial Reporting

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

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 30 April 2014, of which it considered the most significant to be as follows:

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
Pensions			
The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and mortality rates.	The Committee considered the appropriateness of pension assumptions by receiving reports from management outlining the basis of the assumptions used, comparing these assumptions to those applied by other companies operating in the same sector as the Group as well as by listed companies more generally, considering advice from external actuaries and considering analysis undertaken by the external auditors. The Committee noted that there were a range of acceptable assumptions but concluded that the assumptions applied were appropriate.	The total pensions expense recognised in the consolidated income statement for the year ended 30 April 2014 was £74.2m (2013 restated: £66.0m) and the net retirement benefit liability as at 30 April 2014 was £115.8m (2013 restated: £109.6m).	6, 25
Insurance			
The estimation of the insurance provision in respect of traffic accidents and employee incidents is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet but for which claims have not been reported to the Group.	The Committee discussed with management the key judgements made in determining the insurance provision, challenging the methodology used, and understanding the extent to which estimates are supported by third party actuarial advice and analysis provided by the external auditors. The Committee noted that there was a range of acceptable estimates for the year-end insurance provision and after challenge, concluded that the amount of the insurance provision was at an appropriate point within that range.	The insurance provision in the consolidated balance sheet as at 30 April 2014 was £140.9m (2013: £141.3m).	24
Taxation			
Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities.	The Committee considered the judgements made in respect of tax by reviewing reports from management outlining the basis of the assumptions, challenging the estimates formed and considering the extent to which third party professional advice and/or historical experience informed the judgements. The Committee met with the Group's Tax Director, the Group Tax Manager and a tax partner from the external auditors in April 2014. The specific judgements considered by the Committee included the accounting for the tax effect of fuel derivatives, foreign exchange gains/losses and the financing of foreign operations. The Committee concluded that appropriate judgements had been made in determining the tax amounts recorded in the financial statements.	The consolidated tax charge for the year ended 30 April 2014 was £25.5m (2013 restated: £27.8m). The net consolidated tax liability as at 30 April 2014 was £82.9m (2013 restated: £74.4m).	7, 23
Twin America Litigation			
Certain of the Group's subsidiaries and one of its joint ventures, Twin America, are party to litigation as explained in note 31 to the consolidated financial statements. The ultimate cost to the Group in respect of this matter is uncertain.	The Committee considered the appropriateness of liabilities held by the Group and its joint venture in respect of the Twin America litigation. It considered this through discussion with management and consideration of relevant legal advice. It evaluated the range of possible outcomes and concluded that appropriate liabilities had been recorded in the consolidated financial statements. The Group also assessed whether the carrying value of its investment in Twin America was impaired. The Committee agreed that the projected future cash flows from Twin America supported the carrying value of Twin America in the Group's consolidated balance sheet as at 30 April 2014 but noted that a change in certain assumptions (most notably, the rate of future revenue growth) could result in an impairment loss.	The carrying value of the Group's investment in Twin America as at 30 April 2014 was £28.5m (2013: £37.5m), after deducting £11.6m (2013: £6.4m) in respect of the Group's share of liabilities related to the litigation.	13, 31

Audit Committee report

In addition to the significant accounting judgements set out above, the Committee also considered other accounting and reporting matters in respect of the year ended 30 April 2014, including the following:

- **Exceptional items** – The Committee considered the appropriateness of the amounts disclosed as exceptional items in the financial statements and the adequacy of the disclosure related to such items. In respect of the year ended 30 April 2014, the Committee considered the proposal to no longer treat certain gains and losses from the disposal of land and buildings as exceptional items. The Committee concluded that this was appropriate because such gains and losses were generally not material and arose in the normal course of business. Also, it noted that the proposed approach would enhance comparability with other listed peers.
- **Acquisition accounting** – Establishing the acquisition-date fair values of assets and liabilities assumed in business combinations involves judgements, particularly in assessing whether contractual commitments are favourable or unfavourable to market terms. The Committee reviewed the acquisition accounting for business combinations in the year. In the year ended 30 April 2014, there were no material business combinations and so the consolidated financial statements were not particularly sensitive to the assumptions made in respect of these. The acquisition of businesses from Coach America in the year ended 30 April 2013 was more significant and the Committee considered the accounting for that acquisition at the appropriate time.
- **Rail franchise opportunities** – In light of the range of opportunities facing the Group's UK Rail Division, the Committee considered whether any actual or anticipated changes in the commercial terms or duration of rail franchises resulted in any changes in accounting estimates. The Committee concluded that the accounting estimates in the consolidated financial statements had been appropriately updated for such franchise changes.
- **Impairment and onerous contracts** – In addition to considering whether the carrying value of the Group's investment in Twin America was impaired, the Committee also considered whether any adjustments were required to the consolidated financial statements for impairments of any other assets and/or onerous contracts. The Committee concluded that no material impairment losses or new provisions for onerous contracts ought to be recorded in the consolidated financial statements.
- **Other liabilities** – The Committee considered the judgments made in respect of certain other liabilities, and considered them to be appropriate.

The Audit Committee also reviewed the evidence that supported the conclusion that the Group remained a going concern, noting it was consistent with the disclosure given in section 4.12 of this Annual Report.

6.4.2 External auditors

The external auditors presented a detailed audit plan to the Committee, setting out their analysis of significant audit risks and key judgemental accounting matters, which would inform their planned scope and approach to the current year audit. For the year ended 30 April 2014, the most significant risks identified were in relation to provisioning for insurance claims, taxation, pensions accounting and the Twin America litigation and impairment assessment, based on the inherent level of management judgement required in these areas. These risks are monitored through the year and the Committee challenged the work done by the auditors to test management's assumptions and estimates.

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

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

The Committee considers the reappointment of the external auditor each year before making a recommendation to the Board and shareholders. The Committee assesses the independence and effectiveness of the external auditor on an ongoing basis and the ethical standards require that, other in exceptional circumstances, the audit partner responsible for the Group audit rotates every five years. The current lead partner has been in place for three years. The current auditors have been in place since 2002 and this was the last year an audit tender was conducted.

The Committee recognises the current requirements of the latest version of the UK Corporate Governance Code (the "Code") and transitional guidance in relation to audit tendering, and also notes the European Union text on Audit Regulation and Directive and the UK Competition Commission (now the Competition and Markets Authority) response to conduct further consultation on audit tendering.

Ongoing deliberations by these bodies 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. At this point, we envisage that the timing of the next audit tender will be such that a change of auditor, if any, occurs following the end of the five-year term of the current lead audit partner in 2016.

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 Committee considered the audit fee of £0.8m (2013: £0.8m) for PricewaterhouseCoopers LLP appropriate and concluded that an effective audit can be conducted for such a fee.

6.4.3 Non-Audit services

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

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

In addition to the audit fee, PricewaterhouseCoopers LLP received non-audit related fees of £0.1m (2013: £0.1m), which equate to 12.5% (2013: 12.5%) of the audit fee and further details of which can be found in note 3 of the consolidated financial statements.

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

6.4.4 Internal auditors

The Committee has received several reports from Deloitte, which manages the outsourced Risk Assurance Function (internal auditors), detailing the planned schedule of audits as well as tracking key findings and any related material actions to address unsatisfactory results. Deloitte attended all meetings of the Committee, in addition to meeting privately with the Committee without the presence of management.

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

The 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.

6.4.5 Code of Conduct and "Speaking Up" Policy

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

All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were sufficiently material to merit disclosure in the Annual Report. The Committee also received and considered updates on litigation involving the Group, although other than the Twin America litigation referred to in section 6.4.1 above, there were no such matters that were sufficiently material to merit separate disclosure in the Annual Report.

6.4.6 Other activities

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

- A presentation was received from the Group Tax Director 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.
- 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, legislation affecting the Group more generally and other relevant regulatory developments and guidance.
- The Committee considered reports from the Audit Committee of Virgin Rail Group on matters relevant to that joint venture. The Group's Finance Director is Chairman of the Virgin Rail Group Audit Committee.
- Minutes of the Treasury Committee meetings (comprising members of management) were shared with the Audit Committee.
- The Committee reviewed a summary of the Directors' expense claims.

6.5 Committee evaluation

The Committee's activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided in section 5.8. Overall, the Committee considers that it has continued to operate effectively during the year.

7. Nomination Committee report

7.1 Introduction from Garry Watts, Stagecoach Group Deputy Chairman and Chairman of the Nomination Committee

The Nomination Committee has an important place in the governance structure of the Stagecoach Group. To be effective a board needs to maintain balance over time, taking account of planned and unplanned changes to the membership of the Board. As Chairman of the Committee, I ensure that we regularly review our Board composition and ensure that the mix of skills available is appropriate. We are aware that talented individuals can come from diverse backgrounds and aim to promote greater diversity in the recommendations that we make to the Board.

The changes to the management team at the start of 2013/14 were consistent with the succession planning that had been in place and we continue to develop our succession plans to provide the skills the Group needs in order to develop and implement the Group's strategy now and in the future.

During the year, the Committee reviewed the composition of the Board's committees and recommended changes, which were put in place by the Board from 1 September 2013.

We have reviewed the performance and length of service of our executive and non-executive directors and are pleased to be able to recommend all of our board for re-election at the 2014 Annual General Meeting.



Garry Watts
Chairman of the Nomination Committee

25 June 2014

7.2 Composition of the Nomination Committee

The composition of the Nomination Committee is summarised in section 5.9. The Committee also invites other Non-Executive Directors to attend its meetings.

7.3 Operation of the Nomination Committee

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

The Nomination Committee compiles a shortlist of potential new non-executive directors by taking account of known candidates and candidates suggested by the Group's advisors.

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

No director of the Company is currently a chairman of a FTSE 100 company. The terms of reference of the Nomination Committee are available on the Group's website at

<http://www.stagecoach.com/~media/Files/S/Stagecoach-Group/Attachments/about/Nomination-committee-terms-of-reference-approved-April-2013.pdf>

7.4 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 since May 2001, 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 at least this percentage in the future. In addition to board diversity, the Company believes in promoting diversity at all levels of the organisation, further detail of which is provided in section 2.8.4 of the Strategic report.

7.5 Succession planning arrangements

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

The Nomination Committee ensures that 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.

In recognition of the importance of talent management, the new Chief Executive established and chaired during the year a new talent group involving human resources, training and other professionals from within the Group. The talent group looks to take a lead role to further enhance the recruitment, retention and development of talented employees throughout the Group.

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

8. Health, Safety and Environmental Committee report

8.1 Introduction from Helen Mahy, Chairman of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee assists the Board to fulfil its responsibilities by recommending Group policy in these areas and monitoring compliance with the Group policy. I was pleased to welcome Will Whitehorn as an additional member of the Committee in September 2013. The Committee has benefited in particular from Will's experience with, and insights into, the rail industry.

In order to formulate and monitor the Group's policies, I believe that it is important to involve a range of contributors from the Group's businesses and to ensure that the members of the Committee actively engage with those businesses to help the Group to evolve its health, safety and environmental strategy over time. By bringing contributors together at its meetings, the Committee aims to share knowledge between the Group's businesses and to challenge its business managers and safety advisers to promote sustained improvement over time.

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



Helen Mahy
Chairman of the Health, Safety and Environmental Committee
25 June 2014

8.2 Composition of the Health, Safety and Environmental Committee

The membership of the Health, Safety and Environmental Committee is summarised in section 5.9.

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

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

8.3 Operation of the Health, Safety and Environmental Committee

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

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

The Committee and its members visit operational locations to observe health, safety and environmental management in practice. During the year, the members of the Committee visited the Group's Supertram business and were able to gain insight into the challenges for employees operating trams in Sheffield city centre and on the challenging terrain of the wider Sheffield area.

During the year the Committee Chairman spent time with UK Bus employees to gain further understanding of health, safety and environmental processes in that business and undertook a rail industry strategic safety management training programme. Committee members attend meetings of the Safety Committees of individual business units from time to time.

The Committee Chairman attended an Executive Board Safety and Compliance meeting of the South West Trains-Network Rail Alliance to see first-hand the benefits of working with Network Rail on safety issues and also visited Clapham Junction to review the crowd management measures and train despatch arrangements being implemented at the station. The Committee Chairman met with UK Bus management to see the bus based park and ride facility recently constructed at Halbeath. The Committee Chairman was also presented with the plan for delivering the transport provision for the 2014 Ryder Cup to be held at Gleneagles. This highlighted the safety risks and other challenges which the team will face during the delivery.

The Committee allocates time in its agendas to receive detailed briefings on areas of specific interest or concern to it. During the year, presentations were received on a range of topics, including the challenges inherent in dealing with the increasing number of rail passengers using rail infrastructure, the lessons that could be learned from the July 2013 Spanish rail crash (in which the Group had no involvement but was nevertheless interested in lessons to be learned), the formulation of the Group's environmental targets and strategy over the next few years, and employee health initiatives being undertaken by the Group's divisions.

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, where relevant, is provided to the Committee on health, safety and environmental matters. The Committee liaises with the Remuneration Committee in determining any health and safety objectives to form part of the Executive Directors' personal objectives.

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

9. Directors' remuneration report

9.1 Introduction from Phil White, 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 2014 prepared in compliance with the new UK reporting regulations. The report comprises three sections including the Directors' Remuneration Policy in section 9.4, and the Annual Report on Remuneration in section 9.5 following this statement.

Our approach to remuneration is to ensure that the key components are consistent and easily understood, overall remuneration is not excessive and that the share based incentives and other elements of variable remuneration provide an alignment between the objectives of executive management and shareholders. From our previous engagements with shareholders we believe they have appreciated the simplicity and consistency of our approach. The Group has delivered a consistently strong financial performance over the last ten years or so, and we consider this has been supported by the clear direction provided by the remuneration policy.

We consider that the elements of variable pay, comprising the annual bonus awards, Deferred Shares, and a long-term incentive plan should provide meaningful but not excessive incentives designed to provide a clear alignment with the corporate strategy and shareholders' long-term objectives.

Our approach to executive pay and our remuneration policy has therefore remained unchanged during 2013/14, and the implementation has been consistent with previous years. Annual bonus potentials are retained at a maximum of 100% of basic pay (allocated 50% in cash, and 50% in Deferred Shares), and with a maximum value on award under the Long Term Incentive Plan ("LTIP") of 150% of basic pay.

Following feedback received in previous years, we recently consulted with shareholders and representative bodies on proposals to introduce a second performance condition for the LTIP. This has resulted in the policy set out in this Remuneration Report to introduce targets for growth in earnings per share. The performance conditions for the LTIP would therefore be split in two, with one half of the annual awards being made based on relative total shareholder return, and the other would be based on targets set for the growth in a measure of earnings per share (both over at least a three year performance period). We consider that the proposals would provide a more direct alignment with the corporate strategy (as set out in section 2.3.2 of this Annual Report).

The Committee also considered it was appropriate to increase the executive director shareholding guideline from 100% to 200% of basic pay from June 2014.

Activities of the Remuneration Committee

The main tasks and decisions of the Committee during the year ended 30 April 2014 were:

- Reviewed the performance and approved the Executive Directors' bonuses for year ended 30 April 2013.
- Set annual performance targets for the Executive Directors' bonuses.
- Reviewed performance and approved the vesting of the 2010 awards under the LTIP in June and December 2013.
- Reviewed and approved targets for LTIP awards made in the year ended 30 April 2014.
- Reviewed and approved the vesting of the 2010 awards under the EPP.
- Decided on levels of pay and benefit increases in the annual salary review, including reviewing the remuneration for senior non-Board managers.
- Reviewed and implemented the changes in reporting requirements for directors' remuneration.
- Proposed, and received approval for, extending the periods of both the LTIP and EPP arrangements for a period of 10 years, and updating the malus provisions for both plans. Shareholders also approved the

proposal to increase the flexibility to satisfy awards through the issue of shares, within ABI guidelines on the limits for satisfying awards with new issue shares (5% in any 10 year period).

- Considered and agreed to start consultation with major shareholders on matters of remuneration policy including proposals to introduce a second condition based on targets for growth in earnings per share for the long term incentive plan, and increasing the target shareholding guideline for Executive Directors.

Remuneration for 2013/14

As regards the results for the year and payouts under the annual bonus plan, I am pleased to say that the Group made good progress against its financial and strategic objectives. Both the Executive Directors together with the senior management team have provided strong leadership throughout the year. Despite the impact of severe weather in the UK and North America, the performance of the Group continued to be strong. We also continue to be well positioned to take advantage of rail franchise opportunities. This strong performance enabled the Group to meet its financial targets. As both Executive Directors were able to meet their challenging personal objectives, the Committee awarded both Executive Directors the maximum bonus of 100% of basic salary.

The Committee is aware of the continuing public debate on executive remuneration in the UK and remains committed to ensuring there is a strong linkage between pay and performance and that pay remains aligned with the interests of shareholders and other major stakeholders.

We are grateful for the work undertaken by the Group and our remuneration advisers, and for the support we have received from our major shareholders and their representative bodies.

At the Group's Annual General Meeting on 29 August 2014, shareholders will be invited to approve

- (a) the Directors' Remuneration Policy in a binding vote and
- (b) this statement and the Annual Report on Remuneration together in an advisory vote.

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

We have looked to provide a clear and comprehensive report, seeking to avoid the danger of over complexity from the new disclosures being understood only by the institutional experts.

Increased and improved consultation between boards and their shareholders has led to a much greater understanding of remuneration issues. We appreciate that shareholders will express a wide range of differing views on what can be a difficult or emotive area and that it will not always be easy to find a consensus on all points. In such cases our approach would be to lean towards the majority view while looking to retain the important alignment with the corporate strategy set by the Board. Where our larger institutional shareholders are also subject to these new reporting regulations we would look to them in setting examples of the highest standards.

I look forward to hearing the views of our investors over the coming months on the information presented here.



Phil White
Chairman of the Remuneration Committee

25 June 2014

9.2 Compliance statement

This Directors' remuneration report covers the period 1 May 2013 to 30 April 2014 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 revised regulations enacted by the UK Government.

The Company has complied with the principles and provisions relating to directors' remuneration in the UK Corporate Governance Code ("the Code"). This report has been prepared in accordance with the Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In accordance with Sections 439 and 439A of the Companies Act 2006, an advisory ordinary resolution to approve the statement by the Chairman of the Remuneration Committee and the Annual Report on Remuneration and a binding ordinary resolution to approve the Directors' Remuneration Policy will be proposed at the 2014 Annual General Meeting. Remuneration payments and payments for loss of office can only be made to directors if they are consistent with the approved Directors' Remuneration Policy or otherwise approved by ordinary resolution of the shareholders.

Those sections in the remuneration report that have been audited have been highlighted as such. The 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/~media/Files/S/Stagecoach-Group/Attachments/about/Remuneration-committee-terms-of-reference-25-April-2014.pdf>

9.4 Directors' Remuneration Policy Report

This section sets out the remuneration policy for executive directors and non-executive directors, which is subject to a binding vote of shareholders and will, if approved, formally take effect from 29 August 2014 – the date of the 2014 Annual General Meeting. The stated policy does, however, reflect our current practice, including changes applied from 1 May 2014.

9.4.1 Key principles of the remuneration policy

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving the Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance.

The 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 environmental and safety objectives. The incentive arrangements for the Executive Directors are structured so as not to unduly increase environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

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

We also consult our major shareholders in developing policy - see section 9.4.13.

9.4.2 Summary of remuneration policy for the Executive Directors

This section of our report sets out in tabular form a description of each of the components of the remuneration package for the Executive Directors. Other than the changes in the last column noted as being applicable from 1 May 2014, the components reflect the policy that applied in the year ended 30 April 2014.

9.4.2.1 Fixed elements of pay

Purpose and link to strategy objectives	Operation	Maximum value	Performance metrics and changes for 2014/15
Basic salary			
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 but the Remuneration Committee also has discretion to adjust them at other times of the year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. The Committee also considers the published salary data for FTSE 250 companies. Account is also taken of pay conditions throughout the Group.	Basic salary increases are applied in line with the outcome of the annual review. Whilst there is no maximum salary or maximum increase in salary, the Committee would only set a salary which exceeded the top quartile of salaries applicable in FTSE 250 companies in unforeseen and exceptional circumstances.	Basic salary levels are predicated on continued good performance by the director. Salary levels set effective from 1 May 2014 are set out in section 9.5.13.1.
Pensions and life assurance arrangements			
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.	Final salary elements are related to basic salary, and any element satisfied by an employer cash allowance would be limited to a third of basic salary.	Pensions and life assurance arrangements are predicated on continued good performance by the director.

Directors' remuneration report

9.4.2.1 Fixed Pay (continued)

Purpose and link to strategy objectives	Operation	Maximum value	Performance metrics and changes for 2014/15
Benefits in kind and other allowances			
Designed to be competitive in the market.	<p>Benefits in kind and other allowances can include:</p> <ul style="list-style-type: none"> – Health-care benefits, life assurance cover, company car allowance, and telephone costs. – Opportunities to join the BAYE scheme. – Relocation assistance if/when applicable. <p>Also, business related travel and subsistence costs will be met or reimbursed including for directors' partners attending corporate events or management conferences. Where the Committee considers it appropriate other benefits may be provided, including on recruitment or relocation.</p>	<p>Benefits vary by role, and are reviewed periodically to ensure they are reasonable relative to market. There is no maximum value of a core benefit package as this is dependent on the cost to the employing company and the individual's circumstances.</p> <p>Participation in the BAYE scheme is subject to HMRC limits.</p>	<p>Benefits in kind and other allowances are predicated on continued good performance by the director.</p> <p>BAYE limits were increased in line with increases in HMRC limits from 6 April 2014.</p>

9.4.2.2 Variable Pay

Purpose and link to strategy objectives	Operation	Maximum value	Performance metrics and changes for 2014/15
Performance-related annual cash bonuses			
Aims to focus the Executive Directors on achieving demanding annual targets relating to Group performance.	<p>Around 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.</p> <p>No payment is made if none of the specific objectives are met.</p>	<p>The maximum annual bonus is up to 100% of basic salary, of which 50% of any bonus award in the year will be settled in cash.</p>	<p>70% of the maximum annual bonus is subject to meeting demanding key financial objectives, and 30% is for meeting individual business related objectives. In accordance with the rules of the EPP, at least 50% of any actual bonus will be deferred as shares under the EPP.</p> <p>A number of discrete objectives are set and the bonus potential is specified for each. The minimum level of performance required to be met for payout for each of the discrete objectives is that specified in the objectives.</p> <p>Further details of the performance measures used for the 2014 bonus are set out in the Annual Report on Remuneration in section 9.5.3.</p>
Executive Participation Plan ("EPP")			
<p>Aims to align the interests of managers and shareholders by purchasing interests in shares out of the annual bonus award.</p> <p>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.</p>	<p>Participants are awarded Deferred Shares, which have been conditionally awarded, with an initial market value approximately equal to the amount of the actual cash bonus forgone.</p> <p>Unvested awards granted after 30 August 2013 are subject to malus (details are in section 9.4.3 below).</p>	<p>At least 50% of any actual bonus earned in the year will be deferred as shares under the EPP.</p> <p>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.</p> <p>The actual value of the awards at vesting will reflect the face value of the Deferred Shares at the time of award but also subsequent movements in the Company's share price and dividends paid by the Company.</p>	<p>The EPP is an effective retention programme in that participants would lose their entitlement to the Deferred Shares if, save for "good leaver" provisions, they left of their own volition during the three-year deferral period. It also increases participants' effective equity interests in the Group and so better aligns their interests with shareholders.</p> <p>There are no specific performance conditions attaching to the release of Deferred Shares because the annual bonus is already subject to performance conditions.</p>

9.4.2.2 Variable Pay (continued)

Purpose and link to strategy objectives	Operation	Maximum value	Performance metrics and changes for 2014/15
Long Term Incentive Plan ("LTIP")			
<p>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.</p>	<p>Participants are awarded Incentive Units, which have a nominal value equal to one of the Group's ordinary shares. Incentive Units can be in the form of a conditional award, a cash award or a nil-cost option.</p> <p>Unvested awards granted after 30 August 2013 are subject to malus (details are in section 9.4.3 below).</p> <p>The Committee may adjust and amend awards only in accordance with the rules of the LTIP.</p>	<p>The maximum awards granted in any financial year for an individual is limited to Incentive Units with an aggregate face value at the time of award, not exceeding 150% of basic salary.</p> <p>The actual value of the awards at vesting will reflect the face value of the Incentive Units at the time of award but also subsequent movements in the Company's share price, dividends paid by the Company and actual performance relative to the performance metrics.</p>	<p>Awards made prior to 1 May 2014 are and will be subject to 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 an appropriate comparator group of FTSE 250 companies.</p> <p>Such awards will vest as follows:</p> <ul style="list-style-type: none"> - If the TSR does not exceed the median of the comparator group, then none of the relevant available Incentive Units will vest and they will all lapse; - If the TSR exceeds the median of the comparator group (which is the "threshold" performance level), then one-sixth (16.67%) of the available Incentive Units will vest and the remainder will lapse; - If the TSR is in the top decile of the comparator group then all of the available Incentive Units will vest; - If the TSR is higher than the median but less than the top decile of the comparator group then the proportion of the available Incentive Units that will vest would be between 16.67% and 100% of the available Incentive Units depending on the actual ranking against the comparator group. <p>For awards under the LTIP from 1 May 2014, a second performance condition will be applied, with one half of annual awards being made based on relative total shareholder return, and the other half based on targets set for a measure of earnings per share ("EPS") over the three year period. In setting stretching targets for the EPS based performance condition the Committee will take into account factors such as:</p> <ul style="list-style-type: none"> - The long-term expectations for the Group; - Analysts' consensus expectations; - Market norms and the approach of peer group companies; - The level of expected underlying inflation, such that any growth target should be positive and exceed inflation. <p>For the Incentive Units awarded that are subject to the TSR condition, vesting will be as follows:</p> <ul style="list-style-type: none"> - If the TSR does not exceed the median of the comparator group, then none of the relevant Incentive Units awarded will vest and they will all lapse; - If the TSR exceeds the median of the comparator group (which is the "threshold" performance level), then one-quarter (25%) of the available Incentive Units will vest and the remainder will lapse; - If the TSR is in the top quartile of the comparator group then all of the available Incentive Units will vest; - If the TSR is higher than the median but less than the top quartile of the comparator group then the proportion of the Incentive Units that will vest would be between 25% and 100% of the available Incentive Units depending on the actual ranking against the comparator group. <p>For the Incentive Units awarded that are subject to the EPS condition, vesting will be as follows:</p> <ul style="list-style-type: none"> - If the EPS is below the target set by the Remuneration Committee, then none of the relevant available Incentive Units will vest and they will all lapse; - If the EPS equals the target for threshold vesting set by the Remuneration Committee (which is the "threshold" performance level), then one-quarter (25%) of the available Incentive Units will vest and the remainder will lapse; - If the EPS equals or exceeds the target for maximum vesting set by the Remuneration Committee then all of the available Incentive Units will vest; - If the EPS is higher than the threshold vesting target but less than the maximum vesting target then the proportion of the Incentive Units that will vest would be between 25% and 100% of the available Incentive Units, adjusted on a straight basis depending on the EPS achieved. <p>The performance conditions will be tested over a three-year period, being the three years commencing on the 1 May or 1 November immediately preceding the date of the relevant award.</p>

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

Directors' remuneration report

9.4.3 Malus

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

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

No other element of remuneration is subject to malus.

9.4.4 Payments from outstanding awards

The Executive Directors would remain eligible to receive payment under any contractual arrangement agreed prior to the approval and implementation of the remuneration policy, i.e. before 29 August 2014. This includes the vesting of awards granted prior to the remuneration policy taking effect.

9.4.5 Performance targets

9.4.5.1 Annual bonus targets

70% of the annual bonus potential is subject to financial performance measures. There are three financial measures used under the Annual Bonus Plan which reflect the Company's key financial objectives for the year. Of the annual bonus potential, 35% is attributable to consolidated profit before interest and taxation, and was selected by the Committee as profitability is central to the Company's overall strategy. The Committee considers that EPS is an accepted and well established measure of the Company's performance and so 17.5% of the annual bonus is attributable to meeting this target. The remaining 17.5% is attributable to meeting the target on consolidated net debt as this rewards the effective management of cash and debt.

Targets for the Annual Bonus Plan are set with due regard to external forecasts. Performance targets are set to be stretching but achievable and take into account the economic environment in a given year. The Committee retains the discretion to amend the weightings and components of the financial and non-financial elements of the bonus from year to year and for each executive as appropriate.

The Committee is of the view that the amounts of the performance targets for the financial element under the annual bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose these before the end of the financial year. The performance targets of the financial element will therefore be disclosed in the Annual Report on Remuneration in the following year.

30% of the annual bonus potential is subject to personal performance measures. The personal performance measures used under the Annual Bonus Plan include achievement of personal and strategic goals. Personal performance measures and targets are proposed by the Chairman for the Chief Executive and by the Chief Executive for other Executive Directors. The Committee discusses and sets the targets for executive directors and their review is linked to an annual appraisal process. The Committee is of the view that the performance targets for the personal element are commercially sensitive as they relate to internal management projects, strategic objectives and personal goals and it is not intended that these will be disclosed in advance. The Committee's intention is that a summary of these objectives will be disclosed when they are no longer considered commercially sensitive.

9.4.5.2 LTIP performance targets

The vesting of any LTIP award granted prior to 1 May 2014 will be subject to a stretching 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 of the list of FTSE 250 companies. The amount of available Incentive Units which are released will range from the threshold payout level of 16.67% for exceeding the median of the comparator group, and up to 100% of the available Incentive Units for achieving top decile ranking.

LTIP awards granted from 1 May 2014 will be split with one half based on TSR performance against a comparator group of the list of FTSE 250 companies and the other half based on performance against targets for a measure of earnings per share. For the TSR based awards, the TSR must exceed the median of the comparator group before a payout is available. The amount of Incentive Units released will range from 25% to 100% of each award depending on the actual ranking. A top quartile ranking is required to achieve 100% release of units. Demanding targets for the growth in earnings per share will be set for the other half of the awards based on a range of relevant market factors and expectations for the Group as at the date of award.

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

9.4.6 Summary of remuneration policy for the Non-Executive Directors

The table below summarises our policy on the remuneration paid to our Non-Executive Directors. The policy is consistent with the policy that applied in 2013/14.

Purpose and link to strategy objectives	Operation	Maximum value	Performance metrics and changes for 2014/15
<p>To attract and retain non-executive directors with an appropriate degree of skills, experience, independence and knowledge of the Company and its business.</p> <p>To attract and retain a Chairman and Deputy Chairman to provide effective leadership for the Board.</p>	<p>Fee levels for non-executive directors are generally reviewed by the Board annually, with any adjustments effective 1 May in the year following review.</p> <p>Remuneration comprises an annual fee for acting as a non-executive director.</p> <p>Remuneration for the Chairman comprises an annual fee for acting as Chairman.</p> <p>Account is taken of fees for similar roles in comparable companies. The Board also considers the published data for FTSE 250 companies.</p> <p>Non-executive directors do not participate in pensions or incentive benefits, or receive other remuneration in addition to their fees. Business related travel and accommodation expenses will be met or reimbursed including for partners to corporate events or management conferences, and in the case of the Chairman, home telephone costs may be met or reimbursed.</p>	<p>Any fee increases are applied in line with the outcome of the annual review.</p> <p>Non-Executive Directors' fees are subject to an aggregate maximum cap which is stated in the Company's Articles of Association as £800,000 or such larger amount as the Company may decide by ordinary resolution.</p>	<p>Continued good performance.</p> <p>In recognition of the additional workload and responsibilities with these roles, from 1 May 2014 additional fees per year are paid for serving as a Chairman of each of the Audit, Remuneration and the Health, Safety & Environmental committees.</p>

9.4.7 Approach to the remuneration of newly appointed directors

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

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

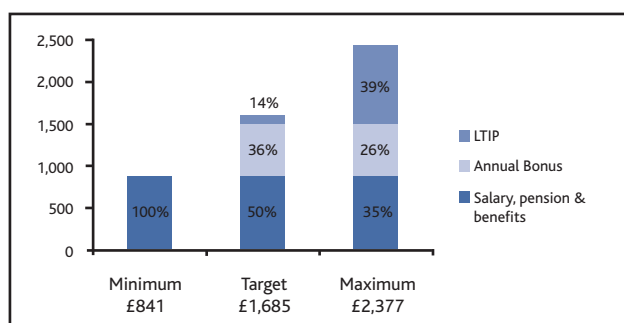
In recruiting a new non-executive director, the Remuneration Committee will use the policy as set out in the table in section 9.4.6.

9.4.8 Pay for performance: scenario analysis

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

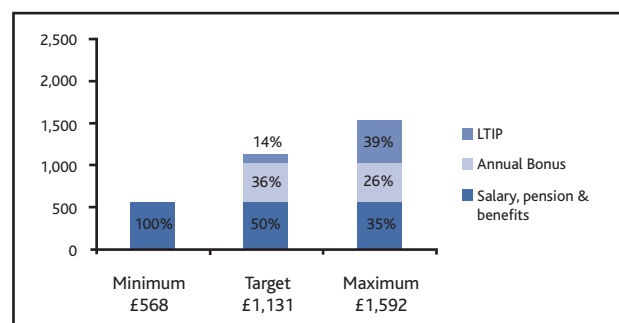
Martin Griffiths (potential annual pay outcomes)

All values in £'000s



Ross Paterson (potential annual pay outcomes)

All values in £'000s



Directors' remuneration report

Potential reward opportunities illustrated above are based on the Remuneration Policy, applied to the basic salary in force at 1 May 2014. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2014/15 and are on the basis that any bonus award would be satisfied 50% in cash and 50% in Deferred Shares under the EPP valued using the share price at the date of grant. It should be noted that the LTIP awards granted in a year do not normally vest until the third anniversary of the date of grant. In illustrating potential reward opportunities the following assumptions are made:

	Annual Bonus	LTIP	Pension
Minimum	No annual bonus payable	Threshold not achieved	33% of basic salary
Target	Maximum annual bonus	Threshold performance warranting 25% vesting	33% of basic salary
Maximum	Maximum annual bonus	Performance warrants 100% vesting	33% of basic salary

For the purpose of the charts in this section 9.4.8, pension amounts are calculated at an estimated accrual rate (net of employee contribution) of 33% of basic salary. This differs from how the pension amounts shown in Table 1 in section 9.5.3 are calculated.

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

9.4.9 Employment conditions across the Group

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

9.4.10 Details of directors' service contracts

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

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

Executive Directors' service contracts		
Name of director	Date of contract	Notice period
Martin Griffiths	22 February 2013	12 months
Ross Paterson	11 February 2013	12 months

The contracts for the Chairman and Deputy Chairman (effective of 1 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.

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

9.4.11 Loss of office payment policy

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

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

There are no arrangements 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 other cases where an executive director's employment is terminated with immediate effect, the Committee's policy would be that any compensating payments would not exceed any amounts due under the contractual arrangements as summarised above.

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

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

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. For all other leavers, outstanding BAYE matching share awards will lapse.

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

9.4.12 Change of control

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, in which case the Executive Directors will have no claim against the Group in respect of termination of employment;
- under the EPP, Deferred Shares would automatically vest on a change of control;
- under the LTIP, Incentive Units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the applicable performance conditions; and
- under the BAYE, awards will vest in full or, alternatively, the acquiring company may offer to roll-over the awards into awards over shares in the acquiring company.

9.4.13 Consideration of shareholder views

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

9.4.14 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 so long as the time commitments do not have any detrimental impact on the ability of the director to fulfil his duties. Any such directorships must be formally approved by the Board.

Martin Griffiths is a non-executive director of AG Barr plc, and was permitted to retain the £46,500 fees received from this position in the year ended 30 April 2014 (2013: £42,847). He was previously a non-executive director at Robert Walters plc, and stepped down from this role on 31 July 2013. He was permitted to retain the £15,600 fees received from that position in the year ended 30 April 2014 (2013: £62,400).

9.5 Annual Remuneration Report Implementation

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 30 April 2014.

9.5.1 Committee members

The Remuneration Committee is currently composed of four independent non-executive directors. The Committee met three times during the year. The Group Director of Tax and Employee Benefits is Secretary to the Committee. Attendance at meetings by individual members is detailed in section 5.11. No director was involved in decisions as to their own remuneration.

The members of the Committee during the year ended 30 April 2014 and at the date of this report were:

- Phil White (Chairman)
- Garry Watts
- Gregor Alexander (from 1 September 2013)
- Will Whitehorn

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

9.5.2 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 £28,250 (2013: £12,380) in respect of work it carried out in the year ended 30 April 2014. The fees payable were determined by Addleshaw Goddard LLP with reference to time spent and applicable hourly rates. We do not consider the level of fees paid or the nature of the work performed would prejudice the objectivity or independence of Addleshaw Goddard LLP.

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

The remuneration of the Executive Directors and Non-Executive Directors may comprise a number of elements, as described in section 9.4.

Directors' remuneration and the single figure total for the year ended 30 April 2014 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

TABLE 1 – DIRECTORS' REMUNERATION (amounts in £000)	Basic Salary/Fees		Benefits in kind		Performance related bonus		Long Term Incentives vested (LTIP)		Pension related benefits		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Executive directors												
Martin Griffiths	600	450	24	24	600	450	597	1,187	406	232	2,227	2,343
Ross Paterson (appointed 1 May 2013)	400	–	23	–	400	–	290	–	233	–	1,346	–
Sir Brian Souter (retired as an executive director 30 April 2013)	–	599	–	22	–	382	–	2,240	–	200	–	3,443
Non-executive directors												
Sir Ewan Brown	51	50	–	–	–	–	–	–	–	–	51	50
Ann Gloag	51	50	–	–	–	–	–	–	–	–	51	50
Helen Mahy	51	50	–	–	–	–	–	–	–	–	51	50
Sir George Mathewson (retired 30 April 2013)	–	283	–	–	–	–	–	–	–	–	–	283
Sir Brian Souter (appointed as a non-executive director 1 May 2013)	200	–	1	–	–	–	–	–	–	–	201	–
Garry Watts	125	50	–	–	–	–	–	–	–	–	125	50
Phil White	51	50	–	–	–	–	–	–	–	–	51	50
Will Whitehorn	51	50	–	–	–	–	–	–	–	–	51	50
Gregor Alexander (appointed 1 April 2013)	51	4	–	–	–	–	–	–	–	–	51	4
Total	1,631	1,636	48	46	1,000	832	887	3,427	639	432	4,205	6,373

Directors' remuneration report

Notes to Table 1:

i. Basic Salary/fees

The basic salary/fees in Table 1 correspond to the amounts payable in respect of the relevant financial year ended 30 April. Salary is paid monthly and all salaries shown above were effective from 1 May at the start of the relevant financial year. Both Executive Directors participated in pension salary sacrifice arrangements during the year and the basic salary amounts are shown gross before any salary sacrifice arrangements.

ii. Benefits in kind and other allowances

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

TABLE 2 – BENEFITS IN KIND	Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE		Total	
	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £
Martin Griffiths	22,000	22,000	982	1,212	445	459	197	211	23,624	23,882
Ross Paterson	22,000	–	982	–	–	–	197	–	23,179	–
Sir Brian Souter	–	22,000	–	–	577	381	–	–	577	22,381

During the year both Executive Directors participated in the Buy As You Earn (“BAYE”) Plan. We believe that the BAYE plan aligns the interests of employees and shareholders by allowing all UK employees of the Group to purchase shares out of salary. It is designed to aid staff motivation and retention. The maximum employee purchase is governed by HMRC limits and for all monthly employee purchases in 2013/14 was £125 per month. The Group provides two matching shares for every share purchased on the first £10 of each employee’s monthly investment. The amounts shown in Table 2 are the values of such matching shares allocated to directors as at the dates of allocation. Additional shares are allocated in respect of dividends payable during the relevant period. Details of the shares held under the BAYE plan are shown in Table 10.

iii. Performance related bonus

Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Committee determines the annual bonus for each executive director for the year just ended. This is based on the director’s performance in achieving the set objectives. 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 2014 were to meet financial targets with respect to measures of profit before interest and taxation, earnings per share, and net debt.

For the year ended 30 April 2014, Martin Griffiths and Ross Paterson each had a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of demanding key financial objectives and 30% for meeting individual business related objectives. Details of the financial objectives applicable for 2013/14 are shown below.

TABLE 3 – DIRECTORS’ OBJECTIVES	Target	Achieved	Potential Bonus (% of basic salary)	Bonus Awarded (% of basic salary)
Consolidated profit before interest and taxation (“PBIT”) from Group companies	£213.7m	£214.3m	35.0%	35.0%
Consolidated adjusted earnings per share (“EPS”)	25.4p	26.0p	17.5%	17.5%
Consolidated net debt (“Net Debt”)	£509.9m	£457.3m	17.5%	17.5%
Element of bonus related to Group financial objectives			70.0%	70.0%

The PBIT and EPS measures shown above are determined in accordance with International Financial Reporting Standards but adjusted to exclude intangible asset expenses and exceptional items. The PBIT measure also excludes any share of profit or loss from joint ventures. The Net Debt measure shown above is determined in accordance with the definition of net debt given in note 35 to the consolidated financial statements. The actual values achieved in respect of each of the three measures are adjusted to exclude the impact of any acquisitions and disposals of businesses that were not included in determining the target values. The detailed individual business related targets are considered to be commercially sensitive and it is the Committee’s intention that a summary of these objectives will be disclosed when they are no longer considered commercially sensitive.

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 2014 are shown below.

TABLE 4 – DIRECTORS’ BONUSES AWARDED	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
	Cash	Deferred Shares	Cash	Deferred Shares
Director				
Martin Griffiths	50%	50%	50%	50%
Ross Paterson	50%	50%	50%	50%

iv. LTIP

The amounts shown in Table 1 in respect of the LTIP for the year ended 30 April 2014 represents the actual market value of the vesting of the December 2010 award in December 2013, plus an estimate of the market value of the June 2011 award (due to vest in June 2014) as at the year end 30 April 2014. The December 2010 award vested achieving a ranking of 79 out of the FTSE250 comparator group, resulting in a pay-out vesting percentage of 55.0% of the relevant Incentive Units. The value for the awards due to vest in June 2014 is based on a projection using the information available as at 30 April 2014 for the awards granted in June 2011 with an estimated ranking of 72 out of the FTSE 250 comparator group, resulting in a projected pay-out vesting percentage of 60.8% and using an estimated value based on the average share price over the last quarter of 2013/2014 of 380.25p.

Details of LTIP awards that are treated in Table 1 as having vested during the year ended 30 April 2014 are shown below.

TABLE 5 – LTIP AWARDS treated as vested for inclusion in Table 1	As at 30 April 2013 (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	Vested during year (Incentive Units)	As at 30 April 2014 (Incentive Units)	Amounts included in Table 1 £	Price per incentive unit achieved on vesting £	Vesting Date	Vesting %
Martin Griffiths									
09 Dec 10	147,288	2,682	(67,487)	(82,483)	-	£306,837	3,7200	09 Dec 13	55.0%
30 Jun 11	122,419	3,160	-	-	125,579	£290,474	-	30 Jun 14	60.8%
						£597,311			
Ross Paterson									
09 Dec 10	70,171	1,278	(32,153)	(39,296)	-	£146,181	3,7200	09 Dec 13	55.0%
30 Jun 11	60,586	1,564	-	-	62,150	£143,756	-	30 Jun 14	60.8%
						£289,937			

v. Pension related benefits

The pension amounts shown in Table 1 for each director represents 20 times the increase (excluding inflation) in the accrued annual pension entitlement plus the increase (excluding inflation) in the accrued cash lump sum entitlement, less contributions paid by the director.

9.5.4 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 under the HMRC approved pension scheme and/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 accrued benefits in the year ended 30 April 2014 under the Group funded pension arrangements. Other than adjustments for inflation no further benefits accrued under a HMRC approved Group defined benefit scheme during the year.

Ross Paterson accrued benefits in the year ended 30 April 2014 under a combination of a HMRC approved Group defined benefit pension scheme and the Group funded pension arrangements.

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

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

TABLE 6 – DIRECTORS' PENSION BENEFITS	Normal Retirement date	Contributions paid by the director for the year ended 30 April 2014 £'000	Accrued cash entitlement at 30 April 2013 £'000	Accrued annual pension entitlement at 30 April 2013 £'000	Accrued cash entitlement at 30 April 2014 £'000	Accrued annual pension entitlement at 30 April 2014 £'000
Martin Griffiths	31 March 2026	42	161	68	166	92
Ross Paterson	29 July 2031	20	115	39	127	52

The totals above include pension benefits accrued for service prior to appointment as a director of the Company.

Directors' contributions to pension schemes as shown in Table 6 above are made by way of salary sacrifice arrangements.

No Non-Executive Directors accrued benefits in the year under pension schemes in connection with their roles with the Group.

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

Table 7 and 8 set out the awards to the Executive Directors under the Company's share schemes during the year ended 30 April 2014.

TABLE 7 – LTIP AWARDS IN YEAR	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year	Expected total value at time of grant £	Maximum total value at time of grant £	Vesting Date	Performance period
Martin Griffiths								
27 Jun 13	Incentive Units	3.1595	75% of basic salary	142,427	127,916	450,000	27 Jun 16	28 Jun 2013 - 27 Jun 2016
12 Dec 13	Incentive Units	3.7200	75% of basic salary	120,967	127,916	450,000	12 Dec 16	13 Dec 2013 - 12 Dec 2016
Ross Paterson								
27 Jun 13	Incentive Units	3.1595	75% of basic salary	94,951	85,277	300,000	27 Jun 16	28 Jun 2013 - 27 Jun 2016
12 Dec 13	Incentive Units	3.7200	75% of basic salary	80,645	85,277	300,000	12 Dec 16	13 Dec 2013 - 12 Dec 2016

Each Incentive Unit shown in Table 7, has a notional face value equal to one of the Company's ordinary shares.

The maximum and expected total values shown above ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. The actual number of Incentive Units (if any) which vest will depend on the performance conditions being achieved. The performance conditions for both awards are that the TSR over the performance period must exceed the median of the comparator group, which is the list of FTSE 250 companies. The amount of units awarded which are released will range from 16.67% to 100% depending on the actual ranking achieved. A challenging performance target of top decile ranking is required to achieve a 100% release of units. No units will vest for below-threshold performance.

Directors' remuneration report

TABLE 8 – EPP AWARDS IN YEAR	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (deferred shares)	Maximum & expected total value at time of grant £	Vesting Date	Performance period £
Martin Griffiths							
27 Jun 13	Deferred Shares	3.101	50% of annual bonus	72,557	225,000	27 Jun 16	n/a
Ross Paterson							
27 Jun 13	Deferred Shares	3.101	50% of annual bonus	23,702	73,500	27 Jun 16	n/a

Each Deferred Share shown in Table 8 has a notional face value equal to one of the Company's ordinary shares.

The maximum and total expected values shown above ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. There are no specific performance conditions attaching to the release of these Deferred Shares because the annual bonus is already subject to performance conditions.

9.5.6 Payments to past directors

There have been no payments in excess of the de minimis threshold to former directors during the year ended 30 April 2014 in respect of their former roles as directors. The Company has set a de minimis threshold of £10,000 under which it would not report such payments.

9.5.7 Payments for loss of office

There have been no payments for loss of office to directors during the year ended 30 April 2014 (2013: £113,333).

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

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of the Executive Directors, they are each expected to accumulate an effective interest in shares in the Company with a value of at least 200% of basic salary. A target of 100% was first introduced in 2005 and has been amended to 200% from June 2014 following feedback from shareholders. The Executive Directors are allowed five years from the date of appointment to accumulate the appropriate level of shares. For these purposes, EPP Deferred Shares are included on a pre-tax basis, but as from 1 May 2014, EPP Deferred Shares will be counted on a post-tax basis only and all interests in shares will be counted at current value. At 30 April 2014 under these revised definitions Martin Griffiths had an interest in shares equivalent to 327% of his basic salary and Ross Paterson had an interest in shares equivalent to 230% of his basic salary. Both directors therefore met the shareholding guideline.

The effective interests of the Directors (including those of connected persons) as at 30 April 2014 were:

TABLE 9 – DIRECTORS' INTERESTS IN SHARES OF THE GROUP AS AT 30 APRIL 2014	Interests as at 30 April 2014				Scheme interests vested and exercised during year ended 30 April 2014	
	Shares held outright	LTIP incentive units (subject to performance conditions)	EPP Shares (not subject to performance conditions)	BAYE Shares (not subject to performance conditions)	LTIP incentive units (subject to performance conditions)	EPP Shares (not subject to performance conditions)
Martin Griffiths	395,685	762,661	221,932	1,406	149,517	365,472
Ross Paterson	197,329	416,471	78,531	1,406	71,233	119,575
Non Executive Directors						
Gregor Alexander	10,406	-	-	-	-	-
Sir Ewan Brown	<i>see note below</i>					
Ann Gloag	62,501,721	-	-	-	-	-
Helen Mahy	8,834	-	-	-	-	-
Sir Brian Souter	86,900,445	-	109,019	-	-	52,936
Garry Watts	16,000	-	-	-	-	-
Phil White	4,070	-	-	-	-	-
Will Whitehorn	72,288	-	-	-	-	-

Sir Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 18% (2013: 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 2014 (2013: 3,267,999).

Although Sir Brian Souter retired as an executive director of the Company on 30 April 2013, retirement is not a vesting event for the EPP and so he retains awards of EPP Deferred Shares that are expected to vest on their original planned vesting dates.

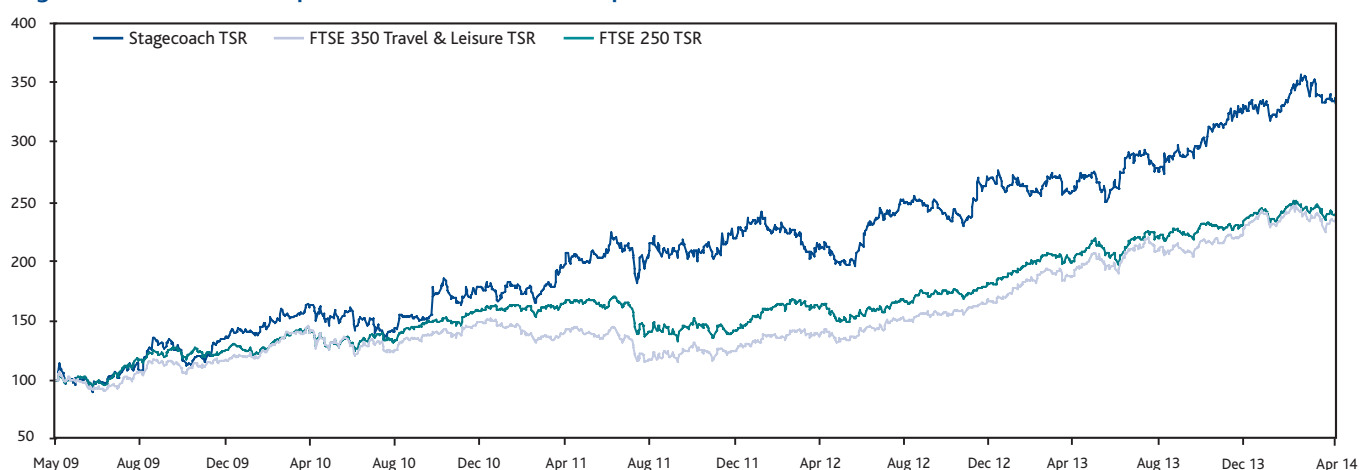
Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 10 below.

TABLE 10 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES	As at 30 April 2013	Granted in year	Dividends in year	Lapsed during year	Vested during year	As at 30 April 2014	Vesting Date
Long Term Investment Plan							
Martin Griffiths	160,871	–	–	(93,837)	(67,034)	–	28 Jun 13
	147,288	–	2,682	(67,487)	(82,483)	–	09 Dec 13
	122,419	–	3,160	–	–	125,579	30 Jun 14
	118,221	–	3,052	–	–	121,273	08 Dec 14
	132,518	–	3,421	–	–	135,939	27 Jun 15
	109,079	–	2,816	–	–	111,895	06 Dec 15
	–	142,427	3,677	–	–	146,104	27 Jun 16
	–	120,967	904	–	–	121,871	12 Dec 16
	790,396	263,394	19,712	(161,324)	(149,517)	762,661	
Ross Paterson	76,643	–	–	(44,706)	(31,937)	–	28 Jun 13
	70,171	–	1,278	(32,153)	(39,296)	–	09 Dec 13
	60,586	–	1,564	–	–	62,150	30 Jun 14
	58,508	–	1,510	–	–	60,018	08 Dec 14
	61,841	–	1,596	–	–	63,437	27 Jun 15
	50,903	–	1,314	–	–	52,217	06 Dec 15
	–	94,951	2,451	–	–	97,402	27 Jun 16
	–	80,645	602	–	–	81,247	12 Dec 16
	378,652	175,596	10,315	(76,859)	(71,233)	416,471	
Executive Participation Plan							
Martin Griffiths	262,415	–	–	–	(262,415)	–	27 Jun 13
	103,057	–	–	–	(103,057)	–	28 Jun 13
	71,253	–	1,832	–	–	73,085	30 Jun 14
	72,558	–	1,866	–	–	74,424	27 Jun 15
	–	72,557	1,866	–	–	74,423	27 Jun 16
	509,283	72,557	5,564	–	(365,472)	221,932	
Ross Paterson	85,858	–	–	–	(85,858)	–	27 Jun 13
	33,717	–	–	–	(33,717)	–	28 Jun 13
	26,402	–	679	–	–	27,081	30 Jun 14
	26,460	–	680	–	–	27,140	27 Jun 15
	–	23,702	608	–	–	24,310	27 Jun 16
	172,437	23,702	1,967	–	(119,575)	78,531	
Sir Brian Souter	52,936	–	–	–	(52,936)	–	28 Jun 13
	53,386	–	1,372	–	–	54,758	30 Jun 14
	52,901	–	1,360	–	–	54,261	27 Jun 15
	159,223	–	2,732	–	(52,936)	109,019	
Buy as you Earn Scheme							
Martin Griffiths	883	493	30	–	–	1,406	n/a
Ross Paterson	883	493	30	–	–	1,406	n/a
	1,766	986	60	–	–	2,812	

9.5.9 Performance graph

The graph below charts the performance of the total shareholder return ("TSR") (share value movement plus reinvested dividends) from the Company's ordinary shares over the five years to 30 April 2014 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 TSR based performance criterion for the LTIP Scheme, while the FTSE Travel and Leisure All-Share Index is shown as the Company and a number of its peers make up a significant element of that index.

Stagecoach 5-Year TSR Comparative Performance to 30 April 2014:



Directors' remuneration report

For comparative purposes, the pay for the role of Chief Executive over the same five year comparative period is shown in Table 11 below.

TABLE 11 – PAY FOR THE ROLE OF CHIEF EXECUTIVE Year ended 30 April:	Sir Brian Souter				Martin Griffiths 2014
	2010	2011	2012	2013	
Bonus (percentage of maximum)*	35%	46%	47%	64%	100%
LTIP vesting rates against maximum opportunity	100%	0%	n/a	61%	57%
Single figure of total remuneration (£000)	2,491	1,269	1,227	3,443	2,227

* Sir Brian Souter waived entitlement to part of his cash bonus, with the amounts waived being used to support funding of medical screening in the UK Bus Divisions. Therefore the bonus percentages shown in Table 11 above reflect the amounts awarded to Sir Brian net of the waivers. For information, the full bonus percentage entitlements based on performance and before the waivers are shown in Table 12 below.

TABLE 12 – BONUS AWARDED TO CHIEF EXECUTIVE (before waivers) Year ended 30 April:	Sir Brian Souter			
	2010	2011	2012	2013
Bonus (percentage of maximum)*	80.0%	90.0%	90.0%	90.0%

The total remuneration figure is calculated on the same basis as the single total figure of remuneration for Directors shown in Table 1 in section 9.5.3.

9.5.10 Percentage change in Chief Executive Remuneration (audited)

The change in the Chief Executive's remuneration from 2012/13 to 2013/14 in comparison to a comparator group of employees is shown in the Table 13 below and should be considered in the context of the change in Chief Executive on 1 May 2014.

TABLE 13 – PERCENTAGE CHANGE IN REMUNERATION FOR THE ROLE OF CHIEF EXECUTIVE	Percentage change of Chief Executive	Percentage change per capita of employees in the comparator group throughout both years
Salary	0%	3.5%
Benefits	9%	0%
Bonus	57%	(4.9)%

On the appointment of Martin Griffiths as Chief Executive, the Committee considered it was appropriate to retain the basic salary for this position at the same level as paid to the predecessor.

The increase in the Chief Executive's bonus percentage shown in Table 13 reflects a waiver of bonus amounting to 26.2% of basic salary by Sir Brian Souter, and otherwise he would have been entitled to a bonus of 90% of basic salary for 2012/13 compared to an award of 100% for the Chief Executive for 2013/14.

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

9.5.11 Relative Importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 30 April 2014 and the year ended 30 April 2013. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

TABLE 14 – SPEND ON PAY RELATIVE TO DIVIDENDS AND STAFF COSTS	2014 £m	2013 £m	Percentage change
Profit distributed by way of dividend	51.0	45.9	11.1%
Overall spend on pay for employees	1,133.9	1,098.7	3.2%

9.5.12 Consideration of shareholder views (audited)

The following table shows the results of the advisory vote on the 2013 Remuneration Report at the 2013 Annual General Meeting.

TABLE 15 – SHAREHOLDER VOTE	Total number of votes	% of votes cast
For+	329,348,016	93.50%
Against	22,911,504	6.50%
Total votes cast (excluding withheld votes)	352,259,520	100.00%
Votes withheld*	103,727,535	
Total votes cast (including withheld votes)	455,987,055	

+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.

9.5.13 Implementation of remuneration policy in the financial year ending 30 April 2015

In the year ending 30 April 2015, the Executive Directors' and Non-Executive Directors' remuneration policies will be implemented as follows.

9.5.13.1 Implementation of Executive Directors' remuneration policy

9.5.13.1.1 Fixed elements – basic salary

The Committee made the following 2014/15 basic salary decisions which are in line with the disclosed policy in section 9.4.2 of this report.

TABLE 16 – INCREASES IN BASIC SALARY	2014/15 salary £m	2013/14 salary £m	Percentage change
Martin Griffiths	614,400	600,000	2.4%
Ross Paterson	409,600	400,000	2.4%

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

9.5.13.1.2 Other elements

The implementation of policy in relation to other elements of remuneration is in line with the disclosed policy in section 9.4 of this report, and there are no changes in the maximum bonus or LTIP potential amounts as a percentage of basic salary.

Short term incentives – Annual Bonus

The implementation of policy in relation to annual bonus is in line with the disclosed policy in section 9.4 of this report.

Targets are approved by the Remuneration Committee around the beginning of the year. Each executive director has a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of demanding key financial objectives and 30% for meeting individual business related objectives. The Committee is of the view that the performance targets for the financial element under the annual bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose these before the end of the financial year. The targets and achievements will be disclosed in the Annual Report on Remuneration in the following year. The Committee is of the view that the performance targets for the personal element are commercially sensitive as they relate to internal management projects, strategic objectives and personal goals and it is not intended that these will be disclosed in advance. The Committee's intention is that a summary of these objectives will be disclosed when they are no longer considered commercially sensitive.

50% of any actual bonus earned in the year will be deferred as shares under the EPP.

Long term incentives – LTIP awards

The Committee intends to grant awards in line with the disclosed policy and changes set out in section 9.4 of this report. Awards vest after three years subject to performance conditions. A summary of the intended awards and nature of the performance conditions are provided in Table 17 below.

TABLE 17 – INTENDED LTIP AWARDS	Award Type	Performance metric	Face value of award at maximum vesting (% of 2014/15 salary)	Percentage of award vesting for threshold achievement	Length of Performance period
Martin Griffiths	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	EPS growth objectives	75%	25%	3 years
Ross Paterson	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	EPS growth objectives	75%	25%	3 years

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

Awards are generally made twice a year following the announcement of the Annual Results in June, and in December following the issue of the results for the half-year. The maximum level of awards granted for an individual in any financial year is limited to Incentive Units with an aggregate face value at the time of award not exceeding 150% of basic salary.

The 2014/15 awards will be split one half based on TSR performance against a comparator group of the list of FTSE 250 companies at the date of award, and the other half based on a measure of earnings per share. For the TSR based awards, the TSR must exceed the median of the comparator group and the amount of Incentive Units awarded which are released will range from 25% to 100% of the available Incentive Units depending on the actual ranking. A top quartile ranking is required to achieve 100% release of units.

Demanding targets for the growth in earnings per share will be set for the other half of the awards based on relevant market factors and expectations for the Group as at the date of award. The portion of the award that is EPS based will attract a threshold payout level of 25% if the EPS growth over the three-year performance period is at least 15%, and a 100% payout only if the EPS growth is at least 27% over the three-year performance period. A sliding scale of vesting on a straight line basis would be applied between these lower and upper vesting levels.

9.5.13.2 Implementation of Non-Executive Directors' Remuneration Policy

Annual fees for 2014

The implementation of policy in relation to Non-Executive Directors is in line with the disclosed policy in section 9.4.6 of this report. The fees per annum for Non-Executive Directors for 2013/14 and the amount set for 2014/15 are set out in Table 18 below.

TABLE 18 – NON-EXECUTIVE DIRECTOR FEES	2014/15 fees £m	2013/14 fees £m
Chairman	204,800	200,000
Deputy Chairman	128,000	125,000
Chairmen of Audit, Remuneration and the Health, Safety & Environmental Committees	57,500	51,250
Other non-executive Directors	52,500	51,250


Fees are effective from 1 May each year.

10. Responsibility statement

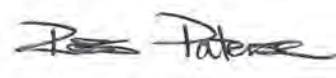
The Directors confirm that to the best of their knowledge:

- 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, the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on 25 June 2014 on behalf of the Board by:



Martin A Griffiths
Chief Executive



Ross Paterson
Finance Director

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

Report on the Group financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 30 April 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements (the "financial statements"), which are prepared by Stagecoach Group plc, comprise:

- the consolidated balance sheet as at 30 April 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Financial Statements (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £8.3m. This represents approximately 5% of profit before tax of £166.7m prior to exceptional items, (being the re-imbursement of rail bid costs, gains and losses on the disposal of businesses, acquisition expenses and charges related to the Twin America litigation which total £8.7m). We based our materiality on this adjusted profit figure as an appropriate measure of underlying business performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £415,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of the audit

The Group is structured along four business lines being UK Bus (regional operations), UK Bus (London), UK Rail and North America. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of these businesses by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms or other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Through a combination of specific audit procedures over North American operations, targeted at individually material balances and/or identified risks, and an audit of the complete financial information for the rest of the Group's significant operating business lines, our Group audit work accounted for 86% of Group profit before tax prior to exceptional items, 85% of Revenue and 81% of Total Assets. This, together with additional procedures performed at the Group level, including over the consolidation process, exceptional items, pensions, taxation, financial instruments, share based payments and presentation of the Group financial statements gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the consolidated financial statements is set out in section 6 of the Annual Report.

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

Area of focus specific to Stagecoach Group	How the scope of our audit addressed the area of focus
<p>Pension liabilities</p> <p>We focused on this area because of the significance of pension liabilities to the overall financial statements. Calculation of the liabilities requires judgement by management in arriving at appropriate actuarial assumptions. Relatively small movements in assumptions applied can result in a material impact to the financial statements.</p> <p>Refer also to notes 6 and 25 to the consolidated financial statements.</p>	<p>We obtained and read the independent actuary's report commissioned by management which reported on the assumptions and methodology used to calculate the pension liabilities and the compliance of these with the relevant accounting standard.</p> <p>We considered and challenged the reasonableness of the key actuarial assumptions (including the discount rate, mortality assumptions and inflation rate) and the judgements taken by management in applying these assumptions in calculating the pension liabilities.</p> <p>Our work included comparing these key actuarial assumptions to our independently calculated expectation and a benchmark range of companies operating in the same sector as the Group as well as listed and other companies more generally. We assessed whether the methods used by management to determine key assumptions and overall methodologies were consistently applied and evaluated the rationale for any changes in approach, including the impact of revisions to relevant accounting standards.</p> <p>We tested pension scheme membership information as this is a key input used in the overall pension liability calculations.</p>
<p>UK Bus and North America insurance provisions</p> <p>We focused on this area because the balance is material to the overall financial statements and is inherently subjective. Management estimate provisions using the best available information at a given point in time based on outcomes that are uncertain.</p> <p>Refer also to note 24 to the consolidated financial statements.</p>	<p>We evaluated whether consistent methodology had been applied year on year in determining the level of provisioning.</p> <p>We compared the level of provisions against past experience of claims and actual settlements.</p> <p>We obtained, read and critically assessed the results of independent actuarial procedures and reports that were used to support provisions.</p> <p>We also tested on a sample basis a number of individual claims and settlement provisions for appropriateness with reference to advice to management from third parties and recent settlement history.</p>
<p>Tax provisioning</p> <p>We focused on this area because of the judgemental nature of the balances and the inherent complexity of interpreting and implementing taxation rules.</p> <p>Refer also to notes 7 and 23 to the consolidated financial statements.</p>	<p>Our audit procedures considered both the potential exposure and the extent to which liabilities are likely to crystallise.</p> <p>We requested and read the latest correspondence between the Group and relevant tax authorities. We discussed the potential tax exposure with senior Group management and the basis of their provisions with the Group's in-house tax specialists.</p> <p>We also obtained and evaluated third party advice obtained by management.</p> <p>We utilised our experience of similar circumstances to independently challenge and assess the evidence described above.</p>
<p>Twin America</p> <p>Due to the uncertainty created by the Twin America litigation we focused on management's judgements in relation to determining the provisions to be recorded in the consolidated financial statements and the impact on the carrying value of the Group's investment in Twin America.</p> <p>Refer also to notes 13 and 31 to the consolidated financial statements</p>	<p>We obtained an understanding of the latest developments in the litigation and management's judgements thereon relating to provisions and their assessment of the carrying value of Twin America in the consolidated financial statements.</p> <p>We evaluated whether the consolidated financial statements included appropriate disclosures and provisions. We also assessed the pattern of legal costs incurred to date when evaluating the appropriateness of the legal costs provision held and considered the advice obtained by management from third party legal advisors.</p> <p>We assessed the accounting implications of the litigation on the Group's investment in Twin America. This involved us considering management's impairment review of the carrying value of Twin America and challenging key assumptions used in the impairment review where changes, particularly in relation to assumed future revenue assumptions, could result in an impairment loss.</p> <p>We also enquired about recent trading results to evaluate management's trading and cash flow assumptions used in their impairment review.</p>
Area of focus based on risks required by ISAs (UK & Ireland)	How the scope of our audit addressed the area of focus
<p>Fraud in revenue recognition</p> <p>ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.</p>	<p>We focused our audit work in this area on management's calculations of accrued and deferred income, especially those involving manual processes or estimation such as contractual revenue, concessionary travel and advance ticket sales, which may be more susceptible to error and fraud. Our work involved recalculating these amounts with reference to underlying contractual documentation and assessing the reasonableness of accrued and deferred income with respect to actual settlement history of prior period balances.</p> <p>We also used computer aided auditing techniques ("CAATs") to test manual journal entries and to also perform testing of revenue for megabus USA, since these auditing techniques assist us in focusing on non-standard transactions.</p>
<p>Risk of management override of internal controls</p> <p>ISAs (UK & Ireland) require that we consider this.</p>	<p>We considered whether there was evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements.</p> <p>We compared the actual reported profit of disaggregated business units against budget and considered those where there may have been a heightened risk of manipulation to achieve results. We tested key balance sheet reconciliations and manual journal entries.</p> <p>We also assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions and we reviewed internal audit reports and discussed controls with the Group's internal auditors.</p>

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out in section 4.12 of the Annual Report, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance report in sections 5.13 and 5.14 of the Annual Report with respect to internal control and risk management systems and provided in section 4.11 about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the corporate governance report relating to the parent company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

In section 4.6 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. In section 6.4.1, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibility Statement set out in section 10 of the Annual Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

Other matter

We have reported separately on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2014 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
25 June 2014

12. Consolidated Financial Statements

Consolidated income statement

For the year ended 30 April 2014

	Notes	2014			2013 (restated)		
		Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
CONTINUING OPERATIONS							
Revenue	2	2,930.0	–	2,930.0	2,804.8	–	2,804.8
Operating costs and other operating income	3	(2,715.5)	(14.0)	(2,729.5)	(2,605.4)	(15.1)	(2,620.5)
Operating profit of Group companies	2	214.5	(14.0)	200.5	199.4	(15.1)	184.3
Share of profit of joint ventures after finance income and taxation	2	8.8	(8.4)	0.4	21.3	(5.8)	15.5
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	2	223.3	(22.4)	200.9	220.7	(20.9)	199.8
Non-operating exceptional items	4	–	(0.3)	(0.3)	–	(2.2)	(2.2)
Profit before interest and taxation		223.3	(22.7)	200.6	220.7	(23.1)	197.6
Finance costs	5	(47.2)	–	(47.2)	(47.4)	–	(47.4)
Finance income	5	4.6	–	4.6	4.1	–	4.1
Profit before taxation		180.7	(22.7)	158.0	177.4	(23.1)	154.3
Taxation	7	(31.2)	5.7	(25.5)	(36.3)	8.5	(27.8)
Profit for the year from continuing operations and profit after taxation for the year attributable to equity shareholders of the parent		149.5	(17.0)	132.5	141.1	(14.6)	126.5
Earnings per share (all of which relates to continuing operations)							
– Adjusted basic/Basic	9	26.0p		23.1p	24.6p		22.0p
– Adjusted diluted/Diluted	9	25.8p		22.9p	24.2p		21.7p

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

Consolidated statement of comprehensive income

For the year ended 30 April 2014

	2014	2013 (restated)
	£m	£m
Profit for the year attributable to equity shareholders of the parent	132.5	126.5
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value losses on cash flow hedges	(2.8)	(17.3)
– Reclassified and reported in profit for the year	2.1	(12.3)
– Share of other comprehensive expense on joint ventures' cash flow hedges	–	(0.2)
– Tax effect of cash flow hedges	(0.2)	7.0
– Tax effect of share of other comprehensive expense on joint ventures' cash flow hedges	–	0.1
Foreign exchange differences on translation of foreign operations (net of hedging)	(14.8)	2.7
Total items that may be reclassified to profit or loss	(15.7)	(20.0)
Items that will not be reclassified to profit or loss		
Actuarial losses on Group defined benefit pension schemes	–	(29.2)
Tax effect of actuarial losses on Group defined benefit pension schemes	(3.2)	6.3
Share of actuarial gains on joint ventures' defined benefit pension schemes	–	4.3
Tax effect of actuarial gains on joint ventures' defined benefit pension schemes	–	(1.0)
Total items that will not be reclassified to profit or loss	(3.2)	(19.6)
Other comprehensive expense for the year	(18.9)	(39.6)
Total comprehensive income for the year attributable to equity shareholders of the parent	113.6	86.9

Consolidated balance sheet (statement of financial position)

As at 30 April 2014

		2014	2013 (restated)	2012 (restated)
	Notes	£m	£m	£m
ASSETS				
Non-current assets				
Goodwill	10	125.4	127.8	91.4
Other intangible assets	11	22.6	29.6	17.5
Property, plant and equipment	12	1,040.9	1,063.1	961.6
Interests in joint ventures	13	42.8	53.3	57.8
Available for sale and other investments	14	0.3	0.3	0.3
Derivative instruments at fair value	26(g)	0.1	0.4	1.6
Retirement benefit asset	25	7.8	15.6	19.5
Other receivables	19	14.2	18.2	16.4
		1,254.1	1,308.3	1,166.1
Current assets				
Inventories	18	24.6	21.1	22.2
Trade and other receivables	19	269.2	239.7	221.2
Derivative instruments at fair value	26(g)	0.5	2.2	20.8
Foreign tax recoverable		0.8	1.1	0.4
Cash and cash equivalents	20	240.3	262.2	241.0
		535.4	526.3	505.6
Total assets		1,789.5	1,834.6	1,671.7
LIABILITIES				
Current liabilities				
Trade and other payables	21	581.2	594.1	543.4
Current tax liabilities		49.7	40.0	23.6
Borrowings	22	50.9	63.7	55.9
Derivative instruments at fair value	26(g)	9.8	9.9	0.6
Provisions	24	57.5	59.1	57.2
		749.1	766.8	680.7
Non-current liabilities				
Other payables	21	28.5	21.2	22.2
Borrowings	22	660.2	747.9	721.0
Derivative instruments at fair value	26(g)	3.4	3.2	0.4
Deferred tax liabilities	23	34.0	35.5	51.7
Provisions	24	111.4	118.5	121.9
Retirement benefit obligations	25	123.6	125.2	96.3
		961.1	1,051.5	1,013.5
Total liabilities		1,710.2	1,818.3	1,694.2
Net assets/(liabilities)		79.3	16.3	(22.5)
EQUITY				
Ordinary share capital	27	3.2	3.2	3.2
Share premium account	29	8.4	8.4	8.4
Retained earnings	29	(310.0)	(391.0)	(454.9)
Capital redemption reserve	29	422.8	422.8	422.8
Own shares	29	(25.7)	(23.4)	(18.2)
Translation reserve	29	(10.0)	4.8	2.1
Cash flow hedging reserve	29	(9.4)	(8.5)	14.1
Total equity		79.3	16.3	(22.5)

These financial statements have been approved for issue by the Board of Directors on 25 June 2014. 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
Balance at 30 April 2012 and 1 May 2012 (as previously reported)	3.2	8.4	(489.7)	422.8	(18.2)	2.1	14.1	(57.3)
Impact of IAS 19R restatement (see note 1)	–	–	34.8	–	–	–	–	34.8
Balance at 30 April 2012 and 1 May 2012 (restated)	3.2	8.4	(454.9)	422.8	(18.2)	2.1	14.1	(22.5)
Profit for the year (restated)	–	–	126.5	–	–	–	–	126.5
Other comprehensive (expense)/income net of tax (restated)	–	–	(19.7)	–	–	2.7	(22.6)	(39.6)
Total comprehensive income/(expense)	–	–	106.8	–	–	2.7	(22.6)	86.9
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	–	–	(45.9)	–	–	–	–	(45.9)
								8
Balance at 30 April 2013 (restated) and 1 May 2013	3.2	8.4	(391.0)	422.8	(23.4)	4.8	(8.5)	16.3
Profit for the year	–	–	132.5	–	–	–	–	132.5
Other comprehensive expense net of tax	–	–	(3.2)	–	–	(14.8)	(0.9)	(18.9)
Total comprehensive income/(expense)	–	–	129.3	–	–	(14.8)	(0.9)	113.6
Own ordinary shares purchased	–	–	–	–	(2.3)	–	–	(2.3)
Credit in relation to equity-settled share based payments	–	–	2.2	–	–	–	–	2.2
Tax credit in relation to equity-settled share based payments	–	–	0.5	–	–	–	–	0.5
Dividends paid on ordinary shares	–	–	(51.0)	–	–	–	–	(51.0)
								8
Balance at 30 April 2014	3.2	8.4	(310.0)	422.8	(25.7)	(10.0)	(9.4)	79.3

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

Consolidated statement of cash flows

For the year ended 30 April 2014

		2014	2013
	Notes	£m	£m
Cash flows from operating activities			
Cash generated by operations	30	293.8	339.5
Interest paid		(38.2)	(39.8)
Interest received		4.7	4.6
Dividends received from joint ventures		8.2	24.9
Net cash flows from operating activities before tax		268.5	329.2
Tax paid		(20.2)	(16.1)
Net cash from operating activities after tax		248.3	313.1
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	15	(5.5)	(106.7)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	16	2.8	–
Purchase of property, plant and equipment		(154.2)	(181.9)
Disposal of property, plant and equipment		42.0	53.4
Purchase of intangible assets		(7.9)	(5.9)
Disposal of intangible assets		1.0	–
Net cash outflow from investing activities		(121.8)	(241.1)
Cash flows from financing activities			
Purchase of treasury shares		(2.3)	–
Investment in own ordinary shares by employee share ownership trusts		–	(5.2)
Repayments of hire purchase and lease finance		(56.9)	(57.0)
Drawdown of other borrowings		80.0	210.7
Repayment of other borrowings		(115.8)	(154.7)
Dividends paid on ordinary shares	8	(51.0)	(45.9)
Sale of tokens		0.8	1.4
Redemption of tokens		(1.1)	(1.7)
Net cash used in financing activities		(146.3)	(52.4)
Net (decrease)/increase in cash and cash equivalents		(19.8)	19.6
Cash and cash equivalents at the beginning of year		262.2	241.0
Exchange rate effects		(2.1)	1.6
Cash and cash equivalents at the end of year		240.3	262.2

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 (i) the revaluation of available for sale financial assets and (ii) financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

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

• New accounting standards adopted during the year

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 May 2013, but do not have any significant effect on the consolidated financial statements of the Group:

- Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income
- IFRS 13, Fair value measurement
- Amendments to IFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
- Annual improvements to IFRS, 2011
- IAS 16, Property, Plant and Equipment (revised 2012)

The Group has adopted early the amendment to IAS 36, on the disclosure of the recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives. This does not have a significant effect on the consolidated financial statements of the Group.

In June 2011, the International Accounting Standards Board ("IASB") issued an amended version of IAS 19 'Employee Benefits', which brings in various changes relating to the recognition and measurement of post-retirement defined benefit expense and termination benefits, and to the disclosures for all employee benefits. The IAS 19 change that has the most significant effect on the Group's reported profit is that the Group's annual expense for defined benefit schemes now includes 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 replaces the finance charge on scheme liabilities and the expected return on scheme assets and results in a higher annual expense. Applying IAS 19R to the consolidated financial statements had no impact on revenue or the consolidated statement of cash flows previously reported. Its impact on the segmental operating profit and profit from continuing operations was as follows:

Year ended 30 April:	2013	2013	2013	2012	2012	2012
	Reported profit	Effect of applying new IAS 19	Restated profit		Reported profit	
	£m	£m	£m	£m	£m	£m
Operating Profit						
UK Bus (regional operations)	165.0	(21.8)	143.2	198.6	(16.1)	182.5
UK Bus (London)	21.9	(2.9)	19.0	13.5	(4.3)	9.2
North America	13.3	0.1	13.4	19.7	0.2	19.9
Total bus continuing operations	200.2	(24.6)	175.6	231.8	(20.2)	211.6
UK Rail	49.9	(8.7)	41.2	27.9	(7.1)	20.8
Total continuing operations	250.1	(33.3)	216.8	259.7	(27.3)	232.4
Group overheads	(14.9)	(0.8)	(15.7)	(9.8)	(0.5)	(10.3)
Intangible asset expenses	(15.1)	–	(15.1)	(9.1)	–	(9.1)
Restructuring costs	(1.7)	–	(1.7)	(2.3)	–	(2.3)
Total operating profit of continuing Group companies	218.4	(34.1)	184.3	238.5	(27.8)	210.7
Share of joint ventures' profit after finance income and taxation	17.0	(1.5)	15.5	24.4	(1.8)	22.6
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	235.4	(35.6)	199.8	262.9	(29.6)	233.3
Non-operating exceptional items	(2.2)	–	(2.2)	11.6	–	11.6
Profit before interest and taxation	233.2	(35.6)	197.6	274.5	(29.6)	244.9
Finance charges (net)	(37.4)	(5.9)	(43.3)	(34.7)	(0.2)	(34.9)
Profit on ordinary activities before taxation	195.8	(41.5)	154.3	239.8	(29.8)	210.0
Taxation	(37.0)	9.2	(27.8)	(51.5)	7.2	(44.3)
Profit from continuing operations	158.8	(32.3)	126.5	188.3	(22.6)	165.7
Adjusted earnings per share (pence)	30.2p	(5.6)p	24.6p	25.4p	(3.6)p	21.8p

The restated 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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

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 sheets as at 30 April 2013 and 30 April 2012 have been restated as follows:

	2013 Previously reported net liabilities	2013 Effect of applying new IAS 19	2013 Restated net (liabilities)/ assets	2012 Previously reported net liabilities	2012 Effect of applying new IAS 19	2012 Restated net (liabilities)/ assets
	£m	£m	£m	£m	£m	£m
Interests in joint ventures	50.3	3.0	53.3	56.6	1.2	57.8
Net retirement benefit liability	(157.8)	48.2	(109.6)	(122.1)	45.3	(76.8)
Deferred tax liabilities	(24.4)	(11.1)	(35.5)	(40.0)	(11.7)	(51.7)
Other net assets	108.1	–	108.1	48.2	–	48.2
Net (liabilities)/assets	(23.8)	40.1	16.3	(57.3)	34.8	(22.5)

• New standards and interpretations not applied

The 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 10 Consolidated Financial Statements	1 January 2014
IFRS 11 Joint Arrangements	1 January 2014
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 12 Disclosure of Interests in Other Entities	1 January 2014
Amendments to IFRS 10, 11 and 12 on transition guidance	1 January 2014
IFRS 14 Regulatory Deferral Accounts*	1 January 2016
IFRS 15 Revenue from contracts from customers*	1 January 2017
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27 (revised 2011) Separate Financial Statements	1 January 2014
IAS 28 (revised 2011) Associates and Joint Ventures	1 January 2014
Amendment to IAS 32 Financial Instruments: Presentation, on offsetting financial assets and financial liabilities	1 January 2014
IFRS 9 Financial Instruments: Hedge accounting*	no effective date set
IAS 19 Defined Benefit Plans: employee contributions*	1 July 2014
Annual Improvements to IFRSs 2012	1 July 2014
Annual Improvements to IFRSs 2013	1 July 2014
IAS 39 (amendment) Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
IFRIC 21 Levies*	1 January 2014

*Not yet adopted for use in the European Union.

With the exception of IFRS 15 that was only recently issued, the Directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the Group's financial statements in the period of initial application.

• 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 and other businesses. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Costs attributable to the acquisition are expensed to the consolidated income statement.

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

Note 1 IFRS accounting policies (continued)

• Subsidiaries and joint ventures (continued)

(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 of liabilities for litigation, 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 and the selection of a suitable discount rate. The measurement of liabilities in respect of litigation involves estimating the financial effects of uncertain litigation. 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 in section 2.6.14 of this Annual Report, which forms 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 UK's Department for Transport 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.

The Group receives Bus Service Operators Grant ("BSOG") which is essentially a rebate of fuel tax. BSOG is recognised within operating costs as part of the net fuel costs of the Group.

• Performance incentive payments

Performance incentive payments received from or 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 or other operating income.

• Government grants

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

Revenue grants receivable (and franchise premia amounts payable) in respect of the operation of rail franchises in the UK are recognised in the income statement in the period in which the related revenue or expenditure is recognised in the income statement or where they do not relate to any specific revenue or expenditure, in the period in respect of which the amount is receivable or payable. These premia payments and rail franchise grants are classified within operating costs and other operating income.

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).

Employment taxes

Liabilities are recognised for employment taxes (principally, employers' national insurance liabilities) payable by the Group on share based payments. The liability for employment taxes is calculated at the balance sheet date with reference to the fair value of the related share based payments at that date. In the case of cash-settled share based payments, the fair value is the pre-tax amount recorded in the balance sheet. Movements in the liabilities for employment taxes on share based payments are charged or credited to the income statement.

• Operating profit

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 74.

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.

Note 1 IFRS accounting policies (continued)

• Foreign currency translation (continued)

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

	2014	2013
US Dollar:		
Year end rate	1.6886	1.5564
Average rate	1.6013	1.5748
Canadian Dollar:		
Year end rate	1.8531	1.5655
Average rate	1.6994	1.5796

• Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of such net assets. The fair value of intangible assets (other than goodwill) and acquired customer contract provisions on the acquisition of a business are amortised to the income statement 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 pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any impairment of goodwill is recognised immediately in the income statement.

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

• Impairment of non-current assets

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

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal at each reporting date.

In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised immediately in the income statement.

• Intangible assets

Intangible assets acquired separately from a business combination are initially capitalised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset. Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if (i) the asset is separable or arises from contractual or legal rights and (ii) its fair value can be measured reliably, and are subsequently measured at fair value less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated to write-off the cost or fair value at acquisition (as the case may be) of each asset over their estimated useful lives shown below. Amortisation of intangible assets relating to customer contracts and lease contracts is amortised based on the pattern of the consumption of economic benefits obtained from the relevant contract. Amortisation on other intangible assets is calculated on the straight-line method. Intangible assets relating to rail franchises of a finite duration are amortised over the 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 West Trains franchise and 7 years and 11 months from November 2007 to October 2015 for East Midlands Trains franchise)
Non-compete contracts	between 2 and 5 years for current contracts
Software costs	2 to 7 years

Where the life of a contract or rail franchise is shortened or extended, the useful economic lives of any related intangible assets are reviewed, the intangible assets are reviewed for impairment and the remaining carrying value of each asset is amortised over its revised, remaining economic life. New contracts and franchises are not treated as extensions of existing arrangements even when they cover the same business operations as expiring contracts and franchises.

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

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

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

• Inventories

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

• Pre-contract costs

The costs associated with securing new rail franchises are expensed as incurred, except when at the time the costs are incurred it is probable that a contract will be awarded, in which case they are recognised as an asset and are charged to the income statement over the life of the franchise.

• Hire purchase and lease obligations

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

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

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

Rentals under operating leases are generally charged on a straight-line basis over the lease term. However, contingent rentals, principally being rental adjustments related to inflation indices, are accounted for in the period they are incurred.

The principal restriction on assets held under finance lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

• Tokens

Tokens issued by 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 and payments for the redemption of tokens are included as financing activities 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 2014, it has been estimated that 97% (30 April 2013: 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, any recognised net asset is limited to the present value of economic benefits available in the form of any future refunds from

Note 1 IFRS accounting policies (continued)

• Retirement benefit obligations (continued)

the scheme or reductions in future contributions to the scheme. An economic benefit is available to the Group if it is realisable during the life of the scheme or on settlement of the scheme liabilities.

The service costs of defined benefit schemes are spread systematically over the working lives of employees and included within operating profit. Scheme administration expenses are also included within operating profit. Net interest expense or income is calculated by applying the discount rate to the net defined benefit asset or liability and included within net finance costs. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Actuarial gains and losses include the difference between the actual return on assets (net of investment administration costs and taxes, such as amounts levied by the UK Pension Protection Fund) and the discount rates applied to the assets. Mortality rates are considered when retirement benefit obligations are calculated.

Past service costs and adjustments are recognised immediately in income, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period (the vesting period), in which case the past service costs are amortised using a straight-line method over the vesting period.

Curtailments arise where the Group makes a material reduction in the number of employees covered by a pension scheme or amends a defined benefit pension scheme's terms such that a material element of future service by current employees will qualify for no or significantly reduced benefits.

Settlements arise when the Group enters into a transaction that eliminates all or part of the Group's obligations for benefits provided under a defined benefit pension scheme. The gain or loss arising on a settlement or curtailment comprises the resulting change in the net pension asset or liability, and such gain or loss is recognised in the income statement when the settlement or curtailment occurs. Where the gain or loss is related to a disposal of a business, it is included within the reported gain or loss on disposal.

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

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

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

• Financial instruments

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

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.

Held-to-maturity investments: The Group holds no held-to-maturity investments.

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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

• Financial instruments (continued)

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; or
- Hedges of net investment in a foreign entity.

Net gains or losses arising from changes in the fair value of all other derivatives, which are classified as held for trading, are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments from an accounting perspective.

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

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

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

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

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

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

Non-derivative financial liabilities, such as foreign currency borrowings, can be designated as hedges of a net investment in a foreign entity and are subject to the same 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 the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

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

Trade and other payables

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

Share capital and dividends

Ordinary shares are classified as equity.

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

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

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

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:

Segment name	Service operated	Country of operation
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).

(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:

	2014	2013
	£m	£m
Continuing operations		
UK Bus (regional operations)	1,012.8	966.7
UK Bus (London)	244.9	232.7
North America	428.2	407.2
Total bus continuing operations	1,685.9	1,606.6
UK Rail	1,252.0	1,201.3
Total Group revenue	2,937.9	2,807.9
Intra-Group revenue – UK Bus (regional operations)	(7.9)	(3.1)
Reported Group revenue	2,930.0	2,804.8

(b) Operating profit

Operating profit split by segment was as follows:

	2014			2013 (restated)		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
Continuing operations						
UK Bus (regional operations)	147.4	–	147.4	143.2	–	143.2
UK Bus (London)	23.9	–	23.9	19.0	–	19.0
North America	23.7	–	23.7	13.4	–	13.4
Total bus continuing operations	195.0	–	195.0	175.6	–	175.6
UK Rail	34.3	–	34.3	41.2	–	41.2
Total continuing operations	229.3	–	229.3	216.8	–	216.8
Group overheads	(13.9)	–	(13.9)	(15.7)	–	(15.7)
Intangible asset expenses	–	(14.0)	(14.0)	–	(15.1)	(15.1)
Restructuring costs	(0.9)	–	(0.9)	(1.7)	–	(1.7)
Total operating profit of continuing Group companies	214.5	(14.0)	200.5	199.4	(15.1)	184.3
Share of joint ventures' profit after finance income and taxation	8.8	(8.4)	0.4	21.3	(5.8)	15.5
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	223.3	(22.4)	200.9	220.7	(20.9)	199.8

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:

	2014			2013 (restated)		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
Continuing						
Virgin Rail Group (UK Rail)						
Operating profit	2.6	1.0	3.6	10.5	5.5	16.0
Finance income (net)	0.3	–	0.3	0.5	–	0.5
Taxation	(0.9)	(0.2)	(1.1)	(2.7)	(1.3)	(4.0)
	2.0	0.8	2.8	8.3	4.2	12.5
Goodwill charged on investment in continuing joint ventures	–	–	–	–	(1.0)	(1.0)
	2.0	0.8	2.8	8.3	3.2	11.5
Citylink (UK Bus, regional operations)						
Operating profit	1.7	–	1.7	1.8	–	1.8
Taxation	(0.4)	–	(0.4)	(0.5)	–	(0.5)
	1.3	–	1.3	1.3	–	1.3
Twin America LLC (North America)						
Operating profit	5.7	(9.2)	(3.5)	12.2	(9.0)	3.2
Taxation	(0.2)	–	(0.2)	(0.5)	–	(0.5)
	5.5	(9.2)	(3.7)	11.7	(9.0)	2.7
Share of profit of joint ventures after finance income and taxation	8.8	(8.4)	0.4	21.3	(5.8)	15.5

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	2014			2013 (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)	805.3	(310.1)	495.2	772.7	(278.8)	493.9
UK Bus (London)	84.1	(69.8)	14.3	89.0	(93.1)	(4.1)
North America	349.0	(102.3)	246.7	397.0	(110.9)	286.1
UK Rail	245.3	(402.4)	(157.1)	236.2	(410.3)	(174.1)
	1,483.7	(884.6)	599.1	1,494.9	(893.1)	601.8
Central functions	21.9	(30.8)	(8.9)	23.1	(38.1)	(15.0)
Joint ventures	42.8	–	42.8	53.3	–	53.3
Borrowings and cash	240.3	(711.1)	(470.8)	262.2	(811.6)	(549.4)
Taxation	0.8	(83.7)	(82.9)	1.1	(75.5)	(74.4)
Total	1,789.5	(1,710.2)	79.3	1,834.6	(1,818.3)	16.3

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.

	2014	2013
	£m	£m
UK Bus (regional operations)	91.5	99.6
UK Bus (London)	2.9	13.3
North America	33.9	112.2
UK Rail	37.1	33.7
Central	–	0.4
	165.4	259.2

Capital expenditure, excluding business combinations is analysed in section 2.6.9 of the Strategic report.

(f) Capital expenditure on intangible assets

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

	2014	2013
	£m	£m
UK Bus (regional operations)	11.2	11.9
North America	0.6	45.9
UK Rail	1.3	2.5
Central	–	0.4
	13.1	60.7

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

The results of each segment are further analysed below:

	Year ended 30 April 2014								
	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)	216.2	–	216.2	(68.8)	147.4	(1.4)	–	(0.3)	145.7
UK Bus (London)	29.8	–	29.8	(5.9)	23.9	(1.9)	–	–	22.0
North America	56.2	–	56.2	(32.5)	23.7	(7.8)	–	(0.3)	15.6
UK Rail – subsidiaries	42.5	–	42.5	(8.2)	34.3	(2.9)	–	(0.3)	31.1
UK Rail – joint venture (Virgin Rail Group)	2.6	(0.6)	2.0	–	2.0	–	0.8	–	2.8
UK Bus – joint venture (Citylink)	1.7	(0.4)	1.3	–	1.3	–	–	–	1.3
North America – joint venture (Twin America)	5.7	(0.2)	5.5	–	5.5	–	(9.2)	–	(3.7)
Group overheads	(13.6)	–	(13.6)	(0.3)	(13.9)	–	–	–	(13.9)
Restructuring costs	(0.9)	–	(0.9)	–	(0.9)	–	–	0.9	–
	340.2	(1.2)	339.0	(115.7)	223.3	(14.0)	(8.4)	–	200.9

	Year ended 30 April 2013 (restated)								
	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)	205.4	–	205.4	(62.2)	143.2	(0.5)	–	(0.7)	142.0
UK Bus (London)	25.0	–	25.0	(6.0)	19.0	(2.7)	–	–	16.3
North America	44.7	–	44.7	(31.3)	13.4	(8.4)	–	(0.1)	4.9
UK Rail – subsidiaries	51.5	–	51.5	(10.3)	41.2	(3.5)	–	(0.9)	36.8
UK Rail – joint venture (Virgin Rail Group)	10.5	(2.2)	8.3	–	8.3	(1.0)	4.2	–	11.5
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	(15.5)	–	(15.5)	(0.2)	(15.7)	–	–	–	(15.7)
Restructuring costs	(1.7)	–	(1.7)	–	(1.7)	–	–	1.7	–
	333.9	(3.2)	330.7	(110.0)	220.7	(16.1)	(4.8)	–	199.8

Notes to the consolidated financial statements

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2014	2013 (restated)
	£m	£m
Miscellaneous revenue (see explanation below)	112.8	115.3
Rail franchise premia (see explanation below)	(599.0)	(531.4)
Rail revenue support (see explanation below)	301.3	256.4
Materials and consumables	(407.8)	(379.3)
Staff costs (note 6)	(1,133.9)	(1,098.7)
Depreciation on property, plant and equipment (note 12)	(115.7)	(110.0)
Loss on disposal of property, plant and equipment	(2.1)	(2.0)
Repairs and maintenance expenditure on property, plant and equipment	(26.7)	(29.0)
Amortisation of intangible assets (note 11)	(14.0)	(15.1)
Network Rail charges, including electricity for traction	(250.9)	(242.8)
Operating lease rentals payable		
– plant and equipment	(168.1)	(164.3)
– property	(11.5)	(11.8)
Other external charges	(413.0)	(406.1)
Restructuring costs	(0.9)	(1.7)
Total operating costs and other operating income	(2,729.5)	(2,620.5)

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 UK's DfT in respect of the operation of UK passenger rail franchises.

Rail revenue support is the amount of additional financial support receivable from the UK's 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:

	2014	2013
	£000	£000
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	400.0	400.0
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	411.0	410.0
Total audit fees	811.0	810.0
Taxation advisory services	6.0	16.0
Other assurance services	99.0	97.0
Non-audit fees	105.0	113.0
Total fees payable by the Group to its auditors	916.0	923.0

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US\$188,000 (2013: US\$155,000) 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 in section 6 of this Annual Report, 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 Strategic report.

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the year ended 30 April 2014 and for the prior year comparatives can be further analysed as follows:

	2014			2013		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m	£m	£m	£m
Operating costs						
Intangible asset expenses	–	(14.0)	(14.0)	–	(15.1)	(15.1)
Share of profit of joint ventures						
Refund of franchise bid costs	1.0	–	1.0	5.5	–	5.5
– related tax	(0.2)	–	(0.2)	(1.3)	–	(1.3)
Twin America litigation	(9.2)	–	(9.2)	(9.0)	–	(9.0)
Goodwill charged on investment in joint ventures	–	–	–	–	(1.0)	(1.0)
	(8.4)	–	(8.4)	(4.8)	(1.0)	(5.8)
Non-operating exceptional items – continuing operations						
Adjustments to assets and liabilities relating to previous acquisitions and disposals	–	–	–	0.1	–	0.1
Expenses incurred in relation to acquisitions	(0.1)	–	(0.1)	(2.3)	–	(2.3)
Net loss on disposal of operations (note 16)	(0.2)	–	(0.2)	–	–	–
Non-operating exceptional items – continuing operations	(0.3)	–	(0.3)	(2.2)	–	(2.2)
Intangible asset expenses and exceptional items – continuing operations	(8.7)	(14.0)	(22.7)	(7.0)	(16.1)	(23.1)
Tax effect of intangible asset expenses and exceptional items	1.2	4.5	5.7	3.8	4.7	8.5
Intangible asset expenses and exceptional items after taxation – continuing operations	(7.5)	(9.5)	(17.0)	(3.2)	(11.4)	(14.6)

The "goodwill charged on investment in joint ventures" was 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 applicable long-term franchise ended on 8 December 2012 and the goodwill was written down to zero by the end of that franchise. Whilst IFRS generally prohibits the amortisation of goodwill, the treatment adopted was a result of an anomaly on the first-time adoption of IFRS that would not arise if IFRS were applied to new acquisitions of businesses.

Note 5 Finance costs and income

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

	2014	2013 (restated)
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable on cash	3.2	2.5
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	1.4	1.6
Finance income	4.6	4.1
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	(7.2)	(6.2)
– Interest payable on hire purchase and finance leases	(3.5)	(5.2)
– Interest payable and other finance costs on bonds	(28.0)	(26.2)
Other finance costs		
– Unwinding of discounts on provisions	(3.9)	(3.9)
– Interest charge on defined benefit pension schemes	(4.6)	(5.9)
Finance costs	(47.2)	(47.4)
Net finance costs	(42.6)	(43.3)

Notes to the consolidated financial statements

Note 6 Staff costs

Total staff costs were as follows:

	2014	2013 (restated)
	£m	£m
Staff costs		
Wages and salaries	971.4	942.4
Social security costs	86.3	84.7
Pension costs, excluding interest on net liability (note 25)	69.6	60.1
Share based payment costs (excluding social security costs)		
– Equity-settled	2.2	2.6
– Cash-settled	4.4	8.9
	1,133.9	1,098.7

The total amount shown for staff costs above includes an amount of £1.0m (2013: £2.5m) in respect of share based payment costs for the Directors.

Key management personnel are considered to be the Directors and full information on their remuneration, waivers of remuneration, share based payments, incentive schemes and pensions is contained within the Directors' remuneration report in section 9 of this Annual Report.

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

	2014	2013
	number	number
UK operations	27,172	26,890
UK administration and supervisory	3,330	3,183
North America	4,968	5,433
	35,470	35,506

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

	2014	2013
	number	number
UK Bus (regional operations)	19,426	19,045
UK Bus (London)	3,971	3,994
North America	4,968	5,433
UK Rail	6,976	6,901
Central	129	133
	35,470	35,506

Note 7 Taxation

(a) Analysis of charge in the year

	2014			2013 (restated)		
	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 22.8% (2013: 23.9%)	37.7	(1.2)	36.5	36.1	(1.3)	34.8
Prior year over provision for corporation tax	(6.0)	–	(6.0)	(3.2)	–	(3.2)
Foreign tax (current year)	0.1	–	0.1	0.2	–	0.2
Total current tax	31.8	(1.2)	30.6	33.1	(1.3)	31.8
Deferred tax:						
Origination and reversal of temporary differences	6.2	(4.5)	1.7	2.9	(7.2)	(4.3)
Change in tax rates	(6.1)	–	(6.1)	(1.6)	–	(1.6)
Adjustments in respect of prior years	(0.7)	–	(0.7)	1.9	–	1.9
Total deferred tax (note 23)	(0.6)	(4.5)	(5.1)	3.2	(7.2)	(4.0)
Total tax on profit	31.2	(5.7)	25.5	36.3	(8.5)	27.8

(b) Factors affecting tax charge for the year

	2014	2013 (restated)
	£m	£m
Profit before taxation – continuing operations	158.0	154.3
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 22.8% (2013: 23.9%)	36.0	36.9
Effects of:		
Intangible asset allowances/deductions	–	0.3
Non-deductible expenditure/non-taxable income	5.1	1.2
Utilisation of tax losses not previously recognised as deferred tax assets	(2.5)	(2.9)
Foreign taxes differences	0.9	(1.0)
Adjustments to tax charge in respect of prior years	(6.7)	(1.3)
Tax effect of share of results of joint ventures	(1.2)	(3.9)
Change in UK corporation rate to 20% from 1 April 2015 (2013: 23% from 1 April 2013)	(6.1)	(1.5)
Total taxation (note 7a)	25.5	27.8

(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 £30.1m (2013: £63.1m) 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 reduction in the UK corporate income tax rate to 20% which takes effect from 1 April 2015 has been enacted by the balance sheet date. The deferred tax balances have therefore been calculated by reference to the enacted UK corporation tax rate of 20% (2013: 23%).

(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 63.

Notes to the consolidated financial statements

Note 8 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2014	2013	2014	2013
	pence per share	pence per share	£m	£m
Amounts recognised as distributions in the year				
Dividends on ordinary shares				
Final dividend in respect of the previous year	6.0	5.4	34.4	31.0
Interim dividend in respect of the current year	2.9	2.6	16.6	14.9
Amounts recognised as distributions to equity holders in the year	8.9	8.0	51.0	45.9
Dividends proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares				
Final dividend in respect of the current year	6.6	6.0	37.9	34.4

Note 9 Earnings per share

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

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to executive share plans and long-term incentive plans.

	2014	2013
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	574.2	573.8
Dilutive ordinary shares		
– Long Term Incentive Plan	1.8	6.1
– Executive Participation Plan	2.6	3.5
Diluted weighted average number of ordinary shares	578.6	583.4

	2014	2013 (restated)
	£m	£m
Profit after taxation (for basic EPS calculation)	132.5	126.5
Intangible asset expenses before tax (see note 4)	14.0	16.1
Exceptional items before tax (see note 4)	8.7	7.0
Tax effect of intangible asset expenses and exceptional items (see note 4)	(5.7)	(8.5)
Profit for adjusted EPS calculation	149.5	141.1

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:

	2014	2013
	£m	£m
Net book value		
At beginning of year	127.8	91.4
Acquired through business combinations	4.0	33.7
Disposals	(0.1)	–
Foreign exchange movements	(6.3)	2.7
At end of year	125.4	127.8

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

The cash generating units are as follows:

	UK Bus (regional operations)		UK Bus (London)		North America	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	47.5	43.5	3.6	3.6	74.3	80.7

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	5 years	5 years	5 years	5 years	5 years	5 years
Pre-tax discount rate applied to cash flow projections	9.9%	9.3%	9.9%	9.3%	13.0%	11.8%
Growth rate used to extrapolate cash flows beyond period of management plan	2.2%	2.2%	2.2%	2.2%	4.6%	4.6%
Difference between above growth rate and long-term average growth rate for market in which unit operates	Nil	Nil	Nil	Nil	Nil	Nil

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

The principal risks and uncertainties are set out in section 2.3.6 of the Strategic report.

The cost base of the UK Bus (regional operations) and North American operations can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. Risks to the cash flow forecasts remain, however, and are described in section 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 2014 at 7.9% (2013: 7.2%) based on:

- The market capitalisation and net debt of the Group as at 30 April 2014 as an indication of the split between debt and equity;
- A risk-free rate of 2.7% (2013: 1.8%);
- A levered beta for the Group of 0.9 (2013: 1.0);
- A marginal pre-tax cost of debt of 5.2% (2013: 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 2014	Operating leases	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m	£m
Cost						
At beginning of year	1.0	56.5	12.6	19.7	10.4	100.2
Additions	–	–	–	–	7.9	7.9
Acquired through business combinations	–	1.2	–	–	–	1.2
Disposals	–	(18.2)	(8.1)	–	(1.0)	(27.3)
Foreign exchange movements	–	(1.5)	(0.4)	–	(0.4)	(2.3)
At end of year	1.0	38.0	4.1	19.7	16.9	79.7
Accumulated amortisation						
At beginning of year	(0.3)	(40.2)	(12.6)	(13.1)	(4.4)	(70.6)
Amortisation charged to income statement	(0.3)	(9.6)	–	(2.3)	(1.8)	(14.0)
Disposals	–	18.2	8.1	–	–	26.3
Foreign exchange movements	–	0.7	0.4	–	0.1	1.2
At end of year	(0.6)	(30.9)	(4.1)	(15.4)	(6.1)	(57.1)
Net book value at beginning of year	0.7	16.3	–	6.6	6.0	29.6
Net book value at end of year	0.4	7.1	–	4.3	10.8	22.6

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 2013	Operating leases	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m	£m
Cost						
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
Accumulated amortisation						
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

Note 12 Property, plant and equipment

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

Year ended 30 April 2014	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	298.7	1,247.2	225.9	1,771.8
Additions	16.0	104.7	41.7	162.4
Acquired through business combinations	0.1	2.7	0.2	3.0
Disposals	(2.5)	(53.3)	(40.5)	(96.3)
Disposal of subsidiaries and other businesses	–	(8.5)	–	(8.5)
Foreign exchange movements	(3.9)	(36.7)	(0.6)	(41.2)
Reclassification	1.7	0.1	(1.8)	–
Prior year adjustments	12.6	2.8	–	15.4
At end of year	322.7	1,259.0	224.9	1,806.6
Depreciation				
At beginning of year	(47.2)	(508.9)	(152.6)	(708.7)
Depreciation charged to income statement	(8.9)	(93.2)	(13.6)	(115.7)
Disposals	0.9	47.9	1.9	50.7
Disposal of subsidiaries and other businesses	–	5.6	–	5.6
Foreign exchange movements	1.7	15.9	0.2	17.8
Reclassification	–	(0.1)	0.1	–
Prior year adjustments	(12.6)	(2.8)	–	(15.4)
At end of year	(66.1)	(535.6)	(164.0)	(765.7)
Net book value at beginning of year	251.5	738.3	73.3	1,063.1
Net book value at end of year	256.6	723.4	60.9	1,040.9
Included in the above net book value at end of year are:				
Assets on hire purchase	–	109.6	–	109.6
Assets on finance leases	–	6.1	–	6.1
Long leasehold land and buildings	54.3	–	–	54.3

Included in the net book value of property, plant and equipment is £22.2m (2013: £24.6m) 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 2013	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
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
Depreciation				
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

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 2014	Nominal value of share capital in issue at 30 April 2014	% 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 2014 of the carrying value of the Group's joint venture interests and concluded that there had been no impairment loss. Other than Twin America, there is no reasonably possible change that would cause the carrying values to exceed the recoverable amounts.

Trading at Twin America has been challenging during the year ended 30 April 2014, as the New York sightseeing market has become increasingly competitive. Downside sensitivities have been assessed and, although headroom exists between the £28.5m carrying value of the investment and its value in use, this headroom is much reduced. As at 30 April 2014, the headroom in our base case is £8.6m. This headroom would be eliminated with the investment at breakeven if the assumed revenue growth rate was lower by 40 basis points in each year of the 5-year forecast period, or if the discount rate were to increase by a further 160 basis points.

The movements in the carrying values were as follows:

	Virgin Rail Group	Citylink	Twin America LLC	Total 2014	Total 2013 (restated)
	£m	£m	£m	£m	£m
Cost					
At beginning of year	69.1	4.2	37.5	110.8	114.3
Share of recognised profit/(loss)	2.8	1.3	(3.7)	0.4	16.5
Share of actuarial gains on defined benefit pension schemes, net of tax	–	–	–	–	3.3
Share of other comprehensive income on cash flow hedges, net of tax	–	–	–	–	(0.1)
Dividends received in cash	(4.2)	(1.4)	(2.6)	(8.2)	(24.9)
Foreign exchange movements	–	–	(2.7)	(2.7)	1.7
At end of year	67.7	4.1	28.5	100.3	110.8
Amounts written off					
At beginning of year	(57.5)	–	–	(57.5)	(56.5)
Goodwill charged during year	–	–	–	–	(1.0)
At end of year	(57.5)	–	–	(57.5)	(57.5)
Net book value at beginning of year	11.6	4.2	37.5	53.3	57.8
Net book value at end of year	10.2	4.1	28.5	42.8	53.3

A loan payable to Scottish Citylink Coaches Limited of £1.7m (2013: £1.7m) is reflected in note 21.

Note 13 Interests in joint ventures (continued)

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

	Virgin Rail Group	Citylink	Twin America LLC	Total 2014	Total 2013 (restated)
	£m	£m	£m	£m	£m
Non-current assets	1.4	0.1	11.7	13.2	16.2
Current assets	84.1	4.5	8.9	97.5	95.8
Current liabilities	(75.3)	(3.1)	(18.8)	(97.2)	(90.3)
Share of net assets	10.2	1.5	1.8	13.5	21.7
Goodwill	–	2.6	26.7	29.3	31.6
	10.2	4.1	28.5	42.8	53.3

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

	Virgin Rail Group	Citylink	Twin America LLC	Total 2014	Total 2013 (restated)
	£m	£m	£m	£m	£m
Revenue	465.6	15.6	51.0	532.2	512.0
Expenses	(463.0)	(13.9)	(45.3)	(522.2)	(487.5)
Operating profit	2.6	1.7	5.7	10.0	24.5
Exceptional items	1.0	–	(9.2)	(8.2)	(3.5)
Finance income (net)	0.3	–	–	0.3	0.5
Taxation	(1.1)	(0.4)	(0.2)	(1.7)	(5.0)
Share of joint ventures' profit/(loss) after taxation	2.8	1.3	(3.7)	0.4	16.5

Note 14 Available for sale and other investments

The available for sale and other investments were as follows:

	2014	2013
	£m	£m
Cost / valuation and net book value		
At beginning and end of year	0.3	0.3

Notes to the consolidated financial statements

Note 15 Business combinations

The Group acquired two small UK businesses during the year ended 30 April 2014 for total consideration of £7.2m.

The effect of these two acquisitions on the consolidated income statement for the year ended 30 April 2014 is not material and had the acquisitions completed on 1 May 2013, the effect on the consolidated income statement for the year ended 30 April 2014 would have been immaterial.

	UK Bus (regional) acquisitions £m	Total £m
Intangible assets		
– Customer contracts	1.2	1.2
Property, plant & equipment		
– Passenger service vehicles	2.7	2.7
– Other	0.3	0.3
Inventory	0.1	0.1
Trade and other receivables	0.9	0.9
Net cash and cash equivalents acquired (including overdrafts)	1.6	1.6
Trade and other payables	(1.4)	(1.4)
Borrowings	(1.8)	(1.8)
Deferred taxation	(0.3)	(0.3)
Provisions		
– Acquired customer contracts	(0.1)	(0.1)
Fair value of net assets acquired, excluding goodwill	3.2	3.2
Goodwill arising on acquisition	4.0	4.0
Total consideration	7.2	7.2
Cash consideration	6.7	6.7
Deferred consideration in respect of businesses acquired in current year	0.5	0.5
Total consideration	7.2	7.2
The total net cash outflow on acquisitions during the year was as follows:		
Cash consideration	6.7	6.7
Net cash and cash equivalents acquired (including overdrafts)	(1.6)	(1.6)
Expenses relating to the acquisition	0.1	0.1
Cash outflow relating to acquisitions in year	5.2	5.2
Deferred consideration paid on acquisitions from prior years		0.3
Total cash outflow relating to acquisitions		5.5

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 2014, were as follows:

	2014	2013
	£m	£m
Net assets disposed	3.1	–
Loss on disposal	(0.2)	–
Net consideration receivable	2.9	–
Deferred consideration in respect of businesses disposed of in current year	(0.1)	–
Net cash inflow	2.8	–

Note 17 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned) as at 30 April 2014 were:

Company	Jurisdiction of registration or incorporation	Principal activity
SCOTO Limited	England	Holding and property company
Stagecoach Bus Holdings Limited	Scotland	Holding and financing company
Stagecoach Rail Holdings 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
East Kent Road Car Company 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
Thames Transit Limited	England	Bus and coach operator
The Yorkshire Traction Company Limited	England	Bus and coach operator
Stagecoach Services Limited	England	Provision of accounting, payroll and other support services
PSV Claims Bureau Limited	England	Claims handling
Red & White Services Limited	England	Bus and coach operator
Cheltenham & Gloucester Omnibus Company Limited	England	Bus and coach operator
Midland Red (South) Limited	England	Bus and coach operator
Fife Scottish Omnibuses Limited	Scotland	Bus and coach operator
Bluebird Buses Limited	Scotland	Bus and coach operator
Western Bus Limited	Scotland	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 South Western Trains Limited	England	Train operating company
East Midlands Trains Limited	England	Train operating company
Trentway-Wager Inc	Canada	Bus and coach operator
Hudson Transit Lines Inc	USA	Bus and coach operator
Sam Van Galder Inc	USA	Bus and coach operator
Megabus Northeast LLC	USA	Coach operator

All companies operate in the countries shown above and 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 2014 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 (in waiting period to be struck off)
- SCH US Bond Co Limited
- Concessionary Solutions Limited

Notes to the consolidated financial statements

Note 18 Inventories

Inventories were as follows:

	2014	2013
	£m	£m
Parts and consumables	24.6	21.1

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:

	2014	2013
	£m	£m
At beginning of year	(2.1)	(2.4)
Charged to income statement	(0.5)	(0.3)
Amount utilised	0.3	0.6
At end of year	(2.3)	(2.1)

The Group is party to consignment stock arrangements and as at 30 April 2014, the Group physically held consignment stock of a value amounting to £0.3m (2013: £0.3m) in addition to the amounts disclosed above.

Note 19 Trade and other receivables

Trade and other receivables were as follows:

	2014	2013
	£m	£m
Non-current:		
Prepayments	13.9	17.5
Other receivables	0.3	0.7
	14.2	18.2
Current:		
Trade receivables	132.6	123.7
Less: provision for impairment	(2.1)	(1.9)
Trade receivables – net	130.5	121.8
Other receivables	23.0	21.1
Prepayments	30.5	27.1
Accrued income	59.6	43.7
VAT and other government receivables	25.6	26.0
	269.2	239.7

The movements in the provision for impairment of current trade receivables were as follows:

	2014	2013
	£m	£m
At beginning of year	(1.9)	(1.6)
Impairment losses in year charged to income statement	(0.6)	(0.7)
Reversal of impairment losses credited to income statement	0.1	0.1
Amounts utilised	0.3	0.3
At end of year	(2.1)	(1.9)

Further information on credit risk is provided in note 26.

Note 20 Cash and cash equivalents

	2014	2013
	£m	£m
Cash at bank and in hand	240.3	262.2

The cash amounts shown above include £10.0m on 12 month deposit maturing by November 2014, £80.0m on 6 month deposit maturing by October 2014, £17.0m on 3 month deposit maturing by May 2014 and £10.0m on 2 month deposit maturing by May 2014 (2013: £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). The remaining amounts are accessible to the Group within one day (2013: 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 £240.3m (2013: £262.2m) above included the net balance on these offset accounts of £22.1m (2013: £14.8m), which comprised £296.9m (2013: £370.3m) of positive bank balances less £274.8m (2013: £355.5m) of bank overdrafts.

Note 21 Trade and other payables

Trade and other payables were as follows:

	2014	2013
	£m	£m
Current		
Trade payables	156.3	170.3
Accruals	297.6	283.6
Deferred income	92.8	109.7
Cash-settled share based payment liability	2.4	3.0
Deferred grant income	8.5	1.5
Loans from joint ventures	1.7	1.7
PAYE and NIC payable	21.2	21.5
VAT and other government payables	0.7	2.8
	581.2	594.1
Non-current		
Accruals	11.4	10.1
Deferred grant income	13.0	7.4
Cash-settled share based payment liability	1.7	1.2
PAYE and NIC payable	0.6	0.5
Other payables	0.5	0.1
Deferred income	1.3	1.9
	28.5	21.2

Notes to the consolidated financial statements

Note 22 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:

	2014	2013
	£m	£m
On demand or within 1 year		
Loan notes	19.7	20.5
Hire purchase and lease obligations	31.2	43.2
	50.9	63.7
Within 1-2 years		
Bank loans	82.4	–
Hire purchase and lease obligations	30.8	34.6
	113.2	34.6
Within 2-5 years		
Bank loans	–	121.4
Hire purchase and lease obligations	48.2	76.3
Sterling 5.75% Notes	409.3	409.8
	457.5	607.5
Over 5 years		
Hire purchase and lease obligations	1.1	9.3
US Dollar 4.36% Notes	88.4	96.5
	89.5	105.8
Total borrowings	711.1	811.6
Less current maturities	(50.9)	(63.7)
Non-current portion of borrowings	660.2	747.9

Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 2.00% (2013: 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 2014 averaged 2.6% per annum (2013: 3.0%). Interest terms on bank loans are at LIBOR plus margins ranging from 0.80% to 1.40% (2013: 0.80% to 1.40%). Interest on loan notes are at three months LIBOR. Loan notes amounting to £19.7m (2013: £20.5m) are backed by guarantees provided under Group banking facilities.

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemptions.

Bank loans, Sterling Notes and US Dollar Notes are unsecured.

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

	2014	2013
	£m	£m
Not later than one year	33.3	46.7
Later than one year but not more than five years	81.6	116.2
More than five years	1.1	9.5
	116.0	172.4
Future finance costs on hire purchase and finance leases	(4.7)	(9.0)
Carrying value of hire purchase and finance lease liabilities	111.3	163.4

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 are due to 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 2014 was £409.3m (2013: £409.8m) 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 are due to be redeemed at their principal amount on 18 October 2022. The consolidated carrying value of the Notes at 30 April 2014 was £88.4m (2013: £96.5m) 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:

	2014	2013 (restated)
	£m	£m
Due after more than one year:		
At beginning of year (restated)	(35.5)	(51.7)
Credited to income statement	5.1	4.0
Arising through business combinations	(0.3)	(0.8)
(Charged)/credited to equity	(3.8)	13.0
Foreign exchange movements	0.5	–
At end of year	(34.0)	(35.5)

Deferred taxation is calculated as follows:

	2014	2013 (restated)
	£m	£m
Accelerated capital allowances	(101.1)	(95.0)
Pension temporary differences	23.1	25.2
Short-term temporary differences	44.0	34.3
	(34.0)	(35.5)

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

	2014	2013 (restated)
	£m	£m
Accelerated capital allowances	(6.2)	(7.5)
Pension temporary differences	1.2	1.0
Short-term temporary differences	10.1	10.5
	5.1	4.0

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	10.2	141.3	3.7	0.7	21.7	177.6
Provided during year (after discounting)	–	50.1	1.7	0.2	–	52.0
Amounts recognised through business combinations	–	–	–	–	0.1	0.1
Unwinding of discount	–	3.8	–	–	0.1	3.9
Utilised in the year	–	(51.0)	(0.4)	(0.5)	(9.1)	(61.0)
Arising on sale of tokens during year	0.8	–	–	–	–	0.8
Redemption of tokens	(1.1)	–	–	–	–	(1.1)
Foreign exchange movements	–	(3.3)	(0.1)	–	–	(3.4)
End of year	9.9	140.9	4.9	0.4	12.8	168.9
30 April 2014:						
Current	2.0	48.3	0.6	0.4	6.4	57.5
Non-current	7.9	92.6	4.3	–	6.4	111.4
	9.9	140.9	4.9	0.4	12.8	168.9
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

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 four years.

Notes to the consolidated financial statements

Note 25 Retirement benefits

(a) Description of retirement benefit arrangements

United Kingdom

The Group participates in a number of defined benefit schemes in the UK 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 and Selkent Pension Scheme;	30 April 2011 5 April 2013
• 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").	31 March 2013

Both the Stagecoach Pension Scheme and the Local Government Pension Schemes are closed to new members from the Group. All relevant sections of the Railways Pension Schemes are open to new members. Unfunded benefits are provided to a small number of former employees with the net liabilities included within the unfunded balance reported in the tables that follow.

The Group also operates a number of defined contribution schemes covering UK employees, for which the Group has no further payment obligation once the contributions are paid other than lump-sum death in service benefits that are provided for certain UK employees.

For the defined benefit schemes, benefits are related to length of service and pensionable salary. Pensionable salary for the Stagecoach Pension Schemes is subject to capped increases. The weighted average duration as at 30 April 2014 of the expected benefit payments across all UK defined benefit schemes is estimated at 19.5 years (2013: 19.5 years).

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of the relevant sections of the scheme following expiry of the related franchises. In addition, under the terms of RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of RPS. The employees' share of the deficit (or surplus) is reflected as an adjustment to RPS liabilities (or assets). Therefore the liability (or asset) recognised for the relevant sections of RPS reflects only that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The adjusting entry referred to as the "franchise adjustment" represents that proportion of the deficit (or surplus) that is expected to exist at the end of the franchise and which the Group would not be obliged to fund (or entitled to recover).

The Group is a participating employer in a number of UK Local Government Pension Schemes, and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents 2.4% (2013: 3.3%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 11.5% (2013: 11.6%) of the gross present value of pension obligations as at 30 April 2014 shown in the balance sheet. The Group liaises with the administering authorities to seek to set contributions at appropriate levels to fund the benefits and deficit recovery payments over a reasonable period of time.

North America

The Group participates in two small defined benefit schemes in North America, both of which are closed to new members. The Group also operates defined contribution schemes which are open to eligible North American employees, for which the Group has no further payment obligation once the contributions are paid.

(b) Principal actuarial assumptions

The principal actuarial assumptions used for the accounting disclosures for the schemes are shown below:

	2014	2013
Discount rate	4.5%	4.4%
Retail Prices inflation assumption	3.3%	3.2%
Consumer Prices inflation assumption	2.3%	2.2%
Rate of increase in pensionable salaries		
SPS	2.0%	2.0%
Others	3.8%	3.7%
Rate of increase of pensions in payment		
SPS	3.2%	3.1%
Others	2.3%	2.2%
Post-retirement mortality (life expectancies in years)		
Current pensioners at 65 – male	19.2	19.1
Current pensioners at 65 – female	23.5	23.4
Future pensioners at 65 aged 45 now – male	21.3	21.2
Future pensioners at 65 aged 45 now – female	25.3	25.2

The assumptions shown above are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not be borne out in practice. The discount rate assumption is not determined using a cash-weighted method and is based on market yields on high quality corporate bonds at the year end, adjusted to reflect the duration of the schemes' liabilities.

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost. The post-retirement mortality assumptions have been chosen with regard to the latest available published tables adjusted to reflect the experience of the Group and its sector and allow for expected increases in longevity.

Note 25 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £7.8m (2013 restated: £15.6m) and retirement benefit obligations of £123.6m (2013 restated: £125.2m), resulting in the net liability of £115.8m (2013 restated: £109.6m) analysed below.

The amounts recognised in the balance sheet were as follows:

	Funded schemes				Unfunded schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Equities	726.3	0.2	202.6	1.0	–	930.1
Private Equity	43.4	86.6	–	–	–	130.0
Infrastructure	1.2	38.5	–	–	–	39.7
Growth Pooled Fund*	–	640.9	–	–	–	640.9
Bonds	266.0	25.9	45.0	2.0	–	338.9
Cash	53.8	3.7	40.3	2.0	–	99.8
Property	64.9	–	17.9	–	–	82.8
Fair value of scheme assets	1,155.6	795.8	305.8	5.0	–	2,262.2
Present value of obligations	(1,248.2)	(1,126.8)	(309.6)	(7.0)	(3.9)	(2,695.5)
– adjustment for members' share of RPS deficit (40%)	–	132.4	–	–	–	132.4
– franchise adjustment	–	204.9	–	–	–	204.9
(Deficit)/Surplus in the scheme	(92.6)	6.3	(3.8)	(2.0)	(3.9)	(96.0)
Asset ceiling	–	–	(19.8)	–	–	(19.8)
Pension (liability)/asset before tax	(92.6)	6.3	(23.6)	(2.0)	(3.9)	(115.8)

As at 30 April 2013 (restated)

	Funded schemes				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 scheme assets	1,151.2	753.4	302.8	4.2	–	2,211.6
Present value of obligations	(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	–	190.5	–	–	–	190.5
(Deficit)/Surplus in the scheme	(106.0)	9.8	(2.0)	(1.6)	(4.2)	(104.0)
Asset ceiling	–	–	(5.6)	–	–	(5.6)
Pension (liability)/asset before tax	(106.0)	9.8	(7.6)	(1.6)	(4.2)	(109.6)

*The Growth Pooled Fund is the principal investment vehicle for the Group's sections of the RPS. This fund is a multi-asset fund, tactically adjusted by the RPS Investment team.

The Group makes contributions to an unapproved employer-financed retirement benefit scheme ("EFRBS") in the UK and a non qualifying defined contribution scheme ("NQDC") in the US. In each case, the liabilities of these schemes are unfunded but the Group has set aside assets to meet its obligations under the schemes. In the case of the EFRBS, the scheme holds a guarantee over the assets which the Group has set aside. The Group considers that the assets set aside are in substance pensions assets and so the amounts of those assets are included within the net pension amounts reported in the consolidated balance sheet. The carrying value of those assets as at 30 April 2014 was £3.9m (2013: £3.1m).

(d) Funding arrangements and plans

The schemes' investment approach, which aims to meet their liabilities as they fall due, is to invest the majority of the schemes' assets in a mix of equities and other return-seeking assets in order to strike a balance between:

- maximising the returns on the schemes' assets, and
- minimising the risks associated with lower than expected returns on the schemes' assets.

Trustees are required to regularly review investment strategy in light of the revised term and nature of the schemes' liabilities.

The regulatory framework in the UK requires the Trustees of the Stagecoach Pension Schemes and the Group to agree upon the assumptions underlying the funding target, and then to agree upon the contributions necessary to fund the benefits including any deficit recovery amounts over a reasonable period of time. A Pensions Oversight Committee has been established comprising the Finance Director, a Non-Executive Director and other senior executives, to oversee the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to fund deficits. The defined benefit pension schemes typically expose the Group to actuarial funding risks such as investment risk, interest rate risk, and longevity/life expectancy risk.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The actuarial valuation for the East London and Selkent Pension Scheme was completed during the year, and showed that as at 5 April 2013, the scheme was 100% funded on the Trustees' technical provisions basis. Actuarial valuations were completed for the Local Government Pension Schemes, showing that the schemes were underfunded on the technical provisions basis as at 31 March 2013 with deficit contributions payable. Actuarial valuations for the Railways Pensions Scheme and the Stagecoach Group Pension Scheme are currently being undertaken and will be finalised during the year to 30 April 2015. The Group expects to contribute £59.1m (estimated at 30 April 2013 for year ended 30 April 2014: £54.0m) to its defined benefit schemes in the financial year ending 30 April 2015.

Notes to the consolidated financial statements

Note 25 Retirement benefits (continued)

(e) Changes in net retirement benefit obligations

The change in net liabilities recognised in the balance sheet in respect of defined benefit schemes is comprised as follows:

	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2014						
At beginning of year – (liability)/asset, restated	(106.0)	9.8	(7.6)	(1.6)	(4.2)	(109.6)
Expense charged to consolidated income statement	(26.2)	(33.7)	(1.8)	(0.6)	(0.2)	(62.5)
Recognised in the consolidated statement of comprehensive income	19.5	(0.5)	(18.9)	(0.3)	0.2	–
Employers' contributions	20.1	30.7	4.7	0.5	0.3	56.3
At end of year – (liability)/asset	(92.6)	6.3	(23.6)	(2.0)	(3.9)	(115.8)

	Funded plans				Unfunded plans	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2013 (restated)						
At beginning of year – (liability)/asset, restated	(58.9)	2.5	(14.7)	(1.4)	(4.3)	(76.8)
Expense charged to consolidated income statement	(22.6)	(32.2)	(2.2)	(0.4)	–	(57.4)
Recognised in consolidated statement of comprehensive income	(44.2)	10.7	4.6	–	(0.3)	(29.2)
Employers' contributions	19.7	28.8	4.7	0.3	0.4	53.9
Foreign exchange movements	–	–	–	(0.1)	–	(0.1)
At end of year – (liability)/asset	(106.0)	9.8	(7.6)	(1.6)	(4.2)	(109.6)

(f) Sensitivity of retirement benefit obligations to changes in assumptions

The measurement of the defined benefit obligation is particularly sensitive to changes in key assumptions as described below:

- The discount rate has been selected following actuarial advice and taking into account the duration of the liabilities. A 10 basis points increase in the discount rate would result in a £20.0m decrease in the net pension liabilities as at 30 April 2014 (2013: £22.0m). A 10 basis points decrease in the discount rate would result in a £20.4m increase in the net pension liabilities as at 30 April 2014 (2013: £22.5m).
- The inflation assumption adopted is consistent with the discount rate used. It is used to set the assumptions for pension increases, uncapped pensionable salary increases and deferred revaluations. A 10 basis points increase in the inflation rate would result in a £12.7m increase in the net pension liabilities as at 30 April 2014 (2013: £14.2m). A 10 basis points decrease in the inflation rate would result in a £14.0m decrease in the net pension liabilities as at 30 April 2014 (2013: £13.1m).
- A 10 basis point increase in the rate of increase in uncapped pensionable salaries would result in a £0.6m increase in the net pension liabilities as at 30 April 2014 (2013: £0.5m). A 10 basis point decrease in the rate of increase in uncapped pensionable salaries would result in a £0.6m decrease in the net pension liabilities as at 30 April 2014 (2013: £0.5m).
- A 10 basis point increase in the rate of increase of pensions in payment would result in a £11.6m increase in the net pension liabilities as at 30 April 2014 (2013: £10.2m). A 10 basis point decrease in the rate of increase of pensions in payment would result in a £10.7m decrease in the net pension liabilities as at 30 April 2014 (2013: £10.3m).
- The longevity assumptions adopted are a best estimate of the mortality of scheme members both during and after employment, and are based on the most recent mortality data available from actuarial valuations. If life expectancy of the relevant individuals was to increase by one year, this would result in an increase of £41.6m in the net pension liabilities as at 30 April 2014 (2013: £43.7m). If life expectancy of the relevant individuals was to decrease by one year, this would result in a decrease of £43.8m in the net pension liabilities as at 30 April 2014 (2013: £43.6m).

These sensitivities have been calculated to show the movement in the net liability in isolation, and assuming no other changes in market conditions at the accounting date. In practice, a change in discount rate is unlikely to occur without any movement in the value of the invested assets held by the schemes.

(g) Pension amounts recognised in income statement

The amounts recognised in the consolidated income statement are analysed as follows:

	Funded schemes				Unfunded and DC Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2014						
Current service cost	(20.8)	(33.6)	(1.5)	(0.5)	–	(56.4)
Administration expenses	(0.9)	(0.6)	–	–	–	(1.5)
Defined contribution costs	–	–	–	–	(11.7)	(11.7)
Included in operating profit	(21.7)	(34.2)	(1.5)	(0.5)	(11.7)	(69.6)
Net interest expense	(4.5)	(7.9)	(0.1)	(0.1)	(0.2)	(12.8)
Interest income on asset ceiling	–	–	(0.2)	–	–	(0.2)
Unwinding of franchise adjustment	–	8.4	–	–	–	8.4
	(26.2)	(33.7)	(1.8)	(0.6)	(11.9)	(74.2)

Note 25 Retirement benefits (continued)

(g) Pension amounts recognised in income statement (continued)

	Funded schemes				Unfunded and DC Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2013 (restated)						
Current service cost	(18.5)	(29.5)	(1.5)	(0.3)	–	(49.8)
Administration expenses	(1.1)	(0.5)	(0.1)	–	–	(1.7)
Defined contribution costs	–	–	–	–	(8.6)	(8.6)
Included in operating profit	(19.6)	(30.0)	(1.6)	(0.3)	(8.6)	(60.1)
Net interest expense	(3.0)	(6.6)	(0.6)	(0.1)	–	(10.3)
Unwinding of franchise adjustment	–	4.4	–	–	–	4.4
	(22.6)	(32.2)	(2.2)	(0.4)	(8.6)	(66.0)

Current service costs and administration expenses are recognised in operating costs and net interest on net pension liability and unwinding of franchise adjustment are recognised in net finance costs.

(h) Pension amounts recognised in statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income are analysed as follows:

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2014						
Actual return on scheme assets (lower)/higher than the discount rate	(20.5)	17.4	(1.7)	–	–	(4.8)
Changes in financial assumptions	7.1	(0.4)	(1.0)	–	–	5.7
Changes in demographic assumptions	10.2	–	–	–	–	10.2
Experience on benefit obligations	22.7	(23.5)	(2.2)	(0.3)	0.2	(3.1)
Changes in asset ceiling (net of interest)	–	–	(14.0)	–	–	(14.0)
Change in franchise adjustment	–	6.0	–	–	–	6.0
	19.5	(0.5)	(18.9)	(0.3)	0.2	–

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2013 (restated)						
Actual return on scheme assets higher than the discount rate	76.8	50.4	27.9	–	–	155.1
Changes in financial assumptions	(136.2)	(118.8)	(22.5)	(0.1)	–	(277.6)
Changes in demographic assumptions	15.2	7.3	1.6	–	–	24.1
Experience on benefit obligations	–	16.1	0.2	0.1	(0.3)	16.1
Changes in irrecoverable surplus (net of interest)	–	–	(2.6)	–	–	(2.6)
Change in franchise adjustment	–	55.7	–	–	–	55.7
	(44.2)	10.7	4.6	–	(0.3)	(29.2)

(i) Benefit obligations

Changes in the present value of the defined benefit obligations are analysed as follows.

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m		
Year ended 30 April 2014						
At beginning of year (restated)	1,257.2	743.6	304.8	5.8	4.2	2,315.6
Current service cost	20.8	33.6	1.5	0.5	–	56.4
Interest on benefit obligations	54.8	28.1	13.2	0.3	0.2	96.6
Unwinding of franchise adjustment	–	(8.4)	–	–	–	(8.4)
Benefits paid	(45.7)	(31.1)	(13.6)	(0.2)	(0.3)	(90.9)
Contributions by employees	1.1	5.8	0.5	0.7	–	8.1
<i>Actuarial (gains)/losses due to:</i>						
– Changes in demographic assumptions	(10.2)	–	–	–	–	(10.2)
– Changes in financial assumptions	(7.1)	0.4	1.0	–	–	(5.7)
– Experience on benefit obligations	(22.7)	23.5	2.2	0.3	(0.2)	3.1
– Change in franchise adjustment	–	(6.0)	–	–	–	(6.0)
Foreign exchange movements	–	–	–	(0.4)	–	(0.4)
At end of year	1,248.2	789.5	309.6	7.0	3.9	2,358.2

Notes to the consolidated financial statements

Note 25 Retirement benefits (continued)

(i) Benefit obligations (continued)

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 30 April 2013 (restated)						
At beginning of year	1,093.0	666.6	280.8	4.6	4.3	2,049.3
Current service cost	18.5	29.5	1.5	0.3	–	49.8
Interest on benefit obligations	56.5	27.8	14.2	0.2	–	98.7
Unwinding of franchise adjustment	–	(4.4)	–	–	–	(4.4)
Contributions by employees	5.4	6.5	0.5	0.7	–	13.1
Benefits paid	(37.2)	(22.1)	(12.9)	(0.1)	(0.4)	(72.7)
<i>Actuarial (gains)/losses due to:</i>						
Changes in demographic assumptions	(15.2)	(7.3)	(1.6)	–	–	(24.1)
Changes in financial assumptions	136.2	118.8	22.5	0.1	–	277.6
Experience on benefit obligations	–	(16.1)	(0.2)	(0.1)	0.3	(16.1)
Change in franchise adjustment	–	(55.7)	–	–	–	(55.7)
Foreign exchange movements	–	–	–	0.1	–	0.1
At end of year	1,257.2	743.6	304.8	5.8	4.2	2,315.6

(j) Scheme assets

The movement in the fair value of scheme assets is as follows:

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 30 April 2014						
At beginning of year	1,151.2	753.4	302.8	4.2	–	2,211.6
Administration costs	(0.9)	(0.6)	–	–	–	(1.5)
Interest income	50.3	20.2	13.1	0.2	–	83.8
Employer contributions	20.1	30.7	4.7	0.5	0.3	56.3
Contributions by employees	1.1	5.8	0.5	0.7	–	8.1
Benefits paid	(45.7)	(31.1)	(13.6)	(0.2)	(0.3)	(90.9)
Remeasurements						
– Return on assets excluding amounts included in net interest	(20.5)	17.4	(1.7)	–	–	(4.8)
Foreign exchange movements	–	–	–	(0.4)	–	(0.4)
At end of year	1,155.6	795.8	305.8	5.0	–	2,262.2

	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
Year ended 30 April 2013 (restated)						
At beginning of year	1,034.1	669.1	269.1	3.2	–	1,975.5
Administration costs	(1.1)	(0.5)	(0.1)	–	–	(1.7)
Interest income	53.5	21.2	13.6	0.1	–	88.4
Contributions by employees	5.4	6.5	0.5	0.7	–	13.1
Employer contributions	19.7	28.8	4.7	0.3	0.4	53.9
Benefits paid	(37.2)	(22.1)	(12.9)	(0.1)	(0.4)	(72.7)
Remeasurements						
– Return on assets excluding amounts included in net interest	76.8	50.4	27.9	–	–	155.1
	1,151.2	753.4	302.8	4.2	–	2,211.6

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2014	2013
	£m	£m
At beginning of year	(5.6)	(3.0)
Interest expense	(0.2)	–
Remeasurements	(14.0)	(2.6)
At end of year	(19.8)	(5.6)

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.

(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	2014	2013	2014	2013
		Carrying value	Carrying value	Fair value	Fair value
		£m	£m	£m	£m
Financial assets					
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	0.7
– Current assets					
– Accrued income	19	59.6	43.7	59.6	43.7
– Trade receivables, net of impairment	19	130.5	121.8	130.5	121.8
– Other receivables	19	23.0	21.1	23.0	21.1
– Cash and cash equivalents	20	240.3	262.2	240.3	262.2
Available for sale financial assets					
– Non-current assets					
– Available for sale and other investments	14	0.3	0.3	0.3	0.3
Total financial assets		454.0	449.8	454.0	449.8
Financial liabilities					
Financial liabilities at fair value through profit or loss		–	–	–	–
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Accruals	21	(11.4)	(10.1)	(11.4)	(10.1)
– Other payables	21	(0.5)	(0.1)	(0.5)	(0.1)
– Borrowings	22	(660.2)	(747.9)	(696.8)	(797.0)
– Current liabilities					
– Trade payables	21	(156.3)	(170.3)	(156.3)	(170.3)
– Accruals	21	(297.6)	(283.6)	(297.6)	(283.6)
– Loans from joint ventures	21	(1.7)	(1.7)	(1.7)	(1.7)
– Borrowings	22	(50.9)	(63.7)	(50.9)	(63.7)
Total financial liabilities		(1,178.6)	(1,277.4)	(1,215.2)	(1,326.5)
Net financial liabilities		(724.6)	(827.6)	(761.2)	(876.7)

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 (2013: £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.

Notes to the consolidated financial statements

Note 26 Financial instruments (continued)

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

Financial liabilities (continued)

- 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 £15.8m (2013: £20.3m).

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 2014.

	Note	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging	26(g)	0.6	–	0.6
Available for sale financial assets – Equity securities		–	0.3	0.3
Total assets		0.6	0.3	0.9
Liabilities				
Derivatives used for hedging	26(g)	(13.2)	–	(13.2)

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
Assets				
Derivatives used for hedging	26(g)	2.6	–	2.6
Available for sale financial assets – Equity securities		–	0.3	0.3
Total assets		2.6	0.3	2.9
Liabilities				
Derivatives used for hedging	26(g)	(13.1)	–	(13.1)

There were no material movements in the year or the preceding year in the "Level 3" financial assets of £0.3m, which 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 2014. 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 2.6.12 of the Strategic report which forms part of these financial statements.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments from time to time to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

A Group Treasury Committee and central treasury department ("Group Treasury") oversee financial risk management in the context of policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. Group Treasury is responsible for the execution of derivative financial instruments to manage financial risks. Certain financial risk management activities (for example, the management of credit risk arising from trade and other receivables) are devolved to the management of individual business units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

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 material foreign investments in Canada and the USA. To reduce balance sheet translation exposure, the Group partially hedges the sterling carrying value of foreign operations through borrowings denominated in their functional currency or, where appropriate, through the use of derivative financial instruments. Gains and losses arising from hedging instruments that provide a hedge against foreign net investments are recognised in the statement of comprehensive income. Bank loans drawn in US Dollars and a US\$150.0m bond issued in October 2012 have been accounted for as a hedge of the Group's foreign net investments.

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

The Group's consolidated income statement is 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:

	2014	2013
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	230.7	272.6
– Cash	24.5	21.4
– Borrowings	(174.0)	(202.6)
Canadian dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	37.0	47.6
– Cash	0.7	1.2
Net exposure	118.9	140.2

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 amounts shown above in the Group's consolidated balance sheet to translation exposures is illustrated below:

	2014	2013
US dollar		
US dollar balance sheet foreign exchange rate	1.6886	1.5564
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.5197	1.4008
– Increase in consolidated equity (£m)	9.0	10.2
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	1.8575	1.7120
– Decrease in consolidated equity (£m)	(7.4)	(8.3)
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	1.8531	1.5655
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	1.6678	1.4090
– Increase in consolidated equity (£m)	4.2	5.4
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	2.0384	1.7221
– Decrease in consolidated equity (£m)	(3.4)	(4.4)

The above sensitivity analysis is based on the following assumptions:

- Only those foreign currency assets and liabilities that are directly affected by changes in foreign exchange rates are included in the calculation.
- The above calculations assume that the exchange rates between sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Notes to the consolidated financial statements

Note 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:

	2014	2013 (restated)
	£m	£m
US dollars		
- US\$ element of North American operating profit	22.3	11.9
- Intangible asset expenses	(7.8)	(8.4)
- Redundancy / restructuring costs	(0.3)	(0.1)
- Share of profit of joint ventures (excluding exceptional items)	5.6	11.7
- Exceptional items	(9.3)	(10.6)
- Net finance costs	(9.8)	(7.7)
- Net tax (charge)/credit	(0.7)	0.3
Canadian dollars		
- C\$ element of North American operating profit	2.4	2.8
- Exceptional items	(0.2)	-
- Net tax credit	0.1	0.8
Net exposure	2.3	0.7

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:

	2014	2013 (restated)
	£m	£m
US\$ element of North American operating profit shown above	22.3	11.9
C\$ element of North American operating profit shown above	2.4	2.8
Share based payment charges denominated in sterling	(1.0)	(1.3)
Operating profit shown in segmental information	23.7	13.4

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

	2014	2013
US dollar		
US dollar average foreign exchange rate	1.6013	1.5748
Impact of 10% depreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.4412	1.4173
- Decrease in consolidated profit after taxation (£m)	-	(0.3)
Impact of 10% appreciation of UK sterling against US dollar		
- US dollar foreign exchange rate	1.7614	1.7323
- Increase in consolidated profit after taxation (£m)	-	0.3
Canadian dollar		
Canadian dollar average foreign exchange rate	1.6994	1.5796
Impact of 10% depreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.5295	1.4216
- Increase in consolidated profit after taxation (£m)	0.3	0.4
Impact of 10% appreciation of UK sterling against Canadian dollar		
- Canadian dollar foreign exchange rate	1.8693	1.7376
- Decrease in consolidated profit after taxation (£m)	(0.2)	(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 sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Note 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 2014 there were no material net transactional foreign currency exposures (2013: £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 104.

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 2014, 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	122.8	414.3	537.1	5.8%	2.6
US Dollar	135.8	38.2	174.0	2.6%	2.6
Gross borrowings	258.6	452.5	711.1	5.5%	2.6

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

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 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 £240.3m (2013: £262.2m). As at 30 April 2014 the Group has no financial assets on which fixed interest is receivable (2013: £Nil).

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

Notes to the consolidated financial statements

Note 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 2014 consume approximately 399.5m 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 2014 and 30 April 2013, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2014	2013
	£m	£m
Costs subject to fuel swaps:		
– UK Bus (regional operations)	(90.7)	(91.6)
– UK Bus (London)	(9.5)	(9.3)
– UK Rail	(24.6)	(25.8)
– North America	(34.8)	(37.2)
	(159.6)	(163.9)
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	(5.5)	(3.1)
– UK Bus (London)	(8.9)	(9.2)
– UK Rail	(9.0)	(7.5)
– North America	(8.2)	(11.8)
	(31.6)	(31.6)
Total	(191.2)	(195.5)

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:

	2014	2013
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	(0.6)	(0.3)
– UK Bus (London)	(0.9)	(0.9)
– UK Rail	(0.9)	(0.8)
– North America	(0.8)	(1.2)
Decrease in projected profit before taxation	(3.2)	(3.2)

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:

	2014	2013
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	0.6	0.3
– UK Bus (London)	0.9	0.9
– UK Rail	0.9	0.8
– North America	0.8	1.2
Increase in projected profit before taxation	3.2	3.2

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.

The Group is also exposed to changes in electricity prices, principally in its UK Rail Division where electricity is consumed to power some of the trains operated. The Group has some protection to price changes via rail industry arrangements to fix the price on a proportion of anticipated future electricity consumption.

The Group's joint venture, Virgin Rail Group, is also exposed to changes in fuel and electricity prices and applies commodity price risk management strategies similar to those applied by the Group and explained above.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and business unit management, and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. It is the Group's policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low.

In determining whether a financial asset is impaired, the Group takes account of:

- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns;
- In the case of receivables, the latest available information on the counterparty's creditworthiness such as available financial statements, credit ratings etc.

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 financial assets exposed to credit risk at the balance sheet date:

	Gross	Impairment	Net exposure	Gross	Impairment	Net exposure
	2014	2014	2014	2013	2013	2013
	£m	£m	£m	£m	£m	£m
Trade receivables	132.6	(2.1)	130.5	123.7	(1.9)	121.8
Loans, other receivables and accrued income	82.9	–	82.9	65.5	–	65.5
Cash and cash equivalents – pledged as collateral	18.9	–	18.9	19.2	–	19.2
Cash and cash equivalents – other	221.4	–	221.4	243.0	–	243.0
Excluding derivative financial instruments	455.8	(2.1)	453.7	451.4	(1.9)	449.5
Derivatives used for hedging	0.6	–	0.6	2.6	–	2.6
Total exposure to credit risk	456.4	(2.1)	454.3	454.0	(1.9)	452.1

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK's Department for Transport, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

Notes to the consolidated financial statements

Note 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:

	2014	2013
	£m	£m
United Kingdom	407.3	403.0
North America	47.0	49.1
	454.3	452.1

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

	2014	2013
	£m	£m
Sterling	406.8	402.2
US dollars	44.8	45.6
Canadian dollars	2.7	4.3
	454.3	452.1

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

	2014	2013
	£m	£m
Amounts 1 to 90 days overdue	9.5	10.3
Amounts 91 to 180 days overdue	0.6	1.0
Amounts 181 to 365 days overdue	1.0	0.6
Amounts more than 365 days overdue	0.7	–
	11.8	11.9

The Group does not hold any collateral in respect of its credit risk exposures set out above (2013: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2014 (2013: £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 2014, the Group's credit facilities were £1,051.4m (2013: £1,098.9m), £483.4m (2013: £540.8m) 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:

	2014	2013
	£m	£m
Expiring within one year	202.6	229.3
Expiring in more than one year but not more than two years	355.8	–
Expiring beyond two years	9.5	328.8
	567.9	558.1

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding. The Group'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 2014 are analysed below:

Expiring in	Facility £m	Loans drawn £m	Performance bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES					
– 2018	47.4	–	(37.9)	(9.5)	–
– 2016	546.8	(82.4)	(110.3)	(25.1)	329.0
– 2015	110.5	–	(88.9)	(21.6)	–
	704.7	(82.4)	(237.1)	(56.2)	329.0
LOCAL & SHORT-TERM FACILITIES					
– Various	21.8	–	(8.7)	–	13.1
	726.5	(82.4)	(245.8)	(56.2)	342.1

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.

As at 30 April 2014	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
Non derivative financial liabilities:						
Unsecured bond issues	(497.7)	(579.1)	(26.9)	(26.9)	(423.7)	(101.6)
Finance lease liabilities	(38.2)	(39.7)	(13.1)	(11.2)	(15.4)	–
Hire purchase liabilities	(73.1)	(76.3)	(20.2)	(21.1)	(33.9)	(1.1)
Loan notes payable	(19.7)	(19.7)	(19.7)	–	–	–
Trade and other payables	(467.5)	(467.5)	(455.6)	(11.9)	–	–
Bank loans	(82.4)	(82.7)	(0.3)	(82.4)	–	–
	(1,178.6)	(1,265.0)	(535.8)	(153.5)	(473.0)	(102.7)
Derivative financial liabilities:						
Derivatives used for hedging	(13.2)	(13.2)	(9.8)	(2.2)	(1.2)	–
	(1,191.8)	(1,278.2)	(545.6)	(155.7)	(474.2)	(102.7)

As at 30 April 2013	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
Non derivative financial liabilities:						
Unsecured bond issues	(506.3)	(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)
Derivative financial liabilities:						
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)

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.

Notes to the consolidated financial statements

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 £240.3m as at 30 April 2014 (2013: £262.2m) are £18.9m (2013: £19.2m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.4m (2013: £18.5m) has been pledged by the Group as collateral for £18.4m (2013: £18.5m) 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.
- £0.1m (2013: £0.3m) 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 (2013: £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 2014 and 30 April 2013.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2014 and 30 April 2013 and no loans payable were in default as at 30 April 2014 and 30 April 2013. The Group was in compliance with all bank loan covenants as at 30 April 2014 and as at 30 April 2013.

(g) Hedge accounting

A summary of the Group's current hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2014	2013
	£m	£m
Non-current assets		
Interest rate derivatives	–	0.2
Fuel derivatives	0.1	0.2
	0.1	0.4
Current assets		
Interest rate derivatives	0.3	0.3
Fuel derivatives	0.2	1.9
	0.5	2.2
Current liabilities		
Fuel derivatives	(9.8)	(9.9)
Non-current liabilities		
Interest rate derivatives	(0.6)	–
Fuel derivatives	(2.8)	(3.2)
	(3.4)	(3.2)
Interest rate derivatives	(0.3)	0.5
Fuel derivatives	(12.3)	(11.0)
	(12.6)	(10.5)

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 2014 (2013: None) which were separately accounted for.

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:

	2014	2013
	£m	£m
Fuel derivatives		
Fair value at start of year	(11.0)	21.4
Changes in fair value during year taken to cash flow hedging reserve	(2.8)	(17.3)
Cash received during the year	1.5	(15.1)
Fair value at end of year	(12.3)	(11.0)

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

	Assets	Liabilities
	£m	£m
As at 30 April 2014		
Within one year	0.2	(9.8)
1 to 2 years	0.1	(2.1)
2 to 3 years	–	(0.7)
	0.3	(12.6)

As at 30 April 2013

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)

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value	Notional quantity of fuel covered by derivatives
	£m	Millions of litres
As at 30 April 2014		
Sterling denominated – UK Bus (regional operations)	(7.9)	367.9
Sterling denominated – UK Bus (London)	(1.9)	66.3
Sterling denominated – UK Rail	(2.4)	108.1
US dollar denominated – North America	(0.1)	151.8
	(12.3)	694.1
As at 30 April 2013		
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

Fair value and cash flow hedges - interest

The Group uses a number of interest rate derivatives to hedge its exposure to movements in interest rates. In connection with the issue of the Group's US\$150m Bonds in October 2012, the Group entered into a number of interest rate fair value hedges.

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

	Fair value hedges	
	2014	2013
	£m	£m
Interest rate derivatives		
Fair value at start of year	0.5	–
Changes in fair value reflected in carrying value of hedged item	(0.5)	0.6
Cash received during the year	(0.3)	(0.1)
Fair value at end of year	(0.3)	0.5

Notes to the consolidated financial statements

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 2014 was as follows:

	Assets	Liabilities
	£m	£m
As at 30 April 2014		
Within one year	0.3	–
1 to 2 years	–	(0.1)
2 to 3 years	–	(0.5)
	0.3	(0.6)

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

	Assets	Liabilities
	£m	£m
As at 30 April 2013		
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.

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 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)
Changes in fair value during the year taken to cash flow hedging reserve	(2.8)
Cash flow hedges reclassified and reported in profit for year	2.1
Tax effect of cash flow hedges	(0.2)
Cash flow hedging reserve at 30 April 2014	(9.4)
Cash flow hedging reserve before tax	(11.9)
Tax to be credited to income statement in future periods	2.5
Cash flow hedging reserve after tax	(9.4)

There have been no instances during the year ended 30 April 2014 (2013: None) from a Group perspective where a forecast transaction for which hedge accounting had previously been used was no longer expected to occur.

Hedge of foreign net investments

The Group's hedging of foreign net investments during the year ended 30 April 2014 is explained on page 101.

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

	2014	2013
	£m	£m
US\$ 4.36% notes		
Fair value at start of year	96.4	–
Notes issued during the year	–	93.0
Changes in fair value during the year	(7.5)	3.4
Fair value at end of year	88.9	96.4
US\$ bank loans		
Fair value at start of year	51.4	95.5
Loans drawn during the year	–	70.3
Loans repaid during the year	–	(116.9)
Changes in fair value during the year	(4.0)	2.5
Fair value at end of year	47.4	51.4

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

Note 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:

	2014		2013	
	No. of shares	£m	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 125/228 pence each (2013: 125/228 pence)				
At beginning and end of year	576,099,960	3.2	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 724,693 (2013: nil) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 30 April 2014, the QUEST held 300,634 (2013: 300,634) ordinary shares in the Company and the EBT held 725,821 (2013: 2,030,824) ordinary shares in the Company. The trusts have waived dividends on the shares they hold and therefore received no dividends during the year ended 30 April 2014 (2013: £Nil). The trust deed for the EBT obliges the trustee to waive the right to any dividend on the shares unless and until they are vested in an individual. The trustee is confirmed not to be liable for any lost income as a result of that waiver. The QUEST deed requires the trustee to waive any dividends payable on the shares and the QUEST confirms that waiver within the deed. This can be reversed by a direction from the Company to the trustee but is otherwise ongoing.

Note 28 Share based payments

The Group operates a Buy as You Earn Scheme ("BAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report in section 9 of this Annual Report gives further details of each of these arrangements.

As disclosed in note 6, share based payment charges of £6.6m (2013: £11.5m) have been recognised in the income statement during the year in relation to the above schemes.

The following assumptions were applied in accounting for awards under the LTIP scheme:

Grant date	June 2010	December 2010	June 2011	December 2011	June 2012	December 2012	June 2013	December 2013
Share price at time of grant/award (£)	1.9030	2.0785	2.5530	2.5915	2.6170	3.1210	3.1595	3.7200
Vesting period (years)	3	3	3	3	3	3	3	3
Option/award life (years)	3	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3	3
Expected dividends expressed as an average annual dividend yield	3.89%	3.37%	3.00%	2.96%	3.22%	2.70%	2.94%	2.50%
Fair value per Incentive Unit at grant date (£)	0.52	0.60	0.73	0.74	0.75	0.90	0.90	1.06
Option pricing model	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to performance conditions. LTIP awards are not share options and are valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market-based performance criteria are reflected in the fair value of the LTIP awards.

Notes to the consolidated financial statements

Note 28 Share based payments (continued)

Long Term Incentive Plan

Under the LTIP, executives are awarded Incentive Units with a value equal to one of the Company's ordinary shares but subject to the same performance conditions disclosed in the Directors' remuneration report. The movements in the LTIP Incentive Units during the year to 30 April 2014 were as follows:

Award date	Outstanding at start of year (Incentive Units)	Awards granted in year (Incentive Units)	Lapsed in year (Incentive Units)	Dividends in year (Incentive Units)	Vested in year (Incentive Units)	Outstanding at end of year (Incentive Units)	Price per Incentive Unit achieved on vesting £	Fair value per LTIP unit at grant £	Fair value per LTIP unit at 30 April 2014 £	TSR ranking at 30 April 2014**	Vesting date
28 June 2010	922,923	–	(538,347)	–	(384,576)	–	3.1395	0.5186	–	–	28 June 2013
9 Dec 2010	844,994	–	(387,180)	15,387	(473,201)	–	3.7200	0.5988	–	–	9 Dec 2013
30 June 2011	798,311	–	–	20,602	–	818,913	–	0.7339	2.257	72	30 June 2014
8 Dec 2011	708,644	–	–	18,289	–	726,933	–	0.7449	1.004	129	8 Dec 2014
27 June 2012	859,196	–	–	22,173	–	881,369	–	0.7523	1.415	98	27 June 2015
6 Dec 2012	725,228	–	–	18,715	–	743,943	–	0.8972	1.017	128	6 Dec 2015
27 June 2013	–	865,843	–	22,343	–	888,186	–	0.8987	1.581	86	27 June 2016
12 Dec 2013	–	728,646	–	5,439	–	734,085	–	1.0574	1.692	78	12 Dec 2016
	4,859,296	1,594,489	(925,527)	122,948	(857,777)	4,793,429					

**TSR ranking is based on the Group's ranking of total shareholder return 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 Deferred Shares during the year to 30 April 2014 were as follows:

Award date	Outstanding at start of year (Deferred Shares)	Awards granted in year (Deferred Shares)	Exercised in year (Deferred Shares)	Dividends in year (Deferred Shares)	Outstanding at end of year (Deferred Shares)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
10 Dec 2009	410,593	–	(410,593)	–	–	27 June 2013	1,538,943	1.6060
28 June 2010	894,493	–	(894,493)	–	–	28 June 2013	1,780,805	1.9020
30 June 2011	853,375	–	–	21,883	875,258	30 June 2014	2,155,206	2.5530
27 June 2012	880,643	–	–	22,584	903,227	27 June 2015	2,271,556	2.6190
27 June 2013	–	738,262	–	18,905	757,167	27 June 2016	2,289,350	3.1600
	3,039,104	738,262	(1,305,086)	63,372	2,535,652			

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 2014 there were 8,617 (2013: 8,122) participants in the BAYE scheme to which were attributed 3,200,457 (2013: 2,090,496) shares that they purchased, 1,185,596 (2013: 784,394) matching shares that the Company contributed and 137,727 shares (2013: 51,683) in respect of notional dividends. These amounts exclude unattributed shares and any shares to be withdrawn because the employee has left the Group or requested a withdrawal.

Note 29 Reserves

A reconciliation of the movements in each reserve is shown in the Consolidated statement of changes in equity on page 65.

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 (2013: £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 in treasury and/or by the Group's two Employee Share Ownership Trusts offset by cumulative sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 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:

	2014	2013 (restated)
	£m	£m
Operating profit of Group companies	200.5	184.3
Depreciation	115.7	110.0
Loss on disposal of property, plant and equipment	2.1	2.0
Intangible asset expenses	14.0	15.1
Equity-settled share based payment expense	2.2	2.6
Operating cashflows before working capital movements	334.5	314.0
(Increase)/decrease in inventories	(3.8)	2.5
Increase in receivables	(26.7)	(7.4)
(Decrease)/increase in payables	(3.2)	42.9
Decrease in provisions	(8.6)	(10.1)
Differences between employer pension contributions and pension expense in operating profit	1.6	(2.4)
Cash generated by operations	293.8	339.5

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

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

	2014	2013
	£m	£m
(Decrease)/increase in cash	(19.8)	19.6
Cash flow from movement in borrowings	92.7	1.0
Debt assumed in business combinations	72.9	20.6
New hire purchase and finance leases	(1.8)	(1.0)
Foreign exchange movements	(6.7)	(26.8)
Other movements	13.1	(6.7)
Decrease/(increase) in net debt	(1.1)	(0.3)
Decrease/(increase) in net debt	76.4	(14.2)
Opening net debt (as defined in note 35)	(538.0)	(523.8)
Closing net debt (as defined in note 35)	(461.6)	(538.0)

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	243.0	(19.5)	–	–	(2.1)	–	221.4
Cash collateral (see note 26(e))	19.2	(0.3)	–	–	–	–	18.9
Hire purchase and finance lease obligations	(163.4)	56.9	(6.7)	(1.8)	3.7	–	(111.3)
Bank loans and loan stock	(141.9)	35.8	–	–	4.0	–	(102.1)
Bonds	(494.9)	–	–	–	7.5	(1.1)	(488.5)
Net debt	(538.0)	72.9	(6.7)	(1.8)	13.1	(1.1)	(461.6)
Accrued interest on bonds	(8.8)	27.0	–	–	–	(26.9)	(8.7)
Effect of fair value hedges on carrying value of borrowings	(0.4)	–	–	–	–	0.8	0.4
Unamortised gain on early settlement of interest rate swaps	(2.2)	–	–	–	–	1.3	(0.9)
Net borrowings (IFRS)	(549.4)	99.9	(6.7)	(1.8)	13.1	(25.9)	(470.8)

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 £6.7m (2013: £29.1m). After taking account of deposits paid up front and other financing transactions, new hire purchase and finance lease liabilities of £6.7m (2013: £26.8m) were recognised.

Note 31 Contingencies

Contingent liabilities

(i) At 30 April 2014, the following bonds and guarantees were in place relating to the Group's rail operations:

	2014	2013
	£m	£m
Performance bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	35.7	34.7
– East Midlands Trains	28.8	17.6
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	54.2	51.2
– East Midlands Trains	5.9	5.7

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 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 2014, the capital at risk of the Group in this respect was:

Note 31 Contingencies (continued)

	South Western Trains	East Midlands Trains	Total
	£m	£m	£m
Actual liabilities			
Net intra-group amounts payable to train operators	59.8	–	59.8
Contingent liabilities			
Season ticket bonds	54.2	5.9	60.1
Performance bonds	35.7	28.8	64.5
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 2014	174.7	65.3	240.0
Cash			
Cash in train operating companies	103.3	67.5	170.8
Pro forma impact on net debt	278.0	132.8	410.8

We consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised at 30 April 2014, the Group would have needed to have financed £240.0m (2013: £221.1m) and its gross debt would have increased by this amount. In addition, some of the cash in the train operating companies would be transferred with the franchises.

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

(iv) We have made progress in resolving the previously reported litigation regarding Twin America.

The US Department of Justice and the New York Attorney General (together, "the Government plaintiffs") initiated litigation against Twin America and its joint venture partners ("the Defendants", which include two Stagecoach US subsidiaries) in 2012. The litigation alleges that the formation of the Twin America joint venture in 2009 was anti-competitive. Separately, private plaintiffs brought a claim based on the same allegations on behalf of a proposed class of customers.

The Defendants have not admitted any liability but have agreed a cash settlement of US\$19m (£11.9m) with the private plaintiffs to fully resolve the private litigation. That settlement has received preliminary court approval. Final court approval is anticipated in approximately six to nine months following a period for class notification and claims administration.

The Government action remains pending at this time. Until the Government action concludes, the total financial cost of the various actions cannot be determined.

The Group has recorded exceptional pre-tax costs of US\$14.8m (£9.2m) in the consolidated financial statements for the year ended 30 April 2014 in respect of its share of financial costs connected with the litigation. The ultimate cost to the Group may differ from this as it remains dependent on the outcome of the Government action.

(v) The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 30 April 2014, the accruals in the consolidated financial statements for such claims total £0.1m (2013: £1.9m) in addition to the amounts recognised specifically in respect of the Twin America litigation noted in (iv) above. In addition, certain of the claims intended to be covered by the insurance provisions (see note 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:

	2014	2013
	£m	£m
Contracted for but not provided:		
For delivery within one year	135.9	44.2

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2014:

As at 30 April 2014	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 2015	13.4	20.2	147.6	2.8	184.0
Year ending 30 April 2016	12.0	13.0	140.0	1.9	166.9
Year ending 30 April 2017	9.5	8.0	97.6	0.9	116.0
Year ending 30 April 2018	5.9	4.6	–	0.3	10.8
Year ending 30 April 2019	5.0	3.2	–	0.1	8.3
1 May 2019 and thereafter	30.5	0.1	–	–	30.6
	76.3	49.1	385.2	6.0	516.6

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 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

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 2014 are as shown below.

	2014
	£m
Year ending 30 April 2015	80.7
Year ending 30 April 2016	63.2
Year ending 30 April 2017	42.4
	186.3

Commitments for payments under these contracts as at 30 April 2013 were as follows:

	2013
	£m
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

(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:

	2014	2013
	£m	£m
Annual commitments under non-cancellable operating leases	64.7	63.9
Franchise performance bonds	10.3	10.3
Season ticket bonds	2.7	2.5

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 (2013: £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 2014 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 directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 30 April 2014, the Group earned fees of £60,000 (2013: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 30 April 2014, the Group had £60,000 (2013: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group earned £Nil (2013: £1.5m) and purchased £0.5m (2013: £Nil) from the group headed by Virgin Rail Group Holdings Limited in respect of work undertaken on rail franchise bids and had an outstanding payable of £0.5m as at 30 April 2014 (2013: £0.8m receivable) in this respect.

The Group also earned £0.4m (2013: £Nil) from Virgin Holdings Limited (which holds a 51% joint venture interest in Virgin Rail Group Holdings Limited), in respect of work undertaken on rail franchise bids, and had an outstanding receivable of £0.4m as at 30 April 2014 (2013: £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 2014, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2013: £0.2m) from West Coast Trains Limited. The outstanding amounts payable as at 30 April 2013 and 30 April 2014 were immaterial.

(iii) Alexander Dennis Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold 55.1% (2013: 46.8%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director) is a director of its holding company) controls a further 33.2% (2013: 35.1%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2014, the Group purchased £65.5m (2013: £67.9m) of vehicles from Alexander Dennis Limited and £14.2m (2013: £10.7m) of spare parts and other services. As at 30 April 2014, the Group had £1.0m (2013: £1.3m) payable to Alexander Dennis Limited, along with outstanding orders of £70.9m (2013: £Nil).

(iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 25.

(v) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2013: £1.7m) was due to the Group's joint ventures, Scottish Citylink Coaches Limited, as at 30 April 2014. The Group earned £25.2m in the year ended 30 April 2014 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2013: £23.2m). As at 30 April 2014, the Group had a net £0.1m (2013: £1.2m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) Argent Energy Group Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively held 39.3% (2013: 39.3%) of the shares and voting rights in Argent Energy Group Limited, until its sale to John Swire & Sons (Green Investments) Ltd on 23 July 2013. Neither Sir Brian Souter nor Ann Gloag was a director of Argent Energy Group Limited nor did they have any involvement in the management of Argent Energy Group. Furthermore, they did not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Argent Energy Group.

For the period from 1 May 2013 to 23 July 2013, the Group purchased £2.9m (year ended 30 April 2013: £10.9m) of biofuel from Argent Energy Group. At 23 July 2013, the Group had £0.4m (30 April 2013: £0.2m) payable to Argent Energy Group along with outstanding orders of £0.3m (30 April 2013: £0.3m).

(vii) Twin America LLC

In the year ended 30 April 2014, the Group received £3.6m (2013: £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 2014, the Group had £0.3m (2013: £0.4m) receivable from Twin America LLC.

Note 34 Post balance sheet events

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

On 19 June 2014, the Group's joint venture, Virgin Rail Group, announced that it had agreed a new West Coast rail franchise with the UK's Department for Transport. The new franchise commenced on 22 June 2014 and is planned to run until 31 March 2017. The Department for Transport has the option to extend the contract by an additional year to 31 March 2018.

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.

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

Report on the parent company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the parent company's affairs as at 30 April 2014;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The parent company financial statements (the "financial statements"), which are prepared by Stagecoach Group plc, comprise:

- the Company balance sheet as at 30 April 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibility Statement set out in section 10 of the Annual Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

Other matter

We have reported separately on the Group financial statements of Stagecoach Group plc for the year ended 30 April 2014.



Graham McGregor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
25 June 2014

14. Separate Financial Statements of Parent, Stagecoach Group PLC

Company balance sheet

As at 30 April 2014

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

	Notes	2014	2013
		£m	£m
Fixed assets			
Tangible assets	2	1.0	1.4
Investments	3	1,172.6	1,182.0
		1,173.6	1,183.4
Current assets			
Debtors – due within one year	4	746.0	692.7
Deferred tax asset	5	–	0.2
Derivative financial instruments at fair value – due after more than one year	7	2.8	3.6
Derivative financial instruments at fair value – due within one year	7	9.9	11.0
Cash		18.4	20.0
		777.1	727.5
Creditors: Amounts falling due within one year			
Deferred tax liability	5	(0.2)	–
Derivative financial instruments at fair value	7	(9.6)	(10.7)
Trade and other creditors	6	(420.7)	(560.9)
		(430.5)	(571.6)
Net current assets		346.6	155.9
Total assets less current liabilities		1,520.2	1,339.3
Creditors: Amounts falling due after more than one year			
Derivative financial instruments at fair value	7	(3.4)	(3.4)
Other creditors	6	(579.7)	(625.2)
Net assets excluding pension liability		937.1	710.7
Pension liability, net of deferred tax	8	(2.8)	(2.0)
Net assets including pension liability		934.3	708.7
Capital and reserves			
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	(25.7)	(23.4)
Profit and loss account	10	525.6	297.7
Total shareholders' funds		934.3	708.7

These financial statements were approved for issue by the Board of Directors on 25 June 2014. 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 71.

• 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.

Notes to the Company financial statements

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 73 and 74.

The Company holds derivative financial instruments that hedge financial risks of the Group as a whole and to which hedge accounting is applied in the consolidated financial statements. However, these instruments and certain intra-group derivative financial instruments are accounted in the Company financial statements at fair value through profit or loss.

• 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. Shares held in treasury by the Company have also 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
Cost	
At beginning of year	2.4
Additions	0.1
At end of year	2.5
Depreciation	
At beginning of year	(1.0)
Charge for year	(0.5)
At end of year	(1.5)
Net book value at beginning of year	1.4
Net book value at end of year	1.0

Note 3 Investments

The movements in investments were as follows:

	Subsidiary undertakings £m
Cost and net book value	
At beginning of year	1,182.0
Additions	2.2
Foreign exchange movements	(11.6)
At end of year	1,172.6

Note 4 Debtors

Amounts falling due within one year were:

	2014 £m	2013 £m
Amounts owed by Group undertakings	708.9	672.5
Other debtors	36.9	20.0
Prepayments and accrued income	0.2	0.2
	746.0	692.7

Note 5 Deferred tax asset/(liability)

The movement in the deferred tax asset/(liability) during the year was as follows:

	2014	2013
	£m	£m
At beginning of year	0.2	0.2
Change to the profit and loss account	(0.4)	–
At end of year	(0.2)	0.2

The deferred tax asset/(liability) recognised can be analysed as follows:

	2014	2013
	£m	£m
Short-term timing differences	(0.2)	0.2

Note 6 Creditors

(a) Creditors: Amounts falling due within one year

	2014	2013
	£m	£m
Bank overdrafts	207.1	291.6
Loan notes	19.7	20.5
Amounts owed to Group undertakings	185.6	242.3
Accruals and deferred income	8.3	6.5
	420.7	560.9

(b) Creditors: Amounts falling due after more than one year

	2014	2013
	£m	£m
Sterling 5.75% Notes	408.4	407.3
US Dollar 4.36% Notes	88.7	96.2
Bank loans	82.4	121.4
Accruals and deferred income	0.2	0.3
	579.7	625.2

(c) Borrowings were repayable as follows:

	2014	2013
	£m	£m
On demand or within 1 year		
Bank overdraft	207.1	291.6
Loan notes	19.7	20.5
Repayable between 1 and 2 years		
Bank loans	82.4	–
Repayable after 2 years, but within 5 years		
Bank loans	–	121.4
Sterling 5.75% Notes	408.4	407.3
Repayable after 5 years		
US Dollar 4.36% Notes	88.7	96.2
Total borrowings	806.3	937.0

Note 7 Derivative financial instruments

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

	2014	2013
	£m	£m
Current assets – due after more than one year		
Interest rate derivatives – external	–	0.2
Fuel derivatives – external	–	0.2
Fuel derivatives – intra-group	2.8	3.2
	2.8	3.6
Current assets – due within one year		
Interest rate derivatives – external	0.3	0.3
Fuel derivatives – external	0.2	1.3
Fuel derivatives – intra-group	9.4	9.4
	9.9	11.0

Notes to the Company financial statements

Note 7 Derivative financial instruments (continued)

	2014	2013
	£m	£m
Current liabilities		
Fuel derivatives – external	(9.4)	(9.4)
Fuel derivatives – intra-group	(0.2)	(1.3)
	(9.6)	(10.7)
Non-current liabilities		
Interest rate derivatives – external	(0.6)	–
Fuel derivatives – external	(2.8)	(3.2)
Fuel derivatives – intra-group	–	(0.2)
	(3.4)	(3.4)

In accordance with FRS 26, "Financial Instruments: Recognition and measurement" the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. No such embedded derivatives were identified (2013: None).

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 8 Pension liability, net of deferred tax

	2014	2013
	£m	£m
Unfunded pension liability	3.5	2.7
Deferred tax asset	(0.7)	(0.7)
	2.8	2.0

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above. See note 25 to the consolidated financial statements for more details on retirement benefits.

Note 9 Called up share capital

Information on share capital is provided in note 27 to the consolidated financial statements.

Note 10 Share capital and reserves

	Equity share capital	Share premium account	Capital redemption reserve	Own shares	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 1 May 2013	3.2	8.4	422.8	(23.4)	297.7	708.7
Profit for the year	–	–	–	–	276.7	276.7
Credit in relation to share based payments	–	–	–	–	2.2	2.2
Dividends paid	–	–	–	–	(51.0)	(51.0)
Own shares purchased	–	–	–	(2.3)	–	(2.3)
At 30 April 2014	3.2	8.4	422.8	(25.7)	525.6	934.3

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 £276.7m (2013: £96.6m) 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 detailed in section 9 of this Annual Report. 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 £2.2m (2013: £2.6m) 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 (2013: Nil) and all share based payment awards are to employees of subsidiary companies. The Company accounts for the cash-settled share based payment charge for the year of £3.1m (2013: £7.0m) by recording a liability for this amount and recording a corresponding entry as a charge through the profit and loss account. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the profit and loss account.

Note 12 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £214.4m (2013: £224.0m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the Company balance sheet.

In addition, the Company has provided guarantees to third parties of £143.8m (2013: £144.2m) in respect of contingent liabilities that are neither included in the consolidated balance sheet nor the Company balance sheet.

The Company is also party to cross-guarantees whereby the bank overdrafts 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

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2014	2013
	£m	£m

Contracted for but not provided:

For delivery in one year	110.2	–
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(c) Operating lease commitments

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

	2014		2013	
	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 Asset Services, 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. 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. 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 appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on +44 (0)8457 22 55 25.

The Company has also made arrangements with Stocktrade for ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR. Telephone +44 131 240 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 or call 0871 664 0364 (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 £21 online and £28.50 by phone.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Charges start from £17.50. Shareholders who would like further information should write to Stocktrade, 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR. Telephone 0845 601 0995, quoting dealing reference 'Stagecoach dial and deal'. 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 way usually lose their money.

The Financial Conduct Authority ("FCA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

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

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/ to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

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

REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/scams/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

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Email info@stagecoachgroup.com

Company Number

SC 100764

Financial Calendar

Annual General Meeting

29 August 2014

Interim Results

10 December 2014

Final Dividend

1 October 2014

Interim Dividend

March 2015

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